

**IMPORTANT NOTICE: You must read the following before continuing.** The following applies to the offering circular dated April 11, 2007 attached to this e-mail, and you are therefore advised to read this carefully before reading, accessing or making any other use of the offering circular. In accessing the offering circular, you agree to be bound by the following terms and conditions, including any modifications to them, any time you receive any information from us as a result of such access.

This offering circular has been prepared in connection with the offer and sale of the Preferred Securities described therein. The offering circular and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person.

THE ATTACHED OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE OFFERING CIRCULAR MAY BE DISTRIBUTED WITHIN THE UNITED STATES ONLY BY BBVA INTERNATIONAL PREFERRED, S.A. UNIPERSONAL, BANCO BILBAO VIZCAYA ARGENTARIA, S.A. OR LEHMAN BROTHERS INC. TO QUALIFIED INSTITUTIONAL BUYERS (“QIBs”) IN ACCORDANCE WITH RULE 144A UNDER THE U.S. SECURITIES ACT OF 1933 (“**RULE 144A**”). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OF 1933 OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF PREFERRED SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE PREFERRED SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR WITH ANY OTHER SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH RULE 144A TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QIB WITHIN THE MEANING OF RULE 144A AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, THAT (A) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE PREFERRED SECURITIES AND (B) IS ACQUIRING THE PREFERRED SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB.

**Confirmation of your Representation:** By accepting this e-mail and accessing the offering circular, you shall be deemed to have represented to us that you are a QIB; and that you consent to the delivery of such offering circular by electronic transmission. 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 and you may not, nor are you authorized to, deliver the offering circular to any other person or make copies of 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 neither (i) BBVA International Preferred, S.A. Unipersonal or Banco Bilbao Vizcaya Argentaria, S.A. or any of their affiliates, nor (ii) Lehman Brothers Inc. or any person who controls either of them or any director, officer, employee nor agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any alterations to the offering circular distributed to you in electronic format.

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**BBVA International Preferred, S.A. Unipersonal**  
(incorporated with limited liability under the laws of Spain)

**Series C \$600,000,000 Fixed/Floating Rate Non-Cumulative  
Guaranteed Preferred Securities**  
irrevocably and unconditionally guaranteed to the extent set forth herein by

**Banco Bilbao Vizcaya Argentaria, S.A.**  
(incorporated with limited liability under the laws of Spain)

**Issue price: 100%**

Series C \$600,000,000 Fixed-to-Floating Rate Non-Cumulative Guaranteed Preferred Securities of \$1,000 liquidation preference each (the "Preferred Securities") are being issued by BBVA International Preferred, S.A. Unipersonal (the "Issuer") on April 18, 2007 (the "Closing Date").

The Preferred Securities will entitle holders to receive (subject to the limitations described under "Conditions of the Preferred Securities") non-cumulative cash distributions ("Distributions") accruing at a rate of 5.919% per annum from (and including) the Closing Date up to (but excluding) April 18, 2017 payable semi-annually on each April 18th and October 18th. The first Distribution is payable on October 18, 2007. From (and including) April 18, 2017, Distributions will accrue at a rate of 0.82% per annum above Three Month \$LIBOR (as defined in "Conditions of the Preferred Securities") but in no event will such Distributions, if declared, be payable at a rate of less than 5.919% per annum, payable on January 18th, April 18th, July 18th and October 18th in each year. In each case Distributions accrue on the liquidation preference of \$1,000 per Preferred Security.

The Preferred Securities are redeemable, at the option of the Issuer (subject to the prior consent of the Bank of Spain), in whole but not in part on April 18, 2017 or thereafter at ten-year intervals commencing on April 18, 2027, at the liquidation preference of \$1,000 per Preferred Security plus any accrued and unpaid Distributions for the then current Distribution Period (as defined in "Conditions of the Preferred Securities") to the date fixed for redemption. Prior to April 18, 2017, the Preferred Securities are redeemable, at the option of the Issuer (subject to the prior consent of the Bank of Spain), in whole but not in part, on any Distribution Payment Date, *inter alia*, as a result of certain tax law changes, or if they cease to qualify as Tier 1 capital of the Group (as defined below) pursuant to Spanish banking regulations. If the Preferred Securities are redeemed as a result of the Preferred Securities ceasing to qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations, the redemption price shall be the higher of (a) the liquidation preference of \$1,000 per Preferred Security plus any accrued and unpaid Distributions for the then current Distribution Period to the date fixed for redemption and (b) the Fixed Rate Make Whole Amount (as defined in "Conditions of the Preferred Securities") for redemption prior to April 18, 2017, or the Floating Rate Make Whole Amount for redemption after April 18, 2017.

In the event of the liquidation of the Issuer or Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA", the "Bank" or the "Guarantor"), holders of Preferred Securities 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 \$1,000, plus any accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the liquidation distribution.

The payment of Distributions and payments upon liquidation or redemption with respect to the Preferred Securities are irrevocably and unconditionally guaranteed by the Bank on a subordinated basis to the extent described under "The Guarantee". The Bank and its consolidated subsidiaries are referred to herein as the "Group".

The Preferred Securities are expected, upon issue, to be assigned an A1 rating by Moody's Investors Services, Inc. ("Moody's"), an A rating by Fitch Ratings España SAU (Fitch Ratings) ("Fitch") and an A- rating by Standard & Poor's Ratings Services, a division of the McGraw Hill Companies Inc. ("S&P"). 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.

Potential owners of a beneficial interest in the Preferred Securities (the "Beneficial Owners") are alerted to the statements on page 5 regarding the tax treatment in Spain of income in respect of Preferred Securities and to the disclosure requirements imposed on the Guarantor relating to the identity and residence of Beneficial Owners of Preferred Securities. In particular, income in respect of the Preferred Securities, including in connection with exchanges of the Preferred Securities under an exchange offer, will be subject to withholding tax if certain information regarding Beneficial Owners is not received by the Guarantor on time as described herein. (See "Spanish Withholding Tax Requirements").

The Preferred Securities will be issued in registered form and will be represented by one or more global Preferred Securities certificates deposited on or about the Closing Date with, or on behalf of, the Depository Trust Company ("DTC") and registered in the name of DTC or its nominee.

We have agreed to file an exchange offer registration statement pursuant to a registration rights agreement. See "Exchange Offer and Registration Rights" and "Taxation—Spanish Tax Considerations."

An investment in the Preferred Securities involves certain risks. For a discussion of these risks see "Risk Factors" beginning on page 19.

Application will be made to the Financial Services Authority (the "UK Listing Authority") in its capacity as competent authority under the Financial Services and Markets Act 2000 for the Preferred Securities to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for the Preferred Securities to be admitted to trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market.

References in this Offering Circular to the Preferred Securities being "listed" (and all related references) mean that the Preferred Securities will be admitted to trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market and shall be admitted to the Official List. The London Stock Exchange's Gilt-Edged and Fixed Interest Market is a regulated market for the purposes of EU Directive 93/22/EEC.

Neither the Preferred Securities nor the Guarantee has been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and the Preferred Securities are being offered only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act ("Rule 144A")) ("QIBs") under Rule 144A. For a description of certain restrictions on transfer of the Preferred Securities, see "Transfer Restrictions."

**LEHMAN BROTHERS**

(Sole Structuring Advisor & Sole Bookrunner)

**Banco Bilbao Vizcaya Argentaria, S.A.**  
(Joint Lead Manager, no underwriting commitment)

April 11, 2007

In this offering circular, unless the context otherwise requires, “BBVA International Preferred”, “Issuer”, “we”, “us” and “our” refers to BBVA International Preferred, S.A. Unipersonal. “BBVA”, “BBVA Group”, “Group”, “Bank” and “Guarantor” refer to Banco Bilbao Vizcaya Argentaria, S.A. and, where applicable, its consolidated subsidiaries, unless the context otherwise requires.

Unless otherwise indicated, “holder” refers to the registered holder of Preferred Securities.

Unless otherwise indicated, all references in this offering circular to “initial purchaser” refer to Lehman Brothers Inc.

## NOTICE TO INVESTORS

**The Issuer is offering to sell, and is seeking offers to buy, the Preferred Securities only in jurisdictions where offers and sales are permitted. This offering circular does not constitute an offer to sell, or a solicitation of an offer to buy, any Preferred Securities by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation. Neither the delivery of this offering circular nor any sale made under it implies that there has been no change in our affairs or that the information in this offering circular is correct as of any date after the date of this offering circular.**

This offering circular is highly confidential and has been prepared by us solely for use in connection with the placement of the Preferred Securities. This offering circular is personal to the offeree to whom it has been delivered by the initial purchaser and is not an offer to any other person or to the public generally. Distribution of this offering circular to any person other than the offeree and any person retained to advise that offeree is unauthorized. In addition, any disclosure of the contents of this offering circular, without our prior written consent, is prohibited. Each offeree, by accepting delivery of this offering circular, agrees to the foregoing and to refrain from making any photocopies of this offering circular or any documents referred to in it. Each offeree will notify its advisors of the restrictions imposed by United States securities laws on the purchase and sale of securities by any person receiving highly confidential information concerning the issuer of such securities and on the communication of confidential information to any other person. If the offeree does not purchase the Preferred Securities or the offering is terminated for any reason, the offeree shall return this offering circular to: Lehman Brothers Inc., Attn: High Grade Syndicate Desk, at 745 Seventh Avenue, New York, NY 10019.

You must (1) comply with all applicable laws and regulations in force in any jurisdiction in connection with the possession or distribution of this offering circular and the purchase, offer or sale of the Preferred Securities and (2) obtain any consent, approval or permission required to be obtained by you for the purchase, offer or sale by you of the Preferred Securities under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither the Issuer, the Guarantor nor the initial purchaser shall have any responsibility therefor. See “*Transfer Restrictions*” for information concerning some of the transfer restrictions applicable to the Preferred Securities.

You acknowledge that:

- you have not relied on the initial purchaser or any person affiliated with the initial purchaser in connection with your investigation of the accuracy of information contained in this offering circular or your investment decision; and
- no person has been authorized to give any information or to make any representation concerning us or the Preferred Securities, other than as contained in this offering circular and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or the initial purchaser.

In making an investment decision, you must rely on your own examination of our company and the terms of this offering, including the merits and risks involved. The Preferred Securities have not been recommended by any U.S. federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the

contrary is a criminal offense. The Preferred Securities may not be transferred or resold, except as permitted under the registration rights agreement entered into by us and the initial purchaser, the Securities Act and applicable U.S. state securities laws pursuant to registration or exemption therefrom.

The initial purchaser will provide you with a copy of this offering circular and any related amendments or supplements. By purchasing the Preferred Securities, you will be deemed to have acknowledged that you have reviewed this offering circular and the documents incorporated by reference herein and have had an opportunity to request, and have received, all additional information that you need from us. You further acknowledge that the initial purchaser is not responsible for, and is not making any representation to you concerning, our future performance or the accuracy or completeness of this offering circular.

Neither the Preferred Securities nor the guarantee described herein under “*The Guarantee*” (the “**Guarantee**”) have been registered under the Securities Act or the securities laws of any state of the United States, and may not be offered or sold within the United States except to “qualified institutional buyers” (as defined in Rule 144A under the Securities Act) under Rule 144A, or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Issuer and the initial purchaser will enter into a registration rights agreement with respect to the Preferred Securities. See “Exchange Offer and Registration Rights” for more information.

You should consult with your own advisors as to legal, tax, business, financial and related aspects of an investment in the Preferred Securities. You must comply with all laws applicable in any place in which you buy, offer or sell the Preferred Securities or possess or distribute this offering circular and you must obtain all applicable consents and approvals, and none of the Issuer, the Guarantor or the initial purchaser shall have any responsibility for any of the foregoing legal requirements.

You may not use any information herein for any purpose other than considering an investment in the Preferred Securities.

The Issuer reserves the right to withdraw this offering of the Preferred Securities at any time. The Issuer, the Guarantor and the initial purchaser also reserve the right to reject any offer to purchase the Preferred Securities in whole or in part for any reason or no reason and to allot to any prospective purchaser less than the full amount of the Preferred Securities sought by it.

In connection with this offering of the Preferred Securities and the Guarantee, Lehman Brothers Inc. or any person acting on its behalf may over-allot or effect transactions with a view to supporting the market price of the Preferred Securities and the Guarantee at a level higher than that which might otherwise prevail for a limited period after the issuance date. However, there will be no obligation on the part of Lehman Brothers Inc. or any of its affiliates to do so. Such stabilizing, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

The Preferred Securities have not been and are not expected to be registered under Spanish Securities Act (Law 24/1988 of July 24, as amended from time to time) and Royal Decree 1310/2005 of November 4 and may not be offered, distributed or sold in Spain. No publicity of any kind shall be made in Spain.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421 B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA.421 B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON,**

**SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATIONS INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

## SPANISH WITHHOLDING TAX REQUIREMENTS

Under Spanish law, distributions in respect of the Preferred Securities as well as imputed income deriving from the exchange of the Preferred Securities in relation to an exchange offer will be subject to withholding tax in Spain, currently at the rate of 18%, in the case of (a) individual Beneficial Owners who are resident for tax purposes in Spain; and (b) Beneficial Owners who receive payments through a Tax Haven (as defined in Royal Decree 1080/1991, of July 5, as amended). Each of the Issuer and the Guarantor is required pursuant to Spanish law to submit to the Spanish tax authorities certain details relating to Beneficial Owners who receive distributions on the Preferred Securities or obtain imputed income deriving from the exchanges of the Preferred Securities in relation to an exchange offer. Beneficial Owners in respect of whom such information is not provided to the Issuer or the Guarantor in accordance with procedures described herein will receive payments net of Spanish withholding tax, currently at the rate of 18%. Neither the Issuer nor the Guarantor will pay additional amounts in respect of any such withholding tax in any of the above cases. See *“Taxation—Spanish Tax Considerations—Evidencing of Beneficial Owner Residency in Connection with Distributions and Income Obtained from the Exchange of Preferred Securities for Exchange Preferred Securities”*.

The Issuer and the Guarantor have arranged certain procedures with Acupay System LLC (“**Acupay**”) and DTC that will facilitate the collection of the required Beneficial Owner information. The procedures arranged by Acupay and DTC are intended to facilitate the collection of information regarding the identity and residence of Beneficial Owners who (i) are exempt from Spanish withholding tax requirements and therefore entitled to receive payments in respect of the Preferred Securities free and clear of Spanish withholding taxes and (ii) (a) are direct participants in DTC, (b) hold their interests through securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a direct or indirect custodial relationship with a direct participant in DTC (each such entity an “indirect DTC participant”) or (c) hold their interests through direct DTC participants. These procedures are set forth in Annexes A and B to this Offering Circular.

Such procedures may be amended to comply with Spanish laws and regulations or any judicial or administrative interpretation thereof. Beneficial Owners must seek their own tax advice to ensure that they comply with all procedures with respect to providing Beneficial Owner information. None of the Issuer, the Guarantor, the initial purchaser, Acupay or DTC assume any responsibility therefor.

DTC is under no obligation to continue to perform the tax certification procedures and such procedures may be modified or discontinued at any time. In addition, DTC may discontinue providing its services as securities depository with respect to the Preferred Securities at any time by giving reasonable notice to us.

If DTC or the direct or indirect participants in DTC are unable to facilitate the collection of such information, the Issuer may attempt to remove the Preferred Securities from the DTC clearing system and this may affect the liquidity of the Preferred Securities. Provision has been made for the Preferred Securities to be represented by certificated Preferred Securities in the event that the Preferred Securities cease to be held through DTC. See *“Description of the Preferred Securities—Form, Denomination, Transfer and Registration”*.

The Issuer or the Guarantor, as applicable, may, in the future, withhold amounts from payments for the benefit of Beneficial Owners who are subject to Corporate Income Tax in Spain if the Spanish tax authorities determine that the Preferred Securities do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated July 27, 2004 or otherwise require such withholding to be made. If this were to occur, neither the Issuer nor the Guarantor would pay additional amounts in respect of such withholding. See *“Taxation — Spanish Tax Considerations — Legal entities with tax residency in Spain — Corporate Income Tax (Impuesto sobre Sociedades)”*.



## SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This offering circular and the information incorporated by reference herein contains statements that may be considered to be “forward-looking statements” as that term is defined in the U.S. Private Securities Litigation Act of 1995. Forward-looking statements appear in a number of places throughout this offering circular and the documents incorporated by reference herein, including, without limitation, the information under “Use of Proceeds” in this offering circular and “Item 3. Key Information—Risk Factors”, “Item 4. Information on the Company”, “Item 5. Operating and Financial Review and Prospects” and “Item 11. Quantitative and Qualitative Disclosures about Market Risk” in our annual report on Form 20-F for the year ended December 31, 2006 filed with the Securities and Exchange Commission on March 30, 2007 and incorporated by reference in this offering circular (the “**2006 20-F**”), and include, but are not limited to, statements regarding:

- strategy and objectives;
- trends affecting our results of operations and financial conditions;
- asset portfolios;
- loan loss reserve;
- capital spending;
- legal proceedings; and
- our potential exposure to market risk.

Our forward-looking statements also may be identified by words such as “believes”, “expects”, “anticipates”, “projects”, “intends”, “should”, “seeks”, “estimates”, “probability”, “risk”, “VAR”, “target”, “goal”, “objective”, “future” or similar expressions or variations on such expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements.

We have identified some of the risks inherent in forward-looking statements in “Item 3. Key Information—Risk Factors” in our 2006 20-F. Other important factors that could cause actual results to differ materially from those in forward-looking statements include, among others:

- general political, economic and business conditions in Spain, the European Union (“EU”), Latin America and other regions, countries or territories in which we operate;
- changes in applicable laws and regulations, including taxes;
- the monetary, interest rate and other policies of central banks in Spain, the EU, the United States and elsewhere;
- changes or volatility in interest rates, foreign exchange rates (including the euro to U.S. dollar exchange rate), asset prices, equity markets, commodity prices, inflation or deflation;
- the effects of competition in the markets in which we operate, which may be influenced by regulation or deregulation;
- changes in consumer spending and savings habits, including changes in government policies which may influence investment decisions;
- our ability to hedge certain risks economically;
- the ability to obtain regulatory approvals of the proposed transaction to acquire Compass Banc shares, Inc. (“**Compass**”) on the proposed terms and schedule;
- the failure of BBVA or Compass shareholders to approve the capital increase or the proposed transaction, respectively;

- the risk that the businesses of BBVA and Compass will not be integrated successfully;
- the risk that the cost savings and any other synergies from the proposed transaction to acquire Compass may not be fully realized or may take longer to realize than expected;
- disruption from the proposed transaction to acquire Compass making it more difficult to maintain relationships with customers, employers or suppliers;
- our success in managing the risks involved in the foregoing, which depends, among other things, on its ability to anticipate events that cannot be captured by the statistical models we use; and
- force majeure and other events beyond our control.

Other factors could also adversely affect our results or the accuracy of forward-looking statements in this offering circular, and you should not consider the factors discussed here or in “Item 3. Key Information—Risk Factors” in our 2006 20-F to be a complete set of all potential risks or uncertainties.

You should not put undue reliance on any forward-looking statements. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

## **PRESENTATION OF INFORMATION**

We publish our consolidated financial statements in Euros and to the extent that any amounts reflected in such financial statements are stated in United States dollars or any other currency, such amounts have been translated from Euros at an assumed rate and solely for convenience and should not be construed as representations that such United States dollars or other currency actually represent such dollar or other currency amounts or could be converted into such dollars or other currency at the rate indicated.

## **ENFORCEABILITY OF CERTAIN CIVIL LIABILITIES**

Each of the Issuer and the Bank is a limited liability company (*sociedad anónima*) organized under the laws of the Kingdom of Spain. All of our directors and substantially all of the executive officers and directors of the Bank, and certain of the experts named in this offering circular, are not residents of the United States and all or a substantial portion of our assets and those of the Bank and our and their respective directors and officers are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons with respect to matters arising under the Securities Act or to enforce against them judgments of courts of the United States predicated upon civil liability under the Securities Act. We and the Bank are advised by our Spanish legal counsel, Garrigues, Abogados y Asesores Tributarios, that there is doubt as to the enforceability in Spain in original actions or in actions for enforcement of judgments of U.S. courts, of liabilities predicated solely upon the securities laws of the United States.

## **WHERE YOU CAN FIND MORE INFORMATION**

The Bank files annual reports with and furnishes other reports and information to the U.S. Securities and Exchange Commission, or the SEC. You may read and copy any document the Bank files with or furnishes to the SEC at the SEC’s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. The Bank’s SEC filings are also available to the public over the Internet at the SEC’s website at <http://www.sec.gov>.

We incorporate by reference in this offering circular certain information that the Bank has filed with the SEC, which means that we disclose important information to you by referring you to those documents. The



information incorporated by reference is considered to be part of this offering circular, and information that the Bank files later with the SEC will automatically update and supersede this information to the extent specified in such later filings. We incorporate by reference the documents listed below, and, to the extent indicated therein, any filings with the SEC under Sections 13 or 15(d) of the Securities Exchange Act of 1934 that the Bank may make after the date of this offering circular until the end of the distribution period of the Preferred Securities under this offering circular:

- Annual report of Banco Bilbao Vizcaya Argentaria, S.A. on Form 20-F for the year ended December 31, 2006, as filed with the SEC on March 30, 2007.

The Bank makes available free of charge through its website accessible at [www.bbva.com](http://www.bbva.com) all of the Bank's reports and other information filed with or furnished to the SEC by means of a hyperlink to the SEC's EDGAR database of electronic filings. With the exception of the report specifically incorporated by reference in this offering circular as set forth above, material contained on or accessible through BBVA's website is not incorporated into this offering circular. You may also request a copy of the Bank's filing, at no cost, by writing or calling the Bank at the following addresses:

Banco Bilbao Vizcaya Argentaria, S.A.,  
New York Branch  
1345 Avenue of the Americas,  
45th Floor  
New York, New York 10105  
Attention: Investor Relations  
(212) 728-1660

or

Banco Bilbao Vizcaya Argentaria, S.A.  
Plaza de San Nicolás, 4  
48005 Bilbao, Spain  
Attn: Investor Relations  
(34) 94 420 3001

or

Banco Bilbao Vizcaya Argentaria, S.A.  
Paseo de la Castellana, 81  
28046 Madrid, Spain  
Attn: Finance Department  
(34) 91 374 6000

American Depositary Shares representing the Bank's common shares are traded on the New York Stock Exchange under the symbol "BBV". You may inspect the Bank's reports filed with or furnished to the SEC and other information concerning the Bank at the offices of the New York Stock Exchange, 10 Broad Street, New York, New York 10005.

You should rely only on the information incorporated by reference or provided in this offering circular. We have not authorized anyone else to provide you with other or different information.

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## SUMMARY

*This summary must be read as an introduction to this Offering Circular and any decision to invest in any Preferred Securities should be based on a consideration of this Offering Circular as a whole, including the document incorporated by reference.*

*The following summary has been extracted without material adjustment from, and is qualified in its entirety by, the more detailed information included elsewhere in this Offering Circular with which it should be read in conjunction. Spanish law and regulations may differ from laws and regulations in other jurisdictions, and investors should therefore not assume that the Preferred Securities have the same features as preference shares or other similar instruments in any other jurisdiction.*

### **Issuer:**

BBVA International Preferred, S.A. Unipersonal.

The Issuer was incorporated on June 30, 2005 for an indefinite period of time as a limited liability company (*sociedad anónima*) under the laws of the Kingdom of Spain. The Issuer is a direct wholly-owned subsidiary of the Bank. The Issuer has no subsidiaries.

The Issuer issued its Series A Euro 550,000,000 Step-Up Fixed/Floating Rate Non-Cumulative Perpetual Guaranteed Preferred Securities of Euro 50,000 liquidation preference each on September 22, 2005 and its Series B Euro 500,000,000 Step-Up Fixed/Floating Rate Non-Cumulative Perpetual Guaranteed Preferred Securities of Euro 50,000 liquidation preference each on September 20, 2006. The authorised share capital of the Issuer is Euro 60,102 divided into 10,017 ordinary shares, each with a par value of Euro 6. The subscribed and fully paid up share capital is Euro 60,102.

The objectives of the Issuer are the issuance of preferred securities and/or other financial instruments including any type of debt instrument for placement in domestic or international markets in accordance with the second additional section of Law 13/1985 of May 25 as provided in item 5 of the third additional section of Law 19/2003 of July 4, on the legal framework for capital transfers and business transactions with foreign countries and particular measures to prevent money laundering, as specified in Article 2 of the Issuer's by-laws (*estatutos*).

### **Guarantor:**

Banco Bilbao Vizcaya Argentaria, S.A.

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. BBVA also has a portfolio of investments in some of Spain's leading companies.

BBVA was incorporated for an unlimited term on January 28, 2000. BBVA was formed as the result of a merger by absorption of Argentaria into Banco Bilbao Vizcaya, S.A., which was registered on January 28, 2000 (see "*Description of Banco Bilbao Vizcaya Argentaria, S.A. - History and Development of the Guarantor*").

During 2006, BBVA's organizational structure was divided into the following business areas:

- Retail Banking in Spain and Portugal
- Wholesale Businesses
- Mexico and the United States
- South America
- Corporate Activities

For a description of the new organizational structure BBVA expects to implement in 2007, see our 2006 20-F.

**Summary Financial Information**

As at December 31, 2006 BBVA's consolidated total assets were €411,916 million and its consolidated net operating income for the year then ended was €8,883 million. Selected consolidated financial information relating to BBVA is included under "*Description of Banco Bilbao Vizcaya Argentaria, S.A. - Selected Financial Data*" and BBVA's audited consolidated financial statements for each of the years ended December 31, 2006, 2005 and 2004 are included in our 2006 20-F, which is incorporated by reference into this document, see "*Documents Incorporated by Reference*".

**Risk Factors:**

There are certain factors that may affect the Issuer's and/or the Guarantor's ability to fulfill its obligations under the Preferred Securities. These are set out under "*Risk Factors*" below and include risks relating to BBVA's sensitivity to a downturn in the Spanish economy through the concentration of its loan portfolio in Spain, its exposure to the Spanish real estate market and the high levels of indebtedness among its Spanish customer base, risks relating to BBVA's Latin American business, risks relating to competition and other general banking risks including exchange rate and credit risks. In addition there are certain factors which are material for the purpose of assessing the market risks associated with the Preferred Securities, see "*Risk Factors*".

**Issue Size:**

\$600,000,000.

**Issue Details:**

Series C \$600,000,000 Fixed/Floating Rate Non-Cumulative Guaranteed Preferred Securities (*participaciones preferentes*), each with a liquidation preference of \$1,000.

The Bank has requested that the Preferred Securities qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations.

**Liquidation Preference:**

\$1,000 per Preferred Security.

**Use of Proceeds:**

The proceeds of the issue of the Preferred Securities, after paying any issue expenses, will be, in accordance with Spanish law, deposited on a permanent basis with the Bank or with another member of the Group and will be used for the Group's general corporate purposes (which include profit making). The funds raised from the issue of the Preferred Securities and so deposited will be available to absorb losses of the Bank if and when they occur once there is a reduction in the shareholders' equity to zero and its reserves have been exhausted.

**Distributions (*remuneración*):**

The Preferred Securities will entitle holders to receive (subject as described below) non-cumulative cash distributions

(“**Distributions**”). Distributions on the Preferred Securities will accrue from the Closing Date and will be payable, subject to the Limitations on Distributions described below, out of the Issuer’s own legally available resources and distributable items, semi-annually in arrears on April 18th and October 18th in each year falling on or before April 18, 2017 (the “**Reset Date**”) (each such date being a “**Fixed Rate Distribution Payment Date**”), and thereafter quarterly in arrears on January 18th, April 18th, July 18th and October 18th, (each such date being a “**Floating Rate Distribution Payment Date**” and together with each Fixed Rate Distribution Payment Date a “**Distribution Payment Date**”).

The Distribution rate will be fixed at a rate per annum of 5.919% of the Liquidation Preference of US\$1,000 per Preferred Security from and including the Closing Date to but excluding the Reset Date and thereafter at the then applicable U.S. dollar three-month LIBOR rate (“**Three Month \$LIBOR**” rate) plus 0.82% per year, of the Liquidation Preference, but in no event will such distributions, if declared, be payable at a rate of less than 5.919% per annum. The Distribution payable in respect of any Distribution Period (defined as 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) before the Reset Date will be computed on the basis of twelve 30-day months and a 360-day year. The Distribution payable in respect of any Distribution Period after the Reset Date will be computed on the basis of actual days elapsed over a 360-day year.

For further information, see “*Conditions of the Preferred Securities – Distributions*”.

**Distributable Profits:**

In respect of any Fiscal Year (as defined in “*Conditions of the Preferred Securities*”) of the Guarantor, are the lesser of the net profit (calculated in accordance with the calculation standards of the Bank of Spain), of (i) the Guarantor or (ii) the Group, in each case, as reflected in the reserved financial statements of the Guarantor and the Group, respectively, submitted to the Bank of Spain in compliance with regulations applicable from time to time to financial institutions relating to their obligation to file such financial statements. As at the Closing Date, such applicable regulations are currently set out in Circular 4/2004, December 22, 2004, on Public and Restricted Financial Reporting Standards and Model Financial Statements. In the event that on any Distribution Payment Date, the reserved financial statements of the Guarantor and/or the Group, respectively, referred to above have not been submitted to the Bank of Spain, the Distributable Profits shall be the lesser of the net profit (calculated in accordance with the calculation standards of the Bank of Spain), of (i) the Guarantor or (ii) the Group, in each case determined by reference to the latest reserved financial statements of the Bank and the Group, respectively, submitted to the Bank of Spain. In all cases, the net profit shown in the reserved financial statements of the Guarantor and the Group, respectively, shall be audited figures and if the net profit figure contained in such reserved financial statements is different from that contained in the published annual financial statements of the Group, prepared in accordance with Circular 4/2004, December 22, 2004, on Public and Restricted

Financial Reporting Standards and Model Financial Statements, the amount of, and reason for, such difference shall be highlighted by the Bank in the relevant annual report prepared by it containing such published annual financial statements of the Group.

*The reserved financial statements of the Guarantor and the Group, respectively, are prepared for, and delivered to, Bank of Spain purely for supervisory reasons as required under applicable Spanish law.*

**Limitations on Distributions:**

Investors' rights to receive Distributions on the Preferred Securities are conditional upon the following:

- (a) the aggregate of such Distributions, together with any other distributions previously paid during the then-current Fiscal Year and any distributions proposed to be paid during the then-current Distribution Period in each case on or in respect of Parity Securities (including the Preferred Securities), not exceeding the Distributable Profits of the immediately preceding Fiscal Year; and
- (b) even if Distributable Profits are sufficient, under applicable Spanish banking regulations relating to capital adequacy requirements affecting financial institutions which fail to meet their required capital ratios, the Bank not being prevented at such time from making payments on its ordinary shares or on Parity Securities issued by it.

If Distributions are not paid in full or in part on the Preferred Securities on or prior to a Distribution Payment Date in respect of the relevant Distribution Period, as a consequence of the above Limitations on Distributions, the right of the holders of the Preferred Securities to receive a Distribution from the Issuer or the Guarantor, as the case may be, in respect of the relevant Distribution Period will be extinguished. In such a case, neither the Issuer nor the Guarantor shall pay dividends or any other distributions on its ordinary shares or on any other class of share capital or securities issued by it and expressed to rank junior to the Preferred Securities or to the Guarantor obligation under the Guarantee, as the case may be, until such time as the Issuer or the Guarantor, as the case may be, shall have resumed the payment in full of Distributions on any two consecutive Fixed Rate Distribution Payment Dates or on any four consecutive Floating Rate Distribution Payment Dates.

**“Parity Securities”** means (as the case may be) any preferred securities (*participaciones preferentes*) issued under Law 13/1985 of May 25 (as defined under “*Conditions of the Preferred Securities*”) from time to time by the Guarantor, the Issuer, or by any other subsidiary which are guaranteed by the Guarantor or any preferential participations, preferential shares or preference shares (*acciones preferentes*) issued prior to the Closing Date by any other subsidiary incorporated outside The Kingdom of Spain and which are guaranteed by the Guarantor.

**Guarantee:**

The payment of Distributions, the Special Redemption Amount, the Liquidation Distribution and the Redemption Price shall be irrevocably, jointly (in Spanish *solidariamente*) and unconditionally



guaranteed by the Guarantor subject, in the case of Distributions, to the Limitations on Distributions described above. In addition, the Guarantee is subject to the limitations described under “*Liquidation Rights*” below.

In the event that proceedings for the liquidation, dissolution or winding up of the Bank are commenced or there is a reduction in the shareholders’ equity of the Bank pursuant to Article 169 of the Spanish Corporations Law (*Ley de Sociedades Anónimas*), the Liquidation Distribution will be subject to the limitations set out under “*Liquidation Rights*” below.

For a full description of the Guarantee, see “*The Guarantee*”.

**Ranking of the Guarantee:**

The Bank’s obligations under the Guarantee will rank (a) junior to all liabilities of the Bank (including subordinated liabilities); (b) *pari passu* with any Parity Securities issued by the Bank and any obligation assumed by the Bank under any guarantee of any Parity Securities of any Subsidiary (as defined in “*Conditions of the Preferred Securities*”); and (c) senior to the Bank’s ordinary shares and any other class of share capital expressed to rank junior as to participation in profits to the Bank’s obligations under the Guarantee.

**Ranking of the Preferred Securities:**

The Preferred Securities will be unsecured and subordinated obligations of the Issuer and will rank (a) junior to all liabilities of the Issuer including subordinated liabilities, (b) *pari passu* with each other and with any Parity Securities of the Issuer and (c) senior to the Issuer’s ordinary shares.

**Registration Rights:**

The Issuer and the Bank will enter into a registration rights agreement (the “**Registration Rights Agreement**”) pursuant to which they will agree to use their reasonable best efforts to either consummate an exchange offer pursuant to an effective registration statement under the Securities Act to exchange the Preferred Securities for substantially identical securities or cause the Preferred Securities to be registered under the Securities Act on a shelf registration statement so as to permit resales. The Issuer and the Bank will agree to use their reasonable best efforts to file a registration statement for either purpose within 270 days after the Closing Date, and to use their reasonable best efforts to have such registration statement declared effective within 360 days of the Closing Date. Holders of the Preferred Securities will be entitled to additional compensation during certain periods in which the Issuer and the Bank have not fulfilled their obligations under the Registration Rights Agreement.

**Optional Redemption:**

The Preferred Securities may be redeemed, at the option of the Issuer, subject to the prior consent of the Bank of Spain, in whole but not in part, from time to time, on April 18, 2017 or thereafter at ten-year intervals commencing on April 18, 2027, at the redemption price of \$1,000 per Preferred Security, plus accrued and unpaid Distributions for the then-current Distribution Period to the date fixed for redemption (the “**Redemption Price**”).

The Preferred Securities may also be redeemed at the option of the Issuer, subject to the prior consent of the Bank of Spain, in whole

but not in part, at the Redemption Price per Preferred Security on any Distribution Payment Date if, as a result of a tax law change on or after the Closing Date, the Issuer or the Guarantor, as the case may be, 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 Issuer or the Guarantor, as the case may be, would be materially reduced.

In the event that Preferred Securities cease to qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations, the Issuer may, subject to the prior consent of the Bank of Spain that it has no objection to the redemption (if required), and upon the appropriate notice to holders, (i) on any Distribution Payment Date prior to the Reset Date, redeem the Preferred Securities in whole, but not in part, at the Fixed Rate Special Redemption Price or (ii) on any Distribution Payment Date on or after the Reset Date, redeem the Preferred Securities in whole, but not in part, at the Floating Rate Special Redemption Price. Each such date in (i) and (ii) above being a **“Special Redemption Date”**.

**“Fixed Rate Special Redemption Price”** means the greater of (i) the Liquidation Preference of \$1,000 per Preferred Security plus accrued and unpaid Distributions for the then-current Distribution Period to the date fixed for redemption and (ii) the Fixed Rate Make Whole Amount.

**“Fixed Rate Make Whole Amount”** means the amount equal to the sum of the present value of the Liquidation Preference of \$1,000 per Preferred Security, together with the present values of the scheduled non-cumulative Distribution Payments per Preferred Security from the Special Redemption Date to the Reset Date (both inclusive), in each case, discounted back to the Special Redemption Date on a semi-annual compounded basis at the adjusted U.S. Treasury Rate plus 0.75%.

**“Floating Rate Special Redemption Price”** means the greater of (i) the Liquidation Preference of \$1,000 per Preferred Security plus accrued and unpaid Distributions for the then – current Distribution Period to the date fixed for redemption and (ii) the Floating Rate Make Whole Amount.

**“Floating Rate Make Whole Amount”** means the amount equal to the sum of the present value of the Liquidation Preference of \$1,000 per Preferred Security, together with the present values of the scheduled non-cumulative Distribution Payments per Preference Share from the Special Redemption Date to the next optional redemption date (both inclusive), in each case, discounted back to the Special Redemption Date on a quarterly compounded basis at the Three Month \$LIBOR rate for the Distribution Period immediately preceding the Special Redemption Date.

For further information, see *“Conditions of the Preferred Securities – Optional Redemption”*.

#### **Liquidation Distribution:**

The Liquidation Distribution payable in relation to each Preferred Security shall be its Liquidation Preference per Preferred Security

plus, if applicable, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the Liquidation Distribution.

**Liquidation Rights:**

Except as described under “*Conditions of the Preferred Securities – Distributions*”, the Preferred Securities will confer no right to participate in the profits or surplus assets of the Issuer.

If proceedings for the liquidation, dissolution or winding up of the Bank or for a reduction in the Bank’s shareholders’ equity pursuant to Article 169 of the Spanish Corporations Law (*Ley de Sociedades Anónimas*) are commenced, the Issuer shall be liquidated by the Bank and the holders of Preferred Securities at the time outstanding will be entitled to receive only the Liquidation Distribution in respect of each Preferred Security held by them. In such an event, the Liquidation Distribution relating to each Preferred Security shall not exceed the amount which would have been paid from the assets of the Bank had the Preferred Securities and all other Parity Securities been issued by the Bank.

Except as described above, the Bank shall not liquidate or procure a liquidation of the Issuer.

**Purchases:**

Under current Spanish law none of the Issuer, the Guarantor or any other subsidiary of the Guarantor may purchase Preferred Securities, save with the prior consent of the Bank of Spain no earlier than April 18, 2012. Notwithstanding the above, subject to the terms and conditions of the Preferred Securities, the Issuer and the Guarantor have agreed that neither the Issuer, the Guarantor or any subsidiary will purchase any Preferred Securities before April 18, 2017.

**Pre-emptive Rights:**

The Preferred Securities do not grant their holders preferential subscription rights in respect of any possible future issues of preferred securities by the Issuer, the Bank or any other 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 Issuer or the Guarantor. Notwithstanding the above, the holders of the Preferred Securities will have the right, under certain circumstances, to participate in the adoption of certain decisions in the General Meetings (as defined in “*Conditions of the Preferred Securities*”).

For further information, see “*Conditions of the Preferred Securities – Constitution of the Syndicate and Exercise of Rights by holders of Preferred Securities*”.

**Spanish Tax Certification and  
Exchange Processing Procedures:**

**Under Spanish law, and provided that the Preferred Securities are listed on an OECD organized secondary market, (x) payments of Distributions in respect of the Preferred Securities made by the Issuer to Beneficial Owners who are not resident in Spain for tax purposes and who do not act, with respect to the Preferred Securities, through a permanent establishment in Spain, as well as (y) income obtained by such non-Spanish resident Beneficial Owners under an exchange offer, will not be subject to taxation in Spain and, therefore, to Spanish**

withholding tax, except in the case of payments of Distributions made to, or income obtained by, non-Spanish resident Beneficial Owners who (i) are resident or nationals of, located in, or obtain the income through, a territory which is a “tax haven” territory as defined by Spanish regulations (*i.e.*, Royal Decree 1080/1991 of July 5, 1991, as amended) or (ii) fail to comply with certain reporting and withholding tax obligation procedures. In either of cases (i) or (ii) above, non-Spanish resident Beneficial Owners will receive such payments or income subject to Spanish withholding tax, currently at the rate of 18%.

The Issuer and the Guarantor have arranged certain procedures with DTC and Acupay which will allow the Guarantor to comply with certain reporting and withholding tax obligations imposed by the Spanish law (*i.e.*, Spanish Law 13/1985 of May 25, and Royal Decree 2281/1998, as amended).

Under these tax information reporting procedures, participants in DTC who are a central bank, other public institution or international organization, a bank or credit institution or a financial entity, including collective investment institutions, pension funds and insurance entities, and are resident in an OECD country (other than Spain) or a country which has entered into a treaty with Spain for the avoidance of double taxation subject to a specific administrative registration or supervision scheme, and who hold the Preferred Securities on behalf of themselves or third party Beneficial Owners, will submit to the Issuer and the Guarantor (via Acupay) certain information concerning the identity and tax residence of Beneficial Owners entitled to receive income derived from the Preferred Securities free of Spanish withholding tax.

Beneficial Owners of Preferred Securities entitled to exemption from Spanish withholding tax but who fail (or have a DTC participant that fails) to comply with the information reporting and withholding tax obligation procedures mentioned above or who do not hold the Preferred Securities through a participant in DTC that complies with the requirements set forth in the preceding paragraph, and, therefore, becomes subject to the withholding of Spanish tax, may obtain the refund of the amount withheld by following a quick refund procedure or otherwise by requesting such refund directly from the Spanish tax authorities.

Beneficial Owners of Preferred Securities must seek their own tax advice to ensure that they comply with all procedures with respect to providing Beneficial Owner information. None of the Issuer, the Guarantor, the Paying Agent appointed by the Issuer and the Guarantor, Lehman Brothers, Acupay or DTC or such other clearing systems through which the Preferred Securities may be held assume any responsibility therefore.

No additional amounts will be payable in respect of present or future withholding taxes.

<b>Form:</b>	The Preferred Securities will be issued in registered form to QIBs pursuant to Rule 144A who will have a beneficial interest in the Preferred Securities represented by one or more global Preferred Security certificates with a legend of transfer restrictions set forth thereon, and which will be deposited with, or on behalf of, DTC and such Preferred Security will be registered in the name of DTC or its nominee.
<b>Ratings:</b>	<p>The Preferred Securities are expected, on issue, to be assigned an A1 rating by Moody's, an A- rating by Standard &amp; Poor's and an A rating by Fitch.</p> <p><i>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.</i></p>
<b>Governing Law:</b>	The Preferred Securities and the Guarantee will be governed by, and construed in accordance with, Spanish law. The Purchase Agreement dated March 29, 2007 between the Issuer, the Bank and the Initial Purchaser (the " <b>Purchase Agreement</b> "), the Agency Agreement (as defined in " <i>Conditions of the Preferred Securities</i> ") and the Tax Certification and Exchange Processing Agency Agreement (as defined in " <i>Conditions of the Preferred Securities</i> ") will be governed by, and construed in accordance with, the laws of the State of New York.
<b>Listing and Admission to Trading:</b>	Application will be made to the UK Listing Authority for the Preferred Securities to be admitted to the Official List and to the London Stock Exchange for the Preferred Securities to be admitted to trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market.
<b>Distribution:</b>	Neither the Preferred Securities nor the Guarantee have been registered under the Securities Act or the securities laws of any state of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Lehman Brothers Inc. will not offer or sell any Preferred Securities within the United States except (i) in accordance with Rule 144A under the Securities Act and (ii) in minimum sales of 100 Preferred Securities. Purchasers of the Preferred Securities acknowledge that they will be purchasing "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.
<b>CUSIP Number</b>	05530RAA6
<b>ISIN Number</b>	US05530RAA68

## RISK FACTORS

*Each of the Issuer and the Guarantor believe 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 neither the Issuer nor the Guarantor is 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.*

*Each of the Issuer and the Guarantor believes that the factors described below represent the principal risks inherent in investing in the Preferred Securities, but the inability of the Issuer or the Guarantor to pay interest, principal or other amounts on or in connection with the Preferred Securities may occur for other reasons and neither the Issuer nor the Guarantor 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 this Offering Circular and reach their own views prior to making any investment decision.*

### **Factors that may affect the Issuer's ability to fulfil its obligations under the Preferred Securities**

***The Issuer and the Guarantor are required to provide certain information relating to Beneficial Owners to the Spanish tax authorities. The Issuer and the Guarantor, as the case may be, will withhold Spanish withholding tax from any payment in respect of the Preferred Securities as to which the required Beneficial Owner information has not been provided, including in connection with any imputed income arising from an exchange of the Preferred Securities for other securities under an exchange offer.***

Under Spanish Law 13/1985 (as defined below under “*Conditions of the Preferred Securities*”) and Royal Decree 2281/1998 (as amended by Royal Decree 1778/2004) the Issuer and the Guarantor are required to provide certain information relating to Beneficial Owners to the Spanish tax authorities. This information includes the identity and country of residence of each Beneficial Owner that receives a payment on the Preferred Securities or obtains imputed income deriving from the exchange of the Preferred Securities for other securities under an exchange offer and the distribution received or the imputed income obtained by such Beneficial Owner, and must be obtained with respect to each Distribution Payment Date or the Exchange Offer Expiry Date, as the case may be, by the fourth New York Business Day (as defined below) before the relevant Distribution Payment Date or by the Exchange Offer Expiry Date, as the case may be, or, under certain circumstances, by 9:45 a.m. (New York time) on such relevant Distribution Payment Date or by 8.00 p.m. (New York time) on the third New York Business Day immediately after the Exchange Offer Expiry Date, as the case may be, and filed by the Issuer and the Guarantor with the Spanish tax authorities on an annual basis. If DTC or the direct or indirect participants in DTC fail for any reason to provide the Issuer and the Guarantor (through Acupay) with the required information described under “*Taxation — Spanish Tax Considerations — Evidencing of Beneficial Owner Residency in Connection with Distributions and Income Obtained from the Exchange of Preferred Securities for Exchange Preferred Securities*” in respect of the Beneficial Owner of any of the Preferred Securities, the Issuer or the Guarantor, as the case may be, will be required to withhold tax and will pay distributions in respect of such Preferred Securities net of the withholding tax applicable to such payments and any income imputed in connection with any exchange of the Preferred Securities (currently at the rate of 18%). In the event that the amount of the withholding tax to be collected in connection with an exchange of the Preferred Securities for substantially identical SEC-registered Preferred Securities as contemplated under “*Exchange Offer and Registration Rights*” exceeds the amount of the distribution (net of withholding applicable to that distribution) coincident with such exchange, the securities issued in the exchange may be withheld from delivery by the Issuer or an agent on its behalf and, to the extent necessary, sold in order to generate proceeds sufficient to satisfy such withholding tax. See Annex A. The proceeds realized from such a sale may be less than the proceeds that would be realized from a sale of the Preferred Securities to be executed in the absence of such procedures or were such Preferred Securities to be sold at another time. If withholding occurs due to failure to provide the required tax information through Acupay, affected Beneficial Owners would have to either follow the



quick refund procedure or apply directly to the Spanish tax authorities for any refund to which they may be entitled. See “*Taxation—Spanish Tax Considerations—Evidencing of Beneficial Owner Residency in Connection with Distributions and Income Obtained from the Exchange of Preferred Securities for Exchange Preferred Securities*”. The Issuer and the Guarantor will not pay any additional amounts with respect to any such withholding.

***The Issuer and the Guarantor have agreed to provide certain procedures arranged by Acupay and DTC to facilitate the collection of information concerning the identity and residence of Beneficial Owners through the relevant participants in DTC. If the agreed procedures prove ineffective or if the relevant participants in DTC fail to provide and verify the required information as of each Distribution Payment Date, the Issuer or the Guarantor, as the case may be, will withhold at the then-applicable rate (currently 18%) from any payment in respect of the Preferred Securities as to which the agreed procedures prove ineffective or have not been followed, including in connection with any imputed income arising from an exchange of the Preferred Securities for other securities under an exchange offer, and neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding.***

The delivery of the required Beneficial Owner identity and country of residence information must be made through the relevant direct or indirect participants in DTC in accordance with the procedures set forth under “*Taxation — Spanish Tax Considerations — Evidencing of Beneficial Owner Residency in Connection with Distributions and Income Obtained from the Exchange of Preferred Securities for Exchange Preferred Securities*”. Each such DTC participant must provide the required information in respect of all of the Beneficial Owners holding interests through such participant as of each Distribution Payment Date, and neither the Issuer nor the Guarantor shall be responsible for any DTC participant’s failure to do so. Such failure may arise as a result of the failure of an indirect DTC participant holding through a direct DTC participant to provide the necessary information in a timely manner. In the event of any error in a direct DTC participant’s compliance with these procedures, Acupay will seek to notify such direct DTC participant of any deficiencies in the information provided by such direct DTC participant, and in the event such direct DTC participant fails to correct such deficiencies in a timely manner, the Issuer or the Guarantor, as the case may be, will withhold at the then-applicable rate from any payment in respect of the Preferred Securities, including in connection with any imputed income arising from an exchange of the Preferred Securities for other securities under an exchange offer, held through such direct DTC participant. Neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding. In order to obtain a refund of any amounts withheld, affected Beneficial Owners will have to either follow the quick refund procedure or apply directly to the Spanish tax authorities for any refund to which they may be entitled, as described under “*Taxation—Spanish Tax Considerations—Evidencing of Beneficial Owner Residency in Connection with Distributions and Income Obtained from the Exchange of Preferred Securities for Exchange Preferred Securities*”, and neither the Issuer nor the Guarantor shall be responsible for any damage or loss incurred by Beneficial Owners in connection with such procedures.

***The Preferred Securities may be subject to certain Spanish taxation if they are not listed on an Organized Market in an OECD Country***

If the Preferred Securities are not listed on an organized market in an OECD country on any Distribution Payment Date, distributions to Beneficial Owners not resident in Spain for tax purposes in respect of the Preferred Securities may be subject to withholding tax, and if the Preferred Securities are not so listed at any year end, Spanish Net Wealth Tax may apply. See “*Taxation—Spanish Tax Considerations—Tax Rules for Preferred Securities not Listed on an Organized Market in an OECD Country.*” The Issuer intends to apply for the Preferred Securities to be traded on the London Stock Exchange’s Gilt Edged and Fixed Interest Market but no assurances can be given that such listing will be completed by any Distribution Payment Date or year end.

***Dependence on other Group members.***

The Issuer is a finance vehicle established by the Guarantor for the purpose of issuing the Preferred Securities and on-lending the proceeds within the Group. The Issuer is therefore dependent upon other

members of the Group paying interest on and repaying their loans in a timely fashion. Should any Group member fail to pay interest on or repay any loan in a timely fashion this could have a material adverse effect on the ability of the Issuer to fulfil its obligations under the Preferred Securities.

By virtue of its dependence on other Group members, each of the risks described below that affect the Guarantor will also indirectly affect the Issuer.

#### **Factors that may affect the Guarantor's ability to fulfil its obligations under the Guarantee**

***Since the Guarantor'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 Guarantor has historically developed its lending business in Spain, which continues to be its main place of business. As of December 31, 2006, business activity in Spain accounted for 70.2% of its loan portfolio. Any adverse changes affecting the Spanish economy are likely to have a significant adverse impact on its loan portfolio and, as a result, on its financial condition and results of operations.

***A substantial percentage of the Guarantor's customer base is particularly sensitive to adverse developments in the economy, which renders its lending activities relatively riskier than if it lent primarily to higher-income customer segments.***

Medium- and small-size companies and middle- and lower-middle- income individuals typically have less financial strength than large companies and high-income individuals and accordingly can be expected to be more negatively affected by adverse developments in the economy. As a result, it is generally accepted that lending to these segments of the Guarantor's existing and targeted customer base represents a relatively higher degree of risk than lending to other groups.

A substantial portion of the Guarantor's loan portfolio consists of residential mortgages and consumer loans to middle- and lower-middle-income customers and commercial loans to medium- and small-size companies. Consequently, during periods of slowdown in economic activity it may experience higher levels of past due amounts which could result in higher levels of allowance for loan losses. The Guarantor cannot be sure that it will not suffer substantial adverse effects on its base loan portfolio to these customer segments in the event of adverse developments in the economy.

***Increased exposure to real estate in Spain makes the Guarantor more vulnerable to developments in this market.***

The sound economic growth, the strength of the labor market and a decrease in interest rates in Spain have caused an increase in the demand for mortgage loans in the last few years. This has had repercussions in housing prices, which have also risen significantly. As residential mortgages are one of the Guarantor's main assets, comprising 26%, 27% and 26% of its loan portfolio at December 31, 2006, 2005 and 2004, respectively, it is currently highly exposed to developments in real estate markets. The Guarantor expects the worsening financial conditions in Spain to cause a gradual adjustment process in the Spanish real estate sector, after several years of price increases.

In addition, a strong increase in interest rates or unemployment in Spain might have a significant negative impact in mortgage payment delinquency rates. An increase in such delinquency rates could have an adverse effect on the Guarantor's business, financial condition and results of operations.

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

Spanish households and firms have reached, in recent years, a high level of indebtedness, which represents increased risk for the Spanish banking system. The increase of loans referenced to variable interest rates makes debt service on such loans more vulnerable to changes in interest rates than in the past. In fact, the debt burden of the Spanish households on disposable income has increased substantially from 12.5% in 2003

to 16.4% in 2006. The increase in households' and firms' indebtedness also limits their ability to incur additional debt, decreasing the number of new products the Guarantor may otherwise be able to sell them.

***A sudden shortage of funds could cause an increase in the Guarantor's costs of funding and an adverse effect on its operating revenues.***

Historically, one of the Guarantor's principal sources of funds has been savings and demand deposits. Time deposits represented 23.3%, 25.4% and 27.6% of its total funding at December 31, 2006, 2005 and 2004, respectively. Large-denomination time deposits may, under some circumstances, such as during periods of significant changes in market interest rates for these types of deposit products and resulting increased competition for such funds, be a less stable source of deposits than savings and demand deposits. In addition, since the Guarantor relies heavily on short-term deposits for its funding, it cannot be sure that, in the event of a sudden or unexpected shortage of funds in the banking systems or money markets in which it operates, it will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets.

***The Guarantor faces increasing competition in its business lines.***

The markets in which the Guarantor operates are highly competitive. Financial sector reforms in the markets in which the Guarantor operates have increased competition among both local and foreign financial institutions, and the Guarantor believes that this trend will continue. For example, the adoption of the euro as the common currency throughout the EU is making it easier for European banks to compete against the Guarantor in Spain. In addition, the trend towards consolidation in the banking industry has created larger and stronger banks with which it must now compete. This is particularly the case of the consumer credit market, where foreign entrants are operating in the segment of small credits to subprime households.

The Guarantor also faces competition from non-bank competitors, such as:

- department stores (for some credit products);
- leasing companies;
- factoring companies;
- mutual funds;
- pension funds; and
- insurance companies.

The Guarantor cannot be sure that this competition will not adversely affect its business, financial condition and results of operations.

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

The Guarantor'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 Guarantor's control, including deregulation of the financial sectors in the markets in which it operates, monetary policies pursued by the EU and national governments, domestic and international economic and political conditions and other factors.

Changes in market interest rates could affect the spread between interest rates charged on interest-earning assets and interest rates paid on interest-bearing liabilities and thereby negatively affect the Guarantor's results of operations. For example, an increase in interest rates could cause its interest expense on deposits to increase more significantly and quickly than its interest income from loans, resulting in a reduction in its net interest income.

In addition, income from treasury operations is particularly vulnerable to interest rate volatility. Since approximately 75% of the Guarantor's loan portfolio consists of variable interest rate loans maturing in more than one year, rising interest rates may also bring about an increase in the non-performing loan portfolio.

***The Guarantor's financial statements and periodic disclosure under securities laws may not provide the same information as financial statements prepared under U.S. accounting rules and periodic disclosures provided by domestic U.S. issuers.***

Publicly available information about public companies in Spain is generally less detailed and not as frequently updated as the information that is regularly published by or about listed companies in the United States. In addition, although the Guarantor is subject to the periodic reporting requirements of the United States Securities Exchange Act of 1934 (the "**Exchange Act**"), the periodic disclosure required of foreign issuers under the Exchange Act is more limited than the periodic disclosure required of U.S. issuers. Finally, the Guarantor maintains its financial accounts and records and prepares its financial statements in conformity EU-IFRS, which differs in certain respects from U.S. GAAP, the financial reporting standard to which many investors in the United States may be more accustomed.

***The Guarantor may fail to realize all of the anticipated benefits of the proposed transaction to acquire Compass.***

The success of the proposed transaction to acquire Compass will depend, in part, on the Guarantor's ability to realize the anticipated benefits from combining the businesses of the Guarantor and Compass. However, to realize these anticipated benefits, the Guarantor and Compass must successfully combine their businesses, which are currently principally conducted in different countries by management and employees coming from different cultural backgrounds. If the Guarantor is not able to achieve these objectives, the anticipated benefits of the transaction may not be realized fully or at all or may take longer to realize than expected.

The Guarantor and Compass have operated and, until the completion of the proposed transaction, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the ability of the Guarantor and Compass to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the transaction. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of Compass and the Guarantor during the transition period and on the combined company following completion of the transaction.

## **Risks Relating to Latin America**

***Political events in Mexico could adversely affect the Guarantor's operations, given that approximately 37% of the income attributed to the Group is generated in Mexico.***

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Mexican governmental actions concerning the economy and state-owned enterprises could have a significant effect on Mexican private sector entities in general, and on the Guarantor's Mexican subsidiaries in particular.

Mexico's presidential elections were held on July 2, 2006. Felipe Calderon's victory was confirmed by the Federal courts on September 5, 2006, and Calderon took office on December 1, 2006, but the election results were contested by Andres Manuel López Obrador and his party, the Democratic Revolutionary Party, which alleged irregularities in over 30% of the country's polling stations, sought a vote recount, unsuccessfully appealed the results of the election and staged street protests. The uncertainty caused by the election could result in political and economic instability and social unrest, which could adversely affect the business, financial condition and results of operations of the Guarantor's Mexican subsidiaries. Moreover, the new administration could implement significant changes in laws, public policies and government programs, which could have a material adverse effect on the business, financial condition and results of operations of the Guarantor's Mexican subsidiaries.

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

The Latin American countries in which the Guarantor operates have experienced significant economic volatility in recent decades, characterized by slow growth, declining investment and significant inflation. This volatility has resulted in fluctuations in the levels of deposits and in the relative economic strength of various segments of the economies to which the Guarantor lends. Negative and fluctuating economic conditions, such as a changing interest rate environment, also affect the Guarantor's profitability by causing lending margins to decrease and leading to decreased demand for higher-margin products and services. The results of several recent electoral processes entail an increased risk of greater state intervention in the domestic economy, especially in Bolivia and Venezuela.

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

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

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

Financial and securities markets in Latin American countries in which the Guarantor operates are, to varying degrees, influenced by economic and market conditions in other countries in Latin America and beyond. Negative developments in the economy or securities markets in one country, particularly in an emerging market, may have a negative impact on other emerging market economies. These developments may adversely affect the business, financial condition and operating results of its subsidiaries in Latin America.

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

The Guarantor operates commercial banks in 10 Latin American countries and its overall success as a global business depends, in part, upon its ability to succeed in differing economic, social and political conditions. It is confronted with different legal and regulatory requirements in many of the jurisdictions in which it operates. These include, but are not limited to, different tax regimes and laws relating to the repatriation of funds or nationalisation of assets. The Guarantor's international operations may also expose it to risks and challenges which its local competitors may not be required to face, such as exchange rate risk, difficulty in managing a local entity from abroad, and political risk which may be particular to foreign investors. The Guarantor's expansion in these markets requires it to respond to rapid changes in market conditions in these countries. It cannot be sure that it will continue to succeed in developing and implementing policies and strategies that are effective in each country in which it operates or that any of the foregoing factors will not have a material adverse effect on its business, financial condition and results of operations.

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

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



Changes in regulations that are beyond the Guarantor's control may have a material effect on its business and operations, particularly in Venezuela. In addition, since some of the banking laws and regulations have been recently adopted, the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. No assurance can be given that laws or regulations will be enforced or interpreted in a manner that will not have a material adverse effect on the Guarantor's business, financial condition and results of operations.

### **Risks relating to other countries**

#### ***The Guarantor's strategic growth in Asia exposes it to increased regulatory, economic and geopolitical risk relating to emerging markets in the region, particularly in China.***

Strategic growth in Asia, particularly China, continued in 2006. The Group formed a strategic alliance with the CITIC Group, in which the Guarantor committed to invest €501 million to purchase 5% of China Citic Bank ("CNCB") as well as €488 million to purchase 15% of Citic International Financial Holdings ("CIFH") as of December 31, 2006.

As a result of the Guarantor's expansion into Asia, it is exposed to increased risks relating to emerging markets in the region, particularly in China. The Chinese government has exercised, and continues to exercise, significant influence over the Chinese economy. Chinese governmental actions concerning the economy and state-owned enterprises could have a significant effect on Chinese private sector entities in general, and on CNCB or CIFH in particular.

The Guarantor also is exposed to regulatory uncertainty and geopolitical risk as a result of its investments in Asia. Changes in laws or regulations or in the interpretation of existing laws or regulations, whether caused by a change in government or otherwise, could adversely affect its investments. Moreover, Asian economies can be directly and negatively affected by adverse developments in other countries in the region and beyond.

Any of these developments could have a material adverse effect on the Guarantor's investments in Asia or the business, financial condition and operating results of the Group.

#### ***The Guarantor's continued expansion in the United States increases its exposure to the U.S. market.***

The Group's expansion continued in the United States in 2006 with the acquisition of Texas Regional Bancshares, Inc. ("Texas Regional Bancshares") (for \$2,141 million (approximately €1,674 million) in November 2006) and State National Bancshares, Inc. ("State National Bancshares") (for \$484 million (approximately €368 million), which closed in January 2007). These purchases, together with Laredo National Bank, Inc. ("LNB") (acquired in 2005), have nearly tripled the Guarantor's presence in the United States in the past two years. In addition, the Guarantor recently announced its proposed acquisition of Compass, which, if consummated, will substantially increase its presence in the United States.

The Guarantor's expansion in the United States makes it more vulnerable to developments in this market, particularly the real estate market. The sound economic growth, the strength of the labor market and a decrease in interest rates in the United States have caused an increase in the demand for mortgage loans in the last few years. This has had repercussions in housing prices, which have also risen significantly. As the Guarantor has acquired entities in the United States, its exposure to the U.S. real estate market has increased, and this will increase further if the proposed acquisition of Compass is consummated. If there were a significant downturn in the U.S. economy in general, or the real estate market in particular, it could have a material adverse effect on the Guarantor's business, financial condition and results of operations.

### **Factors which are material for the purpose of assessing the market risks associated with the Preferred Securities**

#### ***The Preferred Securities 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 should:



- (i) have 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 or any applicable supplement;
- (ii) have 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) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Preferred Securities, including where the currency for distributions is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Preferred Securities and be familiar with the behaviour of any relevant financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

***The Preferred Securities are subject to optional redemption by the Issuer, subject to the prior consent of the Bank of Spain.***

The optional redemption feature of the Preferred Securities is likely to limit their market value. During any period when the Issuer may elect to redeem the Preferred Securities, the market value of the Preferred Securities generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem the Preferred Securities when its cost of borrowing is lower than the distribution rate payable on the Preferred Securities. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the distribution rate on the Preferred Securities being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

### **Risks related to the Preferred Securities generally**

Set out below is a brief description of certain risks relating to the Preferred Securities generally.

***The Issuer's obligations under the Preferred Securities are subordinated.***

The Issuer's obligations under the Preferred Securities will be unsecured and subordinated and will rank (a) junior in priority of payment to all liabilities of the Issuer including subordinated liabilities, (b) *pari passu* with each other and with any Parity Securities (as defined in "*Conditions of the Preferred Securities*") of the Issuer and (c) senior to the Issuer's ordinary shares. Although the Preferred Securities may pay a higher distribution rate than comparable securities which are not subordinated or as subordinated as the Preferred Securities, there is a real risk that an investor in the Preferred Securities will lose all or some of his investment should the Issuer and the Guarantor become insolvent.

The payment of Distributions, the Liquidation Distribution, the Special Redemption Amount and the Redemption Price (each as defined in "*Conditions of the Preferred Securities*") in respect of the Preferred Securities has been unconditionally and irrevocably guaranteed by the Guarantor pursuant to the Guarantee. The Guarantor's obligations under the Guarantee will be unsecured and subordinated and will rank (a) junior in priority of payment to all liabilities of the Guarantor (including subordinated liabilities), (b) *pari passu* with any Parity Securities issued by the Guarantor and any obligation assumed by the Guarantor under any guarantee of any Parity Securities of any subsidiary of the Guarantor and (c) senior to the Guarantor's ordinary shares and any other class of share capital expressed to rank junior as to participation in profits to the Guarantor's obligations under the Guarantee. In addition, the Guarantee is structurally subordinated to all indebtedness of subsidiaries of the Guarantor insofar as any right of the Guarantor, as a shareholder of such subsidiaries, to receive any assets of any of its subsidiaries upon the insolvency, liquidation, dissolution

or winding-up or other similar proceeding of any of them will, subject to applicable law, be effectively subordinated to the claims of any such subsidiary's creditors (including trade creditors and holders of debt or guarantees issued by such subsidiary).

After payment in full of unsubordinated claims, but before distributions to shareholders, under articles 92 and 158 of Law 22/2003, of July 9, 2003, on Insolvency as amended ("**Law 22/2003**"), the Issuer and the Guarantor will meet subordinated claims in the following order and pro rata within each class: (i) late or incorrect claims; (ii) contractually subordinated debts; (iii) interest; (iv) fines; (v) claims of creditors which are related to the Issuer or the Guarantor; and (vi) detrimental claims against the Issuer or the Guarantor where a Spanish Court has determined that the relevant creditor has acted in bad faith (*rescisión concursal*).

#### ***Change of law.***

The conditions of the Preferred Securities are based on Spanish law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to Spanish law or administrative practice after the date of this Offering Circular.

#### ***You may be unable to enforce judgments obtained in U.S. courts against us or the Guarantor.***

All of our directors and substantially all the directors and executive officers of the Guarantor are not residents of the United States, and substantially all the assets of these companies are located outside of the United States. As a consequence, you may not be able to effect service of process on these non-U.S. resident directors and executive officers in the United States or to enforce judgments against them outside of the United States. We have been advised by our Spanish counsel that there is doubt as to whether a Spanish court would enforce a judgment of liability obtained in the United States against us or the Guarantor predicated solely upon the securities laws of the United States. We and BBVA have not submitted to the jurisdiction of New York state and U.S. federal courts sitting in New York City (or to the jurisdiction of any other U.S. state or federal courts) for the purpose of settling any dispute that may arise out of or in connection with the Preferred Securities or the Guarantee and consequently holders of the Preferred Securities may have difficulty in bringing any suit, action or proceeding arising out of or in connection with the Preferred Securities in New York state or U.S. federal courts sitting in New York City (or in any other U.S. state or U.S. federal court).

#### **Risks related to the market generally**

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

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

The Preferred Securities may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. 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 Issuer and the Guarantor will be in United States dollars. 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 the United States dollar. These include the risk that exchange rates may significantly change (including changes due to devaluation of the United States dollar 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 United States dollar would decrease (i) the Investor's Currency-equivalent yield on the

Preferred Securities, (ii) the Investor's Currency-equivalent value of the redemption monies payable on the Preferred Securities and (iii) the Investor's Currency-equivalent market value of the Preferred Securities.

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

***Interest rate risk.***

Investment in the Preferred Securities involves the risk that changes in market interest rates (prior to April 18, 2017) may adversely affect the value of the Preferred Securities.

***Credit ratings may not reflect all risks.***

The Preferred Securities are expected, upon issue, to be assigned an A1 rating by Moody's, an A rating by Fitch and an A- rating by S&P. The 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. 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.

***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.

## CONDITIONS OF THE PREFERRED SECURITIES

The Preferred Securities (as defined below) are issued by virtue of (i) the shareholders meeting of BBVA International Preferred, S.A. Unipersonal (the “**Issuer**”), held on March 29, 2007 and (ii) the meeting of the Board of Directors (Consejo de Administración) of the Issuer, held on March 29, 2007 and the giving of the Guarantee (as defined below) has been authorised by the meeting of the Board of Directors (Consejo de Administración) of Banco Bilbao Vizcaya Argentaria, S.A. (the “**Bank**”), held on June 1, 2006 (together, the “**Corporate Resolutions**”) and in accordance with the Law 13/1985, of May 25, 1985, on investment ratios, capital adequacy and information requirements for financial intermediaries (*Ley 13/1985, de 25 de mayo, de coeficientes de inversión, recursos propios y obligaciones de información de los intermediarios financieros*) (“**Law 13/1985 of May 25**”) as amended by Law 19/2003, of July 4, 2003, on the legal regime on movements of capital and economic transactions and the prevention of money laundering (*Ley 19/2003, de 4 de julio, sobre el regimen jurídico de los movimientos de capitales y de las transacciones económicas con el exterior y sobre determinadas medidas de prevención del blanqueo de dinero*), by Law 62/2003, of December 30, 2003, on certain measures regarding taxation, administration and social order (*Ley 62/2003, de 30 de diciembre, de medidas fiscales, administrativas y del orden social*) and by Law 23/2005, of November 18, 2005, on fiscal reforms to stimulate productivity (*Ley 23/2005, de 18 de noviembre, de reforma en materia tributaria para el impulso de la productividad*).

The Preferred Securities will be created by virtue of a public deed registered with the Mercantile Registry of Vizcaya on or about the Closing Date (as defined below) (the “**Public Deed of Issuance**”).

### 1. Definitions

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

“**Agency Agreement**” means the Registrar and Transfer and Paying Agency and Calculation Agency Agreement dated April 18, 2007 relating to the Preferred Securities;

“**Agents**” means the Paying Agent and the Calculation Agent, each appointed in accordance with the Agency Agreement;

“**Calculation Agent**” means The Bank of New York and includes any successor calculation agent appointed in accordance with the Agency Agreement;

“**Calculation Date**” means the third New York Business Day prior to the Special Redemption Date;

“**Closing Date**” means April 18, 2007;

“**Designated LIBOR Page**” means the Reuters reference “LIBOR01”, or any successor page, on Reuters, or any successor service (or any such other service or services as may be nominated by the British Bankers’ Association for the purposes of displaying London interbank offered rates for US dollar deposits);

“**Distributions**” means the non-cumulative cash distributions determined in accordance with paragraph 2 below;

“**Distribution Payment Date**” means each Fixed Rate Distribution Payment Date (defined below in paragraph 2.1) and each Floating Rate Distribution Payment Date (defined below in paragraph 2.2);

“**Distribution Period**” means the period from and including one Fixed Rate Distribution Payment Date (or, in the case of the first Distribution Period, the Closing Date) or Floating Rate Distribution Payment Date (as the case may be) to but excluding the next Fixed Rate Distribution Payment Date or Floating Rate Distribution Payment Date (as the case may be);

“**Distributable Profits**” means, in respect of any Fiscal Year of the Bank, the lesser of the net profit (calculated in accordance with the Bank of Spain’s calculation standards), of (i) the Bank or (ii) the Group, in each case, as reflected in the reserved financial statements of the Bank and the Group, respectively, submitted to the Bank of Spain in compliance with regulations applicable from time to time to financial institutions relating to their obligation to file such financial statements. As at the Closing Date, such

applicable regulations are currently set out in Circular 4/2004, December 22, 2004, on Public and Restricted Financial Reporting Standards and Model Financial Statements. In the event that on any Distribution Payment Date, the reserved financial statements of the Bank and/or the Group, respectively, referred to above have not been submitted to the Bank of Spain, the Distributable Profits shall be the lesser of the net profit (calculated in accordance with the Bank of Spain's calculation standards), of (i) the Bank or (ii) the Group, in each case determined by reference to the latest reserved financial statements of the Bank and the Group, respectively, submitted to the Bank of Spain. In all cases, the net profit shown in the reserved financial statements of the Bank and the Group, respectively, shall be audited figures and if the net profit figure contained in such reserved financial statements is different from that contained in the published annual financial statements of the Group, prepared in accordance with Circular 4/2004, December 22, 2004, on Public and Restricted Financial Reporting Standards and Model Financial Statements, the amount of, and reason for, such difference shall be highlighted by the Bank in the relevant annual report prepared by it containing such published annual financial statements of the Group;

*The reserved financial statements of the Bank and the Group, respectively, are prepared for, and delivered to, the Bank of Spain purely for supervisory reasons as required under applicable Spanish law.*

**"DTC"** means the Depository Trust Company;

**"Fiscal Year"** means the accounting year of the Issuer or the Bank, as the case may be, as set out in its by-laws;

**"Fixed Rate Special Redemption Price"** means the greater of (i) the Liquidation Preference of \$1,000 per Preferred Security plus accrued and unpaid Distributions for the then-current Distribution Period to the date fixed for redemption and (ii) the Fixed Rate Make Whole Amount;

**"Fixed Rate Make Whole Amount"** means the amount equal to the sum of the present value of the Liquidation Preference of \$1,000 per Preferred Security, together with the present values of the scheduled non-cumulative Distribution payments per Preferred Security from the Special Redemption Date to the Reset Date (both inclusive), in each case, discounted back to the Special Redemption Date on a semi-annual compounded basis at the adjusted U.S. Treasury Rate plus 0.75%;

**"Floating Rate Special Redemption Price"** means the greater of (i) the Liquidation Preference of \$1,000 per Preferred Security plus accrued and unpaid Distributions for the then-current Distribution Period to the date fixed for redemption and (ii) the Floating Rate Make Whole Amount.

**"Floating Rate Make Whole Amount"** means the amount equal to the sum of the present value of the Liquidation Preference of \$1,000 per Preferred Security, together with the present values of the scheduled non-cumulative distribution payments per Preference Share from the Special Redemption Date to the next optional redemption date (both inclusive), in each case, discounted back to the Special Redemption Date on a quarterly compounded basis at the Three Month \$LIBOR rate for the Distribution Period immediately preceding the Special Redemption Date.

**"General Meeting"** means the general meeting of holders of preferred securities (*participaciones preferentes*) of the Issuer (including holders of the Preferred Securities) convened in accordance with the Regulations;

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

**"Guarantee"** means the guarantee dated April 18, 2007 and given by the Bank in respect of the Issuer's obligations under the Preferred Securities for the benefit of holders of Preferred Securities;

**"Liquidation Distribution"** means, subject to the limitation set out under paragraphs 2.5 and 2.8, the Liquidation Preference per Preferred Security plus, if applicable, pursuant to paragraphs 2.5 and 2.8 below, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the Liquidation Distribution;

**"Liquidation Preference"** means \$1,000 per Preferred Security;

“**Offering Circular**” means the offering circular dated April 11, 2007 relating to the Preferred Securities;

“**Parity Securities**” means (as the case may be) any preferred securities (*participaciones preferentes*) issued under Law 13/1985 of May 25 from time to time by the Bank, the Issuer, or by any other Subsidiary which is guaranteed by the Bank or any preferential participations, preferential shares or preference shares (*acciones preferentes*) issued prior to the Closing Date by any other Subsidiary incorporated outside The Kingdom of Spain and which are guaranteed by the Bank;

“**Paying Agent**” means The Bank of New York (or any successor Paying Agent appointed by the Issuer from time to time in accordance with the Agency Agreement, and notice of whose appointment is published in the manner specified in paragraph 8 below);

“**Payment Business Day**” means a day on which banks in New York and London are open for presentation and payment of bearer securities and for foreign exchange dealings;

“**Preferred Securities**” means the Series C \$600,000,000 Fixed/Floating Rate Non-Cumulative Guaranteed Preferred Securities issued by the Issuer on the Closing Date;

“**Redemption Price**” means the Liquidation Preference plus accrued and unpaid Distributions for the then current Distribution Period to the date fixed for redemption per Preferred Security;

“**Reference Banks**” means any four major banks in the London interbank market selected by the Calculation Agent, with the agreement of the Bank;

“**Reset Date**” means the Distribution Payment Date falling on April 18, 2017.

“**Special Redemption Amount**” means an amount payable in respect of each Preferred Security, which shall be (a) if the Special Redemption Date falls before the Reset Date, the Fixed Rate Special Redemption Price and (b) otherwise, the Floating Rate Special Redemption Price;

“**Subsidiary**” means any entity over which the Bank may have, directly or indirectly, control in accordance with Article 4 of the Securities Market Act (*Ley del Mercado de Valores*);

“**Syndicate**” means the syndicate of all holders of preferred securities (*participaciones preferentes*) of the Issuer (including holders of the Preferred Securities);

“**Tax Certification Agent**” means Acupay System LLC or any successor tax certification agent appointed by the Issuer and the Bank pursuant to the Terms of the Tax Certification and Exchange Processing Agency Agreement; and

“**Tax Certification and Exchange Processing Agency Agreement**” means the tax certification and exchange processing agency agreement dated April 18, 2007 relating to the Preferred Securities.

## **2. Distributions**

- 2.1 Subject to paragraphs 2.5 and 2.8, the Preferred Securities bear Distributions from (and including) the Closing Date to (but excluding) April 18, 2017 at the rate of 5.919% per annum of the Liquidation Preference (the “**Fixed Distribution Rate**”) payable semi-annually in arrears on April 18th and October 18th in each year falling on or before April 18, 2017 (each, a “**Fixed Rate Distribution Payment Date**”).

The Distribution payable in respect of any Fixed Rate Distribution Period (including any Distribution in respect of a period other than a Fixed Rate Distribution Period payable on any date prior to the Reset Date) will be calculated by the Calculation Agent by applying the Fixed Distribution Rate to the Liquidation Preference in respect of each Preferred Security, multiplying the product by the Day Count Fraction (Fixed) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). For this purpose, “**Day Count Fraction (Fixed)**” means, in respect of any period prior to the Reset Date, the number of days in the relevant period computed on the basis of twelve 30-day months and a 360-day year. Each period from and including one Fixed Rate Distribution Payment



Date (or, in the case of the first Fixed Rate Distribution Period, the Closing Date) to but excluding the next Fixed Rate Distribution Payment Date is a **“Fixed Rate Distribution Period”**. If any Fixed Rate Distribution Payment Date would otherwise fall on a date which is not a Payment Business Day, payment will be postponed to the next Payment Business Day and the holder shall not be entitled to any further interest or other payment in respect of any such delay.

- 2.2 Subject to paragraphs 2.5 and 2.8, the Preferred Securities bear Distributions from (and including) the Reset Date, payable quarterly on January 18th, April 18th, July 18th and October 18th in each year falling after the Reset Date (each, a **“Floating Rate Distribution Payment Date”**); provided, however, that if any Floating Rate Distribution Payment Date would otherwise fall on a date which is not a Payment Business Day, it will be postponed to the next Payment Business Day unless it would thereby fall into the next calendar month, in which case it will be brought back to the preceding Payment Business Day. Each period beginning on (and including) a Floating Rate Distribution Payment Date (or, in the case of the first period, the Reset Date) to (but excluding) the next Floating Rate Distribution Payment Date is a **“Floating Rate Distribution Period”**.

The rate of Distributions applicable to the Preferred Securities (the **“Floating Distribution Rate”**) for each Floating Rate Distribution Period will be determined by the Calculation Agent by applying the rate equal to Three Month \$LIBOR plus 0.82% per year to the Liquidation Preference in respect of each Preferred Security multiplying the product by the Day Count Fraction (Floating) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), but in no event will such Distributions, if declared, be payable at a rate of less than 5.919% per annum. For this purpose, **“Day Count Fraction (Floating)”** means the actual number of days in the period from and including the date from which the relevant Distribution begins to accrue for the relevant Floating Rate Distribution Period to but excluding the date on which it falls due, divided by 360.

*Distributions on each Preferred Security will be paid only to the person in whose name such Preferred Security was registered at the close of business on the 15th calendar day prior to the applicable Distribution Payment Date (each such date, a **“Record Date”**). Notwithstanding the Record Date established in the terms of the Preferred Securities, we have been advised by DTC that through its accounting and payment procedures it will, in accordance with its customary procedures, credit Distributions received by DTC on any Distribution Payment Date based on DTC participant holdings of the Preferred Securities on the close of business on the New York Business Day immediately preceding each such Distribution Payment Date.*

- 2.3 For the purpose of calculating the Floating Distribution Rate, **“Three Month \$LIBOR”** with respect to each Distribution Period shall be the rate (expressed as a percentage per annum) for deposits in United States dollars for a three-month period beginning on the first day of that Floating Rate Distribution Period that appears on the Designated LIBOR page as of 11:00 a.m., London time, on the Determination Date (as defined below). If the Designated LIBOR page does not include the applicable rate or is unavailable on the Determination Date, the Calculation Agent will request the principal London office of each of four major banks in the London interbank market, as selected by the Calculation Agent, to provide that bank’s offered quotation (expressed as a percentage per annum) as of approximately 11:00 a.m., London time, on the Determination Date to prime banks in the London interbank market for deposits in a Representative Amount (as defined below) in United States dollars for a three-month period beginning on the first day of that Distribution Period. If at least two offered quotations are so provided, Three Month \$LIBOR for the Distribution Period will be the arithmetic mean of those quotations. If fewer than two quotations are so provided, the Calculation Agent will request each of three major banks in New York City, as selected by the Calculation Agent, to provide that bank’s rate (expressed as a percentage per annum), as of approximately 11:00 a.m., New York City time, on the Determination Date for loans in a Representative Amount in United States dollars to leading European banks for a three-month period beginning on the first day of that Distribution Period. If at least two rates are so provided, Three Month \$LIBOR for that Floating Rate Distribution Period will be the arithmetic mean of those quotations. If fewer than two quotations are so provided, the Three Month \$LIBOR for that Floating Rate Distribution Period will be Three Month \$LIBOR in effect with respect to the immediately preceding Floating Rate Distribution Period.

**“Determination Date”** with respect to any Floating Rate Distribution Period will be the second London Banking Day preceding the first day of that Floating Rate Distribution Period. **“London Banking Day”** is any day in which dealings in United States dollars are transacted or, with respect to any future date, are expected to be transacted in the London interbank market.

**“Representative Amount”** means a principal amount that is representative for a single transaction in the relevant market at the relevant time.

The Calculation Agent shall, as soon as practicable after 11:00 am (London time) on each day on which the Floating Distribution Rate is calculated, determine, subject as provided in paragraph 2.5 below, the Distribution payable on each Preferred Security for the relevant Floating Rate Distribution Period.

The Calculation Agent shall cause the Floating Distribution Rate and the Distribution payable, subject as provided in paragraphs 2.5 and 2.8 below, for each Floating Rate Distribution Period and the relative Floating Rate Distribution Payment Date to be notified to the Issuer, the Bank, the Paying Agent, the Tax Certification Agent and, for so long as any Preferred Security is admitted to the official list maintained by the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **“UK Listing Authority”**) and is admitted to trading on the London Stock Exchange plc’s Gilt-Edged and Fixed Interest Market, the London Stock Exchange plc as soon as possible after their determination but in no event later than the first day of the relevant period. The Floating Distribution Rate and Floating Rate Distribution Payment Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the relevant Floating Rate Distribution Period.

- 2.4 The Issuer will be discharged from its obligations to pay Distributions declared on the Preferred Securities by payment to the Paying Agent for the account of the holder of the relevant Preferred Securities on or after 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 U.S. dollars by transfer to an account capable of receiving U.S. dollar payments, as directed by the Paying Agent.

Except as set forth above in paragraph 2.2 with respect to Floating Rate Distribution Payment Dates, if any date on which any other payment is due to be made on the Preferred Securities would otherwise fall on a date which is not a Payment Business Day, it will be postponed to the next Payment Business Day and the holder shall not be entitled to any further interest or other payment in respect of any such delay.

- 2.5 Investors’ rights to receive Distributions on the Preferred Securities are conditional upon the following:

- 2.5.1 the aggregate of such Distributions, together with any other distributions previously paid during the then-current Fiscal Year and any distributions proposed to be paid during the then-current Distribution Period in each case on or in respect of Parity Securities (including the Preferred Securities), not exceeding the Distributable Profits of the immediately preceding Fiscal Year; or
- 2.5.2 even if Distributable Profits are sufficient, to the extent that under applicable Spanish banking regulations relating to capital adequacy requirements affecting financial institutions which fail to meet their required capital ratios, the Bank not being prevented at such time from making payments on its ordinary shares or on Parity Securities issued by it.

Except for the limitations set out above, Distributions on the Preferred Securities will be payable, on each Distribution Payment Date, out of the Issuer’s own legally available resources and distributable items.

- 2.6 If the Issuer does not pay a Distribution with respect to a Distribution Period (as contemplated herein) other than as a result of the limitations set out in paragraph 2.5 above, the Issuer's payment obligation in respect thereof will be satisfied if and to the extent that the Bank pays such Distribution pursuant to the Guarantee.
- 2.7 Distributions on the Preferred Securities will be non-cumulative. Accordingly, if Distributions are not paid on a Distribution Payment Date in respect of the Preferred Securities as a result of the limitations set out in paragraph 2.5 above or are paid partially then the right of the holders of the Preferred Securities to receive a Distribution or an unpaid part thereof in respect of the relevant Distribution Period will be extinguished and neither the Issuer nor the Bank will have any obligation to pay the Distribution 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.
- 2.8 If, as a result of the limitations described in paragraph 2.5 above, a Distribution is not paid in full on the Preferred Securities, all distributions paid upon the Preferred Securities and any Parity Securities will be paid *pro rata* in relation to the liquidation preference of such securities. Therefore, the Distribution amount to be received by the holders of Preferred Securities on such Distribution Payment Date will depend on the total liquidation preference amount of the outstanding Preferred Securities and Parity Securities, and on the distributions scheduled to be paid on such securities, each as of the time of such payment.
- 2.9 If Distributions are not paid in full on or prior to a Distribution Payment Date in respect of the relevant Distribution Period as a consequence of the limitations set out above, then neither the Issuer nor the Bank shall pay dividends or any other distributions on its ordinary shares or on any other class of share capital or securities issued by it and expressed to rank junior to the Preferred Securities or to the Bank's obligations under the Guarantee, as the case may be, until such time as the Issuer or the Bank shall have resumed the payment in full of Distributions on the Preferred Securities on any two consecutive Fixed Rate Distribution Payment Dates or on any four consecutive Floating Rate Distribution Payment Dates.
- 2.10 Save as described in this paragraph 2, the Preferred Securities will confer no right to participate in the profits of the Issuer.

### **3. Liquidation Distribution**

- 3.1 Subject as provided below, in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Issuer, the Preferred Securities will confer an entitlement to receive out of the assets of the Issuer available for distribution to holders of Preferred Securities, the Liquidation Distribution. Such entitlement will arise before any distribution of assets is made to holders of ordinary shares or any other class of shares of the Issuer ranking junior to the Preferred Securities.

The payment of the Liquidation Distribution is guaranteed by the Bank.

- 3.2 Notwithstanding the availability of sufficient assets of the Issuer to pay a full Liquidation Distribution in respect of the Preferred Securities or any Parity Securities of the Issuer if, at the time such liquidation distribution is to be paid, proceedings are or have been commenced for the voluntary or involuntary liquidation, dissolution or winding-up of the Bank or for a reduction in the Bank's shareholders' equity pursuant to Article 169 of the Spanish Corporations Law (*Ley de Sociedades Anónimas*), the liquidation distribution relating to all Parity Securities (including the Preferred Securities), shall not exceed the amount which would have been paid from the assets of the Bank (after payment in full, in accordance with Spanish law, of all creditors of the Bank, including holders of its subordinated debt, but excluding holders of any guarantee or other contractual right expressed to rank *pari passu* with or junior to the Guarantee) had Parity Securities (including the Preferred Securities) been issued by the Bank and ranked (A) junior to all creditors of the Bank, (B) *pari passu* with the Parity Securities, if any, of the Bank, and (C) senior to the Bank's ordinary shares. The Issuer shall be released from its obligation to pay such Liquidation Distributions by payment to the holder of the relevant Preferred Securities.

- 3.3 If, upon any Liquidation Distribution described in paragraph 3.1 being made, the amounts payable are limited by reason of paragraph 3.2, such amounts will be payable *pro rata* among holders of Parity Securities in proportion to the amounts that would have been payable but for such limitation, taking into account that the liquidation preference for each series of preferred securities of the Issuer may be different, the payment of such liquidation preference amounts will be made *pro rata* to the aggregate of the liquidation preference of the preferred securities held by each holder, and not by reference to the number of preferred securities held by each holder. After payment of the full or limited Liquidation Distribution in respect of a Preferred Security as described in paragraphs 3.1 and 3.2, such Preferred Security will confer no further right or claim to any of the remaining assets of the Issuer.

Except as provided in paragraph 3.2 above, the Bank undertakes not to permit, or take any action to cause, the liquidation, dissolution or winding-up of the Issuer.

#### 4. Optional Redemption

- 4.1 The Preferred Securities may be redeemed, at the option of the Issuer, subject to the prior consent of the Bank of Spain, in whole but not in part, from time to time, on the Reset Date or thereafter at ten-year intervals commencing on April 18, 2027, at the Redemption Price per Preferred Security.
- 4.2 In the event that Preferred Securities cease to qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations, the Issuer may, subject to the prior consent of the Bank of Spain that it has no objection to the redemption (if required), and upon the appropriate notice to holders, (i) on any Distribution Payment Date prior to the Reset Date, redeem the Preferred Securities in whole, but not in part, at the Fixed Rate Special Redemption Price or (ii) on any Distribution Payment Date on or after the Reset Date, redeem the Preferred Securities in whole, but not in part, at the Floating Rate Special Redemption Price. Each such date in (i) and (ii) above being a “**Special Redemption Date**”.
- 4.3 The Preferred Securities may also be redeemed at the option of the Issuer subject to the prior consent of the Bank of Spain, in whole but not in part, at the Redemption Price per Preferred Security on any Distribution Payment Date if, as a result of a tax law change on or after the Closing Date, the Issuer or the Guarantor, as the case may be, 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 Issuer or the Guarantor, as the case may be, would be materially reduced.
- 4.4 The decision to redeem the Preferred Securities must be irrevocably notified by the Issuer upon not less than 30 nor more than 60 days’ notice prior to the relevant redemption date in accordance with paragraph 8 below.
- 4.5 If the Issuer gives notice of redemption of the Preferred Securities, then by 12:00 noon (New York time) on the relevant redemption date, the Issuer will:
- 4.5.1 irrevocably deposit with the Paying Agent funds sufficient to pay the Redemption Price or the Special Redemption Amount, as the case may be; and
  - 4.5.2 give the Paying Agent irrevocable instructions and authority to pay the Redemption Price or the Special Redemption Amount, as the case may be, to the holders of the Preferred Securities.
- 4.6 If the notice of redemption has been given, and the funds deposited as required, then on the date of such deposit:
- 4.6.1 distributions on the Preferred Securities called for redemption shall cease;
  - 4.6.2 such Preferred Securities will no longer be considered outstanding; and
  - 4.6.3 the holders will no longer have any rights as holders except the right to receive the Redemption Price or the Special Redemption Amount, as the case may be.

- 4.7 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 Issuer or the Bank improperly withholds or refuses to pay the Redemption Price or the Special Redemption Amount, as the case may be, of the Preferred Securities, Distributions will continue to accrue at the rate specified from the redemption date to the date of actual payment of the Redemption Price or the Special Redemption Amount, as the case may be.

## 5. Purchases of Preferred Securities

In order to comply with certain Spanish capital adequacy regulations in force as at the Closing Date, neither the Issuer, the Bank nor any Subsidiary shall at any time purchase Preferred Securities, save with the prior consent of the Bank of Spain no earlier than five years from the Closing Date. Notwithstanding the above, subject to the terms and conditions of the Preferred Securities, neither the Issuer, the Bank nor any Subsidiary shall purchase the Preferred Securities earlier than the Reset Date.

Any Preferred Securities so purchased by the Issuer, the Bank or any other Subsidiary shall be cancelled immediately.

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

- 6.1 The Syndicate was constituted by virtue of the registration of the Public Deed of Issuance relating to the Issuer's Series A Euro 550,000,000 Step-Up Fixed/Floating Rate Non-Cumulative Perpetual Guaranteed Preferred Securities of Euro 50,000 liquidation preference each issued on September 22, 2005 in the Mercantile Registry of Vizcaya, dated September 16, 2005. The rules governing the functioning of the Syndicate and the rules governing its relationship with the Issuer are contained in the regulations of the Syndicate (the "**Regulations**") attached to the Public Deed of Issuance entered into in respect of each issue of preferred securities.

By purchasing this Preferred Security, the holder hereof automatically becomes a member of the Syndicate and is also deemed to have agreed to the terms of the Regulations and the appointment of the *Comisario* (the "**Commissioner**") in accordance with the terms of the Regulations. The Commissioner is the chairperson and the legal representative of the Syndicate. The Issuer shall also regulate the automatic membership of the Syndicate of each holder of any other preferred securities issued by the Issuer from time to time. Each such holder shall, upon purchasing the relevant preferred security issued by the Issuer, agree to automatically become a member of the Syndicate and shall be deemed to have accepted the terms of the Regulations and the appointment of the Commissioner. No person shall be entitled to purchase any preferred security issued by the Issuer from time to time without becoming a member of the Syndicate. All holders of preferred securities issued by the Issuer from time to time shall only be entitled to exercise their rights as holders of such preferred securities in accordance with the terms of the Regulations.

The object and purpose of the Syndicate is to regulate the voting rights of the holders of preferred securities issued from time to time by the Issuer and to govern the relationship between such holders. The registered office of the Syndicate is Paseo de la Castellana, 81, 28046 Madrid.

- 6.2 The holders of the Preferred Securities will have no voting rights at any extraordinary or ordinary meetings of Shareholders of the Issuer or the Guarantor. Notwithstanding the foregoing, the holders of the Preferred Securities will, in the circumstances set out in paragraphs 6.2.1, 6.2.2 and 6.2.3 below, have the right to participate in the adoption of certain decisions in the General Meeting.

### 6.2.1 Failure to pay Distributions

- (a) In the event that neither the Issuer nor the Bank (by virtue of the Guarantee) pays full Distributions in respect of the Preferred Securities on any two consecutive Fixed Rate Distribution Payment Dates or on four consecutive Floating Rate Distribution Payment Dates, the holders of the Preferred Securities may, through the General Meeting, resolve to appoint two further members to the board of directors of the Issuer and may also remove or replace such directors.



These rights will be enjoyed not only by the holders of Preferred Securities, but shall be exercised together with all other holders of preferred securities of the Issuer and in respect of which the Issuer and the Bank have also failed to make payments.

In the event that the Issuer issues further preferred securities the holders of all preferred securities in respect of which the Issuer and Bank have failed to meet their payment obligations in accordance with their respective terms must act together as a single class in the adoption of any resolution referred to in paragraph (b) below.

- (b) Any resolution appointing, removing or replacing any directors of the board of directors of the Issuer shall be made by a majority (at least 51%) of the aggregate liquidation preference of the preferred securities of the Issuer in respect of which the Issuer or the Bank has failed to pay distributions in accordance with their respective terms.

*It should be noted that liquidation preferences may be different for different series of preferred securities.*

- (c) The Commissioner will convene a General Meeting of holders of Preferred Securities within thirty days following the non-payment of Distributions as set out in paragraph (a) above. If the Commissioner does not convene the General Meeting within thirty days, the holders of the preferred securities representing at least 10% of the aggregate liquidation preference of the preferred securities may convene such meeting.
- (d) The rules governing the convening and holding of General Meetings are set out in Chapter II of the Regulations.
- (e) Immediately following a resolution for the appointment or the removal of additional members to or from the board of directors of the Issuer, the Commissioner shall give notice of such appointment or removal to:
  - (i) the board of directors of the Issuer so that it may, where necessary, call a general meeting of the shareholders of the Issuer; and
  - (ii) the shareholders of the Issuer, so that they may hold a universal meeting of shareholders.

The shareholder of the Issuer has undertaken to vote in favour of the appointment or removal of the directors so named by a General Meeting and to take all necessary measures to approve such appointment or removal. Under the articles of the Issuer, the board of directors must have a minimum of three members and a maximum of 12.

*As at the date of the Offering Circular the board of directors has five directors.*

- (f) The foregoing shall apply, in respect of the Preferred Securities, provided that, where the Issuer has failed to fulfil its obligation to make Distributions in respect of the Preferred Securities, the Bank has not discharged such obligations pursuant to the Guarantee.
- (g) Any member of the board of directors of the Issuer named pursuant to the foregoing shall vacate his position if, subsequent to the circumstances giving rise to his appointment, the Issuer or the Bank makes Distributions in respect of the Preferred Securities on any two consecutive Fixed Rate Distribution Payment Dates or on four consecutive Floating Rate Distribution Payment Dates.
- (h) Both the appointment and the dismissal of directors shall be notified by the Issuer in accordance with paragraph 8 below.

#### 6.2.2 Amendment to the Terms and Conditions of the Preferred Securities, further Issuances and no Seniority



- (a) Any amendment to the terms and conditions of the Preferred Securities shall be approved by the holders of the Preferred Securities. Such amendments will be approved with the written consent of holders of at least two-thirds of all outstanding Preferred Securities or by a resolution of at least two-thirds of the holders of all outstanding Preferred Securities adopted in a General Meeting.
- (b) If the Issuer, or the Bank under any guarantee, has paid in full the most recent distribution payable on each series of the Issuer's preferred securities, the Issuer may without the consent or sanction of the holders of its preferred securities: (i) take any action required to issue additional preferred securities (including securities fungible with the Preferred Securities, in which case such securities together with the Preferred Securities will constitute a single class for all purposes hereunder, including waivers and amendments) or authorise, create and issue one or more other series of preferred securities of the Issuer ranking equally with the Preferred Securities, as to the participation in the profits and assets of the Issuer, without limit as to the amount; or (ii) take any action required to authorise, create and issue one or more other classes or series of shares of the Issuer ranking junior to the Preferred Securities, as to the participation in the profits or assets of the Issuer.
- (c) By purchasing this Preferred Security, the holder hereof agrees to renounce any rights of seniority or preference that may be conferred upon it (if any) under applicable Spanish law over any holder of such other preferred securities issued by the Issuer from time to time and which are created by virtue of a public deed registered in accordance with applicable Spanish law.

#### 6.2.3 Liquidation, Dissolution or Winding-up of the Issuer

If the shareholders of the Issuer propose a resolution providing for the liquidation, dissolution or winding-up of the Issuer, the holders of all the outstanding preferred securities of the Issuer:

- (a) will be entitled to receive notice, through the Commissioner, of the general meeting of shareholders called to adopt this resolution provided that only the Commissioner shall be entitled to attend, but without any right to vote at, such general meeting of shareholders; and
- (b) will be entitled to hold a separate and previous General Meeting and vote together as a single class without regard to series on such resolution, but not on any other resolution.

Such resolution will not be effective unless approved by the holders of a majority in liquidation preference of all outstanding preferred securities of the Issuer.

The result of the above mentioned vote shall be disclosed by the Commissioner at the general shareholders meeting of the Issuer as well as the fact that the shareholders of the Issuer have undertaken to vote in the corresponding general shareholders meeting in accordance with the vote of the separate general meeting of holders. Notice, attendance or approval is not required if the liquidation, dissolution and winding-up of the Issuer is initiated due to (i) the liquidation, dissolution or winding up of the Bank; or (ii) a reduction in shareholders' equity of the Bank under Article 169 of the Corporations Law of Spain (*Ley de Sociedades Anónimas*).

The Issuer shall notify the Commissioner in writing of any meeting at which the holders of the Preferred Securities are entitled to vote. This notice will include a statement regarding: (i) the date, time and place of the meeting; (ii) a description of any resolution to be proposed for adoption at the meeting at which the holders are entitled to vote; and (iii) instructions for the delivery of proxies. The Commissioner will convene a General Meeting accordingly.

The Bank has undertaken not to permit or take any action to cause the liquidation, dissolution or winding up of the Issuer, except as provided in paragraph 3.2 above.

- 6.3 The Preferred Securities do not grant their holders pre-emption rights in respect of any possible future issues of preferred securities by the Issuer, the Bank or any other Subsidiary.
- 6.4 Neither the Issuer nor any other Subsidiary nor the Bank may issue, or guarantee the issue of, any preferred securities or securities or other instruments equivalent to preferred securities ranking, either directly or through a guarantee, senior to the Preferred Securities, unless the Guarantee is amended so as to rank *pari passu* with any such issue of senior securities.
- 6.5 No vote in respect of the Preferred Securities will be required for the Issuer to redeem and cancel the Preferred Securities.
- 6.6 Notwithstanding that the Preferred Securities confer an entitlement to vote under any of the circumstances described above, neither the Bank nor any Subsidiary of the Bank, to the extent that it is a holder of preferred securities of the Issuer, shall be so entitled to vote.

## **7. Taxation**

- 7.1 All payments of Distributions and imputed income, if any, arising out of any exchange of the Preferred Securities and other amounts payable in respect of the Preferred Securities and the Guarantee by the Issuer or the Bank (as the case may be) 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 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, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, neither the Issuer nor the Bank shall be required to pay any additional amounts in respect of the Preferred Securities.

*See “Taxation—Spanish Tax Considerations” for a fuller description of certain Spanish tax considerations (particularly in relation to Beneficial Owners which are for tax purposes resident in Spain) relating to the Preferred Securities, the formalities which Beneficial Owners must follow in order to claim exemption from withholding tax and for a description of certain disclosure requirements imposed on the Bank relating to the identity and residence of Beneficial Owners of Preferred Securities.*

## **8. Notices**

Notices, including notice of any redemption of the Preferred Securities, will be given by the Issuer (i) so long as any Preferred Security is admitted to the official list maintained by the UK Listing Authority and is admitted to trading on the London Stock Exchange plc’s Gilt-Edged and Fixed Interest Market, and the UK Listing Authority so requires, by publication in a leading newspaper having a general circulation in London (which is expected to be the *Financial Times*) or, if such a publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe and (ii) by mail to DTC (in each case not less than 30 nor more than 60 days prior to the date of the act or event to which such notice, request or communication relates).

Until such time as any definitive Preferred Securities are issued, there may, so long as any global Preferred Security certificates representing the Preferred Securities are held in their entirety on behalf of DTC, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to DTC and all of DTC’s direct participants for communication by it to the holders of the Preferred Securities 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 of the Preferred Securities on the day on which the said notice was given to DTC and all of DTC’s direct participants.

Copies of any notices given to holders of the Preferred Securities shall also be sent to the Commissioner.

## **9. Form and Status**

The Preferred Securities will be issued in registered form.

*It is intended that one or more global Preferred Security certificates representing the Preferred Securities will be delivered by the Issuer to DTC or a custodian appointed by DTC on or about the Closing Date. 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 DTC or one of its direct or indirect participants. It is anticipated that only in exceptional circumstances (such as the closure of DTC, the non-availability of any alternative or successor clearing system or removal of the Preferred Securities from DTC) will definitive Preferred Securities be issued directly to such accountholders.*

The Preferred Securities are unsecured and subordinated obligations of the Issuer and rank (a) junior to all liabilities of the Issuer including subordinated liabilities, (b) *pari passu* with each other and with any Parity Securities of the Issuer and (c) senior to the Issuer's ordinary shares.

## **10. Use of Proceeds**

The net proceeds of the issue of the Preferred Securities, after paying any issue expenses, in accordance with Law 13/1985 of May 25 will be deposited in their entirety on a permanent basis with the Bank or with another member of the Group and will be used for the Group's general corporate purposes (including profit making).

The funds raised from the issue of the Preferred Securities and so deposited will be available to absorb losses of the Bank if and when they occur once there is a reduction in the shareholders' equity to zero and its reserves have been exhausted.

## **11. Agents**

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

The initial Agents and their initial specified offices are listed in the Agency Agreement. The Issuer and the Bank reserve the right at any time to vary or terminate the appointment of any Agent and to appoint a successor calculation agent and additional or successor paying agents; provided, however, that the Issuer and the Bank will maintain (i) a Paying Agent and a Calculation Agent and (ii) a Paying Agent which is a member bank or trust company of the U.S. Federal Reserve System and (iii) if, and for so long as, the Preferred Securities are admitted to the official list maintained by the UK Listing Authority and are admitted to trading on the London Stock Exchange plc's Gilt-Edged and Fixed Interest Market and the rules of the UK Listing Authority so require, a Paying Agent having its specified office in London.

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

## **12. 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.

## **13. Governing Law and Jurisdiction**

13.1 The Preferred Securities and the Guarantee shall be governed by, and construed in accordance with, Spanish law.

13.2 The Issuer hereby irrevocably agrees for the benefit of the holders of the Preferred Securities that courts of Madrid are to have jurisdiction to settle any disputes which may arise 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 Issuer irrevocably waives any objection which it may have now or hereinafter to the laying of the venue of any Proceedings in the courts of Madrid. Nothing contained in this clause shall limit any right to take Proceedings against the Issuer 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.

## THE GUARANTEE

*The following is the text of the Guarantee relating to the Preferred Securities.*

THIS GUARANTEE (the “**Guarantee**”), dated April 18, 2007, is executed and delivered by Banco Bilbao Vizcaya Argentaria, S.A., a limited liability company (*sociedad anónima*) incorporated under the laws of the Kingdom of Spain (the “**Bank**” or the “**Guarantor**”) for the benefit of the Holders (as defined below).

WHEREAS, the Bank wishes to procure the issue by BBVA International Preferred, S.A. Unipersonal, a limited liability company (*sociedad anónima*) incorporated under the laws of the Kingdom of Spain (the “**Issuer**”) of Series C \$600,000,000 Fixed/Floating Rate Non-Cumulative Guaranteed Preferred Securities (the “**Preferred Securities**”) and the Bank wishes to issue this Guarantee for the benefit of the Holders.

NOW, THEREFORE the Bank executes and delivers this Guarantee for the benefit of the Holders.

### 1. Interpretation

#### 1.1 Definitions

As used in this Guarantee, the following terms shall, unless the context otherwise requires, have the following meanings:

“**Bank Shares**” means any ordinary shares of the Bank;

“**Conditions**” means the conditions of the Preferred Securities, as set out in the Offering Circular;

“**Fiscal Year**” means the accounting year of the Guarantor as set out in its by-laws;

“**Guarantee Payments**” means (without duplication) (i) any accrued but unpaid Distribution payable on the Preferred Securities for the most recent Distribution Period; (ii) the Redemption Price or the Special Redemption Amount, as the case may be, payable on the redemption of Preferred Securities; and (iii) the Liquidation Distributions due on the Liquidation Date;

“**Holder**” means any holder from time to time of any Preferred Security; provided, however, that in determining whether the Holders of the requisite percentage of Preferred Securities have given any request, notice, consent or waiver hereunder, Holder shall not include the Bank or any Subsidiary (including the Issuer);

“**Liquidation Date**” means the date of final distribution of the assets of the Issuer in the case of any liquidation, dissolution or winding-up of the Issuer (whether voluntary or involuntary);

“**Offering Circular**” means the offering circular dated April 11, 2007 relating to the Preferred Securities; and

“**Spain**” means the Kingdom of Spain.

#### 1.2 Other defined terms

Terms used but not defined in this Guarantee shall have the meanings ascribed thereto in the Conditions.

#### 1.3 Clauses

Any reference in this Guarantee to a Clause is, unless otherwise stated, to a clause hereof.

#### 1.4 Headings

Headings and sub-headings are for ease of reference only and shall not affect the construction of this Guarantee.

## **2. Guarantee**

### **2.1 Guarantee**

Subject to the limitations contained in the following paragraphs of this Clause 2, the Bank irrevocably, jointly (in Spanish, *solidariamente*) and unconditionally agrees to pay in full to the Holders, the Guarantee Payments (to the extent not paid by the Issuer), as and when due upon receipt of a notice by any Holder demanding payment, regardless of any defence, right of set-off or counterclaim which the Issuer may have or assert. This Guarantee is unconditional and irrevocable.

### **2.2 Limitations to the Guarantee Payments in relation to the Distributions**

Notwithstanding Clause 2.1, a Holder's right to receive any Guarantee Payment in respect of Distributions (including accrued and unpaid Distributions relating to the Redemption Price, Special Redemption Amount or Liquidation Distribution) on any Preferred Securities is conditional upon the following:

- 2.2.1 the aggregate of such Distributions, together with any other distributions previously paid during the then current Fiscal Year and any distributions proposed to be paid during the then current Distribution Period in each case on or in respect of Parity Securities (including the Preferred Securities), not exceeding the Distributable Profits of the immediately preceding Fiscal Year; or
- 2.2.2 even if Distributable Profits are sufficient, to the extent that under applicable Spanish banking regulations affecting financial institutions which fail to meet their capital ratios, the Bank not being prevented at such time from making payments on its ordinary shares or Parity Securities issued by it.

### **2.3 Limitations to the Guarantee Payments in relation to the Liquidation Distributions**

Notwithstanding Clause 2.1, if, at the time that any Liquidation Distributions are to be paid by the Bank in respect of the Preferred Securities or any other Parity Securities, proceedings are or have been commenced for the voluntary or involuntary liquidation, dissolution or winding up of the Bank or for a reduction in the Bank's shareholders' equity pursuant to Article 169 of the Spanish Corporation Law (*Ley de Sociedades Anónimas*) the Liquidation Distribution with respect to all Parity Securities (including the Preferred Securities) shall not exceed the amount that would have been paid from the assets of the Bank (after payment in full, in accordance with Spanish law, of all creditors of the Bank, including Holders of its subordinated debt, but excluding Holders of any guarantee or other contractual right expressed to rank *pari passu* with or junior to this Guarantee) had Parity Securities (including the Preferred Securities) been issued by the Bank and ranked (A) junior to all liabilities of the Bank, (B) *pari passu* with Parity Securities issued by the Bank, if any, and (C) senior to the Bank Shares.

### **2.4 Pro Rata Payments**

If the amounts described in Clause 2.1 cannot be paid by reason of any limitation referred to in Clause 2.2 or 2.3, such amounts will be payable *pro rata* in the proportion that the amount available for payment bears to the full amount that would have been payable but for such limitations. The determination of any such limitation of the Bank's obligations under this Guarantee as set forth will be made on the relevant Distribution Payment Date, Special Redemption Date, redemption date or Liquidation Date, as the case may be.

### **2.5 Ranking of the Guarantee**

The Bank agrees that subject to applicable laws, the Bank's obligations hereunder constitute unsecured obligations of the Bank and rank and will at all times rank (a) junior to all liabilities of the Bank (including subordinated liabilities); (b) *pari passu* with any Parity Securities issued by the Bank



and any obligation assumed by the Bank under any guarantee in favour of Holders of any Parity Securities issued by any Subsidiary; and (c) senior to the Bank Shares and any other class of share capital expressed to rank junior as to participation in profits to the Bank's obligations hereunder.

## **2.6 Acceptance of the Guarantee**

The mere subscription of Preferred Securities will be deemed for all purposes to constitute the plain and full acceptance of this Guarantee.

## **3. Characteristics of the Guarantor's obligations under the Guarantee**

### **3.1 Waiver**

The Guarantor waives any right or benefit (of order or *excussio* and division – *orden, excusión y división*) to which it may be entitled under Spanish law with regard to objecting to make any payment by virtue of the Guarantee.

The obligations of the Guarantor are independent of those of the Issuer. The Guarantor shall remain liable as the principal and sole debtor hereunder to make Guarantee Payments pursuant to the terms of this Guarantee, and shall not be able to demand that the Holders of the Preferred Securities exhaust any of their rights or take any legal action against the Issuer prior to taking action against the Guarantor (*Garantía Solidaria* under Spanish law).

### **3.2 Obligations and Commitments of the Guarantor**

The obligations and commitments of the Guarantor shall not be affected by any of the following circumstances:

- 3.2.1 the waiver by the Issuer, either by the application of a legal provision or for any other reason, to fulfil any commitment, term or condition, whether implicit or explicit, in relation to the Preferred Securities; or
- 3.2.2 the extension of the Distribution Payment Date, the Liquidation Date or the date for payment of the Redemption Price or the Special Redemption Date with regard to the Preferred Securities or the extension granted for the fulfilment of any other obligation related to the Preferred Securities; or
- 3.2.3 any breach, omission or delay by the Holders in exercising the rights granted by the Preferred Securities; or
- 3.2.4 the liquidation, dissolution, or sale of any asset given as a guarantee, temporary receivership, bankruptcy, receivership proceedings or renegotiation of debt affecting the Issuer; or
- 3.2.5 any defect in or invalidity of the Preferred Securities; or
- 3.2.6 transactions involving any obligation guaranteed by this Guarantee or undertaken by virtue of this Guarantee.

The Holders of Preferred Securities shall not be obliged in any circumstances to notify the Guarantor of the occurrence of any of the above circumstances and nor shall they be obliged to obtain the Guarantor's consent in relation to the same.

### **3.3 Subrogation**

The Bank shall be subrogated to any and all rights of the Holders against the Issuer in respect of any amounts paid to the Holders by the Bank under this Guarantee. The Bank shall not (except to the extent required by mandatory provisions of law) exercise any rights which it may acquire by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of a payment under this Guarantee, if, at the time of any such payment, any amounts are due and unpaid under this

Guarantee. If any amount shall be paid to the Bank in violation of the preceding sentence, the Bank agrees to pay over such amount to the Holders.

#### *3.4 Deposit of the Guarantee*

This Guarantee shall be deposited with and held by The Bank of New York as Paying Agent until all the obligations of the Bank have been discharged in full. The Bank hereby acknowledges the right of every Holder to the production of, and the right of every Holder to obtain a copy of, this Guarantee. A Holder may enforce this Guarantee directly against the Bank, and the Bank waives any right or remedy to require that any action be brought against the Issuer or any other person or entity before proceeding against the Bank. Subject to Clause 3.1, all waivers contained in this Guarantee shall be without prejudice to the Holder's right to proceed against the Issuer. The Bank agrees that this Guarantee shall not be discharged except by payment of the Guarantee Payments in full and by complete performance of all obligations of the Bank under this Guarantee.

### **4. Other obligations of the Guarantor under the Guarantee**

#### *4.1 No further issues*

The Bank will not issue any preferred securities or other instruments equivalent to preferred securities ranking senior to its obligations under this Guarantee or give any guarantee in respect of any preferred securities or other instruments equivalent to preferred securities, issued by any Subsidiary, if such guarantee would rank senior to this Guarantee (including, without limitation, any guarantee that would provide a priority of payment with respect to Distributable Profits) unless, in each case, this Guarantee is amended so that it ranks *pari passu* with, and contains substantially equivalent rights of priority as to payment of Distributable Profits as, any such other preferred securities or securities or other instruments equivalent to preferred securities or other such guarantee.

#### *4.2 Non-Payments*

The Bank undertakes that if any amount required to be paid pursuant to this Guarantee in respect of any Distribution payable in respect of the most recent Distribution Period has not been paid, whether by reason of the limitations of Clause 2.2 and 2.3 or otherwise, no distributions (except distributions in the form of the Bank Shares or other shares of the Bank ranking junior to the obligations of the Bank under this Guarantee) will be declared or paid or set aside for payment, or other distribution made, upon the Bank Shares or any other class of share capital or any securities of the Bank ranking junior to this Guarantee, nor will any Bank Shares or any other class of share capital or securities of the Bank ranking *pari passu* with or junior to the obligations of the Bank under this Guarantee, be redeemed, repurchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such Bank Shares, class of share capital or securities) by the Bank (except by conversion into or in exchange for shares or securities of the Bank ranking junior to this Guarantee), until such time as the Issuer or the Bank pursuant to this Guarantee shall have made payment in full of Distributions on any two consecutive Fixed Rate Distribution Payment Dates or on any four consecutive Floating Rate Distribution Payment Dates in respect of all Preferred Securities then outstanding.

#### *4.3 Ownership*

The Guarantor undertakes to hold (directly or indirectly) 100% of the ordinary shares of the Issuer so long as any Preferred Securities of the Issuer shall remain outstanding, and not to permit or take any action to cause the liquidation, dissolution or winding up of the Issuer except as provided in paragraph 3.2 of the terms and conditions of the Preferred Securities.

#### **4.4** *Voting Rights*

The Bank undertakes in connection with the right of the Holders to participate in the adoption of certain decisions in the General Meetings as contemplated in the Conditions:

- 4.4.1 to vote, in the corresponding general meeting of shareholders of the Issuer, in favour of the appointment or removal of the directors so named by the General Meetings and to take all necessary measures in such regard;
- 4.4.2 to vote, in the corresponding general meeting of shareholders of the Issuer, in conformity with the result of the vote of the General Meetings with respect to the dissolution and winding-up of the Issuer; and
- 4.4.3 to vote, in the corresponding general meeting of shareholders of the Issuer, in conformity with the result of the vote of the General Meetings with respect to the issuance of further Preferred Securities or of other preferred securities where the Issuer has not duly made the most recent distribution required in respect of the preferred securities issued and outstanding at the time.

#### **4.5** *Compliance with the Preferred Securities*

The Guarantor agrees to comply with any obligations expressed to be undertaken by it under the terms of the Preferred Securities.

### **5. Termination of the Guarantee**

This Guarantee shall terminate and be of no further force and effect upon payment in full of the Redemption Price or the Special Redemption Amount, as the case may be, or purchase and cancellation of all Preferred Securities or payment in full of the Liquidation Distributions, provided, however, that this Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time payment of any sums paid under the Preferred Securities or this Guarantee must be restored by a Holder for any reason whatsoever.

### **6. General**

#### **6.1** *Successors and Assigns*

Subject to operation of law, all guarantees and agreements contained in this Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Bank and shall inure to the benefit of the Holders, each of whom shall be entitled severally to enforce this Guarantee against the Bank. The Bank shall not transfer its obligations hereunder without the prior approval of (i) the Bank of Spain and (ii) the Holders of not less than two-thirds in Liquidation Preference of the Preferred Securities or by resolution of a General Meeting approved by the Holders of Preferred Securities representing at least two-thirds of the Liquidation Preference, provided, however, that the foregoing shall not preclude the Bank from merging or consolidating with, or transferring or otherwise assigning all or substantially all of its assets to, a banking organization or any other entity permitted by applicable laws without obtaining any approval of such Holders. The convening and holding of the General Meeting shall be done in accordance with the Regulations.

The Bank shall notify (i) any request for approval from the Holders and (ii) any merger, consolidation, transfer or assignment, each as referred to in this Clause 6.1, in accordance with Clause 6.4.

#### **6.2** *Transfers*

This Guarantee is solely for the benefit of the Holders and is not separately transferable from the Preferred Securities.

### 6.3 Amendments

Except for those changes (a) required by Clause 4.1 hereof, (b) which do not adversely affect the rights of Holders or (c) necessary or desirable to give effect to any one or more transactions referred to in the proviso to Clause 6.1 (in any of which cases no agreements will be required), this Guarantee shall be changed only by agreement in writing signed by the Bank with the prior approval of (i) the Bank of Spain and (ii) the Holders of not less than two-thirds in Liquidation Preference of the Preferred Securities or by resolution of a General Meeting approved by the Holders of the Preferred Securities representing at least two-thirds of the Liquidation Preference. The calling and holding of such General Meeting shall be done in accordance with the Regulations.

### 6.4 Notices

6.4.1 Any notice, request or other communication required or permitted to be given hereunder to the Bank shall be given in writing by delivering the same against receipt therefore or by facsimile transmission (confirmed by mail) addressed to the Bank, as follows (and if so given by facsimile transmission), shall be deemed given upon mailing of confirmation, to:

Banco Bilbao Vizcaya Argentaria, S.A.  
Paseo de la Castellana, 81  
28046 Madrid  
Facsimile: +34 91 537 4011  
Attention: Ana Fernández Manrique

The address of the Bank may be changed at any time and from time to time and shall be the most recent such address furnished in writing by the Bank to The Bank of New York as Paying Agent.

6.4.2 Any notice, request or other communication required to be given by the Bank under this Guarantee will be given by it (i) so long as any Preferred Security is admitted to the official list maintained by the UK Listing Authority and admitted to trading on the London Stock Exchange plc's Gilt-Edged and Fixed Interest Market, and the UK Listing Authority so requires, by publication in a leading newspaper having a general circulation in London (which is expected to be the *Financial Times*) or, if such a publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe and (ii) by mail to DTC or one of its direct or indirect participants (in any case not less than 30 nor more than 60 days prior to the date of the act or event to which such notice, request or communication relates).

In accordance with its published rules and regulations, DTC or one of its direct or indirect participants will notify Holders of securities accounts with it to which any Preferred Securities are credited of any such notices received by it.

### 6.5 Annual Reports

The Bank will furnish any prospective Holder, upon request of such Holder, with a copy of its annual report, and any interim reports made generally available by the Bank to Holders of the Bank Shares.

## 7. Law and Jurisdiction

### 7.1 Law

This Guarantee shall be governed by, and construed in accordance with, Spanish law.

### 7.2 Jurisdiction

The Bank hereby irrevocably agrees for the benefit of the Holders that the courts of Madrid are to have jurisdiction to settle any disputes which may arise out of or in connection with this Guarantee and that accordingly any suit, action or proceedings arising out of or in connection with this Guarantee

(together referred to as “**Proceedings**”) may be brought in such courts. The Bank irrevocably waives any objection which it may have now or hereinafter to the laying of the venue of any Proceedings in the courts of Madrid. 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.

**THIS GUARANTEE** is executed as of the date first above written on behalf of the Bank.

**BANCO BILBAO VIZCAYA ARGENTARIA, S.A.**

## DESCRIPTION OF BBVA INTERNATIONAL PREFERRED, S.A. UNIPERSONAL

The Issuer was incorporated on June 30, 2005 for an indefinite period of time as a limited liability company (*sociedad anónima*) under the laws of the Kingdom of Spain, with its registered office at Gran Vía, 1 Bilbao (telephone number: 00 34 91 5376696). The Issuer is registered in Volume 4569, Book 0, Page BI-43064, Inscription 1 of the Mercantile Registry of Vizcaya (*Registro Mercantil*). The Issuer is a direct wholly-owned subsidiary of the Bank. The Issuer has no subsidiaries.

The Issuer issued its Series A Euro 550,000,000 Step-Up Fixed/Floating Rate Non-Cumulative Perpetual Guaranteed Preferred Securities of Euro 50,000 liquidation preference each on September 22, 2005 and its Series B Euro 500,000,000 Step-Up Fixed/Floating Rate Non-Cumulative Perpetual Guaranteed Preferred Securities of Euro 50,000 liquidation preference each on September 20, 2006. The authorised share capital of the Issuer is Euro 60,102 divided into 10,017 ordinary shares, each with a par value of Euro 6. The subscribed and fully paid up share capital is Euro 60,102.

The objectives of the Issuer are the issuance of preferred securities and/or other financial instruments including any type of debt instrument, for placement in domestic or international markets in accordance with the second additional section of Law 13/1985 of May 25 as provided in item 5 of the third additional section of Law 19/2003 of July 4, on the legal framework for capital transfers and business transactions with foreign countries and particular measures to prevent money laundering, as specified in Article 2 of the Issuer's by-laws (*estatutos*).

The name and other position in the Group of each of the directors of the Issuer are set out below:

<b>Name</b>	<b>Position</b>	<b>Other position in the Group</b>
Pedro Urresti Laca	Director/President	Director of Financial Management of BBVA
Ana Fernandez Manrique	Director	Director of Management of BBVA
Carlos Jimenez Garcia	Director	Manager of BBVA
Juan Carlos Garcia Perez	Director	Manager of BBVA
Tomas Sanchez Zabala	Director	Manager of BBVA

The business address of each of the directors of the Issuer is Paseo de la Castellana, 81, 28046, Madrid, Spain.

There exists no potential conflicts of interest between (i) any duties owed to the Issuer by any director of the Issuer and (ii) the private interests and/or other duties of such directors.

The directors of the Issuer do not have any significant functions outside the Group.

The auditors of the Issuer are Deloitte, S.L.

As a Spanish company, the Issuer is subject to the Spanish Companies Act (*Ley de Sociedades Anónimas*) and any applicable European regulations, which may include provisions relating to corporate governance which apply to all limited liability companies.



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

### History and Development of the Guarantor

The terms **BBVA** and **Group** refer to Banco Bilbao Vizcaya Argentaria, S.A. and its consolidated subsidiaries.

BBVA's predecessor bank, Banco Bilbao Vizcaya, S.A. ("**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 as the result of a merger by absorption of Argentaria into BBV that was approved by the shareholders of each institution on December 18, 1999 and registered on January 28, 2000. It is registered in the Mercantile Registry of Vizcaya, in Companies Ledger 2,083, folio 1, inscription 1st, Sheet number BI-17-A. It conducts its business under the commercial name "**BBVA**". It has its registered office at Plaza de San Nicolás 4, Bilbao, Spain, 48005, and operates out of Paseo de la Casetellana, 81, 28046, Madrid, Spain telephone number 34-91-537-8195. BBVA's agent in the U.S. for U.S. federal securities law purposes is Raúl Santoro de Mattos Almeida (BBVA New York, 1345 Avenue of the Americas, 45th floor, NY, New York, 10105). BBVA is incorporated for an unlimited term.

### 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 a portfolio of investments in some of Spain's leading companies.

### Business Areas

During 2006, BBVA's organizational structure was divided into the following business areas:

- Retail Banking in Spain and Portugal,
- Wholesale Businesses,
- Mexico and the United States,
- South America, and
- Corporate Activities.

The following description of BBVA's business areas is consistent with its current internal organization. The financial information for BBVA's business areas for 2006, 2005 and 2004 presented below has been prepared on a uniform basis, consistent with its organizational structure in 2006. Unless otherwise indicated, the financial information provided below for each business area does not reflect the elimination of transactions between companies within one business area or between different business areas, since BBVA considers these transactions to be an integral part of each business area's activities.

In December 2006, the Group adopted a new organizational structure that it expects to implement in 2007, which is designed to streamline the Group's corporate structure and give greater weight and autonomy to its business units. The Group expects to focus its operations on five major business areas: Spain and Portugal; Wholesale Businesses; South America; Mexico and the United States; and Corporate Activities. As part of the reorganization, the Business Banking, Corporate Banking and Institutional Banking units ("**BEC**") will be included in the Spain and Portugal area (as of December 31, 2006 such units had been included in the Wholesale Businesses area) and the Asset Management unit will form part of the Global Business unit in the Wholesale Businesses area.

The following table sets forth information relating to income attributed to the Group for each of BBVA's business areas for the years ended December 31, 2006, 2005 and 2004.

**Year ended December 31,**

	<b>Income/(Loss)</b>			<b>% of Subtotal</b>			<b>% of Income/(Loss)</b>		
	<b>Attributed to the Group</b>						<b>Attributed to the Group</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Retail Banking in									
Spain and Portugal.....	1,499	1,317	1,194	30%	33%	40%	32%	35%	41%
Wholesale Business ....	1,282	873	658	25%	22%	22%	27%	23%	23%
Mexico and USA .....	1,775	1,370	891	35%	35%	30%	37%	36%	30%
South America .....	509	379	229	10%	10%	8%	11%	10%	8%
Subtotal .....	5,065	3,939	2,973	100%	100%	100%	107%	103%	102%
Corporate Activities ....	(329)	(132)	(50)				(7)%	(3)%	(2)%
Income attributed to the Group .....	4,736	3,807	2,923				100%	100%	100%

In terms of net interest income, the principal markets in which the Group competes, based on the business area which generates the activity, for 2006, 2005 and 2004 were as follows:

	<b>Year ended December 31,</b>		
	<b>Net interest income</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Retail Banking in Spain and Portugal .....	2,865	2,623	2,509
Wholesale Business .....	1,032	1,017	947
Mexico and USA .....	3,535	2,678	1,899
South America.....	1,310	1,039	908
Subtotal .....	8,742	7,357	6,263
Corporate Activities .....	(368)	(150)	(103)
Net interest income to the Group .....	8,374	7,207	6,160

### **Retail Banking in Spain and Portugal**

Retail Banking in Spain and Portugal focuses on providing banking services and consumer finance to private individuals and small businesses in Spain and Portugal. As of December 31, 2006, this business area conducted its activities through 3,629 branch offices, of which 99 were located in Portugal. During the fourth quarter the Group implemented a new structure in the retail banking branch network. The new structure consists of 7 regional departments.

The business units included in the Retail Banking in Spain and Portugal business area are:

- Financial Services;
- Asset Management and Private Banking;
- BBVA Portugal; and
- Insurance Business in Europe.

Total net lending in this business area as of December 31, 2006 was approximately €118,113 million, an increase of 18.3% from €99,804 million as of December 31, 2005, with contributions from all of BBVA's main products such as mortgage lending, consumer credit cards and loans to small businesses.

The non-performing loan ratio remained low at 0.67% as of December 31, 2006 compared to 0.65% as of December 31, 2005.

Total customer funds (deposits, mutual and pension funds and other brokered products) were €131,989 million as of December 31, 2006 from €120,745 million as of December 31, 2005, an increase of 9.3% as a result of an increase in deposits collected during the year. Mutual funds under management were €44,824 million as of December 31, 2006, a decrease of 1.7% from €45,609 million as of December 31, 2005. Pension fund assets under management were €16,583 million as of December 31, 2006, an increase of 8.0% from €15,352 million as of December 31, 2005.

### ***Financial Services***

This business unit's principal activities were focused on the following areas:

- Financial Services for Individuals: focused on retail customers and aimed at providing customers with more value from their relationship with BBVA by offering a wide range of products and services at attractive prices, which are made available through different channels, along with solutions tailored to their specific needs.
- Financial Services for Small Businesses: focused on small businesses (including professional practices, the self-employed, retailers and farmers) by providing them with customized services, a comprehensive range of products and continuous, quality financial advice.
- Consumer Finance: focused on the following lines of business (through Finanzia Bank, BBVA's online bank, Uno-e Bank, S.A., Finanzia Autorenting and Finanziamento Portugal): financing of cars, consumer items and equipment; e-banking; bill payment; and car and equipment rental.

Lending by the Financial Services unit increased 18.1% to €112,480 million as of December 31, 2006 from €95,278 million as of December 31, 2005, principally due to strong growth in mortgage loans, which increased 16.6% from December 31, 2005.

Customer funds under management by the Financial Services unit increased 9.9% to €116,990 million as of December 31, 2006 from €106,403 million as of December 31, 2005, principally due to an increase in time deposits. Mutual and pension fund assets managed by the Financial Services unit increased by 10.1%, respectively, as of December 31, 2006 as compared to December 31, 2005.

### **Financial Services for Individuals**

Retail customers were targeted through a series of new products. Housing access was facilitated by making the conditions of the Hipoteca Fácil (Easy Mortgage) more flexible and adapting for the youth and immigrant segments. The range of consumer loans was strengthened with the Préstamo Inmediato PIDE (Immediate Loan ASK, available 24 hours a day), the new Crédito Fácil (Easy Loan, approved quickly) and Credinómina (Payroll-loan), an interest-free loan granted immediately and free of commissions tied to the Payroll Campaign. The BlueBBVA Program targeting the youth segment was renewed (with offers such as the Youth Loan carrying zero interest). Marketing of new services such as BBVA health insurance, real estate, travel and hotel reservations services, among others, was initiated as part of the new business model development program.

Fund gathering continued through existing and expanded deposit products, including the Quincenas del Ahorro (Savings Fortnights), Depósitos Crecientes (Growing Deposits), Triple 6 and Triple 10. On the investment fund side, managed fund portfolios and the ongoing renewal of the range of new funds on offer, including BBVA Consolida Garantizado (BBVA Guaranteed), Garantizado Doble 10, (Double 10 Guaranteed), 106 Doble 10 (106 Double 10), Extra 10, 110 Ibex and 105 Ibex, remained a focus.

In addition, BBVA was the first entity to be granted a regulatory permit to market certain new products approved in Spain in the fourth-quarter of 2006, including exchange traded funds (“ETFs”) in the Spanish market on the Ibex 35 (the *Acción Ibex 35 ETF*), the Euro Stoxx 50 and the FTSE Latibex Top (in

collaboration with the Wholesale Businesses area) as well as hedge funds (*BBVA Codespa Microfinanzas FIL*) and venture capital funds (*BBVA Capital Privado*).

### **Financial Services for Small Businesses**

During 2006, the Financial Services for Small Businesses offered a wider product range targeting small companies, professional practices, the self-employed, retailers and the framing sector, including:

- the ICO Pymes 2006 small and medium-sized entities (“SME” or “SMEs”) line of financing;
- the Préstamo Bienvenida (Welcome Loan) for new customers;
- StockPyme, a range of products designed to hedge interest rate risk;
- the Diferencial 0% loan or overdraft;
- a business mortgage with a balloon payment; and

the *Pack Negocios* (Business Pack), a transactional services package launched in November.

### **Asset Management and Private Banking**

This business unit is responsible for the design and management of products to be distributed through the Retail Banking in Spain and Portugal business area’s different networks, as well as for the direct management of BBVA’s private banking services (through the Personal Banking and International Private Banking sub-units and BBVA Patrimonios). As of December 31, 2006, total customer funds (including both mutual and pension funds and assets managed in the private banking units) totaled approximately €80 billion, an increase of 3.9% from December 31, 2005. As of December 31, 2006, BBVA’s private banking business in Spain managed assets totaling approximately €11,987 million, an increase of 29.2% from December 31, 2005.

### **BBVA Portugal**

As of December 31, 2006, BBVA Portugal’s customer loans amounted to €4,237 million, an increase of 22% from €3,472 million in 2005. In 2006, mortgage lending was the most dynamic sector, with a 31.5% increase over 2005.

As of December 31, 2006, customer funds managed by BBVA Portugal totaled €2,737 million, representing a 9% increase over €3,037 million in 2005, principally due to the increase in mutual and pension fund assets under management by BBVA Portugal.

### **European Insurance**

BBVA’s European insurance activities are conducted through various insurance companies that provide direct insurance, reinsurance and insurance brokering services in Spain and Portugal and market products for different types of customers (private individuals, SMEs, retailers, professional service firms and providers and self-employed individuals) through this unit’s branch offices.

### **Wholesale Businesses**

Wholesale Businesses focuses on, large corporations, governmental, non-governmental organizations and institutional investor clients.

As of December 31, 2006, lending by the Wholesale Businesses area totalled €90,305 million, an increase of 18.6% from €76,129 million as of December 31, 2005. Non-performing loans (“NPL” or “NPLs”) of this business area decreased to an NPL ratio of 0.22% as of December 31, 2006, compared to 0.29% as of December 31, 2005, principally due to an improvement in risk quality. Deposits decreased and mutual funds increased 10.3% and 22.2%, respectively, as of December 31, 2006 from December 31, 2005.

The business units included in this business area are:

- Corporate and Business Banking;
- Global Businesses; and
- Business and Real Estate Projects.

### ***Corporate and Business Banking***

The Corporate and Business Banking unit includes the Group's products and services with SMEs (previously reported under Retail Banking In Spain and Portugal), large companies and institutions in the Spanish market, transaction services and product management.

In 2006, a new Corporate Banking business model was introduced to meet the needs of Spanish SMEs, large companies and institutions. The new model marks a simplification of the central structure, the creation of 7 new regional departments and, in November 2006, the addition of 26 new offices to the branch network (6 in corporate and 20 in institutions). This was part of the Blue Net project announced in July and completes the 2006 expansion plan with a total of 272 new branches. Of this number, the SME segment accounted for 209, institutions banking for 52 (extending the network to cover nearly all provinces in Spain) and 11 branches were for corporate banking.

In 2006, the Group led the SME market by marketing the ICO-Pymes line of financing for small businesses. It formalised two new lines with the European Investment Bank (each totalling €200 million to finance SME and regional government investment projects, respectively). It launched the BEC Markets Plan to reinforce the sale of cash management and capital markets products to network clients. The BBVA net cash electronic banking system was also extended to the branch offices abroad.

### ***Global Businesses***

The Global Businesses unit includes the global customers unit, investment banking, global markets and distribution, treasury management and distribution and Asia and is aimed at serving large international companies.

In Global Businesses, the business continues to be increasingly international. The foreign network and international customers made greater overall contributions to this unit's operations than in previous years. In domestic cash management businesses, the Group was a pioneer in the Spanish market when it was the first to launch ETFs on national and international indices. It also led the initial public offering ("IPO") league tables in Spain due to its role as global coordinator of the Bolsas y Mercados Españoles, Técnicas Reunidas, S.A. and Vocento IPOs. BBVA extended its product range targeted at institutional customers with the addition of hedge funds in Spain due to the creation of Próxima Alfa, which is 51%-owned by BBVA.

As part of the Group's strategy to increase its presence in Asia, BBVA formed a strategic partnership with the CITIC Group in China and other parts of Asia. This partnership is expected to entail an initial investment of €989 million, none of which had been invested as of year end. BBVA expects the partnership with CITIC Group to open the mainland Chinese markets (through a 5% stake in China Citic Bank ("CNCB"), which is headquartered in Beijing, costing €501 million) and the Hong Kong market (via a 15% stake in Citic International Financial Holdings ("CIFH") costing €488 million). The combined assets of CNCB and CIFH totaled €71,507 million and together the two entities have more than 15,000 staff and 454 branches, in each case at December 31, 2006. The bank also opened a branch in Singapore and agency offices in Taipei, Seoul and Sydney and struck agreements with banks in China, India and the Philippines to carry emigrant money transfers.

### ***Business and Real Estate Projects***

This business area also handles the Group's the real estate business, though its subsidiary Anida, as well as its private equity business.

During the year the Business Projects unit was transformed into a venture capital manager operating under the Valanza brand, and began operations in Mexico.

## **Mexico and the United States**

The Mexico and the United States business area conducts the Group's banking, insurance and pension businesses in Mexico and the United States (including Puerto Rico).

### ***Mexico***

Mexican GDP increased approximately 4.6% in 2006, mainly due to favorable trends in domestic demand and moderate price increases. Inflation stood at just over 4%, substantially in line with the Bank of Mexico's long-term goals. The Mexican peso remained strong against the dollar throughout 2006, which limited Mexican exports to the United States, though in 2006 both the Mexican peso and the US dollar weakened against the euro.

BBVA Bancomer's income attributed to the Group for 2006 increased 30.3% to €1,552 million from €1,191 million in 2005, resulting in a Return on Equity (defined as income attributed to the Group divided by average shareholders' equity) of 48.5% compared to 46.0% in 2005.

As of December 31, 2006, lending by BBVA Bancomer totalled €23,480 million, an increase of 30.6% from €17,978 million as of December 31, 2005, while customer funds (deposits, securities sold under agreements to repurchase and mutual funds) increased 14.6% to €45,741 million as of December 31, 2006 from €39,928 million as of December 31, 2005.

As of December 31, 2006, this business unit conducted its activities through 1,977 branch offices and had an aggregate of 32,847 employees.

In Mexico during 2006, the Group invested to expand its branch network, ATMs and point of sale terminals. Other projects were designed to increase service quality and enabled a reduction in customer waiting time. These factors boosted commercial productivity during 2006.

In retail banking, the Group diversified and expanded the consumer products offered in Mexico, so that approximately 4 million new credit cards were issued by BBVA Bancomer and Finanzia during 2006. New credit card products were introduced such as the Bancomer Platinum Card, which was marketed to certain valued clients, as well as the Tarjeta 40, which was the first prepaid card to be marketed by BBVA to the youth segment. In addition, BBVA Bancomer continued to offer the Libretón passbook to attract low cost funds by rewarding customers' savings with various gift articles; this product marked its 10-year anniversary in 2006.

In consumer lending, BBVA Bancomer began to market car loans, the Crédito Nómina (Payroll Loan) and the Crédito Inmediato Bancomer (Bancomer Immediate Loan) at retail establishments in Mexico in 2006.

In mortgage lending, BBVA Bancomer introduced products such as the Hipoteca Binacional (Bi-national Mortgage) in collaboration with the LNB in the United States, the Hipoteca Cambio de Casa (Change House Mortgage) and two programs in collaboration with the Mexican Institute of Workers' Housing Fund.

Investment funds in Mexico performed well, underpinned by distribution through the retail network and the design of new products aimed at cash management and increased finance to companies through derivative instruments.

In the SME business, the number of customers taking out loans increased due to enhanced service and more flexible loan granting by delegating greater approval autonomy to the branch level. The Group continued to raise money for large companies in the fixed income markets (with BBVA Bancomer acting as lead placement agent) and through derivative products.



## ***United States***

As of December 31, 2006, this business unit conducted its activities through 207 branch offices and had an aggregate of 3,646 employees.

In the United States, the Group is structured into five lines of business:

- banking in Texas through LNB, Texas State Bank and State National Bancshares. 2006 was the first full year in which LNB was part of the BBVA Group;
- banking in Puerto Rico through BBVA Puerto Rico;
- money transfers through Bancomer Transfer Services, which provides remittance services between the U.S. and Mexico and has extended its services from the U.S. to the rest of Latin America, China, India and the Philippines;
- BBVA Bancomer USA, a bank franchise in California targeting first and second-generation customers of Latin American origin with basic banking products and services, and
- BBVA Finanzia USA, a business unit specialised in consumer financing and credit card issuance.

The Group made progress on its strategy of establishing a franchise in the United States with the incorporation of Texas Regional Bancshares in November and State National Bancshares at the beginning of 2007. The acquisition of Texas Regional Bancshares contributed €3,115 million in lending and €4,651 million in deposits, as well as 73 branches and 2,009 employees, in each case at December 31, 2006.

## ***Proposed Transaction to Acquire Compass Bancshares, Inc.***

On February 16, 2007 BBVA entered into a definitive agreement to acquire 100% of the shares of Compass for a consideration made up of a combination of ordinary shares of BBVA and cash (the “**Agreement**”). Pursuant to the Agreement, Compass shareholders can elect to receive 2.8 BBVA ordinary shares or ADSs or \$71.82 in cash for each Compass share, subject to proration. Based on BBVA’s closing stock price on Thursday, February 15, 2007, the transaction has an aggregate value of approximately \$9.6 billion.

As of the date the BBVA 2006 20-F was filed with the SEC, the proposed transaction has been approved by the Board of Directors of each of BBVA and Compass but remains subject to regulatory and shareholder approvals. The aggregate consideration is composed of a fixed number of 196 million ordinary shares of BBVA and approximately \$4.6 billion in cash.

Upon completion of the proposed transaction, BBVA expects that its business in the United States will contribute approximately 10% of the Group’s earnings and that it will become a regional leader across the U.S. Sunbelt. BBVA’s U.S. business, upon completion of the proposed transaction, is expected to consist of approximately 622 branches and \$47 billion in assets.

Established in 1970, and based in Birmingham, Alabama, Compass has a presence in the retail, wholesale and private banking segments. Compass shares are traded through the NASDAQ Global Select Market exchange. Compass conducts a general commercial banking and trust business in 415 banking centers, including 164 in Texas, 89 in Alabama, 75 in Arizona, 44 in Florida, 33 in Colorado and 10 in New Mexico, as of December 31, 2006.

For the year ended December 31, 2006, Compass had total assets of \$34 billion, and total shareholders’ equity of \$2.8 billion. Net interest income was \$1.1 billion for the year ended December 31, 2006. Net income was \$460 million for the year ended December 31, 2006.

## ***South America***

The South America business area includes the banking, insurance and pension businesses of the Group in South America. As of December 31, 2006, this business area conducted its activities through 1,631 branch offices and had an aggregate of 28,609 employees.

The business units included in this business area are:

- Banks in South America, including banks in Argentina, Chile, Colombia, Panama, Paraguay, Peru, Uruguay and Venezuela; and
- Pension Funds and Insurance in South America.

Unless otherwise specified, information included below relating to macroeconomic data in the South American countries in which BBVA operates, such as GDP or inflation, has been derived from its internal statistical studies based on information published by local governmental or regulatory authorities.

Economic conditions in the region were favorable in 2006, with an economic upturn in the largest countries in South America, reflected in an average growth in GDP of approximately 5% per year over the last three years. This positive economic climate is a result of a check on inflation — which decreased to record lows in some countries — and interest rates similar to 2005, though with some relatively important fluctuations over the year.

Local currencies in the South America fell against the euro in 2006, with a resulting negative impact on BBVA's consolidated financial statements as of and for the year ended December 31, 2005. Nonetheless, in most cases, variations in average exchange rates were more moderate than in 2005, and, as a result, the overall effect on BBVA's results of operations for the year ended December 31, 2006 was not significant.

The following is a brief description of BBVA's operations and the economic and political factors that most significantly affect such operations, on a country-by-country basis, in the South America business area. The operating results described below refer to each individual unit's contribution to the South America business area's operating results, unless otherwise stated.

### ***Banks in South America***

#### ***Argentina***

In 2006, the Argentinean economy benefited from a GDP growth rate of 8.5%. Banco Francés's income attributed to the Group for 2006 increased to €136 million from €90 million in 2005.

BBVA Banco Francés reduced its exposure to the public sector in Argentina, focusing its lending activity on the private sector, particularly retail loans.

#### ***Chile***

The first half of the year was marked by successive increases in interest rates by the Chilean Central Bank. There was also significant competition at the local level. Chilean GDP increased 4% in 2006, while inflation was 2.6% for the year.

BBVA Chile's income attributed to the Group for 2006 decreased 74% to €7 million from €27 million in 2005.

BBVA Chile launched the new 2006-2009 "CxC" strategic plan. Under the framework of this plan, the bank's positioning in the consumer lending segment was reinforced with the expansion of the BBVA Express network and the acquisition of 51% of Forum in May 2006, an entity specializing in car loans.

#### ***Colombia***

Colombia's GDP increased approximately 7% in 2006, coupled with a lower inflation rate (4.5%), volatility in interest rates and significant local competition (particularly in the mortgage segment) caused in part by the concentration process in the finance system.

BBVA Colombia acquired Banco Granahorrar in December 2005 and the prominent factor this year for BBVA Colombia was the merger and integration with Banco Granahorrar. BBVA Colombia's income attributed to the Group for 2006 increased significantly to €96 million from €47 million in 2005.

In Colombia, the merger between BBVA Colombia and Banco Granahorrar undertaken at the beginning of May and completed at the operating level in November, reinforced the Group's position in the mortgage market.

### ***Panama***

Panama's GDP increased 7.5% in 2006. BBVA Panama's income attributed to the Group for 2006 increased 16.3% to €22 million from €19 million in 2005.

### ***Paraguay***

Paraguay's GDP increased 3% in 2006, supported by appreciation of the guarani against the U.S. dollar. BBVA Paraguay's income attributed to the Group for 2006 increased 26.7% to €14 million from €10 million in 2005.

### ***Peru***

Peru's GDP increased 7% in 2006. BBVA Banco Continental's income attributed to the Group for 2006 increased 20.9% to €56 million from €47 million in 2005.

All lines of lending experienced growth in 2006 and lower cost deposits were achieved.

### ***Uruguay***

Uruguay's GDP increased 7% in 2006. BBVA Uruguay's profit attributed to the Group for 2006 increased to €8 million compared to the loss attributable to the Group of €2 million in 2005.

### ***Venezuela***

Venezuela's GDP increased approximately 10% in 2006. BBVA Banco Provincial's income attributed to the Group for 2006 increased 54.2% to €82 million from €55 million in 2005.

BBVA Banco Provincial experienced a year fraught with political and regulatory uncertainty. The lending portfolio was diversified to prioritize the retail business, particularly consumer lending and credit cards with products such as the Instant Payroll Loan, which was a first consumer finance product of this type offered in Venezuela.

### ***Pension Funds and Insurance in South America***

The BBVA Group's pension fund and insurance companies in South America income attributed to the Group for 2006 increased 9.2% to €109 million from €99 million in 2005.

As of December 31, 2006, the BBVA Group's pension fund and insurance companies in South America managed €31,872 million in pension fund assets, an increase of 22.2% over December 31, 2005.

The BBVA Group's insurance companies' income attributed to the Group for 2006 increased 16.3% to €41 million.

In the actuarial business, the intense level of competition in most countries with the advent of new competitors triggered increases in sales forces and downward pressure on income at the pension managers. It was a better year for insurance and progress was made in all business lines, especially in the bank assurance segment.

### ***Corporate Activities***

BBVA's Corporate Activities business area includes the Assets and Liabilities Committee ("ALCO") and activities regarding its interests in industrial and financial companies.

### ***Holdings in Industrial and Financial Companies***

The Holdings in Industrial and Financial Companies business unit manages the Group's holdings in listed industrial companies, principally Telefónica, S.A., Iberdrola, S.A. and until June 2006, Repsol, as well as its financial holdings, which are currently limited to Banco Bradesco S.A. All of these shareholdings are recorded on BBVA's consolidated balance sheet prepared in accordance with EU-IFRS as "available-for-sale". As of December 31, 2006, the portfolio of shareholdings of this business unit had a market value (including equity swaps) of €7,387 million. In 2006, the BBVA Group's holdings in industrial and financial companies generated €257 million in dividends (an increase of 25% over 2005) and net trading income of €333 million, a 11.8% increase over 2005 (excluding the divestitures in BNL and Repsol).

### ***Assets and Liabilities Management Committee***

The Assets and Liabilities Management Committee manages the BBVA Group's overall financing needs and interest and exchange rate risks. ALCO also manages the BBVA Group's investments and capital resources in an effort to improve the return on capital for BBVA's shareholders.

As of December 31, 2006, ALCO's portfolio of fixed-income assets, which is held in an effort to reduce the negative effect on BBVA's net interest income of a fall in interest rates, and denominated in euro, Mexican pesos and U.S. dollars, amounted to approximately €11 billion.

### **Organizational Structure**

Below is a simplified organizational chart of BBVA's most significant subsidiaries as of December 31, 2006. An additional 277 companies are domiciled in the following countries: Argentina, Belgium, Bolivia, Brazil, Cayman Islands, Channel Islands, Chile, Colombia, Ecuador, France, Ireland, Italy, Luxembourg, Mexico, Netherlands, Netherlands Antilles, Panama, Paraguay, Peru, Portugal, Puerto Rico, Spain, United Kingdom, United States of America, Dominican Republic, Uruguay and Venezuela.

Subsidiary	Country of Incorporation	Activity	BBVA Voting Power	BBVA Ownership	Total Assets
			(percentages)	(percentages)	(in millions of euros)
Administradora de Fondos Para el Retiro-Bancomer, S.A. de C.V.	Mexico	Financial services	100.00	97.29	204
Administradora de Fondos de Pensiones Provida	Chile	Financial services	64.32	64.32	410
Banco Bilbao Vizcaya Argentaria Panama, S.A.	Panama	Bank	98.93	98.93	853
Banco Bilbao Vizcaya Argentaria (Portugal), S.A.	Portugal	Bank	100.00	100.00	5,286
Banco Bilbao Vizcaya Argentaria Puerto Rico, S.A.	Puerto Rico	Bank	100.00	100.00	4,797
Banco Bilbao Vizcaya Argentaria Uruguay, S.A.	Uruguay	Bank	100.00	100.00	354
Banco Continental, S.A.	Peru	Bank	92.08	46.04	4,427
Banco de Crédito Local, S.A.	Spain	Bank	100.00	100.00	11,563
Banco Provincial S.A.					
—Banco Universal	Venezuela	Bank	55.60	55.60	6,561
BBVA Chile, S.A.	Chile	Bank	67.84	67.84	6,534
BBVA Banco Francés, S.A.	Argentina	Bank	76.09	76.07	4,176
BBVA Colombia, S.A.	Colombia	Bank	95.43	95.43	4,765
BBVA Factoring E.F.C., S.A.	Spain	Financial services	100.00	100.00	5,468
BBVA Renting, S.A.	Spain	Financial services	100.00	99.95	575
BBVA Ireland Public Limited Company	Ireland	Financial services	100.00	100.00	4,347
BBVA Paraguay, S.A.	Paraguay	Bank	99.99	99.99	330
BBVA Bancomer USA (formerly Valley Bank)	U.S.A	Bank	100.00	99.96	84
BBVA Bancomer, S.A. de C.V.	Mexico	Bank	100.00	99.96	54,059
Hipotecaria Nacional, S.A. de C.V.	Mexico	Financial services	100.00	99.96	721
Pensiones Bancomer, S.A. de C.V.	Mexico	Insurance	100.00	99.96	1,276
Seguros Bancomer S.A. de C.V	Mexico	Insurance	100.00	99.97	912
Texas State Bank	U.S.A	Bank	100.00	100.00	6,507
BBVA Switzerland	Switzerland	Bank	100.00	100.00	539
BBVA Seguros, S.A.	Spain	Insurance	99.94	99.94	12,285
Finanzia, Banco de Credito, S.A.	Spain	Bank	100.00	100.00	3,573
Uno-e Bank, S.A.	Spain	Bank	100.00	100.00	1,428
Laredo National Bank	U.S.A	Bank	100.00	100.00	3,389

### Trend Information

The European financial services sector is likely to remain competitive with increasing numbers of providers of financial services and alternative distribution channels. Further consolidation in the sector (through mergers, acquisitions or alliances) is likely as the other major banks look to increase their market share or combine with complementary businesses. It is foreseeable that regulatory changes will take place in the future that will diminish barriers to such consolidation transactions. However, some of hurdles that should be dealt with are the result of local preferences, as, potentially, consumer protection. If there are clear local consumer preferences, leading to specific local consumer protection rules, the same products cannot be sold across all the jurisdictions in which the Group operates, which reduces potential synergies. Certain challenges, such as the Value Added Tax regime for banks, do not however, relate to the interest or preferences of consumers.

The following are the most important trends, uncertainties and events that are reasonably likely to have a material adverse effect on BBVA or that would cause the financial information disclosed herein not to be indicative of its future operating results or financial condition:

- uncertainties relating to economic growth expectations and interest rate cycles, especially in the United States, where the high current account deficit of the U.S. economy may translate into an upward adjustment of risk premium and higher global interest rates. In this scenario, the Spanish economy could perform similarly to how it performed during the recession at the beginning of the 1990s;
- the possibility of experiencing a severe slowdown in the U.S. real estate market, which could have pervasive effects in the North American economy and consequently in the global markets;
- a downturn in capital markets or a downturn in investor confidence, linked to factors such as geopolitical risk, particularly given the environment in the Middle East. Continued or new crises in the region could cause an increase in oil prices, generating inflationary pressures that will have a negative effect on interest rates and economic growth;
- the effect that an economic slowdown may have over Latin American markets and fluctuations in local interest and exchange rates;
- a downturn in the Spanish economy or an abrupt adjustment in housing prices, which could affect the credit quality of BBVA's portfolio; and
- although it is foreseeable that entry barriers to domestic markets in Europe will be lowered, BBVA's plans for expansion into other European markets could be affected by entry barriers in such countries.

### **Selected Financial Data**

The historical financial information set forth below has been selected from, and should be read together with, the consolidated financial statements included in our 2006 20-F, which is incorporated by reference herein.



## EU - IFRS

	Year ended December 31,		
	2006	2005	2004
	(in millions of euros, except per share /ADS data (in euros))		
<b>Consolidated Statement of Income data</b>			
Interest and similar income .....	19,210	15,848	12,352
Interest expense and similar charges .....	(11,216)	(8,932)	(6,447)
Income from equity instruments .....	379	292	255
<b>Net interest income .....</b>	<b>8,374</b>	<b>7,208</b>	<b>6,160</b>
Share of profit or loss of entities accounted for using the equity method .....	308	121	97
Fee and commission income .....	5,119	4,669	4,057
Fee and commission expenses .....	(784)	(729)	(644)
Insurance activity income .....	650	487	391
Gains/losses on financial assets and liabilities (net) .....	1,656	980	762
Exchange differences (net) .....	378	287	298
<b>Gross income .....</b>	<b>15,700</b>	<b>13,023</b>	<b>11,121</b>
Sales and income from the provision of non-financial services .....	605	576	468
Cost of sales .....	(474)	(451)	(342)
Other operating income .....	117	134	22
Personnel expenses .....	(3,989)	(3,602)	(3,247)
Other administrative expenses .....	(2,342)	(2,160)	(1,851)
Depreciation and amortization .....	(472)	(449)	(448)
Other operating expenses .....	(263)	(249)	(132)
<b>Net operating income .....</b>	<b>8,883</b>	<b>6,823</b>	<b>5,591</b>
Impairment losses (net) .....	(1,504)	(854)	(958)
Provision expense (net) .....	(1,338)	(454)	(850)
Finance income from non-financial activities .....	58	2	9
Finance expenses from non-financial activities .....	(55)	(2)	(5)
Other gains .....	1,129	285	622
Other losses .....	(142)	(208)	(271)
<b>Income before tax .....</b>	<b>7,030</b>	<b>5,592</b>	<b>4,138</b>
Income tax .....	(2,059)	(1,521)	(1,029)
<b>Income from continuing operations .....</b>	<b>4,971</b>	<b>4,071</b>	<b>3,109</b>
Income from discontinued operations (net) .....	—	—	—
<b>Consolidated income for the year .....</b>	<b>4,971</b>	<b>4,071</b>	<b>3,109</b>
Income attributed to minority interests .....	(235)	(265)	(186)
<b>Income attributed to the Group .....</b>	<b>4,736</b>	<b>3,806</b>	<b>2,923</b>
<b>Per share/ADS<sup>(1)</sup> Data</b>			
Net operating income <sup>(2)</sup> .....	2.61	2.01	1.66
Numbers of shares outstanding (at period end) .....	3,551,969,121	3,390,852,043	3,390,852,043
Income attributed to the Group <sup>(2)</sup> .....	1.39	1.12	0.87
Dividends declared .....	0.637	0.531	0.442

(1) Each American Depositary Share (“ADS” or “ADSs”) represents the right to receive one ordinary share.

(2) Calculated on the basis of the weighted average number of BBVA’s ordinary shares outstanding during the relevant period (3,406 million, 3,391 million and 3,369 million shares in 2006, 2005 and 2004, respectively).

	Year ended December, 31		
	2006	2005	2004
	(in millions of euros, except per share/ADS data (in euros) and percentages)		
<b>Consolidated balance sheet data</b>			
Total assets .....	411,916	392,389	329,441
Capital stock .....	1,740	1,662	1,662
Loans and receivables (net) .....	279,855	249,397	196,892
Deposits from other creditors .....	192,374	183,375	150,726
Marketable debt securities and subordinated liabilities .....	91,271	76,565	57,809
Minority interests .....	768	971	738
Stockholders' equity .....	18,210	13,034	10,961
<b>Consolidated ratios</b>			
Profitability ratios:			
Net interest margin <sup>(3)</sup> .....	2.12%	1.98%	1.91%
Return on average total assets <sup>(4)</sup> .....	1.26%	1.12%	0.97%
Return on average equity <sup>(5)</sup> .....	37.6%	37.0%	33.2%
<b>Credit quality data</b>			
Loan loss reserve .....	6,417	5,587	4,622
Loan loss reserve as a percentage of total loans and receivables (net) .....	2.29%	2.19%	2.31%
Substandard loans .....	2,492	2,346	2,202
Substandard loans as a percentage of total loans and receivables (net) .....	0.89%	0.94%	1.12%

(3) Represents net interest income as a percentage of average total assets.

(4) Represents consolidated income for the year as a percentage of average total assets.

(5) Represents income attributed to the Group as a percentage of average stockholders' equity.

## U.S. GAAP Information

	Year ended December 31,				
	2006	2005	2004	2003	2002
	(in millions of euros, except per share/ ADS data (in euros) or as otherwise indicated)				
<b>Consolidated statement of income data</b>					
Net income.....	4,972	2,018	3,095	1,906	1,846
Basic earnings per share/ADS <sup>(1)(2)</sup> .....	1.460	0.595	0.918	0.60	0.58
Diluted earnings per share/ADS <sup>(1)(2)</sup> .....	1.460	0.595	0.918	0.60	0.58
Dividends per share/ADS (in dollars) <sup>(1)(2)(3)</sup> .....	0.807	0.658	0.552	0.34	0.33
<b>Consolidated balance sheet data</b>					
Total assets <sup>(4)</sup> .....	420,971	401,799	314,350	287,912	290,430
Stockholders' equity <sup>(4)</sup> .....	30,461	25,375	23,465	19,583	18,908
Basic stockholders' equity per share/ADS <sup>(1)(2)</sup> .....	8.94	7.48	6.96	6.13	5.92
Diluted stockholders' equity per share/ADS <sup>(1)(2)</sup> .....	8.94	7.48	6.96	6.13	5.91

- (1) Calculated on the basis of the weighted average number of BBVA's ordinary shares outstanding during the relevant period.
- (2) Each ADS represents the right to receive one ordinary share.
- (3) Dividends per share/ADS are translated into dollars at the average exchange rate for the relevant year, calculated based on the average of the noon buying rates for euro from the Federal Reserve Bank of New York on the last date of each month during the relevant period.
- (4) At the end of the reported period.

## **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 nine and no more than 16 members. All members of the board of directors are elected to serve five-year terms.

The Board of Directors has created the Executive Committee, the Audit and Compliance Committee, the Appointments and Compensation Committee and the Risk Committee. All the Board of Directors Committees were formed on June 28, 2002.

BBVA's Board of Directors is assisted in fulfilling its responsibilities by the Executive Committee (*Comisión Delegada Permanente*) of the Board of Directors, which, under BBVA's Regulations of the Board of Directors, must be comprised of at least half plus one independent director. The Board of Directors delegates all management functions, except those that it must retain due to legal or statutory requirements, to the Executive Committee.

### **Board of Directors**

The Board of Directors of BBVA is currently comprised of 14 members. The business address of the Directors of BBVA is Paseo de la Castellana 81, 28046 Madrid.

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

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

BBVA's Regulations for the Board of Directors 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.

<b>Name</b>	<b>Current Position</b>	<b>Date Nominated</b>	<b>Date Re-elected</b>	<b>Present Principal Outside Occupation and Five-Year Employment History(*)</b>
Francisco González Rodríguez <sup>(1)</sup>	Chairman and Chief Executive Officer	December 18, 1999	February 26, 2005	Chairman, Argentaria, May 1996–January 2000; Chairman, BBVA, since January 2000. Director of BBVA Bancomer Servicios, S.A.; Grupo Financiero BBVA Bancomer, S.A. C.V. and BBVA Bancomer S.A.
José Ignacio Goirigolzarri Tellaeche <sup>(1)</sup>	President and Chief Operating Officer	December 18, 2001	March 1, 2003	Director, Telefónica, S.A., April 2000–April 2003; Vice President, Repsol YPF, S.A., 2002–2003; Director of BBVA Bancomer Servicios, S.A.; Director, Grupo Financiero BBVA Bancomer and BBVA Bancomer, S.A.; President and Chief Operating Officer, BBVA, since 2001.
Tomás Alfaro Drake <sup>(2)</sup>	Independent Director	March 18, 2006		Director of Business Management and Administration and Business Sciences programs at Universidad Francisco de Vitoria, since 1998.
Juan Carlos Álvarez Mezquíz <sup>(1)(3)</sup>	Independent Director	December 18, 1999	March 18, 2006	Managing Director, Grupo Eulen; Director, Bodegas Vega Sicilia, S.A.
Rafael Bermejo Blanco <sup>(2)(4)</sup>	Independent Director	March 16, 2007		Technical Secretary General of Banco Popular, 1999–2004.
Richard C. Breeden	Independent Director	October 29, 2002	February 28, 2004	Chairman, Richard C. Breeden & Co.
Ramón Bustamante y de la Mora <sup>(2)(4)</sup>	Independent Director	December 18, 1999	February 26, 2005	Director, Ctra. Inmo. Urba. Vasco-Aragonesa, S.A.
José Antonio Fernández Rivero <sup>(4)</sup>	Non independent External Director	February 28, 2004		Appointed Group General Manager, 2000–2003; From 2003 to 2005: Deputy Chairman of Telefónica and Member of its Audit and Regulation Committees. Member of the Board and Executive Committee of Iberdrola, Director of Banco de Crédito Local, and Chairman of Adquira.
Ignacio Ferrero Jordí <sup>(1)(3)</sup>	Independent Director	December 18, 1999	February 26, 2005	Chairman, Nutrexpa, S.A. Director La Piara S.A.; Director Lladro Comercial S.A.

<b>Name</b>	<b>Current Position</b>	<b>Date Nominated</b>	<b>Date Re-elected</b>	<b>Present Principal Outside Occupation and Five-Year Employment History(*)</b>
Román Knörr Borrás <sup>(1)</sup>	Independent Director	May 28, 2002	March 1, 2003	Chairman, Carbónicas Alavesas, S.A.; Director, Mediasal 2000, S.A. and President of the Alava Chamber of Commerce; Chairman, Confebask (Basque Business Confederation) from 1999 to 2005; Director of Aguas de San Martín de Veri, S.A. until January 2006. Plenary member and Chairman of the Training Committee of the Supreme Council of Chambers of Commerce.
Carlos Loring Martínez de Irujo <sup>(2)(3)</sup>	Independent Director	February 28, 2004	March 18, 2006	He was a partner of J&A Garrigues, from 1977 until 2004; Director of the Department of Mergers and Acquisitions, of Banking and Capital Markets, Member of the Management Committee since 1985.
José Maldonado Ramos <sup>(4)(5)</sup>	Director and General Secretary	December 18, 1999	February 28, 2004	Director, Telefónica S.A., February 1999 – April 2003; Secretary of the Board of Directors and Director and General Secretary, Argentaria, May 1997 – 2000; Director and General Secretary, BBVA, since January 2000.
Enrique Medina Fernández <sup>(1)(4)</sup>	Independent Director	December 18, 1999	February 28, 2004	Director and Secretary, Sigma Enviro, S.A.
Susana Rodríguez Vidarte <sup>(2)(3)</sup>	Independent Director	May 28, 2002	March 18, 2006	Dean of Deusto “La Comercial” University since 1996.

(\*) Where no date is provided, positions are currently held.

(1) Member of the Executive Committee

(2) Member of the Audit and Compliance Committee

(3) Member of the Appointment and Compensation Committee

(4) Member of the Risk Committee

(5) Secretary of the Board of Directors

## Major Shareholders

As far as BBVA is aware, as of the date of this Offering Circular, no shareholder or other person, corporation or government holds beneficially, directly or indirectly, more than 5% of BBVA's shares. BBVA's major shareholders do not have voting rights which are different from those held by the rest of its shareholders. To the extent known to it, BBVA is not controlled, directly or indirectly, by any other corporation, government or any other natural or legal person. As of December 31, 2006, there were 864,226 registered holders of BBVA's shares, with a total of 1,033,296,710 shares held by 230 shareholders with registered addresses in the United States. Since certain of such shares and American Depositary Receipts (“**ADRs**”) are held by nominees, the foregoing figures are not representative of the number of beneficial holders. BBVA's directors and executive officers did not own any ADRs as of December 31, 2006.

## **Legal Proceedings**

On March 15, 2002, the Bank of Spain announced that it was opening an administrative proceeding against BBVA and certain individuals who have served as members of BBVA's board of directors or as executive officers. This announcement was the result of BBVA's voluntary disclosure to the Bank of Spain on January 19, 2001 that BBVA funds then amounting to approximately Ptas. 37,427 million (approximately €225 million) had been held in offshore accounts and not been reflected in its financial statements. These funds had been generated largely as a result of capital gains realised on transactions in BBV and Argentaria shares and were included in BBVA's financial statements in 2000. The Bank of Spain subsequently conducted a confidential investigation which led to the commencement of its administrative proceeding. The Bank of Spain's administrative proceeding was suspended upon commencement of the proceeding initiated by the National Criminal Court (discussed below) and has remained suspended pending completion of such proceeding.

At the time the Bank of Spain proceeding was suspended, no formal charges had been made by the Bank of Spain relating to the facts and events under investigation. BBVA is therefore unable to determine what, if any, charges will be made by the Bank of Spain and to what conduct any such charges may relate. However, based on BBVA's assessment of the probable charges and penalties that could be imposed by the Bank of Spain and that since the initiation of the Bank of Spain proceeding, BBVA has continued to be engaged regularly in extending commercial and other types of credit and accepting demand and other types of deposits, BBVA believes that once the Bank of Spain proceeding is recommenced after the conclusion of the National Criminal Court's proceeding, resolution of such proceeding would not have a material adverse effect on BBVA or its consolidated financial position or results of operations.

### ***National Criminal Court (Audiencia Nacional)***

On April 9, 2002, Tribunal No. 5 of Spain's National Criminal Court presided by Judge Baltasar Garzón commenced a criminal proceeding regarding the previously unreported funds and suspended the administrative proceeding initiated by the Bank of Spain. The National Criminal Court proceeding was initially directed at 28 of BBVA's former directors and executive officers and was subsequently split into two separate proceedings. One proceeding, relating to the use of the unreported funds to create pension accounts, has been resolved by the National Criminal Court in 2005, with just one person indicted from the former five people charged. The High Court of Spain (*Tribunal Supremo*) in November 2006 resolved on this case by acquitting this person of any responsibility and establishing that no criminal offence took place. In the second proceeding, which generally relates to the unreported funds, and is directed at of BBVA's four of its former directors and two former executive officers, the National Criminal Court has initially ruled on the March 12, 2007 that there is no ground to continue with the criminal proceeding, although this decision may be appealed by the Prosecutor. None of these directors and executive officers continue to serve as directors on BBVA's Board of Directors or are affiliated with BBVA in any other capacity.

### ***Spanish National Market Commission (the "CNMV")***

On May 22, 2002, the Spanish securities market regulator, the CNMV, instituted administrative proceedings against BBVA for alleged violations of the Spanish Securities Markets Act (Law 24/1988 of July 28) in connection with the same events being investigated by the Bank of Spain. As with the Bank of Spain proceeding, the National Criminal Court requested that the CNMV suspend its proceedings until resolution of the National Criminal Court's criminal proceeding described above. The CNMV proceeding was suspended on January 7, 2003 and has remained suspended pending completion of the proceeding initiated by the National Criminal Court.

Based on BBVA's assessment of the probable charges and penalties that could be imposed by the CNMV, and the fact that since the initiation of the CNMV proceeding the CNMV has not restricted BBVA from continuing to be actively involved in capital markets transactions in Spain, including by conducting offerings of its own debt and equity securities, BBVA believes that once the CNMV proceeding is recommenced after the conclusion of the National Criminal Court's proceeding, resolution of such proceeding would not have a material adverse effect on BBVA or its consolidated financial position or results of operations.



### ***Internal Control Procedures***

As a result of BBVA's discovery that BBVA funds had been held in offshore accounts and not been reflected in its financial statements, it has implemented several accounting internal control procedures in order to obtain reasonable assurance that breaches of its internal controls do not occur. For example, BBVA has significantly strengthened its internal audit function. BBVA's internal audit department is responsible for such matters as verifying accuracy and completeness of BBVA's financial reporting and ensuring the compliance, appropriateness and effectiveness of BBVA's internal control systems and procedures. BBVA has also enhanced its internal audit function, including by broadening the scope of its internal audit activities to include all of BBVA's diverse operations, both in terms of business area and geographical location. In addition, in 2002, BBVA implemented a "Directors Plan" in respect of fiscal years 2003 and 2004 to further strengthen its internal controls. As part of this plan, BBVA's internal audit function was further expanded to include review of information and documentation used by the management of each business unit, review of BBVA's financial statement consolidation process and review and assessment of BBVA's compliance with capital adequacy requirements. In addition, the Directors Plan provides for the standardisation of internal audit work procedures, from making initial contact with the business area or unit being audited to documenting the results of the audit.

BBVA has also reinforced its internal compliance department. This department, whose functions have been established by the Audit and Compliance Committee of BBVA's Board of Directors, is responsible for developing and implementing internal norms and procedures to ensure compliance with legal requirements and ethical guidelines established by BBVA, such as BBVA's Code of Conduct. For example, this department is responsible for establishing internal controls and procedures related to matters such as the prevention of money-laundering and trading in BBVA's securities.

Besides the accounting internal control procedures implemented by BBVA described above, in order to further obtain reasonable assurance that breaches of BBVA's internal controls do not occur, BBVA has taken a series of steps to strengthen its corporate governance structures in keeping with the most recent trends in this area and new legislation that has taken effect in Spain and the other countries in which BBVA operates.

### ***Other Proceedings***

#### ***Puerto Rico***

Two proceedings were initiated in Spain based on the testimony of a former BBV Puerto Rico employee. One of these proceedings, related to allegations of money-laundering, has been definitively closed by the judge in 2005 due to the fact that there was no evidence of any wrongdoing. The other proceeding is based on allegations of bribery against BBVA and certain of its employees and has also been finally closed due to the fact that there was no evidence of any wrongdoing.

#### ***BBVA Privanza Bank Ltd. (Jersey)***

A proceeding was initiated alleging that certain employees of BBVA Privanza Bank Ltd. (Jersey) cooperated in the creation of accounts and financial products in Jersey which were allegedly used by Spanish individuals to avoid Spanish tax obligations. The proceedings also included an allegation of a tax offence due to the purported non-consolidation of a fully-owned subsidiary. This proceeding is ongoing and charges have not been brought against any BBVA employee or director.

In light of the surrounding events and circumstances, BBVA's legal advisers do not expect that the proceedings described above will have a material effect on BBVA.

## EXCHANGE OFFER AND REGISTRATION RIGHTS

The summary set forth below of provisions of the registration rights agreement to be dated April 18, 2007 to be entered into by and among the Issuer, the Bank and the initial purchaser (the “**Registration Rights Agreement**”) does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the Registration Rights Agreement, a copy of which will be made available to prospective purchasers of the Preferred Securities upon request to the Issuer or the Bank. In addition, the information set forth below concerning certain interpretations of and positions taken by the staff of the Securities and Exchange Commission (the “**SEC**”) is not intended to constitute legal advice, and prospective investors should consult their own legal advisors with respect to such matters. An exchange of Preferred Securities for Exchange Preferred Securities (as defined below) is a taxable event under Spanish law. Beneficial Owners of the Preferred Securities will be subject to Spanish tax certification requirements and, in limited circumstances, subject to Spanish withholding tax. See “*Taxation—Spanish Tax Considerations—Evidencing of Beneficial Owner Residency in Connection with Distributions and Income Obtained from the Exchange of Preferred Securities for Exchange Preferred Securities.*”

Pursuant to the Registration Rights Agreement, the Issuer and Bank will agree, for the benefit of the holders of the Preferred Securities, at the Issuer’s and Bank’s cost, to:

- use the Issuer’s and the Bank’s reasonable best efforts to prepare and, as soon as practicable within 270 days following the date when the Preferred Securities are delivered in book entry form through the facilities of DTC (the “**Closing Date**”) for the Preferred Securities, file with the SEC an exchange offer registration statement (the “**Exchange Offer Registration Statement**”) with respect to a proposed exchange offer and the issuance and delivery to the holders, in exchange for the Preferred Securities, of Preferred Securities which will have terms identical in all material respects to the Preferred Securities (including the full, unconditional and irrevocable guarantee by the Bank), except that the exchange Preferred Securities (the “**Exchange Preferred Securities**”) will not contain terms with respect to transfer restrictions and will not provide for liquidated damages under the circumstances described below;
- use the Issuer’s and the Bank’s reasonable best efforts to cause the Exchange Offer Registration Statement to be declared effective under the Securities Act within 360 days of the Closing Date;
- use the Issuer’s and the Bank’s reasonable best efforts to keep the Exchange Offer Registration Statement effective until the closing of the exchange offer; and
- use the Issuer’s and the Bank’s reasonable best efforts to cause the exchange offer to be completed no later than 390 days following the Closing Date.

*No assurances can be given that the Issuer and the Bank will be able to complete the exchange offer. See “Risk Factors — The transferability of the Preferred Securities may be limited by the absence of an active trading market and restrictions on transfer under applicable securities law.”*

Upon the effectiveness of the Exchange Offer Registration Statement, the Issuer and the Bank will offer the Exchange Preferred Securities in exchange for surrender of the Preferred Securities. The Issuer will keep the exchange offer open for not less than 20 New York Business Days after the date on which notice of the exchange offer is mailed to the holders of the Preferred Securities (or longer if required by applicable law). Distributions on the Preferred Securities will accrue from the last date on which distributions were paid on the Preferred Securities surrendered in exchange or, if no distributions have been paid on the Preferred Securities, from the original issue date of the Preferred Securities.

Based on existing interpretations of the Securities Act by the staff of the SEC in several no-action letters to third parties, and subject to the immediately following sentence, the Issuer believes that the exchange Preferred Securities issued pursuant to the exchange offer may be offered for resale, resold or otherwise transferred by the holders, other than holders who are broker-dealers, without further compliance with the registration and prospectus delivery provisions of the Securities Act. However, any purchaser of Preferred Securities who is an affiliate of the Issuer or the Bank or who intends to participate in the exchange offer for

the purpose of distributing the Exchange Preferred Securities, or any participating broker-dealer who purchased the Preferred Securities for its own account, other than as a result of market-making activities or other trading activities, in order to resell pursuant to Rule 144A or any other available exemption under the Securities Act:

- will not be able to rely on the interpretations by the staff of the SEC;
- will not be able to tender its Preferred Securities in the exchange offer; and
- must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any sale or transfer of the Exchange Preferred Securities, unless such sale or transfer is made pursuant to an exemption from such requirements.

The Issuer does not intend to seek its own interpretation from the SEC regarding the exchange offer, and there can be no assurance that the staff of the SEC would make a similar determination with respect to the Exchange Preferred Securities as it has in other interpretations to third parties.

Each holder of Preferred Securities, other than certain specified holders, who wishes to exchange the Preferred Securities for the Exchange Preferred Securities in the exchange offer will be required to make representations that:

- it is not an affiliate of the Issuer or the Bank;
- it is not a broker-dealer tendering Preferred Securities acquired directly from the Issuer or the Bank for its own account;
- any Exchange Preferred Securities to be received by it will be acquired in the ordinary course of its business; and
- it has no arrangement with any person to participate in a distribution, within the meaning of the Securities Act, of the Exchange Preferred Securities.

In addition, in connection with resales of Exchange Preferred Securities, any participating broker-dealer must deliver a prospectus meeting the requirements of the Securities Act. The staff of the SEC has taken the position that participating broker-dealers may fulfill their Prospectus delivery requirements with respect to the Exchange Preferred Securities, other than a resale of an unsold allotment from the original sale of the Preferred Securities, with the Prospectus contained in the Exchange Offer Registration Statement. Under the Registration Rights Agreement, the Issuer and the Bank have agreed, for a period of 90 days following the consummation of the exchange offer, to make available a Prospectus meeting the requirements of the Securities Act to any such participating broker-dealer for use in connection with any resale of any Exchange Preferred Securities acquired in the exchange offer.

If:

- (1) the Issuer is not permitted to file the Exchange Offer Registration Statement or to complete the exchange offer because the exchange offer is not permitted by applicable law or SEC policy;
- (2) for any reason, the Exchange Offer Registration Statement is not declared effective within 360 days following the Closing Date or the exchange offer is not completed within 405 days following the Closing Date;
- (3) upon the request of the initial purchaser in certain circumstances; or
- (4) in certain circumstances, when a holder is not permitted to participate in the exchange offer or does not receive fully tradable Exchange Preferred Securities pursuant to the exchange offer;

the Issuer will, in lieu of effecting the registration of the Exchange Preferred Securities pursuant to the Exchange Offer Registration Statement, to the extent permitted under applicable law and the rules and regulations of the SEC and applicable interpretations thereof by the Staff of the SEC:

- (1) as promptly as practicable, file with the SEC a Shelf Registration Statement (the “**Shelf Registration Statement**”) covering resales of the Preferred Securities;
- (2) use the Issuer’s and the Bank’s reasonable best efforts to cause the Shelf Registration Statement to be declared effective under the Securities Act no later than 450 days after the Closing Date; and
- (3) use the Issuer’s and the Bank’s reasonable best efforts to keep the Shelf Registration Statement effective until the earlier of (a) two years after the date the Shelf Registration Statement is declared effective by the SEC or, (b) the date on which the Preferred Securities become eligible for resale pursuant to Rule 144(k) or any successor provision.

During any 365-day period, the Issuer will have the ability to suspend the availability of such Shelf Registration Statement for up to two periods of up to 45 consecutive days (except for the consecutive 45-day period immediately prior to the maturity of the Preferred Securities), but no more than an aggregate of 60 days during any 365-day period, if such action is required by law or taken by the Issuer in good faith and for valid business reasons or the Bank’s board of directors determines in good faith to amend the Shelf Registration Statement or any related Prospectus or Prospectus Supplement so that it will not include an untrue statement of material fact or omit to state a material fact necessary to make the statements in such documents in the light of the circumstances under which they were made not misleading. In the event of such suspension, the Issuer and the Bank have agreed to extend the effective period described above by the amount of time equal to the suspension period.

The Issuer and the Bank will, in the event of the filing of a Shelf Registration Statement, provide to each holder of Preferred Securities that are covered by the Shelf Registration Statement copies of the Prospectus which is a part of the Shelf Registration Statement and notify each such holder when the Shelf Registration Statement has become effective. A holder of Preferred Securities that sells the Preferred Securities pursuant to the Shelf Registration Statement generally will be required to be named as a selling security holder in the related Prospectus and to deliver a Prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with the sales and will be bound by the provisions of the Registration Rights Agreement which are applicable to the holder (including certain indemnification obligations).

Each Preferred Security will contain a legend to the effect that the holder of the Preferred Security, by its acceptance thereof, agrees to be bound by the provisions of the Registration Rights Agreement. In that regard, if a holder receives notice from the Issuer and the Bank that any event which:

- (1) makes a statement in the Prospectus which is part of the Shelf Registration Statement (or, in the case of participating broker-dealers, the Prospectus which is a part of the Exchange Offer Registration Statement) untrue in any material respect; or
- (2) requires the making of any changes in the Prospectus to make the statements therein not misleading; or
- (3) is specified in the Registration Rights Agreement occurs, the holder (or participating broker-dealer, as the case may be) will suspend the sale of Preferred Securities pursuant to that Prospectus until the Issuer and the Bank have either:
  - amended or supplemented the Prospectus to correct the misstatement or omission; and
  - furnished copies of the amended or supplemented Prospectus to the holder (or participating broker-dealer, as the case may be); or
  - given notice that the sale of the Preferred Securities may be resumed, as the case may be.

If a registration default, which means one of the following events, occurs:

- the Exchange Offer Registration Statement is not declared effective on or prior to the 360th calendar day following the Closing Date; or

- the exchange offer is not completed on or prior to the 405th calendar day following the Closing Date and a Shelf Registration Statement with respect to the Preferred Securities is not declared effective on or prior to the 450th calendar day following the Closing Date,

liquidated damages shall be payable in respect of outstanding Preferred Securities at the rate of (x) one-quarter of one percent (0.25%) per annum upon the occurrence of any registration default on or after the 360th calendar day following the Closing Date and (y) one-half of one percent (0.50%) per annum upon the occurrence of any registration default on or after the 405th calendar day following the Closing Date; provided, however, that the maximum aggregate amount of such liquidated damages will in no event exceed one-half of one percent (0.50%) per annum in respect of all registration defaults occurring at any one time. To the extent that liquidated damages have become payable due to the occurrence of one of the registration defaults, then immediately following (1) the exchange offer, or (2) the effectiveness of a shelf registration, as the case may be (such event referred to in clauses (1) or (2) above, a “**registration remedy**”), then the accrual of liquidated damages with respect to that particular registration default will cease. Upon the earlier of the implementation of all necessary registration remedies or the date on which the exchange securities are eligible for sale pursuant to Rule 144(k) under the Securities Act or any successor provision, the accrual of liquidated damages will cease.

If the Shelf Registration Statement is unusable by the holders for any reason for more than 60 days in the aggregate in any 365-day period, then liquidated damages shall be payable in respect of outstanding Preferred Securities at the rate of 0.50% per annum, beginning on the 61st day that the Shelf Registration Statement ceased to be usable; provided, however, the maximum aggregate amount of such liquidated damages payable (inclusive of any liquidated damages that are payable in respect of registration defaults) will in no event exceed one-half of one percent (0.50%) per annum. Upon the Shelf Registration Statement once again becoming available for use, liquidated damages will cease to be payable. Liquidated damages shall be computed based on the actual number of days elapsed in each period for which liquidated damages are payable.

The Issuer and the Bank will notify the Registrar and Paying Agent within five New York Business Days of an event date, which is each and every date on which an event occurs in respect of which liquidated damages are required to be paid. Liquidated damages shall be paid in the same manner as distributions pursuant to the registrar and transfer and paying agency agreement. Liquidated damages due shall be payable on each Distribution Payment Date to the record holder of Preferred Securities entitled to receive the distribution payment, if any, to be paid on such date. Each obligation to pay liquidated damages shall be deemed to accrue from and including the day following the applicable event date and shall be a joint and several obligation of the Issuer and the Bank. The joint and several obligations of the Issuer and the Bank to pay liquidated damages are not subordinated obligations; liquidated damages will be payable regardless of whether the Bank (a) has Distributable Profits or (b) fails to meet its required capital ratios.

**THE REGISTRATION RIGHTS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.**



## TAXATION

### Spanish Tax Considerations

*The following is a general description of certain Spanish tax considerations relating to the Preferred Securities. The information provided below does not purport to be a complete analysis of the tax law and practice currently applicable in Spain and does not purport to address the tax consequences applicable to all categories of investors, some of which may be subject to special rules. Prospective purchasers of the Preferred Securities are advised to consult their own tax advisers as to the tax consequences, including those under the tax laws of the country of which they are resident, of purchasing, owning and disposing of Preferred Securities. The summary set out below is based upon Spanish law as in effect on the date of this Offering Circular and is subject to any change in such law that may take effect after such date. References in this section to holders of Preferred Securities include the Beneficial Owners of the Preferred Securities. The statements regarding Spanish law and practice set forth below assume that the Preferred Securities will be issued, and transfers thereof will be made, in accordance with the Spanish law.*

### Introduction

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this Offering Circular:

- (a) of general application, Additional Provision Two of Law 13/1985, of May 25 on investment ratios, own funds and information obligations of financial intermediaries, as amended by Law 19/2003, of July 4 on legal rules governing foreign financial transactions and capital movements and various money laundering prevention measures and Law 23/2005, of November 18 on certain tax measures to promote the productivity, as well as Royal Decree 2281/1998, of October 23 developing certain disclosure obligations to the tax authorities, as amended by Royal Decree 1778/2004, of July 30 establishing information obligations in relation to preferred securities and other debt instruments and certain income obtained by individuals resident in the European Union and other tax rules;
- (b) for individuals resident for tax purposes in Spain which are subject to the Individual Income Tax (“**IIT**”), Law 35/2006 of November 28, on the IIT and on the Partial Amendment of the Corporate Income Tax Law, the Non-Residents Income Tax Law and the Net Wealth Tax Law, and Royal Decree 439/2007, of March 30 promulgating the IIT Regulations, along with Law 19/1991, of June 6 on Net Wealth Tax and Law 29/1987, of December 18 on Inheritance and Gift Tax;
- (c) for legal entities resident for tax purposes in Spain which are subject to the Corporate Income Tax (“**CIT**”), Royal Legislative Decree 4/2004, of March 5 promulgating the Consolidated Text of the CIT Law, and Royal Decree 1777/2004, of July 30 promulgating the CIT Regulations; and
- (d) for individuals and entities who are not resident for tax purposes in Spain which are subject to the Non-Resident Income Tax (“**NRIT**”), Royal Legislative Decree 5/2004, of March 5 promulgating the Consolidated Text of the NRIT Law, and Royal Decree 1776/2004, of July 30 promulgating the NRIT Regulations, along with Law 19/1991, of June 6 on Net Wealth Tax and Law 29/1987, of December 18 on Inheritance and Gift Tax.

Whatever the nature and residence of the holders of Preferred Securities, the acquisition and transfer of the Preferred Securities will be exempt from indirect taxes in Spain, i.e., exempt from Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993, of September 24 and exempt from Value Added Tax, in accordance with Law 37/1992, of December 28 regulating such tax.



## **1. Individuals with Tax Residency in Spain**

### **1.1 Individual Income Tax (*Impuesto sobre la Renta de las Personas Físicas*)**

Both distributions periodically received and income derived from the transfer, redemption or repayment of the Preferred Securities (including imputed income deriving from the exchange of the Preferred Securities in relation to an exchange offer) constitute a return on investment obtained from the transfer of a person's own capital to third parties in accordance with the provisions of Section 25.2 of the IIT Law, and must be included in the investor's IIT savings taxable base and taxed at a flat rate of 18%.

Both types of income are subject to a withholding on account of IIT at the rate of 18%. The individual holder may credit the withholding against his or her final IIT liability for the relevant tax year.

### **1.2 Net Wealth Tax (*Impuesto sobre el Patrimonio*)**

Individuals who are resident in Spain for tax purposes and hold Preferred Securities on the last day of any year will be subject to the Spanish Net Wealth Tax for such year at marginal rates currently varying between 0.2% and 2.5% of the quoted average value of the Preferred Securities during the last quarter of the year during which such Preferred Securities were held, with an exempt amount established by the competent autonomous community (*comunidad autónoma*), or €108,182.18 if no exempt amount is established.

### **1.3 Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)**

Individuals resident in Spain for tax purposes who acquire ownership or other rights over any Preferred Securities by inheritance, gift or legacy will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and State rules. The applicable tax rates currently range between 7.65% and 81.6%, depending on relevant factors.

## **2. Legal Entities with Tax Residency in Spain**

### **2.1 Corporate Income Tax (*Impuesto sobre Sociedades*)**

Both distributions periodically received and income derived from the transfer, redemption or repayment of the Preferred Securities (including imputed income deriving from the exchange of the Preferred Securities in relation to an exchange offer) are subject to CIT (at the current general tax rate of 32.5%, which will be reduced to 30% on January 1, 2008) in accordance with the rules for this tax.

In accordance with Section 59.s) of the CIT Regulations, there is no obligation to withhold on income payable to Spanish CIT taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organized markets in OECD countries. The Issuer will make an application for the Preferred Securities to be traded on the London Stock Exchange's Gilt Edged and Fixed Interest Market prior to the first Distribution Payment Date and, upon admission to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market, the Preferred Securities will fulfill the requirements set forth in the legislation for exemption from withholding.

The Directorate General for Taxation (*Dirección General de Tributos* — "DGT"), on July 27, 2004, issued a ruling indicating that in the case of issues made by entities resident in Spain, as in the case of the Issuer, application of the exemption requires that the Preferred Securities be placed outside Spain in another OECD country. The Issuer considers that the issue of the Preferred Securities will fall within this exemption as the Preferred Securities are to be sold outside Spain and in the international capital markets and none of the entities initially placing the Preferred Securities is resident in Spain. Consequently, the Issuer will not withhold on distributions to Spanish CIT taxpayers that provide relevant information to qualify as such. If the Spanish tax authorities maintain a different opinion on this matter, however, the Issuer will be bound by that opinion and, with immediate effect,

will make the appropriate withholding and the Issuer and the Guarantor will not, as a result, pay additional amounts.

In order to implement the exemption from withholding, the procedures laid down in the Order of December 22, 1999 will be followed. No reduction percentage will be applied. See “—*Evidencing of Beneficial Owner Residency in Connection with Distributions and Income Obtained from the Exchange of Preferred Securities for Exchange Preferred Securities*”.

## **2.2 Net Wealth Tax (*Impuesto sobre el Patrimonio*)**

Spanish legal entities are not subject to the Spanish Net Wealth Tax.

## **2.3 Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)**

Legal entities resident in Spain for tax purposes which acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax but must include the market value of the Preferred Securities in their taxable income for Spanish CIT purposes.

# **3. Individuals and Legal Entities with no Tax Residency in Spain**

## **3.1 Non-Resident Income Tax (*Impuesto sobre la Renta de no Residentes*)**

### *(a) Non-Spanish resident investors acting through a permanent establishment in Spain*

If the Preferred Securities form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Preferred Securities are, generally, the same as those previously set out for Spanish CIT taxpayers. See “—*Legal Entities with Tax Residency in Spain—Corporate Income Tax (*Impuesto sobre Sociedades*)*”. Ownership of the Preferred Securities by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

### *(b) Non-Spanish resident investors not acting through a permanent establishment in Spain*

Both distributions periodically received and income derived from the transfer, redemption or repayment of the Preferred Securities (including imputed income deriving from the exchange of the Preferred Securities in relation to an exchange offer), obtained by individuals or entities who are not resident in Spain for tax purposes and who do not act, with respect to the Preferred Securities, through a permanent establishment in Spain, are exempt from NRIT.

This exemption is not applicable if such income is obtained through countries or territories classified as tax havens, as listed below (being those included in Royal Decree 1080/1991, of July 5, as amended), in which case such income will be subject to NRIT in Spain at the rate of 18% which the Issuer will withhold.

In order to be eligible for the exemption from NRIT, it is necessary to comply with certain information obligations relating to the identity and residence of the Beneficial Owners entitled to receive distributions on the Preferred Securities, in the manner detailed under “—*Evidencing of Beneficial Owner Residency in Connection with Distributions and Income Obtained from the Exchange of Preferred Securities for Exchange Preferred Securities*” as laid down in section 12 of the Royal Decree 2281/1998, as promulgated by Royal Decree 1778/2004. If these information obligations are not complied with in the manner indicated, the Issuer will withhold 18% and the Issuer will not pay additional amounts.

Regarding imputed income derived from the exchange of the Preferred Securities under an exchange offer, the Issuer, if applicable in accordance with the preceding paragraphs, will be required to withhold tax (currently at the rate of 18%) on the difference between the then-

current market value of the securities received and the issuance price of the Preferred Securities delivered by such Beneficial Owners in exchange. In order to withhold such amount, the Issuer will deduct the amount from any net distribution payment made to Beneficial Owners of the Preferred Securities in the exchange offer on or immediately following the settlement date of such an exchange offer (in addition to the withholding tax corresponding to such distribution payment) or in the event that the amount of the withholding tax to be collected pursuant to an exchange operation exceeds the amount of such net distribution payment, the procedure described in section E of Article II of Annex A to this Offering Circular will be followed. According to this procedure, the Issuer will arrange for the sale in the secondary market of an appropriate quantity of securities received upon an exchange of the Preferred Securities under an exchange offer (the “**Exchange Preferred Securities**”) as may be necessary to provide cash in sufficient amounts to meet the relevant Beneficial Owner’s withholding tax liability with respect to the exchange of Preferred Securities for Exchange Preferred Securities. Beneficial Owners (and DTC Participants acting on their behalf) are advised that any transfer or sale of the Exchange Preferred Securities pursuant to the above mentioned procedure may give rise to a taxable income equal to the positive difference between the transfer value of the Exchange Preferred Securities and their acquisition value. Such income will not be subject to withholding tax in Spain unless the relevant transfer or sale is channeled through a Spanish financial entity acting on behalf of the transferor. The above notwithstanding, the non-Spanish resident Beneficial Owner will have to pay the relevant tax quota, if any, on the income deriving from the transfer or sale of the Exchange Preferred Securities unless the exemption described in the preceding paragraphs applies.

The Issuer believes that the filing with the SEC of a shelf registration statement in order to allow public sales of the Preferred Securities in the United States and to U.S. persons will not entail the existence of a taxable event (i.e., exchange) under Spanish tax law, either at the time of filing the shelf registration statement or at the time of any resale of the Preferred Securities. Nevertheless, the resale of the Preferred Securities under a shelf registration statement will be treated for Spanish tax purposes as any other transfer of such securities, with the tax consequences described in the preceding paragraphs.

Payments of liquidated damages as provided under “*Exchange Offer And Registration Rights*” of this Offering Circular may be characterized as an indemnity under Spanish law and therefore should be made free of withholding or deduction on account of Spanish taxes. This notwithstanding, non-Spanish resident Beneficial Owners that receive payments of liquidated damages will have to pay the corresponding tax on the gross amount of income obtained unless an exemption from Spanish tax or a reduced tax rate is provided by the Spanish law or by an applicable convention for the avoidance of double taxation entered into by Spain and such Beneficial Owner’s country of residence. The Issuer believes that under the convention for the avoidance of double taxation entered into between the United States and Spain, income in respect of liquidated damages payments obtained by Beneficial Owners that are resident in the United States for the purposes of such convention and entitled to its benefits may be treated as “Other Income” and therefore may only be subject to tax in the United States.

Beneficial Owners not resident in Spain for tax purposes and entitled to exemption from NRIT who do not timely provide evidence of their tax residency in accordance with the procedure described in detail below, may obtain a refund of the amount withheld from the Issuer by following a quick refund procedure or, otherwise, directly from the Spanish tax authorities by following the standard refund procedure described below under “—Evidencing of Beneficial Owner Residency in Connection with Distributions and Income Obtained from the Exchange of Preferred Securities for Exchange Preferred Securities”. Beneficial Owners who have been subject to Spanish withholding tax on income derived from (i) the repayment of principal at any date of redemption of Preferred Securities issued with original issue discount (“**OID**”) or (ii) the exchange of the Preferred Securities in relation to an exchange offer, may obtain a refund of the amount withheld directly from the Spanish tax authorities. Beneficial Owners are

advised to consult their own tax advisers regarding their eligibility to claim a refund from the Spanish tax authorities and the procedures to be followed in such circumstances.

### **3.2 *Net Wealth Tax (Impuesto sobre el Patrimonio)***

To the extent that income derived from Preferred Securities is exempt from NRIT, individual Beneficial Owners not resident in Spain for tax purposes who own interests in such Preferred Securities on the last day of any year will be exempt from Net Wealth Tax. Furthermore, individual Beneficial Owners resident in a country with which Spain has entered into a double tax treaty in relation to Net Wealth Tax that provides for taxation in such Beneficial Owner's country of residence will not be subject to such tax.

If the provisions of the foregoing two sentences do not apply, individuals not resident in Spain for tax purposes who own interests in Preferred Securities on the last day of any year will be subject to the Spanish Net Wealth Tax at marginal rates currently varying between 0.2% and 2.5% of the quoted average value of the Preferred Securities during the last quarter of the year during which such Preferred Securities were held.

Non-Spanish resident legal entities are not subject to the Spanish Net Wealth Tax.

### **3.3 *Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)***

Individuals not resident in Spain for tax purposes who acquire ownership or other rights over Preferred Securities by inheritance, gift or legacy, will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and state rules, unless they reside in a country for tax purposes with which Spain has entered into a double tax treaty in relation to Inheritance Tax. In such case, the provisions of the relevant double tax treaty will apply.

Non-Spanish resident legal entities which acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax. Such acquisitions will be subject to NRIT (as described above), without prejudice to the provisions of any applicable double tax treaty entered into by Spain. In general, double tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

## **4. Tax Rules for Preferred Securities not Listed on an Organized Market in an OECD Country**

### **4.1 *Withholding on Account of IIT, CIT and NRIT***

If the Preferred Securities are not listed on an organized market in an OECD country on any Distribution Payment Date, distributions to Beneficial Owners in respect of the Preferred Securities will be subject to withholding tax at the current rate of 18%, except if an exemption from Spanish tax or a reduced withholding tax rate is provided by the Spanish law or by an applicable convention for the avoidance of double taxation entered into between Spain and the country of residence of the relevant Beneficial Owner. Individuals and entities that may benefit from such exemptions or reduced tax rates would have to follow either the “—*Quick Refund Procedures*” or the “—*Direct Refund Procedure*” described below under “—*Evidencing of Beneficial Owner Residency in Connection with Distributions and Income Obtained from the Exchange of Preferred Securities for Exchange Preferred Securities*” in order to obtain a refund of the amounts withheld.

### **4.2 *Net Wealth Tax (Impuesto sobre el Patrimonio)***

If the Preferred Securities are not listed on an organized market in an OECD country on the last day of any year, individuals (whether or not resident in Spain for tax purposes) holding Preferred Securities on the last day of any such year will be subject to the Spanish Net Wealth Tax for such year, unless in the case of individual investors not resident in Spain for tax purposes a double tax treaty applies, at marginal rates currently varying between 0.2% and 2.5% of the face value of the Preferred Securities held, with an exempt amount (for individuals resident in Spain for tax purposes) established

by the competent autonomous community (*comunidad autónoma*), or €108,182.18 if no exempt amount is established.

## 5. Tax Rules for Payments Made by the Guarantor

Payments made by the Guarantor to securityholders will be subject to the same tax rules previously set out for payments made by the Issuer.

## 6. Tax Havens

Pursuant to Royal Decree 1080/1991, of July 5, as amended, the following are each considered to be a tax haven:

Aruba,	Islands of Antigua and	Republic of Seychelles,
British Virgin Islands,	Barbuda,	Republic of Singapore,
Channel Islands (Jersey and	Isle of Man,	Republic of Trinidad and Tobago,
Guernsey),	Jamaica,	Republic of Vanuatu,
Falkland Islands,	Kingdom of Bahrain,	Saint Lucia,
Fiji Islands,	Macao,	Saint Vincent & the Grenadines
Gibraltar,	Marianas Islands,	Solomon Islands,
Grand Duchy of Luxembourg	Mauritius,	Sultanate of Brunei,
Area	Montserrat,	Sultanate of Oman,
(only as regards the income	Netherlands Antilles,	The Bahamas,
received by the Companies	Principality of Andorra,	The Bermuda Islands,
referred to in paragraph 1 of the	Principality of Liechtenstein,	The Cook Islands,
Protocol annexed to the	Principality of Monaco,	The Island of Anguila,
Avoidance of Double Taxation	Republic of Cyprus,	The Island of Barbados,
Treaty, dated 3rd June 1986	Republic of Lebanon,	The Republic of Dominica,
entered into by Spain and	Republic of Liberia,	Turks and Caicos Islands,
Luxembourg),	Republic of Nauru,	and
Grenada,	Republic of Panama,	Virgin Islands (of the United
Hashemite Kingdom of Jordan,	Republic of San Marino,	States).
Hong-Kong,		

## 7. Evidencing of Beneficial Owner Residency in Connection with Distributions and Income Obtained from the Exchange of Preferred Securities for Exchange Preferred Securities

As described under “*Taxation — Spanish Tax Considerations—Individual and Legal Entities with no Tax Residency in Spain*”, interest and other financial income (such as imputed income derived from the exchange of Preferred Securities for Exchange Preferred Securities) paid with respect to the Preferred Securities for the benefit of non-Spanish resident investors not acting, with respect to the Preferred Securities, through a permanent establishment in Spain will not be subject to Spanish withholding tax unless such non-Spanish resident investor is resident in, or obtains income through, a “tax haven” territory (as defined in Royal Decree 1080/1991, of July 5, as amended) or fails to comply with the relevant tax information procedures.

The information obligations to be complied with in order to apply the exemption are those laid down in Section 12 of the Spanish Royal Decree 2281/1998 (“**Section 12**”), as amended by Royal Decree 1778/2004, being the following:

In accordance with sub-section 1 of Section 12, an annual return must be filed with the Spanish tax authorities, by the Guarantor, specifying the following information with respect to the Preferred Securities:



- (A) the identity and country of residence of the recipient of the income on the Preferred Securities (when the income is received on behalf of a third party (i.e., a beneficial owner), the identity and country of residence of that third party);
- (B) the amount of income received; and
- (C) details identifying the Preferred Securities.

In accordance with sub-section 3 of Section 12, for the purpose of preparing the annual return referred to in sub-section 1 of Section 12, certain documentation regarding the identity and country of residence of the Beneficial Owners obtaining income on the Preferred Securities must be submitted to the Issuer and the Guarantor by each relevant Distribution Payment Date, as specified in more detail in Annexes A and B to this Offering Circular.

In addition to the above, as described under “*Taxation—Spanish Tax Considerations—Legal Entities with Tax Residency in Spain—Corporate Income Tax (Impuesto sobre Sociedades)*”, Spanish CIT taxpayers will not be subject to withholding tax on income derived from the Preferred Securities, provided that Qualified Institutions (as defined below) acting on behalf of such CIT taxpayers provide relevant information to qualify as such by each relevant Distribution Payment Date.

In light of the above, the Issuer, the Guarantor, the Paying Agent, DTC and Acupay have arranged certain procedures to facilitate the collection and verification of information concerning the identity and country of residence of Beneficial Owners (either non-Spanish resident or CIT taxpayers) holding through a Qualified Institution (as defined below) through and including each relevant Distribution Payment Date. The delivery of such information, while the Preferred Securities are in global form, will be made through the relevant direct or indirect participants in DTC. The Issuer will withhold at the then-applicable rate (currently 18%) from any distribution payment or imputed income derived from the exchange of Preferred Securities for Exchange Preferred Securities as to which the required information has not been provided or the required procedures have not been followed.

The procedures set forth under “*—Tax Relief at Source Procedure*” (see Article I and II of Annex A to this Offering Circular) are intended to identify Beneficial Owners who are (i) corporations resident in Spain for tax purposes, or (ii) individuals or legal entities not resident in Spain for tax purposes, that do not act with respect to the Preferred Securities through a permanent establishment in Spain and that are not resident in, and do not obtain income deriving from the Preferred Securities through, a country or territory defined as a tax haven jurisdiction by Royal Decree 1080/1991, of July 5, as amended.

These procedures are designed to facilitate the collection of certain information concerning the identity and country of residence of the Beneficial Owners mentioned in the preceding paragraph (who therefore are entitled to receive income in respect of the Preferred Securities free and clear of Spanish withholding taxes) who are participants in DTC or hold their interests through participants in DTC, provided in each case, that the relevant DTC participant is a central bank, other public institution, international organization, bank, credit institution or financial entity, including collective investment institutions, pension fund or insurance entity, resident either in an OECD country (including the United States) or in a country with which Spain has entered into a double taxation treaty subject to a specific administrative registration or supervision scheme (each, a “**Qualified Institution**”).

Beneficial Owners who are entitled to receive income in respect of the Preferred Securities free of any Spanish withholding taxes but who do not hold their Preferred Securities through a Qualified Institution will have Spanish withholding tax withheld from distribution payments and other financial income paid with respect to their Preferred Securities at the then-applicable rate (currently 18%). Beneficial Owners who do not hold their Preferred Securities through a Qualified Institution can follow the “*—Quick Refund Procedures*” set forth in Article III of Annex A or the “*—Direct Refund from Spanish Tax Authorities Procedure*” set forth in Article II of Annex B, in order to have such withheld amounts refunded.



A detailed description of these procedures is set forth in Annex A and Annex B to this Offering Circular.

Beneficial Owners, their custodians or DTC participants with questions about these Spanish tax information reporting and withholding procedures may contact Acupay at one of the following locations. Please mention the CUSIP and ISIN for the Preferred Securities (which are set forth under “*Subscription and Sale*”) when contacting Acupay. There is no cost for this assistance.

Via email:  
info@acupaysystem.com

**By post, telephone or fax:**

IN LONDON:  
Acupay System LLC  
Attention: Maria Mercedes  
First Floor  
28 Throgmorton Street  
London EC2N 2AN  
United Kingdom  
Tel. 44-(0)-207-382-0340  
Fax. 44-(0)-207-256-7571

IN NEW YORK:  
Acupay System LLC  
Attention: Rosa Lopez  
30 Broad Street — 46th Floor  
New York, N.Y. 10004  
USA  
Tel. 1-212-422-1222  
Fax. 1-212-422-0790

**8. EU Savings Directive**

Under EC Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being 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 agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

## U.S. Federal Income Tax Considerations

**This disclosure is limited to the U.S. federal tax issues addressed herein. Additional issues may exist that are not addressed in this disclosure and that could affect the U.S. federal tax treatment of the Preferred Securities. This tax disclosure was written in connection with the promotion or marketing of the Preferred Securities by the Issuer and the Guarantor, and it cannot be used by any holder for the purpose of avoiding penalties that may be asserted against the holder under the Internal Revenue Code of 1986, as amended (the “Code”). Holders should seek their own advice based on their particular circumstances from an independent tax adviser.**

The following is a discussion of certain U.S. federal income tax consequences of purchasing, owning and disposing of Preferred Securities to U.S. Holders (defined below), but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a particular person’s decision to acquire such securities. This discussion does not address U.S. state or local or non-U.S. tax consequences. The discussion applies only to U.S. Holders (defined below) who hold Preferred Securities as capital assets for U.S. federal income tax purposes and it does not address special classes of holders, such as:

- certain financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- dealers and certain traders in securities or foreign currencies;
- persons holding Preferred Securities as part of a hedge, straddle, conversion or integrated transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- persons liable for the alternative minimum tax;
- tax-exempt organizations; or
- persons that own or are deemed to own 10% or more of the Issuer’s capital; or
- persons carrying on a trade or business in Spain through a permanent establishment.

This discussion is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. Prospective investors should consult their own tax advisers concerning the U.S. federal, state and local and non-U.S. tax consequences of purchasing, owning and disposing of Preferred Securities in their particular circumstances.

As used herein, a “**U.S. Holder**” is a beneficial owner of Preferred Securities, for U.S. federal income tax purposes, that is: (i) a citizen or resident of the United States; (ii) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

### *Taxation of Distributions*

Subject to the discussion under “*Passive Foreign Investment Company Rules*” below, distributions received by a U.S. Holder on Preferred Securities will constitute dividend income to the extent paid out of the Issuer’s current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Corporate U.S. Holders will not be entitled to claim the dividends-received deduction with respect to dividends paid by the Issuer. Subject to applicable limitations, favorable rates of tax, up to a maximum of 15% will apply to

dividends paid on the Preferred Securities received by certain non-corporate U.S. Holders only if more than 50% of each class of the Issuer's stock, including the Preferred Securities, is directly or indirectly owned by certain residents of Spain and the United States that are eligible for the benefits of the U.S./Spain income tax treaty, and citizens of the United States. Non-corporate U.S. Holders should consult their own tax advisers to determine the application of the favorable tax rates, including whether they are subject to special rules that limit their ability to be taxed at these favorable rates.

Bills have been introduced in both the U.S. House and the U.S. Senate which would, if enacted, deny the favorable tax rates described in the preceding paragraph for dividends paid in respect of certain securities, including any securities, such as the Preferred Securities, where the issuer of the securities is allowed a deduction under the tax laws of a foreign country with respect to such dividend. The proposed legislation would apply to dividends received after the date of its enactment. It is not possible to predict whether the proposed legislation will be enacted, either in its present form or any other form. Non-corporate U.S. Holders should consult their own tax advisers with respect to the potential enactment of currently proposed legislation and its application in their particular circumstances.

Distributions with respect to the Preferred Securities will generally constitute foreign-source income, which may be relevant to a U.S. Holder in calculating the holder's foreign tax credit limitation. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income.

#### *Sale and Other Disposition of the Shares*

Subject to the discussion under "Passive Foreign Investment Company Rules" below, a U.S. Holder will generally recognize capital gain or loss on the sale or other disposition of Preferred Securities, which will be long-term capital gain or loss if the holder has held such Preferred Securities for more than one year. The amount of the U.S. Holder's gain or loss will be equal to the difference between the amount realized on the sale or other disposition and such holder's tax basis in the Preferred Securities, and will generally be U.S.-source income for purposes of computing the holder's foreign tax credit limitation.

#### *Passive Foreign Investment Company Rules*

Based upon certain look-through rules applicable to related parties and proposed Treasury regulations which are not yet in effect but are proposed to become effective for taxable years beginning after December 31, 1994 (the "**Proposed Regulations**"), the Issuer believes that it was not a passive foreign investment company (a "**PFIC**") for U.S. federal income tax purposes for its most recent taxable year and does not expect to be considered a PFIC in the foreseeable future. However, because there can be no assurance that the Proposed Regulations will be finalized in their current form and because PFIC status depends upon the composition of a company's income and assets and the market value of its assets from time to time, there can be no assurance that the Issuer will not be considered a PFIC for any taxable year. If the Issuer were a PFIC for any year in which a U.S. Holder held Preferred Securities, certain adverse U.S. federal income tax consequences could apply to the U.S. Holder, which may be mitigated if the holder makes certain U.S. federal income tax elections. The Issuer and the Bank will use reasonable efforts to operate the Issuer in such a manner that the Issuer does not become a PFIC. If the Issuer concludes that it is a PFIC for any taxable year, it will promptly inform U.S. Holders of such conclusion and provide such information as is reasonably required in order to enable the holders to satisfy relevant U.S. federal income tax reporting requirements arising as a result of the Issuer's PFIC status and to make available certain U.S. federal income tax elections.

If a U.S. Holder owns Preferred Securities during any year in which the Issuer is a PFIC, the holder must file an Internal Revenue Service Form 8621. In addition, if the Issuer were a PFIC for a taxable year in which it paid a dividend or the prior taxable year, the favorable tax rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply.

#### *Information Reporting and Backup Withholding*

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and to backup withholding unless the U.S. Holder is a corporation or other exempt recipient or, in the case of backup withholding, the holder

provides a correct taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

## SUBSCRIPTION AND SALE

Lehman Brothers Inc., referred to as the initial purchaser, has agreed, subject to the terms and conditions of the purchase agreement, dated as of March 29, 2007, among the initial purchaser, the Issuer and the Bank (the “**Purchase Agreement**”), to purchase from the Issuer, the Issuer has agreed to sell, and the Bank has agreed to cause the Issuer to sell, to the initial purchaser, the Preferred Securities. Banco Bilbao Vizcaya Argentaria, S.A. is acting as joint lead manager with no underwriting commitment. The CUSIP and ISIN numbers of the Preferred Securities are 05530RAA6 and US05530RAA68, respectively.

The issue price is 100% plus accrued distributions, if any, from April 18, 2007. After the initial offering of the Preferred Securities, the initial purchaser may from time to time vary the offering price and other selling terms.

The Purchase Agreement provides that the obligation of the initial purchaser to pay for and accept delivery of the Preferred Securities is subject to certain conditions, including satisfactory completion of its diligence investigation, satisfactory completion of documentation, and delivery of certain legal opinions by legal counsel.

Under the terms and conditions of the Purchase Agreement, the initial purchaser is committed to take and pay for all of the Preferred Securities if any are taken and has agreed to resell such Preferred Securities to purchasers as described herein and under “*Transfer Restrictions*.”

The Issuer and the Bank have agreed to indemnify the initial purchaser against certain liabilities, including liabilities under the Securities Act, or to contribute to payments which the initial purchaser may be required to make in respect of any such liabilities.

The initial purchaser proposes to resell the Preferred Securities purchased by it only (i) to QIBs in transactions meeting the requirements of Rule 144A under the Securities Act and (ii) in minimum resales of 100 Preferred Securities.

None of the Preferred Securities have been registered under the Securities Act or any state securities laws and, unless so registered, they may not be offered or sold, except pursuant to an exemption from, or in a transaction not subject to, the requirements of the Securities Act and applicable state securities laws. See “*Transfer Restrictions*.”

There is no established trading market for the Preferred Securities. The Issuer and the Bank do not intend to list the Preferred Securities on any U.S. national securities exchange. The Issuer and the Bank have been advised by the initial purchaser that it currently intends to make a market in the Preferred Securities. The initial purchaser is not obligated to do so, however, and market-making activities with respect to the Preferred Securities may be discontinued at any time without notice in its sole discretion. In addition, any market-making activities will be subject to the limits imposed by the Securities Act and the Exchange Act, and may be limited during the exchange offer and the pendency of any Shelf Registration Statement. Accordingly, no assurance can be given that an active market will develop for the Preferred Securities or as to the liquidity of the trading market for the Preferred Securities.

In connection with the offering, the initial purchaser may engage in certain transactions that stabilize the price of the Preferred Securities. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Preferred Securities. If the initial purchaser creates a short position in the Preferred Securities in connection with the offering, by selling more Preferred Securities than are listed on the cover page of this offering circular, then the initial purchaser may reduce that short position by purchasing Preferred Securities in the open market. In general, the purchase of a security for the purpose of stabilization or reducing a short position could cause the price of that security to be higher than it might otherwise be in the absence of these purchases.

None of the Issuer, the Bank or the initial purchaser makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Preferred Securities. These activities by the initial purchaser may stabilize, maintain or otherwise affect the market price of the Preferred Securities. As a result, the price of the Preferred Securities may be higher than the price

that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the initial purchaser at any time. These transactions may be effected in the over-the-counter market or otherwise. In addition, none of the Issuer, the Bank or the initial purchaser makes any representation that anyone will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

In the ordinary course of its business, the initial purchaser and its affiliates have engaged, may currently be engaging in, and may in the future engage in commercial banking and/or investment banking transactions or perform advisory and other services for the Issuer and the Bank and their affiliates for which the initial purchaser and its affiliates may receive compensation.

It is expected that delivery of the Preferred Securities will be made against payment therefor on or about the Closing Date specified on the cover page of this offering circular, which is expected to be the fifth New York Business Day following the date of this offering circular. Under Rule 15c6-1 of the SEC under the Exchange Act, trades in the secondary market generally are required to settle in three New York Business Days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Preferred Securities prior to April 13, 2007 will be required to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Preferred Securities who wish to trade the Preferred Securities prior to April 13, 2007 should consult their own advisor.



## TRANSFER RESTRICTIONS

Because the following restrictions will apply with respect to the Preferred Securities, purchasers of the Preferred Securities are advised to consult legal counsel prior to making an offer, resale, pledge or transfer of any of the Preferred Securities.

We have not registered the Preferred Securities under the Securities Act or the laws of any state securities commission and, therefore, the Preferred Securities may not be offered or sold 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 in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, we are offering and selling the Preferred Securities only to QIBs in compliance with Rule 144A under the Securities Act.

If you purchase the Preferred Securities, you will be deemed to have acknowledged, represented and agreed with the initial purchaser, the Issuer and the Guarantor as follows:

- (1) You understand and acknowledge that the Preferred Securities and the Guarantee have not been registered under the Securities Act or any other applicable securities law and that the Preferred Securities are being offered for resale in transactions not requiring registration under the Securities Act or any other securities law, including sales pursuant to Rule 144A under the Securities Act, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities law, or pursuant to an exemption therefrom or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.
- (2) You are not an “affiliate” (as defined in Rule 144 under the Securities Act) of the Issuer or the Guarantor and you are not acting on our or their behalf and you are a QIB and are aware that any sale of Preferred Securities to you will be made in reliance on Rule 144A and such acquisition will be for your own account or for the account of another QIB.
- (3) You acknowledge that none of the Issuer, the Guarantor or the initial purchaser, or any person representing the Issuer, the Guarantor or the initial purchaser, has made any representation to you with respect to the Issuer, the Guarantor or the offer or sale of any of the Preferred Securities, other than the information contained or incorporated by reference in this Offering Circular, which has been delivered to you and upon which you are relying in making your investment decision with respect to the Preferred Securities. You acknowledge that the initial purchaser makes no representation or warranty as to the accuracy or completeness of this Offering Circular. You have had access to such financial and other information concerning the Issuer, the Guarantor, the Preferred Securities and the Guarantee, including an opportunity to ask questions of and request information from the initial purchaser, the Issuer and the Guarantor.
- (4) You are purchasing the Preferred Securities for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Preferred Securities, and each subsequent holder of the Preferred Securities by its acceptance thereof will agree, to offer, sell or otherwise transfer such Preferred Securities prior to (x) the date which is two years (or such shorter period of time as permitted by Rule 144(k) under the Securities Act or any successor provision thereunder) after the date of the original issue of the Preferred Securities and the last date on which we or any affiliate of the Issuer was the owner of such Preferred Securities (or any predecessor thereto) or (y) such later date, if any, as may be required by applicable law (the “**Resale Restriction Termination Date**”), only (a) to the Issuer or the Guarantor, (b) pursuant to a registration statement which has been declared effective under the Securities Act, (c) for so long as the Preferred Securities are eligible for resale pursuant to Rule 144A, to a person you reasonably believe is a QIB that

purchases for its own account or for the account of another QIB to whom you give notice that the transfer is being made in reliance on Rule 144A, (d) pursuant to offers and sales to non-U.S. persons occurring outside the United States within the meaning of Regulation S, or (e) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to compliance with any applicable state securities laws. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date. You acknowledge that we reserve the right prior to any offer, sale or other transfer of the Preferred Securities pursuant to clauses (d) or (e) above, to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Issuer.

Each purchaser acknowledges that each Preferred Security will contain a legend substantially in the following form:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES THAT IT WILL NOT PRIOR TO (X) THE DATE WHICH IS TWO YEARS (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144(K) UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ORIGINAL ISSUE DATE THEREOF (OR OF ANY PREDECESSOR OF THIS PREFERRED SECURITY) OR THE LAST DAY ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WERE THE OWNERS OF THIS PREFERRED SECURITY (OR ANY PREDECESSOR OF THIS PREFERRED SECURITY) AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW (THE “**RESALE RESTRICTION TERMINATION DATE**”), OFFER, SELL OR OTHERWISE TRANSFER THIS PREFERRED SECURITY EXCEPT (A) TO THE ISSUER OR THE GUARANTOR, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, (D) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTICE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; PROVIDED THAT THE ISSUER SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D) OR (E) ABOVE, TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. AS USED HEREIN, THE TERMS “OFFSHORE

TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.”

- (5) If you purchase the Preferred Securities, you will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in the Preferred Securities as well as to holders of the Preferred Securities.
- (6) You acknowledge that the registrar will not be required to accept for registration of transfer any Preferred Securities acquired by you, except upon presentation of evidence satisfactory to the Issuer that the restrictions set forth herein have been complied with.
- (7) You acknowledge that:
  - (a) the Issuer, the Guarantor, the initial purchaser and others will rely upon the truth and accuracy of your acknowledgements, representations and agreements set forth herein and you agree that, if any of your acknowledgements, representations or agreements herein cease to be accurate and complete, you will notify the Issuer, the Guarantor and the initial purchaser promptly in writing; and
  - (b) if you are acquiring any Preferred Securities as fiduciary or agent for one or more investor accounts, you represent with respect to each such account that:
    - (i) you have sole investment discretion; and
    - (ii) you have full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account and that each such investment account is eligible to purchase the Preferred Securities.
- (8) You agree that you will give to each person to whom you transfer the Preferred Securities notice of any restrictions on the transfer of the Preferred Securities.
- (9) You understand that no action has been taken in any jurisdiction (including the United States) by the Issuer, the Guarantor or the initial purchaser that would permit a public offering of the Preferred Securities or the possession, circulation or distribution of this Offering Circular or any other material relating to the Issuer, the Guarantor or the Preferred Securities in any jurisdiction where action for that purpose is required. Consequently, any transfer of the Preferred Securities will be subject to the selling restrictions set forth under “Transfer Restrictions”.
- (10) Each purchaser and subsequent transferee of a Preferred Security will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire and hold the Preferred Securities constitutes assets of any employee benefit plan subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), any plan, individual retirement account or other arrangement subject to section 4975 of the Code or provisions under any federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code, or any entity whose underlying assets are considered to include “plan assets” of any such plan, account or arrangement or (ii) the purchase and holding of the Preferred Securities by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation under any applicable similar law.

## **VALIDITY OF THE PREFERRED SECURITIES**

Certain legal matters will be passed upon for us by Davis Polk & Wardwell with respect to U.S. federal and New York law. The validity of the Preferred Securities will be passed upon for us by Garrigues, Abogados y Asesores Tributarios as to matters of Spanish law. Certain matters will be passed upon for the initial purchaser by Sidley Austin, as to matters of U.S. federal and New York law and Uría Menéndez, as to matters of Spanish law.

## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The consolidated financial statements of the BBVA Group as of and for the years ended December 31, 2006, 2005 and 2004 included in the Form 20-F filed with the SEC on March 30, 2007 and incorporated into this Offering Circular by reference, have been audited by Deloitte, S.L., BBVA's independent auditors.

## GENERAL INFORMATION

1. The creation and issue of the Preferred Securities has been authorised by (i) the shareholders' meetings of the Issuer, held on March 29, 2007 and (ii) the meeting of the Board of Directors (*Consejo de Administración*) of the Issuer, held on March 29, 2007. The giving of the Guarantee of the Preferred Securities has been authorised by a resolution of the Board of Directors (*Consejo de Administración*) of the Guarantor, dated June 1, 2006.
2. None of the Issuer, the Guarantor or any of the Guarantor'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 Issuer, the Guarantor or any of the Guarantor'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 Issuer or the Group.
3. There has been no significant change in the financial or trading position and no material adverse change in the financial position or prospects of the Issuer since December 31, 2006. There has been no significant change in the financial or trading position of the Guarantor and its subsidiaries since December 31, 2006 and there has been no material adverse change in the financial position or prospects of the Guarantor and its subsidiaries since December 31, 2006.
4. For so long as any of the Preferred Securities are outstanding, copies of the following documents (together with English translations, where applicable) may be inspected during normal business hours at the specified office of the Guarantor and the Paying Agent:
  - (a) the *estatutos* of each of the Issuer and the Guarantor;
  - (b) the audited non-consolidated financial statements of the Issuer as at, and for the year ended December 31, 2006;
  - (c) the audited consolidated financial statements of the Guarantor as at, and for the years ending December 31, 2006 and December 31, 2005;
  - (d) the Registration Rights Agreement;
  - (e) the Guarantee;
  - (f) the Agency Agreement; and
  - (g) the Purchase Agreement.
5. The Guarantor publishes quarterly unaudited consolidated interim financial statements. The Guarantor does not publish unconsolidated interim financial statements. The Issuer publishes unconsolidated audited financial statements on an annual basis. The Issuer does not and will not publish interim financial statements.
6. The auditors of the Issuer, the Guarantor and the Group are Deloitte, S.L., registered as auditors on the *Registro Oficial de Auditores de Cuentas*, who have audited the financial statements of the Guarantor and of the Group for each of the three financial years ended December 31, 2004, which have been prepared in accordance with Spanish generally accepted accounting principles, and for both December 31, 2005 and 2006, which have been prepared in accordance with IFRS. The auditors of the Issuer, the Guarantor and the Group have no material interest in the Issuer, the Guarantor or the Group.
7. The Preferred Securities have been accepted for clearance through DTC. The address of DTC is The Depository Trust & Clearing Corporation, 55 Water Street, New York, NY 10041. The ISIN is US05530RAA68 and the CUSIP Number is 05530RAA6. DTC is expected to follow certain procedures to facilitate the Issuer, the Guarantor, Acupay and the Paying Agent in the collection of the details referred to above from holders of the Preferred Securities. If DTC is unable to facilitate the collection of such information, the Issuer may attempt to remove the Preferred Securities from DTC and this may affect the liquidity of the Preferred Securities. Provisions have been made for the

Preferred Securities to be represented by certificated Preferred Securities in the event that the Preferred Securities cease to be held through DTC. The procedures contained in this offering memorandum may be amended to comply with Spanish laws and regulations and the operational requirements of DTC.

8. The Issuer does not intend to provide any post-issuance information in relation to the issue of the Preferred Securities.
9. The yield on the Preferred Securities until the Reset Date is 5.919% per annum.
10. The total expenses related to the admission to trading of the Preferred Securities on the London Stock Exchange's Gilt-Edged and Fixed Interest Market equal approximately Euro 6,600.



## ANNEX A

### Procedures for Spanish Withholding Tax Documentation For Preferred Securities Held Through an Account at The Depository Trust Company

#### Article I

#### **Tax Relief at Source Procedure (procedure that complies with Spanish Law 13/1985 (as amended by Law 19/2003 and Law 23/2005) and Royal Decree 2281/1998 (as amended by Royal Decree 1778/2004))**

##### **A. DTC Participant Submission and Maintenance of Beneficial Owner Information**

1. At least five New York Business Days prior to each Record Date preceding a distribution payment date on the Preferred Securities (each, a **“Distribution Payment Date”**), the Issuer shall provide an Issuer announcement to the Paying Agent, and the Paying Agent shall, (a) provide The Depository Trust Company (**“DTC”**) with such Issuer announcement that will form the basis for a DTC important notice (the **“Important Notice”**) regarding the relevant distribution payment and tax relief entitlement information for the Preferred Securities, (b) request DTC to post such Important Notice on its website as a means of notifying direct participants of DTC (**“DTC Participants”**) of the requirements described in this Annex A and B, and (c) with respect to each Floating Rate Distribution Payment Date, in its capacity as the Calculation Agent, confirm to Acupay the Floating Distribution Rate and the number of days in the relevant Preferred Securities Floating Rate Distribution Period and verify through the designated system established and maintained by Acupay (the **“Acupay System”**) that Acupay has received the Floating Distribution Rate and the number of days in the relevant Preferred Securities Floating Rate Distribution Period correctly. A **“New York Business Day”** means any day other than a Saturday or Sunday or a day on which banking institutions or trust companies in the City of New York are required or authorized by law, regulation or executive order to close.
2. Beginning on the New York Business Day following each Record Date and continuing until 8:00 p.m. New York time on the fourth New York Business Day prior to each Distribution Payment Date (the **“Standard Deadline”**), each DTC Participant must (i) enter directly into the Acupay System the Beneficial Owner identity and residence information required by Spanish tax law (as set forth in Article I of Annex B) in respect of the portion of such DTC Participant’s position in the Preferred Securities that is exempt from Spanish withholding tax (the **“Beneficial Owner Information”**) and (ii) make an election via the DTC Elective Dividend Service (**“EDS”**) certifying that such portion of Preferred Securities for which it submitted such Beneficial Owner Information is exempt from Spanish withholding tax (the **“EDS Election”**).
3. Each DTC Participant must ensure the continuing accuracy of the Beneficial Owner Information and EDS Election, irrespective of any changes in, or in beneficial ownership of, such DTC Participant’s position in the Preferred Securities through 8:00 p.m. New York time on the New York Business Day immediately preceding each Distribution Payment Date by making adjustments through the Acupay System and EDS. All changes must be reflected, including those changes (via Acupay), which do not impact the DTC Participant’s overall position at DTC or the portion of that position at DTC as to which no Spanish withholding tax is being assessed.

##### **B. Tax Certificate Production and Execution**

After entry of Beneficial Owner Information into the Acupay System by a DTC Participant, the Acupay System will produce completed forms of Exhibit I, Exhibit II or Exhibit III to Annex B (as required by Spanish law) (the **“Distribution Payment Tax Certificates”**), which shall summarize the Beneficial Owner Information introduced and maintained by such DTC Participant into the Acupay System. When any Distribution Payment Date is also the redemption date for the Preferred Securities, and if the Preferred Securities were initially issued below par with an original issue discount (**“OID”**), a separate set of Tax Certificates (the **“OID Tax Certificates”**) and together with the Distribution Payment Tax Certificates, the

**“Tax Certificates”**) will be generated by the Acupay System reporting income resulting from the payment of OID at redemption. Such DTC Participant will then be required to (i) print out, (ii) review, (iii) sign and (iv) fax or send by email a PDF copy of the duly signed Tax Certificates directly to Acupay for receipt by the close of business on the Standard Deadline. The original of each Tax Certificate must be sent to Acupay for receipt no later than the 15th calendar day of the month immediately following the Distribution Payment Date. All Tax Certificates will be dated as of the relevant Distribution Payment Date.

**NOTE: A DTC Participant that obtains favorable tax treatment through this relief at source procedure and fails to submit to Acupay the original physical Tax Certificates as described above may be prohibited by the Issuer from using this procedure to obtain favorable tax treatment for future payments. In such event, the DTC Participant will receive any future distribution payment on their entire position net of the applicable Spanish withholding tax (currently at the rate of 18%) and relief will need to be obtained directly from the Spanish tax authorities by following the direct refund procedure established by Spanish tax law.**

### **C. Additional Acupay and DTC Procedures**

1. In addition to its other duties and obligations set forth herein, Acupay will be responsible for the following tasks (collectively, the **“Acupay Verification Procedures”**):
  - (a) comparing the Beneficial Owner Information and Tax Certificates provided in respect of each DTC Participant’s position with the EDS Elections provided by that DTC Participant in order to determine whether any discrepancies exist between such information, the corresponding EDS Elections and the DTC Participant’s position in the Preferred Securities at DTC;
  - (b) collecting and collating all original Tax Certificates received from DTC Participants;
  - (c) reviewing the Beneficial Owner Information and the Tax Certificates using appropriate methodology in order to determine whether the requisite fields of Beneficial Owner Information have been supplied and that such fields of information are responsive to the requirements of such Tax Certificates in order to receive payments without Spanish withholding tax being assessed; and
  - (d) liaising with the DTC Participants in order to request that such DTC Participants:
    - (i) complete any missing or correct any erroneous Beneficial Owner Information identified pursuant to the procedures set forth in (a) and (c) above,
    - (ii) correct any erroneous EDS Election identified pursuant to the procedures set forth in (a) and (c) above, and
    - (iii) revise any Tax Certificates identified pursuant to the procedures set forth in (a) and (c) above as containing incomplete or inaccurate information.

### **D. Updating and Verification of Beneficial Owner Information**

1. By 9:30 a.m. New York time on the New York Business Day following the Standard Deadline, DTC will transmit to Acupay an **“EDS Standard Cut-off Report”** confirming DTC Participant positions and EDS Elections as of the Standard Deadline. By 12:00 p.m. New York time on the New York Business Day following the Standard Deadline, Acupay will transmit to DTC a provisional summary report of all Beneficial Owner Information which has been submitted through the Acupay System as of the Standard Deadline, provisionally confirmed, to the extent possible, against the information set forth in the EDS Standard Cut-off Report. The provisional summary report shall set forth (i) the position in the Preferred Securities held by each DTC Participant as of the Standard Deadline and (ii) the portion of each DTC Participant’s position in the Preferred Securities in respect of which Tax Certificates have been provided to support the payment of cash distribution without Spanish withholding tax being assessed.

2. DTC Participants will be required to ensure that Beneficial Owner Information entered into the Acupay System and the EDS Elections are updated to reflect any changes in beneficial ownership or in such DTC Participants' positions in the Preferred Securities occurring between the Standard Deadline and 8:00 p.m. New York time on the New York Business Day immediately preceding the Distribution Payment Date. For this purpose, the DTC EDS system will remain accessible to DTC Participants until 8:00 p.m. New York time on the New York Business Day immediately preceding the Distribution Payment Date. In addition, Acupay will accept new or amended Beneficial Owner Information until 9:45 a.m. New York time on each Distribution Payment Date and DTC will accept requests for changes to EDS Elections at the request of DTC Participants until 9:45 a.m. New York time on each Distribution Payment Date. The EDS Elections received by DTC from DTC Participants as of 9:45 a.m. New York time on the Distribution Payment Date shall determine the eligibility of each DTC Participant for the Quick Refund Procedures set out in paragraph A.1 of Article III of this Annex A.
3. Beginning at 7:45 a.m. New York time on the Distribution Payment Date, Acupay will through the Acupay Verification Procedures perform the final review of each DTC Participant's Beneficial Owner Information, EDS Elections and changes in DTC position since the Standard Deadline. Based on these Acupay Verification Procedures, Acupay will (i) seek to notify any affected DTC Participant until 9:45 a.m. New York time on such Distribution Payment Date of any inconsistencies among these data, or erroneous or incomplete information provided by such DTC Participant and (ii) use its best efforts to obtain revised Beneficial Owner Information, Tax Certificates and/or EDS Elections from any such DTC Participant as necessary to correct any inconsistencies, erroneous or incomplete information. The failure to correct any such inconsistencies, (including the failure to fax or send PDF copies of new or amended Tax Certificates) by 9:45 a.m. New York time on the Distribution Payment Date (or if Acupay, despite its best efforts to do so, does not confirm receipt of such correction by 9:45 a.m. New York time on the Distribution Payment Date) will result in the payments in respect of the entirety of such DTC Participant's position being made net of Spanish withholding tax. Upon receipt of a report of EDS Elections as of 9:45 a.m. New York time from DTC, Acupay will then notify DTC of the final determination of which portion of each DTC Participant's position in the Preferred Securities should be paid gross of Spanish withholding tax and which portion of such position should be paid net of such tax. Based on such Acupay determination, DTC will make adjustments to the EDS in order to reduce to zero the EDS Elections received by DTC from DTC Participants as of 9:45 a.m. New York time on the relevant Distribution Payment Date, where as a result of any inconsistencies between such DTC Participant's Beneficial Owner Information, EDS Election and DTC position, the entirety of such DTC Participant position will be paid net of Spanish withholding taxes.

The adjustments described in the preceding paragraph will be made by DTC exclusively for the purposes of making payments, when applicable, net of Spanish withholding taxes and will have no impact on the EDS Election made by the relevant DTC Participants as of 9:45 a.m. New York time on the relevant Distribution Payment Date, which, as mentioned above, will determine the eligibility of each DTC Participant for the Quick Refund Procedures set out in paragraph A.1 of Article III of this Annex A.
4. DTC will transmit a final **"Report to Paying Agent"** to Acupay by 10:30 a.m. New York time on each Distribution Payment Date setting forth each DTC Participant's position in the Preferred Securities as of 8:00 p.m. New York time on the New York Business Day immediately preceding each Distribution Payment Date and the portion of each such DTC Participant's position in the Preferred Securities on which distribution payments should be made net of Spanish withholding tax and the portion that should be made without Spanish withholding tax being assessed, as applicable, based on the status of the EDS Elections received by DTC for each DTC Participant as of 9:45 a.m. New York time on the Distribution Payment Date and reflecting the adjustments, if any, to be made by DTC to the EDS described in paragraph D.3 of this Article I of Annex A above.
5. Acupay shall immediately, but no later than 11:00 a.m. New York time on each Distribution Payment Date, release (through a secure data upload/download facility) PDF copies of the final Report to

Paying Agent to the Paying Agent, the Issuer and the Guarantor, along with PDF copies of the related signed Tax Certificates to the Issuer.

6. Acupay will forward original paper Tax Certificates it receives for receipt by the Issuer no later than the 18th calendar day of the month immediately following each Distribution Payment Date. Acupay shall maintain records of all Tax Certificates (and other information received through the Acupay System) for five years from each related Distribution Payment Date to which such information applies, and shall, during such period, make copies of such records available to the Issuer and the Guarantor at all reasonable times upon request. In the event that the Issuer notifies Acupay in writing that it is the subject of a tax audit, Acupay shall maintain such duplicate back-up copies until the relevant statute of limitations applicable to any tax year subject to audit expires.

**E. Distribution Payments**

1. On or prior to each Distribution Payment Date, the Issuer or the Guarantor, as the case may be, will transmit to the Paying Agent an amount of funds sufficient to make distribution payments on the outstanding principal amount of the Preferred Securities without Spanish withholding tax being assessed.
2. By 1:00 p.m. New York time on each Distribution Payment Date, the Paying Agent will (i) pay the relevant DTC Participants (through DTC) for the benefit of the relevant Beneficial Owners the distribution payment gross or net of Spanish withholding tax, as set forth in the final Report to Paying Agent and (ii) promptly return the remainder to the Issuer or the Guarantor, as the case may be. The transmission of such amounts shall be contemporaneously confirmed by the Paying Agent to Acupay. The Issuer and the Guarantor have authorized the Paying Agent to rely on the final Report to Paying Agent in order to make the specified payments on each Distribution Payment Date. Notwithstanding anything herein to the contrary, the Issuer may direct the Paying Agent to make distribution payments on the Preferred Securities in a manner different from that set forth in the final Report to Paying Agent if the Issuer (i) determines that there are any inconsistencies with the Tax Certificates provided or any information set forth therein is, to the Issuer's knowledge, inaccurate, and (ii) provides notice of such determination in writing to DTC, Acupay and the Paying Agent prior to 11:30 a.m. New York time on the relevant Distribution Payment Date along with a list of the affected DTC Participants showing the amounts to be paid to each such DTC Participant.

## Article II

### **Tax Relief at Source Procedure (procedure that complies with Spanish Law 13/1985 (as amended by Law 19/2003 and Law 23/2005) and Royal Decree 2281/1998 (as amended by Royal Decree 1778/2004)) for Exchanges of Preferred Securities**

#### **A. DTC Participant Submission and Maintenance of Beneficial Owner Information**

1. In advance of the commencement of the period (the **“Exchange Offer Period”**) during which holders of Preferred Securities may exchange Preferred Securities for preferred securities having terms identical in almost all material respects to the Preferred Securities, except that the preferred securities for which the Preferred Securities may be exchanged would be registered in accordance with the requirements of the United States Securities Act of 1933 (the **“Exchange Preferred Securities”**), the Issuer shall instruct Acupay to, and Acupay shall, (i) provide DTC an issuer notice that will form the basis for a DTC **“Reorganization Notice”** (the **“Exchange Period Notice”**) regarding the Exchange Offer Period and tax relief entitlement information for exchanges of Preferred Securities for Exchange Preferred Securities, (ii) request DTC to post such notices on its website as a means of notifying DTC Participants of the requirements described in this Annex A and B, (iii) transmit such notices to the London Stock Exchange and, if required, any applicable self-regulatory organization in the United States, (iv) distribute the contents of such notices via one or more recognized financial information services and (v) provide a copy of such notices to the Paying Agent.
2. Beginning at 9:00 a.m. on the twenty-third New York business day preceding the relevant Distribution Payment Date (the first day of the Exchange Offer Period) and continuing until 5:00 p.m. on the Standard Deadline (the **“Exchange Offer Deadline”**), Acupay, on behalf of the Issuer, will receive from DTC Participants acceptances of offers for Exchange Preferred Securities by and on behalf of Beneficial Owners of Preferred Securities (each such acceptance, a **“DTC Participant Exchange Instruction”**). Such acceptances will be transmitted through DTC by and on behalf of each tendering Beneficial Owner through the reorganization processing facilities of DTC (the **“DTC Reorganization System”**).

It is anticipated that the last day of the Exchange Offer Period (the **“Exchange Offer Expiry Date”**) shall be the same day as the Standard Deadline.
3. In relation to each DTC Participant Exchange Instruction submitted in accordance with paragraph A.2 of this Article II of Annex A, each DTC Participant must, to the extent it has not previously done so, enter directly into the Acupay System the Beneficial Owner identity and residence information required by the Spanish tax law and set forth in Article I of Annex B (the **“Beneficial Owner Exchange Information”**) in respect of any income that may be imputed to a Beneficial Owner of Preferred Securities in connection with the exchange of Preferred Securities for Exchange Preferred Securities.
4. Each DTC Participant must ensure the continuing accuracy of any previously submitted Beneficial Owner Exchange Information, irrespective of any changes in, or in beneficial ownership of, such DTC Participant’s position in the Preferred Securities, or the identity of the beneficial owner of Preferred Securities on whose behalf a DTC Participant Exchange Instruction is delivered, as of the Exchange Offer Deadline. The Acupay System will remain available for making such adjustments until 8:00 p.m. New York time on the third New York Business Day after the Exchange Offer Deadline. All changes in beneficial ownership of Preferred Securities must be reflected, including changes that do not impact the DTC Participant’s overall position at DTC as to which DTC Participant Exchange Instructions have been submitted, or the portion of such DTC Participant’s positions at DTC as to which no Spanish withholding tax is required.
5. In no event shall the failure to submit timely Beneficial Owner Exchange Information affect the delivery of Exchange Preferred Securities to the relevant Beneficial Owner, except insofar as may be necessary in connection with the Withholding Tax Sale procedures specified in paragraph E.2 of this Article II to Annex A.



## **B. Exchange Offer Tax Calculation and Tax Certificates**

1. If any portion of the Preferred Securities held through a DTC Participant has been tendered for Exchange Preferred Securities via the DTC Reorganization System by the Exchange Offer Deadline, a set of tax certificates (the **“Exchange Income Tax Certificates”**) will be generated by the Acupay System if the exchange of Preferred Securities for Exchange Preferred Securities is calculated by Acupay in accordance with paragraph B.3 of this Article II of Annex A to result in the imputation of taxable income (for Spanish tax law purposes) for the relevant Beneficial Owners. Such Exchange Income Tax Certificates will report the income arising from the exchange of Preferred Securities for Exchange Preferred Securities. Such income must be imputed to the Beneficial Owner of the Preferred Securities as of the Exchange Offer Deadline.

Exchange Income Tax Certificates will be dated as of the Exchange Settlement Date and must refer to beneficial ownership positions as of the Exchange Offer Deadline. Each DTC Participant will be required to (i) print out, (ii) review, (iii) sign and (iv) fax or send by email a PDF copy of the duly signed Exchange Income Tax Certificates directly to Acupay. The original of each Exchange Income Tax Certificate must be sent to Acupay for receipt no later than the 15th calendar day of the month immediately following the Exchange Offer Expiry Date.

2. In the event that the exchange of Preferred Securities for Exchange Preferred Securities is not calculated by Acupay in accordance with paragraph B.3 of this Article II of Annex A to result in the imputation of taxable income (for Spanish tax law purposes) to the relevant Beneficial Owners, the Acupay System will not generate Exchange Income Tax Certificates.
3. As the exchange of Preferred Securities for Exchange Preferred Securities is a taxable event under Spanish tax law and for the purposes of Spanish Law 13/1985 (as amended by Law 19/2003 and Law 23/2005), the income attributable to any such exchange will be calculated by Acupay using the following methodology:
  - a. Prior to 10:15 a.m. New York time on the first New York Business Day of the Exchange Offer Period (the **“Initial Calculation Date”**), Acupay will request Lehman Brothers (the **“Reference Dealer”**) to provide a bid-side quotation (expressed to the nearest .001 of a U.S. dollar) as of 10:00 a.m. London time on the Initial Calculation Date, for a trade involving \$1,000,000 liquidation preference amount of a hypothetical issuance of Exchange Preferred Securities. If the Reference Dealer is unable to provide such a quotation, then Acupay shall request a price evaluation for such preferred securities from a globally recognized securities price evaluation service.
  - b. The quotation obtained with respect to the Exchange Preferred Securities will be posted on the Acupay System no later than 11:00 a.m. on the Initial Calculation Date. The positive difference, if any, between the quotation for the hypothetical \$1,000,000 liquidation preference amount of Exchange Preferred Securities and the issue price of \$1,000,000 liquidation preference amount will be employed by the Acupay System to calculate the income, if any, to be imputed to investors who exchange their Preferred Securities for Exchange Preferred Securities. In the event that such difference results in a negative number, it shall be deemed to be “0” (zero) for the purpose of this paragraph. The amount of income arising out of any exchange of Preferred Securities for Exchange Preferred Securities will be printed on each of the Exchange Income Tax Certificates produced by the Acupay System for use by the relevant DTC Participants, as described below. If the amount of such income is “0” (zero), however, no tax will be attributable to the relevant exchange and no Exchange Income Tax Certificates will be (i) produced by the Acupay System relating to the exchange of Preferred Securities for Exchange Preferred Securities or (ii) required to be submitted by the relevant DTC Participant with respect to such exchange.
  - c. On the Exchange Offer Expiry Date, Acupay will repeat the price quotation and income computation procedures described within paragraphs B.3(a) and B.3(b) of this Article II of



Annex A in order to determine whether such price and income amounts are materially different from the price and income amounts computed on the Initial Calculation Date.

The price quotations or evaluations employed on such day will be obtained at the times-of-day and using the methods described above. If there is a positive or negative difference in the income as computed on the Exchange Offer Expiry Date as compared with that computed on the Initial Calculation Date equal to or less than \$0.25 per \$100.00 liquidation preference of Preferred Securities so affected, such difference (if any, and whether positive or negative) will be deemed “non-material” and will be ignored for the purpose of these procedures. However, if such difference (whether positive or negative) is (1) greater than \$0.25 per \$100.00 liquidation preference of Preferred Securities and (2) the income computation procedures described in paragraph B.3(b) of this Article II of Annex A result in a positive number, then:

- i. At 1:00 p.m. New York time on the Exchange Offer Expiry Date, (A) all Exchange Income Tax Certificates previously received by Acupay will be cancelled in the Acupay System and (B) the Acupay System will produce replacement Exchange Income Tax Certificates to replace the relevant cancelled Exchange Income Tax Certificates.
- ii. Acupay staff will transmit a request to all affected DTC Participants that they (i) print out, (ii) review, (iii) sign and (iv) fax or send by email a PDF copy of each duly signed replacement Exchange Income Tax Certificate directly to Acupay for receipt by 8:00 p.m. New York time on the third New York Business Day immediately following the Exchange Offer Expiry Date.
- iii. The Acupay System will use the amount of exchange income computed on the Exchange Offer Expiry Date in place of the amount of such income computed on the Initial Calculation Date, for the replacement Exchange Income Tax Certificates described in paragraph B.3(c)(i) of this Article II of Annex A.

**NOTE: A DTC Participant that obtains favorable tax treatment through this relief at source procedure and fails to submit to Acupay the original physical Exchange Income Tax Certificates as described above may be prohibited by the Issuer from using this procedure to obtain favorable tax treatment for future payments. In such event, the DTC Participant will receive any future cash distribution on their entire position net of applicable Spanish withholding tax (currently at the rate of 18%) and relief will need to be obtained directly from the Spanish tax authorities by following the direct refund procedure established by Spanish tax law.**

### **C. Additional Acupay and DTC Procedures**

1. In addition to its other duties and obligations set forth herein, Acupay will be responsible for the following tasks with respect to the exchange of Preferred Securities for Exchange Preferred Securities (collectively, the “**Exchange Verification Procedures**”):
  - a. reviewing Exchange Income Tax Certificates using appropriate methodology in order to determine whether the requisite fields of Beneficial Owner Exchange Information have been supplied and that such fields of information are responsive to the requirements of such Exchange Income Tax Certificates and the circumstances related to the exchange of Preferred Securities for Exchange Preferred Securities;
  - b. liaising with the relevant DTC Participants in order to request that such DTC Participants:
    - i. complete any missing or correct any erroneous Beneficial Owner Exchange Information, make any necessary revisions to the Exchange Income Tax Certificates identified pursuant to the procedures set forth above;
    - ii. confirm any non-exchange of Preferred Securities; and

- c. determine based on the procedures established for that purpose in paragraph B.3 of this Article II of Annex A whether or not the exchange of Preferred Securities for Exchange Preferred Securities would result in income attributable to such exchange:
  - i. if no income would be attributable to such exchange, no further Exchange Verification Procedures would be required;
  - ii. if the exchange of Preferred Securities for Exchange Preferred Securities would result in income attributable to such exchange, Acupay shall determine through a review of DTC Participant Exchange Instructions whether any position in the Preferred Securities will be exchanged for Exchange Preferred Securities, and:
    1. if no such exchange of Preferred Securities for Exchange Preferred Securities is to be undertaken, no further Exchange Verification Procedures will be required;
    2. if any such exchanges are to be undertaken, Acupay shall determine for each DTC Participant submitting a DTC Participant Exchange Instruction whether (A) the amount of liquidation preference to be exchanged for Exchange Preferred Securities through such DTC Participant's account as set forth in such DTC Participant Exchange Instruction is consistent with the amount of liquidation preference of Preferred Securities to be exchanged for Exchange Preferred Securities as set forth in the related Beneficial Owner Exchange Information (and reported on Exchange Income Tax Certificates) supplied by such DTC Participant via the Acupay System and (B) the data set forth in such Beneficial Owner Exchange Information (and reported on the Exchange Income Tax Certificates) is consistent with the Beneficial Owner Information provided as of the Distribution Payment Date (and reported on the Distribution Payment Tax Certificates dated as of such Distribution Payment Date). If any data in the Exchange Income Tax Certificates or Distribution Payment Tax Certificates described above is not consistent at 9:45 a.m. on the Exchange Settlement Date, then such Exchange Income Tax Certificates as well as any Distribution Payment Tax Certificates dated as of the Distribution Payment Date that have been submitted by or on the behalf of such DTC Participant will be disregarded by Acupay for all purposes. This would result in payments being made net of Spanish withholding tax in respect of (A) the cash distributions made on the Distribution Payment Date and (B) any income attributable to the exchange of Preferred Securities for Exchange Preferred Securities in accordance with the procedures described in paragraph E of this Article II of Annex A.
2. Acupay will forward original paper Exchange Income Tax Certificates it receives for receipt by the Issuer no later than the 18th calendar day of the month immediately following the Exchange Offer Expiry Date. Acupay shall maintain records of all Exchange Income Tax Certificates (and other information received through the Acupay System) for five years from the Distribution Payment Date, and shall, during such period, make copies of such records available to the Issuer at all reasonable times upon request. In the event that the Issuer notifies Acupay in writing that it is the subject of a tax audit, Acupay shall maintain such duplicate back-up copies until the relevant statute of limitations applicable to any tax year subject to audit expires.
3. At 5:00 pm on the Exchange Offer Expiry Date, DTC and Acupay will confirm to each other the number of Preferred Securities for which exchange instructions have been received and accepted (the **"DTC Reconciliation Report"**).

**NOTE: DTC Participants that submit a DTC Participant Exchange Instruction (as described in paragraph A.2 of this Article II of Annex A) should know that the Preferred Securities with respect to which such DTC Participant Exchange Instruction has been transmitted to, and duly accepted by the Issuer, will be blocked within the DTC system from the time of such acceptance on the Exchange Offer Expiry Date until the Exchange Settlement Date (as defined below) and, therefore, the Beneficial**

**Owners of such Preferred Securities at the time of such acceptance on the Exchange Offer Expiry Date will continue to be the same at 8:00 pm New York time on the New York Business Day immediately preceding the Distribution Payment Date. Consequently, the Beneficial Owner Exchange Information supplied by such DTC Participants via the Acupay system until 8:00 pm New York time on the New York Business Day immediately preceding the Distribution Payment Date, will refer to the beneficial ownership positions as of the Issuer's acceptance on the Exchange Offer Expiry Date, and will be used to produce the Exchange Income Tax Certificates and the Distribution Payment Tax Certificates.**

**D. Exchange Settlement**

1. On the Exchange Offer Expiry Date or as early as practicable after the Exchange Offer Deadline, the Issuer will announce the number of exchange offers accepted by the Exchange Offer Deadline, through notice to Acupay, the Paying Agent and DTC.
2. By 11:00 a.m. on the settlement date of the offer to exchange Preferred Securities for Exchange Preferred Securities (the **"Exchange Settlement Date"**), Acupay will release through a secure data upload facility to the Issuer, DTC and the Paying Agent a copy of the DTC Reconciliation Report, as well as a detailed report of the final exchanges (the **"Final Exchange Report"**). Such report will indicate for each DTC Participant (i) the number of Preferred Securities which should be exchanged for Exchange Preferred Securities, (ii) of such Preferred Securities referred to in (i), (a) the number for which no Spanish withholding taxes will need to be assessed in relation to the exchange, (b) the number for which Spanish withholding taxes will need to be assessed in relation to the exchange and (c) the amount of such Spanish withholding taxes, if any. The Final Exchange Report will also state the tax liability attributable to each such exchange operation and the valuations employed in the computation of such tax liabilities.

It is anticipated that the Exchange Settlement Date shall be the same day as the Distribution Payment Date.

3. No later than 12:00 p.m. on the Exchange Settlement Date, the Issuer shall send a notice (via secure means) to both DTC and to the Paying Agent (a **"Share Issuance and Exchange Instruction"**) instructing (i) DTC to deliver to each relevant DTC Participant the relevant number of Exchange Preferred Securities in accordance with the Final Exchange Report, (ii) the Paying Agent to provide DTC with an initial transaction statement evidencing the issuance of such Exchange Preferred Securities as recorded on the Paying Agent's books and records in the name of Cede & Co., as nominee for DTC and (iii) the Paying Agent to approve a drawdown request from DTC to reduce DTC's position in the Preferred Securities with respect to the aggregate number of Preferred Securities exchanged for Exchange Preferred Securities. The Issuer has authorized the Paying Agent to rely on the Final Exchange Report to serve as its Share Issuance and Exchange Instruction.
4. Notwithstanding anything herein to the contrary, the Issuer may direct the Paying Agent to ignore the Final Exchange Report and to undertake exchanges of Preferred Securities for Exchange Preferred Securities in a manner different from that set forth in the Final Exchange Report if the Issuer (i) determines that there are any inconsistencies with the exchange elections therein represented or any information set forth in the Final Exchange Report is, to the Issuer's knowledge, inaccurate, and (ii) provides notice of such determination in writing to the Paying Agent, DTC and Acupay prior to 11:30 a.m. on the Exchange Settlement Date along with a list of the affected DTC Participants showing the number of Preferred Securities to be exchanged for Exchange Preferred Securities by each such DTC Participant.
5. On or prior to the Exchange Settlement Date, the Issuer will transmit (i) to the Paying Agent an Exchange Preferred Security for authentication and (ii) to DTC (or the Paying Agent as custodian for DTC) such Exchange Preferred Security, registered in the name of DTC's nominee, Cede & Co. for delivery in book-entry only form to the relevant Beneficial Owners of the Preferred Securities. The exchange of Preferred Securities for Exchange Preferred Securities shall be irrevocable and the Exchange Preferred Securities may not be converted to Preferred Securities. The terms of the

Exchange Preferred Securities shall be binding upon any subsequent holder of such Exchange Preferred Securities.

6. By 3:00 p.m. on the Exchange Settlement Date, DTC shall confirm to Acupay the delivery to each relevant DTC Participant of the relevant quantity of Exchange Preferred Securities, as adjusted for any Exchange Withholding Tax Sale (as defined below) procedures necessary in accordance with paragraph E.2 of this Article II of Annex A, in exchange for a comparable quantity of Preferred Securities. Notice of the consummation of such exchange operations shall be promptly communicated to the Issuer and the Paying Agent via the Acupay System.

#### **E. Exchange Withholding Tax**

1. In the event that the amount of Spanish withholding tax to be collected from a DTC Participant pursuant to an exchange of Preferred Securities for Exchange Preferred Securities, as calculated in accordance with paragraph B.3 of this Article II of Annex A, should not exceed the amount of cash distribution income payable to such DTC Participant on the Distribution Payment Date coincident with the Exchange Settlement Date (after any necessary withholding with respect to such cash payment is made on such Distribution Payment Date), the Issuer's Share Issuance and Exchange Instruction will include an instruction to the Paying Agent, Acupay and DTC to deduct the amount of cash necessary to satisfy such Spanish withholding tax liability from such cash distribution on such Distribution Payment Date. Any amounts so deducted by the Paying Agent to satisfy the relevant DTC Participant's withholding tax liability shall be promptly transmitted to the Issuer, and Acupay shall promptly confirm any such deduction to the relevant DTC Participant.
2. In the event that the amount of Spanish withholding tax to be collected from a DTC Participant pursuant to an exchange of Preferred Securities for Exchange Preferred Securities, as calculated in accordance with paragraph B.3 of this Article II of Annex A, should exceed the cash distribution income payable to such DTC Participant on the Distribution Payment Date coincident with the Exchange Settlement Date (after any necessary withholding with respect to such cash payment is made on such Distribution Payment Date), the Issuer will (i) instruct the Paying Agent to withhold from delivery on the Exchange Settlement Date and (ii) sell or arrange for the sale in the secondary market of an appropriate quantity of Exchange Preferred Securities, based on the valuations received by the Issuer (or Acupay on its behalf) on the Exchange Offer Expiry Date, as may be necessary to provide cash in sufficient amounts to meet such DTC Participant's withholding tax liability with respect to the exchange of Preferred Securities to Exchange Preferred Securities (the **"Exchange Withholding Tax Sale"**). The Issuer's determination of the number of Exchange Preferred Securities that may be withheld from delivery and offered for sale to satisfy relevant DTC Participant's withholding tax liability (including the withholding from delivery of such number of Exchange Preferred Securities as may be deemed necessary, in the sole opinion of the Issuer, to provide a suitable margin to secure the results of the Exchange Withholding Tax Sale) shall be binding on all parties. Any amounts received from the Exchange Withholding Tax Sale necessary to satisfy the relevant DTC Participant's withholding tax liability shall be promptly transmitted to the Issuer.
3. Upon the completion of the Exchange Withholding Tax Sale, the Issuer shall promptly transmit to the Paying Agent, and direct the Paying Agent (in writing) to remit to the relevant DTC Participant, (i) any excess cash proceeds, net of selling agent's fees and expenses, from the Exchange Withholding Tax Sale (via Fed-Wire), (ii) any Exchange Preferred Securities that were previously withheld but remain unsold as part of the Exchange Withholding Tax Sale (via free delivery through DTC) and (iii) a letter confirming the details of the Exchange Withholding Tax Sale and the related calculation of such amounts to be so remitted.

It is expected that the foregoing procedures in relation to Exchange Withholding Tax Sales will be completed by the tenth New York Business Day following the Exchange Settlement Date.

## **F. Quick Refund Procedures**

1. Refunds made pursuant to the Quick Refund Procedures set forth in Article III of this Annex A, shall, in the case of income related to the exchange of Preferred Securities for Exchange Preferred Securities, be limited to the amount of Spanish withholding tax liability; any excess cash proceeds, net of selling agent's fees and expenses, from the Exchange Withholding Tax Sale will be separately paid to the relevant DTC Participant in accordance with paragraph E.3 of this Article II of Annex A.

### **Article III**

#### **Quick Refund Procedures**

## **A. Documentation Procedures**

### **1. Beneficial Owners holding through a Qualified Institution on Whose Behalf an EDS Election was Requested by 9:45 a.m. (New York time) on the relevant Distribution Payment Date**

- a. Beginning at 9:00 a.m. New York time on the New York Business Day following each Distribution Payment Date until 5:00 p.m. New York time on the tenth calendar day of the month following the relevant Distribution Payment Date (or if such day is not a New York Business Day, the first New York Business Day immediately preceding such day) (the **"Quick Refund Deadline"**), a DTC Participant (i) which is a Qualified Institution (as defined in Article I of Annex B) and holds Preferred Securities on behalf of Beneficial Owners entitled to exemption from Spanish withholding tax and (ii) which was paid net of Spanish withholding taxes due to a failure to comply with the "Relief at Source Procedures" set forth in Article I of this Annex A above, may submit through the Acupay System the Beneficial Owner Information with respect to beneficial ownership positions as to which such DTC Participant had, by 9:45 a.m. (New York time) on the relevant Distribution Payment Date, requested DTC to make an EDS election and/or (y) if relevant, Beneficial Owner Exchange Information corresponding to Beneficial Owners on whose behalf EDS Elections had been made as of such date and time, and for whose account Share Issuance and Exchange Instructions had been delivered by the Issuer for the Exchange Settlement Date. After entry of Beneficial Owner Information or Beneficial Owner Exchange Information into the Acupay System by such DTC Participant, the Acupay System will produce completed Tax Certificates or Exchange Income Tax Certificates, as the case may be. Such DTC Participant will then be required to (i) print out, (ii) review, (iii) sign and (iv) fax or send by email a PDF copy of the duly signed Tax Certificate or Exchange Income Tax Certificate, as the case may be, directly to Acupay for receipt by Acupay no later than the Quick Refund Deadline. Any such Tax Certificates will be dated as of the Distribution Payment Date and any such Exchange Income Tax Certificates will be dated as of the Exchange Settlement Date. The original Tax Certificate or the Exchange Income Tax Certificates must be sent to Acupay for receipt no later than the 15th calendar day of the month immediately following the relevant Distribution Payment Date.

**Notwithstanding anything contained herein, any DTC Participant whose request to DTC to make an EDS Election did not specify "gross treatment" with respect to at least the portion of its DTC position for which it is claiming a "quick refund" (with respect to distribution payments) as of 9:45 a.m. New York time on the relevant Distribution Payment Date will not be permitted to follow the Quick Refund Procedures set forth in this Article III of Annex A, and any Beneficial Owner holding through such DTC Participant will instead need to rely on the Direct Refund Procedures set forth in Article II of Annex B below.**

- b. Acupay will then conduct the Acupay Verification Procedures with respect to the Beneficial Owner Information and, if relevant, the Exchange Verification Procedures with respect to Beneficial Owner Exchange Information, submitted by the DTC Participants pursuant to Articles I and II of this Annex A by comparing such Beneficial Owner Information or Beneficial Owner Exchange Information, as the case may be, with such DTC Participant's EDS



Election and its position in the Preferred Securities as of the close of business on the New York Business Day immediately preceding the relevant Distribution Payment Date and/or the related Share Issuance and Exchange Instruction for the relevant Exchange Settlement Date, as the case may be. The information as to the EDS Election and the position in the Preferred Securities of each DTC Participant as of such time and, if applicable, the quantity of Preferred Securities tendered for exchange shall be provided to Acupay by DTC. DTC Participants may, until the specified deadlines, revise such Beneficial Owner Information and Beneficial Owner Exchange Information, as the case may be, in the Acupay System in order to cure any inconsistency detected through the Acupay Verification Procedures or Exchange Verification Procedures, as relevant.

- c. Acupay will reconcile Beneficial Owner Information or Beneficial Owner Exchange Information, as the case may be, to the (i) reports of DTC positions as of 8:00 p.m. New York time on the New York Business Day immediately preceding the relevant Distribution Payment Date and (ii) EDS Elections as of 9:45 a.m. New York time on the relevant Distribution Payment Date (as certified by DTC) and (iii) if relevant, a Share Issuance and Exchange Instruction for the appropriate Exchange Settlement Date. Acupay will collect payment instructions from DTC Participants or their designees and, no later than 12:00 p.m. New York time on the third calendar day following the Quick Refund Deadline (or if such day is not a New York Business Day, the first New York Business Day immediately preceding such day), will forward PDF copies of the verified Tax Certificates or Exchange Income Tax Certificates, as the case may be, to the Issuer and the Guarantor and the payment instructions to the Issuer, the Guarantor and the Paying Agent.

## 2. Beneficial Owners not holding through a Qualified Institution

- a. Beneficial Owners entitled to receive distribution payments, OID income or exchange income in respect of any Preferred Securities gross of any Spanish withholding taxes but who have been paid net of Spanish withholding taxes as a result of holding such Preferred Securities through DTC Participants who are not Qualified Institutions will be entitled to utilize the Quick Refund Procedures set forth below.
- b. Such Beneficial Owners may request from the Issuer the reimbursement of the amount withheld by providing Acupay, as an agent of the Issuer, with (i) documentation to confirm their securities entitlement in respect of the Preferred Securities on the relevant Distribution Payment Date (which documentation must include statements from (A) DTC and (B) the relevant DTC Participant setting forth such DTC Participant's aggregate DTC position on the Distribution Payment Date as well as the portion of such position that was paid net and gross of Spanish withholding taxes, together with an accounting record of the amounts of such position and payments which were attributable to the Beneficial Owner, including the number of Exchange Preferred Securities, if any, sold in order to provide sufficient amounts to satisfy any Spanish withholding tax liabilities that may be applicable to the exchange of Preferred Securities for Exchange Preferred Securities) and (ii) a certificate of residency issued by the tax authorities of the country of residence of such Beneficial Owners (a **"Government Tax Residency Certificate"**). Such Government Tax Residency Certificate (which will be valid for a period of one year after its date of issuance) together with the information regarding the securities entitlement in respect of the Preferred Securities must be submitted to Acupay on the behalf of the Issuer no later than the Quick Refund Deadline. Acupay will collect payment instructions from DTC Participants or their designees, as the case may be, and, no later than 12:00 p.m. New York time on the third calendar day following the Quick Refund Deadline (or if such day is not a New York Business Day, the first New York Business Day immediately preceding such day), will forward to the Issuer and the Guarantor PDF copies and originals of the Government Tax Residency Certificates, and to the Issuer, the Guarantor and the Paying Agent (x) the related payment instructions and (y) a reconciliation of such payment instructions to (1) the outstanding principal amount of Preferred Securities owned through each DTC Participant as of the relevant Distribution Payment Date or the number of Preferred Securities



exchanged for Exchange Preferred Securities on the Exchange Settlement Date and (2) the outstanding principal amount of such Preferred Securities on which cash distribution, OID income or exchange income was paid net of Spanish withholding tax on the relevant Distribution Payment Date.

### **3. Special Redemption of the Preferred Securities**

In the case of special redemption, Quick Refund Procedures substantially similar to those procedures set forth in this Article III of Annex A will be made available to investors. Detailed descriptions of such Quick Refund Procedures will be available upon request from Acupay in the event of such special redemption.

#### **B. Payment Procedures**

1. Upon receipt of the relevant Tax Certificates, Exchange Income Tax Certificates and Government Tax Residency Certificates together with related documentation (if any) from Acupay pursuant to the procedures in part A. of this Article III, the Issuer will review Government Tax Residency Certificates together with related documentation (if any) and confirm the related payments no later than the 18th calendar day of the month following the relevant Distribution Payment Date (or if such day is not a New York Business Day, the first New York Business Day immediately preceding such day).
2. On the 19th calendar day of the month following the relevant Distribution Payment Date (or if such day is not a New York Business Day, the first New York Business Day immediately preceding such day), the Issuer will make payments equal to the amounts initially withheld from DTC Participants complying with the Quick Refund Procedure to the Paying Agent and the Paying Agent shall, within one New York Business Day of such date, transfer such payments to DTC Participants directly for the benefit of Beneficial Owners.

**NOTE: For the avoidance of doubt, Beneficial Owners shall only be entitled to receive cash refunds in connection with these Quick Refund Procedures, and nothing contained in this Article III of Annex A shall be interpreted as entitling Beneficial Owners to receive Exchange Preferred Securities in connection therewith.**

## **ANNEX B**

### **Forms of Required Spanish Withholding Tax Documentation and Procedures for Direct Refunds from Spanish Tax Authorities**

#### **Article I**

##### **Documentation Required by Spanish Tax Law pursuant to the Relief at Source Procedure**

1. If the holder of certificated Preferred Securities or Exchange Preferred Securities is not resident in Spain for tax purposes and acts for its own account and is a central bank, other public institution or international organization, a bank or credit institution or a financial entity, including collective investment institutions, pension funds and insurance entities, resident in an OECD country (including the United States) or in a country with which Spain has entered into a double tax treaty subject to a specific administrative registration or supervision scheme (each, a “Qualified Institution”), the entity in question must certify its name and tax residency substantially in the manner provided in Exhibit I to this Annex.
2. In the case of transactions in which a Qualified Institution which is a holder of certificated Preferred Securities or Exchange Preferred Securities acts as intermediary, the entity in question must, in accordance with the information contained in its own records, certify the name and tax residency of each Beneficial Owner not resident in Spain for tax purposes nor in a tax haven as of the Distribution Payment Date substantially in the manner provided in Exhibit II to this Annex.
3. In the case of transactions which are channeled through a securities clearing and deposit entity recognized for these purposes by Spanish law or by the law of another OECD member country, the entity in question (i.e., the clearing system participant) must, in accordance with the information contained in its own records, certify the name and tax residency of each Beneficial Owner not resident in Spain for tax purposes nor in a tax haven as of the Distribution Payment Date substantially in the manner provided in Exhibit II to this Annex.
4. If the Beneficial Owner is resident in Spain for tax purposes and is subject to Spanish Corporate Income Tax, the entities listed in paragraphs (2) or (3) above (such as DTC Participants which are Qualified Institutions) must submit a certification specifying the name, address, Tax Identification Number, the CUSIP or ISIN code of the Preferred Securities, the beneficial interest in the principal amount of Preferred Securities or Exchange Preferred Securities held at each Distribution Payment Date, gross income and amount withheld, substantially in the form set out in Exhibit III to this Annex.
5. In the case of Beneficial Owners who do not hold their interests in the Preferred Securities or Exchange Preferred Securities through Qualified Institutions or whose holdings are not channeled through a securities clearing and deposit entity recognized for these purposes by Spanish law or by the law of another OECD member country, the Beneficial Owner must submit (i) proof of beneficial ownership and (ii) a Government Tax Residency Certificate.

## **Article II**

### **Direct Refund from Spanish Tax Authorities Procedure**

1. Beneficial Owners entitled to exemption from Spanish withholding tax who have not timely followed either the "Relief at Source Procedure" set forth in Article I and II of Annex A or the Quick Refund Procedure set forth in Article III of Annex A, and therefore have been subject to Spanish withholding tax, may request a full refund of the amount that has been withheld directly from the Spanish tax authorities.
2. Beneficial Owners have up to the time period allowed pursuant to Spanish law (currently, a maximum of four years as of the relevant Distribution Payment Date) to claim the amount withheld from the Spanish Treasury by filing with the Spanish tax authorities (i) the relevant Spanish tax form, (ii) proof of beneficial ownership and (iii) a Government Tax Residency Certificate (from the IRS in the case of U.S. resident Beneficial Owners).

## EXHIBIT I

[English translation provided for informational purposes only]

### **Modelo de certificación en inversiones por cuenta propia**

#### ***Form of Certificate for Own Account Investments***

**(nombre)** (name)

**(domicilio)** (address)

**(TIN)** (tax identification number)

**(en calidad de), en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 12.3.a) del Real Decreto 2281/1998,**

(function), in the name and on behalf of the Entity indicated below, for the purposes of article 12.3.a) of Royal Decree 2281/1998,

### **CERTIFICO:**

I CERTIFY:

**1. Que el nombre o razón social de la Entidad que represento es:**

that the name of the Entity I represent is:

**2. Que su residencia fiscal es la siguiente:**

that its residence for tax purposes is:

**3. Que la Entidad que represento está inscrita en el Registro de**

that the institution I represent is recorded in the Register of

**(país, estado, ciudad), con el número**

(country, state, city), under number

**4. Que la Entidad que represento está sometida a la supervisión de (Organo supervisor)**

that the institution I represent is supervised by (Supervision body)

**en virtud de(normativa que lo regula)**

under (governing rules).

**Todo ello en relación con:**

All the above in relation to:

**Identificación de los valores poseidos por cuenta propia**

Identification of securities held on own account:

**Importe de los rendimientos**

Amount of income

**Lo que certifico en a de de 20**

I certify the above in [location] on the [day] of [month] of [year]

## EXHIBIT II

[English translation provided for informational purposes only]

### **Modelo de certificación en inversiones por cuenta ajena**

#### ***Form of Certificate for Third Party Investments***

(nombre) (name)

(domicilio) (address)

(TIN) (tax identification number)

(en calidad de), en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 12.3.b) y c) del Real Decreto 2281/1998,

(function), in the name and on behalf of the Entity indicated below, for the purposes of article 12.3.b) and c) of Royal Decree 2281/1998,

### **CERTIFICO:**

I CERTIFY:

**1. Que el nombre o razón social de la Entidad que represento es:**

that the name of the Entity I represent is:

**2. Que su residencia fiscal es la siguiente:**

that its residence for tax purposes is:

**3. Que la Entidad que represento está inscrita en el Registro de**

that the institution I represent is recorded in the Register of

(país, estado, ciudad), con el número

(country, state, city), under number

**4. Que la Entidad que represento está sometida a la supervisión de (Organo supervisor)**

that the institution I represent is supervised by (Supervision body)

**en virtud de (normativa que lo regula)**

under (governing rules).

**5. Que, de acuerdo con los Registros de la Entidad que represento, la relación de titulares adjunta a la presente certificación, comprensiva del nombre de cada uno de los titulares no residentes, su país de residencia y el importe de los correspondientes rendimientos, es exacta, y no incluye personas o Entidades residentes en España o en los países o territorios que tienen en España la consideración de paraíso fiscal de acuerdo con las normas reglamentarias en vigor.**

That, according to the records of the Entity I represent, the list of Beneficial Owners hereby attached, including the names of all the non-resident holders, their country of residence and the amounts and the relevant amounts is accurate, and does not include person(s) or institution(s) resident either in Spain or in tax haven countries or territories as defined under Spanish applicable regulations.

### **Lo que certifico en a de de 20**

I certify the above in [location] on the [day] of [month] of [year]

### **RELACIÓN ADJUNTA A CUMPLIMENTAR:**

TO BE ATTACHED:

#### **Identificación de los valores:**

Identification of the securities

#### **Listado de titulares:**

List of Beneficial Owners:

#### **Nombre/País de residencia/Importe de los rendimientos**

Name/Country of residence/Amount of income

### EXHIBIT III

[English translation provided for informational purposes only]

**Modelo de certificación para hacer efectiva la exclusión de retención a los sujetos pasivos del Impuesto sobre Sociedades y a los establecimientos permanentes sujetos pasivos del Impuesto sobre la Renta de No Residentes**

*Certificate for application of the exemption on withholding to Spanish corporate income taxpayers and to permanent establishments of non-resident income taxpayers*

(nombre) (name)

(domicilio) (address)

(TIN) (tax identification number)

(en calidad de), en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 59.s) del Real Decreto 1777/2004,

(function), in the name and on behalf of the Entity indicated below, for the purposes of article 59.s) of Royal Decree 1777/2004,

#### **CERTIFICO:**

I CERTIFY:

**1. Que el nombre o razón social de la Entidad que represento es:**

that the name of the Entity I represent is:

**2. Que su residencia fiscal es la siguiente:**

that its residence for tax purposes is:

**3. Que la Entidad que represento está inscrita en el Registro de**

that the institution I represent is recorded in the Register of

(pais, estado, ciudad), con el número

(country, state, city), under number

**4. Que la Entidad que represento está sometida a la supervisión de (Organo supervisor)**

that the institution I represent is supervised by (Supervision body)

**en virtud de (normativa que lo regula)**

under (governing rules).

**5. Que, a través de la Entidad que represento, los titulares incluidos en la relacion adjunta, sujetos pasivos del Impuesto sobre Sociedades y establecimientos permanentes en España de sujetos pasivos del Impuesto sobre la Renta de no Residentes, son perceptores de los rendimientos indicados.**

That, through the Entity I represent, the list of holders hereby attached, are Spanish Corporate Income Tax payers and permanent establishments in Spain of Non-Resident Income Tax taxpayers, and are recipients of the referred income.

**6. Que la Entidad que represento conserva, a disposición del emisor, fotocopia de la tarjeta acreditativa del número de identificación fiscal de los titulares incluidos en la relación.**

That the Entity I represent keeps, at the disposal of the Issuer, a photocopy of the card evidencing the Fiscal Identification Number of the holders included in the attached list.

**Lo que certifico en a de de 20**

I certify the above in [location] on the [day] of [month] of [year]

#### **RELACION ADJUNTA:**

TO BE ATTACHED:

**Identificación de los valores:**

Identification of the securities



**Razón social/Domicilio/Número de identificación fiscal/Número de valores/Rendimientos brutos/Retención al 18%.**

Name/Domicile/Fiscal Identification Number/Number of securities/Gross income/Amount withheld at 18%.

**ISSUER**

**BBVA International Preferred, S.A. Unipersonal**  
Gran Vía, 1  
48001 Bilbao  
Spain

**GUARANTOR**

**Banco Bilbao Vizcaya Argentaria, S.A.**  
Plaza de San Nicolás, 4  
48005 Bilbao  
Spain

**SOLE STRUCTURING ADVISOR & SOLE BOOKRUNNER**

**Lehman Brothers Inc.**  
745 Seventh Avenue  
New York, New York 10019  
United States of America

**REGISTRAR AND TRANSFER AND PAYING AGENT**

**The Bank of New York**  
101 Barclay Street, 11E  
New York, NY 10286  
United States of America

**JOINT LEAD MANAGER, NO UNDERWRITING COMMITMENT**

Banco Bilbao Vizcaya Argentaria, S.A.  
Plaza de San Nicolás, 4  
48005 Bilbao  
Spain

**CALCULATION AGENT**

**The Bank of New York**  
One Canada Square  
London E14 5AL  
England

**TAX CERTIFICATION AND EXCHANGE PROCESSING AGENT**

**Acupay System, LLC**  
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United States of America

**LEGAL ADVISORS**

*To the Issuer and the Guarantor  
as to the laws of the United States*

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Spain

*To the Initial Purchaser  
as to the laws of the United States*

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*To the Issuer and the Guarantor  
as to the laws of Spain*

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*To the Initial Purchaser  
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