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

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

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

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

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

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

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

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

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

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

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

Offering Circular dated 11 February 2014



Banco Bilbao Vizcaya Argentaria, S.A.

(incorporated with limited liability under the laws of Spain)

Series 2 €1,500,000,000 Non-Step-Up Non-Cumulative Contingent Convertible

Perpetual Preferred Tier 1 Securities

Issue price: 100 per cent.

The Series 2 €1,500,000,000 Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities of €200,000 liquidation preference each (the **Preferred Securities**) are being issued by Banco Bilbao Vizcaya Argentaria, S.A. (the **Bank**) on 19 February 2014 (the **Closing Date**). The Bank and its consolidated subsidiaries are referred to herein as the **Group** or as **BBVA**.

The Preferred Securities will accrue non-cumulative cash distributions (**Distributions**) (i) in respect of the period from (and including) the Closing Date to (but excluding) 19 February 2019 (the **First Reset Date**) at the rate of 7.000 per cent. per annum, and (ii) in respect of each period from (and including) the First Reset Date and every fifth anniversary thereof (each a **Reset Date**) to (but excluding) the next succeeding Reset Date (each such period, a **Reset Period**), at the rate per annum, converted to a quarterly rate in accordance with market convention, equal to the aggregate of 6.155 per cent. per annum and the 5-year Mid-Swap Rate (as defined in the terms and conditions of the Preferred Securities (the **Conditions**)) for the relevant Reset Period. Subject as provided in the Conditions, such Distributions will be payable quarterly in arrear on 19 May, 19 August, 19 November and 19 February in each year (each a **Distribution Payment Date**).

All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank at any time on or after the First Reset Date, at the liquidation preference of €200,000 per Preferred Security plus any accrued and unpaid Distributions for the then current Distribution Period (as defined in the Conditions) to (but excluding) the date fixed for redemption (the **Redemption Price**), subject to the prior consent of the Regulator (as defined in the Conditions) and otherwise in accordance with Applicable Banking Regulations then in force. The Preferred Securities are also redeemable on or after the Closing Date at the option of the Bank in whole but not in part, at any time, at the Redemption Price if there is a Capital Event or a Tax Event (each as defined in the Conditions), subject to the prior consent of the Regulator and otherwise in accordance with Applicable Banking Regulations then in force.

The Bank may elect, in its sole and absolute discretion to cancel the payment of any Distribution in whole or in part at any time that it deems necessary or desirable and for any reason, including as further provided in Condition 3. Distributions on the Preferred Securities will be non-cumulative. Accordingly, if any Distribution (or part thereof) is not made in respect of the Preferred Securities then the right of the Holders to receive the relevant Distribution (or part thereof) will be extinguished and the Bank will have no obligation to pay such Distribution (or part thereof), whether or not any future Distributions on the Preferred Securities are paid. For further information, see Condition 3.

In the event of the occurrence of the Trigger Event (as defined in the Conditions), the Preferred Securities are mandatorily and irrevocably convertible into newly issued ordinary shares in the capital of the Bank (Common Shares) at the Conversion Price (as defined in the Conditions). In the event of the liquidation of the Bank, Holders will be entitled to receive (subject to the limitations described under “Conditions of the Preferred Securities”), in respect of each Preferred Security, their respective liquidation preference of €200,000 plus any accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the liquidation distribution.

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

The Preferred Securities are expected, upon issue, to be assigned a BB- rating by Fitch Ratings España SAU (Fitch Ratings) (**Fitch**). Fitch is established in the European Union and is registered under Regulation (EC) No.1060/2009 (as amended) (the **CRA Regulation**). As such, Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

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

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the **SGX-ST**) for the listing of, and quotation for, the Preferred Securities on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission to the Official List of the SGX-ST and quotation of the Preferred Securities on the SGX-ST is not to be taken as an indication of the merits of the Preferred Securities, the Bank or the Group.

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

This Offering Circular does not comprise a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC as amended or the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**).

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

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

Joint Bookrunners

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

(no underwriting commitment)

Barclays

Citigroup

Morgan Stanley

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

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

*Banco Bilbao Vizcaya Argentaria, S.A. (in its capacity as a joint bookrunner), Barclays Bank PLC, Citibank International plc and Morgan Stanley & Co. International plc (together, the **Joint Bookrunners**) have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Bookrunners or any of them as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Bank in connection with the Preferred Securities or their distribution.*

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

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

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

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

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, by or on behalf of the Bank or the Joint Bookrunners any Preferred Securities.

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

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

The contents of this Offering Circular have not been reviewed by any regulatory authority in Singapore. You are advised to exercise caution in relation to any offering of the Preferred Securities. If you are in any doubt about any of the contents of this Offering Circular, you should obtain independent professional advice.

*In this Offering Circular, unless otherwise specified, references to **€**, **EUR** or **Euro** are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended; and references to **\$**, **U.S. dollars** or **U.S.\$** are to the currency of the United States.*

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

This Offering Circular may only be used for the purposes for which it has been published. No person is authorised to give information other than that contained herein and in the documents incorporated by reference herein and which are made available for inspection by the public at the registered office of the Bank and the specified office set out below of each Paying Agent (as defined in the Conditions).

Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Offering Circular or incorporated by reference herein.

PRESENTATION OF FINANCIAL INFORMATION

ACCOUNTING PRINCIPLES

The Bank maintains its financial books and records and prepares its financial statements in euro in accordance with the International Financial Reporting Standards endorsed by the European Union (**EU-IFRS**), required to be applied under Bank of Spain Circular 4/2004 of 22 December (as amended thereafter) and, save as described in the following sentence, in compliance with the International Financial Reporting Standards of the International Accounting Standards Board (**IFRS-IASB**). All of the financial statements of the Bank incorporated by reference into this Offering Circular have been prepared in accordance with each of EU-IFRS and IFRS-IASB save for the audited financial statements as at and for the financial year ended 31 December 2013 which, as at the date of this Offering Circular, have been prepared only in accordance with EU-IFRS.

STABILISATION

In connection with the offering of the Preferred Securities, Morgan Stanley & Co. International plc (the **Stabilising Manager**) (or any of its affiliates or other persons acting on behalf of the Stabilising Manager) may, in consultation with the other Joint Bookrunners and at its discretion, over-allot or effect transactions which stabilise or maintain the market price of the Preferred Securities at levels that might not otherwise prevail in the open market. The principal amount of Preferred Securities that the Stabilising Manager buys to effect such transactions will not in the aggregate exceed more than 20 per cent. of the total principal amount of Preferred Securities in the offering. However, there is no assurance that the Stabilising Manager (or any of its affiliates or other persons acting on behalf of the Stabilising Manager) will undertake stabilising action. Such transactions may be effected in Singapore and in other jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulations (including the SFA and any regulations thereunder). Such transactions may commence on or after 11 February 2014, and, if commenced, may be discontinued at any time and shall not be effected after the earlier of (i) the date falling 30 days from the date of admission of the Preferred Securities to the Official List of the SGX-ST, (ii) the date falling 60 days after the date on which the earliest public announcement of the offering which states the offer price of the Preferred Securities was made through the SGX-ST or (iii) the date on which the Stabilising Manager (or any of its affiliates or other persons acting on behalf of the Stabilising Manager) has

bought an aggregate of 20 per cent. of the total principal amount of the Preferred Securities offered pursuant to the offering to undertake stabilising actions.

None of the Joint Bookrunners or the Stabilising Manager (or any of its affiliates or other persons acting on behalf of the Stabilising Manager) makes any representation or prediction as to the magnitude of any effect that the transactions described above may have on the price of the Preferred Securities. In addition, none of the Joint Bookrunners or the Stabilising Manager (or any of its affiliates or other persons acting on behalf of the Stabilising Manager) makes any representation that the Stabilising Manager (or any of its affiliates or other persons acting on behalf of the Stabilising Manager) will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice (unless such notice is required by law). The Stabilising Manager will be required to make a public announcement through the SGX-ST in relation to the cessation of stabilising action not later than 8.30 a.m. on the next trading day of the SGX-ST after the cessation of stabilising action.

FINANCIAL INFORMATION

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

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

SPANISH TAX RULES

Article 44 of Royal Decree 1065/2007 of 27 July (**RD 1065/2007**) sets out the reporting obligations applicable to preference shares and debt instruments issued under Additional Provision Two of Law 13/1985 of 25 May (**Law 13/1985**). The procedures apply to interest deriving from preference shares and debt instruments to which Law 13/1985 refers, including debt instruments issued at a discount for a period equal to or less than twelve months.

General

The procedure described in this Offering Circular for the provision of information required by Spanish law and regulation is a summary only and is subject to further clarification from the Spanish tax authorities regarding such laws and regulations. None of the Bank or the Joint Bookrunners assume any responsibility therefor.

NO HOLDING OF PREFERRED SECURITIES BY SPANISH RESIDENTS

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

CONTENTS

Risk Factors	8
Overview of the Offering	42
Documents Incorporated by Reference	47
Conditions of the Preferred Securities	48
Use of Proceeds.....	86
Description of Banco Bilbao Vizcaya Argentaria, S.A.....	87
Taxation	104
Subscription, Sale and Transfer	109
General Information.....	113

RISK FACTORS

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

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

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

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

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

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

In addition, the Bank is subject to substantial regulation relating to other matters such as liquidity. The Bank cannot predict if increased liquidity standards, if implemented, could require it to maintain a greater proportion of its assets in highly-liquid but lower-yielding financial instruments, which would negatively affect the Bank's net interest margin.

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

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

As described further in the following risk factors, recent Spanish regulatory developments include (i) Royal Decree-Law 2/2012, of 3 February 2012 and Law 8/2012 of 30 October 2012 which increased coverage requirements to be met by 31 December 2012 for performing and non-performing real estate

assets, (ii) Law 9/2012, of 14 November 2012 (**Law 9/2012**) which established a new regime on restructuring and resolution of credit institutions and a statutory loss absorbency regime applicable within the framework of restructuring and resolution processes, both based on the legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms, the first draft of which (and the draft upon which Law 9/2012 was based) was published by the European Commission on 6 June 2012 and the final compromise text of which was published by the Council of the European Union on 18 December 2013 (the **RDD**), and (iii) Royal Decree-law 14/2013, of 29 November 2013 (**RD-L 14/2013**) which partially incorporated CRD IV into Spanish law. In addition, on 5 February 2014 a new Bank of Spain Circular 2/2014, of 31 January, was published. By means of this new circular, the Bank of Spain has made certain regulatory determinations contained in CRR (as defined in the Conditions) pursuant to the delegation contained in RD-L 14/2013 including, among other things, certain rules concerning the applicable transitional regime on capital requirements and the treatment of deductions.

Adverse regulatory developments or changes in government policy relating to any of the foregoing or other matters could have a material adverse effect on the Bank's business, results of operations and financial condition. Furthermore, regulatory fragmentation, with some countries implementing new and more stringent standards or regulation, could adversely affect the Bank's ability to compete with financial institutions based in other jurisdictions which do not need to comply with such new standards or regulation.

Capital requirements

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

As a Spanish financial institution, the Bank is subject to CRD IV, through which the European Union has implemented the Basel III capital standards and which are in the process of being phased in until 1 January 2019. The CRR entered into force on 1 January 2014 and the CRD IV Directive has already been partially implemented in Spain as of 1 January 2014 by RD-L 14/2013. RD-L 14/2013 has repealed, with effect from 1 January 2014, any Spanish regulatory provisions that may be incompatible with CRR.

Despite the CRD IV/Basel III framework setting minimum transnational levels of regulatory capital and a measured phase-in, many national authorities have started a race to the top for capital by gold-plating both requirements and the associated interpretation calendars.

For example, in the last three years the Bank of Spain and the European Banking Authority (the **EBA**) have imposed new capital requirements in advance of the entering into force of CRD IV. These measures have included Bank of Spain Circular 3/2008 (**Circular 3/2008**) of 22 May, on the calculation and control of minimum capital requirements, which was amended by Bank of Spain Circular 4/2011 (**Circular 4/2011**) and implements Capital Requirements Directive III in Spain. In addition, some of the requirements of Basel III were already implemented by the Spanish Government in 2011 with Royal Decree-Law 2/2011 (**RD-L 2/2011**) of 18 February (as amended by Law 9/2012) which established a new minimum requirement in terms of capital on risk-weighted assets (**Capital Principal**) and required such capital to be greater than 9 per cent. from 1 January 2013. RD-L 14/2013 specifically repealed, with effect from 1 January 2014, Title I of Royal Decree-Law 2/2011, which imposed the minimum Capital Principal requirement for credit institutions. Notwithstanding such repeal, as part of the assessment of additional capital requirements that could be required of credit institutions, the Bank of Spain has been given powers to stop or restrict, until 31 December 2014, any distributions of Tier 1 Capital which would have been caught by the minimum Capital Principal requirements stipulated in RD-L 2/2011, provided such distributions, accumulated over the year ended 31 December 2014, exceed in absolute terms the minimum Capital Principal legally

required as at 31 December 2013 and further risk non-compliance with additional capital requirements that could be required by the Bank of Spain.

Furthermore, following an evaluation of the capital levels of 71 financial institutions throughout Europe (including the Bank) based on data available as of 30 September 2011, the EBA issued a recommendation on 8 December 2011 pursuant to which, on an exceptional and temporary basis, financial institutions based in the EU should reach a new minimum Core Tier 1 ratio (9 per cent.) by 30 June 2012. This recommendation has been replaced by the EBA recommendation of 22 July 2013 on the preservation of Core Tier 1 capital during the transition to CRD IV. This new recommendation provides for the maintenance of a nominal floor of capital denominated in the relevant reporting currency of Core Tier 1 capital corresponding to the amount of capital needed as at 30 June 2012 to meet the requirements of the above recommendation of 8 December 2011. Competent authorities may waive this requirement for institutions which maintain a minimum of 7 per cent. of common equity Tier 1 capital under CRD IV rules applied after the transitional period.

Finally, in order to complete the implementation of CRD IV initiated by RD-L 14/2013, the Spanish Government has submitted to the Spanish Congress a draft of a new comprehensive law on the organisation, supervision and solvency of credit institutions (the **Supervision and Solvency Law**) for its consideration and, thereafter, approval.

Additionally, the Mexican government introduced the Basel III capital standards in 2012 and the Basel III transposition in the United States will be effective in 2015. This lack of uniformity may lead to an uneven playing field and to competition distortions. Moreover, regulatory fragmentation, with some countries bringing forward the application of Basel III requirements or increasing such requirements, could adversely affect a bank with global operations such as the Bank and could undermine its profitability.

There can be no assurance that the implementation of these new standards will not adversely affect the Bank's ability to pay dividends, or require it to issue additional securities that qualify as regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have adverse effects on the Bank's business, financial condition and results of operations. Furthermore, increased capital requirements may negatively affect the Bank's return on equity and other financial performance indicators.

Tax treatment of deferred tax assets following CRD IV

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

This new deduction introduced by CRD IV has a much greater impact on Spanish banks, such as the Bank, than other international banks due to the particularly restrictive nature of certain aspects of Spanish tax law. For example, in some EU countries when a bank reports a loss the tax authorities refund a portion of taxes paid in previous years but in Spain the bank must earn profits in subsequent years in order for this set-off to take place. Additionally, Spanish tax law does not recognise as tax-deductible certain amounts recorded as costs in the accounts of a bank, unlike the tax legislation of other EU countries. An example of this is the "generic provisions" (*provisiones genéricas*) made by Spanish banks, which are only considered to be tax-deductible costs when they are converted into specific provisions relating to exposures.

Due to these differences and the greater impact of the requirements of CRD IV with respect to DTAs, the Spanish regulator implemented certain amendments to the Spanish Law on Corporate Income Tax

(Royal Decree Law 4/2004 of 5 March 2004, as amended) through RD-L 14/2013. This provides for certain DTAs to be treated as a direct claim against the tax authorities if a Spanish bank is unable to reverse those temporary differences within 18 years or if it is liquidated, becomes insolvent or incurs accounting losses. This amendment will allow a Spanish bank not to deduct such DTAs from its regulatory capital.

There can be no assurance that the tax amendments implemented by RD-L 14/2013 will not be challenged by the European Commission, that the final interpretation of these amendments will not change (as further clarifying regulation is expected during 2014) and whether Spanish banks will ultimately be allowed to maintain certain DTAs as regulatory capital. If this regulation is challenged, this may negatively affect the Bank's regulatory capital and therefore its ability to pay dividends or require it to issue additional securities that qualify as regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have a material adverse effect on the Bank's business, financial condition and results of operations.

Contributions for assisting in the restructuring of the Spanish banking sector

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

Steps taken towards achieving an EU fiscal and banking union

In June 2012, a number of agreements were reached to reinforce the monetary union, including the definition of a broad roadmap towards a single banking and fiscal union. While support for a banking union in Europe is strong and significant advances have been made in terms of the development of a single-rule book through CRD IV, there is ongoing debate on the extent and pace of integration. On 13 September 2012, the European Parliament approved a proposal for the creation of the Single Supervisory Mechanism, so that 128 of the largest EU banks (including the Bank) will come under the European Central Bank's (the **ECB**) direct oversight from November 2014. Other issues are still open, such as details around the ECB comprehensive assessment which includes a supervisory risk assessment, an asset quality review and a stress test to be conducted by national supervisors and the ECB in coordination with the EBA before the ECB becomes the single European bank supervisor which should occur by November 2014. Other open issues include the representation and voting power of non-Eurozone countries, the accountability of the ECB to European institutions as part of the Single Supervision Mechanism, the final status of the EBA, the development of a new bank resolution regime and the creation of a common deposit-guarantee scheme. In particular, the RRD and the Deposit Guarantee Schemes Directive were submitted to the European Parliament in June 2013. Their approval is expected with the finalisation of negotiations between the European Council, the European Commission and the European Parliament by April-May 2014. As at the date of this Offering Circular, the RRD is expected to enter into force in 2015, but the bail-in tool will only be operational from 2016. The final regulation on direct recapitalisation by the European Stability Mechanism (ESM) is still pending. European leaders have also supported the reinforcement of the fiscal union but continue negotiating on how to achieve it.

RISK FACTORS

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its future capacity as the Bank's main supervisory authority may have a material impact on the Bank's business, financial condition and results of operations.

Regulatory reforms initiated in the United States

The Bank's operations may also be affected by other regulatory reforms in response to the financial crisis, including measures such as those concerning systemic financial institutions and the enactment in the United States in July 2010 of the Dodd-Frank Act. Among other changes, beginning five years after enactment of the Dodd-Frank Act, the Federal Reserve Board will apply minimum capital requirements to U.S. intermediate bank holding company subsidiaries of non-U.S. banks. Section 619 of the Dodd-Frank Act, also known as the Volcker Rule, is a key component of this effort. The Volcker Rule prohibits banking entities, which benefit from federal insurance on customer deposits or access to the discount window, from engaging in proprietary trading and from investing in or sponsoring hedge funds and private equity funds, subject to certain exceptions. In addition, in December 2012, the Federal Reserve Bank published new draft regulations on Foreign Banking Organisations, covering issues such as solvency, liquidity, supervision and crisis management. In addition, in July 2013 the federal banking agencies jointly issued a proposal to implement higher leverage ratio standards for the largest, most systematically important U.S. banking organisations. Although there remains uncertainty as to how regulatory implementation of these laws will occur, various elements of the new law may cause changes that impact the profitability of the Bank's business activities and require that it changes certain of its business practices, and could expose the Bank to additional costs (including increased compliance costs). These changes may also cause the Bank to invest significant management attention and resources to make any necessary changes.

Taxation of the financial sector

On 14 February 2013 the European Commission published its proposal for a Council Directive implementing enhanced cooperation in the area of a financial transaction tax, which was intended to take effect on 1 January 2014 but negotiations are still ongoing. The proposed Directive aims to ensure that the financial sector makes a fair and substantial contribution to covering the costs of the recent crisis and creating a level playing field with other sectors from a taxation point of view. In Spain, new legislation was passed in March 2013 imposed extraordinary levies on deposits (see "*Contributions for assisting in the restructuring of the Spanish banking sector*") but the final version of this tax is expected to be included in the Spanish tax reforms expected for 2014. There can be no assurance that additional bank levies and national financial transaction taxes will not be adopted by the authorities of the jurisdictions where the Bank operates. Any such additional levies and taxes could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

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

Historically, one of the Group's principal sources of funds has been savings and demand deposits. Large-denomination time deposits may, under some circumstances, such as during periods of significant interest rate-based competition for these types of deposits, be a less stable source of deposits than savings and demand deposits. The level of wholesale and retail deposits may also fluctuate due to other factors outside the Group's control, such as a loss of confidence (including as a result of political initiatives, including bail-in and/or confiscation and/or taxation of creditors' funds) or competition from investment funds or other products. The expected introduction of national taxes on outstanding deposits could be negative for the market in Spain. Moreover, there can be no assurance that, in the event of a sudden or unexpected withdrawal of deposits or shortage of funds in the banking systems or money markets in which the Group operates, the Group will be able to

RISK FACTORS

maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets. In addition, if public sources of liquidity, such as the ECB extraordinary measures adopted in response to the financial crisis since 2008, are removed from the market, there can be no assurance that the Group will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets or taking additional deleverage measures.

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

Financial markets continue to be subject to significant stress conditions, where steep falls in perceived or actual asset values have been accompanied by a severe reduction in market liquidity, especially during 2012 and which has only slightly recovered during 2013. In dislocated markets, hedging and other risk management strategies may not be as effective as they are in normal market conditions due in part to the decreasing credit quality of hedge counterparties. Severe market events such as the sovereign debt crisis, rising risk premiums and falls in share market prices, have resulted in the Group recording large write-downs on its credit market exposures in recent years. Any deterioration in economic and financial market conditions could lead to further impairment charges and write-downs.

The Group faces increasing competition in its business lines

The markets in which the Group operates are highly competitive and the Bank believes that this trend will continue. In addition, the trend towards consolidation in the banking industry has created larger and stronger banks with which the Group must now compete, some of which have recently received public capital from the European Stability Mechanism. Foreign competitors or funds are considering acquiring the institutions who have received such public capital in future auctions, like has been the case of NCG Banco, S.A., which has been acquired by Banesco, a bank from Venezuela.

The Group also faces competition from non-bank competitors, such as payment platforms; ecommerce businesses; department stores (for some credit products); automotive finance corporations; leasing companies; factoring companies; mutual funds; pension funds; insurance companies; and public debt (as a result of the high yields which have recently been offered as a consequence of the sovereign debt crisis, there has been a crowding out effect in the financial markets).

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

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

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

In addition, the high proportion of loans referenced to variable interest rates makes debt service on such loans more vulnerable to changes in interest rates. In addition, a rise in interest rates could reduce the demand for credit and the Group's ability to generate credit for its clients, as well as

RISK FACTORS

contribute to an increase in the credit default rate. As a result of these and the above factors, significant changes or volatility in interest rates could have a material adverse impact on the Group's business, financial condition or results of operations.

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

The Group's commitments with personnel which are considered to be wholly unfunded are recognised under the heading "Provisions—Funds for Pensions and Similar Obligations" in its consolidated balance sheets included in the Consolidated Financial Statements (as defined under "Documents Incorporated by Reference" below). These amounts are considered wholly unfunded due to the absence of qualifying plan assets.

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

Risks Relating to Spain and Europe

Economic tensions in the European Union and Spain, including as a result of the European sovereign debt crisis, could have a material adverse effect on the Group's business, financial condition and results of operations

The continuing crisis in worldwide financial and credit markets has led to a global economic slowdown in recent years, with many economies around the world showing significant signs of weakness or slow growth. In Europe, there has been a significant reduction in risk premiums since late 2012, which have improved during 2013 but have not yet returned to normalised levels. Nevertheless, uncertainty regarding the budget deficits and solvency of several countries persists, together with the risk of contagion to other more stable countries. To a lesser extent than during the height of the financial crisis, there is also the risk of default on the sovereign debt of certain EU countries and the impact this would have on the Eurozone countries, including the potential risk that one or more countries may leave the Eurozone, either voluntarily or involuntarily. Notwithstanding the above, the probability of country defaults or rupture of the Eurozone has decreased since 2012.

The exit of one or more EU Member States from the European Monetary Union could materially adversely affect the European and global economy, cause a redenomination of financial instruments or other contractual obligations from the euro to a different currency and substantially disrupt capital, interbank, banking and other markets, among other effects, any of which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In addition, tensions among Member States of the EU, and growing Euro-scepticism in certain EU countries, could pose additional difficulties in the EU's ability to react to an economic crisis.

RISK FACTORS

Additionally, it cannot be ruled out that there may be periods of instability as a result of upcoming events that could alter the progress that has been made in establishing a European banking union and strengthening the monetary union of the eurozone more generally. These events include the European Parliamentary elections, announcement of the conditions and results of future ECB stress tests and asset quality reviews of the European banking sector. The risk of significant deflation also cannot be ruled out.

Prior to the ECB assuming the supervision of European banks (including the Bank), the ECB is conducting, with the help of national supervisors, external advisors, consultants and other appraisers, a comprehensive assessment consisting of three elements: (i) a supervisory risk assessment, which will assess the main risks on the balance sheet including liquidity, funding and leverage; (ii) an asset quality review, which shall focus on credit and market risks; and (iii) a stress test to examine the need to strengthen capital or take other corrective measures which could affect the Group's business, financial condition and results of operations. It is expected that the results of this comprehensive agreement will be released at the end of 2014.

Economic conditions remain uncertain in Spain and the European Union and may deteriorate in the future, which could adversely affect the cost and availability of funding for Spanish and European banks, including the Group and the quality of the Group's loan portfolio, require the Group to take impairments on its exposures to the sovereign debt of one or more countries in the Eurozone or otherwise adversely affect the Group's business, financial condition and results of operations.

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

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

Since the Bank is a Spanish company with substantial operations in Spain, its credit ratings may be adversely affected by the assessment by rating agencies of the creditworthiness of the Kingdom of Spain. This is a particular risk of the peripheral European countries. Any decline in the Kingdom of Spain's sovereign credit ratings could, in turn, result in a decline in the Bank's credit ratings.

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

RISK FACTORS

turn, materially and adversely affect the Group's business, financial condition and results of operations.

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

The Group has historically developed its lending business in Spain, which continues to be its main place of business.

After rapid economic growth until 2007, Spanish gross domestic product (**GDP**) contracted by 3.7 per cent. and 0.3 per cent. in 2009 and in 2010, respectively, grew by 0.4 per cent. in 2011 and contracted by 1.6 per cent. in 2012 and by 1.2 per cent. in 2013. The Bank's Economic Research Department (**BBVA Research**) estimates that the Spanish economy will grow by 0.9 per cent. in 2014. In addition, GDP forecasts for the Spanish economy could be revised downwards if measures adopted in response to the economic crisis are not as effective as expected or if public deficit figures force the government to implement additional restrictive measures. In addition to the tightening of fiscal policies in order to correct its economic imbalances, Spain has seen confidence erode, because of weaker economic activity and, above all, a deterioration in employment in 2012 and 2013. The effects of the financial crisis have been particularly pronounced in Spain given Spain's heightened need for foreign financing as reflected by its high public deficit. Real or perceived difficulties in making the payments associated with this deficit can further damage Spain's economic situation and increase the costs of financing its public deficit. The aforementioned may be exacerbated by the following:

- The Spanish economy is particularly sensitive to economic conditions in the rest of the euro area, the primary market for Spanish goods and services exports.
- Spanish domestic demand in 2012 and 2013 was heavily impacted by fiscal policy both directly, through the progressive contraction of public sector demand (as a result, among other reasons, of tighter fiscal targets), and indirectly, through the impact of fiscal policy reforms on the consumption and investment decisions of private parties (as a result, for example, of increases in various taxes, including income tax and value added tax (**VAT**), and the elimination of certain tax benefits (including tax benefits on the purchase of a home)). Further tax reform is expected in 2014.
- Unemployment continued to increase in 2013 up to 26.3 per cent. and is expected to remain above 25 per cent. during 2014.
- The continued deterioration of the labour market may trigger a decline in the wage component of a household's gross disposable income.
- Investment in residential real estate contracted by approximately 12.5 per cent. and 8.0 per cent. in 2011 and 2012, respectively, and is expected to contract by 9 per cent. in 2013.

The Group's loan portfolio in Spain has been adversely affected by the deterioration of the Spanish economy since 2009. Given the concentration of the Group's loan portfolio in Spain, any adverse changes affecting the Spanish economy are likely to have a significant adverse impact on the Group's financial condition and results of operations.

In addition, the weakening in the Group's customer creditworthiness could impact its capital adequacy. The regulatory capital levels the Group is required to maintain are calculated as a percentage of its risk-weighted assets (**RWA**), in accordance with the CRD IV package (including Royal Decree Law 14/2013 that partially implemented CRD IV in Spain). The RWA consist of the Group's balance sheet, off-balance sheet and other market and operational risk positions, measured

RISK FACTORS

and risk-weighted according to regulatory criteria, and are driven, among other things, by the risk profile of the Group's assets, which include its lending portfolio. If a customer's repayment capacity declines, the Group lowers the customer's rating, which results in an increase in its RWA. In addition, substantial market volatility, a widening of credit spreads, a change in the regulatory treatment of certain positions, changes in foreign exchange rates, decreases in collateral ratios as a consequence of the deterioration of the market value of assets pledged as collateral, or a further deterioration of the economic environment, among other things, could result in an increase in the Group's RWA, which potentially may reduce its capital adequacy ratios. If the Group were to experience a reduction in its capital adequacy ratios, and could not raise further capital, it would have to reduce its lending or investments in other operations. Any of the foregoing could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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

In the years prior to 2008, population increase, economic growth, declines in unemployment rates and increases in levels of household disposable income, together with low interest rates within the EU, led to an increase in the demand for mortgage loans in Spain. This increased demand and the widespread availability of mortgage loans affected housing prices, which rose significantly. After this buoyant period, demand began to adjust in mid-2006. Since the last quarter of 2008, the supply of new homes has been adjusting sharply downward in the residential market in Spain, but a significant excess of unsold homes still exists in the market. Spanish real estate prices continued to decline during 2012 in light of deteriorating economic conditions. Housing demand has remained weak and housing transactions continued to decrease during 2013 but are expected to stabilise in 2014.

The Group has substantial exposure to the Spanish real estate market and the continuing deterioration of Spanish real estate prices could materially and adversely affect its business, financial condition and results of operations. The Group is exposed to the Spanish real estate market due to the fact that Spanish real estate assets secure many of its outstanding loans and due to the significant amount of Spanish real estate assets held on its balance sheet, including real estate received in lieu of payment for certain underlying loans. Furthermore, the Group has restructured certain of the loans it has made relating to real estate and the capacity of the borrowers to repay those restructured loans may be materially adversely affected by declining real estate prices. New guidelines from the Bank of Spain on how to classify refinanced loans according to their risk profile may discourage refinancing activity in the future, worsening the prospects of these loans.

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

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

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

Risks Relating to Latin America

Events in Mexico could adversely affect the Group's operations

The Group is substantially dependant on its Mexican operations. The Group faces several types of risks in Mexico which could adversely affect its banking operations in Mexico or the Group as a whole. Given the internationalisation of the financial crisis, the Mexican economy has felt the effects of the global financial crisis and the adjustment process that was underway. The Mexican economy grew by 1.2 per cent. in 2013 but the first half of the year was characterised by a more acute downturn than originally forecasted due to the considerable slowdown in the industrial sector, partially driven by the weak demand and also a contraction in public demand. The slowdown in the rate of job creation and the contribution of salaries to disposable income in real terms have been significant factors underlying the downturn in domestic demand. Another fact to consider is the low foreign-currency inflows from remittances, which continue to decline.

If there is a further increase in unemployment rates (which were 5.1 per cent. in 2013, 5.0 per cent. in 2012 and 5.2 per cent. in 2011 and are expected to be 5.0 per cent. in 2014), which could arise if there is a more pronounced or prolonged slowdown in Europe or the United States, it is likely that such rates will further increase.

In addition, inflation was 3.4 per cent. in the third quarter of 2013, exceeding the target set by the Mexican Central Bank. Any tightening of the monetary policy, including to address upward inflationary pressures, could make it more difficult for customers of the Group's mortgage and consumer loan products in Mexico to service their debts, which could have a material adverse effect on the business, financial condition, cash flows and results of operations of the Bank's Mexican subsidiary or the Group as a whole. In May 2013, Mexico presented its proposed financial reforms, which are based on: i) a new mandate for development banks, ii) the promotion of competition to reduce interest rates, iii) the creation of incentives for banks to give more credit and iv) the strengthening of the banking system. The final text was adopted on 9 January 2014. Finally, growing social tensions in Mexico, including as a result of drug-related corruption and escalating violence, could weigh on the economic outlook, which could increase economic uncertainty and capital outflows.

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

The Money Laundering Law (*Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita*) became effective in July 2013. The Ministry of Finance (*Secretaría de Hacienda y Crédito Público*) and a special analysis unit within the Federal Attorney's Office (*Unidad Especializada en Análisis Financiero en Contra de la Delincuencia Organizada, de la Procuraduría General de la República*) are in charge of this process. The Law specifies more severe penalties for non compliance and more information requirements for some transactions. However, authorities are working on evaluating the impact of the law before it comes into force.

RISK FACTORS

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

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

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

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

Many of the main challenges for the region relate to the evolution of external factors, including the crisis in Europe or the fiscal adjustment measures in the U.S., and the increasing use of macro-prudential measures to control global liquidity, which could deter financial flows to enter in Latin American countries. In addition, inflationary pressure in some countries in the region (with inflation in some countries exceeding the relevant central banks' targets) has led to different approaches from central banks when dealing with turbulence in the financial markets. Price overheating could leave Latin America economies more vulnerable to an adverse external shock since the more important role of exports in their GDP is making them more dependent on the maintenance of high terms of trade. Moreover, uncertainty on the evolution of the global economy and lower global liquidity will likely contribute to a slight depreciation in exchange rates in most countries. This would result in monetary policy being less likely to act as a stabiliser in case of domestic overheating. The region needs to promote reforms to increase productivity and to consolidate growth in the long term, as the sustainable growth of per capita income cannot be based only on capital accumulation and employment growth.

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

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

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

Financial and securities markets in Latin American countries in which the Group operates are, to varying degrees, influenced by economic and market conditions in other countries in Latin America and beyond. The region's growth decelerated in 2012, registering a growth rate of 3 per cent., in particular due to the economic slowdown of Brazil, and was 2.4 per cent. in 2013. The region is expected to grow by 3.1 per cent. in 2014. The international financial outlook became less benign for Latin America in recent months. Latin America, together with other emerging markets, has been one of the hardest hit regions in this new environment, with term capital outflows, increases in sovereign spreads, stock market falls and devaluations in exchange rates. There has also been an adjustment in the prices of some of the most important export commodities during 2013. In addition, the outlook for foreign balances in Latin America has worsened in 2013 due to the above mentioned correction in raw material prices and weak foreign demand.

Negative developments in the economy or securities markets in one country, particularly in the U.S. or in Europe under current circumstances, may have a negative impact on emerging market economies. BBVA believes that two global risks for Latin American countries are currently posed by the possible deterioration of the European crisis and the effects of the withdrawal of monetary stimuli or tapering in the U.S. by the Federal Reserve that has now started, which would especially affect countries with less capacity to access international markets to cushion the fall in commodity prices and with less room to use counter-cyclical policies. Any such developments may adversely affect the business, financial condition, operating results and cash flows of BBVA's subsidiaries in Latin America. These economies are also vulnerable to conditions in global financial markets and especially to commodities price fluctuations and these vulnerabilities usually reflect adversely in financial market conditions through exchange rate fluctuations, interest rate volatility and deposits volatility. For example, at the beginning of the financial crisis these economies were hit by a simultaneous drop in commodity export prices, a collapse in demand for non-commodity exports and a sudden halting of foreign bank loans. Even though most of these countries withstood the triple shock rather well, with limited damage to their financial sectors, non-performing loan ratios rose and bank deposits and loans contracted. These trends have been corrected in recent months in most countries. As a global economic recovery remains fragile, there are risks of a relapse. If the global financial crisis continues and, in particular, if the effects on the Chinese, European and U.S. economies intensify, the business, financial condition, operating results and cash flows of BBVA's subsidiaries in Latin America are likely to be materially adversely affected.

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

The Group operates commercial banks and insurance and other financial service companies in various Latin American countries and its overall success as a global business depends, in part, upon its ability to succeed in differing economic, social and political conditions. The Group is confronted with different legal and regulatory requirements in many of the jurisdictions in which it operates. These include, but are not limited to, different tax regimes and laws relating to the repatriation of funds or nationalisation or expropriation of assets. The Group's international operations may also expose it to risks and challenges which its local competitors may not be required to face, such as exchange rate risk, difficulty in managing a local entity from abroad, and political risk which may be particular to foreign investors, or the distribution of dividends. Market outlook for an earlier than expected withdrawal of monetary stimuli or tapering in the U.S. (which started later than initially expected), together with the risk of an increased slowdown in China, triggered widespread devaluation in exchange rates in the region in 2013.

RISK FACTORS

The Group's presence in Latin American markets also requires it to respond to rapid changes in market conditions in these countries. There can be no assurance that the Group will 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 Group's control may have a material effect on its business, financial condition, results of operations and cash flows

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

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

Risks Relating to the United States

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

As a result of the business of the Bank's subsidiaries in the United States, the Group is vulnerable to developments in this market, particularly the real estate market. During the summer of 2007, the difficulties experienced by the subprime mortgage market triggered a real estate and financial crisis, which had significant effects on the real economy and resulted in significant volatility and uncertainty in markets and economies around the world. The recovery is still weak, as the economy is growing at low rates and unemployment is persistently high. The US economy registered a 1.6 per cent. growth rate for 2013, down from 2.8 per cent. in 2012, showing that economic recovery is slower than expected. A 2.3 per cent. growth rate is expected for 2014. Worsening economic conditions in the United States could have a material adverse effect on the business, financial condition, results of operations and cash flows of the Bank's subsidiary BBVA Compass, or the Group as a whole, and could require the Bank to provide BBVA Compass with additional capital.

Risks Relating to Other Countries

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

As of the date of this Offering Circular, BBVA's ownership interest in members of the CITIC Group, a Chinese banking group, are a 29.7 per cent. stake in CITIC International Financial Holdings Ltd (CIFH) and a 9.9 per cent. stake in China CITIC Bank Corporation Limited (CNCB). CIFH is a banking entity headquartered in Hong Kong and CNCB is a banking entity headquartered in China. As a result of the Group'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, including changes in laws or regulations or in the interpretation of existing laws or regulations, concerning the economy and state-owned enterprises, or otherwise affecting the Group's activity, could have a significant effect on Chinese private sector entities in general, and on CIFH or CNCB in particular.

RISK FACTORS

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

In addition, while the Group believes long term prospects in both China and Hong Kong are positive, particularly for the consumer finance market, near term risks are present from the impact of a slowdown in global growth, which could result in tighter financing conditions and could pose risks to credit quality. China's GDP growth has moderated following efforts to avert overheating and steer the economy towards a soft landing. For 2013, China registered a 7.7 per cent. growth in GDP and 7.6 per cent. growth is expected for 2014. This has resulted in the uncertainty at the beginning of the year regarding the sustainability of its growth and the possibility of a hard landing dissipating in the short term. The economy recovered in the second half of 2013 and this has been maintained, although some of the more recent data on confidence and expectations of manufacturing activity are once again below market expectations.

Fundamental changes in economic policy have also been announced. At the third plenum of the Chinese Communist Party, the authorities reiterated their commitment to maintaining high rates of growth, while at the same time proposing measures that will strengthen the role of the market in allocating resources and a rebalancing of the Chinese economy from a model of investment and exports towards increasing household consumption. These measures have high execution risks. For example, the rapid growth of credit is being reflected in liquidity tensions in the interbank market which are above all affecting the so-called shadow banking sector and a continuation of these tensions could have unwelcome effects on the stability of the system.

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

Since Garanti operates primarily in Turkey, economic, political and other developments in Turkey may have a material adverse effect on Garanti's business, financial condition and results of operations and the value of the Bank's investment in Garanti

In 2011, the Bank acquired a 25.01 per cent. interest in Türkiye Garanti Bankası A.Ş. (**Garanti**). Most of Garanti's operations are conducted, and most of its customers are located, in Turkey. Accordingly, Garanti's ability to recover on loans, its liquidity and financial condition and its results of operations are substantially dependent upon the economic, political and other conditions prevailing in or that otherwise affect Turkey. For instance, if the Turkish economy is adversely affected by, among other factors, a reduction in the level of economic activity, continuing inflationary pressures, devaluation or depreciation of the Turkish Lira, a natural disaster or an increase in domestic interest rates, then a greater portion of Garanti's customers may not be able to repay loans when due or meet their other debt service requirements to Garanti, which would increase Garanti's past due loan portfolio and could materially reduce its net income and capital levels. After growing by approximately 8.5 per cent. in 2011, 2.2 per cent. in 2012 and 3.9 per cent. in 2013, the Turkish economy is expected to grow by 3.8 per cent. in 2014. In addition, inflation stayed at 8.9 per cent. in 2012 and was 7.6 per cent. in 2013. Inflation is expected to stay around 6.4 per cent. in 2014. However, the recent civil developments and political situation in Turkey, as well as the interest rate increases to address the depreciation of the Turkish Lira could adversely affect economic growth. The political crisis accelerated in December and will continue at least until March 2014 (when local elections are due to be held). Furthermore, Turkey's recent credit boom led to the rapid widening of its current account deficit, which reached a multi-year high of 9.9 per cent. of GDP in 2011, 5.9 per cent. in 2012 and around 7.5 per cent. in 2013. Despite Turkey's increased political and economic stability in recent

RISK FACTORS

years, the recent rating upgrade by Fitch in November 2012 and by Moody's in May 2013 and the implementation of institutional reforms to conform to international standards, Turkey is an emerging market and it is subject to greater risks than more developed markets, as witnessed by the recent civil developments, which may also have an adverse effect on the financial sector. Financial turmoil in any emerging market could negatively affect other emerging markets, including Turkey, or the global economy in general. Moreover, financial turmoil in emerging markets tends to adversely affect stock prices and debt securities prices of other emerging markets as investors move their money to more stable and developed markets, and may reduce liquidity to companies located in the affected markets. An increase in the perceived risks associated with investing in emerging economies in general, or Turkey in particular, could dampen capital flows to Turkey and adversely affect the Turkish economy.

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

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

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

The Bank has entered into a shareholders' agreement with Doğu Holding A.Ş. in connection with the Garanti acquisition

The Bank entered into a shareholders' agreement with Doğu Holding A.Ş. (**Doğu**) in connection with the Garanti acquisition. Pursuant to the shareholders' agreement, the Bank and Doğu have agreed to manage Garanti through the appointment of board members and senior management. Doğu is one of the largest Turkish conglomerates and has business interests in the financial services, construction, tourism and automotive sectors. Any financial reversal, negative publicity or other adverse circumstance relating to Doğu could adversely affect Garanti or the Bank. Furthermore, the Bank must successfully cooperate with Doğu in order to manage Garanti and grow its business. It is possible that the Bank and Doğu will be unable to agree on the management or operational strategies to be followed by Garanti, which could adversely affect Garanti's business, financial condition and results of operations and the value of the Bank's investment and lead to the Bank's failure to achieve the expected benefits from the Garanti acquisition.

Other Risks

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

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

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

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

A further reduction in expansive monetary policies ("tapering") could increase exchange rate volatility

In order to stimulate their economies, countries such as the United States and Japan are currently carrying out expansive monetary policies. A reduction of this stimulus ("tapering", such as that being implemented by the United States) could potentially increase exchange rate volatility. The change of direction in US monetary policy has, as usual, had a global impact. The emerging economies are being subjected to capital outflows and currency depreciation, intensified in some cases by domestic events that have increased uncertainty regarding the management of their respective local economic policies. There continues to be a differentiation between economies depending on their fundamentals: higher external deficits and more dependence on short-term and foreign-currency funding are associated with greater vulnerability to capital outflows and currency depreciation. The monetary tightening being introduced by some of these countries to control currency depreciation and inflation expectations will have a negative impact on growth. This might especially impact emerging economies such as Asia, Latin America and Turkey, which will negatively affect the business, financial condition, operating results and cash flows of the Bank's subsidiaries in such regions.

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

The Preferred Securities are subject to the provisions of the laws of Spain and their official interpretation, which may change (including as a result of the implementation of CRD IV and the RRD) and have a material adverse effect on the terms and market value of the Preferred Securities. Many aspects of the manner in which CRD IV will be implemented remain uncertain

The Conditions are drafted on the basis of Spanish law in effect as at the date of this Offering Circular. Changes in the laws of Spain or their official interpretation by regulatory authorities such as the Bank of Spain or the ECB after the date hereof may affect the rights and effective remedies of Holders as well as the market value of the Preferred Securities. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Preferred Securities, which may have an adverse effect on investment in the Preferred Securities. They could also include the introduction of a variety of statutory resolution, loss-absorption and bail-in measures and tools, which may affect the rights of holders of obligations issued by the Bank, including the Preferred Securities.

Changes in Spanish law may also include the amendment of Spanish laws governing the recovery, resolution and statutory loss absorbency regime established under Law 9/2012 (see “*Factors that may affect the Bank’s ability to fulfil its obligations under the Preferred Securities – The Bank is subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments or changes in government policy could have a material adverse effect on its business, results of operations and financial condition*”), or any ordinance implementing, amending or substituting the same, including the implementation of the RRD (see “*The Preferred Securities may be subject to loss absorption*”).

In addition, other changes in Spanish law may include the amendment of Spanish laws governing the capital requirements of banks, including Law 13/1985 or any ordinance implementing or amending Law 13/1985 and, in particular, Royal Decree 216/2008, of 15 February 2008 (*Real Decreto 216/2008, de 15 de febrero, de recursos propios de las entidades financieras*), Circular 3/2008, of 22 May 2008 (*Circular 3/2008, de 22 de mayo, del Banco de España, a entidades de crédito, sobre determinación y control de los recursos propios mínimos*) and any other regulation affecting the Preferred Securities. In particular, as mentioned above, the Spanish Government has submitted to the Spanish Congress the draft Supervision and Solvency Law for its consideration and, thereafter, approval to complete the implementation of CRD IV in Spain. Although provisional and subject to amendment as part of the legislative process, this draft law provides for, among other things, the repeal of Law 13/1985, although some of its provisions are intended to be incorporated in the new Supervision and Solvency Law to be enacted.

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

Any such changes could impact the calculation of the CET1 ratio or the CET1 Capital of the Bank or the Group, the Tier 1 Capital of the Bank or the Group or the RWA Amount of the Bank or the Group. Furthermore, because the occurrence of the Trigger Event depends, in part, on the calculation of this ratio and these capital measures, any change in Spanish law that could affect the calculation of such ratio and measures could also affect the determination of whether the Trigger Event has actually occurred.

RISK FACTORS

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

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

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

The Preferred Securities may be subject to loss absorption

The RRD is a legislative proposal for a directive to provide for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms. The regime provided for by the draft RRD is, among other things, stated to be needed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions while minimising the impact of an institution's failure on the economy and financial system.

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

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

RISK FACTORS

On the basis of the current draft of the RRD, Member States will be expected to implement the proposed RRD Loss Absorption Requirement on or before 1 January 2015 but the bail-in tool only from 1 January 2016. See “*Factors that may affect the Bank’s ability to fulfil its obligations under the Preferred Securities - Steps taken towards achieving an EU fiscal and banking union*” above. If the RRD Loss Absorption Requirement is not implemented by 31 December 2015, CRD IV indicates that the European Commission shall review and report on whether provision for such a requirement should be contained in CRD IV and, in light of that review, come forward with appropriate legislative proposals.

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

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

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

The obligations of the Bank under the Preferred Securities may, therefore, be subject to loss absorption pursuant to the RRD Loss Absorption Requirement or otherwise on any bail-in or pursuant to the loss absorption measures under Law 9/2012, which may result in holders of the Preferred Securities losing some or all of their investment. The exercise of any such power or any suggestion of such exercise could, therefore, materially adversely affect the value of the Preferred Securities.

The draft RRD is not in final form and changes may be made to it in the course of the legislative process. It is also presently unclear what the implications of its implementation will be for the loss absorption measures introduced in Spain by Law 9/2012 and as to what extent, if any, the provisions of Law 9/2012 may need to change once the draft RRD is implemented. Accordingly, it is not yet possible to assess the full impact of Law 9/2012 or the draft RRD. There can be no assurance that the implementation of the RRD in its current form or in its final form as modified and any actions that may be taken pursuant to the RRD once implemented or Law 9/2012 would not adversely affect the price or value of a Holder’s investment in the Preferred Securities and/or the ability of the Bank to satisfy its obligations under the Preferred Securities.

RISK FACTORS

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

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

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

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

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

As a result, the Preferred Securities will also be converted into Common Shares in the event of a Capital Reduction notwithstanding that the Trigger Event has not occurred. **However, each Holder will have the right to elect that its Preferred Securities shall not be converted on such Capital Reduction by delivery of a duly completed and signed Election Notice as provided in Condition 5.2 on or before the 10th Business Day immediately following the Capital Reduction Notice Date. Any failure to make such election by such deadline will result in the conversion of a Holder's Preferred Securities on such Conversion Settlement Date in accordance with Condition 5.2.**

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

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

The occurrence of the Trigger Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Bank's control. For example, the occurrence of one or more of the risks described under "*Risk Factors – Factors that may affect the Bank's ability to fulfil its obligations under the Preferred Securities*", or the deterioration of the circumstances described therein, will substantially increase the likelihood of the occurrence of the Trigger Event. Furthermore, the occurrence of the Trigger Event depends, in part, on the calculation of the CET1 Ratio, which can be affected, among other things, by the growth of the Bank's business and its future earnings; expected payments by the Bank in respect of dividends and distributions and other equivalent payments in respect of instruments ranking junior to the Preferred Securities as well as other Parity Securities; regulatory changes (including possible changes in regulatory capital definitions, calculations and RWA) and the Bank's ability to manage actively its RWA. In addition, since the Regulator may require the Bank to calculate the CET1 Ratio at any time, a Trigger Event could occur at any time.

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

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

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

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

Perpetual Preferred Securities

The Bank is under no obligation to redeem the Preferred Securities at any time and the Holders have no right to call for their redemption.

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

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

RISK FACTORS

in force. Under the CRR, the Regulator will give its consent to a redemption or repurchase of the Preferred Securities in such circumstances provided that either of the following conditions is met:

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

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

For the purposes of the Preferred Securities, a Tax Event may arise both where (a) the Bank would not be entitled to claim a deduction for Spanish tax purposes in respect of any Distribution to be made on the Preferred Securities or the value of such deduction to the Bank would be materially reduced, or (b) as a result of any change in, or amendment to, the laws or regulations of Spain on or after the Closing Date which would mean that the Bank would be required to pay additional amounts pursuant to Condition 11. See Condition 6.4.

The First Additional Provision to the draft Supervision and Solvency Law provides for a revised taxation regime for preferred securities issued after the Supervision and Solvency Law enters into force in Spain (including in relation to the deductibility of distributions paid on such securities for Spanish tax purposes and the Spanish withholding tax regime for such securities) which will replace the taxation regime currently set out in the Second Additional Provision of Law 13/1985.

To benefit from the taxation regime to be applied to preferred securities under the draft Supervision and Solvency Law, preferred securities must be listed on a regulated market or multilateral trading facility and, unlike the position under Law 13/1985, it will not be sufficient for preferred securities to be listed on an organised secondary market.

Notwithstanding the above, the latest published draft of the Supervision and Solvency Law includes transitional provisions for preferred securities issued prior to it entering into force in Spain. These transitional provisions provide that the taxation regime which was applicable to those preferred securities as at the date of their issuance will continue to apply to them after the date on which the Supervision and Solvency Law enters into force in Spain. Since the Preferred Securities will be issued prior to the date on which the Supervision and Solvency Law enters into force, such transitional provisions would mean that the taxation regime currently applicable to the Preferred Securities should continue to apply.

The draft Supervision and Solvency Law is not in final form and changes may be made to it during the course of the legislative process which could have an impact on the taxation regime applicable to the Preferred Securities.

In addition to the specific points set out above with respect to the draft Supervision and Solvency Law, it is not possible to predict whether or not any further change in the laws or regulations of Spain, Applicable Banking Regulations or the application or official interpretation thereof, or any of the other events referred to above, will occur and so lead to the circumstances in which the Bank is able to elect to redeem the Preferred Securities, and if so whether or not the Bank will elect to exercise such option to redeem the Preferred Securities. There can be no assurances that, in the event of any

RISK FACTORS

such early redemption, Holders will be able to reinvest the proceeds at a rate that is equal to the return on the Preferred Securities.

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

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

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

The Preferred Securities accrue Distributions as further described in Condition 3, but the Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time that it deems necessary or desirable and for any reason and without any restriction on it thereafter. Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items of the Bank. To the extent that (i) the Bank has insufficient Distributable Items to make Distributions on the Preferred Securities scheduled for payment in the then current financial year and any equivalent payments scheduled to be made in the then current financial year in respect of any other Parity Securities then outstanding, in each case excluding any portion of such payments already accounted for in determining the Distributable Items of the Bank, and/or (ii) the Bank and/or the Group is in breach of any restriction contained in any Applicable Banking Regulations, and/or (iii) the Regulator, in accordance with Applicable Banking Regulations, requires the Bank to cancel the relevant Distribution in whole or in part, then the Bank will, without prejudice to the right above to cancel the payment of all such Distributions on the Preferred Securities, make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.

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

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

No such election to cancel the payment of any Distribution (or part thereof) or non-payment of any Distribution (or part thereof) will constitute an event of default or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding up of the Bank.

RISK FACTORS

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

Notwithstanding the applicability of any one or more of the conditions set out above resulting in Distributions under the Preferred Securities not being paid or being paid only in part, the Bank will not be in any way limited or restricted from making any distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1 Capital of the Bank or the Group) or in respect of any other Parity Security.

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

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

Under CRD IV, institutions will be required to hold a minimum amount of regulatory capital of 8 per cent. of RWA. In addition to these so-called “own funds” requirements under CRD IV, supervisory authorities may impose additional capital requirements to cover other risks (thereby increasing the regulatory minimum required under CRD IV). The Bank may also decide to hold additional capital. CRD IV further introduces capital buffer requirements that are in addition to the minimum capital requirement and are required to be satisfied with common equity tier 1 capital. It will introduce five new capital buffers: (i) the capital conservation buffer, (ii) the institution-specific countercyclical buffer, (iii) the global systemically important institutions buffer, (iv) the other systemically important institutions buffer and (v) the systemic risk buffer. Some or all of these buffers may be applicable to the Bank and/or the Group as determined by the Regulator.

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

The restrictions will be scaled according to the extent of the breach of the “combined buffer requirement” and calculated as a percentage of the profits of the institution since the last distribution of profits or “discretionary payment”. Such calculation will result in a “Maximum Distributable Amount” in each relevant period. As an example, the scaling is such that in the bottom quartile of the “combined buffer requirement”, no “discretionary distributions” will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement it may be necessary to reduce discretionary payments, including potentially exercising the Bank’s discretion to cancel (in whole or in part) payments of Distributions in respect of the Preferred Securities.

Although provisional and subject to amendment as part of the legislative process, the draft Supervision and Solvency Law provides for the implementation in Spain of the above provisions. Additionally, the draft Supervision and Solvency Law also contemplates that its provisions implementing Article 141 of the CRD IV Directive will be further developed by secondary regulatory legislation. However, the implementation of Article 141 of the CRD IV Directive remains uncertain

RISK FACTORS

and, as at the date of this Offering Circular, details of the secondary regulatory legislation under which this Article is to be implemented in Spain have yet to be published.

There are no events of default

Holders have no ability to require the Bank to redeem their Preferred Securities. The terms of the Preferred Securities do not provide for any events of default. The Bank is entitled to cancel the payment of any Distribution in whole or in part at any time and as further contemplated in Condition 3 (see “– *Payments of Distributions on the Preferred Securities are discretionary and subject to the fulfilment of certain conditions*”) and such cancellation will not constitute any event of default or similar event or entitle Holders to take any related action against the Bank. If Common Shares are not issued and delivered following a Conversion Event, then on a liquidation, dissolution or winding-up of the Bank the claim of a Holder will not be in respect of the Liquidation Preference of its Preferred Securities but will be an entitlement to receive out of the relevant assets a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such Conversion had taken place immediately prior to such liquidation, dissolution or winding-up.

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

The Bank has the option to redeem the Preferred Securities in certain circumstances (see “–*The Preferred Securities may be redeemed at the option of the Bank*” above). The ability of the Bank to redeem or purchase the Preferred Securities is subject to the Bank satisfying certain conditions (as more particularly described in Conditions 6 and 7). There can be no assurance that Holders will be able to reinvest the amount received upon redemption and/or purchase at a rate that will provide the same rate of return as their investment in the Preferred Securities.

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

- (i) if the Bank exercises its rights to redeem or purchase the Preferred Securities in accordance with Conditions 6 and 7; or
- (ii) by selling their Preferred Securities or, following the occurrence of a Conversion Event and the issue and delivery of Common Shares in accordance with Condition 5, their Common Shares, provided a secondary market exists at the relevant time for the Preferred Securities or the Common Shares (see “– *Risks related to the Market Generally – The secondary market generally*”).

If the Bank exercised its right to redeem or purchase the Preferred Securities in accordance with Condition 6 but failed to make payment of the relevant Liquidation Preference to redeem the Preferred Securities when due, such failure would not constitute an event of default but would entitle Holders to bring a claim for breach of contract against the Bank, which, if successful, could result in damages.

Holders have limited anti-dilution protection

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

RISK FACTORS

trading on a Relevant Stock Exchange, the higher of (b) and (c) above. See Condition 5 for the complete provisions regarding the Conversion Price.

The Floor Price will be adjusted in the event that there is a consolidation, reclassification/redesignation or subdivision affecting the Common Shares, the payment of any Extraordinary Dividends or Non-Cash Dividends, rights issues or grant of other subscription rights or certain other events which affect the Common Shares, but only in the situations and to the extent provided in Condition 5.4. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Common Shares or that, if a Holder were to have held the Common Shares at the time of such adjustment, such Holder would not have benefited to a greater extent.

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

Further, if the Bank issues any Common Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve), where the Shareholders may elect to receive a Dividend in cash in lieu of such Common Shares and such Dividend does not constitute an Extraordinary Dividend, no conversion price adjustment shall be applicable in accordance with Conditions 5.4.2 and 5.4.3, and therefore Holders will not be protected by anti-dilution measures.

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

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

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

The Preferred Securities will constitute unsecured and subordinated obligations of the Bank and rank (a) junior to (i) all liabilities of the Bank including subordinated liabilities other than Parity Securities and (ii) instruments issued or guaranteed by the Bank ranking senior to the Preferred Securities, (b) *pari passu* with each other and with any Parity Securities and (c) senior to the Common Shares or any other instruments issued or guaranteed by the Bank ranking junior to the Preferred Securities.

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

RISK FACTORS

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

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

If a Delivery Notice is not duly delivered by a Holder, that Holder will bear the risk of fluctuations in the price of the Common Shares and the Bank may, in its sole and absolute discretion, cause the sale of any Common Shares underlying the Preferred Securities

In order to obtain delivery of the relevant Common Shares on Conversion, the relevant Holder must deliver a duly completed Delivery Notice in accordance with the provisions set out under Condition 5.11. If a duly completed Delivery Notice is not so delivered, then a Holder will bear the risk of fluctuations in the price of the Common Shares that may further affect the value of any Common Shares subsequently delivered. In addition, the Bank may, on the Notice Cut-Off Date (save as provided below), in its sole and absolute discretion, elect to appoint a person (the **Selling Agent**) to procure that all Common Shares held by the Settlement Shares Depository in respect of which no duly completed Delivery Notice and Preferred Securities have been delivered on or before the Notice Cut-off Date as aforesaid shall be sold by or on behalf of the Selling Agent as soon as reasonably practicable.

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

There are limited remedies available under the Preferred Securities

There are no events of default under the Preferred Securities (see “– *There are no events of default*”). In the event that the Bank fails to make any payments or deliver any Common Shares when the same may be due, the remedies of Holders are limited to bringing a claim for breach of contract.

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

Upon the occurrence of a Conversion Event, a Holder receiving Common Shares may have to make a takeover bid addressed to the shareholders of the Bank pursuant to Law 24/1988, of 28 July, on the Securities Market, as amended (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) and Royal Decree 1066/2007, of 27 July 2007, as amended (*Real Decreto 1066/2007, de 27 de julio, sobre el régimen de las ofertas públicas de adquisición de valores*), which have implemented Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004, if its aggregate holding in the Bank exceeds 30 per cent. of the available voting rights or if its aggregate holding in the Bank is less than 30 per cent. of such voting rights, but within 24 months of the date on which it acquired that lower percentage, it nominates a number of directors that, when taken together with any directors it has previously nominated, represent more than half of the members of the Bank's management body, in each case as a result of the conversion of the Preferred Securities into Common Shares.

RISK FACTORS

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

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

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

Except as provided under Condition 10.5, there is no restriction on the amount or type of further securities or indebtedness which the Bank may issue or incur which ranks senior to, or *pari passu* with, the Preferred Securities. The incurrance of any such further indebtedness may reduce the amount recoverable by Holders on a liquidation, dissolution or winding-up of the Bank in respect of the Preferred Securities and may limit the ability of the Bank to meet its obligations in respect of the Preferred Securities, and result in a Holder losing all or some of its investment in the Preferred Securities. In addition, the Preferred Securities do not contain any restriction on the Bank issuing securities that may have preferential rights to the Common Shares or securities ranking *pari passu* with the Preferred Securities and having similar or preferential terms to the Preferred Securities.

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

Any pecuniary rights with respect to the Common Shares, in particular the entitlement to dividends shall only arise and the exercise of voting rights and rights related thereto with respect to any Common Shares is only possible after the date on which, following Conversion, as a matter of Spanish law the relevant Common Shares are issued and the person entitled to the Common Shares is registered as a shareholder in Iberclear and its participating entities in accordance with the provisions of, and subject to the limitations provided in, the articles of association of the Bank. Therefore, any failure by the Bank to issue, or effect the registration of, the Common Shares after the occurrence of a Conversion Event shall result in the Holders not receiving any benefits related to the holding of the Common Shares and, on a liquidation, dissolution or winding-up of the Bank, the entitlement of any such Holders will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation, dissolution or winding-up, as more particularly described in Condition 4.2.

RISKS RELATED TO THE PREFERRED SECURITIES GENERALLY

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

Each potential investor in the Preferred Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Preferred Securities, the merits and risks of investing in the Preferred Securities and the information contained or incorporated by reference in this Offering Circular, taking into account that the

RISK FACTORS

Preferred Securities may only be a suitable investment for professional or institutional investors;

- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Preferred Securities and the impact the Preferred Securities will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Preferred Securities, including where the currency for payments in respect of the Preferred Securities is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Preferred Securities, including the provisions relating to the payment and cancellation of Distributions and any Conversion of the Preferred Securities into Common Shares, and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

Prohibition on acquisition of Preferred Securities by Spanish Residents

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

Spanish tax rules

Article 44 of RD 1065/2007 sets out the reporting obligations applicable to preference shares and debt instruments issued under Law 13/1985. The procedures apply to interest deriving from preference shares and debt instruments to which Law 13/1985 refers, including debt instruments issued at a discount for a period equal to or less than twelve months.

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

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

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

In accordance with Article 44 of RD 1065/2007 as amended by RD 1145/2011, the relevant Paying Agent should provide the Bank with the statement reflecting the relevant position at the close of

RISK FACTORS

business on the business day immediately prior to each interest payment date. In the event that on such date, the entity(ies) obliged to provide the declaration fail to do so, the Bank or the Paying Agent on its behalf will make a withholding at the general rate (currently 21 per cent.) on the total amount of the return on the relevant Preferred Securities otherwise payable to such entity.

Notwithstanding the foregoing, the Bank has agreed that in the event that withholding tax were required by law, the Bank shall pay such additional amounts as would have been received had no such withholding or deduction been required, except as provided in Condition 11 and as otherwise described in this Offering Circular.

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

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

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

U.S. Foreign Account Tax Compliance Withholding

The Bank and other non-U.S. financial institutions through which payments on the Preferred Securities are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after 31 December 2016 in respect of the Preferred Securities pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code (**FATCA**) or similar law implementing an intergovernmental approach to FATCA. Under existing guidance, this withholding tax may be triggered if (i) the Bank is a foreign financial institution (**FFI**) (as defined in FATCA) that enters into and complies with an agreement with the U.S. Internal Revenue Service (**IRS**) to provide certain information on its account holders (making the Bank a **Participating FFI**), (ii) the Bank is required to withhold on "foreign passthru payments" (as determined under FATCA), and (iii) (a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is subject to withholding under FATCA, a U.S. person or should otherwise be treated as holding a "United States Account" of such Participating FFI, or (b) any FFI that is an investor, or through which payment on such Notes is made, is not a Participating FFI or otherwise exempt from withholding.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a **Reporting FI** not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being **FATCA Withholding**) from payments it makes (unless it has agreed to do so under the U.S. "qualified intermediary," "withholding foreign partnership," or "withholding foreign trust" regimes). The Model IGAs leave open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and Spain have initiated an agreement (the **US-Spain IGA**) based largely on the Model 1 IGA.

RISK FACTORS

The Bank expects to be treated as a Reporting FI pursuant to the US-Spain IGA and does not expect to be subject to FATCA Withholding on payments it receives. There can be no assurance, however, that the Bank will be treated as a Reporting FI and that such withholding will not be imposed against the Bank. If the Bank does not become a Participating FFI, Reporting FI, or is not treated as exempt from or in deemed compliance with FATCA, the Bank may be subject to FATCA Withholding on payments received from U.S. sources and Participating FFIs.

The Bank expects to be treated as a Reporting FI pursuant to the US-Spain IGA and does not anticipate being obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Bank will be treated as a Reporting FI or that it will not in the future be required to deduct FATCA Withholding from payments it makes.

The application of FATCA to distributions, any liquidation preference or other amounts paid with respect to the Preferred Securities is not clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from any distribution, liquidation preference or other payment on the Preferred Securities, neither the Bank nor any paying agent nor any other person would, pursuant to the conditions of the Preferred Securities, be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive a lesser distribution or liquidation preference than expected. Holders should consult their own tax advisers on how these rules may apply to payments they receive under the Preferred Securities.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **Directive**), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, 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 adopted similar measures (a withholding system in the case of Switzerland).

In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

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

RISKS RELATED TO THE MARKET GENERALLY

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

The secondary market generally

The Preferred Securities may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid and any liquidity in such market could be significantly affected by any purchase and cancellation of the Preferred Securities by the Bank or any member of the Group as provided in Condition 7 or any Capital Reduction Conversion as provided in Condition 5.2. Therefore, investors may not be able to sell their Preferred Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have an adverse effect on the market value of the Preferred Securities.

Exchange rate risks and exchange controls

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

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

Interest rate risk

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

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

The Preferred Securities are expected, upon issue, to be assigned a BB- rating by Fitch. Ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Preferred Securities.

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

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

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

RISK FACTORS

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

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

Legal investment considerations may restrict certain investments

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

OVERVIEW OF THE OFFERING

The following is an overview of certain information relating to the offering of the Preferred Securities, including the principal provisions of the terms and conditions thereof. This overview is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular. See, in particular, "Conditions of the Preferred Securities".

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

Issuer:	Banco Bilbao Vizcaya Argentaria, S.A.
Risk Factors:	There are certain factors that may affect the Bank's ability to fulfil its obligations under the Preferred Securities. These are set out under " <i>Risk Factors</i> " above and include the Bank's exposure to adverse changes in the Spanish economy and real estate market and risks relating to the lack of availability of funding, volatility in interest rates and increased competition. There are also risks faced by the Bank in its Southern and North American businesses. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Preferred Securities which are described in detail under " <i>Risk Factors</i> ".
Issue size:	€1,500,000,000
Issue details:	<p>Series 2 €1,500,000,000 Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities of €200,000 Liquidation Preference each.</p> <p>The Bank has requested that the Preferred Securities qualify as Tier 1 Capital of the Bank and the Group pursuant to Applicable Banking Regulations.</p>
Liquidation Preference:	€200,000 per Preferred Security.
Use of Proceeds:	The net proceeds from the issue of the Preferred Securities will be used for the Group's general corporate purposes, which include making a profit.
Distributions:	Distributions will accrue (i) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 7.000 per cent. per annum, and (ii) in respect of each Reset Period, at the rate per annum, converted to a quarterly rate in accordance with market convention, equal to the aggregate of 6.155 per cent. per annum and the 5-year Mid-Swap Rate for such Reset Period. Subject as provided in the Conditions (see " <i>Limitations on Distributions</i> " below), such Distributions will be

payable quarterly in arrear on each Distribution Payment Date.

For further information, see Condition 3.

Limitations on Distributions:

The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time that it deems necessary or desirable and for any reason. Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items of the Bank.

To the extent that (i) the Bank has insufficient Distributable Items to make Distributions on the Preferred Securities scheduled for payment in the then current financial year and any equivalent payments scheduled to be made in the then current financial year in respect of any other Parity Securities then outstanding, in each case excluding any portion of such payments already accounted for in determining the Distributable Items of the Bank, and/or (ii) the Bank and/or the Group is in breach of any restriction contained in any Applicable Banking Regulations, and/or (iii) the Regulator, in accordance with Applicable Banking Regulations, requires the Bank to cancel the relevant Distribution in whole or in part, then the Bank will, without prejudice to the right above to cancel the payment of all such Distributions on the Preferred Securities, make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.

No Distribution will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause the Maximum Distributable Amount (if any) then applicable to the Bank and/or the Group to be exceeded.

Status of the Preferred Securities:

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

Optional Redemption:

All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank, subject to the

prior consent of the Regulator and otherwise in accordance with Applicable Banking Regulations then in force, at any time on or after the First Reset Date at the Redemption Price.

The Preferred Securities are also redeemable on or after the Closing Date at the option of the Bank (subject to the prior consent of the Regulator and otherwise in accordance with Applicable Banking Regulations then in force) in whole but not in part, at any time, at the Redemption Price if there is a Capital Event.

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

For further information, see Condition 6.

Conversion:

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

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

Conversion Price:

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

The Floor Price is subject to adjustment in accordance with Condition 5.4.

Liquidation Distribution:

Subject as provided below, in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Bank, the Preferred Securities (unless previously converted into Common Shares pursuant to Condition 5) will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution.

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

Purchases:

The Bank or any member of the Group, may purchase or otherwise acquire any of the outstanding Preferred Securities at any price in the open market or otherwise in accordance with Applicable Banking Regulations in force at the relevant time, and subject to the prior consent of the Regulator, if required.

Prohibition on acquisition of Preferred Securities by Spanish Residents:

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

Pre-emptive rights:

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

Voting Rights:

The Preferred Securities shall not confer any entitlement to receive notice of or attend or vote at any meeting of the shareholders of the Bank. Notwithstanding the above, the Holders will have the right, under certain circumstances, to participate in the adoption of certain decisions in the General Meetings.

For further information, see Condition 10.

Withholding Tax and Additional Amounts:

Subject as provided in Condition 11.2, all payments of Distributions and other amounts payable in respect of the Preferred Securities by the Bank will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature unless such withholding or deduction is required by law. In the event that any such withholding or deduction is imposed or levied by or on behalf of Spain, the Bank shall pay such additional amounts as would have been

OVERVIEW OF THE OFFERING

received had no such withholding or deduction been required.

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

Form:

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

Ratings:

The Preferred Securities are expected, on issue, to be assigned a BB- rating by Fitch.

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

Listing:

Approval in-principle has been received from the SGX-ST for the listing of, and quotation for, the Preferred Securities on the SGX-ST.

Governing Law:

The Preferred Securities and any non-contractual obligations arising out of or in connection with the Preferred Securities shall be governed by, and construed in accordance with, Spanish law.

Selling Restrictions:

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

DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the Bank's annual report on Form 20-F for the fiscal year ended 31 December 2012 filed with the U.S. Securities and Exchange Commission on 2 April 2013 (which includes on pages F-1 to F-171 and pages A-1 to A-47 thereof, the published annual audited consolidated financial statements of the Bank as at and for each of the years ending 31 December 2012, 31 December 2011 and 31 December 2010) (the **Consolidated Financial Statements**);
- (b) the Bank's adjusted recast consolidated financial statements on Form 6-K for the three fiscal years ended 31 December 2010, 31 December 2011 and 31 December 2012, retrospectively adjusted following the adoption of new accounting standards, filed with the U.S. Securities and Exchange Commission on 4 October 2013 (which includes the information filed on Form 20-F for the three fiscal years ended 31 December 2010, 31 December 2011 and 31 December 2012, retrospectively adjusted following the adoption of new accounting standards);
- (c) the unaudited interim consolidated financial information of the Bank as at and for the six month period ending 30 June 2013, filed with the U.S. Securities and Exchange Commission on 4 October 2013;
- (d) the audited consolidated financial information of the Bank as at and for the 12 month period ending 31 December 2013.

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

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

CONDITIONS OF THE PREFERRED SECURITIES

The following is the text of the Conditions of the Preferred Securities (save for the paragraphs of italicised text in Conditions 1, 2, 6 and 11).

The Preferred Securities (as defined below) are issued by Banco Bilbao Vizcaya Argentaria, S.A. (the **Bank**) by virtue of the resolutions passed by (i) the shareholders meeting of the Bank, held on 16 March 2012 and (ii) the meeting of the Board of Directors (*Consejo de Administración*) of the Bank, held on 30 January 2014 and in accordance with the Second Additional Provision of Law 13/1985, of 25 May 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*), as amended (**Law 13/1985**), the CRR (as defined below) and Royal Decree-law 14/2013 of 29 November, on urgent measures to adapt the Spanish system to EU rules on supervision and solvency of financial institutions (*Real Decreto-ley 14/2013, de 29 de noviembre, de medidas urgentes para la adaptación del derecho español a la normativa de la Unión Europea en materia de supervisión y solvencia de entidades financieras*) (**RD-L 14/2013**).

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

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

1. Definitions

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

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

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

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

- (a) has a term of 5 years commencing on the relevant Reset Date; and
- (b) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market,

CONDITIONS OF THE PREFERRED SECURITIES

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

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

Additional Common Shares has the meaning given in paragraph 5.5;

Agency Agreement means the agency agreement dated 19 February 2014 relating to the Preferred Securities;

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

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

Applicable Banking Regulations means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy applicable to the Bank and/or the Group including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the Regulator (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Bank and/or the Group);

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

Capital Event means a change in Spanish law, Applicable Banking Regulations or any change in the application or official interpretation thereof that results in any of the outstanding aggregate Liquidation Preference of the Preferred Securities ceasing to be included in, or counting towards, the Group's or the Bank's Tier 1 Capital;

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

Capital Reduction Conversion has the meaning given in paragraph 5.2;

Capital Reduction Notice has the meaning given in paragraph 5.2, which notice shall specify the Election Period and the procedures for Holders to deliver an Election Notice;

Capital Reduction Notice Date means the date on which a Capital Reduction Notice is given in accordance with paragraph 5.2;

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

CONDITIONS OF THE PREFERRED SECURITIES

"Dividend", but a Dividend falling within paragraph (c) or (d) of the definition of "Dividend" shall be treated as being a Non-Cash Dividend;

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

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

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

Closing Date means 19 February 2014;

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

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

Commissioner has the meaning given in paragraph 10.1;

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

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

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

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

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

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

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

in each case on that Conversion Notice Date; or

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

Conversion Settlement Date means the date on which the relevant Common Shares are to be delivered on Conversion, which shall be as soon as practicable and in any event not later than one month following (or such other period as Applicable Banking Regulations may require) the Conversion Notice Date and notice of the expected Conversion Settlement Date and of the Conversion Price shall be given to Holders in accordance with paragraph 12 not more than 10 Business Days following the Conversion Notice Date;

Conversion Shares has the meaning given in paragraph 5.3;

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

CRD IV Directive means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC or such other directive as may come into effect in place thereof;

CRD IV Implementing Measures means any regulatory capital rules implementing the CRD IV Directive or the CRR which may from time to time be introduced, including, but not limited to, delegated or implementing acts (regulatory technical standards) adopted by the European Commission, national laws and regulations, and regulations and guidelines issued by the Regulator, the European Banking Authority or any other relevant authority, which are applicable to the Bank (on a standalone basis) or the Group (on a consolidated basis);

CRR means Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 or such other regulation as may come into effect in place thereof;

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

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

CONDITIONS OF THE PREFERRED SECURITIES

entitlement) shall for the purposes of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Common Share as at the date of the first public announcement relating to such Dividend or entitlement,

and provided further that:

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

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

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

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

CONDITIONS OF THE PREFERRED SECURITIES

The availability of any reserves for distribution for the purposes of the above is subject, among other things, as at the date of this Offering Circular, to the prior authorisation of the relevant authority(ies).

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

Distribution Payment Date means each of 19 May, 19 August, 19 November and 19 February in each year;

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

Distribution Rate means the rate at which the Preferred Securities accrue Distributions in accordance with paragraph 3;

Dividend means any dividend or distribution to Shareholders in respect of the Common Shares (including a Spin-Off) whether of cash, assets or other property (and for these purposes a distribution of assets includes without limitation an issue of Common Shares or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves), and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to Shareholders upon or in connection with a reduction of capital, provided that:

(a) where:

- (i) a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Common Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a Cash Dividend of an amount equal to the greater of (A) the Fair Market Value of such cash amount and (B) the Current Market Price of such Common Shares as at the first date on which the Common Shares are traded ex- the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, as the case may be, the Fair Market Value of such other property or assets as at the date of the first public announcement of such Dividend or capitalisation or, in any such case, if later, the date on which the number of Common Shares (or amount of such other property or assets, as the case may be) which may be issued and delivered is determined; or
- (ii) there shall be any issue of Common Shares by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) where such issue is or is expressed to be in lieu of a Dividend (whether or not a Cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Dividend in question shall be treated as a Cash Dividend of an amount equal to the Current Market Price of such Common Shares as at the first date on which the Common Shares are traded ex- the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due

CONDITIONS OF THE PREFERRED SECURITIES

date for establishment of entitlement in respect of the relevant capitalisation or, in any such case, if later, the date on which the number of Common Shares to be issued and delivered is determined;

- (b) any issue of Common Shares falling within paragraphs 5.4.1 or 5.4.2 shall be disregarded;
- (c) a purchase or redemption or buy back of share capital of the Bank by or on behalf of the Bank in accordance with any general authority for such purchases or buy backs approved by a general meeting of Shareholders and otherwise in accordance with the limitations prescribed under the Spanish Corporations Law for dealings generally by a company in its own shares shall not constitute a Dividend and any other purchase or redemption or buy back of share capital of the Bank by or on behalf of the Bank or any member of the Group shall not constitute a Dividend unless, in the case of a purchase or redemption or buy back of Common Shares by or on behalf of the Bank or any member of the Group, the weighted average price per Common Share (before expenses) on any one day (a Specified Share Day) in respect of such purchases or redemptions or buy backs (translated, if not in the Share Currency, into the Share Currency at the Prevailing Rate on such day) exceeds by more than 5 per cent. the average of the daily Volume Weighted Average Price of a Common Share on the 5 dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Common Shares at some future date at a specified price or where a tender offer is made, on the 5 dealing days immediately preceding the date of such announcement or the date of first public announcement of such tender offer (and regardless of whether or not a price per Common Share, a minimum price per Common Share or a price range or a formula for the determination thereof is or is not announced at such time), as the case may be, in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Share Currency in an amount equal to the amount by which the aggregate price paid (before expenses) in respect of such Common Shares purchased, redeemed or bought back by the Bank or, as the case may be, any member of the Group (translated where appropriate into the Share Currency as provided above) exceeds the product of (i) 105 per cent. of the daily Volume Weighted Average Price of a Common Share determined as aforesaid and (ii) the number of Common Shares so purchased, redeemed or bought back;
- (d) if the Bank or any member of the Group shall purchase, redeem or buy back any depositary or other receipts or certificates representing Common Shares, the provisions of paragraph (c) above shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by an Independent Financial Adviser; and
- (e) where a dividend or distribution is paid or made to Shareholders pursuant to any plan implemented by the Bank for the purpose of enabling Shareholders to elect, or which may require Shareholders, to receive dividends or distributions in respect of the Common Shares held by them from a person other than (or in addition to) the Bank, such dividend or distribution shall for the purposes of these Conditions be treated as a dividend or distribution made or paid to Shareholders by the Bank, and the foregoing provisions of this definition, and the provisions of these Conditions, including references to the Bank paying or making a dividend, shall be construed accordingly;

CONDITIONS OF THE PREFERRED SECURITIES

Election Notice has the meaning given in paragraph 5.2;

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

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

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

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

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

First Reset Date means 19 February 2019;

Floor Price means €4.50 per Common Share, subject to adjustment in accordance with paragraph 5.4;

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

CONDITIONS OF THE PREFERRED SECURITIES

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

Group means the Bank together with its consolidated Subsidiaries;

Holders means holders of the Preferred Securities;

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

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

Initial Margin means 6.155 per cent. per annum;

Liquidation Distribution means the Liquidation Preference per Preferred Security plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in, paragraph 3, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date of payment of the Liquidation Distribution;

Liquidation Preference means €200,000 per Preferred Security;

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

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

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

CONDITIONS OF THE PREFERRED SECURITIES

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

Offering Circular means the offering circular dated 11 February 2014 relating to the Preferred Securities;

Parity Securities means any preferred securities (*participaciones preferentes*) issued under Law 13/1985 and/or RD-L 14/2013 and/or in accordance with the CRR from time to time by the Bank or by any Subsidiary and which are guaranteed by the Bank or any preferential participations, preferential shares or preference shares (*acciones preferentes*) ranking *pari passu* with any preferred securities (*participaciones preferentes*) issued from time to time by the Bank or by any Subsidiary and which are guaranteed by the Bank or any other instrument issued or guaranteed by the Bank ranking *pari passu* with the Preferred Securities;

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

Payment Business Day means a TARGET2 Business Day and, in the case of Preferred Securities in definitive form only, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the relevant place of presentation;

Preferred Securities means these Series 2 €1,500,000,000 Non-Step-Up Non-Cumulative Contingent Convertible Perpetual Preferred Tier 1 Securities issued by the Bank on the Closing Date;

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

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

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

Redemption Price means, per Preferred Security, the Liquidation Preference plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in, paragraph 3, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date fixed for redemption of the Preferred Securities;

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

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

Reference Market Price means, in respect of a Common Share at a particular date, the arithmetic mean of the Closing Price per Common Share on each of the 5 consecutive dealing days on which such Closing Price is available ending on the dealing day immediately preceding such date;

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

Regulator means the Bank of Spain or such other governmental authority which assumes or performs the functions of the Bank of Spain, as at the Closing Date, or such other or successor authority exercising primary bank supervisory authority, in each case with respect to prudential matters in relation to the Bank and/or the Group.

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

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

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

Reset Reference Bank Rate means, in relation to a Reset Date and the Reset Period commencing on that Reset Date, the percentage determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reference Banks at approximately 11.00 a.m. (Central European Time) on the Reset Determination Date for such Reset Date. If three or more quotations are provided, the Reset Reference Bank Rate for such Reset Period will be the percentage reflecting the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, it will be the arithmetic mean of the quotations provided. If only one quotation is provided, it will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the Reset Period will be (i) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the 5-year Mid-Swap Rate in respect of the immediately preceding Reset Period or (ii) in the case of the Reset Period commencing on the First Reset Date, 1.031 per cent. per annum;

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

Retroactive Adjustment has the meaning given in paragraph 5.5;

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

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

Screen Page means the display page on the relevant Reuters information service designated as the “ISDAFIX2” page or such other page as may replace it on that information service, or on such other equivalent information service as may be nominated by the person providing or

sponsoring such information, for the purpose of displaying equivalent or comparable rates to the 5-year Mid-Swap Rate;

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

Selling Agent has the meaning given in paragraph 5.11;

Settlement Shares Depository means a reputable independent financial institution, trust company or similar entity appointed by the Bank on or prior to any date when a function ascribed to the Settlement Shares Depository in these Conditions is required to be performed to perform such functions and who will hold Common Shares in Iberclear or any of its participating entities in a designated custody account for the benefit of the Holders and otherwise on terms consistent with these Conditions;

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

Shareholders means the holders of Common Shares;

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

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

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

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

Spin-Off means:

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

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

Subsidiary means any entity over which the Bank may have, directly or indirectly, control in accordance with Article 8.3 of Spanish Law 13/1985 and/or Applicable Banking Regulations;

Syndicate means the syndicate of Holders;

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

Tax Event means that (a) the Bank would not be entitled to claim a deduction in computing taxation liabilities in Spain (as defined in paragraph 11 below) in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Bank would be materially reduced, or (b) as a result of any change in, or amendment to, the laws or regulations of Spain or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Closing Date, the Bank would be required to pay additional amounts pursuant to paragraph 11 below and such obligation cannot be avoided by the Bank taking reasonable measures available to it;

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

Trigger Conversion has the meaning given in paragraph 5.1;

Trigger Event means if, at any time, as determined by the Bank the CET1 ratio is less than 5.125 per cent., provided that the Trigger Event will be deemed not to have occurred if a notice of redemption has been given in accordance with paragraph 6;

Trigger Event Notice has the meaning given in paragraph 5.1;

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

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

CONDITIONS OF THE PREFERRED SECURITIES

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

- 1.2 References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made in accordance therewith or under such modification or re-enactment.
- 1.3 References to any issue or offer or grant to Shareholders or Existing Shareholders **as a class** or **by way of rights** shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.
- 1.4 In making any calculation or determination of Reference Market Price, Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Financial Adviser determines in good faith appropriate to reflect any consolidation or sub-division of the Common Shares or any issue of Common Shares by way of capitalisation of profits or reserves, or any like or similar event.
- 1.5 For the purposes of paragraph 5.4 only (a) references to the **issue** of Common Shares or Common Shares being **issued** shall, if not otherwise expressly specified in these Conditions, include the transfer and/or delivery of Common Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Bank or any member of the Group, and (b) Common Shares held by or on behalf of the Bank or any member of the Group (and which, in the case of paragraphs 5.4.4 and 5.4.6, do not rank for the relevant right or other entitlement) shall not be considered as or treated as in issue or issued or entitled to receive any Dividend, right or other entitlement.

2. Form and Status

The Preferred Securities will be issued in bearer form.

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

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

3. Distributions

3.1 The Preferred Securities accrue Distributions:

- 3.1.1 in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 7.000 per cent. per annum; and
- 3.1.2 in respect of each Reset Period, at the rate per annum equal to the aggregate of the Initial Margin and the 5-year Mid-Swap Rate (quoted on an annual basis) for such Reset Period, converted to a quarterly rate in accordance with market convention (rounded to four decimal places, with 0.00005 rounded down), all as determined by the Agent Bank on the relevant Reset Determination Date.

Subject as provided in paragraphs 3.3 and 3.4 below, such Distributions will be payable quarterly in arrear on each Distribution Payment Date.

If a Distribution is required to be paid in respect of a Preferred Security on any other date, it shall be calculated by the Agent Bank by applying the Distribution Rate to the Liquidation Preference in respect of each Preferred Security, multiplying the product by (a) the actual number of days in the period from (and including) the date from which Distributions began to accrue (the **Accrual Date**) to (but excluding) the date on which Distributions fall due divided by (b) the actual number of days from (and including) the Accrual Date to (but excluding) the next following Distribution Payment Date multiplied by four, and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

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

If any date on which any payment is due to be made on the Preferred Securities would otherwise fall on a date which is not a Payment Business Day, the payment will be postponed to the next Payment Business Day and the Holder shall not be entitled to any interest or other payment in respect of any such delay.

3.3 The Bank may elect, in its sole and absolute discretion, to cancel the payment of any Distribution in whole or in part at any time that it deems necessary or desirable and for any reason. Payments of Distributions in any financial year of the Bank shall be made only out of Distributable Items of the Bank. To the extent that (i) the Bank has insufficient Distributable Items to make Distributions on the Preferred Securities scheduled for payment in the then current financial year and any equivalent payments scheduled to be made in the then current financial year in respect of any other Parity Securities then outstanding, in each case excluding any portion of such payments already accounted for in determining the Distributable Items of the Bank, and/or (ii) the Bank and/or the Group is in breach of any restriction contained in any Applicable Banking Regulations, and/or (iii) the Regulator, in accordance with Applicable Banking Regulations, requires the Bank to cancel the relevant Distribution in whole or in part, then the Bank will, without prejudice to the right above to cancel the payment of all such Distributions on the Preferred Securities, make partial or, as the case may be, no payment of the relevant Distribution on the Preferred Securities.

CONDITIONS OF THE PREFERRED SECURITIES

- 3.4 No Distribution will be made on the Preferred Securities (whether by way of a repayment of the Liquidation Preference, the payment of any Distribution or otherwise) if and to the extent that such payment would cause the Maximum Distributable Amount (if any) then applicable to the Bank and/or the Group to be exceeded.
- 3.5 Distributions on the Preferred Securities will be non-cumulative. Accordingly, if any Distribution (or part thereof) is not made in respect of the Preferred Securities as a result of any election of the Bank to cancel such Distribution pursuant to paragraph 3.3 above or the limitations on payment set out in paragraphs 3.3 and 3.4 above then the right of the Holders to receive the relevant Distribution (or part thereof) in respect of the relevant Distribution Period will be extinguished and the Bank will have no obligation to pay such Distribution (or part thereof) accrued for such Distribution Period or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.
- 3.6 No such election to cancel the payment of any Distribution (or part thereof) pursuant to paragraph 3.3 above or non-payment of any Distribution (or part thereof) as a result of the limitations on payment set out in paragraphs 3.3 and 3.4 above will constitute an event of default or the occurrence of any event related to the insolvency of the Bank or entitle Holders to take any action to cause the liquidation, dissolution or winding up of the Bank or in any way limit or restrict the Bank from making any distribution or equivalent payment in connection with any instrument ranking junior to the Preferred Securities (including, without limitation, any CET1 Capital of the Bank or the Group) or in respect of any other Parity Security.
- 3.7 Save as described in this paragraph 3, the Preferred Securities will confer no right to participate in the profits of the Bank.
- 3.8 Payments in respect of the Preferred Securities will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of paragraph 11 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of paragraph 11) any law implementing an intergovernmental approach thereto.
- 3.9 The Agent Bank will at or as soon as practicable after the relevant time on each Reset Determination Date at which the Distribution Rate is to be determined, determine the Distribution Rate for the relevant Reset Period. The Agent Bank will cause the Distribution Rate for each Reset Period to be notified to the Bank and any stock exchange or other relevant authority on which the Preferred Securities are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with paragraph 12 as soon as possible after its determination but in no event later than the fourth Business Day thereafter.
- 3.10 All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this paragraph 3 by the Agent Bank, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Bank, the Principal Paying Agent, the Agent Bank, the other Paying and Conversion Agents and all Holders and (in the absence of wilful default, bad faith or manifest error) no liability to the Bank or the Holders shall attach to the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions

4. Liquidation Distribution

- 4.1 Subject as provided in paragraph 4.2 below, in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Bank, the Preferred Securities (unless previously converted into Common Shares pursuant to paragraph 5 below) will confer an entitlement to receive out of the assets of the Bank available for distribution to Holders, the Liquidation Distribution. Such entitlement will arise before any distribution of assets is made to holders of Common Shares or any other instrument of the Bank ranking junior to the Preferred Securities.
- 4.2 If, before such liquidation, dissolution or winding-up of the Bank described in paragraph 4.1, a Conversion Event occurs but the relevant conversion of the Preferred Securities into Common Shares pursuant to paragraph 5 below is still to take place, the entitlement conferred by the Preferred Securities for the purposes of paragraph 4.1, will be an entitlement to receive out of the relevant assets of the Bank a monetary amount equal to that which holders of such Preferred Securities would have received on any distribution of the assets of the Bank if such conversion had taken place immediately prior to such liquidation, dissolution or winding-up.
- 4.3 After payment of the relevant entitlement in respect of a Preferred Security as described in paragraphs 4.1 and 4.2, such Preferred Security will confer no further right or claim to any of the remaining assets of the Bank.

5. Conversion

- 5.1 If the Trigger Event occurs at any time on or after the Closing Date, then the Bank will:
- (a) notify the Regulator and Holders thereof immediately following such determination by the Bank through (i) the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and (ii) in the case of Holders, in accordance with paragraph 12 below (together, a **Trigger Event Notice**);
 - (b) not make any further Distribution on the Preferred Securities, including any accrued and unpaid Distributions, which shall be cancelled by the Bank in accordance with paragraph 3 above; and
 - (c) irrevocably and mandatorily (and without any requirement for the consent or approval of Holders) convert all the Preferred Securities into Common Shares (a **Trigger Conversion**) to be delivered on the relevant Conversion Settlement Date.

Holders shall have no claim against the Bank in respect of (i) any Liquidation Preference of Preferred Securities converted into Common Shares or (ii) any accrued and unpaid Distributions cancelled or otherwise unpaid, in each case pursuant to any Trigger Conversion.

For the purposes of determining whether the Trigger Event has occurred, the Bank will (i) calculate the CET1 ratio based on information (whether or not published) available to management of the Bank, including information internally reported within the Bank pursuant to its procedures for ensuring effective ongoing monitoring of the capital ratios of the Bank and the Group and (ii) calculate and publish the CET1 ratio on at least a quarterly basis.

- 5.2 If a Capital Reduction occurs at any time on or after the Closing Date, then the Bank will:
- (a) notify the Regulator and Holders thereof immediately on the adoption of the relevant Capital Reduction measure by the Bank through (i) the filing of a relevant event

CONDITIONS OF THE PREFERRED SECURITIES

(*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and (ii) in the case of Holders, in accordance with paragraph 12 below (together, a **Capital Reduction Notice**);

- (b) irrevocably and mandatorily (and without any requirement for the consent or approval of Holders) convert all the Preferred Securities into Common Shares (a **Capital Reduction Conversion**) to be delivered on the relevant Conversion Settlement Date and on such Conversion Settlement Date pay to the Holders, as applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in, paragraph 3, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the Conversion Settlement Date.

Holders shall have no claim against the Bank in respect of any Liquidation Preference of Preferred Securities converted into Common Shares pursuant to any Capital Reduction Conversion.

Notwithstanding the foregoing provisions of this paragraph 5.2, if the Bank gives a Capital Reduction Notice, each Holder will have the right to elect that its Preferred Securities shall not be converted in accordance with this paragraph 5.2, in which case the Preferred Securities of such Holder shall remain outstanding and no payment of any accrued and unpaid Distributions on such Preferred Securities shall be made to that Holder pursuant to (b) above (although without prejudice to any future payment of such Distributions or any other Distributions that may accrue in respect of those Preferred Securities pursuant to paragraph 3). To exercise such right, a Holder must complete, sign and deposit at the specified office of any Paying and Conversion Agent a duly completed and signed notice of election (an **Election Notice**), in the form for the time being current, obtainable from the specified office of any Paying and Conversion Agent together with the relevant Preferred Securities on or before the 10th Business Day immediately following the Capital Reduction Notice Date (the period from (and including) the Capital Reduction Notice Date to (and including) such 10th Business Day, the **Election Period**). In the case of any Clearing System Preferred Securities, an Election Notice may be delivered within the Election Period by the Holder of such Clearing System Preferred Securities giving notice to the Principal Paying Agent of such election in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on such Holder's instruction by Euroclear or Clearstream, Luxembourg to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

Any Election Notice shall be irrevocable. Each Paying and Conversion Agent shall notify the Principal Paying Agent within two Business Days of the end of such Election Period of the Election Notices received during the Election Period and the Principal Paying Agent shall notify the Bank of the details of the relevant Holders that have duly submitted an Election Notice within the Election Period and the Preferred Securities of such Holders by no later than the immediately following Business Day.

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

- 5.3 Subject as provided in paragraph 5.10, the number of Common Shares to be issued on Conversion in respect of each Preferred Security to be converted (the **Conversion Shares**) shall be determined by dividing the Liquidation Preference of such Preferred Security by the Conversion Price in effect on the Conversion Notice Date.

CONDITIONS OF THE PREFERRED SECURITIES

The obligation of the Bank to issue and deliver Conversion Shares to a Holder on the Conversion Settlement Date shall be satisfied by the delivery of the Conversion Shares to the Settlement Shares Depository on behalf of that Holder. Receipt of the Conversion Shares by the Settlement Shares Depository shall discharge the Bank's obligations in respect of the Preferred Securities.

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

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

The Preferred Securities are not convertible into Common Shares at the option of Holders at any time and are not redeemable in cash as a result of a Conversion Event.

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

5.4.1 If and whenever there shall be a consolidation, reclassification/redesignation or subdivision affecting the number of Common Shares, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to such consolidation, reclassification/redesignation or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Common Shares in issue immediately before such consolidation, reclassification/redesignation or subdivision, as the case may be; and

B is the aggregate number of Common Shares in issue immediately after, and as a result of, such consolidation, reclassification/redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification/redesignation or subdivision, as the case may be, takes effect.

5.4.2 If and whenever the Bank shall issue any Common Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (i) where any such Common Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive, (ii) where the Shareholders may elect to receive a Dividend in cash in lieu of such Common Shares or (iii) where any such Common Shares are or are expressed to be issued in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to such issue by the following fraction:

CONDITIONS OF THE PREFERRED SECURITIES

$$\frac{A}{B}$$

where:

- A is the aggregate number of Common Shares in issue immediately before such issue; and
- B is the aggregate number of Common Shares in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such Common Shares.

- 5.4.3 (a) If and whenever the Bank shall pay any Extraordinary Dividend to Shareholders, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

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

where:

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

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Extraordinary Dividend can be determined.

Effective Date means, in respect of this paragraph 5.4.3(a), the first date on which the Common Shares are traded ex-the relevant Cash Dividend on the Relevant Stock Exchange.

Extraordinary Dividend means:

- (i) any Cash Dividend which is expressly declared by the Bank to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or return of value to Shareholders or any analogous or similar term (including any distribution made as a result of any Capital Reduction), in which case the Extraordinary Dividend shall be such Cash Dividend; or
- (ii) any Cash Dividend (the **Relevant Dividend**) paid or made in a financial year of the Bank (the **Relevant Year**) if (A) the Fair Market Value of the Relevant Dividend per Common Share or (B) the sum of (I) the Fair Market Value of the Relevant Dividend per Common Share and (II) an amount equal to the aggregate of the Fair Market Value or Fair Market Values of any other Cash Dividend or Cash Dividends per Common Share paid or made in the Relevant Year (other than any Cash Dividend or part thereof previously determined to be an Extraordinary Dividend paid or made in such Relevant Year), exceeds the Reference Amount, and in that case the Extraordinary Dividend shall be the amount by which the Reference Amount is so exceeded;

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

- (b) If and whenever the Bank shall pay or make any Non-Cash Dividend to Shareholders, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

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

where:

- A is the Current Market Price of one Common Share on the Effective Date; and
- B is the portion of the Fair Market Value of the aggregate Non-Cash Dividend attributable to one Common Share, with such portion being determined by dividing the Fair Market Value of the aggregate Non-Cash Dividend by the number of Common Shares entitled to receive the relevant Non-Cash Dividend (or, in the case of a purchase, redemption or buy back of Common Shares or any depositary or other receipts or certificates representing Common Shares by or on behalf of the Bank or any member of the Group, by the number of Common Shares in issue immediately following such purchase, redemption or buy back, and treating as not being in issue any Common Shares, or any Common Shares represented by depositary or other receipts or certificates, purchased, redeemed or bought back).

CONDITIONS OF THE PREFERRED SECURITIES

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Non-Cash Dividend is capable of being determined as provided herein.

Effective Date means, in respect of this paragraph 5.4.3(b), the first date on which the Common Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, in the case of a purchase, redemption or buy back of Common Shares or any depositary or other receipts or certificates representing Common Shares by or on behalf of the Bank or any member of the Group, the date on which such purchase, redemption or buy back is made (or, in any such case if later, the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein) or in the case of a Spin-Off, the first date on which the Common Shares are traded ex-the relevant Spin-Off on the Relevant Stock Exchange.

- (c) For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) of the definition of "Dividend" and in the definition of "Fair Market Value") be determined as at the Effective Date.
- (d) In making any calculations for the purposes of this paragraph 5.4.3, such adjustments (if any) shall be made as an Independent Financial Adviser may determine in good faith to be appropriate to reflect (i) any consolidation or sub-division of any Common Shares or (ii) the issue of Common Shares by way of capitalisation of profits or reserves (or any like or similar event) or (iii) any increase in the number of Common Shares in issue in the Relevant Year in question.

- 5.4.4 If and whenever the Bank shall issue Common Shares to Shareholders as a class by way of rights, or the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Common Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or the right to acquire, any Common Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a price per Common Share which is less than 95 per cent. of the Current Market Price per Common Share on the Effective Date, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

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

where:

- A is the number of Common Shares in issue on the Effective Date;
- B is the number of Common Shares which the aggregate consideration (if any) receivable for the Common Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued or granted by way of rights and for the total number of Common Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Common Share; and

CONDITIONS OF THE PREFERRED SECURITIES

C is the number of Common Shares to be issued or, as the case may be, the maximum number of Common Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase or other rights of acquisition in respect thereof at the initial conversion, exchange, subscription, purchase or acquisition price or rate,

provided that if at the first date on which the Common Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange (as used in this paragraph 5.4.4, the **Specified Date**) such number of Common Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this paragraph 5.4.4, "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

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

5.4.5 If and whenever the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue any Securities (other than Common Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire any Common Shares or Securities which by their terms carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or rights to otherwise acquire, Common Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Securities (other than Common Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire Common Shares or Securities which by their term carry (directly or indirectly) rights of conversion into, or exchange or subscription for, rights to otherwise acquire, Common Shares), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

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

where:

A is the Current Market Price of one Common Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the rights attributable to one Common Share.

Such adjustment shall become effective on the Effective Date.

CONDITIONS OF THE PREFERRED SECURITIES

Effective Date means, in respect of this paragraph 5.4.5, the first date on which the Common Shares are traded ex-the relevant Securities or ex-rights, ex-option or ex-warrants on the Relevant Stock Exchange.

- 5.4.6 If and whenever the Bank shall issue (otherwise than as mentioned in paragraph 5.4.4 above) wholly for cash or for no consideration any Common Shares (other than Common Shares issued on conversion of the Preferred Securities or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, or right to otherwise acquire Common Shares) or if and whenever the Bank or any member of the Group or (at the direction or request or pursuance to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue or grant (otherwise than as mentioned in paragraph 5.4.4 above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Common Shares (other than the Preferred Securities, which term shall for this purpose include any Further Preferred Securities), in each case at a price per Common Share which is less than 95 per cent. of the Current Market Price per Common Share on the date of the first public announcement of the terms of such issue or grant, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

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

where:

- A is the number of Common Shares in issue immediately before the issue of such Common Shares or the grant of such options, warrants or rights;
- B is the number of Common Shares which the aggregate consideration (if any) receivable for the issue of such Common Shares or, as the case may be, for the Common Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Common Share on the Effective Date; and
- C is the number of Common Shares to be issued pursuant to such issue of such Common Shares or, as the case may be, the maximum number of Common Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights,

provided that if at the time of issue of such Common Shares or date of issue or grant of such options, warrants or rights (as used in this paragraph 5.4.6, the **Specified Date**), such number of Common Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of paragraph 5.4.6, "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

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

CONDITIONS OF THE PREFERRED SECURITIES

- 5.4.7 If and whenever the Bank or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity (otherwise than as mentioned in paragraphs 5.4.4, 5.4.5 or 5.4.6 above) shall issue wholly for cash or for no consideration any Securities (other than the Preferred Securities, which term for this purpose shall exclude any Further Preferred Securities) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, purchase of, or rights to otherwise acquire, Common Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be reclassified/redesignated as Common Shares, and the consideration per Common Share receivable upon conversion, exchange, subscription, purchase, acquisition or redesignation is less than 95 per cent. of the Current Market Price per Common Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

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

where:

- A is the number of Common Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, purchase of, or rights to otherwise acquire Common Shares which have been issued, purchased or acquired by the Bank or any member of the Group (or at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) for the purposes of or in connection with such issue, less the number of such Common Shares so issued, purchased or acquired);
- B is the number of Common Shares which the aggregate consideration (if any) receivable for the Common Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to such Securities or, as the case may be, for the Common Shares to be issued or to arise from any such reclassification/redesignation would purchase at such Current Market Price per Common Share; and
- C is the maximum number of Common Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange, subscription, purchase or acquisition price or rate or, as the case may be, the maximum number of Common Shares which may be issued or arise from any such reclassification/redesignation;

provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this paragraph 5.4.7, the **Specified Date**) such number of Common Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or, as the case may be, such Securities are reclassified/redesignated or at such other time as may be provided), then for the purposes of this paragraph 5.4.7, "C" shall be determined by the application of such

CONDITIONS OF THE PREFERRED SECURITIES

formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, reclassification/redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

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

- 5.4.8 If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the Preferred Securities, which term shall for this purpose include any Further Preferred Securities) as are mentioned in paragraph 5.4.7 above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Common Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Common Share on the date of the first public announcement of the proposals for such modification, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

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

where:

- A is the number of Common Shares in issue immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, or purchase or acquisition of, Common Shares which have been issued, purchased or acquired by the Bank or any member of the Group (or at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) for the purposes of or in connection with such Securities, less the number of such Common Shares so issued, purchased or acquired);
- B is the number of Common Shares which the aggregate consideration (if any) receivable for the Common Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Common Share or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and
- C is the maximum number of Common Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Financial Adviser in good faith shall consider appropriate for any previous adjustment under this paragraph 5.4.8 or paragraph 5.4.7 above;

provided that if at the time of such modification (as used in this paragraph 5.4.8, the **Specified Date**) such number of Common Shares is to be determined by reference to

the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided) then for the purposes of this paragraph 5.4.8, "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

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

- 5.4.9 If and whenever the Bank or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Floor Price falls to be adjusted under paragraphs 5.4.2, 5.4.3, 5.4.4, 5.4.5 or 5.4.6 above or paragraph 5.4.10 below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Common Share on the relevant dealing day under paragraph 5.4.5 above) the Floor Price shall be adjusted by multiplying the Floor Price in force immediately before the Effective Date by the following fraction:

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

where:

A is the Current Market Price of one Common Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the relevant offer attributable to one Common Share.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this paragraph 5.4.9, the first date on which the Common Shares are traded ex-rights on the Relevant Stock Exchange.

- 5.4.10 If the Bank determines that a reduction to the Floor Price should be made for whatever reason, the Floor Price will be reduced (either generally or for a specified period as notified to Holders) in such manner and with effect from such date as the Bank shall determine and notify to the Holders

Notwithstanding the foregoing provisions:

- (a) where the events or circumstances giving rise to any adjustment pursuant to this paragraph 5.4 have already resulted or will result in an adjustment to the Floor Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Floor Price or where more than one event which gives rise to an

CONDITIONS OF THE PREFERRED SECURITIES

adjustment to the Floor Price occurs within such a short period of time that, in the opinion of the Bank, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and

- (b) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate (i) to ensure that an adjustment to the Floor Price or the economic effect thereof shall not be taken into account more than once and (ii) to ensure that the economic effect of a Dividend is not taken into account more than once.

For the purpose of any calculation of the consideration receivable or price pursuant to paragraphs 5.4.4, 5.4.6, 5.4.7 and 5.4.8, the following provisions shall apply:

- (i) the aggregate consideration receivable or price for Common Shares issued for cash shall be the amount of such cash;
- (ii) (A) the aggregate consideration receivable or price for Common Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (B) the aggregate consideration receivable or price for Common Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Bank to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant Effective Date as referred to in paragraphs 5.4.4, 5.4.6, 5.4.7 or 5.4.8, as the case may be, plus in the case of each of (A) and (B) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (C) the consideration receivable or price per Common Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (A) or (B) above (as the case may be) divided by the number of Common Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;
- (iii) if the consideration or price determined pursuant to (i) or (ii) above (or any component thereof) shall be expressed in a currency other than the Share Currency, it shall be converted into the Share Currency at the Prevailing Rate on the relevant Effective Date (in the case of (i) above) or the relevant date of first public announcement (in the case of (ii) above);
- (iv) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant

CONDITIONS OF THE PREFERRED SECURITIES

Common Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and

- (v) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable regardless of whether all or part thereof is received, receivable, paid or payable by or to the Bank or another entity.
- 5.5 If the Conversion Settlement Date in relation to the conversion of any Preferred Security shall be after the record date in respect of any consolidation, reclassification/redesignation or subdivision as is mentioned in paragraph 5.4.1 above, or after the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in paragraphs 5.4.2, 5.4.3, 5.4.4, 5.4.5 or 5.4.9 above, or after the date of the first public announcement of the terms of any such issue or grant as is mentioned in paragraphs 5.4.6 and 5.4.7 above or of the terms of any such modification as is mentioned in paragraph 5.4.8 above, but before the relevant adjustment to the Floor Price (if applicable) becomes effective under paragraph 5.4 above (such adjustment, a **Retroactive Adjustment**), then the Bank shall (conditional upon the relevant adjustment becoming effective) procure that there shall be delivered to the Settlement Shares Depository, for onward delivery to Holders, in accordance with the instructions contained in the Delivery Notices received by the Settlement Shares Depository, such additional number of Common Shares (if any) (the **Additional Common Shares**) as, together with the Common Shares issued on conversion of the Preferred Securities (together with any fraction of a Common Share not so delivered to any relevant Holder), is equal to the number of Common Shares which would have been required to be issued and delivered on such Conversion if the relevant adjustment to the Floor Price had been made and become effective immediately prior to the relevant Conversion Notice Date, provided that if the Settlement Shares Depository and/or the Holders, as the case may be, shall be entitled to receive the relevant Dividend in respect of the Common Shares to be issued or delivered to them, then no such Retroactive Adjustment shall be made in relation to such Dividend and Additional Common Shares shall not be issued and delivered to the Settlement Shares Depository and Holders in relation thereto.
- 5.6 If any doubt shall arise as to whether an adjustment falls to be made to the Floor Price or as to the appropriate adjustment to the Floor Price, and following consultation between the Bank and an Independent Financial Adviser, a written determination of such Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.
- 5.7 No adjustment will be made to the Floor Price where Common Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Bank or any of member of the Group or any associated company or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any share or option or similar scheme.
- 5.8 On any adjustment, the resultant Floor Price, if a number of more decimal places than the initial Floor Price, shall be rounded down to such decimal place. No adjustment shall be made to the Floor Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Floor Price then in effect. Any adjustment not required to be made and/or any amount by which the Floor Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall

CONDITIONS OF THE PREFERRED SECURITIES

be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Floor Price shall be given by the Bank to Holders through the filing of a relevant event (*hecho relevante*) announcement with the CNMV and its publication in accordance with the rules and regulations of any applicable stock exchange or other relevant authority and paragraph 12 promptly after the determination thereof.

- 5.9 On any Conversion of the Preferred Securities, the Common Shares to be issued and delivered shall be issued and delivered subject to and as provided below and immediately on such Conversion the Preferred Securities shall cease to be outstanding for all purposes and shall be deemed cancelled.
- 5.10 Fractions of Common Shares will not be issued on Conversion or pursuant to paragraph 5.5 and no cash payment or other adjustment will be made in lieu thereof. Without prejudice to the generality of the foregoing, if one or more Delivery Notices and the related Preferred Securities are received by or on behalf of the Settlement Shares Depository such that the Conversion Shares or Additional Common Shares to be delivered by the Settlement Shares Depository are to be registered in the same name, the number of such Conversion Shares or Additional Common Shares to be delivered in respect thereof shall be calculated on the basis of the aggregate Liquidation Preference of such Preferred Securities being so converted and rounded down to the nearest whole number of Common Shares.
- 5.11 On or prior to the Conversion Settlement Date, the Bank shall deliver to the Settlement Shares Depository such number of Common Shares as is required to satisfy in full the Bank's obligation to deliver Common Shares in respect of the Conversion of the aggregate amount of Preferred Securities outstanding on the Conversion Notice Date.

In order to obtain delivery of the relevant Common Shares upon any Conversion from the Settlement Shares Depository, the relevant Holder must deliver a duly completed Delivery Notice, together with the relevant Preferred Securities held by it (which shall include any Clearing System Preferred Securities), to the specified office of any Paying and Conversion Agent (including, in the case of any Clearing System Preferred Securities, the delivery of (i) such Delivery Notice to the Principal Paying Agent through the relevant European Clearing System and (ii) Preferred Securities to the specified account of such Paying and Conversion Agent in the relevant European Clearing System, each in accordance with the procedures of such European Clearing System) no later than 5 Business Days (in the relevant place of delivery) prior to the relevant Conversion Settlement Date (the **Notice Cut-off Date**).

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

If a duly completed Delivery Notice and the relevant Preferred Securities are not delivered to a Paying and Conversion Agent as provided above on or before the Notice Cut-off Date, then at any time following the Notice Cut-off Date and prior to the 10th Business Day after the Conversion Settlement Date the Bank may in its sole and absolute discretion (and the relevant Holders of such Preferred Securities shall be deemed to agree thereto), elect to appoint a person (the **Selling Agent**) to procure that all Common Shares held by the Settlement Shares Depository in respect of which no duly completed Delivery Notice and Preferred Securities have been delivered on or before the Notice Cut-off Date as aforesaid shall be sold by or on

CONDITIONS OF THE PREFERRED SECURITIES

behalf of the Selling Agent as soon as reasonably practicable. Subject to the deduction by or on behalf of the Selling Agent of any amount payable in respect of its liability to taxation and the payment of any capital, stamp, issue, registration and/or transfer taxes and duties (if any) and any fees or costs incurred by or on behalf of the Selling Agent in connection with the issue, allotment and sale thereof, the net proceeds of sale shall as soon as reasonably practicable be distributed rateably to the relevant Holders in accordance with paragraph 3.2 or in such other manner and at such time as the Bank shall determine and notify to the Holders.

Such payment shall for all purposes discharge the obligations of the Bank, the Settlement Shares Depository and the Selling Agent in respect of the relevant Conversion.

The Bank, the Settlement Shares Depository and the Selling Agent shall have no liability in respect of the exercise or non-exercise of any discretion or power pursuant to this paragraph 5.11 or in respect of any sale of any Common Shares, whether for the timing of any such sale or the price at or manner in which any such Common Shares are sold or the inability to sell any such Common Shares.

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

Any Delivery Notice shall be irrevocable. Failure properly to complete and deliver a Delivery Notice and deliver the relevant Preferred Securities may result in such Delivery Notice being treated as null and void and the Bank shall be entitled to procure the sale of any applicable Common Shares to which the relevant Holder may be entitled in accordance with this paragraph 5. Any determination as to whether any Delivery Notice has been properly completed and delivered as provided in this paragraph 5.11 shall be made by the Bank in its sole discretion, acting in good faith, and shall, in the absence of manifest error, be conclusive and binding on the relevant Holders.

- 5.12 A Holder or Selling Agent must pay (in the case of the Selling Agent by means of deduction from the net proceeds of sale referred to in paragraphs 5.11 above) any taxes and capital, stamp, issue and registration and transfer taxes or duties arising on Conversion (other than any taxes or capital, issue and registration and transfer taxes or stamp duties payable in Spain by the Bank in respect of the issue and delivery of the Common Shares (including any Additional Common Shares) in accordance with a Delivery Notice delivered pursuant to these Conditions which shall be paid by the Bank) and such Holder or the Selling Agent (as the case may be) must pay (in the case of the Selling Agent, by way of deduction from the net proceeds of sale as aforesaid) all, if any, taxes arising by reference to any disposal or deemed disposal of a Preferred Security or interest therein.

If the Bank shall fail to pay any capital, stamp, issue, registration and transfer taxes and duties for which it is responsible as provided above, the Holder or Selling Agent, as the case may be, shall be entitled (but shall not be obliged) to tender and pay the same and the Bank as a separate and independent obligation, undertakes to reimburse and indemnify each Holder or Selling Agent, as the case may be, in respect of any payment thereof and any penalties payable in respect thereof.

- 5.13 The Common Shares (including any Additional Common Shares) issued on Conversion will be fully paid and will in all respects rank *pari passu* with the fully paid Common Shares in issue on the relevant Conversion Notice Date or, in the case of Additional Common Shares,

on the relevant Reference Date, except in any such case for any right excluded by mandatory provisions of applicable law and except that such Common Shares or, as the case may be, Additional Common Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior to the Conversion Notice Date or, as the case may be, the relevant Reference Date.

- 5.14 Notwithstanding any other provision of this paragraph 5 and subject to compliance with the provisions of the Spanish Corporations Law and/or with any Applicable Banking Regulations, the Bank or any member of the Group may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back any shares of the Bank (including Common Shares) or any depositary or other receipts or certificates representing the same without the consent of the Holders.

6. Optional Redemption

- 6.1 The Preferred Securities are perpetual and are only redeemable in accordance with the following provisions of this paragraph 6.

- 6.2 Subject to paragraphs 6.3 and 6.4 below, the Preferred Securities shall not be redeemable prior to the First Reset Date. All, and not some only, of the Preferred Securities may be redeemed at the option of the Bank, subject to the prior consent of the Regulator, at any time on or after the First Reset Date, at the Redemption Price (and otherwise in accordance with Applicable Banking Regulations then in force).

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

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

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

Article 78(4) provides that the Regulator may only permit the Bank to redeem the Preferred Securities before the fifth anniversary of the Closing Date in the case of a Capital Event if, in addition to meeting one of the conditions referred to in paragraphs (a) or (b) of Article 78(1) (as described above), if there is a change in the regulatory classification of the instruments that would be likely to result in their exclusion from own funds or reclassification as a lower quality form of own funds, the Regulator considers such change to be sufficiently certain and the Bank demonstrates to the satisfaction of the Regulator that the regulatory reclassification was not reasonably foreseeable at the Closing Date.

- 6.4 If, on or after the Closing Date, there is a Tax Event, the Preferred Securities may be redeemed, in whole but not in part, at the option of the Bank, subject to the prior consent of

CONDITIONS OF THE PREFERRED SECURITIES

the Regulator (and otherwise in accordance with Applicable Banking Regulations then in force), at any time, at the Redemption Price per Preferred Security.

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

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

7. Purchases of Preferred Securities

The Bank or any member of the Group, may purchase or otherwise acquire any of the outstanding Preferred Securities at any price in the open market or otherwise in accordance with Applicable Banking Regulations in force at the relevant time, and subject to the prior consent of the Regulator, if required.

Any Preferred Securities so acquired by the Bank or any member of the Group, shall cease to be outstanding for all purposes immediately on such acquisition (including any conversion of Preferred Securities on the occurrence of any Conversion Event) and shall be immediately surrendered to a Paying Agent for cancellation in accordance with Applicable Banking Regulations.

8. Prohibition on acquisition of Preferred Securities by Spanish Residents

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

9. Undertakings

So long as any Preferred Security remains outstanding, the Bank will, save with the approval of an Extraordinary Resolution:

- (a) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on Conversion, Common Shares could not, under any applicable law then in effect, be legally issued as fully paid;
- (b) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associates of the offeror) to acquire all or a majority of the issued Common Shares, or if a scheme is proposed with regard to such acquisition (other than a Newco Scheme), give notice of such offer or scheme to the Holders at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Paying and Conversion Agents and, where such an offer or scheme has been recommended by the board of directors of the Bank, or where such an offer has become or been declared unconditional in all respects or such scheme has become effective, use all reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Common Shares issued during the period of the offer or scheme arising out of any Conversion and/or to the Holders;
- (c) in the event of a Newco Scheme, take (or shall procure that there is taken) all necessary action to ensure that such amendments are made to these Conditions immediately after completion of the Scheme of Arrangement as are necessary to ensure that the Preferred Securities may be converted into or exchanged for ordinary shares in Newco (or depositary or other receipts or certificates representing ordinary shares of Newco) mutatis mutandis in accordance with and subject to these Conditions and the ordinary shares of Newco are:
 - (i) admitted to the Relevant Exchange; or
 - (ii) listed and/or admitted to trading on another Recognised Stock Exchange,and the Holders irrevocably authorise the Bank to make such amendments to these Conditions without the need for any further authorisation from the Syndicate;
- (d) issue, allot and deliver Common Shares upon Conversion subject to and as provided in paragraph 5;
- (e) use all reasonable endeavours to ensure that its issued and outstanding Common Shares and any Common Shares issued upon Conversion will be admitted to listing and trading on the Relevant Stock Exchange or will be listed and/or admitted to trading on another Recognised Stock Exchange;

CONDITIONS OF THE PREFERRED SECURITIES

- (f) at all times keep in force the relevant resolutions needed for issue, free from preemptive rights, sufficient authorised but unissued Common Shares to enable Conversion of the Preferred Securities, and all rights of subscription and exchange for Common Shares, to be satisfied in full; and
- (g) where the provisions of paragraph 5 require or provide for a determination by an Independent Financial Adviser or a role to be performed by a Settlement Shares Depository, the Bank shall use all reasonable endeavours promptly to appoint such person for such purpose.

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

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

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

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

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

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

- 10.2 The Holders will have no voting rights at any extraordinary or ordinary meetings of shareholders of the Bank.
- 10.3 (a) Except as provided in paragraph 10.1 above, any amendment to the Conditions shall be approved by the Holders. Such amendments will be approved with the consent of Holders by a resolution adopted in a General Meeting of Holders in accordance with

CONDITIONS OF THE PREFERRED SECURITIES

the procedures, quorum requirements and majorities established in the Regulations (an **Extraordinary Resolution**).

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

11. Taxation

- 11.1 All payments of Distributions and other amounts payable in respect of the Preferred Securities by the Bank will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature unless such withholding or deduction is required by law. In the event that any such withholding or deduction is imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax (**Spain**), the Bank shall pay such additional amounts as will result in Holders receiving such amounts as they would have received had no such withholding or deduction been required.
- 11.2 The Bank shall not be required to pay any additional amounts as referred to in paragraph 11.1 in relation to any payment in respect of Preferred Securities:
 - (a) presented for payment by or on behalf of, a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of the Preferred Securities by reason of his having some connection with Spain other than the mere holding of Preferred Securities; or

- (b) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to an additional amount on presenting the same for payment on such 30th day assuming that day to have been a Payment Business Day; or
 - (c) presented for payment by or on behalf of a Holder who does not provide to the Bank or an agent acting on behalf of the Bank the information concerning such Holder as may be required in order to comply with any procedures that may be implemented to comply with any interpretation of Royal Decree 1145/2011 made by the Spanish tax authorities; or
 - (d) where the withholding or deduction referred to in paragraph 11.1 is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
 - (e) presented for payment by or on behalf of a Holder who would be able to avoid the withholding or deduction referred to in paragraph 11.1 by presenting the Preferred Securities to a Paying Agent in another Member State of the European Union.
- 11.3 For the purposes of this paragraph 11, the **Relevant Date** means, in respect of any payment, the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received and being available for payment to Holders, notice to that effect is duly given to the Holders in accordance with paragraph 12 below.

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

12. Notices

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

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

CONDITIONS OF THE PREFERRED SECURITIES

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

13. Agents

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

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

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

14. Prescription

To the extent that article 950 of the Spanish Commercial Code (*Código de Comercio*) applies to the Preferred Securities, claims relating to the Preferred Securities will become void unless such claims are duly made within three years of the relevant payment date.

15. Governing Law and Jurisdiction

- 15.1 The Preferred Securities and any non-contractual obligations arising out of or in connection with the Preferred Securities shall be governed by, and construed in accordance with, Spanish law.
- 15.2 The Bank hereby irrevocably agrees for the benefit of the Holders that the courts of the city of Madrid, Spain are to have jurisdiction to settle any disputes which may arise out of or in connection with the Preferred Securities (including a dispute relating to any non-contractual obligations arising out of or in connection with the Preferred Securities) and that accordingly any suit, action or proceedings arising out of or in connection with the Preferred Securities (together referred to as **Proceedings**) may be brought in such courts. The Bank irrevocably waives any objection which it may have now or hereinafter to the laying of the venue of any Proceedings in the courts of the city of Madrid, Spain. To the extent permitted by law, nothing contained in this clause shall limit any right to take Proceedings against the Bank in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.

USE OF PROCEEDS

The net proceeds from the issue of the Preferred Securities will be used for the Group's general corporate purposes, which include making a profit.

DESCRIPTION OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

HISTORY AND DEVELOPMENT OF THE BANK

BBVA's predecessor bank, BBV, was incorporated as a limited liability company (a *sociedad anónima* or **S.A.**) under the former Spanish Corporations Law on 1 October 1988. BBVA was formed following the merger of Argentaria into BBV, which was approved by the shareholders of each entity on 18 December 1999 and registered on 28 January 2000. It conducts its business under the commercial name "BBVA". BBVA is registered with the Commercial Registry of Vizcaya (Spain). It has its registered office at Plaza de San Nicolás 4, Bilbao, Spain, 48005, and operates out of Paseo de la Castellana, 81, 28046, Madrid, Spain telephone number +34-91-374-6201. BBVA is incorporated for an unlimited term.

CAPITAL EXPENDITURES

BBVA's principal investments are financial investments in its subsidiaries and affiliates. The main capital expenditures in 2013, 2012 and 2011 were the following:

2013

Acquisition of Unnim Vida

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

2012

Acquisition of Unnim

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

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

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

2011

Acquisition of a capital holding in the Turkish bank Garanti

On 22 March 2011, through the execution of the agreements signed in November 2010 with the Doğu group and having obtained the corresponding authorisations, BBVA completed the acquisition of a 24.89 per cent. holding of the share capital of Garanti. Subsequently, an additional 0.12 per cent. holding was acquired through the stock exchanges, increasing the Group's total holding in the share capital of Garanti to 25.01 per cent. as of 31 December 2011. The total amount spent on these

acquisitions totalled U.S.\$5,876 million (approximately €4,140 million taking into account the hedging derivatives contracted to hedge the deal's euro/dollar exchange-rate risk).

The agreements with the Doğuş group include an arrangement for the joint management of the bank and the appointment of some of the members of its Board of Directors by the Group. BBVA also has a perpetual option to purchase an additional 1 per cent. of Garanti, which will become exercisable on 22 March 2016. Considering its current shareholding structure, if the Group were to exercise this option, it would have effective control of Garanti. For additional information, see Note 3 to the Consolidated Financial Statements.

Purchase of Credit Uruguay Banco

On 18 January 2011, after obtaining the corresponding authorisations, the purchase of Credit Uruguay Banco was completed for approximately €78 million, generating goodwill for an insignificant amount.

Capital increase in CNCB

BBVA participated in the capital increase carried out by CNCB in 2011, in order to maintain its then stake in CNCB (15 per cent.), with a payment of €425 million.

CAPITAL DIVESTITURES

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

2013

Sale of BBVA Panama

On 20 July 2013, BBVA announced that it had reached an agreement with Leasing Bogotá S.A., Panamá, a subsidiary of Grupo Aval Acciones y Valores, S.A., for the sale to the former of all of the stake held by BBVA directly and indirectly in Banco Bilbao Vizcaya Argentaria (Panamá), S.A. (**BBVA Panamá**). The aggregate direct and indirect participation of BBVA in BBVA Panamá represents approximately 98.92 per cent. of the share capital of the company

On 19 December 2013, after having obtained the necessary approvals, BBVA completed the sale.

The total consideration that BBVA obtained pursuant to this sale amounted to approximately USD 645 million, USD 505 million of which represented the sale price and the remaining USD 140 million was received through the distribution of dividends by BBVA Panamá from 1 June 2013.

This distribution of dividends from BBVA Panamá resulted in a corresponding reduction in the purchase price to be paid to BBVA on the closing of this transaction.

New agreement with Citic Group

As of 21 October 2013, BBVA reached a new agreement with the Citic Group that included among other aspects the sale of BBVA's 5.1 per cent. stake in China Citic Bank Corporation Limited (**CNCB**) to Citic Limited for an amount of approximately €944 million. After this sale, the stake of BBVA in CNCB was reduced to 9.9 per cent.

Simultaneously, BBVA and the Citic Group agreed to adapt their strategic cooperation agreement to this new situation, removing the exclusivity obligations that affected the activities of BBVA in the People's Republic of China, and agreeing to negotiate new areas of cooperation among both banks, as BBVA's current intention is to remain a key long term investor in CNCB.

Sale of pension businesses in Latin America

On 24 May 2012 BBVA announced its decision to conduct a study on strategic alternatives for its pension business in Latin America. The alternatives considered in this process include the total or partial sale of the businesses of the Pension Fund Administrators (AFP) in Chile, Colombia and Peru, and the Retirement Fund Administrator (Afore) in Mexico.

On 2 October 2013, with the completion of the sale of the Chilean pension fund manager, Administradora de Fondos de Pensiones Provida SA (**AFP Provida**), BBVA finalised this process. A description of each of the operations that have been carried out during this process are set out below:

Sale of AFP Provida (Chile)

On 1 February 2013, BBVA reached an agreement with MetLife, Inc., for the sale of the 64.3 per cent. stake that BBVA held direct and indirectly in AFP Provida.

On 2 October 2013, BBVA completed this sale. The total amount in cash received by BBVA was approximately USD 1,540 million, taking into account the purchase price amounting to approximately USD 1,310 million as well as the dividends paid by AFP Provida since 1 February 2013 amounting to approximately USD 230 million.

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

On 23 April 2013, BBVA transferred 100 per cent. of the share capital of the Peruvian company "AFP Horizonte SA" to "AFP Integra SA" and "Profuturo AFP, SA" who each acquired 50 per cent. of this company.

The total consideration received by BBVA for these shares was approximately USD 544 million. This consideration was composed of a purchase price of approximately USD 516 million and the distribution of a dividend prior to closing of approximately USD 28 million.

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

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

On 18 April 2013, after having obtained the necessary approvals, BBVA completed this sale. The adjusted total sale price was USD 541.4 million.

Sale of Afore Bancomer (Mexico)

On 27 November 2012, BBVA announced that it had reached an agreement to sell to Afore XXI Banorte, S.A. de C.V. the entire stake that BBVA held directly or indirectly in the Mexican subsidiary Administradora de Fondos para el Retiro Bancomer, S.A. de C.V.

Once the corresponding authorisation had been obtained from the competent authorities, the sale completed on 9 January 2013, at which point the BBVA Group ceased to control this subsidiary.

2012

In June 2012, BBVA reached an agreement to sell its business in Puerto Rico to Oriental Financial Group Inc. The sale price was U.S.\$500 million (approximately €385 million at the exchange rate on

the date of the transaction). Gross capital losses from this sale amounted to approximately €15 million (taking into account the exchange rate at the time of the transaction and the earnings of the sold companies up to the closing of the transaction, on 18 December 2012).

2011

During 2011, BBVA sold its participation in certain non-strategic associates and also concluded the liquidation and merger of several issuers, financial services and real estate affiliates.

BUSINESS OVERVIEW

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

OPERATING SEGMENTS

The main changes in the reporting structure of the Group's operating segments in 2013 are as follows:

- As a result of the increasingly geographical orientation of the Group's reporting structure, certain portfolios, finance and structural euro balance sheet positions managed by the Assets and Liabilities Committee (**ALCO**) that were previously reported under the Corporate Activities segment (which is currently named the "Corporate Centre") are now part of the Spain segment (described below) of the Group.
- Due to the particularities of their management, the assets and results pertaining to the real estate business in Spain are now presented under a separate segment: Real Estate Activity in Spain. This new segment includes lending to real estate developers (which was previously included in the Spain segment) and foreclosed real estate assets (which were previously included in the Corporate Activities segment).

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

- Spain
- Real Estate Activity in Spain
- Eurasia
- Mexico
- South America
- United States

For comparison, the Group's 2012 financial information by operating segment has been restated to reflect the Group's current reporting structure.

In addition to the operating segments referred to above, the Group has a Corporate Centre which includes those items that have not been allocated to an operating segment. It includes the Group's general management functions, including: costs from central units that have a strictly corporate function; management of structural exchange-rate positions carried out by the Financial Planning unit; specific issues of capital instruments to ensure adequate management of the Group's overall capital position; proprietary portfolios such as industrial holdings and their corresponding results; certain tax

assets and liabilities; provisions related to commitments with pensioners; and goodwill and other intangibles. In addition, it also comprises the results from certain corporate operations carried out over 2013, such as those from the sale of the pension business in Latin America, including the capital gains from the sale of the businesses in Mexico (first quarter), Colombia and Peru (second quarter) and Chile (fourth quarter), those resulting from the sale of BBVA Panama (fourth quarter), and the effect of the repricing of the stake in CNCB to market value following the signing in the fourth quarter of the new agreement with the CITIC group, including the sale of BBVA's 5.1 per cent. stake in CNCB. It also includes the equity-accounted earnings from CNCB (excluding dividends) for 2013 and 2012. Lastly, in 2012 it includes the financial statements of BBVA Puerto Rico until its sale, which was completed in December 2012.

Set forth below is financial information for each of the Group's current operating segments as of and for the years ended 31 December 2013 and 2012.

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

Total Assets by Operating Segments	As of 31 December	
	2013	2012
	<i>(in millions of euros)</i>	
Spain	315,561	345,362
Real Estate Activity in Spain	20,563	21,923
Eurasia	41,223	48,324
Mexico	82,171	81,723
South America	78,141	77,474
United States	53,042	53,892
Subtotal Assets by Operating Segments	590,700	628,698
Corporate Centre and other adjustments(*)	(8,125)	(7,626)
Total Assets BBVA Group	582,575	621,072

(*) Includes adjustments due to the Garanti Group being accounted for using the equity method and other inter-areas adjustments

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

	Profit/(Loss) Attributable to Parent Company		% Profit/(Loss) Attributable to Parent Company	
	For the Year Ended December 31,			
	2013	2012 ⁽¹⁾	2013	2012 ⁽¹⁾
	<i>(in millions of euros)</i>		<i>(in percentage)</i>	
Spain	583	1,162	18.1	136.2
Real Estate Activity in Spain	(1,254)	(4,044)	(38.9)	(474.1)
Eurasia	454	404	14.1	47.4
Mexico	1,805	1,689	55.9	198.0
South America	1,249	1,199	38.7	140.6
United States	390	443	12.1	51.9
Subtotal operating segments	3,227	853	100.0	100.0
Corporate Centre	(999)	823		
Profit attributed to parent company	2,228	1,676		

(1) Profit/(Loss) attributable to parent company for the year ended 31 December 2012 has been affected by the significant loan-loss provisions made to reflect the steady impairment of BBVA's real estate portfolios in Spain.

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

Operating Segments										
	Spain	Real Estate Activity in Spain	Eurasia	Mexico	South America	United States	Corporate Centre	Total	Adjustments (*)	BBVA Group
	<i>(in millions of euros)</i>									
2013										
Net interest income	3,830	(3)	911	4,484	4,703	1,407	(719)	14,613	(713)	13,900
Operating profit/(loss) before tax	222	(1,840)	593	2,362	2,387	534	(1,507)	2,750	(1,590)	1,160
Profit	583	(1,254)	454	1,805	1,249	390	(999)	2,228	-	2,228
2012										
Net interest income	4,748	(20)	851	4,178	4,288	1,551	(473)	15,122	(648)	14,474
Operating profit/(loss) before tax	1,652	(5,705)	508	2,229	2,271	619	(826)	749	834	1,582
Profit	1,162	(4,044)	404	1,689	1,199	443	823	1,676	-	1,676

(*) Includes adjustments due to the Garanti Group being accounted for using the equity method and other inter-areas adjustments

Spain

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

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

In addition, it also includes the portfolios, finance and structural interest-rate positions of the Group's euro balance sheet.

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

	As of 31 December	
	<u>2013</u>	<u>2012</u>
	<i>(in millions of euros)</i>	
Total Assets	315,561	345,362
Performing loans and advances to customers	165,813	184,697
Customer deposits under management (*)	147,782	133,802
Mutual funds	22,298	19,116
Pension funds	20,428	18,577
Efficiency ratio (%)	49.5	43.3
NPA Ratio (%)	6.4	4.1
NPA Coverage Ratio (%)	41	48
Risk premium (%)	1.36	0.95

(*) Excluding repos. Including promissory notes sold by the retail network and collection accounts.

Performing loans and advances to customers of this operating segment as of 31 December 2013 amounted to €165,813 million, a 10.2 per cent. decrease from the €184,697 million recorded as of 31 December 2012.

Customer deposits of this operating segment as of 31 December 2013 amounted to €147,782 million, a 10.4 per cent. increase from the €133,802 million recorded as of 31 December 2012, mainly due to the growth of time deposits (18.9 per cent. year-on-year).

Mutual funds of this operating segment as of 31 December 2013 amounted to €22,298 million, a 16.6 per cent. increase from the €19,116 million recorded as of 31 December 2012.

Pension funds of this operating segment as of 31 December 2013 amounted to €20,428 million, a 10.0 per cent. increase from the €18,577 million recorded as of 31 December 2012.

This operating segment's non-performing assets ratio increased to 6.4 per cent. as of 31 December 2013 from 4.1 per cent. as of 31 December 2012, mainly due to the declining lending volumes and the impact of the classification of refinanced loans made in the third quarter of 2013. This operating segment's non-performing assets coverage ratio decreased to 41 per cent. as of 31 December 2013, from 48 per cent. as of 31 December 2012.

Real Estate Activity in Spain

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

The exposure to the real-estate sector in Spain is declining. As of 31 December 2013, the balance stood at €14,570 million, 6.5 per cent. below the figure as of 31 December 2012. In 2013 there was an increase in the balance of non-performing developer loans, basically due to the application of the classification of refinanced loans in the third quarter. In fact, a significant percentage of the volume of loans reclassified as non-performing as a result of this classification corresponds to customers who are currently up-to-date with their payments. Within the exposure to the Spanish real-estate sector, property securing mortgage loans to private individuals has increased year-on-year by 14.6 per cent. This rise is closely linked to the increase in gross additions to non-performing assets (**NPA**s) in this mortgage portfolio during 2008 and 2009.

As of 31 December 2013, the Group's coverage of non-performing and substandard loans was 51 per cent. and overall coverage of real-estate exposure was 45 per cent. In the latter part of 2013, sales of owned real-estate assets accelerated and 21,383 units were sold during 2013.

Eurasia

This operating segment covers the business carried out in the rest of Europe and Asia, i.e., the retail and wholesale businesses of the Group in such geographic areas. It also includes BBVA's stakes in the Turkish bank Garanti and the Chinese banks CNCB and CIFIH.

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

	As of 31 December	
	<u>2013</u>	<u>2012</u>
	<i>(in millions of euros)</i>	
Total Assets	41,223	48,324
Performing loans and advances to customers ⁽¹⁾	27,505	27,256
Customer deposits under management ^{(1) (2)}	16,475	14,626
Mutual funds	1,332	1,408
Pension funds	634	608
Efficiency ratio (%)	42.6	46.8
NPA Ratio (%)	3.4	2.8
NPA Coverage Ratio (%)	87	87
Risk premium (%)	1.11	0.97

(1) At constant exchange rates

(2) Excludes repos

Performing loans and advances to customers of this operating segment as of 31 December 2013 amounted to €27,505 million, a 0.9 per cent. increase from the €27,256 million recorded as of 31 December 2012, at constant exchange rates.

Customer deposits of this operating segment as of 31 December 2013 amounted to €16,475 million, a 12.6 per cent. increase from the €14,626 million recorded as of 31 December, 2012, at constant exchange rates, mainly due to an increase in retail business and wholesale banking customers.

Mutual funds of this operating segment as of 31 December 2013 amounted to €1,332 million, a 5.4 per cent. decrease from the €1,408 million recorded as of 31 December 2012.

Pension funds of this operating segment as of 31 December 2013 amounted to €634 million, a 4.3 per cent. increase from the €608 million recorded as of 31 December 2012.

This operating segment's non-performing assets ratio increased to 3.4 per cent. as of 31 December 2013, from 2.8 per cent. as of 31 December 2012. This operating segment non-performing assets coverage ratio was 87 per cent. as of 31 December 2012 and 2013.

Mexico

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

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

	As of 31 December	
	<u>2013</u>	<u>2012</u>
	<i>(in millions of euros)</i>	
Total Assets	82,171	81,723
Performing loans and advances to customers ⁽¹⁾	38,678	35,217
Customer deposits under management ^{(1) (2)}	40,809	38,417
Mutual funds	16,896	17,492
Efficiency ratio (%)	37.7	37.6
NPA Ratio (%)	3.6	3.8
NPA Coverage Ratio (%)	110	114
Risk premium (%)	3.57	3.48

(1) At constant exchange rates

(2) Includes repos

Performing loans and advances to customers of this operating segment as of 31 December, 2013 amounted to €38,678 million, a 9.8 per cent. increase from the €35,217 million recorded as of 31 December 2012, at constant exchange rates, mainly due to the increase in financing to medium-sized enterprises.

Customer deposits of this operating segment as of 31 December 2013 amounted to €40,809 million, a 6.2 per cent. increase from the €38,417 million recorded as of 31 December 2012 at constant exchange rates.

Mutual funds of this operating segment as of 31 December 2013 amounted to €16,896 million, a 3.4 per cent. decrease from the €17,492 million recorded as of 31 December 2012.

This operating segment's non-performing assets ratio decreased to 3.6 per cent. as of 31 December 2013, from 3.8 per cent. as of 31 December 2012. This operating segment's non-performing assets coverage ratio decreased to 110 per cent. as of 31 December 2013, from 114 per cent. as of 31 December 2012.

South America

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

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

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

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

	As of 31 December	
	<u>2013</u>	<u>2012</u>
	<i>(in millions of euros)</i>	
Total Assets	78,141	77,474
Performing loans and advances to customers ⁽¹⁾	47,753	39,241
Customer deposits under management ^{(1) (2)}	58,881	45,306
Mutual funds	2,952	3,355
Pension funds	3,600	3,081
Efficiency ratio (%)	42.4	42.8
NPA Ratio (%)	2.1	2.1
NPA Coverage Ratio (%)	141	146
Risk premium (%)	1.49	1.34

(1) At constant exchange rates

(2) Excluding repos and including specific marketable debt securities

Performing loans and advances to customers of this operating segment as of 31 December 2013 amounted to €47,753 million, a 21.7 per cent. increase from the €39,241 million recorded as of 31 December 2012, at constant exchange rates, mainly due to an increase in credit card lending, customer finance and to a lesser extent mortgage lending.

Customer deposits of this operating segment as of 31 December 2013 amounted to €58,881 million, a 30.0 per cent. increase from the €45,306 million recorded as of 31 December 2012, at constant exchange rates, mainly due to an increase in current and saving accounts.

Mutual funds of this operating segment as of 31 December 2013 amounted to €2,952 million, a 12.0 per cent. decrease from the €3,355 million recorded as of 31 December 2012.

Pension funds of this operating segment as of 31 December 2013 amounted to €3,600 million, a 16.8 per cent. increase from the €3,081 million recorded as of 31 December 2012.

This operating segment's non-performing assets ratio increased 2.1 per cent. as of 31 December 2013 as compared to 31 December 2012. This operating segment's non-performing assets coverage ratio decreased to 141 per cent. as of 31 December 2013, from 146 per cent. as of 31 December 2012.

United States

This operating segment encompasses the Group's business in the United States. BBVA Compass accounted for approximately 95 per cent. of the area's balance sheet as of 31 December 2013. Given its weight, most of the comments below refer to BBVA Compass. This operating segment also covers the assets and liabilities of the BBVA office in New York, which specialises in transactions with large corporations.

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

	As of 31 December	
	<u>2013</u>	<u>2012</u>
	<i>(in millions of euros)</i>	
Total Assets	53,042	53,892
Performing loans and advances to customers ⁽¹⁾	39,272	35,886
Customer deposits under management ^{(1) (2)}	38,448	36,088
Efficiency ratio (%)	70.2	67.1
NPA Ratio (%)	1.2	2.4
NPA Coverage Ratio (%)	138	90
Risk premium (%)	0.21	0.19

(1) At constant exchange rates

(2) Excludes repos

Performing loans and advances to customers of this operating segment as of 31 December 2013 amounted to €39,272 million, a 9.4 per cent. increase from the €35,886 million recorded as of 31 December 2012, at constant exchange rates, as a result of growth in all of the Bank's portfolios. Year-on-year comparisons reflected a 14.7 per cent. increase in lending to corporates, a 10.1 per cent. increase in residential mortgages and a 5.9 per cent. increase in customer loans.

Customer deposits of this operating segment as of 31 December 2013 amounted to €38,448 million, a 6.5 per cent. increase from the €36,088 million recorded as of 31 December 2012, at constant exchange rates, mainly due to an increase in current and saving accounts.

This operating segment's non-performing assets ratio decreased to 1.2 per cent. as of 31 December 2013, from 2.4 per cent. as of 31 December 2012. This operating segment's non-performing assets coverage ratio increased to 138 per cent. as of 31 December 2013, from 90 per cent. as of 31 December 2012.

ORGANISATIONAL STRUCTURE

As of 31 December 2013, the Group was made up of 301 fully consolidated companies and 127 companies consolidated using the equity method.

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

Below is a simplified organisational chart of BBVA's most significant subsidiaries as of 31 December 2013.

Subsidiary	Country of incorporation	Activity	BBVA voting power	BBVA ownership	Total assets (in millions of euro)
			(in percentages)		
BBVA BANCOMER, S.A. DE C.V.	Mexico	Bank	100.00	99.97	75,330
COMPASS BANK	United States	Bank	100.00	100.00	56,106
BANCO PROVINCIAL S.A. – BANCO UNIVERSAL	Venezuela	Bank	55.21	55.21	22,932
BBVA SEGUROS, S.A. DE SEGUROS Y REASEGUROS	Spain	Insurance	99.95	99.95	16,243
BANCO CONTINENTAL, S.A.	Peru	Bank	46.12	46.12	14,804
BANCO BILBAO VIZCAYA ARGENTARIA CHILE, S.A.	Chile	Bank	68.18	68.18	13,903
BBVA COLOMBIA, S.A.	Colombia	Bank	95.43	95.43	13,114
BBVA BANCO FRANCES, S.A.	Argentina	Bank	75.96	75.96	6,349
BANCO BILBAO VIZCAYA ARGENTARIA (PORTUGAL), S.A.	Portugal	Bank	100.00	100.00	5,471
PENSIONES BANCOMER, S.A. DE C.V.	Mexico	Insurance	100.00	100.00	3,576
SEGUROS BANCOMER, S.A. DE C.V.	Mexico	Insurance	100.00	99.98	3,050
BANCO BILBAO VIZCAYA ARGENTARIA (URUGUAY), S.A.	Uruguay	Bank	100.00	100.00	2,133
BBV SUIZA, S.A. (BBVA SWITZERLAND)	Switzerland	Bank	100.00	100.00	1,356
BBVA PARAGUAY, S.A.	Paraguay	Bank	100.00	100.00	1,322

SELECTED FINANCIAL DATA

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

Consolidated statement of income data

	Year ended 31 December	
	2013	2012
	(in millions of euro)	
Consolidated Statement of Income data		
Net interest income	13,900	14,474
Profit	2,981	2,327
Profit attributable to parent company	2,228	1,676

Consolidated balance sheet data

	As at 31 December	
	2013	2012
	<i>(in millions of euro)</i>	
Consolidated balance sheet data		
Total assets	582,575	621,072
Loans and receivables (net)	350,945	371,347
Customer deposits	300,490	282,795
Debt certificates and subordinated liabilities	74,676	98,070
Non-controlling interest	2,371	2,372
Total equity	44,850	43,802

RECENT DEVELOPMENTS

Spanish Supreme Court decision regarding “floor” clauses in mortgage loans

On 9 May 2013 the Supreme Court of Spain issued a decision regarding the legality of "floor" clauses in mortgage loans to consumers by various financial entities (including BBVA) which limit any decrease in variable interest rates on such loans. The Supreme Court concluded that:

- as a general principle, floor clauses of this nature may be effective but where included in general terms and conditions of certain consumer loan agreements, the Supreme Court imposed specific transparency requirements before this would be the case. The mortgage loan agreements of BBVA were included in those considered by the Supreme Court not to have disclosed the floor arrangements with sufficient transparency;
- BBVA and the other financial entities party to this process must cease to apply such floor clauses under any loan agreements already in place, which will survive in all other terms, and must cease to use such floor clauses in future consumer loan agreements; and
- there was to be no retroactive application of the Supreme Court's decision to any position previously settled by a final judicial decision or payments already made at the time the decision was published.

In accordance with this decision of the Supreme Court, BBVA ceased to apply such floor clauses to consumer mortgage loans with effect from 9 May 2013, although it reserves its right to possible appeals.

BOARD OF DIRECTORS

BBVA is managed by a Board of Directors which, in accordance with its current by-laws (*estatutos*), must consist of no less than five and no more than fifteen members. All members of the Board of Directors are elected to serve three-year terms. BBVA's Board Regulations state that the Board of Directors must try to ensure that it is comprised of a majority of external directors.

BBVA's corporate governance system is based on the distribution of functions between the Board of Directors, the Executive Committee and other specialised Board Committees, namely: the Audit and Compliance Committee; the Appointments Committee; the Compensation Committee; and the Risk Committee. BBVA's Board of Directors is assisted in fulfilling its responsibilities by the Executive Committee (*Comisión Delegada Permanente*) of the Board of Directors. The Board of Directors delegates all management functions, except those that it must retain due to legal or statutory requirements, to the Executive Committee.

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

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

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

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

Name	Current Position	Date Nominated	Date Re-elected	Present Principal Outside Occupation and Five-Year Employment History^(*)
Francisco González Rodríguez ⁽¹⁾	Chairman and Chief Executive Officer	28 January 2000	15 March 2013	Chairman and CEO of BBVA, since January 2000; Director of Grupo Financiero BBVA Bancomer, S.A. de C.V. and BBVA Bancomer S.A. Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer.
Ángel Fernández ⁽¹⁾	President and Chief Operating Officer	29 September 2009	15 March 2013	President and Chief Operating Officer of BBVA, since September 2009. Director of Grupo Financiero BBVA Bancomer S.A. de C.V., BBVA Bancomer, S.A. Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Türkiye Garanti Bankası A.Ş. BBVA Director of Resources and Means from 2005 to 2009.
Tomás Drake ⁽²⁾⁽³⁾	Independent Director	18 March 2006	11 March 2011	Chairman of the Appointments Committee of BBVA since 25 May 2010. Director of Internal Development and Professor in the Finance department of Universidad Francisco de Vitoria.
Juan Carlos Álvarez Mezquíz ⁽¹⁾⁽³⁾	Independent Director	28 January 2000	11 March 2011	Managing Director of Grupo El Enebro, S.A. Former Manager Director of Grupo Eulen, S.A. until 2010.
Ramón Bustamante y de la Mora ⁽²⁾⁽⁵⁾	Independent Director	28 January 2000	15 March 2013	Was Director and General Manager and Non-Executive Vice-President of Argentaria and Chairman of Unitaria (1997).
José Antonio	Independent	28 February	16 March	Chairman of Risk Committee since

Name		Current Position	Date Nominated		Date Re-elected		Present Principal Outside Occupation and Five-Year Employment History ^(*)
Fernández Rivero ⁽³⁾⁽⁵⁾		Director	2004		2012		30 March 2004; in 2001 was appointed Group General Manager until January 2003. Has been the director representing BBVA on the Boards of Telefónica, Iberdrola, and of Banco de Crédito Local, and Chairman of Adquiria.
Ignacio Ferrero	Jordi ⁽¹⁾⁽⁴⁾	Independent Director	28 January	2000	15 March	2013	Chief Operating Officer of Nutrexpa, S.L., Chairman and Chief Operating Officer of La Piara S.A. and Chairman of Aneto Natural.
Belén López ⁽²⁾	Garijo	Independent Director	16 March	2012	Not applicable		Chair of the International Executive Committee of PhRMA, ISEC (Pharmaceutical Research and Manufacturers of America), Chief Operating Officer from 2011 to October 2013 and President and CEO since October 2013 of Merck Serono.
José Manuel González-Páramo	Manuel Martínez-Murillo	Executive Director	29 May 2013		Not applicable		Executive Director of BBVA since 29 May 2013. Member of the European Central Bank (ECB) Governing Council and Executive Committee from 2004 to 2012. Chairman of European DataWarehouse GmbH since 2013. Head of BBVA Global Economics, Regulation and Public Affairs.
Carlos Martínez Irujo ⁽²⁾⁽⁴⁾	Loring de	Independent Director	28 February	2004	11 March	2011	Chairman of Compensation Committee of BBVA since May 2010 (former Chairman of the Appointments and Compensation Committee). Was Partner of J&A Garrigues, from 1977 to 2004.
José Ramos ⁽¹⁾⁽³⁾⁽⁴⁾	Maldonado	External Director	28 January	2000	16 March	2012	Was appointed Director and General Secretary of BBVA in January 2000. Took early retirement as Bank executive in December 2009.
José Luis García-Suelto ⁽²⁾⁽⁵⁾	Palao	Independent Director	1 February	2011	11 March	2011	Chairman of the Audit and Compliance Committee of BBVA since 29 March 2011. Senior Partner of the Financial Division in Spain of Arthur Andersen, from 1979 until 2002. Independent Consultant from 2002 to 2010.
Juan Pi Llorens ⁽⁴⁾⁽⁵⁾		Independent Director	27 July 2011		16 March	2012	Had a professional career at IBM holding various senior posts at a national and international level

Name	Current Position	Date Nominated	Date Re-elected	Present Principal Outside Occupation and Five-Year Employment History^(*)
				including Vice President for Sales at IBM Europe, Vice President of Technology & Systems at IBM Europe and Vice President of the Finance department at GMU (Growth Markets Units) in China. He was executive chairman of IBM Spain.
Susana Rodríguez Vidarte ⁽¹⁾⁽³⁾⁽⁴⁾	Independent Director	28 May 2002	11 March 2011	Full-time professor of Strategy at the School of Economics and Business Studies at Universidad de Deusto. Member of the Instituto de Contabilidad y Auditoría de Cuentas (Accountants and Auditors Institute) and PhD degree from Universidad de Deusto.

(*) Where no date is provided, positions are held as at the date of this Offering Circular.

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

MAJOR SHAREHOLDERS AND SHARE CAPITAL

As of 4 February 2014, no person, corporation or government beneficially owned, directly or indirectly, 5 per cent. or more of BBVA's shares. BBVA's major shareholders do not have voting rights which are different from those held by the rest of its shareholders. To the extent known to BBVA, BBVA is not controlled, directly or indirectly, by any other corporation, government or any other natural or legal person. As of 4 February 2014, there were 970,542 registered holders of BBVA's shares, with an aggregate of 5,785,954,443 shares, of which 465 shareholders with registered addresses in the United States held a total of 1,623,872,944 shares (including shares represented by American Depositary Receipts (ADRs)). Since certain of such shares and ADRs are held by nominees, the foregoing figures are not representative of the number of beneficial holders.

LEGAL PROCEEDINGS

The Group is party to certain legal actions in a number of jurisdictions including, among others, Spain, Mexico and the United States, arising in the ordinary course of business. BBVA considers that none of such actions is material, individually or in the aggregate, and none of such actions is expected to result in a material adverse effect on the Group's financial position, results of operations or liquidity, either individually or in the aggregate. Management believes that adequate provisions have been made in respect of the actions arising in the ordinary course of business. BBVA has not disclosed to the markets any contingent liability that could arise from said legal actions as it does not consider them material.

TAXATION

The following summary refers solely to certain Spanish tax consequences of the acquisition, ownership and disposition of the Preferred Securities and Common Shares. It does not purport to be a complete analysis of all tax consequences relating to the Preferred Securities and Common Shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which might be subject to special rules. Prospective investors should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Spain of acquiring, holding and disposing of Preferred Securities and Common Shares and receiving any payments under the Preferred Securities and Common Shares. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date. References in this section to Holders include the beneficial owners of the Preferred Securities and Common Shares, where applicable.

Acquisition of the Preferred Securities and Common Shares

The issue of, subscription for, transfer and acquisition of the Preferred Securities and Common Shares is exempt from Transfer and Stamp Tax (*Impuesto sobre Transmisiones Patrimoniales y Actos Jurídicos Documentados*) and Value Added Tax (*Impuesto sobre el Valor Añadido*).

Taxation on the income and transfer of the Preferred Securities and Common Shares

The tax treatment of the acquisition, holding and subsequent transfer of the Preferred Securities and Common Shares is summarised below and is based on the tax regime applicable pursuant to Royal Legislative Decree 5/2004 of 5 March approving the consolidated text of the Non-Resident Income Tax Law (*Impuesto sobre la Renta de los no Residentes*), Royal Decree 1776/2004 of 30 July approving the Non-Resident Income Tax Regulations, Law 19/1991 of 6 June approving the Wealth Tax Law (*Impuesto sobre el Patrimonio*) and Law 29/1987 of 18 December 1987 approving the Inheritance and Gift Tax Law (*Impuesto sobre Sucesiones y Donaciones*).

Consideration has also been given to Spanish legislation on the issuance of preferred securities and debt securities issued by Spanish financial and non-financial listed entities, either directly or through a subsidiary (Law 13/1985, as amended, and RD 1065/2007 (as amended by RD 1145/2011), approving the General Regulations relating to tax inspection and management procedures and developing the common rules of the procedures to apply taxes).

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

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

Preferred Securities

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

Income obtained by Holders who are not tax resident in Spain acting for these purposes without a permanent establishment within Spain is exempt from Non-Resident Income Tax (see “*Taxation – Preferred Securities - Tax Reporting Obligations of the Bank*”).

Wealth Tax

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights located in Spain, or that can be exercised within the Spanish territory, exceed €700,000 would be subject to Wealth Tax at the applicable rates, ranging between 0.2 per cent. and 2.5 per cent., without prejudice to any exemption which may apply. Therefore, such individuals should take into account the value of the Preferred Securities which they hold as of 31 December 2014.

Legal entities are not subject to Wealth Tax.

Inheritance and Gift Tax

The transfer of the Preferred Securities to individuals by inheritance, legacy or donation shall be subject to the general rules of Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*) in accordance with the applicable Spanish rules even if title passes outside Spain and neither the heir nor the beneficiary, as the case may be, is resident in Spain for tax purposes, without prejudice to the provisions of any DTT signed by Spain.

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

In the event that the beneficiary is an entity other than a natural person, the income obtained shall be subject to Non-Resident Income Tax and without prejudice, in the latter event, to the provisions of any DTT that may apply.

Tax Reporting Obligations of the Bank

Article 44 of RD 1065/2007 sets out the reporting obligations applicable to preference shares and debt instruments issued under Law 13/1985. The procedures apply to interest deriving from preference shares and debt instruments to which Law 13/1985 refers, including debt instruments issued at a discount for a period equal to or less than twelve months.

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

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

In accordance with Article 44 of RD 1065/2007 as amended by RD 1145/2011, the Paying Agent should provide the Bank with the statement reflecting the relevant position at the close of business on the business day immediately prior to each interest payment date. In the event that on the date, the entities obliged to provide the declaration fail to do so, the Bank or the Paying Agent on its behalf will make a withholding at the general rate (21 per cent. as at the date of this Offering Circular) on the total amount of the return on the relevant Preferred Securities otherwise payable to such entity.

Notwithstanding the foregoing, the Bank has agreed that in the event that withholding tax were required by law, the Bank shall pay such additional amounts as would have been received had no such

withholding or deduction been required, except as provided in Condition 11 and as otherwise described in this Offering Circular.

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

Common Shares

Non-Resident Income Tax payers in Spain not acting through a permanent establishment in Spain

(i) Taxation of dividends

Under Spanish law, dividends paid to a non-Spanish resident Holder in Spain not acting through a permanent establishment in Spain in respect of the Common Shares are subject to the Spanish Non-Resident Income Tax, and therefore a 21 per cent. withholding tax is currently applied on the gross amount of dividends.

The Order of 13 April 2000, establishes the procedure applicable to dividend payments made to Holders subject to the Spanish Non-Residents Income Tax.

Notwithstanding the above, according to the Non-Resident Income Tax Law, individuals with tax residency in an EU country or in other countries with which there is an actual exchange of tax information may benefit from an exemption up to an annual amount of €1,500 on their Spanish sourced dividend income. This exemption is not applicable to income obtained by non-residents through a country or territory defined as a tax haven under applicable Spanish regulations. For the purposes of applying this exemption, the paying agent has to deduct withholding taxes on the gross amount of dividends paid and the Holders entitled to this exemption will have to seek a refund of such withholding taxes from the Spanish tax authorities.

However, when a DTT applies, the non-resident is entitled to the Treaty-reduced rate. To benefit from the Treaty-reduced rate, the non-resident must provide to the Bank or to the Spanish resident depository, if any, through which its Common Shares are held, a certificate of tax residence issued by the tax authorities of the country of residence.

(ii) Taxation of Capital Gains

Capital gains realized by non-Spanish resident Holders not acting through a permanent establishment in Spain in respect of the Common Shares will be taxed under the rules provided by the Non-Resident Income Tax Law,

However, capital gains realised by a Holder will be exempt from Spanish Non-Residents Income Tax in the following cases:

- If such Holder is a resident of another European Union Member State, it will be exempt from Spanish Non-Residents Income Tax on capital gains, provided that (i) our assets do not mainly consist of, directly or indirectly, Spanish real estate, (ii) the seller has not maintained a direct or indirect holding of at least 25 per cent. of the Common Shares outstanding during the twelve months preceding the disposition of the latter and (iii) the gain is not obtained through a country or territory statutorily defined as a tax haven.

TAXATION

- If the transfer of Common Shares in an official Spanish secondary stock market is made by any Holder who is resident in a country that has entered into a DTT with Spain containing an exchange of information clause (including the Treaty), will be exempt from taxation in Spain. This exemption is not applicable to capital gains obtained through a country or territory defined as a tax haven under applicable Spanish regulations.

In the event that a capital gain derived from the disposition of Common Shares is exempt from Spanish Non-Residents Income Tax, such Holder will be obliged to file with the Spanish tax authorities the corresponding 210 tax Form evidencing its entitlement to the exemption and providing the Spanish tax authorities with a certificate of tax residence issued by the tax authorities of the country of residence, within the meaning of a DTT, if applicable

Wealth Tax

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights located in Spain, or that can be exercised within the Spanish territory, exceed €700,000 would be subject to Wealth Tax at the applicable rates, ranging between 0.2 per cent. and 2.5 per cent. Therefore, such individuals should take into account the value of the Common Shares which they hold as at 31 December 2014.

Legal entities are not subject to Wealth Tax.

Inheritance and Gift Tax

The transfer of the Common Shares to individuals by inheritance, legacy or donation shall be subject to the general rules of Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*) in accordance with the applicable Spanish rules even if title passes outside Spain and neither the heir nor the beneficiary, as the case may be, is resident in Spain for tax purposes, without prejudice to the provisions of any DTT signed by Spain.

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

In the event that the beneficiary is an entity other than a natural person, the income obtained shall be subject to Corporate Income Tax or Non-Resident Income Tax, as the case may be, and without prejudice, in the latter event, to the provisions of any DTT that may apply.

EU SAVINGS DIRECTIVE

Under EC Council 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 similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, 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 adopted similar measures (a withholding system in the case of Switzerland).

In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

TAXATION

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

SUBSCRIPTION, SALE AND TRANSFER

The Joint Bookrunners have, pursuant to a subscription agreement (the **Subscription Agreement**) dated 11 February 2014, jointly and severally agreed to subscribe or procure subscribers for the Preferred Securities at the issue price of 100 per cent. of the liquidation preference of the Preferred Securities, less the agreed commissions. The Bank will also reimburse the Joint Bookrunners in respect of certain of their expenses, and has agreed to indemnify the Joint Bookrunners against certain liabilities, incurred in connection with the issue of the Preferred Securities. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Bank.

United States

The Preferred Securities and the Common Shares to be issued and delivered in the event of any Conversion have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Capitalised terms used in this paragraph have the meanings given to them under Regulation S.

The Preferred Securities are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Joint Bookrunner has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Preferred Securities (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Preferred Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Preferred Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Preferred Securities within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

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

Spain

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

Prohibition on acquisition of Preferred Securities by Spanish Residents

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

United Kingdom

Each Joint Bookrunner has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Preferred Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Preferred Securities in, from or otherwise involving the United Kingdom.

Singapore

Each of the Joint Bookrunners has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Joint Bookrunners has represented and agreed that it has not offered or sold any Preferred Securities or caused the Preferred Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell any Preferred Securities or cause the Preferred Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Preferred Securities, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Preferred Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Preferred Securities pursuant to an offer made under Section 275 of the SFA except:

- (a) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or (in the case of a corporation) where the transfer arises from an offer referred to in

SUBSCRIPTION AND SALE

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

- (b) where no consideration is or will be given for the transfer;
- (c) where the transfer is by operation of law;
- (d) as specified in Section 276(7) of the SFA; or
- (e) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Hong Kong

Each Joint Bookrunner has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Preferred Securities other than (i) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the SFO) and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap 32) of Hong Kong or which do not constitute an offer to the public within the meaning of the SFO; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Preferred Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the Preferred Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under the SFO.

Switzerland

Each Joint Bookrunner has acknowledged that the Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Preferred Securities. Accordingly, each of the Joint Bookrunners has represented and agreed that it has not publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland any Preferred Securities and that the Preferred Securities may not be and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither the Offering Circular nor any other offering or marketing material relating to the Preferred Securities constitutes an issue prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss code of obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or a simplified prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither the Offering Circular nor any other offering or marketing material relating to the Preferred Securities may be publicly distributed or otherwise made publicly available in Switzerland. Neither the Offering Circular nor any other offering or marketing material relating to the offering, nor the Bank nor the Preferred Securities have been or will be filed with or approved by any Swiss regulatory authority. The Preferred Securities are not subject to the supervision by the Swiss Financial Markets Supervisory Authority (**FINMA**), and investors in the Preferred Securities will not benefit from protection or supervision by FINMA.

General

No action has been taken by the Bank or any of the Joint Bookrunners that would, or is intended to, permit a public offer of the Preferred Securities in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Bookrunner has undertaken that it will not, directly or indirectly, offer or sell any Preferred Securities or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Preferred Securities by it will be made on the same terms.

GENERAL INFORMATION

1. The creation and issue of the Preferred Securities has been authorised by (i) the shareholders' meetings of the Bank, held on 16 March 2012 and (ii) meetings of the Board of Directors (*Consejo de Administración*) of the Bank, dated 30 January 2014.
2. Except as disclosed in the section entitled "*Description of Banco Bilbao Vizcaya Argentaria, S.A - Recent Developments*" on page 100, none of the Bank or any of the Bank's subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank or any of the Bank's subsidiaries is aware) in the 12 months preceding the date of this document which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Bank or the Group.
3. There has been no significant change in the financial or trading position of the Bank and its subsidiaries since 31 December 2013 and there has been no material adverse change in the financial position or prospects of the Bank and its subsidiaries since 31 December 2013.
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 each Paying Agent and can be obtained, free of charge, from the Bank at Paseo de la Castellana, 81, 28046 Madrid:
 - (a) the *estatutos* of the Bank (with an English translation thereof);
 - (b) the audited consolidated financial statements of the Bank as at, and for the years ending, 31 December 2013 and 31 December 2012;
 - (c) the Agency Agreement; and
 - (d) this Offering Circular.
5. For so long as the Preferred Securities are listed on the SGX-ST and the rules of the SGX-ST so require, the Bank shall appoint and maintain a paying agent in Singapore where the Preferred Securities may be presented or surrendered for payment or redemption, in the event that any global Preferred Security is exchanged for definitive Preferred Securities. In addition, in the event that any global Preferred Security is exchanged for definitive Preferred Securities, an announcement of such exchange shall be made by or on behalf of Bank through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Preferred Securities, including details of the paying agent in Singapore.
6. The Bank publishes quarterly unaudited consolidated interim financial statements. The Bank does not publish unconsolidated interim financial statements.
7. The auditors of the Bank and the Group are Deloitte, S.L., registered as auditors on the *Registro Oficial de Auditores de Cuentas* who have audited, without qualification, the financial statements of the Bank and of the Group for each of the three financial years ended 31 December 2013, 31 December 2012 and 31 December 2011. The auditors of the Bank and the Group have no material interest in the Bank or the Group.
8. The Preferred Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels and

the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg. The ISIN for the Bank Preferred Securities is XS1033661866 and the common code is 103366186. The European Clearing Systems are expected to follow certain procedures to facilitate the Bank and the Principal Paying Agent in the collection of the details referred to above. If any European Clearing System is, in the future, unable to facilitate the collection of such information, it may decline to allow the Preferred Securities to be cleared through such European Clearing System and this may affect the liquidity of the Preferred Securities. Provisions have been made for the Preferred Securities, in such a case, to be represented by definitive Preferred Securities (see “*Conditions of the Preferred Securities – Form and Status*”). The procedures agreed and fully described in the Agency Agreement may be amended to comply with Spanish laws and regulations and operational procedures of the European Clearing Systems.

9. The Bank does not intend to provide any post-issuance information in relation to the issue of the Preferred Securities.
10. The yield on the Preferred Securities until the First Reset Date is 7.000 per cent. per annum.
11. Certain of the Joint Bookrunners and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to, the Bank and its affiliates in the ordinary course of business.

ISSUER

Banco Bilbao Vizcaya Argentaria, S.A.

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Spain

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