

INFORMATION MEMORANDUM DATED 15th December, 2017



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

*(incorporated with limited liability in Spain)*

**€10,000,000,000**

**EURO-COMMERCIAL PAPER PROGRAMME**

**Arranger**

**BOFA MERRILL LYNCH**

Application has been made to the Irish Stock Exchange plc (the **Irish Stock Exchange**) for euro-commercial paper notes issued during the twelve months after the date of this document under the €10,000,000,000 Euro-Commercial Paper Programme (the **Programme**) described in this document (the **Notes**) to be admitted to the official list of the Irish Stock Exchange (the **Official List**) and trading on its regulated market.

There are certain risks related to any issue of Notes under the Programme, which potential investors should ensure they fully understand (see "*Risk Factors*" on pages 13 to 41 (inclusive) of this document).

Potential investors should note the statements on pages 89 to 90 (inclusive) regarding the tax treatment in Spain of income obtained in respect of the Notes and the disclosure requirements imposed by Law 10/2014 of 26th June, on regulation, supervision and solvency of credit institutions (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*) (**Law 10/2014**), on the Issuer relating to the Notes.

**Dealers**

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

**BARCLAYS**

**CREDIT SUISSE**

**ING**

**UBS INVESTMENT BANK**

**BOFA MERRILL LYNCH**

**CITIGROUP**

**GOLDMAN SACHS INTERNATIONAL**

**RABOBANK**

This Programme has been rated by Fitch Ratings España, S.A.U. (**Fitch**), Moody's Investors Service España, S.A. (**Moody's**) and Standard and Poor's Credit Market Services Europe Limited (**S&P**).

## IMPORTANT NOTICE

This information memorandum (together with any supplementary information memorandum and information incorporated herein by reference, the **Information Memorandum**) contains summary information provided by Banco Bilbao Vizcaya Argentaria, S.A. (**BBVA** or the **Issuer**) in connection with a euro-commercial paper programme (the **Programme**) under which the Issuer may issue and have outstanding at any time Notes up to a maximum aggregate amount of €10,000,000,000 or its equivalent in alternative currencies. Under the Programme, the Issuer may issue Notes outside the United States pursuant to Regulation S (**Regulation S**) of the United States Securities Act of 1933, as amended (the **Securities Act**). The Issuer has, pursuant to an amended and restated dealer agreement dated 16th December, 2016 as supplemented by a supplemental dealer agreement dated 15th December, 2017 (such amended and restated dealer agreement as further amended, restated, supplemented or replaced from time to time, the **Dealer Agreement**), appointed Bank of America Merrill Lynch International Limited as arranger for the Programme (the **Arranger**) and appointed Banco Bilbao Vizcaya Argentaria, S.A., Bank of America Merrill Lynch International Limited, Barclays Bank PLC, Citibank Europe plc, UK Branch, Citigroup Global Markets Limited, Coöperatieve Rabobank U.A., Credit Suisse Securities (Europe) Limited, Goldman Sachs International, ING Bank N.V. and UBS Limited as dealers for the Notes (the **Dealers**) and authorised and requested the Dealers to circulate this Information Memorandum on its behalf to investors or potential investors of the Notes.

**THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR ANY U.S. STATE SECURITIES LAWS AND MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S) (U.S. PERSONS) UNLESS AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE AND IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION.**

**The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Information Memorandum or confirmed the accuracy or determined the adequacy of the information contained in this Information Memorandum. Any representation to the contrary is unlawful.**

The Issuer accepts responsibility for the information contained in this Information Memorandum and declares that, having taken all reasonable care to ensure that such is the case, the information contained in the Information Memorandum is, to the best of the knowledge of the Issuer, in accordance with the facts and does not omit anything likely to affect the import of such information.

This Information Memorandum comprises listing particulars (the **Listing Particulars**) for the purposes of giving information with regard to the issue of the Notes under the Programme. References throughout this document to this Information Memorandum shall be deemed to read “Listing Particulars” for such purpose.

Application has been made to the Irish Stock Exchange for Notes to be admitted to the Official List and to trading on the Irish Stock Exchange’s regulated market. The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or markets as may be agreed between the Issuer and the relevant Dealer. References in this Information Memorandum to the Notes being “listed” shall be construed accordingly. No Notes may be issued pursuant to the Programme on an unlisted basis.

Neither the Arranger nor the Dealers accept any responsibility, express or implied, for updating the Information Memorandum and neither the delivery of the Information Memorandum or any Pricing Supplement (as defined below) nor any offer or sale made on the basis of the information in the Information Memorandum shall under any circumstances create any implication that this Information Memorandum is

accurate at any time subsequent to the date thereof with respect to the Issuer or that there has been no change in the business, financial condition or affairs of the Issuer since the date thereof.

No person is authorised by the Issuer to give any information or to make any representation not contained in this Information Memorandum or any Pricing Supplement and any information or representation not contained therein must not be relied upon as having been authorised.

Neither the Arranger nor any Dealer has independently verified the information contained in this Information Memorandum. Accordingly, no representation or warranty or undertaking (express or implied) is made, and no responsibility or liability is accepted by the Arranger or the Dealers as to the authenticity, origin, validity, accuracy or completeness of, or any errors in or omissions from, any information or statement contained or incorporated by reference in this Information Memorandum or in or from any accompanying or subsequent material or presentation. Neither the Arranger nor any Dealer accepts any liability in relation to the information contained in this Information Memorandum or any other information provided by the Issuer in connection with the Programme.

This Information Memorandum contains references to the ratings of the Programme. Where a tranche of Notes is rated, such rating will be disclosed in the Pricing Supplement and will not necessarily be the same as the rating assigned to the Programme by Fitch, Moody's or S&P. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, modification or withdrawal at any time by the relevant rating agency.

The information contained in this Information Memorandum or any other information provided by the Issuer in connection with the Programme is not intended to provide the basis of any credit, taxation or other evaluation and should not be construed as a recommendation by the Arranger, the Dealers or the Issuer that any recipient should purchase Notes. Each such recipient must make and shall be deemed to have made its own independent assessment and investigation of the financial condition, affairs and creditworthiness of the Issuer and of the Programme as it may deem necessary and must base any investment decision upon such independent assessment and investigation and not on this Information Memorandum or any other information supplied in connection with the Programme.

Neither the Arranger nor any Dealer undertakes to review the business or financial condition or affairs of the Issuer during the life of the Programme, nor undertakes to advise any recipient of this Information Memorandum of any information or change in such information coming to the Arranger's or any Dealer's attention.

Neither the Arranger nor any of the Dealers accepts any liability in relation to this Information Memorandum or its distribution by any other person. Neither this Information Memorandum nor any Pricing Supplement is intended to constitute an offer or invitation to any person to purchase Notes. The distribution of this Information Memorandum and any Pricing Supplement and the offering for sale of Notes or any interest in such Notes or any rights in respect of such Notes, in certain jurisdictions, may be restricted by law. Persons obtaining this Information Memorandum or any Notes or any interest in such Notes or any rights in respect of such Notes are required by the Issuer, the Arranger and the Dealers to inform themselves about and to observe any such restrictions. In particular, but without limitation, such persons are required to comply with the restrictions on offers or sales of Notes and on distribution of this Information Memorandum or any Pricing Supplement and other information in relation to the Notes and the Issuer set out under "Selling Restrictions" below.

Notice of the aggregate amount of Notes, the issue price of Notes and any other terms and conditions not contained herein to be completed in relation to each issue of Note that is intended to be admitted to the Official List of the Irish Stock Exchange and to trading on its regulated market will be set out in the pricing supplement (the **Pricing Supplement**) attached to or endorsed on the Notes (which may be in global form (the **Global Note**) or in definitive form) (see "*Form of the Notes*" on page 64 below). The Pricing Supplement will be supplemental to and must be read in conjunction with the full terms and conditions of the Notes. Copies of each Pricing Supplement containing details of each particular issue of Notes will be

available from the specified office set out below of the Issuing and Paying Agent (as defined below). Copies of each Pricing Supplement in relation to each particular issue of Notes to be listed on the Irish Stock Exchange will also be published on the website of the Irish Stock Exchange and the Central Bank of Ireland.

A communication of an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the **FSMA**)) received in connection with the issue or sale of any Notes will only be made in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

## **MIFID II PRODUCT GOVERNANCE / TARGET MARKET**

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), the Issuer and/or any Dealer subscribing for any Notes is a manufacturer (each a **Manufacturer**) in respect of those Notes, but otherwise none of the Issuer, the Arranger, the Dealers or any of their respective affiliates will be a Manufacturer.

Where there is a Manufacturer in respect of any Notes, the Pricing Supplement in respect of those Notes will include a legend entitled “MiFID II Product Governance” which will outline each Manufacturer’s product approval process, the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, **MiFID II**) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

## **SPANISH TAX RULES**

Article 44 of Royal Decree 1065/2007 of 27th July, as amended by Royal Decree 1145/2011 of 29th July (as so amended, **RD 1065/2007**), sets out the reporting obligations applicable to preference shares and debt instruments (including debt instruments issued at a discount for a period equal to or less than twelve months) issued under the First Additional Provision of Law 10/2014.

### *General*

The procedure described in this Information Memorandum for the provision of information required by Spanish law and regulation is a summary only. None of the Issuer or the Dealers assumes any responsibility therefor.

## **PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

Under Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19th July, 2002, all companies governed by the law of a European Union (**EU**) Member State and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements in conformity with International Financial Reporting Standards adopted by the EU (**EU-IFRS**). Pursuant to Regulation (EC) No. 1606/2002, Bank of Spain Circular 4/2004 of 22nd December, 2004 on Public and Confidential Financial Reporting Rules and Formats (as amended or supplemented from time to time, **Circular 4/2004**) and with any other legislation governing financial reporting applicable to the Issuer and its consolidated subsidiaries (the **Group**) requires Spanish credit institutions to adapt their accounting system to EU-IFRS.

The Issuer's consolidated financial statements as at and for each of the years ending 31st December, 2016, 31st December, 2015 and 31st December, 2014 (the **Consolidated Financial Statements**), as included in the annual report of the Issuer on Form 20-F for the year ended 31st December, 2016 filed with the U.S. Securities and Exchange Commission (the **SEC**) on 31st March, 2017 (the **Form 20-F**), which is

incorporated by reference in this Information Memorandum, have been prepared in accordance with EU-IFRS reflecting Circular 4/2004 and any other legislation governing financial reporting applicable to the Group and in compliance with the International Financial Reporting Standards issued by the International Accounting Standards Board (**IFRS-IASB**).

In this Information Memorandum, references to:

- **euro** and **€** denote 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;
- **Sterling** and **£** denote the lawful currency of the United Kingdom;
- **U.S. dollars** and **U.S.\$** denote the lawful currency of the United States of America; and
- **JPY** and **¥** are to Japanese Yen.

Where this Information Memorandum refers to the provisions of any other document, such reference should not be relied upon and the document must be referred to for its full effect.

Certain numerical information in this Information Memorandum may not sum due to rounding. In addition, information regarding period-to-period changes is based on numbers which have not been rounded.

All references to any financial information in this Information Memorandum are to the consolidated financial information of the Group, unless otherwise stated.

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## DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have been previously published or are being published simultaneously with this Information Memorandum and have been filed with the Irish Stock Exchange, are incorporated by reference in, and form part of, this Information Memorandum:

- (a) the Form 20-F of the Issuer, for the financial year ended 31st December, 2016 as filed with the U.S. Securities and Exchange Commission (**SEC**) on 31st March, 2017 (which includes on page F-1 thereof the auditor's report and on pages F-2 to F-260 thereof, the Consolidated Financial Statements);
- (b) the Form 6-K of the Issuer, for the six month period ending 30th June, 2017 as furnished to the SEC on 25th September, 2017 (which includes the unaudited interim consolidated financial statements of the Issuer as at and for each of the six month periods ending 30th June, 2017 and 30th June, 2016) (the **June 2017 Form 6-K**);
- (c) the Forms 6-K of the Issuer, for the nine month period ending 30th September, 2017 as furnished to the SEC on 7th November, 2017 (which include the unaudited condensed interim consolidated financial statements of the Issuer as at and for each of the nine month periods ending 30th September, 2017 and 30th September, 2016 and certain other information);
- (d) the audited stand-alone financial statements of the Issuer as at and for the year ended 31st December, 2016; and
- (e) the audited stand-alone financial statements of the Issuer as at and for the year ended 31st December, 2015.

In addition, any audited annual and unaudited interim consolidated financial statements of the Issuer in each case published after the date of this Information Memorandum shall be deemed to be incorporated in, and to form part of, this Information Memorandum upon the publication and filing of such financial statements with the Irish Stock Exchange.

Any statement contained herein or in a document incorporated by reference herein or contained in any supplementary information memorandum or in any document which is subsequently incorporated by reference herein shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede earlier statements contained in this Information Memorandum or in a document which is incorporated by reference in this Information Memorandum.

Any supplement to this Information Memorandum will be subject to the approval of the Irish Stock Exchange prior to its publication.

No website referred to in this Information Memorandum forms part of the document for the purposes of listing the Notes on the Irish Stock Exchange.

The Issuer will provide, without charge to each person to whom a copy of this Information Memorandum has been delivered, upon the request of such person, a copy of any or all the documents deemed to be incorporated by reference herein unless such documents have been modified or superseded as specified above, in which case the modified or superseded version of such document will be provided. Requests for such documents should be directed to the Issuer at its office set out at the end of this Information Memorandum. In addition such documents will be available, without charge at the principal office in England of the Issuing and Paying Agent (each as set out at the end of this Information Memorandum). Except as provided above, no other information, including information on the website of the Issuer, is incorporated by reference into this Information Memorandum.

## OVERVIEW OF THE TERMS OF THE PROGRAMME

<b>Issuer:</b>	Banco Bilbao Vizcaya Argentaria, S.A. ( <b>BBVA</b> ).
<b>Risk Factors:</b>	There are certain factors that may affect the ability of the Issuer to fulfil its obligations under Notes issued under the Programme. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. All of these are set out under “ <i>Risk Factors</i> ” and include certain market risks.
<b>Arranger:</b>	Bank of America Merrill Lynch International Limited.
<b>Dealers:</b>	Banco Bilbao Vizcaya Argentaria, S.A. Bank of America Merrill Lynch International Limited Barclays Bank PLC Citibank Europe plc, UK Branch Citigroup Global Markets Limited Coöperatieve Rabobank U.A. Credit Suisse Securities (Europe) Limited Goldman Sachs International ING Bank N.V. UBS Limited  and any other Dealers appointed in accordance with the Dealer Agreement.
<b>Issuing and Paying Agent:</b>	The Bank of New York Mellon, London Branch.
<b>Purpose of the Programme:</b>	The net proceeds from the sale of Notes will be applied for general corporate purposes.
<b>Maximum amount of the Programme:</b>	The outstanding nominal amount of the Notes issued under the Programme will not exceed €10,000,000,000 (or its equivalent in other currencies) at any time. The maximum amount of the Programme may be increased from time to time in accordance with the Dealer Agreement.
<b>Characteristics and form of the Notes:</b>	Notes will be issued in bearer form. The Notes will initially be in global form ( <b>Global Notes</b> ).  Each Global Note which is not intended to be issued in new global note form (a <b>Classic Global Note</b> or <b>CGN</b> ), as specified in the relevant Pricing Supplement, will be deposited on or around the relevant issue date with a common depository for the Relevant Clearing Systems (as defined below) and each Global Note which is intended to be issued in new global note form (a <b>New Global Note</b> or <b>NGN</b> ), as specified in the relevant Pricing Supplement, will be delivered on or around the relevant issue date to a Common Safekeeper (as defined below) for the Relevant Clearing Systems (as defined herein). A Global Note will be exchangeable into definitive notes ( <b>Definitive Notes</b> ) in whole (but not in part) only in the limited circumstances set out in that Global Note (for further details, see



“*Form of the Notes*”).

**Common Safekeeper** means, in relation to each issue of NGNs which is intended to be held in a manner that would allow Eurosystem eligibility, the common safekeeper which is appointed by the Relevant Clearing Systems in respect of such NGN or such other entity as the Issuer and Issuing and Paying Agent may agree from time to time, in accordance with the provisions of the amended and restated issue and paying agency agreement dated 16th December, 2016 as supplemented by a supplemental agency agreement dated 15th December, 2017 (such amended and restated agency agreement as further amended, restated, supplemented or replaced from time to time, the **Issue and Paying Agency Agreement**), and which is eligible to hold such NGN for the purpose of the requirements relating to collateral for Eurosystem monetary and intra-day credit operations. If the Common Safekeeper as at the relevant issue date ceases to be so eligible after the relevant issue date, the relevant Notes will no longer qualify for Eurosystem eligibility unless a new Common Safekeeper is appointed who is so eligible.

**Remuneration:** Notes may be issued at a discount or may bear a fixed or a floating rate of interest.

**Currencies of issue of the Notes:** Notes may be denominated in U.S. dollars, euro, Sterling, Japanese Yen or any other currency subject to compliance with any applicable legal and regulatory requirements.

**Maturity of the Notes:** The tenor of Notes shall not be less than one day nor more than 364 days from (and including) the date of issue, to (but excluding) the maturity date, subject to compliance with any applicable legal and regulatory requirements.

**Redemption for taxation reasons:** The Notes cannot be redeemed prior to their stated maturity other than for taxation reasons. The terms of any such redemption will be indicated in the terms of the Notes and the relevant Pricing Supplement.

**Minimum denomination of the Notes:** Notes may have any denomination, subject to compliance with any applicable legal and regulatory requirements. The initial minimum denominations for Notes are U.S.\$500,000, €500,000, £100,000 and ¥100,000,000 and, in each case, integral multiples of units of 1,000 in excess thereof. The minimum denominations of Notes denominated in other currencies will be in accordance with any applicable legal and regulatory requirements. Minimum denominations may be changed from time to time.

Notes may, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (**FSMA**) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “*Subscription and Sale*”.

**Status of the Notes:**

The Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, representing, in the case of each Note, a separate and independent obligation of the Issuer, and, upon the insolvency (*concurso de acreedores*) of the Issuer, in accordance with and to the extent permitted by the Insolvency Law and other applicable laws relating to or affecting the enforcement of creditors' rights in the Kingdom of Spain (including, without limitation, Additional Provision 14.2 of Law 11/2015), the payment obligations of the Issuer under the Notes with respect to claims for principal (which claims will constitute ordinary claims) will rank:

- (i) junior to any (A) privileged claims (*créditos privilegiados*) (which shall include, among other claims, any claims in respect of deposits for the purposes of Additional Provision 14.1 of Law 11/2015) and (B) claims against the insolvency estate (*créditos contra la masa*);
- (ii) *pari passu* without any preference or priority among themselves and with all other Senior Preferred Obligations; and
- (iii) senior to (A) any Senior Non-Preferred Obligations and (B) all subordinated obligations of, or subordinated claims against, the Issuer (*créditos subordinados*), present and future,

such that any claim for principal in respect of the Notes will be satisfied, as appropriate, only to the extent that all claims ranking senior to it have first been satisfied in full and then *pro rata* with any claims ranking *pari passu* with it, in each case as provided above.

For the purposes of this Information Memorandum:

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

**Law 11/2015** means Law 11/2015 of 18th June on the recovery and resolution of credit institutions and investment firms (*Ley 11/2015, de 18 de junio, de recuperación y resolución de entidades de crédito y empresas de servicios de inversión*), as amended, replaced or supplemented from time to time;

**ordinary claims** means the class of claims with respect to unsecured, non-privileged and unsubordinated obligations (*créditos ordinarios*) of the Issuer which, upon the insolvency (*concurso de acreedores*) of the Issuer and pursuant to Articles 89.3, 157 and 158 of the Insolvency Law and other applicable laws relating to or affecting the enforcement of creditors' rights in the Kingdom of Spain, rank (i) junior to privileged claims (*créditos privilegiados*) (which shall include, among other claims, any claims in respect of deposits for the purposes of Additional Provision 14.1 of Law 11/2015 and any secured claims), and claims against the insolvency estate (*créditos contra la masa*) and (ii) senior to subordinated

claims (*créditos subordinados*);

**Senior Non-Preferred Obligations** means the obligations of the Issuer with respect to all ordinary claims, present and future, which, upon the insolvency (*concurso de acreedores*) of the Issuer are expressed to rank within the ordinary claims but junior to Senior Preferred Obligations; and

**Senior Preferred Obligations** means the obligations of the Issuer with respect to (i) the payment of principal under the Notes and (ii) all other ordinary claims, present and future, other than Senior Non-Preferred Obligations.

For further details see “*Form of the Notes*”.

**Governing law that applies to the Notes:**

Save as provided below, the Notes and any non-contractual obligations arising out of or in connection therewith, will be governed by, and shall be construed in accordance with, English law.

The status of the Notes and any non-contractual obligations arising out of or in connection therewith will be governed by, and shall be construed in accordance with, Spanish law. The Notes are issued in accordance with the formalities prescribed by Spanish law.

**Listing:**

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on the Irish Stock Exchange's regulated market. The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or markets as may be agreed between the Issuer and the relevant Dealer. No Notes may be issued pursuant to the Programme on an unlisted basis.

**Settlement system:**

Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, S.A. (**Clearstream, Luxembourg**) and/or such other securities clearance and/or settlement system(s) which is authorised to hold securities as eligible collateral for Eurosystem monetary policy and intra-day credit operations, as agreed between the Issuer and the relevant Dealer(s) (together, the **Relevant Clearing Systems**).

Accountholders in the Relevant Clearing Systems will, in respect of Global Notes, have the benefit of a deed of covenant dated 16th December, 2016 and made by the Issuer (the **Deed of Covenant**), copies of which may be inspected during normal business hours at the specified office of the Issuing and Paying Agent.

**Rating(s) of the Programme:**

The Programme has been rated by Fitch, Moody's and S&P.

A 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 relevant rating agency.

**Selling restrictions:**

Offers and sales of Notes and the distribution of this Information Memorandum and other information relating to the Issuer or any Notes are subject to certain restrictions, details of which are set out under “*Subscription and Sale*” below.

**Taxation:**

Save as set out below, all payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by Spain. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances, be required to pay additional amounts to cover the amounts so deducted.

The Issuer considers that, according to RD 1065/2007 it is not obliged to withhold any tax amount provided that the simplified information procedures established therein (which do not require identification of the Noteholders) are complied with by the Issuing and Paying Agent, as described in “*Taxation – Tax Reporting Obligations of the Issuer*”.

For further information regarding the interpretation of RD 1065/2007 please refer to “*Risk Factors – Spanish Tax Rules*”.

For further details, see “*Taxation*” below.

**Notices:**

Unless otherwise specified in the relevant Pricing Supplement, all notices concerning Notes listed on the Irish Stock Exchange shall be published on the website of the Irish Stock Exchange or, in lieu of such publication and if so permitted by the rules of the Irish Stock Exchange, the Issuer may deliver all such notices to the Relevant Clearing System(s) or publish such notices by any other means acceptable to the Irish Stock Exchange.

## **RISK FACTORS**

*In purchasing Notes, investors expose themselves to the risk that the Issuer may become insolvent, subject to early intervention or resolution measures, or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which they currently deem not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer believes that the factors described below represent the principal factors which could materially adversely affect its businesses and ability to make payments due under the Notes. In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

*Prospective investors should also read the detailed information set out elsewhere in, or incorporated by reference into, this Information Memorandum and reach their own views prior to making any investment decision.*

### **FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS IN RESPECT OF NOTES ISSUED UNDER THE PROGRAMME**

#### **Macroeconomic Risks**

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

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

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

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

- a higher interest rate environment, including as a result of an increase in interest rates by the Federal Reserve, or any further tightening of monetary policies, including to address inflationary pressures and currency devaluations in Latin America, which could endanger a still tepid and fragile economic recovery and make it more difficult for customers of the Group's mortgage and consumer loan products to service their debts;
- adverse developments in the real estate market, especially in Spain, Mexico, the United States and Turkey, given the Group's exposures to such markets;
- poor employment growth and structural challenges restricting employment growth, such as in Spain, where unemployment has remained relatively high, which may negatively affect the household income levels of the Group's retail customers and may adversely affect the recoverability of the Group's retail loans, resulting in increased loan loss provisions;
- lower oil prices, which could particularly affect producing areas, such as Venezuela, Mexico, Texas or Colombia, to which the Group is materially exposed;
- changes in laws, regulations and policies as a result of election processes in the different geographies in which the Group operates, including Spain and the United States, which may negatively affect the Group's business or customers in those geographies and other geographies in which the Group operates;
- the potential exit by an EU Member State from the European Monetary Union (EMU), which could materially adversely affect the European and global economy, cause a redenomination of financial instruments or other contractual obligations from the euro to a different currency and substantially disrupt capital, interbank, banking and other markets, among other effects;
- the possible political, economic and regulatory impacts in the United Kingdom and the EU derived from the outcome of the referendum held in the United Kingdom on 23 June 2016, which resulted in a vote in favour of the United Kingdom leaving the EU and the UK government giving notice under Article 50(2) of the Treaty on European Union. The possible impact of the United Kingdom exiting the EU could include, among other things, political instability in the United Kingdom, the EU as a whole, or countries forming part of the EU; regulatory changes in the United Kingdom and/or in the EU; economic slowdown in the United Kingdom, in the EU, and/or outside the EU; deterioration of the creditworthiness of borrowers based in or related to the United Kingdom; and volatility in financial markets which could limit or condition the Issuer's or any other issuer's access to capital markets, all of which may arise regardless of the uncertainty as to the timing and duration of the exit process; and
- an eventual government default on public debt, which could affect the Group primarily in two ways: directly, through portfolio losses, and indirectly, through instabilities that a default in public debt could cause to the banking system as a whole, particularly since commercial banks' exposure to government debt is generally high in several countries in which the Group operates.

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

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

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

The Group has historically developed its lending business in Spain, which continues to be one of the main focuses of its business. The Group's loan portfolio in Spain has been adversely affected by the deterioration of the Spanish economy since 2009. After rapid economic growth until 2007, Spanish gross domestic product (**GDP**) contracted in the period 2009-10 and 2012-13. The effects of the financial crisis were particularly pronounced in Spain given its heightened need for foreign financing as reflected by its high current account deficit, resulting from the gap between domestic investment and savings, and its public deficit. The current account imbalance has been corrected and the public deficit is on a downward trend, with GDP growth above 3 per cent. in 2015 and 2016 and unemployment falling below 20 per cent. in 2016. However, real or perceived difficulties in servicing public or private debt, triggered by foreign or domestic factors such as an increase in global financial risk or a decrease in the rate of domestic growth, could increase Spain's financing costs hindering economic growth, employment and households' gross disposable income.

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

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

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

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

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

Emerging markets are generally subject to greater risks than more developed markets. For example, there is typically a greater risk of loss from unfavorable political and economic developments, social and geopolitical instability, changes in governmental policies, including expropriation, nationalisation, international ownership legislation, interest-rate caps and tax policies, and political unrest, such as the attempted coup in Turkey on 15th July, 2016 and state of emergency entitling the exercise of additional powers by the Turkish government first declared on 20th July, 2016. In addition, these emerging markets are affected by conditions in other related markets and in global financial markets generally and some are particularly affected by commodities price fluctuations, which in turn may affect financial market conditions through exchange rate fluctuations, interest rate volatility and deposits volatility. As a global economic recovery remains fragile, there are risks of deterioration. If the global economic conditions deteriorate, the business, financial

condition, operating results and cash flows of the Issuer's subsidiaries in emerging economies, mainly in Latin America and Turkey, may be materially adversely affected.

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

In addition, any changes in laws, regulations and policies pursued by the U.S. government may adversely affect the emerging markets in which the Group operates. In particular, see *"The Group's business could be adversely affected by global political developments, particularly with regard to U.S. policies that affect Mexico"* below.

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

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

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

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

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

**The Group may be adversely affected by political events in the Spanish region of Catalonia**

The Group's Spanish business includes extensive operations in the Spanish region of Catalonia. Although recent actions carried out by the Spanish government have helped diminish the level of uncertainty in the region resulting from its pro-independence movement, as of the date of this Information Memorandum there is still uncertainty regarding the outcome of political and social tensions in Catalonia, which could result in volatile capital markets and other financing conditions in Spain or otherwise adversely affect the environment in which the Group operates in Catalonia and the rest of Spain, any of which could have an adverse effect on the Group's business, liquidity, financial condition and results of operations.



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

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

Following the U.S. elections in November 2016 and the change in the U.S. administration for the four-year period from 2017 to 2020, there is uncertainty regarding future U.S. policies with respect to matters of importance to Mexico and its economy, particularly including trade and migration. In particular, the U.S. administration has raised the possibility of re-negotiating NAFTA. It has stated that if Canada and Mexico do not agree to re-negotiate NAFTA, the United States may withdraw from the agreement. Because the Mexican economy is heavily influenced by the U.S. economy, the re-negotiation, or even termination, of NAFTA and/or other U.S. government policies that may be adopted by the new U.S. administration may adversely affect economic conditions in Mexico. The aforementioned proposal, along with any decision taken by the current U.S. administration and any amendments to NAFTA that have an impact on the Mexican economy, such as reductions in the levels of remittances, reduced commercial activity among the two countries or a slowdown in direct foreign investment in Mexico, could adversely affect the Group's business, financial condition and results of operations.

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

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

The Group reports its results and financial position in accordance with the EU-IFRS required to be applied under the Circular 4/2004 and in compliance with IFRS-IASB. Changes to IFRS or interpretations thereof may cause the Group's future reported results and financial position to differ from current expectations, or historical results to differ from those previously reported due to the adoption of accounting standards on a retrospective basis. Such changes may also affect the Group's regulatory capital and ratios. The Group monitors potential accounting changes and, when possible, the Group determines their potential impact and discloses significant future changes in its financial statements that it expects as a result of those changes. Currently, there are a number of issued but not yet effective IFRS changes, as well as potential IFRS changes, some of which could be expected to impact the Group's reported results, financial position and regulatory capital in the future. In particular, IFRS 9, when fully adopted, will require the Group to record credit losses on loans at inception net of expected loss basis instead of recording credit losses on an incurred loss basis. For further information about developments in financial accounting and reporting standards, see Note 2.3 to the unaudited interim consolidated financial statements, "Recent IFRS pronouncements", included in the Issuer's June 2017 Form 6-K which is incorporated by reference into this Information Memorandum. See also "*The Issuer's financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of its operations and financial position*" below.

## Legal, Regulatory and Compliance Risks

**The Group is subject to substantial regulation and regulatory and governmental oversight. Changes in the regulatory framework could have a material adverse effect on its business, results of operations and financial condition**

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

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

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

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

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

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

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

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

As a Spanish credit institution, the Issuer is subject to Directive 2013/36/EU of the European Parliament and of the Council of 26th June, 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (as amended, replaced or supplemented from time to time, the **CRD IV Directive**) through which the EU began implementing the Basel III capital reforms, with effect from 1st January, 2014, with certain requirements in the process of being phased in until 1st January, 2019. The core regulation regarding the solvency of credit institutions is Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26th June, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (as amended, replaced or supplemented from time to time, the **CRR** and together with the CRD IV Directive and any measures implementing the CRD IV Directive or the CRR which may from time to time be introduced in Spain, **CRD IV**), which is complemented by several binding regulatory technical standards, all of which are directly applicable in all EU Member States, without the need for national implementation measures. The implementation of CRD IV Directive into Spanish law has taken place through Royal Decree-Law 14/2013 of 29th November, Law 10/2014, Royal Decree 84/2015 of 13th February (**RD 84/2015**), Bank of Spain Circular 2/2014 of 31st January and Bank of Spain Circular 2/2016 of 2nd February (the **Bank of Spain Circular 2/2016**). On 23rd November, 2016, the European Commission published a package of proposals with further reforms to CRD IV, Directive 2014/59/EU of 15th May establishing a framework for the recovery and resolution of credit institutions and investment firms (as amended, replaced or supplemented from time to time, the **BRRD**) and Regulation (EU) No. 806/2014 of the European Parliament and the Council of the European Union (as amended, replaced or supplemented from time to time, the **SRM Regulation**) (as amended, replaced or supplemented from time to time, the **EU Banking Reforms**), including measures to increase the resilience of EU institutions and enhance financial stability. The timing for the final implementation of these reforms as at the date of this Information Memorandum is unclear.

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

The G-SIB buffer applies to those institutions included on the list of global systemically important banks (**G-SIBs**), which is updated annually by the Financial Stability Board (the **FSB**). The Issuer has been excluded from this list with effect from 1st January, 2017 and so, unless otherwise indicated by the FSB (or the Bank of Spain) in the future, it will no longer be required to maintain a G-SIB buffer.

The Bank of Spain announced on 24th November, 2017 that the Issuer will continue to be considered a D-SIB, and consequently the Issuer will be required to maintain during 2018 a D-SIB buffer of a CET1 capital ratio of 0.75 per cent. on a consolidated basis. The D-SIB buffer is being phased-in from 1st January, 2016 to

1st January, 2019, with the result that the D-SIB buffer applicable to the Bank for 2018 is a CET1 capital ratio of 0.5625 per cent. on a consolidated basis.

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

The Bank of Spain agreed in December 2015 to set the countercyclical capital buffer applicable to credit exposures in Spain at 0 per cent. from 1st January, 2016. These percentages are revised each quarter and, accordingly, the Bank of Spain agreed in September 2017 to maintain the countercyclical capital buffer at 0 per cent. for the fourth quarter of 2017.

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

In accordance with the SSM Regulation, the ECB has fully assumed its new supervisory responsibilities of the Issuer and the Group within the SSM. The ECB is required under the SSM Regulation to carry out a supervisory review and evaluation process (the **SREP**) of the Issuer and the Group at least on an annual basis.

In addition to the above, the European Banking Authority (the **EBA**) published on 19th December, 2014 its final guidelines for common procedures and methodologies in respect of the SREP (the **EBA SREP Guidelines**). Included in the EBA SREP Guidelines were the EBA’s proposed guidelines for a common approach to determining the amount and composition of additional “Pillar 2” own funds requirements to be implemented from 1st January, 2016. Under these guidelines, national supervisors should set a composition requirement for the “Pillar 2” requirements to cover certain specified risks of at least 56 per cent. CET1 capital and at least 75 per cent. Tier 1 capital, as it has also been included in the EU Banking Reforms. The EBA SREP Guidelines and the EU Banking Reforms also contemplate that national supervisors should not set additional own funds requirements in respect of risks which are already covered by the “combined buffer requirement” and/or additional macro-prudential requirements.

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

As a result of the most recent SREP carried out by the ECB in 2017, the Issuer has been informed by the ECB that, effective from 1st January, 2018, it is required to maintain (i) a CET1 phased-in capital ratio of 8.4375 per cent. (on a consolidated basis) and 7.875 per cent. (on an individual basis); and (ii) a phased-in total capital ratio of 11.9375 per cent. (on a consolidated basis) and 11.375 per cent. (on an individual basis).

This phased-in total capital ratio of 11.9375 per cent. on a consolidated basis includes (i) the minimum CET1 capital ratio required under “Pillar 1” (4.5 per cent.); (ii) the “Pillar 1” Additional Tier 1 capital requirement (1.5 per cent.); (iii) the “Pillar 1” Tier 2 capital requirement (2.0 per cent.); (iv) the additional CET1 capital requirement under “Pillar 2” (1.5 per cent.); (v) the capital conservation buffer (1.875 per cent. CET1); and (vi) the D-SIBs buffer (0.5625 per cent. CET1).

As of 30th September, 2017, the Issuer’s phased-in total capital ratio was 15.66 per cent. on a consolidated basis and 22.62 per cent. on an individual basis. As of 30th September, 2017, the Issuer’s CET1 phased-in

capital ratio was 11.88 per cent. on a consolidated basis and 17.66 per cent. on an individual basis. Such ratios exceed the applicable regulatory requirements described above, but there can be no assurance that the total capital requirements imposed on the Issuer and/or the Group from time to time may not be higher than the levels of capital available at such point in time. There can also be no assurance as to the result of any future SREP carried out by the ECB and whether this will impose any further “Pillar 2” additional own funds requirements on the Issuer and/or the Group.

The EU Banking Reforms propose new requirements that capital instruments should meet in order to be considered as Additional Tier 1 instruments or Tier 2 instruments. In accordance with the EU Banking Reforms (if implemented in their current form), these new requirements are not initially subject to a grandfathering or exemption regime for currently issued Additional Tier 1 instruments and/or Tier 2 instruments. As a result, such instruments could be subject to regulatory uncertainties on their inclusion as capital if the EU Banking Reforms are approved in the form in which they were originally published, which may lead to regulatory capital shortfalls and ultimately a breach of the applicable minimum regulatory capital requirements.

Any failure by the Issuer and/or the Group to maintain its “Pillar 1” minimum regulatory capital ratios, any “Pillar 2” additional own funds requirements and/or any “combined buffer requirement” could result in administrative actions or sanctions, which, in turn, may have a material adverse effect on the Group’s results of operations. In particular, any failure to maintain any additional capital requirements pursuant to the “Pillar 2” framework or any other capital requirements to which the Issuer and/or the Group is or becomes subject (including the “combined buffer requirement”), may result in the imposition of restrictions or prohibitions on “discretionary payments” by the Issuer as discussed below.

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

Furthermore, as set forth in Article 48 of Law 10/2014, the adoption by the Bank of Spain of the measures prescribed in Articles 68.2.h) and 68.2.i) of Law 10/2014, aimed at strengthening own funds or limiting or prohibiting the distribution of dividends respectively will also result in a requirement to calculate the MDA and restrict discretionary payments to such MDA. Pursuant to the EU Banking Reforms, MDA could also be affected by a breach of MREL (as defined below) (see “*Any failure by the Issuer and/or the Group to comply with its MREL could have a material adverse effect on the Issuer’s business, financial condition and results of operations*” below).

As set out in the “Opinion of the European Banking Authority on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions” published on 16th December, 2015 (the **December 2015 EBA Opinion**), in the EBA’s opinion competent authorities should ensure that the CET1 capital to be taken into account in determining the CET1 capital available to meet the “combined buffer requirement” for the purposes of the MDA calculation is limited to the amount not used to meet the “Pillar 1” and, if applicable, “Pillar 2” own funds requirements of the institution. In addition, the December 2015 EBA Opinion advises the European Commission (i) to review Article 141 of the CRD IV Directive with a view to avoiding differing interpretations of Article 141(6) and ensure greater consistency between the maximum distributable amount framework and the capital stacking order described in the opinion and in the EBA SREP Guidelines by which the “Pillar 1” and, if applicable, “Pillar 2” capital requirements represent the minimum capital to be preserved at all times by an institution and it is only the CET1 capital of that institution not used to meet its “Pillar 1” and, if applicable, “Pillar 2” requirements that is then available to meet the “combined buffer requirement” of the institution and (ii) to review the prohibition on distributions in all circumstances where an institution fails to meet the “combined buffer requirement” and no profits are

made in any given year, notably insofar as it relates to Additional Tier 1 instruments. The EU Banking Reforms propose certain amendments in order to clarify, for the purposes of restrictions on distributions, the hierarchy between the “Pillar 2” additional own funds requirements, the minimum “own funds” “Pillar 1” requirements, the own funds and eligible liabilities requirement, MREL requirements and the “combined buffer requirements” (which is referred to as “stacking order”). Furthermore, pursuant to the EU Banking Reforms (if implemented in their current form), an institution would not be entitled to make distributions relating to CET1 capital or payments in respect of variable remuneration or discretionary pension revenues, before having made the payments due on Additional Tier 1 instruments.

On 1st July, 2016, the EBA published additional information explaining how supervisors intend to use the results of an EU-wide stress test for SREP in 2016 (which results were published on 29th July, 2016). The EBA stated, among other things, that the incorporation of the quantitative results of the EU-wide stress test into SREP assessments may include setting additional supervisory monitoring metrics in the form of capital guidance. Such guidance will not be included in MDA calculations but competent authorities would expect banks to meet that guidance except when explicitly agreed. Competent authorities have remedial tools if an institution refuses to follow such guidance. The EU Banking Reforms also propose that a distinction be made between “Pillar 2” capital requirements and “Pillar 2” guidance, with only the former being mandatory requirements. Notwithstanding the foregoing, the EU Banking Reforms propose that, in addition to certain other measures, supervisory authorities be entitled to impose further “Pillar 2” capital requirements where an institution repeatedly fails to follow the guidance previously imposed.

The ECB has also set out in its recommendation of 13th December, 2016 on dividend distribution policies, that credit institutions should establish dividend policies using conservative and prudent assumptions in order, after any distribution, to satisfy the applicable capital requirements.

Any failure by the Issuer and/or the Group to comply with its regulatory capital requirements could also result, among other things, in the imposition of further “Pillar 2” requirements and the adoption of any early intervention or, ultimately, resolution measures by resolution authorities pursuant to Law 11/2015 of 18th June on the recovery and resolution of credit institutions and investment firms (*Ley 11/2015, de 18 de junio de recuperación y resolución de entidades de crédito y empresas de servicios de inversión*) (as amended, replaced or supplemented from time to time, **Law 11/2015**), which, together with Royal Decree 1012/2015 of 6th November by virtue of which Law 11/2015 is developed and Royal Decree 2606/1996 of 20th December on credit entities’ deposit guarantee fund is amended (as amended, replaced or supplemented from time to time, **RD 1012/2015**) has implemented the BRRD into Spanish law. See “- *The Notes may be subject to the exercise of the Spanish Bail-in-Power by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 and the SRM Regulation could materially affect the rights of the Noteholders under, and the value of, any Notes*”.

At its meeting of 12th January, 2014, the oversight body of the Basel Committee on Banking Supervision (**BCBS**) endorsed the definition of the leverage ratio set forth in CRD IV, to promote consistent disclosure, which applied from 1st January, 2015. There will be a mandatory minimum capital requirement on 1st January, 2018, with an initial minimum leverage ratio of 3 per cent. that can be raised after calibration. The design and calibration of the leverage ratio is to be finalised by the BCBS for its implementation by 1st January, 2018. The EU Banking Reforms propose a binding leverage ratio requirement of 3 per cent. of Tier 1 capital that is added to an institution’s own funds requirements and that an institution must meet in addition to its risk based requirements.

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

There can be no assurance that the implementation of the above capital requirements will not adversely affect the Issuer's ability to make “discretionary payments”, or result in the cancellation of such payments (in

whole or in part), or require the Issuer 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 Issuer's business, financial condition and results of operations. Furthermore, increased capital requirements may negatively affect the Issuer's return on equity and other financial performance indicators.

***Any failure by the Issuer and/or the Group to comply with its MREL could have a material adverse effect on the Issuer's business, financial condition and results of operations***

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

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

In addition, as part of the EU Banking Reforms, the European Commission published on 23rd November, 2016 a Proposal for a Directive of the European Parliament and the Council on amendments to the BRRD as regards the ranking of unsecured debt instruments in insolvency hierarchy (the **MREL Proposal**). The MREL Proposal proposes to harmonise national laws on insolvency and recovery and resolution of credit institutions and investment firms, and proposes the creation of a new credit class of "non-preferred" senior debt that should only be bailed-in after junior ranking instruments but before other senior liabilities. While approval of the MREL Proposal is still pending, Royal Decree-Law 11/2017 of 23rd June on urgent measures in financial matters (*Real Decreto-ley 11/2017, de 23 de junio, de medidas urgentes en materia financiera*) (the **RDL 11/2017**) has introduced into Spanish law the new class of "non-preferred" senior debt.

On 9th November, 2015 the FSB published its final Total Loss-Absorbing Capacity (**TLAC**) Principles and Term Sheet (the **TLAC Principles and Term Sheet**), proposing that G-SIBs maintain significant minimum amounts of liabilities that are subordinated (by law, contract or structurally) to certain prior ranking liabilities, such as guaranteed insured deposits, and forming a new standard for G-SIBs. The TLAC Principles and Term Sheet contain a set of principles on loss absorbing and recapitalisation capacity of G-SIBs in resolution and a term sheet for the implementation of these principles in the form of an internationally agreed standard. The TLAC Principles and Term Sheet require a minimum TLAC requirement to be determined individually for each G-SIB at the greater of (a) 16 per cent. of risk weighted assets as of 1st January, 2019 and 18 per cent. as of 1st January, 2022, and (b) 6 per cent. of the Basel III Tier 1 leverage ratio exposure measure as of 1st January, 2019, and 6.75 per cent. as of 1st January, 2022. The Issuer is no longer classified as a G-SIB by the FSB with effect from 1st January, 2017. However, if the Issuer were to be so classified in the future or if TLAC requirements as set out below are adopted and implemented in Spain, and extended to non-G-SIBs through the imposition of requirements similar to MREL as set out below, then this could create additional minimum requirements for the Issuer.

In addition, the EU Banking Reforms establish some exemptions which could allow outstanding senior debt instruments to be used to comply with MREL. However, there is uncertainty regarding the final form of the EU Banking Reforms insofar as such eligibility is concerned and how those regulations and exemptions are to be interpreted and applied. This uncertainty may impact upon the ability of the Issuer to comply with its MREL (at both individual and consolidated levels (together, **MRELS**)) by the relevant deadline. In this regard, the EBA submitted on 14th December, 2016 its final report on the implementation and design of the MREL framework (the **EBA MREL Report**), which contains a number of recommendations to amend the

current MREL framework. Additionally, the EU Banking Reforms contain the legislative proposal of the European Commission for the amendment of the MREL framework and the implementation of the TLAC standards. The EU Banking Reforms propose the amendment of a number of aspects of the MREL framework to align it with the TLAC standards included in the TLAC Principles and Term Sheet. To maintain coherence between the MREL rules applicable to G-SIBs and those applicable to non-G-SIBs, the EU Banking Reforms also propose a number of changes to the MREL rules applicable to non-G-SIBs. While the EU Banking Reforms propose for minimum harmonised or “Pillar 1” MRELs for G-SIBs, in the case of non-G-SIBs it is proposed that MRELs will be imposed on a bank-specific basis. For G-SIBs it is also proposed that supplementary or “Pillar 2” MRELs may be further imposed on a bank-specific basis. The EU Banking Reforms further provide for the resolution authorities to give guidance to an institution to have own funds and eligible liabilities in excess of the requisite levels for certain purposes.

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

Furthermore, in accordance with the EBA MREL Report, the EBA recommends that resolution authorities and competent authorities should engage in active monitoring of compliance with their respective requirements and considers that (i) the powers of resolution authorities to respond to a breach of MREL should be enhanced (which would require resolution authorities to be given the power to require the preparation and execution of an MREL restoration plan, to use their powers to address impediments to resolvability, to request that distribution restrictions be imposed on an institution by a competent authority and to request a joint restoration plan in cases where an institution breaches both MREL and minimum capital requirements); (ii) competent authorities should also respond to breaches of minimum capital requirements and MREL; (iii) resolution authorities should assume a lead role in responding to a failure to issue or roll over MREL-eligible debt leading to a breach of MREL; (iv) if there are both losses and a failure to roll over or issue MREL-eligible debt, both the relevant resolution authority and relevant competent authority should attempt to agree on a joint restoration plan (provided that both authorities believe that the institution is not failing or likely to fail); and (v) resolution and competent authorities should closely cooperate and coordinate. The EU Banking Reforms also provide for resolution and competent authorities to consult each other in the exercise of their respective powers in relation to any breaches of MREL. In addition, under the EBA Guidelines on triggers for use of early intervention measures of 8th May, 2015 a significant deterioration in the amount of eligible liabilities and own funds held by an institution for the purposes of meeting its MRELs may put an institution in a situation where conditions for early intervention are met, which may result in the application by the competent authority of early intervention measures.

Further, as outlined in the EBA MREL Report, the EBA’s recommendation is that an institution will not be able to use the same CET 1 capital to meet both MREL and the combined buffer requirements. In addition, the EU Banking Reforms provide that, in the case of the own funds of an institution that may otherwise contribute to the combined buffer requirement where there is any shortfall in MREL, this will be considered as a failure to meet the combined buffer requirement such that those own funds will automatically be used instead to meet that institution’s MRELs and will no longer count towards its combined buffer requirement. Accordingly, this could trigger a limit on discretionary payments (see “- *Increasingly onerous capital requirements may have a material adverse effect on the Issuer’s business, financial condition and results of operations*” above).

Additionally, if the Fund for Orderly Bank Restructuring (*Fondo de Reestructuración Ordenada Bancaria*) (the **FROB**), the Single Resolution Mechanism (**SRM**) or, as the case may be and according to Law 11/2015, the Bank of Spain or the Spanish Securities Market Commission or any other entity with the authority to exercise any such tools and powers from time to time (each, a **Relevant Spanish Resolution Authority**) finds that there could exist any obstacles to resolvability by the Issuer and/or the Group, a higher MREL could be imposed.



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

Any failure by the Issuer and/or the Group to comply with its MRELS may have a material adverse effect on the Issuer's business, financial conditions and results of operations and could result in the imposition of restrictions or prohibitions on discretionary payments by the Issuer. There can also be no assurance as to the relationship between the "Pillar 2" additional own funds requirements, the "combined buffer requirement", MRELS (once implemented in Spain) and the restrictions or prohibitions on discretionary payments.

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

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

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

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

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

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

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

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

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

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

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

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

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

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

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

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

The SSM represents a significant change in the approach to bank supervision at a European and global level, even if it is not expected to result in any radical change in bank supervisory practices in the short term. The SSM has resulted in the direct supervision by the ECB of the largest financial institutions, including the Issuer, and indirect supervision of around 3,500 financial institutions. In the coming years, the SSM is expected to work to establish a new supervisory culture importing best practices from the 19 supervisory authorities that form part of the SSM. Several steps have already been taken in this regard, such as (i) the publication of the Supervisory Guidelines, (ii) the approval of Regulation (EU) No. 468/2014 of the ECB of 16th April, 2014 establishing the framework for cooperation within the SSM between the ECB and the national competent authorities, and with national designated authorities, (iii) Regulation (EU) 2016/445 of the European Central Bank of 14th March, 2016 on the exercise of options and discretions available in Union law and (iv) a set of guidelines on the application of CRR’s national options and discretions. In addition, the SSM represents an extra cost for the financial institutions that fund it through payment of supervisory fees.

The other main pillar of the EU banking union is the SRM, the main purpose of which is to ensure a prompt and coherent resolution of failing banks in Europe at minimum cost. The SRM Regulation establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the SRM and a Single Resolution Fund. The new Single Resolution Board (the **SRB**) started operating on 1st January, 2015 and fully assumed its resolution powers on 1st January, 2016. The Single Resolution Fund has also been in place since 1st January, 2016, funded by contributions from European banks in accordance with the methodology approved by the Council of the European Union. The Single Resolution Fund is intended to reach a total amount of €55 billion by 2024 and to be used as a separate backstop only after an 8 per cent. bail-in of a bank’s total liabilities including own funds has been applied to cover capital shortfalls (in line with the BRRD).

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

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

In addition, on 29th January, 2014, the European Commission released its proposal on the structural reforms of the European banking sector, which will impose new constraints on the structure of European banks. The proposal is aimed at ensuring the harmonisation between the divergent national initiatives in Europe. It includes a prohibition on proprietary trading similar to that contained in Section 619 of the Dodd-Frank Act (also known as the Volcker Rule) and a mechanism to potentially require the separation of trading activities (including market making), such as in the Financial Services (Banking Reform) Act 2013, complex securitisations and risky derivatives.

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

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

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

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

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

Although the Group has internal policies and procedures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies and procedures will be sufficient or that its employees, directors, officers, partners, agents and service providers will not take actions in violation of the Group's policies and procedures (or otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which it or they may be ultimately held responsible. Violations of anti-corruption laws and sanctions regulations could lead to financial penalties being imposed on the Group, limits being placed on the Group's activities, the Group's authorisations and licenses being

revoked, damage to the Group's reputation and other consequences that could have a material adverse effect on the Group's business, results of operations and financial condition. Further, litigations or investigations relating to alleged or suspected violations of anti-corruption laws and sanctions regulations could be costly.

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

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

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

**Liquidity and Financial Risks**

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

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

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

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

Group may increase and such increases may be material to the Group's business, financial condition and results of operations.

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

Historically, one of the Group's principal sources of funds has been savings and demand deposits. Large-denomination time deposits may, under some circumstances, such as during periods of significant interest rate-based competition for these types of deposits, be a less stable source of deposits than savings and demand deposits. The level of wholesale and retail deposits may also fluctuate due to other factors outside the Group's control, such as a loss of confidence (including as a result of political initiatives, including bail-in and/or confiscation and/or taxation of creditors' funds) or competition from investment funds or other products. The introduction in 2013 of a national tax on outstanding deposits could be negative for the Group's activities in Spain. Moreover, there can be no assurance that, in the event of a sudden or unexpected withdrawal of deposits or shortage of funds in the banking systems or money markets in which the Group operates, the Group will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets. In addition, if public sources of liquidity, such as the ECB extraordinary measures adopted in response to the financial crisis since 2008, are removed from the market, there can be no assurance that the Group will be able to maintain its current levels of funding without incurring higher funding costs or having to liquidate certain of its assets or taking additional deleverage measures.

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

The liquidity coverage ratio (**LCR**) is a quantitative liquidity standard developed by the BCBS to ensure that those banking organisations to which this standard is to apply have sufficient high-quality liquid assets to cover expected net cash outflows over a 30-day liquidity stress period. The final standard was announced in January 2013 by the BCBS. The LCR has been progressively implemented since 2015 in accordance with the CRR, under which banks must comply with 80 per cent. of the applicable LCR requirement from 1st January, 2017 and 100 per cent. from 1st January, 2018.

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

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

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

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

of the Group's assets, and materially increase the Group's write-downs and provisions for impairment losses. Credit risk can be affected by a range of factors, including an adverse economic environment, reduced consumer and/or government spending, global economic slowdown, changes in the rating of individual counterparties, the debt levels of individual contractual counterparties and the economic environment they operate in, increased unemployment, reduced asset values, increased personal or corporate insolvency levels, reduced corporate profits, changes (and the timing, quantum and pace of these changes) in interest rates, counterparty challenges to the interpretation or validity of contractual arrangements and any external factors of a legislative or regulatory nature. In recent years, the global economic crisis has driven cyclically high bad debt charges.

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

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

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

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

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

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

rated ones), or interbank markets, through wholesale deposits or otherwise, harm its reputation, require it to replace funding lost due to the downgrade, which may include the loss of customer deposits, and make third parties less willing to transact business with the Group or otherwise materially adversely affect its business, financial condition and results of operations. Furthermore, any decline in the Issuer's or such subsidiaries' credit ratings to below investment grade or otherwise could breach certain agreements or trigger additional obligations under such agreements, such as a requirement to post additional collateral, which could materially adversely affect the Group's business, financial condition and results of operations.

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

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

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

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

**Business and Industry Risks**

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

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

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

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

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

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

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

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

Due to the nature of the Group's business, the Issuer and its subsidiaries are involved in litigation, arbitration and regulatory proceedings in jurisdictions around the world, the financial outcome of which is unpredictable, particularly where the claimants seek unspecified or undeterminable damages, or where the cases argue novel legal theories, involve a large number of parties or are at early stages of discovery. An adverse outcome or settlement in these proceedings could result in significant costs and may have a material adverse effect on the Group's business, financial condition, cash flows, results of operations and reputation.

In addition, responding to the demands of litigation may divert management's time and attention and financial resources. While the Group has provisioned such risks based on its assessment of such matters and in accordance with applicable accounting rules, it is possible that losses resulting from such risks, if proceedings are decided in whole or in part adversely to the Group, could exceed the amount of provisions made for such risks, which, in turn, could have a material adverse effect on the Group's business, financial condition and results of operations. See "*Description of Banco Bilbao Vizcaya Argentaria, S.A. – Legal Proceedings*" for additional information on the Group's legal, regulatory and arbitration proceedings.

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

The Group operates commercial banks and insurance and other financial services companies in various countries and its overall success as a global business depends upon its ability to succeed in differing economic, social and political conditions. The Group is particularly sensitive to developments in Mexico, the United States, Turkey and Argentina, which represented 12.63 per cent., 11.42 per cent., 11.61 per cent. and 1.25 per cent. of the Group's assets as at 31st December, 2016, respectively.

The Group is confronted with different legal and regulatory requirements in many of the jurisdictions in which it operates. See "*–Legal, Regulatory and Compliance Risks—Local regulation may have a material effect on the Issuer's business, financial condition, results of operations and cash flows*". These include, but are not limited to, different tax regimes and laws relating to the repatriation of funds or nationalisation or expropriation of assets. The Group's international operations may also expose it to risks and challenges



which its local competitors may not be required to face, such as exchange rate risk, difficulty in managing a local entity from abroad, political risk which may be particular to foreign investors and limitations on the distribution of dividends.

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

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

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List of the Irish Stock Exchange.

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

Banks and their activities are increasingly dependent on highly sophisticated information technology (IT) systems. IT systems are vulnerable to a number of problems, such as software or hardware malfunctions, computer viruses, hacking and physical damage to vital IT centres. IT systems need regular upgrading and banks, including the Issuer, may not be able to implement necessary upgrades on a timely basis or upgrades may fail to function as planned. Furthermore, failure to protect financial industry operations from cyber-attacks could result in the loss or compromise of customer data or other sensitive information. These threats are increasingly sophisticated and there can be no assurance that banks will be able to prevent all breaches and other attacks on its IT systems. In addition to costs that may be incurred as a result of any failure of IT systems, banks, including the Issuer, could face fines from bank regulators if they fail to comply with applicable banking or reporting regulations.

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

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

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

The further development of standards and interpretations under EU-IFRS (including IFRS 9, IFRS 15 and IFRS 16) could also significantly affect the results of operations, financial condition and prospects of the Group. See also "*The Group's financial results, regulatory capital and ratios may be negatively affected by changes to accounting standards*" above.

## **RISKS RELATED TO EARLY INTERVENTION AND RESOLUTION**

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

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

In accordance with Article 20 of Law 11/2015, an institution will be considered as failing or likely to fail in any of the following circumstances: (i) it is, or is likely in the near future to be, in significant breach of its solvency or any other requirements necessary for maintaining its authorisation; (ii) its assets are, or are likely in the near future to be, less than its liabilities; (iii) it is, or is likely in the near future to be, unable to pay its debts as they fall due; or (iv) it requires extraordinary public financial support (except in limited circumstances). Any such determination that an institution is failing or likely to fail may depend on a number of factors which may be outside of that institution's control.

As provided in the BRRD, Law 11/2015 contains four resolution tools and powers which may be used alone or in combination where the Relevant Spanish Resolution Authority considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe and (c) a resolution action is in the public interest. The four resolution tools are (i) sale of business, which enables resolution authorities to direct the

sale of the institution or the whole or part of its business on commercial terms; (ii) bridge institution, which enables resolution authorities to transfer all or part of the business of the institution to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control), which may limit the capacity of the institution to meet its repayment obligations; (iii) asset separation, which enables resolution authorities to transfer certain categories of assets (normally impaired or otherwise problem assets) to one or more asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) the Spanish Bail-in Power (as defined below). Any exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority may include the write down and/or conversion into equity or other securities or obligations (which equity, securities and obligations could also be subject to any future application of the Spanish Bail-in Power) of certain unsecured debt claims of an institution including the Notes.

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

In accordance with Article 48 of Law 11/2015 (and subject to any exclusions that may be applied by the Relevant Spanish Resolution Authority under Article 43 of Law 11/2015), in the case of any application of the Spanish Bail-in Power, the sequence of any resulting write-down or conversion by the Relevant Spanish Resolution Authority shall be in the following order; (i) CET1 items; (ii) the principal amount of Additional Tier 1 capital instruments; (iii) the principal amount of Tier 2 capital instruments; (iv) the principal amount of other subordinated claims that are not Additional Tier 1 capital or Tier 2 capital; and (v) the principal or outstanding amount of the remaining eligible liabilities in the order of the hierarchy of claims in normal insolvency proceedings.

Any application of the Spanish Bail-in-Power under the BRRD shall be in accordance with the hierarchy of claims in normal insolvency proceedings (unless otherwise provided by the laws, regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then applicable to the Issuer and/or the Group including, without limitation to the generality of the foregoing, CRD IV, the BRRD and those laws, regulations, requirements, guidelines and policies relating to capital adequacy, resolution and/or solvency then in effect in Spain (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Issuer and/or the Group (together, **Applicable Banking Regulations**)). Accordingly, the impact of such application on Noteholders will depend on the ranking of the Notes in accordance with such hierarchy, including any priority given to other creditors such as depositors.

To the extent that any resulting treatment of a Noteholder pursuant to the exercise of the Spanish Bail-in-Power is less favourable than would have been the case under such hierarchy in normal insolvency proceedings, a holder of such affected Notes may have a right to compensation under the BRRD and the SRM Regulation based on an independent valuation of the institution, in accordance with Article 10 of RD 1012/2015 and the SRM Regulation. Any such compensation, together with any other compensation provided by any Applicable Banking Regulations (including, among other such compensation, in accordance with Article 36.5 of Law 11/2015) is unlikely to compensate that Noteholder for the losses it has actually incurred and there is likely to be a considerable delay in the recovery of such compensation. Compensation payments (if any) are also likely to be made considerably later than when amounts may otherwise have been due under the Notes.

The powers set out in the BRRD as implemented through Law 11/2015 and RD 1012/2015 and the SRM Regulation impact how credit institutions and investment firms are managed, as well as, in certain circumstances, the rights of creditors. Pursuant to Law 11/2015, upon any application of the Spanish Bail-in Power, holders of Notes may be subject to, among other things, a write-down (including to zero) and/or conversion into equity or other securities or obligations of such Notes. The exercise of any such powers (or any of the other resolution powers and tools) may result in such Noteholders losing some or all of their investment or otherwise having their rights under such Notes adversely affected. Such exercise could also involve modifications to, or the disapplication of, provisions in the terms and conditions of the Notes, including, among other provisions, the nominal amount or any interest payable on the Notes, or the maturity date or any other dates on which payments may be due, as well as the suspension of payments for a certain period. As a result, the exercise of the Spanish Bail-in Power with respect to the Notes or the taking by an authority of any other action, or any suggestion that the exercise or taking of any such action may happen, could materially adversely affect the rights of Noteholders, the market price or value or trading behaviour of any Notes and/or the ability of the Issuer to satisfy its obligations under any Notes.

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

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

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

#### **Noteholders may not be able to exercise their rights in the event of the adoption of any early intervention or resolution measure under Law 11/2015 and the SRM Regulation**

The Issuer may be subject to a procedure of early intervention or resolution pursuant to the BRRD as implemented through Law 11/2015 and RD 1012/2015 and the SRM Regulation if the Issuer or its group of consolidated credit entities is in breach (or due, among other things, to a rapidly deteriorating financial condition, it is likely in the near future to be in breach) of applicable regulatory requirements relating to solvency, liquidity, internal structure or internal controls or the conditions for resolution referred to above are met (see *“The Notes may be subject to the exercise of the Spanish Bail-in-Power by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 and the SRM Regulation could materially affect the rights of the Noteholders under, and the value of, any Notes”*).

Pursuant to Law 11/2015 the adoption of any early intervention or resolution procedure shall not itself constitute a default or entitle any counterparty of the Issuer to exercise any rights it may otherwise have in respect thereof and any provision providing for such rights shall further be deemed not to apply. However, this does not limit the ability of a counterparty to exercise its rights accordingly where a default arises either

before or after the exercise of any such early intervention or resolution procedure and does not necessarily relate to the exercise of any relevant measure or power which has been applied pursuant to Law 11/2015.

Any enforcement by a Noteholder of its rights under the Notes following the adoption of any early intervention or resolution procedure will, therefore, be subject to the relevant provisions of the BRRD, Law 11/2015 and the SRM Regulation in relation to the exercise of the relevant measures and powers pursuant to such procedure, including the resolution tools and powers referred to above (see “*The Notes may be subject to the exercise of the Spanish Bail-in-Power by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 and the SRM Regulation could materially affect the rights of the Noteholders under, and the value of, any Notes*”) and the suspension of payments proposed by the EU Banking Reforms. Any claims of a Noteholder will consequently be limited by the application of any measures pursuant to the provisions of Law 11/2015 and the SRM Regulation. There can be no assurance that the taking of any such action (or any threat or suggestion that such action may be taken) would not adversely affect the rights of Noteholders, the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes and the enforcement by a holder of any rights it may otherwise have may be limited in these circumstances.

***In any winding up of the Issuer, Noteholders may not be entitled to receive the currency of issue of the Notes***

Should Noteholders be entitled to any amount with respect to the Notes in any winding-up of the Issuer, Noteholders might not be entitled in those proceedings to a recovery in the currency of issue of the Notes and might be entitled only to a recovery in euro or any other lawful currency of Spain or such other jurisdiction in which the Issuer may then be incorporated.

## **RISKS RELATED TO NOTES GENERALLY**

Set out below is a brief description of material risks relating to the Notes generally:

***The Issuer may redeem the Notes for tax reasons. This may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return***

An optional redemption feature may limit the market value of the Notes. During any period when the Issuer may elect to redeem Notes, or during which there is an actual or perceived increased likelihood that the Issuer may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

An investor may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate.

Potential investors should consider reinvestment risk in light of other investments available at that time.

It is not possible to predict whether or not any further change in the laws or regulations of Spain or the application or binding official interpretation thereof, or any of the other events referred to above, will occur and so lead to the circumstances in which the Issuer is able to elect to redeem the Notes, and if so whether or not the Issuer will elect to exercise such option to redeem the Notes. There can be no assurances that, in the event of any such early redemption, Noteholders will be able to reinvest the proceeds at a rate that is equal to the return on the Notes.

***Claims of Holders under the Notes are effectively junior to those of certain other creditors***

The Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, representing, in the case of each Note, a separate and independent obligation of the Issuer, and, upon the insolvency (*concurso de acreedores*) of the Issuer, in accordance with and to the extent permitted by the

Insolvency Law and other applicable laws relating to or affecting the enforcement of creditors' rights in the Kingdom of Spain (including, without limitation, Additional Provision 14.2 of Law 11/2015), the payment obligations of the Issuer under the Notes with respect to claims for principal (which claims will constitute ordinary claims) will rank: (i) junior to any (A) privileged claims (*créditos privilegiados*) (which shall include, among other claims, any claims in respect of deposits for the purposes of Additional Provision 14.1 of Law 11/2015) and (B) claims against the insolvency estate (*créditos contra la masa*); (ii) *pari passu* without any preference or priority among themselves and with all other Senior Preferred Obligations; and (iii) senior to (A) any Senior Non-Preferred Obligations and (B) all subordinated obligations of, or subordinated claims against, the Issuer (*créditos subordinados*), present and future. Terms used in this paragraph have the meanings given to them in “*Overview of the Terms of the Programme*”.

Upon insolvency, the obligations of the Issuer under the Notes will be effectively subordinated to all of the Issuer's secured indebtedness, to the extent of the value of, or the proceeds realised from, the assets securing such indebtedness. The Notes are further structurally subordinated to all indebtedness of subsidiaries of the Issuer insofar as any right of the Issuer to receive any assets of such companies upon their winding up will be effectively subordinated to the claims of the creditors of those companies in the winding-up.

Moreover, the BRRD, Law 11/2015 and the SRM Regulation contemplate that Notes may be subject to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority. This may involve the variation of the terms of the Notes or a change in their form, if necessary, to give effect to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority. See "*Risks related to Early Intervention and Resolution - The Notes may be subject to the exercise of the Spanish Bail-in-Power by the Relevant Spanish Resolution Authority. Other powers contained in Law 11/2015 and the SRM Regulation could materially affect the rights of the Noteholders under, and the value of, any Notes*".

### ***Spanish Tax Rules***

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

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

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

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

In accordance with Article 44 of RD 1065/2007 the relevant Paying Agent should provide the Issuer with the statement on the business day immediately prior to each interest payment date. The statement must reflect the situation at the close of business of that same day. In the event that on such date, the entity(ies) obliged to provide the declaration fail to do so, the Issuer or the Paying Agent on its behalf will make a withholding at the general rate of 19 per cent. on the total amount of the return on the relevant Notes otherwise payable to such entity.

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

### ***General***

The procedure described in this Information Memorandum for the provision of information required by Spanish laws and regulations is a summary only and none of the Issuer or the Dealers, assumes any responsibility therefore. 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 Issuer will notify the Noteholders of such information procedures and their implications, as the Issuer may be required to apply withholding tax on interest payments in respect of the Notes if the holders do not comply with such information procedures.

### ***The rights of Noteholders could be adversely affected by a change in Spanish law, English law or administrative practice***

The terms and conditions of the Notes (except for the status of the Notes) are based on English law in effect as at the date of this Information Memorandum. No assurance can be given as to the impact of any possible judicial decision or change to Spanish and English law or administrative practice after the date of this Information Memorandum and any such change could materially adversely impact the rights of any Noteholders.

### ***Reliance on Euroclear and Clearstream, Luxembourg procedures***

The Notes will be represented on issue by a Global Note that will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Pricing Supplement, investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Note. While the Notes are represented by the Global Note, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Notes are represented by one or more Global Notes, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

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

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

### ***An active secondary market in respect of the Notes may never be established or may be illiquid and the market price of the Notes may be subject to factors outside of the Issuer's control, all of which could adversely affect the value at which an investor could sell his Notes***

The Notes may have no established trading market when issued, and one may never develop. If an active trading market does not develop or is not maintained, the market price and liquidity of the Notes may be

adversely affected. If a market does develop, it may not be very liquid. The market price of the Notes could also be affected by market conditions more generally and other factors outside of the Issuer's control and unrelated to the Group's business, financial condition and results of operations. Therefore, investors may not be able to sell their Notes at a particular time or may not be able to sell their Notes at a favourable price.

Although applications have been made for Notes issued under the Programme to be admitted to the Official List and to trading on the regulated market of the Irish Stock Exchange, there is no assurance that such applications will be accepted, that any particular issue of Notes will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular issue of Notes. The liquidity of any market for the Notes will depend on a number of factors including:

- the number of holders of the Notes;
- the Issuer's ratings published by major credit rating agencies;
- the Issuer's financial performance;
- the market for similar securities;
- the interest of securities dealers in making a market in the Notes; and
- prevailing interest rates.

No assurance can be given that an active market for the Notes will develop or, if developed, that it will continue.

***If an investor holds Notes which are not denominated in the investor's home currency, that investor will be exposed to movements in exchange rates adversely affecting the value of its holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes***

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency and/or the Specified Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***The value of fixed rate Notes may be adversely affected by movements in market interest rates***

Investment in fixed rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the fixed rate Notes, this will adversely affect the value of the fixed rate Notes.



***Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes***

One or more independent credit rating agencies may assign credit ratings to the Notes (including on an unsolicited basis). The ratings may not reflect the potential impact of all risks related to structure and market of the Notes and additional factors discussed above and do not address the price, if any, at which the Notes may be resold prior to maturity (which may be substantially less than the original offering price of the Notes) and other factors that may affect the value of the Notes. However, real or anticipated changes in the Issuer's credit ratings will generally affect the market value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under Regulation (EU) No 1060/2009, as amended (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Information Memorandum.

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

### HISTORY AND DEVELOPMENT OF THE ISSUER

BBVA's predecessor bank, BBV, was incorporated as a limited liability company (a *sociedad anónima* or S.A.) under the Spanish Corporations Law on 1st October, 1988. BBVA was formed following the merger of Argentaria into BBV, which was approved by the shareholders of each entity on 18th December, 1999 and registered on 28th January, 2000. It conducts its business under the commercial name "BBVA". BBVA is registered with the Commercial Registry of Vizcaya (Spain) (volume 2,083, Folium 1, Page BI-17.A, first inscription). It has its registered office at Plaza de San Nicolás 4, Bilbao, Spain, 48005, and operates out of Calle Azul, 4, 28050, Madrid, Spain, telephone number +34-91-374-3141. BBVA's agent in the U.S. for U.S. federal securities law purposes is Banco Bilbao Vizcaya Argentaria, S.A. New York Branch (1345 Avenue of the Americas, 44th Floor, New York, New York 10105 (Telephone: +1-212-728-1660)). BBVA is incorporated for an unlimited term. The Legal Entity Identifier (LEI) of BBVA is K8MS7FD7N5Z2WQ51AZ71.

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

### CAPITAL EXPENDITURES

BBVA's principal investments are financial investments in its subsidiaries and affiliates. The main capital expenditures from 2014 to the date of this Information Memorandum were the following:

#### 2017

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

On 22nd March, 2017, BBVA acquired 41,790,000,000 shares (in the aggregate) of Türkiye Garanti Bankası A.Ş. (**Garanti**) (amounting to 9.95 per cent. of the total issued share capital of Garanti) from Doğu Holding A.Ş. and Doğu Araştırma Geliştirme ve Müşavirlik Hizmetleri A.Ş., under certain agreements entered into on 21st February, 2017, at a purchase price of 7.95 TL per batch of 100 shares (3,322 million TL or €859 million in the aggregate).

Following the completion of this acquisition, the shareholding structure of Garanti is as follows:

	<b>Shareholders' stakes</b>
BBVA .....	49.85%
Doğu Holding A.Ş.....	0.05%
Rest .....	50.10%
<b>Total .....</b>	<b>100%</b>

#### 2016

In 2016 there were no significant capital expenditures.

## 2015

### *Acquisition of an additional 14.89 per cent. of Garanti*

On 27th July, 2015, BBVA acquired 62,538,000,000 shares (in the aggregate) of Garanti from Doğuş Holding A.Ş., Ferit Faik Şahenk, Dianne Şahenk and Defne Şahenk, under certain agreements entered into on 19th November, 2014. The total price effectively paid by BBVA amounted to 8.765 TL per batch of 100 shares, amounting to approximately TL 5,481 million and €1,857 million applying a 2.9571 TL/EUR exchange rate.

Following this acquisition, BBVA held 39.90% of Garanti's share capital and started to fully consolidate Garanti's results in its consolidated financial statements as it determined that it was able to control such entity. On 2nd March, 2017, BBVA completed the acquisition of an additional 9.95 per cent. stake in Garanti. See “— 2017” above.

In accordance with the IFRS-IASB accounting rules, at the date of achieving effective control over Garanti, BBVA had to measure at fair value its previously acquired stake of 25.01 per cent. in Garanti (classified as a joint venture accounted for under the equity method). This resulted in a negative impact in “*Gains (losses) on derecognition of non-financial assets and subsidiaries, net*” in the consolidated income statement of the Group for the year ended 31st December, 2015, which resulted, in turn, in a net negative impact in the “*Profit attributable to parent company*” of the Group in 2015 amounting to €1,840 million. Such accounting impact did not result in any additional cash outflow from BBVA. Most of this impact resulted from the depreciation of the TL against the Euro since the acquisition by BBVA of such stake until the date of achieving such effective control.

### *Acquisition of Catalunya Banc*

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

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

## 2014

In 2014 there were no significant capital expenditures.

## CAPITAL DIVESTITURES

BBVA's principal divestitures are financial divestitures in its subsidiaries and affiliates. The main capital divestitures from 2014 to the date of this Information Memorandum were the following:

## 2017

### *Offer for the acquisition of BBVA's stake in BBVA Chile*

On 28th November, 2017, BBVA received a binding offer from The Bank of Nova Scotia group (**Scotiabank**) for the acquisition, at a price of approximately USD 2,200 million, of BBVA's stake in Banco Bilbao Vizcaya Argentaria, Chile (**BBVA Chile**) as well as in other companies of the Group in Chile which operations are complementary to the banking business (amongst them, BBVA Seguros Vida, S.A.). BBVA owns, directly and indirectly, approximately 68.19% of BBVA Chile's share capital. The offer received does not include BBVA's stake in the automobile financing companies of Forum group or in other Chilean entities in the Group which are engaged in corporate activities of the Group.

On 5th December, 2017, BBVA accepted the offer and entered into a sale and purchase agreement.

Completion of the transaction is subject to obtaining the relevant regulatory approvals.

#### ***Agreement for the creation of a “joint-venture” and transfer of the real estate business in Spain***

On 29th November, 2017, BBVA reached an agreement with a subsidiary of Cerberus Capital Management, L.P. (**Cerberus**) for the creation of a “joint venture” to which the real estate business of BBVA in Spain will be transferred (the **Business**). BBVA will contribute the Business to a single company (the **Company**) and will sell 80% of the shares of such Company to Cerberus on the closing date of the transaction.

The Business comprises: (i) foreclosed real estate assets (the **REOs**), with a gross book value of approximately €13,000 million, based on the value of the REOs as of 26th June, 2017; and (ii) the necessary assets and employees to manage the Business in an autonomous manner. For the purpose of the agreement with Cerberus, the whole Business was valued at approximately €5,000 million.

Considering the valuation of the whole Business previously mentioned and assuming that all the Business’ REOs as of 26th June, 2017 will be contributed to the Company, the sale price for 80% of the shares would amount to approximately €4,000 million. The final price to be paid will be determined by the volume of REOs effectively contributed, which may vary depending on, among other matters, the sales carried out from the date of reference of 26th June, 2017 until the date of closing of the transaction and the fulfilment of the usual conditions for transactions of this nature.

The transaction as a whole is subject to obtaining the relevant authorisations from the competent authorities.

#### **2016**

In 2016 there were no significant capital divestitures.

#### **2015**

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

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

##### ***Partial sale of China CITIC Bank Corporation Limited (CNCB)***

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

In addition to the sale of this 4.9 per cent. stake, the Group made various sales of CNCB shares in the market during 2015. In total, a participation of 6.34 per cent. in CNCB was sold during 2015. The impact of these sales on the Consolidated Financial Statements of the Group was a gain, net of taxes, of approximately €705 million in 2015. This gain, gross of taxes, was recognised under “*Profit or (-) loss from non-current assets*”.

and disposal groups classified as held for sale not qualifying as discontinued operations” in the consolidated income statement for 2015. See Note 50 to the Consolidated Financial Statements for additional information.

## 2014

In 2014 there were no significant capital divestitures.

## BUSINESS OVERVIEW

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

### Operating Segments

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

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

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

The information presented below as of and for the year ended 31 December 2014 has been recast to reflect the Group’s current operating segments.

The breakdown of the Group’s total assets by operating segments as of 31st December, 2016, 2015 and 2014 as originally reported in the Form 20-F is as follows:

Total Assets by Operating Segment	As of 31st December		
	2016	2015	2014
	<i>(in millions of euros)</i>		
Banking Activity in Spain .....	332,642	339,775	318,431
Non-Core Real Estate .....	13,713	17,122	17,168
Turkey <sup>(1)</sup> .....	84,866	89,003	22,342
Rest of Eurasia.....	18,980	23,469	22,325
Mexico.....	93,318	99,594	93,834
South America.....	77,918	70,661	84,364
United States.....	88,902	86,454	69,261
<b>Subtotal Assets by Operating Segment.....</b>	<b>710,339</b>	<b>726,079</b>	<b>627,765</b>

Corporate Center and other adjustments <sup>(2)</sup> .....	21,517	23,776	4,177
<b>Total Assets BBVA Group</b> .....	<b>731,856</b>	<b>749,855</b>	<b>631,942</b>

- (1) The information as of 31st December, 2014 is presented under management criteria, pursuant to which Garanti's assets and liabilities have been proportionally integrated based on BBVA's 25.01 per cent. interest in Garanti as of such date. See Note 3 to the Consolidated Financial Statements.
- (2) As of 31st December, 2014, other adjustments include adjustments made to account for the fact that, in the Consolidated Financial Statements, Garanti was previously accounted for using the equity method rather than using the management criteria referred to above until the acquisition by BBVA of an additional 14.89 per cent. interest in Garanti. As of 31st December, 2015, there were some adjustments related to the ALCO management between the Corporate Center and the operating segments.

The following table sets forth information relating to the profit (loss) attributable to the parent company by each of BBVA's operating segments and Corporate Center for the years ended 31st December, 2016, 2015 and 2014 as originally reported in the Form 20-F.

	Profit/(Loss) Attributable to Parent Company			% of Profit/(Loss) Attributable to Parent Company		
	For the Year Ended 31st December					
	2016	2015 <sup>(1)</sup>	2014 <sup>(1)</sup>	2016	2015	2014 <sup>(1)</sup>
	<i>(in millions of euros)</i>			<i>(in percentage)</i>		
Banking Activity in Spain .....	912	1,085	894	21.3	23.8	22.9
Non-Core Real Estate .....	(595)	(496)	(889)	(13.9)	(10.9)	(22.8)
Turkey <sup>(2)</sup> .....	599	371	310	14.0	8.2	8.0
Rest of Eurasia.....	151	75	255	3.5	1.6	6.5
Mexico.....	1,980	2,094	1,903	46.3	46.0	48.7
South America.....	771	905	1,001	18.0	19.9	25.6
United States.....	459	517	428	10.7	11.4	11.1
<b>Subtotal operating segments</b> .....	<b>4,276</b>	<b>4,551</b>	<b>3,903</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
Corporate Center .....	(801)	(1,910)	(1,285)			
<b>Profit attributable to parent company</b> .....	<b>3,475</b>	<b>2,642</b>	<b>2,618</b>			

- (1) In the fourth quarter of 2015, certain operating expenses related to technology were reclassified from the Corporate Center to the Banking Activity in Spain reporting business area. This reclassification was a consequence of the reassignment of technology-related management competences, resources and responsibilities from the Corporate Center to the Banking Activity in Spain business area during 2015. In the Consolidated Financial Statements, the comparative financial information by operating segment for 2014 has been retrospectively revised to reflect the reclassification of these expenses.
- (2) The information for the year ended 31st December, 2014 and with respect to 2015, until July 2015, is presented under management criteria, pursuant to which Garanti's results have been proportionally integrated based on BBVA's 25.01 per cent. interest in Garanti until July 2015, when the acquisition by BBVA of an additional 14.89 per cent. interest in Garanti was completed and BBVA started consolidating 100 per cent. of the Garanti group. See Note 3 to the Consolidated Financial Statements.

The following table sets forth information relating to the income of each operating segment for the years ended 31st December, 2016, 2015 and 2014 as originally reported in the Form 20-F, and reconciles the income statement of the various operating segments to the consolidated income statement of the Group:

	Operating Segments										BBVA Group
	Banking Activity in Spain	Non-Core Real Estate	Turkey <sup>(1)</sup>	Rest of Eurasia	Mexico	South America	United States	Corporate Center	Total	Adjustments <sup>(2)(4)</sup>	
	<i>(in millions of euros)</i>										
<b>2016</b>											
Net interest income .....	3,883	60	3,404	166	5,126	2,930	1,953	(461)	17,059	-	17,059
Gross income.....	6,445	(6)	4,257	491	6,766	4,054	2,706	(60)	24,653	-	24,653
Net margin before provisions <sup>(3)</sup> .....	2,846	(130)	2,519	149	4,371	2,160	863	(916)	11,862	-	11,862
Operating profit/(loss)	1,278	(743)	1,906	203	2,678	1,552	612	(1,094)	6,392	-	6,392

Operating Segments											
	Banking Activity in Spain	Non-Core Real Estate	Turkey <sup>(1)</sup>	Rest of Eurasia	Mexico	South America	United States	Corporate Center	Total	Adjustments <sup>(2)(4)</sup>	BBVA Group
<i>(in millions of euros)</i>											
before tax.....											
<b>Profit.....</b>	<b>912</b>	<b>(595)</b>	<b>599</b>	<b>151</b>	<b>1,980</b>	<b>771</b>	<b>459</b>	<b>(801)</b>	<b>3,475</b>	<b>-</b>	<b>3,475</b>
<b>2015</b>											
Net interest income.....	4,001	71	2,194	183	5,387	3,202	1,811	(424)	16,426	(404)	16,022
Gross income.....	6,804	(28)	2,434	473	7,081	4,477	2,631	(192)	23,680	(318)	23,362
Net margin before provisions <sup>(3)</sup> .....	3,358	(154)	1,273	121	4,459	2,498	825	(1,017)	11,363	(109)	11,254
Operating profit/(loss) before tax.....	1,548	(716)	853	111	2,772	1,814	685	(1,187)	5,879	(1,276)	4,603
<b>Profit.....</b>	<b>1,085</b>	<b>(496)</b>	<b>371</b>	<b>75</b>	<b>2,094</b>	<b>905</b>	<b>517</b>	<b>(1,910)</b>	<b>2,642</b>	<b>-</b>	<b>2,642</b>
<b>2014</b>											
Net interest income.....	3,830	(34)	735	189	4,906	4,699	1,443	(651)	15,116	(734)	14,382
Gross income.....	6,621	(211)	944	736	6,513	5,191	2,137	(575)	21,356	(631)	20,725
Net margin before provisions <sup>(3)</sup> .....	3,585	(357)	550	393	4,100	2,875	640	(1,380)	10,405	(240)	10,166
Operating profit/(loss) before tax.....	1,272	(1,275)	392	320	2,508	1,951	561	(1,666)	4,063	(83)	3,980
<b>Profit.....</b>	<b>894</b>	<b>(889)</b>	<b>310</b>	<b>255</b>	<b>1,903</b>	<b>1,001</b>	<b>428</b>	<b>(1,285)</b>	<b>2,618</b>	<b>-</b>	<b>2,618</b>

- (1) The information for the year ended 31st December, 2014 and with respect to 2015, until July 2015, is presented under management criteria, pursuant to which Garanti's results have been proportionally integrated based on BBVA's 25.01 per cent. interest in Garanti until July 2015, when the acquisition by BBVA of an additional 14.89 per cent. interest in Garanti was completed and BBVA started consolidating 100 per cent. of the Garanti group. See Note 3 to the Consolidated Financial Statements.
- (2) Other adjustments include adjustments made to account for the fact that, until July 2015, in the Consolidated Financial Statements Garanti was accounted for using the equity method rather than using the management criteria referred to above.
- (3) "Net margin before provisions" is calculated as "Gross income" less "Administration costs" and "Depreciation".
- (4) In the fourth quarter of 2015, certain operating expenses related to technology were reclassified from the Corporate Center to the Banking Activity in Spain reporting business area. This reclassification was a consequence of the reassignment of technology-related management competences, resources and responsibilities from the Corporate Center to the Banking Activity in Spain business area during 2015. In the Consolidated Financial Statements and throughout this Annual Report, the comparative financial information by operating segment for 2014 has been retrospectively revised to reflect the reclassification of these expenses.

### **Banking Activity in Spain**

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

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

In addition, Banking Activity in Spain includes certain loans and advances portfolios, finance and structural euro balance sheet positions.

The following table sets forth information relating to the activity of this operating segment as of 31st December, 2016, 2015 and 2014 as originally reported in the Form 20-F:

<b>As of 31st December</b>		
<b>2016</b>	<b>2015</b>	<b>2014</b>

(in millions of euros)

<b>Total Assets</b> .....	<b>332,642</b>	<b>339,775</b>	<b>318,431</b>
<b>Loans and advances to customers</b> .....	<b>187,313</b>	<b>192,068</b>	<b>174,201</b>
<i>Of which:</i> .....			
Residential mortgages .....	81,659	85,029	74,508
Consumer finance .....	7,075	6,126	5,270
<i>Loans</i> .....	5,308	4,499	3,946
<i>Credit cards</i> .....	1,767	1,627	1,324
Loans to enterprises .....	43,418	43,149	37,224
Loans to public sector .....	18,262	20,798	22,833
<b>Customer deposits</b> .....	<b>177,143</b>	<b>185,471</b>	<b>154,264</b>
<i>Of which:</i> .....			
Current and savings accounts .....	98,949	81,218	61,437
Time deposits .....	67,097	78,403	70,521
Other customer funds .....	5,164	14,906	9,207
<b>Assets under management</b> .....	<b>56,147</b>	<b>54,504</b>	<b>50,497</b>
<i>Of which:</i> .....			
Mutual funds .....	32,648	31,484	28,444
Pension funds .....	23,448	22,897	21,879
Other placements .....	51	123	174

Loans and advances to customers of this operating segment as of 31st December, 2016 amounted to €187,313 million, a 2.5 per cent. decrease compared with the €192,068 million recorded as of 31st December, 2015, mainly as a result of a €3,370 million decrease in residential mortgages and, to a lesser extent, due to a €2,535 million decrease in loans to the public sector, partially offset by a €2,505 million increase in repurchase agreements and other loans.

Customer deposits of this operating segment as of 31st December, 2016 amounted to €177,143 million, a 4.5 per cent. decrease compared with the €185,471 million recorded as of 31st December, 2015, mainly due to the decrease in time deposits, partially offset by an increase in current and saving accounts.

Mutual funds of this operating segment as of 31st December, 2016 amounted to €32,648 million, a 3.7 per cent. increase compared with the €31,484 million recorded as of 31st December, 2015. mainly as a result of increased activity during the year, encouraged by the low return on deposits and the improvement of markets. Pension funds of this operating segment as of 31st December, 2016 amounted to €23,448 million, a 2.4 per cent. increase compared with the €22,897 million recorded as of 31st December, 2015.

This operating segment's non-performing asset ratio decreased to 5.8 per cent. as of 31st December, 2016, from 6.6 per cent. as of 31st December, 2015, mainly due to the improvement in credit quality, as well as due to strong rates of recoveries during 2016. This operating segment's non-performing assets coverage ratio decreased to 53.4 per cent. as of 31st December, 2016, from 59.5 per cent. as of 31st December, 2015.



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

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

The Group's exposure to the real estate sector in Spain, including loans and advances to customers and foreclosed assets, has declined over recent years. As of 31st December, 2016, the balance stood at €10,307 million, 16.8 per cent. lower than as of 31st December, 2015. Non-performing assets of this segment have continued to decline and as of 31st December, 2016 were 12.4 per cent. lower than as of 31st December, 2015. The coverage of non-performing and potential problem loans of this segment decreased to 59.4 per cent. as of 31st December, 2016, compared with 63.4 per cent. as of 31st December, 2015 of the total amount of real-estate assets in this operating segment.

The number of real estate assets sold amounted to 21,554 units in 2016, 2.2 per cent. higher than in 2015.

### ***Turkey***

This operating segment reflects BBVA's stake in the Turkish bank Garanti. Following management criteria, assets and liabilities have been proportionally integrated based on the 25.01 per cent. interest in Garanti until July 2015, when BBVA acquired an additional 14.89 per cent. and began to fully consolidate Garanti and its subsidiaries (the **Garanti Group**). See "- History and Development of BBVA – Capital Expenditures – 2017" for information on the new purchase agreement entered into with Doğu Holding A.Ş. and Doğu Araştırma Geliştirme ve Müşavirlik Hizmetleri A.Ş. on 21st February, 2017.

The following table sets forth information relating to the business activity of this operating segment for the years ended 31st December, 2016, 2015 and 2014:

	<b>As of 31st December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>(in millions of euros)</i>		
<b>Total Assets</b> .....	<b>84,866</b>	<b>89,003</b>	<b>22,342</b>
<b>Loans and advances to customers</b> .....	<b>57,941</b>	<b>57,768</b>	<b>13,635</b>
<i>Of which:</i> .....			
Residential mortgages .....	6,135	6,215	1,413
Consumer finance .....	13,860	14,156	3,653
<i>Loans</i> .....	8,925	9,010	2,402
<i>Credit cards</i> .....	4,935	5,146	1,252
Loans to enterprises .....	32,732	31,918	7,442
Loans to public sector .....	-	-	-
<b>Customer deposits</b> .....	<b>47,244</b>	<b>47,148</b>	<b>11,626</b>
<i>Of which:</i> .....			
Current and savings accounts .....	9,515	9,697	2,151
Time deposits .....	33,096	33,695	7,860
<b>Assets under management</b> .....	<b>3,753</b>	<b>3,620</b>	<b>882</b>
<i>Of which:</i> .....			
Mutual funds .....	1,192	1,243	344
Pension funds .....	2,561	2,378	538

During 2016, the Turkish lira depreciated against the euro in average terms from 3.0246 TL/€ in 2015 to 3.3427 TL/€ in 2016. In addition, there was a year-on-year depreciation of the Turkish lira from 3.1765 TL/€ as of 31st December, 2015 to 3.7072 TL/€ as of 31st December, 2016. The effect of these changes on exchange rates was negative for both the year-on-year comparison of the Group's income statement and the year-on-year comparison of the Group's balance sheet.

Loans and advances to customers of this operating segment as of 31st December, 2016 amounted to €57,941 million, a 0.3 per cent. increase compared with the €57,768 million recorded as of 31st December, 2015.

Customer deposits of this operating segment as of 31st December, 2016 amounted to €47,244 million, a 0.2 per cent. increase compared with the €47,148 million recorded as of 31st December, 2015.

Mutual funds of this operating segment as of 31st December, 2016 amounted to €1,192 million, a 4.1 per cent. decrease compared with the €1,243 million recorded as of 31st December, 2015, as a result of the depreciation of the Turkish lira. Excluding this impact, mutual funds of this operating segment increased 11.9 per cent. mainly due to the new agreement entered into with BlackRock for the management of foreign assets and other bilateral agreements which were signed with a number of distributors to actively market mutual funds. See "Item 5. Operating and Financial Review and Prospects—Operating Results—Factors Affecting the Comparability of our Results of Operations and Financial Condition—Trends in Exchange Rates" of the Form 20-F for an explanation on how BBVA have excluded the impact of changes in exchange rates.

Pension funds of this operating segment as of 31st December, 2016 amounted to €2,561 million, a 7.7 per cent. increase compared with the €2,378 million recorded as of 31st December, 2015, as a result of the depreciation of the Turkish lira. Excluding this impact, pension funds in this operating segment increased 25.7 per cent. as a result of the positive performance.

This operating segment's non-performing asset ratio decreased to 2.7 per cent. as of 31st December, 2016 from 2.8 per cent. as of 31st December, 2015. This operating segment's non-performing assets coverage ratio decreased to 123.8 per cent. as of 31st December, 2016 from 129.3 per cent. as of 31st December, 2015.

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

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

The following table sets forth information relating to the business activity of this operating segment for the years ended 31st December, 2016, 2015 and 2014 as originally reported in the Form 20-F:

	<b>As of 31st December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>(in millions of euros)</i>		
<b>Total Assets</b> .....	<b>18,980</b>	<b>23,469</b>	<b>22,325</b>
<b>Loans and advances to customers</b> .....	<b>15,709</b>	<b>16,143</b>	<b>15,795</b>
<i>Of which:</i> .....			
Residential mortgages .....	2,432	2,614	2,779
Consumer finance .....	231	322	490
<i>Loans</i> .....	217	305	475
<i>Credit cards</i> .....	15	17	15
Loans to enterprises .....	12,340	12,619	11,119
Loans to public sector .....	57	216	234

	As of 31st December		
	2016	2015	2014
	<i>(in millions of euros)</i>		
<b>Customer deposits</b> .....	<b>12,796</b>	<b>15,053</b>	<b>11,042</b>
<i>Of which:</i> .....			
Current and savings accounts.....	4,442	5,031	3,224
Time deposits.....	8,174	9,319	7,341
Other customer funds.....	107	609	376
<b>Assets under management</b> .....	<b>366</b>	<b>331</b>	<b>466</b>
Mutual funds.....	-	-	152
Pension funds.....	366	331	314

Loans and advances to customers of this operating segment as of 31st December, 2016 amounted to €15,709 million, a 2.7 per cent. decrease compared with the €16,143 million recorded as of 31st December, 2015, mainly as a result of the decrease in loans to companies and, to a lesser extent, in loans to the public sector and in residential mortgages.

Customer deposits of this operating segment as of 31st December, 2016 amounted to €12,796 million, a 15.0 per cent. decrease compared with the €15,053 million recorded as of 31st December, 2015, mainly as a result of a decline in the number of branches in Europe.

Pension funds of this operating segment as of 31st December, 2016 amounted to €366 million, a 10.5 per cent. increase compared with the €331 million recorded as of 31st December, 2015, mainly as a result of a positive performance of the funds portfolio.

This operating segment's non-performing assets ratio increased to 2.7 per cent. as of 31st December, 2016 from 2.5 per cent. as of 31st December, 2015. This operating segment's non-performing assets coverage ratio decreased to 84.3 per cent. as of 31st December, 2016 from 96.4 per cent. as of 31st December, 2015.

### **Mexico**

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

The following table sets forth information relating to the business activity of this operating segment for the years ended 31st December, 2016, 2015 and 2014:

	As of 31st December		
	2016	2015	2014
	<i>(in millions of euros)</i>		
<b>Total Assets</b> .....	<b>93,318</b>	<b>99,594</b>	<b>93,874</b>
<b>Loans and advances to customers</b> .....	<b>47,938</b>	<b>49,075</b>	<b>46,829</b>
<i>Of which:</i> .....			
Residential mortgages.....	8,410	9,099	9,272
Consumer finance .....	11,286	11,588	10,902
Loans.....	6,630	6,550	5,686
Credit cards.....	4,656	5,037	5,216
Loans to enterprises .....	18,684	18,160	16,707
Loans to public sector .....	3,862	4,197	4,295
<b>Customer deposits</b> .....	<b>50,571</b>	<b>49,553</b>	<b>45,937</b>
<i>Of which:</i> .....			

Current and savings accounts.....	31,112	32,165	28,014
Time deposits.....	7,048	7,049	6,426
Other customer funds.....	5,324	5,738	6,537
<b>Assets under management .....</b>	<b>23,715</b>	<b>21,557</b>	<b>22,094</b>
Mutual funds.....	16,331	17,894	18,691
Other placements.....	7,384	3,663	3,403

The Mexican peso depreciated against the euro as of 31st December, 2016 compared with 31st December, 2015, negatively affecting the business activity of the Mexico operating segment as of 31st December, 2016 expressed in euro. See “*Item 5. Operating and Financial Review and Prospects—Operating Results—Factors Affecting the Comparability of our Results of Operations and Financial Condition—Trends in Exchange Rates*” of the Form 20-F.

Loans and advances to customers of this operating segment as of 31st December, 2016 amounted to €47,938 million, a 2.3 per cent. decrease compared with the €49,075 million recorded as of 31st December, 2015, mainly as a result of the impact of the depreciation of the Mexican peso (which had an estimated impact of approximately €3,945million). Excluding this impact, the change in loans and advances to customers was mainly due to an increase in loans to enterprises and, to a lesser extent, an increase in consumer loans, partially offset by a decrease in repurchase agreements and other loans.

Customer deposits of this operating segment as of 31st December, 2016 amounted to €50,571 million, a 2.1 per cent. increase compared with the €49,553 million recorded as of 31st December, 2015 mainly as a result of an overall increase in most product lines, partially offset by the impact of the depreciation of the Mexican peso.

Mutual funds of this operating segment as of 31st December, 2016 amounted to €16,331 million, an 8.7 per cent. decrease compared with €17,894 million recorded as of 31st December, 2015, mainly due to the depreciation of the Mexican peso. Excluding the impact of the depreciation of the Mexican peso there was an increase of 5.1 per cent.

This operating segment’s non-performing assets ratio decreased to 2.3 per cent. as of 31st December, 2016, from 2.6 per cent. as of 31st December, 2015. This operating segment non-performing assets coverage ratio increased to 127 per cent. as of 31st December, 2016, from 121 per cent. as of 31st December, 2015.

### ***South America***

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

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

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

The following table sets forth information relating to the business activity of this operating segment for the years ended 31st December, 2016, 2015 and 2014:

	<b>As of 31st December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>(in millions of euros)</i>		
<b>Total Assets .....</b>	<b>77,918</b>	<b>70,661</b>	<b>84,364</b>

<b>Loans and advances to customers</b> .....	<b>50,333</b>	<b>44,970</b>	<b>52,920</b>
<i>Of which:</i> .....			
Residential mortgages .....	11,441	9,810	9,622
Consumer finance .....	10,527	9,278	13,575
<i>Loans</i> .....	7,781	6,774	9,336
<i>Credit cards</i> .....	2,745	2,504	4,239
Loans to enterprises .....	21,495	19,896	20,846
Loans to public sector .....	685	630	650
 <b>Customer deposits</b> .....	 <b>47,684</b>	 <b>41,998</b>	 <b>56,370</b>
<i>Of which:</i> .....			
Current and savings accounts .....	23,369	<b>21,011</b>	35,268
Time deposits .....	20,509	16,990	16,340
Other customer funds .....	4,456	4,031	5,012
 <b>Assets under management</b> .....	 <b>11,902</b>	 <b>9,729</b>	 <b>8,480</b>
Mutual funds .....	4,859	3,793	3,848
Pension funds .....	7,043	5,936	4,632

The period-end exchange rate against the euro of the currencies of the countries in which the Group operates in South America decreased, on average, in 2016, compared with December 2015, negatively affecting the business activity in South America. The depreciation of the Venezuelan bolivar as of 31st December, 2016 was particularly significant. See “*Item 5. Operating and Financial Review and Prospects—Operating Results—Factors Affecting the Comparability of our Results of Operations and Financial Condition—Trends in Exchange Rates*” of the Form 20-F.

Loans and advances to customers of this operating segment as of 31st December, 2016 amounted to €50,333 million, a 11.9 per cent. increase compared with the €44,970 million recorded as of 31st December, 2015, mainly as a result of an increase in residential mortgages. By country, the largest increase was registered in Colombia, where the increase in loans and advances to customers were partially offset by a negative exchange rate effect.

Customer deposits of this operating segment as of 31st December, 2016 amounted to €47,684 million, a 13.5 per cent. increase compared with the €41,998 million recorded as of 31st December, 2015, mainly as a result of a positive performance in time deposits in Argentina and Colombia, partially offset by a negative exchange rate effect.

Mutual funds of this operating segment as of 31st December, 2016 amounted to €4,859 million, a 28.1 per cent. increase compared with the €3,793 million recorded as of 31st December, 2015, mainly due to the positive performance in Argentina, Chile and Peru, which was partially offset by the significant depreciation of the Venezuelan bolivar.

Pension funds in this operating segment as of 31st December, 2016 amounted to €7,043 million, an 18.6 per cent. increase from the €5,936 million recorded as of 31st December, 2015, mainly as a result of increased volumes in Bolivia.

This operating segment’s non-performing assets ratio increased to 2.9 per cent. as of 31st December, 2016, from 2.3 per cent. as of 31st December, 2015, due to the weaker economic conditions in the region. This operating segment non-performing assets coverage ratio decreased to 103 per cent. as of 31st December, 2016, from 123 per cent. as of 31st December, 2015.

## United States

This operating segment encompasses the Group's business in the United States. BBVA Compass accounted for approximately 93 per cent. of the operating segment's balance sheet as of 31st December, 2016. Given its size in this segment, most of the comments below refer to BBVA Compass. This operating segment also includes the assets and liabilities of the BBVA office in New York, which specialises in transactions with large corporations.

The following table sets forth information relating to the business activity of this operating segment for the years ended 31st December, 2016, 2015 and 2014:

	<b>As of 31st December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>(in millions of euros)</i>		
<b>Total Assets</b> .....	<b>88,902</b>	<b>86,454</b>	<b>69,261</b>
<b>Loans and advances to customers</b> .....	<b>62,000</b>	<b>60,599</b>	<b>49,667</b>
<i>Of which:</i> .....			
Residential mortgages .....	12,913	13,182	11,876
Consumer finance .....	7,412	7,364	5,812
<i>Loans</i> .....	6,837	6,784	5,291
<i>Credit cards</i> .....	575	580	522
Loans to enterprises .....	32,864	31,882	25,202
Loans to public sector .....	4,594	4,442	3,706
<b>Customer deposits</b> .....	<b>65,760</b>	<b>63,715</b>	<b>51,394</b>
<i>Of which:</i> .....			
Current and savings accounts .....	49,430	45,717	38,863
Time deposits .....	13,765	14,456	11,231

The U.S. dollar appreciated against the euro as of 31st December, 2016 compared with 31st December, 2015, positively affecting the business activity of the United States operating segment expressed in euro. See "Item 5. Operating and Financial Review and Prospects— Operating Results—Factors Affecting the Comparability of our Results of Operations and Financial Condition—Trends in Exchange Rates" of the Form 20-F.

Loans and advances to customers of this operating segment as of 31st December, 2016 amounted to €62,000 million, a 2.3 per cent. increase compared with the €60,599 million recorded as of 31st December, 2015, mainly as a result of the impact of the appreciation of the U.S. dollar. Excluding this impact, loans and advances to customers fell due to a decrease in residential mortgages and in consumer loans.

Customer deposits of this operating segment as of 31st December, 2016 amounted to €65,760 million, a 3.2 per cent. increase compared with the €63,715 million recorded as of 31st December, 2015, mainly as a result of the impact of the appreciation of the U.S. dollar. Excluding this positive impact, customer deposits decreased mainly due to a reduction in time deposits, partially offset by an increase in current and savings accounts.

This operating segment's non-performing assets ratio increased to 1.5 per cent. as of 31st December, 2016, from 0.9 per cent. as of 31st December, 2015. This operating segment non-performing assets coverage ratio decreased to 94 per cent. as of 31st December, 2016, from 151 per cent. as of 31st December, 2015, mainly as a result of improvements in the Energy portfolio and by customers related to the oil and gas industry.

## Organisational Structure

As of 31st December, 2016, the Group was composed of 370 consolidated entities and 89 entities accounted for using the equity method.

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

Below is a simplified organisational chart of BBVA's most significant subsidiaries as of 31st December, 2016.

Subsidiary	Country of Incorporation	Activity	BBVA Voting Power	BBVA Ownership	Total Assets <sup>(1)</sup>
			(in Percentages)		(in millions of euros)
BBVA BANCOMER, S.A., INSTITUCION DE BANCA MULTIPLE, GRUPO FINANCIERO BBVA BANCOMER. ....	Mexico	Bank	100.00	100.00	86,242
COMPASS BANK .....	United States	Bank	100.00	100.00	86,188
TURKIYE GARANTI BANKASI A.S	Turkey	Bank	49.90 <sup>(2)</sup>	39.90	76,017
BBVA CONTINENTAL, S.A. ....	Peru	Bank	46.12	46.12	22,269
BANCO BILBAO VIZCAYA ARGENTARIA CHILE, S.A. ....	Chile	Bank	68.19	68.19	19,508
BBVA SEGUROS, S.A. DE SEGUROS Y REASEGUROS .....	Spain	Insurance	99.95	99.95	16,797
BBVA COLOMBIA, S.A. ....	Colombia	Bank	95.47	95.47	16,391
BBVA BANCO FRANCES, S.A. ....	Argentina	Bank	75.95	75.95	9,008
PENSIONES BANCOMER, S.A. DE C.V. BANCO BILBAO VIZCAYA ARGENTARIA (PORTUGAL), S.A. ....	Mexico	Insurance	100.00	100.00	4,040
SEGUROS BANCOMER, S.A. DE C.V. ....	Portugal	Bank	100.00	100.00	4,028
BANCO BILBAO VIZCAYA ARGENTARIA URUGUAY, S.A.	Mexico	Insurance	100.00	100.00	3,347
	Uruguay	Bank	100.00	100.00	3,051

(1) Information for non-EU subsidiaries has been calculated using the prevailing exchange rates on 31st December, 2016.

(2) Calculated by adding BBVA's and the Doğuş Group's stakes in Garanti as of 31st December 2016 (39.90 per cent. and 10.0002 per cent., respectively). As a result of the shareholders' agreement between BBVA and the Doğuş Group then in effect, Garanti was consolidated within the Group. See "*Material Contracts—Shareholders' Agreement in Connection with Garanti.*" of the Form 20-F.

## Selected Financial Data

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

### Consolidated statement of income data

	Year ended 31st December		
	2016	2015	2014
	(in millions of euros)		
Net interest income.....	17,059	16,022	14,382

Profit.....	4,693	3,328	3,082
Profit attributable to parent company .....	3,475	2,642	2,618

### Consolidated balance sheet data

	As at 31st December		
	2016	2015	2014
	<i>(in millions of euros)</i>		
Total assets .....	731,856	749,855	631,942
Loans and receivables (net) .....	465,977	471,828	376,086
Customers' deposits .....	401,465	403,362	319,334
Debt certificates and subordinated liabilities.....	76,375	81,980	71,917
Non-controlling interests .....	8,064	7,992	2,511
Total equity.....	55,428	55,282	51,609

### DIRECTORS AND SENIOR MANAGEMENT

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

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

#### Board of Directors

The Board of Directors of BBVA is currently comprised of 13 members. The business address of the Directors of BBVA is Calle Azul, 4, 28050 Madrid.

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

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

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

Name	Current Position	Date Nominated	Date Re-elected	Present Occupation and History <sup>(*)</sup>	Principal and Employment	Outside Employment
Francisco González	Group Executive	28th January,	11th March,	Group Executive	Chairman of BBVA	



<b>Name</b>	<b>Current Position</b>	<b>Date Nominated</b>	<b>Date Re-elected</b>	<b>Present Occupation and History<sup>(*)</sup></b>	<b>Principal and Outside Employment</b>
Rodríguez <sup>(1)</sup>	Chairman	2000	2016	since January 2000; Director of Grupo Financiero BBVA Bancomer, S.A. de C.V. and BBVA Bancomer S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer.	
Carlos Vila <sup>(1)(6)</sup>	Torres Chief Executive Officer	4th May, 2015	11th March, 2016	Chief Executive Officer of BBVA, since 4th May, 2015. Chairman of the Technology and Cybersecurity Committee. Director of Grupo Financiero BBVA Bancomer, S.A. de C.V. and BBVA Bancomer S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer. He started at BBVA on September 2008 holding senior management posts such as Head of Digital Banking from March 2014 to May 2015 and BBVA Strategy & Corporate Development Director from January 2009 to March 2014.	
Tomás Drake <sup>(2)(3)(4)(6)</sup>	Alfaro Independent Director	18th March, 2006	17th March, 2017	Chairman of the Appointments Committee of BBVA since 25th May, 2010. Director of Internal Development and Professor in the Finance department of Universidad Francisco de Vitoria.	
José Miguel Andrés Torrecillas <sup>(2)(3)(5)(7)</sup>	Independent Director	13th March, 2015	Not applicable	Chairman of the Audit and Compliance Committee of BBVA since 4th May, 2015. Chairman of Ernst & Young Spain from 2004 to 2014, where he has been partner since 1987 and also held a series of senior offices, including Director of the Banking Group from 1989 to 2004 and Managing Director of the Audit and Advisory practices at Ernst & Young Italy and Portugal from 2008 to 2013.	
José Fernández Rivero <sup>(1)(4)(6)</sup>	Antonio External Director	28th February, 2004	13th March, 2015	Was appointed Group General Manager until January 2003. He was the director representing BBVA on the Boards of Telefónica, Iberdrola and of Banco de Crédito Local and Chairman of Adquira.	
Belén López <sup>(2)(4)</sup>	Garijo Independent Director	16th March, 2012	13th March, 2015	Chairman of the Remuneration Committee of BBVA since 31st May, 2017. Member of the Executive Board of Merck Group and CEO of Merck Healthcare, member of the Board of Directors of L'Oréal and Chair of the International Executive Committee of PhRMA, ISEC (Pharmaceutical Research and Manufacturers of America).	

<b>Name</b>	<b>Current Position</b>	<b>Date Nominated</b>	<b>Date Re-elected</b>	<b>Present Occupation and History<sup>(*)</sup></b>
José Manuel González-Páramo Martínez-Murillo	Executive Director	29th May, 2013	17th March, 2017	Executive Director of BBVA since 29th May, 2013. Head of BBVA's Global Economics, Regulation and Public Affairs. Member of the European Central Bank (ECB) Governing Council and Executive Committee from 2004 to 2012. Chairman of European DataWarehouse GmbH since 2013.
Sunir Kapoor <sup>(6)</sup>	Independent Director	11th March, 2016	Not applicable	President and CEO of UBmatrix Inc from 2005 to 2011. Executive Vice President and CMO of Cassatt Corporation from 2004 to 2005. Oracle Corporation, Vice President Collaboration Suite from 2002 to 2004. Founder and CEO of Tsola Inc from 1999 to 2001. President and CEO of E-Stamp Corporation from 1996 to 1999. Vice President of Strategy, Marketing and Planning of Oracle Corporation from 1994 to 1996. Currently, he is an independent advisor and director of LogTrust Technology, Inc. and of Stratio Big Data.
Carlos Martínez Irujo <sup>(1)(4)(5)</sup>	External Director	28th February, 2004	17th March, 2017	Was Partner of J&A Garrigues from 1977 to 2004, where he has also held a series of senior offices, including Director of M&A Department, Director of Banking and Capital Markets Department and member of its Management Committee.
Lourdes Máiz Carro <sup>(2)(3)(4)</sup>	Independent Director	14th March, 2014	17th March, 2017	Was Secretary of the Board of Directors and Director of Legal Services at Iberia, Líneas Aéreas de España from 2001 until 2016. Joined the Spanish State Counsel Corps (Cuerpo de Abogados del Estado) and from 1992 until 1993 she was Deputy to the Director in the Ministry of Public Administration. From 1993 to 2001 held various senior positions in the Public Administration.
José Ramos Maldonado <sup>(1)(3)(5)</sup>	External Director	28th January, 2000	13th March, 2015	Was appointed Director and General Secretary of BBVA in January 2000. Took early retirement as Bank executive in December 2009.
Juan Pi Llorens <sup>(2)(5)(6)</sup>	Independent Director	27th July, 2011	13th March, 2015	Chairman of the Risk Committee since 31st May, 2017. Had a professional career at IBM holding various senior posts at a national and international level including Vice President for Sales at IBM Europe, Vice President of Technology & Systems Group at IBM

Name	Current Position	Date Nominated	Date Re-elected	Present Occupation and History <sup>(*)</sup>	Principal and Outside Employment
Susana Rodríguez Vidarte <sup>(1)(3)(5)</sup>	External Director	28th May, 2002	17th March, 2017	Europe and Vice President of the Financial Services Sector at GMU (Growth Markets Units) in China. He was executive President of IBM Spain. Holds a Chair in Strategy at the Faculty of Economics and Business Sciences at Universidad de Deusto. Doctor in Economic and Business Sciences from Universidad de Deusto.	

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

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

### Major Shareholders and Share Capital

As of 18th October, 2017, Blackrock, Inc. communicated that it held an indirect interest of 5.939 per cent. in BBVA's share capital. As of 15th November, 2017, no other person, corporation or government beneficially owned, directly or indirectly, five 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 15th November, 2017, there were 896,203 registered holders of BBVA's shares, with an aggregate of 6,667,886,580 shares, of which 575 shareholders with registered addresses in the United States held a total of 1,388,005,868 shares (including shares represented by American Depositary Shares evidenced by American Depositary Receipts (ADRs)). Since certain of such shares and ADRs are held by nominees, the foregoing figures are not representative of the number of beneficial holders.

### Legal Proceedings

Several entities of the Group are party to legal actions in a number of jurisdictions (including, among others, Spain, Mexico and the United States) arising in the ordinary course of business. According to the procedural status of these proceedings and BBVA's assessment of these matters, BBVA believes that, except as described below with respect to mortgage "floor" clauses, none of such proceedings, individually or in the aggregate, if resolved adversely, would result in a material adverse effect on the Group's financial position, results of operations or liquidity. The Group's management believes that adequate provisions have been made in respect of such legal proceedings, and considers that the possible contingencies that may arise from such ongoing lawsuits are not material.

On 9th May, 2013, the Spanish Supreme Court issued a definitive ruling, rendered on a collective claim brought against BBVA among others, proclaiming the invalidity of "floor" clauses limiting the interest rates in mortgage loans with consumers (commonly referred to as "cláusulas suelo") provided such clauses did not comply with certain requirements of material transparency set forth in the referred ruling. The Spanish Supreme Court also ruled that there were no grounds for the refund of the amounts collected by the lenders pursuant to those clauses prior to 9th May, 2013.

In compliance with this ruling and as communicated to the market on 12th June, 2013, BBVA eliminated or deprived of effect “floor” clauses in all mortgage loans with consumers since 9th May, 2013.

Following the ruling of the Spanish Supreme Court, the Provincial Court of Alicante asked the Court of Justice of the European Union (the **CJEU**) to determine whether the limited retroactivity of the decision of the Spanish Supreme Court (which, as indicated above, had no impact on amounts collected by the lenders pursuant to “floor” clauses prior to 9th May, 2013) was compatible with Council Directive 93/13/EEC of 5th April, 1993, on unfair terms in consumer contracts (**Directive 93/13/EEC**). In July 2016, while the CJEU decision was still pending, BBVA estimated that the maximum amount subject to any potential claims, should the CJEU decide that the Supreme Court of Spain’s decision was not compatible with Directive 93/13/EEC, would be approximately €1.2 billion, indicating that the actual impact would probably be lower, based on past experiences.

On 21st December, 2016, the CJEU’s decision was published. In its judgment, the CJEU stated that national case law setting time limits for the refund of amounts arising from the invalidity of an unfair term in a contract is contrary to Article 6(1) of Directive 93/13/EEC.

In connection with the preparation of its consolidated financial statements for the year ended 31st December, 2016, BBVA analysed as of the relevant balance sheet date its portfolio of mortgage loans to consumers in which there were “floor” clauses and recorded a provision of €577 million to cover the contingencies that may arise in connection with claims related to the legality of such clauses. This provision may be revised in future periods based on the evolution of such claims and other facts and circumstances as of the related reporting date.

## FORM OF THE PRICING SUPPLEMENT

<sup>1</sup>[**MIFID II PRODUCT GOVERNANCE** – [Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.] / [*Specify other target market assessment*]]

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

Issue of [       ] [       ]  
under the €10,000,000,000  
**Euro-Commercial Paper Programme**

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Notes described herein. This document constitutes the Pricing Supplement for such Notes and must be read in conjunction with the Information Memorandum dated 15th December, 2017, [as supplemented by the supplement[s] dated [date[s]]] (the **Information Memorandum**).

Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Information Memorandum.

The Information Memorandum has been published on the website of the Irish Stock Exchange.

1. Series Number: [       ]
2. Issued on (Issue Date): [       ]
3. Maturity Date<sup>2</sup>: [       ]
4. Specified Currency: [       ]
5. Denomination: [       ]
6. Nominal Amount<sup>3</sup>: [       ]  
(*words and figures if a Sterling Note*)
7. Early Redemption Amount: [Redemption at par] [[       ] per Note of [       ]  
[*Denomination*]]
8. Reference Rate<sup>4</sup>: [       ] months [LIBOR/EURIBOR]

<sup>1</sup> Delete where none of the Issuer or any Dealer is a Manufacturer in respect of the Notes for the purpose of the MiFID Product Governance Rules. Where there is a Manufacturer in respect of the Notes, use the first alternative (delete the brackets as appropriate) or specify another target market assessment.

<sup>2</sup> Not more than 364 days from (and including) the Issue Date.

<sup>3</sup> If the proceeds are accepted in the United Kingdom, the Nominal Amount shall be not less than £100,000 (or the equivalent in any other currency).

9. Fixed Interest Rate<sup>5</sup>: [ ]% per annum
10. Margin<sup>6</sup>: [ ]%
11. Net Proceeds: [ ]
12. Interest Payment Dates<sup>7</sup>: [ ]
13. Day Count Convention: [ ]
14. Calculation Agent: [ ]
15. Reference Banks<sup>8</sup>: [ ]
16. Clearing System(s): [Euroclear, Clearstream, Luxembourg, other (specify)]
17. ISIN: [ ]
18. Common Code: [ ]

*The information contained in this enclosed section is required only if Notes are to be admitted to trading on a regulated market:-*

#### **Form**

19. NGN form: [Yes/No]
20. Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation “yes” simply means that the Global Note is intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Global Note will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.][include this text if “yes” selected in which case the Notes must be issued in NGN form]
- [No. Whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Global Note is capable of meeting them the Global Note may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Global Note will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

<sup>4</sup> Delete as appropriate. The reference rate will be LIBOR unless the denomination is specified as euro and the Issuer agrees that the reference rate should be EURIBOR.

<sup>5</sup> Complete for fixed rate interest bearing Notes only.

<sup>6</sup> Complete for floating rate interest bearing Notes only.

<sup>7</sup> Complete for interest bearing Notes.

<sup>8</sup> Complete for floating rate interest bearing Notes only.

## Distribution

21. Method of distribution: [Syndicated/Non-syndicated]
22. Dealer(s): [ ]
23. Additional selling restrictions: [Not Applicable/specify]

## Listing and Admission to Trading

24. Listing and admission to trading: [Application has been made by the Issuer (or on its behalf) to the [Irish Stock Exchange/other (specify)] for the Notes to be admitted to [the Official List maintained by it and to] trading on its regulated market with effect from [ ]]
25. Estimate of total expenses of admission to trading: €[ ]

## Ratings

26. Ratings: The Issuer has not applied for ratings to be assigned to the Notes. However, ratings allocated to the Programme are as follows:
- [Standard and Poor's Credit Market Services Europe Limited: [●]]
- [Moody's Investors Service España, S.A.: [●]]
- [Fitch Ratings España, S.A.U.: [●]]

## Yield

27. Indication of yield [*fixed rate Notes only*]: [ ]. The yield is calculated at the Issue Date on the basis of the issue price. It is not an indication of future yield.

## Interests of Natural and Legal Persons involved in the Issue

Save for any fees payable to the relevant Dealer, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer [*amend accordingly if there are material interests*]

## Responsibility

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of:

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

By: .....  
(Authorised Signatory)

## FORM OF THE NOTES

### Part A - Form of Multi-Currency Global Note

THE SECURITIES REPRESENTED BY THIS GLOBAL NOTE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR ANY U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT) UNLESS AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE AND IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE SECURITIES OF THE TRANCHE OF WHICH THIS SECURITY FORMS PART.

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

1. For value received, Banco Bilbao Vizcaya Argentaria, S.A. (the **Issuer**) promises to pay to the bearer of this Global Note on the Maturity Date set out in the Pricing Supplement attached to or endorsed on this Global Note, which supplements these terms and conditions, or, on such earlier date as the same may become payable in accordance with paragraph 4 below (the **Relevant Date**), the Nominal Amount or, as the case may be, the Early Redemption Amount set out in the Pricing Supplement, together with interest thereon, if this is an interest bearing Global Note, at the rate and at the times (if any) specified herein and in the Pricing Supplement. Words and expressions used in the applicable Pricing Supplement shall have the same meanings where used in these terms and conditions unless the context otherwise requires or unless otherwise stated.

All such payments shall be made in accordance with an issue and paying agency agreement dated 16th December, 2016 as supplemented by a supplemental agency agreement dated 15th December, 2017 (such amended and restated agency agreement as further amended, restated, supplemented or replaced from time to time, the **Agency Agreement**) between, *inter alios*, the Issuer and The Bank of New York Mellon, London Branch (the **Issuing and Paying Agent**) a copy of which is available for inspection at the offices of the Issuing and Paying Agent at One Canada Square, Canary Wharf, London E14 5AL, and subject to and in accordance with the terms and conditions set forth below. All such payments shall be made upon presentation and surrender of this Global Note at the offices of the Issuing and Paying Agent by transfer to an account denominated in the Specified Currency maintained by the bearer with a bank in the principal financial centre in the country of that currency or, if this is a Global Note denominated in euro, by transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with a bank in the principal financial centre of any member state of the European Union. If the applicable Pricing Supplement specifies that new global note (NGN) form is applicable, the Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the ICSDs (as defined below) (which expression in this Global Note means the records that each ICSD holds for its customers which reflect the amount of such customers' interests in the Notes (but excluding any interest in any Notes of one ICSD shown in the records of another ICSD)) and in the case of any payment of principal, and upon any such entry being made, the nominal amount of the Global Note recorded in the records of the ICSD and represented by this Global Note shall be reduced by the aggregate nominal amount of the Notes so redeemed. For the purposes of this Global Note **ICSD** means either Euroclear Bank S.A./N.V. (**Euroclear**) or Clearstream Banking, S.A., Luxembourg (**Clearstream, Luxembourg**).

Notwithstanding the foregoing, presentation and surrender of this Global Note shall be made outside the United States and no amount shall be paid by transfer to an account in the United States, or



mailed to an address in the United States. In the case of a Global Note denominated in U.S. dollars, payments shall be made by transfer to an account denominated in U.S. dollars in the principal financial centre of any country outside of the United States that the Issuer or Issuing and Paying Agent so chooses.

2. The aggregate Nominal Amount of this Global Note shall be the aggregate nominal amount of the Notes represented by it. If the applicable Pricing Supplement specifies that NGN form is not applicable, this shall be the amount specified in the Pricing Supplement or, if the Pricing Supplement specifies that NGN form is applicable, this shall be the amount from time to time entered in the records of the relevant ICSD(s).
3. All payments in respect of this Global Note by or on behalf of the Issuer shall be made without set-off, counterclaim, fees, liabilities or similar deductions and free and clear of, and without deduction or withholding for or on account of, taxes, levies, duties, assessments or charges of any nature (**Taxes**) 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 or taxing authority thereof having the power to tax, the Issuer shall, to the extent permitted by applicable law or regulation, pay such additional amounts as shall be necessary in order that the net amounts received by the bearer of this Global Note after such deduction or withholding shall equal the amount which would have been receivable hereunder in the absence of such deduction or withholding, except that no such additional amounts shall be payable:
  - (a) to, or to a third party on behalf of, the bearer of this Global Note where such deduction or withholding is required by reason of the bearer having some connection with the jurisdiction imposing the Taxes other than the mere holding of this Global Note; or
  - (b) in respect of any deduction or withholding which would not have been required but for the presentation by the bearer of this Global Note for payment on a date more than 30 days after the Maturity Date (or, as the case may be, the Relevant Date) except to the extent that the bearer would have been entitled to such additional amounts on presenting the same for payment on such thirtieth day; or
  - (c) presented for payment by or on behalf of a holder who would not be liable or subject to the withholding or deduction by making a declaration concerning the nationality, residence or identity of the holder (or providing information, documentation or other evidence of the same) or other similar claim for exemption to the relevant tax authority or to (or on behalf of) the Issuer, where such declaration or claim is required or imposed by the Spanish Tax Authorities; or
  - (d) in case of Notes where such withholding tax is imposed on payments made to individuals with tax residence in the Kingdom of Spain or any political subdivision or taxing authority thereof or therein following the criteria held by the Spanish Tax Authorities in relation to Article 44.5 of Royal Decree 1065/2007 of 27th July, as amended by Royal Decree 1145/2011 of 29th July.
4. The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (provided this is not a floating rate interest bearing Global Note) or on any Interest Payment Date (if this is a floating rate interest bearing Global Note), on giving not less than 14 days' notice to the Issuing and Paying Agent and the Noteholders (which notice shall be irrevocable), if:
  - (a) the Issuer has or will become obliged to pay additional amounts as provided or referred to in paragraph 3 as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Spain or any change in the application or binding official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; and

- (b) such obligation to pay additional amounts cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 14 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Issuing and Paying Agent to make available at its specified office to the Noteholders:

- (a) a certificate signed by a duly authorised signatory of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and
- (b) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this paragraph will be redeemed at their Early Redemption Amount specified in the Pricing Supplement together (if appropriate) with interest accrued to (but excluding) the date of redemption.

- 5. The Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, representing, in the case of each Note, a separate and independent obligation of the Issuer, and, upon the insolvency (*concurso de acreedores*) of the Issuer, in accordance with and to the extent permitted by the Insolvency Law and other applicable laws relating to or affecting the enforcement of creditors' rights in the Kingdom of Spain (including, without limitation, Additional Provision 14.2 of Law 11/2015), the payment obligations of the Issuer under the Notes with respect to claims for principal (which claims will constitute ordinary claims) will rank:

- (a) junior to any (i) privileged claims (*créditos privilegiados*) (which shall include, among other claims, any claims in respect of deposits for the purposes of Additional Provision 14.1 of Law 11/2015) and (ii) claims against the insolvency estate (*créditos contra la masa*);
- (b) *pari passu* without any preference or priority among themselves and with all other Senior Preferred Obligations; and
- (c) senior to (i) any Senior Non-Preferred Obligations and (ii) all subordinated obligations of, or subordinated claims against, the Issuer (*créditos subordinados*), present and future,

such that any claim for principal in respect of the Notes will be satisfied, as appropriate, only to the extent that all claims ranking senior to it have first been satisfied in full and then *pro rata* with any claims ranking *pari passu* with it, in each case as provided above.

For the purposes of this paragraph:

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

**Law 11/2015** means Law 11/2015 of 18th June on the recovery and resolution of credit institutions and investment firms (*Ley 11/2015, de 18 de junio, de recuperación y resolución de entidades de crédito y empresas de servicios de inversión*), as amended, replaced or supplemented from time to time;

**ordinary claims** means the class of claims with respect to unsecured, non-privileged and unsubordinated obligations (*créditos ordinarios*) of the Issuer which, upon the insolvency (*concurso de acreedores*) of the Issuer and pursuant to Articles 89.3, 157 and 158 of the Insolvency Law and other applicable laws relating to or affecting the enforcement of creditors' rights in the Kingdom of Spain, rank (i) junior to privileged claims (*créditos privilegiados*) (which shall include, among other claims, any claims in respect of deposits for the purposes of Additional Provision 14.1 of Law 11/2015 and any secured claims), and claims against the insolvency estate (*créditos contra la masa*) and (ii) senior to subordinated claims (*créditos subordinados*);

**Senior Non-Preferred Obligations** means the obligations of the Issuer with respect to all ordinary claims, present and future, which, upon the insolvency (*concurso de acreedores*) of the Issuer are expressed to rank within the ordinary claims but junior to Senior Preferred Obligations; and

**Senior Preferred Obligations** means the obligations of the Issuer with respect to (a) the payment of principal under the Notes and (b) all other ordinary claims, present and future, other than Senior Non-Preferred Obligations.

Pursuant to article 59 of the Insolvency Law, the further accrual of interest shall be suspended from the date of declaration of the insolvency of the Issuer. Claims in respect of interest on the Notes expressly or implicitly accrued but unpaid as of the commencement of any insolvency procedure in respect of the Issuer shall constitute subordinated claims against the Issuer ranking in accordance with the provisions of article 92 of the Insolvency Law (including, without limitation, junior to claims on account of principal in respect of contractually subordinated obligations of the Issuer, unless otherwise provided by the Insolvency Law and other applicable laws relating to or affecting the enforcement of creditors' rights in the Kingdom of Spain).

6. If the Maturity Date (or, as the case may be, the Relevant Date) or, if applicable, any relevant Interest Payment Date is not a Payment Business Day (as defined below), payment in respect hereof will not be made and credit or transfer instructions shall not be given until the next following Payment Business Day (unless that date falls more than 364 days after the Issue Date, in which case payment shall be made on the immediately preceding Payment Business Day) and the bearer of this Global Note shall not be entitled to any interest or other sums in respect of such postponed payment.

As used in this Global Note:

**Payment Business Day** means any day other than a Saturday or Sunday which is either (i) if the Specified Currency is any currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars, shall be Sydney) or (ii) if the Specified Currency is euro, a day which is a TARGET2 Business Day; and

**TARGET2 Business Day** means a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (known as TARGET2) System, which utilises a single shared platform and which was launched on 19 November 2007, or any successor thereto, is operating credit or transfer instructions in respect of payments in euro.

7. This Global Note is negotiable and, accordingly, title hereto shall pass by delivery and the bearer shall be treated as being absolutely entitled to receive payment upon due presentation hereof (notwithstanding any notation of ownership or other writing thereon or notice of any previous loss or theft thereof).

8. This Global Note is issued in respect of an issue of Notes of the Issuer and is exchangeable in whole (but not in part only) for duly executed and authenticated bearer Notes in definitive form (whether before, on or, subject as provided below, after the Maturity Date (or, as the case may be, the Relevant Date)):
- (a) if one or both of Euroclear or Clearstream, Luxembourg or any other relevant clearing system(s) in which this Global Note is held at the relevant time is closed for business for a continuous period of 14 days (other than by reason of public holidays) or if any such clearing system announces an intention to, or does in fact, permanently cease to do so; or
  - (b) if default is made in the payment of any amount payable in respect of this Global Note.

Upon presentation and surrender of this Global Note during normal business hours to the Issuer at the offices of the Issuing and Paying Agent (or to any other person or at any other office outside the United States as may be designated in writing by the Issuer to the bearer), the Issuing and Paying Agent shall authenticate and deliver, in exchange for this Global Note, bearer definitive Notes denominated in the Specified Currency, having the Denominations and in an aggregate nominal amount equal to the Nominal Amount within 30 days of the bearer requesting such exchange of this Global Note.

9. If, upon any such default and following such surrender, definitive Notes are not issued in full exchange for this Global Note before 5.00 p.m. (London time) on the thirtieth day after surrender, then each person who is an account holder with Euroclear, Clearstream, Luxembourg or any other relevant clearing system and who has credited to its securities account with the relevant clearing system rights in respect of this Global Note will become entitled to proceed directly against the Issuer on, and subject to, the terms of a Deed of Covenant dated 16th December, 2016, entered into by the Issuer and the bearer will have no further rights under this Global Note (but without prejudice to the rights which the bearer or any other person may have under the Deed of Covenant).
10. If this is an interest bearing Global Note, then:
- (a) notwithstanding the provisions of paragraph 1 above, if any payment of interest in respect of this Global Note falling due for payment prior to the Maturity Date (or, as the case may be, the Relevant Date) remains unpaid on the fifteenth day after falling so due, the amount referred to in paragraph 1 shall be payable on such fifteenth day;
  - (b) upon each payment of interest (if any) prior to the Maturity Date (or, as the case may be, the Relevant Date) in respect of this Global Note, (i) if the applicable Pricing Supplement specifies that NGN form is not applicable, the Schedule hereto shall be duly completed by the Issuing and Paying Agent to reflect such payment, or (ii) if the applicable Pricing Supplement specifies that NGN form is applicable, the Issuing and Paying Agent shall instruct the relevant ICSD(s) to enter details of such payment in the records of the relevant ICSD(s); and
  - (c) unless otherwise specified in the applicable Pricing Supplement, the final Interest Payment Date shall be the Maturity Date (or, as the case may be, the Relevant Date).
11. If this is a fixed rate interest bearing Global Note, interest shall be calculated on the Nominal Amount as follows:
- (a) interest shall be payable on the Nominal Amount in respect of each successive Interest Period (as defined below) from (and including) the Issue Date to (but excluding) the Maturity Date (or, as the case may be, the Relevant Date) only, in arrear on the relevant Interest Payment Date, on the basis of the Day Count Convention or, if none is specified in the applicable Pricing Supplement, on the basis of the actual number of days in such Interest

Period and a year of 360 days or, if this Global Note is denominated in Sterling, 365 days at the Fixed Interest Rate with the resulting figure being rounded to the nearest amount of the Specified Currency which is available as legal tender in the country or countries (in the case of the euro) of the Specified Currency (with halves being rounded upwards); and

- (b) the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is an **Interest Period** for the purposes of this paragraph.

As used in this Global Note, any **Day Count Convention** shall have the meaning given to it in the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc., as amended, updated or replaced as at the date of this Global Note.

12. If this is a floating rate interest bearing Global Note:

- (a) interest shall be calculated on the Nominal Amount as follows:
  - (i) in the case of a Global Note which specifies LIBOR as the Reference Rate in the applicable Pricing Supplement, interest shall be payable on the Nominal Amount in respect of each successive Interest Period (as defined below) from (and including) the Issue Date to (but excluding) the Maturity Date (or, as the case may be, the Relevant Date) only, in arrear on the relevant Interest Payment Date, on the basis of the Day Count Convention or, if none is specified in the applicable Pricing Supplement, on the basis of the actual number of days in such Interest Period, and a year of 360 days or, if this Global Note is denominated in Sterling, 365 days, in each case, at a rate (the **Rate of Interest**) determined on the following basis:
    - (A) on the second business day (which shall be a day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London) before each Interest Period or, if this Global Note is denominated in euro, on the second TARGET2 Business Day before the beginning of each Interest Period (each the **LIBOR Interest Determination Date**) the Calculation Agent will determine the offered rate for deposits in the Specified Currency in the London interbank market for the Interest Period concerned as at 11.00 a.m. (London time) on the LIBOR Interest Determination Date in question. Such offered rate will be that which appears on the display designated as Reuters page LIBOR01 or Reuters page LIBOR02 (or such other page or service as may replace it for the purpose of displaying London interbank offered rates of major banks for deposits in the Specified Currency for a duration equal to the Interest Period (or approximately equal, where no rate matches the Interest Period)). The Rate of Interest for such Interest Period shall be the Margin (expressed as a percentage rate per annum) above (if a positive number) or below (if a negative number) the rate which so appears, as determined by the Calculation Agent;
    - (B) if on any LIBOR Interest Determination Date for any reason such offered rate is unavailable the Calculation Agent will request each of the Reference Banks to provide its offered quotation to leading banks in the London interbank market for deposits in the relevant currency for a duration equal to the Interest Period concerned as at 11.00 a.m. (London time) on the LIBOR Interest Determination Date in question. The Rate of Interest for such Interest Period shall be the Margin (expressed as a percentage rate per annum) above (if a positive number) or below (if a negative number) such

quotation (if only one is provided) or the arithmetic mean (rounded, if necessary, up to the nearest four decimal places) of such quotations (if two are so provided), as determined by the Calculation Agent; and

- (C) if the Calculation Agent is unable to determine the Rate of Interest for an Interest Period in accordance with (A) or (B) above, the Rate of Interest for such Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which (A) or (B) above shall have applied; and
- (ii) in the case of a Global Note which specifies EURIBOR as the Reference Rate in the applicable Pricing Supplement, interest shall be payable on the Nominal Amount in respect of each successive Interest Period from (and including) the Issue Date to (but excluding) the Maturity Date (or, as the case may be, the Relevant Date) only, in arrear on the relevant Interest Payment Date, on the basis of the Day Count Convention or, if none is specified in the applicable Pricing Supplement, on the basis of the actual number of days in such Interest Period and a year of 360 days at a rate (the **Rate of Interest**) determined on the following basis:
- (A) on the second TARGET2 Business Day before the beginning of each Interest Period (each the **EURIBOR Interest Determination Date**) the Calculation Agent will determine the European Interbank Offered Rate for deposits in euro for the Interest Period concerned as at 11.00 a.m. (Brussels time) on the EURIBOR Interest Determination Date in question. Such offered rate will be that which appears on the display designated as Reuters page EURIBOR01 (or such other page or service as may replace it for the purpose of displaying Eurozone Interbank Offered Rates of prime banks in the Eurozone (as defined below) for deposits in euro for a duration equal to the Interest Period (or approximately equal, where no rate matches the Interest Period)). The Rate of Interest for such Interest Period shall be the Margin (expressed as a percentage rate per annum) above (if a positive number) or below (if a negative number) the rate which so appears, as determined by the Calculation Agent;
  - (B) if on any EURIBOR Interest Determination Date for any reason such offered rate is unavailable the Calculation Agent will request the principal Eurozone office of each of the Reference Banks to provide its offered quotation to prime banks in the Eurozone interbank market for deposits in euro for a duration equal to the Interest Period (or approximately equal, where no rate matches the Interest Period) concerned as at 11.00 a.m. (Brussels time) on the EURIBOR Interest Determination Date in question. The Rate of Interest for such Interest Period shall be the Margin (expressed as a percentage rate per annum) above (if a positive number) or below (if a negative number) such quotation (if only one is provided) or the arithmetic mean (rounded, if necessary, up to the nearest four decimal places) of such quotations (if two or more are so provided), as determined by the Calculation Agent; and
  - (C) if the Calculation Agent is unable to determine the Rate of Interest for an Interest Period in accordance with (A) or (B) above, the Rate of Interest for such Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which (A) or (B) above shall have applied;

for the purposes of this Global Note, **Eurozone** means the region comprised of the countries whose lawful currency is the euro;

- (b) the Calculation Agent will, as soon as practicable after 11.00 a.m. (London time) on each LIBOR Interest Determination Date or 11.00 a.m. (Brussels time) on each EURIBOR Interest Determination Date (as the case may be), determine the Rate of Interest and calculate the amount of interest payable (the **Amount of Interest**) for the relevant Interest Period. The Amount of Interest shall be calculated by applying the Rate of Interest to the Denomination, multiplying such product by the Day Count Convention or, if none is specified in the applicable Pricing Supplement, by the actual number of days in the Interest Period concerned divided by 360 or, if this Global Note is denominated in Sterling, by 365 and rounding the resulting figure to the nearest amount of the Specified Currency which is available as legal tender in the country or countries (in the case of the euro) of the Specified Currency (with halves being rounded upwards). The determination of the Rate of Interest and the Amount of Interest by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties;
- (c) a certificate of the Calculation Agent as to the Rate of Interest payable hereon for any Interest Period shall be conclusive and binding as between the Issuer and the bearer hereof;
- (d) the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an **Interest Period** for the purposes of this paragraph; and
- (e) the Issuer will procure that a notice specifying the Rate of Interest payable in respect of each Interest Period be published as soon as practicable after the determination of the Rate of Interest. Such notice will be delivered to Euroclear and/or Clearstream, Luxembourg or, if this Global Note has been exchanged for bearer definitive Notes pursuant to paragraph 9, will be published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*). In addition, for so long as the Notes are listed on the Irish Stock Exchange plc (the **Irish Stock Exchange**), all notices required to be published concerning the Notes shall be published on the website of the Irish Stock Exchange or, in lieu of such publication, the Issuer may deliver the relevant notice to the relevant clearing system(s) or publish the notice by any other means acceptable to the Irish Stock Exchange.

13. Instructions for payment of any amounts payable pursuant to paragraph 1 must be received at the offices of the Issuing and Paying Agent together with this Global Note as follows:

- (a) if this Global Note is denominated in Australian dollars, New Zealand dollars, Hong Kong dollars or Japanese Yen, at least two Business Days prior to the relevant payment date;
- (b) if this Global Note is denominated in United States dollars, Canadian dollars or Sterling, on or prior to the relevant payment date; and
- (c) in all other cases, at least one Business Day prior to the relevant payment date.

As used in this paragraph, **Business Day** means:

- (i) in the case of payments in any currency other than euro, a day other than a Saturday or Sunday on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London; and
- (ii) in the case of payments in euro, a TARGET2 Business Day and, in all other cases, a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre in the country of the Specified Currency.

14. This Global Note shall not be validly issued unless manually authenticated by The Bank of New York Mellon, London Branch as Issuing and Paying Agent. If the applicable Pricing Supplement specifies that NGN form is applicable, this Global Note shall not be valid for any purpose until it has been effectuated for and on behalf of the entity appointed as common safekeeper by the relevant ICSD(s).
15. This Global Note (other than paragraph 5) and any non-contractual obligations arising out of or in connection with this Global Note are governed by, and shall be construed in accordance with, English law. Paragraph 5 (and any non-contractual obligations arising out of or in connection with it) is governed by, and shall be construed in accordance with, Spanish law. The Notes are issued in accordance with the formalities prescribed by Spanish law.
16.
  - (a) *Jurisdiction*: the Issuer agrees for the benefit of the bearer that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with this Global Note (respectively, **Proceedings** and **Disputes**) and, for such purposes, irrevocably submits to the jurisdiction of such courts.
  - (b) *Appropriate forum*: The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.
  - (c) *Non-exclusivity*: The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the bearer to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.
  - (d) *Service of process*: The Issuer agrees that process may be served on it in England at its London branch being its registered office for the time being in England, and agrees that, in the event of its London branch ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.
17. Claims for payment of principal and interest (if applicable) in respect of this Global Note shall become void unless made, in the case of principal, within ten years after the Maturity Date (or, as the case may be, the Relevant Date) or, in the case of interest, within five years after the relevant Interest Payment Date.
18. No person shall have any right to enforce any provision of this Global Note under the Contracts (Rights of Third Parties) Act 1999 but this does not affect any right or remedy of any person which exists or is available apart from that Act.
19. If any provision in or obligation under this Global Note is or becomes invalid, illegal or unenforceable in any respect under the law of any jurisdiction, that will not affect or impair (i) the validity, legality or enforceability under the law of that jurisdiction of any other provision in or obligation under this Global Note, and (ii) the validity, legality or enforceability under the law of any other jurisdiction of that or any other provision in or obligation under this Global Note.



20. Notwithstanding any other term of this Global Note or any other agreements, arrangements, or understandings between the Issuer and the bearer, by its acquisition of this Global Note, the bearer acknowledges, accepts, consents to and agrees to be bound by:
- (a) the exercise and effect of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority, which may be imposed with or without any prior notice with respect to this Global Note, and which may include and result in any of the following, or some combination thereof:
    - (i) the reduction or cancellation of all, or a portion, of the Amounts Due;
    - (ii) the conversion of all, or a portion, of the Amounts Due into shares, other securities or other obligations of the Issuer, the Issuer and its consolidated subsidiaries, or another person (and the issue to or conferral on the bearer of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of this Global Note;
    - (iii) the cancellation of this Global Note; and
    - (iv) the amendment or alteration of the maturity of this Global Note or amendment of the amount of interest payable on this Global Note, or the date on which the interest becomes payable, including by suspending payment for a temporary period; and
  - (b) the variation of the terms of this Global Note, as deemed necessary by the Relevant Spanish Resolution Authority, to give effect to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority.

The exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority pursuant to any relevant laws, regulations, rules or requirements in effect in Spain is not dependent on the application of this paragraph 20.

In this Global Note:

**Amounts Due** means the nominal amount of or outstanding amount, together with any accrued but unpaid interest, due on this Global Note. References to such amount will include amounts that have become due and payable, but which have not been paid, prior to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority;

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

**regulated entity** means any entity eligible for resolution under the laws of Spain;

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

**Spanish Bail-in Power** means any write-down, conversion, transfer, modification, or suspension power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Spain, relating to the resolution of credit entities and/or transposition of the BRRD, including, but not limited to (i) Law 11/2015 (ii) RD 1012/2015 (iii) Regulation (EU) No. 806/2014 of the European Parliament and the Council of 15th July, 2014

establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the Single Resolution Mechanism and the Single Resolution Fund and amending Regulation (EU) No. 1093/2010, as amended or replaced from time to time, and (iv) any other instruments, rules or standards made or implemented in connection with either (i), (ii) or (iii), pursuant to which any obligation of a regulated entity (or other affiliate of such regulated entity) can be reduced, cancelled, modified, transferred or converted into shares, other securities, or other obligations of such regulated entity or any other person (or suspended for a temporary period).

**AUTHENTICATED** by  
**THE BANK OF NEW YORK MELLON,  
LONDON BRANCH**  
without recourse, warranty or liability and for  
authentication purposes only

By: .....  
(*Authorised Signatory*)

Signed on behalf of:  
**BANCO BILBAO VIZCAYA ARGENTARIA, S.A.**

By: .....  
(*Authorised Signatory*)

**EFFECTUATED\*** by or on behalf of  
**[COMMON SAFEKEEPER]**  
as common safekeeper

By: .....  
(*Authorised Signatory*)

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\* This should only be completed where the Pricing Supplement indicates that the New Global Note form is applicable.

**SCHEDULE**

**PAYMENTS OF INTEREST**

The following payments of interest in respect of this Global Note have been made:

Date Made	Payment From	Payment To	Amount Paid	Notation on behalf of Issuing and Paying Agent
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

## Part B - Form of Multi-Currency Definitive Note

THE SECURITIES REPRESENTED BY THIS NOTE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR ANY U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT) UNLESS AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE AND IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE SECURITIES OF THE TRANCHE OF WHICH THIS SECURITY FORMS PART.

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

1. For value received, Banco Bilbao Vizcaya Argentaria, S.A. (the **Issuer**) promises to pay to the bearer of this Note on the Maturity Date set out in the Pricing Supplement attached to or endorsed on this Note, which supplements these terms and conditions, or, on such earlier date as the same may become payable in accordance with paragraph 2 below (the **Relevant Date**), the Nominal Amount or, as the case may be, the Early Redemption Amount set out in the Pricing Supplement, together with interest thereon, if this is an interest bearing Note, at the rate and at the times (if any) specified herein and in the Pricing Supplement. Words and expressions used in the applicable Pricing Supplement shall have the same meanings where used in these terms and conditions unless the context otherwise requires or unless otherwise stated.

All such payments shall be made in accordance with an issue and paying agency agreement dated 16th December, 2016 as supplemented by a supplemental agency agreement dated 15th December, 2017 (such amended and restated agency agreement as further amended, restated, supplemented or replaced from time to time, the **Agency Agreement**) between, *inter alios*, the Issuer and The Bank of New York Mellon, London Branch (the **Issuing and Paying Agent**) a copy of which is available for inspection at the offices of the Issuing and Paying Agent at One Canada Square, Canary Wharf, London E14 5AL, and subject to and in accordance with the terms and conditions set forth below. All such payments shall be made upon presentation and surrender of this Note at the offices of the Issuing and Paying Agent by transfer to an account denominated in the Specified Currency maintained by the bearer with a bank in the principal financial centre in the country of that currency or, if this is a Note denominated in euro, by transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with a bank in the principal financial centre of any member state of the European Union. All payments in respect of this Note by or on behalf of the Issuer shall be made without set-off, counterclaim, fees, liabilities or similar deductions and free and clear of, and without deduction or withholding for or on account of, taxes, levies, duties, assessments or charges of any nature (**Taxes**) 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 or taxing authority thereof having the power to tax, the Issuer shall, to the extent permitted by applicable law or regulation, pay such additional amounts as shall be necessary in order that the net amounts received by the bearer of this Note after such deduction or withholding shall equal the amount which would have been receivable hereunder in the absence of such deduction or withholding, except that no such additional amounts shall be payable:

- (a) to, or to a third party on behalf of, the bearer of this Note where such deduction or withholding is required by reason of the bearer having some connection with the jurisdiction imposing the Taxes other than the mere holding of this Note; or

- (b) in respect of any deduction or withholding which would not have been required but for the presentation by the bearer of this Note for payment on a date more than 30 days after the Maturity Date (or, as the case may be, the Relevant Date) except to the extent that the bearer would have been entitled to such additional amounts on presenting the same for payment on such thirtieth day; or
- (c) presented for payment by or on behalf of a holder who would not be liable or subject to the withholding or deduction by making a declaration concerning the nationality, residence or identity of the holder (or providing information, documentation or other evidence of the same) or other similar claim for exemption to the relevant tax authority or to (or on behalf of) the Issuer, where such declaration or claim is required or imposed by the Spanish Tax Authorities; or
- (d) in case of Notes where such withholding tax is imposed on payments made to individuals with tax residence in the Kingdom of Spain or any political subdivision or taxing authority thereof or therein following the criteria held by the Spanish Tax Authorities in relation to Article 44.5 of Royal Decree 1065/2007 of 27th July, as amended by Royal Decree 1145/2011 of 29th July.

2. The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this is not a floating rate interest bearing Note) or on any Interest Payment Date (provided this is a floating rate interest bearing Note), on giving not less than 14 days' notice to the Issuing and Paying Agent and the Noteholders (which notice shall be irrevocable), if:

- (a) the Issuer has or will become obliged to pay additional amounts as provided or referred to in paragraph 1 as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Spain or any change in the application or binding official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; and
- (b) such obligation to pay additional amounts cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 14 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Issuing and Paying Agent to make available at its specified office to the Noteholders:

- (a) a certificate signed by a duly authorised signatory of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and
- (b) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this paragraph will be redeemed at their Early Redemption Amount specified in the Pricing Supplement together (if appropriate) with interest accrued to (but excluding) the date of redemption.

3. The Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, representing, in the case of each Note, a separate and independent obligation of the Issuer, and, upon the insolvency (*concurso de acreedores*) of the Issuer, in accordance with and to the extent permitted

by the Insolvency Law and other applicable laws relating to or affecting the enforcement of creditors' rights in the Kingdom of Spain (including, without limitation, Additional Provision 14.2 of Law 11/2015), the payment obligations of the Issuer under the Notes with respect to claims for principal (which claims will constitute ordinary claims) will rank:

- (a) junior to any (i) privileged claims (*créditos privilegiados*) (which shall include, among other claims, any claims in respect of deposits for the purposes of Additional Provision 14.1 of Law 11/2015) and (ii) claims against the insolvency estate (*créditos contra la masa*);
- (b) *pari passu* without any preference or priority among themselves and with all other Senior Preferred Obligations; and
- (c) senior to (i) any Senior Non-Preferred Obligations and (ii) all subordinated obligations of, or subordinated claims against, the Issuer (*créditos subordinados*), present and future,

such that any claim for principal in respect of the Notes will be satisfied, as appropriate, only to the extent that all claims ranking senior to it have first been satisfied in full and then pro rata with any claims ranking *pari passu* with it, in each case as provided above.

For the purposes of this paragraph:

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

**Law 11/2015** means Law 11/2015 of 18th June on the recovery and resolution of credit institutions and investment firms (*Ley 11/2015, de 18 de junio, de recuperación y resolución de entidades de crédito y empresas de servicios de inversión*), as amended, replaced or supplemented from time to time;

**ordinary claims** means the class of claims with respect to unsecured, non-privileged and unsubordinated obligations (*créditos ordinarios*) of the Issuer which, upon the insolvency (*concurso de acreedores*) of the Issuer and pursuant to Articles 89.3, 157 and 158 of the Insolvency Law and other applicable laws relating to or affecting the enforcement of creditors' rights in the Kingdom of Spain, rank (i) junior to privileged claims (*créditos privilegiados*) (which shall include, among other claims, any claims in respect of deposits for the purposes of Additional Provision 14.1 of Law 11/2015 and any secured claims), and claims against the insolvency estate (*créditos contra la masa*) and (ii) senior to subordinated claims (*créditos subordinados*);

**Senior Non-Preferred Obligations** means the obligations of the Issuer with respect to all ordinary claims, present and future, which, upon the insolvency (*concurso de acreedores*) of the Issuer are expressed to rank within the ordinary claims but junior to Senior Preferred Obligations; and

**Senior Preferred Obligations** means the obligations of the Issuer with respect to (a) the payment of principal under the Notes and (b) all other ordinary claims, present and future, other than Senior Non-Preferred Obligations.

Pursuant to article 59 of the Insolvency Law, the further accrual of interest shall be suspended from the date of declaration of the insolvency of the Issuer. Claims in respect of interest on the Notes expressly or implicitly accrued but unpaid as of the commencement of any insolvency procedure in respect of the Issuer shall constitute subordinated claims against the Issuer ranking in accordance with the provisions of article 92 of the Insolvency Law (including, without limitation, junior to claims on account of principal in respect of contractually subordinated obligations of the Issuer, unless otherwise provided by the Insolvency Law and other applicable laws relating to or affecting the enforcement of creditors' rights in the Kingdom of Spain).

4. If the Maturity Date (or, as the case may be, the Relevant Date) or, if applicable, any relevant Interest Payment Date is not a Payment Business Day (as defined below), payment in respect hereof will not be made and credit or transfer instructions shall not be given until the next following Payment Business Day (unless that date falls more than 364 days after the Issue Date, in which case payment shall be made on the immediately preceding Payment Business Day) and the bearer of this Note shall not be entitled to any interest or other sums in respect of such postponed payment.

As used in this Note:

**Payment Business Day** means any day other than a Saturday or Sunday which is both (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the relevant place of presentation, and (B) either (i) if the Specified Currency is any currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars, shall be Sydney) or (ii) if the Specified Currency is euro, a day which is a TARGET2 Business Day; and

**TARGET2 Business Day** means a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (known as TARGET2) System, which utilises a single shared platform and which was launched on 19 November 2007, or any successor thereto, is operating credit or transfer instructions in respect of payments in euro.

5. This Note is negotiable and, accordingly, title hereto shall pass by delivery and the bearer shall be treated as being absolutely entitled to receive payment upon due presentation hereof (notwithstanding any notation of ownership or other writing thereon or notice of any previous loss or theft thereof).
6. [If this is an interest bearing Note, then:
- (a) notwithstanding the provisions of paragraph 1 above, if any payment of interest in respect of this Note falling due for payment prior to the Maturity Date (or, as the case may be, the Relevant Date) remains unpaid on the fifteenth day after falling so due, the amount referred to in paragraph 1 shall be payable on such fifteenth day;
  - (b) upon each payment of interest (if any) prior to the Maturity Date (or, as the case may be, the Relevant Date) in respect of this Note, the Schedule hereto shall be duly completed by the Issuing and Paying Agent to reflect such payment; and
  - (c) unless otherwise specified in the applicable Pricing Supplement, the final Interest Payment Date shall be the Maturity Date (or, as the case may be, the Relevant Date).
7. If this is a fixed rate interest bearing Note, interest shall be calculated on the Nominal Amount as follows:
- (a) interest shall be payable on the Nominal Amount in respect of each successive Interest Period (as defined below) from (and including) the Issue Date to (but excluding) the Maturity Date (or, as the case may be, the Relevant Date) only, in arrear on the relevant Interest Payment Date, on the basis of the Day Count Convention or, if none is specified in the applicable Pricing Supplement, on the basis of the actual number of days in such Interest Period and a year of 360 days at the Fixed Interest Rate with the resulting figure being rounded to the nearest amount of the Specified Currency which is available as legal tender in the country or countries (in the case of the euro) of the Specified Currency (with halves being rounded upwards); and

- (b) the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is an **Interest Period** for the purposes of this paragraph.

As used in this Note, any **Day Count Convention** shall have the meaning given to it in the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc., as amended, updated or replaced as at the date of this Note.

8. If this is a floating rate interest bearing Note,

(a) interest shall be calculated on the Nominal Amount as follows:

(i) in the case of a Note which specifies LIBOR as the Reference Rate in the applicable Pricing Supplement, interest shall be payable on the Nominal Amount in respect of each successive Interest Period (as defined below) from (and including) the Issue Date to (but excluding) the Maturity Date (or, as the case may be, the Relevant Date) only, in arrear on the relevant Interest Payment Date, on the basis of the Day Count Convention or, if none is specified in the applicable Pricing Supplement, on the basis of the actual number of days in such Interest Period, and a year of 360 days at a rate (the **Rate of Interest**) determined on the following basis:

(A) on the second business day (which shall be a day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London) before each Interest Period or, if this Note is denominated in euro, on the second TARGET2 Business Day before the beginning of each Interest Period (each the **LIBOR Interest Determination Date**) the Calculation Agent will determine the offered rate for deposits in the Specified Currency in the London interbank market for the Interest Period concerned as at 11.00 a.m. (London time) on the LIBOR Interest Determination Date in question. Such offered rate will be that which appears on the display designated as Reuters page LIBOR01 or Reuters page LIBOR02 (or such other page or service as may replace it for the purpose of displaying London interbank offered rates of major banks for deposits in the Specified Currency for a duration equal to the Interest Period (or approximately equal, where no rate matches the Interest Period)). The Rate of Interest for such Interest Period shall be the Margin (expressed as a percentage rate per annum) above (if a positive number) or below (if a negative number) the rate which so appears, as determined by the Calculation Agent;

(B) if on any LIBOR Interest Determination Date for any reason such offered rate is unavailable the Calculation Agent will request each of the Reference Banks to provide its offered quotation to leading banks in the London interbank market for deposits in the relevant currency for a duration equal to the Interest Period concerned as at 11.00 a.m. (London time) on the LIBOR Interest Determination Date in question. The Rate of Interest for such Interest Period shall be the Margin (expressed as a percentage rate per annum) above (if a positive number) or below (if a negative number) such quotation (if only one is provided) or the arithmetic mean (rounded, if necessary, up to the nearest four decimal places) of such quotations (if two are so provided), as determined by the Calculation Agent; and

(C) if the Calculation Agent is unable to determine the Rate of Interest for an Interest Period in accordance with (A) or (B) above, the Rate of Interest for



such Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which (A) or (B) above shall have applied; and

- (ii) in the case of a Note which specifies EURIBOR as the Reference Rate in the applicable Pricing Supplement, interest shall be payable on the Nominal Amount in respect of each successive Interest Period from (and including) the Issue Date to (but excluding) the Maturity Date (or, as the case may be, the Relevant Date) only, in arrear on the relevant Interest Payment Date, on the basis of the Day Count Convention or, if none is specified in the applicable Pricing Supplement, on the basis of the actual number of days in such Interest Period and a year of 360 days at a rate (the **Rate of Interest**) determined on the following basis:
  - (A) on the second TARGET2 Business Day before the beginning of each Interest Period (each the **EURIBOR Interest Determination Date**) the Calculation Agent will determine the European Interbank Offered Rate for deposits in euro for the Interest Period concerned as at 11.00 a.m. (Brussels time) on the EURIBOR Interest Determination Date in question. Such offered rate will be that which appears on the display designated as Reuters page EURIBOR01 (or such other page or service as may replace it for the purpose of displaying Eurozone Interbank Offered Rates of prime banks in the Eurozone (as defined below) for deposits in euro for a duration equal to the Interest Period (or approximately equal, where no rate matches the Interest Period)). The Rate of Interest for such Interest Period shall be the Margin (expressed as a percentage rate per annum) above (if a positive number) or below (if a negative number) the rate which so appears, as determined by the Calculation Agent;
  - (B) if on any EURIBOR Interest Determination Date for any reason such offered rate is unavailable the Calculation Agent will request the principal Eurozone office of each of the Reference Banks to provide its offered quotation to prime banks in the Eurozone interbank market for deposits in euro for a duration equal to the Interest Period (or approximately equal, where no rate matches the Interest Period) concerned as at 11.00 a.m. (Brussels time) on the EURIBOR Interest Determination Date in question. The Rate of Interest for such Interest Period shall be the Margin (expressed as a percentage rate per annum) above (if a positive number) or below (if a negative number) such quotation (if only one is provided) or the arithmetic mean (rounded, if necessary, up to the nearest four decimal places) of such quotations (if two or more are so provided), as determined by the Calculation Agent; and
  - (C) if the Calculation Agent is unable to determine the Rate of Interest for an Interest Period in accordance with (A) or (B) above, the Rate of Interest for such Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which (A) or (B) above shall have applied;

for the purposes of this Note, **Eurozone** means the region comprised of the countries whose lawful currency is the euro;

- (b) the Calculation Agent will, as soon as practicable after 11.00 a.m. (London time) on each LIBOR Interest Determination Date or 11.00 a.m. (Brussels time) on each EURIBOR Interest Determination Date (as the case may be), determine the Rate of Interest and calculate the amount of interest payable (the **Amount of Interest**) for the relevant Interest Period. The Amount of Interest shall be calculated by applying the Rate of Interest to the Denomination, multiplying such product by the Day Count Convention or, if none is

specified in the applicable Pricing Supplement, by the actual number of days in the Interest Period concerned divided by 360 and rounding the resulting figure to the nearest amount of the Specified Currency which is available as legal tender in the country or countries (in the case of the euro) of the Specified Currency (with halves being rounded upwards). The determination of the Rate of Interest and the Amount of Interest by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties;

- (c) a certificate of the Calculation Agent as to the Rate of Interest payable hereon for any Interest Period shall be conclusive and binding as between the Issuer and the bearer hereof;
- (d) the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an **Interest Period** for the purposes of this paragraph; and
- (e) the Issuer will procure that a notice specifying the Rate of Interest payable in respect of each Interest Period be published as soon as practicable after the determination of the Rate of Interest. Such notice will be delivered to the bearer of this Note or, if that is not practicable, will be published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*). In addition, for so long as the Notes are listed on the Irish Stock Exchange plc (the **Irish Stock Exchange**), all notices required to be published concerning the Notes shall be published on the website of the Irish Stock Exchange or, in lieu of such publication, the Issuer may publish the notice by any other means acceptable to the Irish Stock Exchange.]\*

9. Instructions for payment of any amounts payable pursuant to paragraph 1 must be received at the offices of the Issuing and Paying Agent together with this Note as follows:

- (a) if this Note is denominated in Australian dollars, New Zealand dollars, Hong Kong dollars or Japanese Yen, at least two Business Days prior to the relevant payment date;
- (b) if this Note is denominated in United States dollars, Canadian dollars or Sterling, on or prior to the relevant payment date; and
- (c) in all other cases, at least one Business Day prior to the relevant payment date.

As used in this paragraph, **Business Day** means:

- (i) in the case of payments in any currency other than euro, a day other than a Saturday or Sunday on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London; and
- (ii) in the case of payments in euro, a TARGET2 Business Day and, in all other cases, a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre in the country of the Specified Currency.

10. This Note shall not be validly issued unless manually authenticated by The Bank of New York Mellon, London Branch as Issuing and Paying Agent.

11. This Note (other than paragraph 3) and any non-contractual obligations arising out of or in connection with this Note are governed by, and shall be construed in accordance with, English law.

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\* If this Note is denominated in Sterling, delete paragraphs 6 through 8 inclusive and replace with interest provisions to be included on the reverse of the Note as indicated below.

Paragraph 3 (and any non-contractual obligations arising out of or in connection with it) is governed by, and shall be construed in accordance with, Spanish law. The Notes are issued in accordance with the formalities prescribed by Spanish law.

12.
  - (a) *Jurisdiction*: the Issuer agrees for the benefit of the bearer that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with this Note (respectively, **Proceedings** and **Disputes**) and, for such purposes, irrevocably submits to the jurisdiction of such courts.
  - (b) *Appropriate forum*: The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.
  - (c) *Non-exclusivity*: The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the bearer to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.
  - (d) *Service of process*: The Issuer agrees that process may be served on it in England at its London branch being its registered office for the time being in England, and agrees that, in the event of its London branch ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.
13. Claims for payment of principal and interest (if applicable) in respect of this Note shall become void unless made, in the case of principal, within ten years after the Maturity Date (or, as the case may be, the Relevant Date) or, in the case of interest, within five years after the relevant Interest Payment Date.
14. No person shall have any right to enforce any provision of this Note under the Contracts (Rights of Third Parties) Act 1999 but this does not affect any right or remedy of any person which exists or is available apart from that Act.
15. If any provision in or obligation under this Note is or becomes invalid, illegal or unenforceable in any respect under the law of any jurisdiction, that will not affect or impair (i) the validity, legality or enforceability under the law of that jurisdiction of any other provision in or obligation under this Note, and (ii) the validity, legality or enforceability under the law of any other jurisdiction of that or any other provision in or obligation under this Note.
16. Notwithstanding any other term of this Note or any other agreements, arrangements, or understandings between the Issuer and the bearer, by its acquisition of this Note, the bearer acknowledges, accepts, consents to and agrees to be bound by:
  - (a) the exercise and effect of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority, which may be imposed with or without any prior notice with respect to this Note, and which may include and result in any of the following, or some combination thereof:
    - (i) the reduction or cancellation of all, or a portion, of the Amounts Due;
    - (ii) the conversion of all, or a portion, of the Amounts Due into shares, other securities or other obligations of the Issuer, the Issuer and its consolidated subsidiaries, or

another person (and the issue to or conferral on the bearer of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of this Note;

- (iii) the cancellation of this Note; and
  - (iv) the amendment or alteration of the maturity of this Note or amendment of the amount of interest payable on this Note, or the date on which the interest becomes payable, including by suspending payment for a temporary period; and
- (b) the variation of the terms of this Note, as deemed necessary by the Relevant Spanish Resolution Authority, to give effect to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority.

The exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority pursuant to any relevant laws, regulations, rules or requirements in effect in Spain is not dependent on the application of this paragraph 16.

In this Note:

**Amounts Due** means the nominal amount of or outstanding amount, together with any accrued but unpaid interest, due on this Note. References to such amount will include amounts that have become due and payable, but which have not been paid, prior to the exercise of the Spanish Bail-in Power by the Relevant Spanish Resolution Authority;

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

**regulated entity** means any entity eligible for resolution under the laws of Spain;

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

**Spanish Bail-in Power** means any write-down, conversion, transfer, modification, or suspension power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Spain, relating to the resolution of credit entities and/or transposition of the BRRD, including, but not limited to (i) Law 11/2015 (ii) RD 1012/2015 (iii) Regulation (EU) No. 806/2014 of the European Parliament and the Council of 15th July, 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the Single Resolution Mechanism and the Single Resolution Fund and amending Regulation (EU) No. 1093/2010, as amended or replaced from time to time, and (iv) any other instruments, rules or standards made or implemented in connection with either (i), (ii) or (iii), pursuant to which any obligation of a regulated entity (or other affiliate of such regulated entity) can be reduced, cancelled, modified, transferred or converted into shares, other securities, or other obligations of such regulated entity or any other person (or suspended for a temporary period).

**AUTHENTICATED** by  
**THE BANK OF NEW YORK MELLON,  
LONDON BRANCH**  
without recourse, warranty or liability and for  
authentication purposes only

By: .....  
(*Authorised Signatory*)

[By: .....  
(*Authorised Signatory*)]<sup>†</sup>

Signed on behalf of:  
**BANCO BILBAO VIZCAYA ARGENTARIA,  
S.A.**

By: .....  
(*Authorised Signatory*)

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<sup>†</sup> Include second authentication block if the currency of this Note is Sterling.

[On the Reverse]

[(A) If this is an interest bearing Note, then:

- (a) notwithstanding the provisions of paragraph 1 above, if any payment of interest in respect of this Note falling due for payment prior to the Maturity Date (or, as the case may be, the Relevant Date) remains unpaid on the fifteenth day after falling so due, the amount referred to in paragraph 1 shall be payable on such fifteenth day;
- (b) upon each payment of interest (if any) prior to the Maturity Date (or, as the case may be, the Relevant Date) in respect of this Note, the Schedule hereto shall be duly completed by the Issuing and Paying Agent to reflect such payment; and
- (c) unless otherwise specified in the Pricing Supplement, the final Interest Payment Date shall be the Maturity Date (or, as the case may be, the Relevant Date).

(B) If this is a fixed rate interest bearing Note, interest shall be calculated on the Nominal Amount specified in the Pricing Supplement as follows:

- (a) interest shall be payable on the Nominal Amount in respect of each successive Interest Period (as defined below) from (and including) the Issue Date to (but excluding) the Maturity Date (or, as the case may be, the Relevant Date) only, in arrear on the relevant Interest Payment Date, on the basis of the actual number of days in such Interest Period and a year of 365 days at the Interest Rate with the resulting figure being rounded to the nearest penny (with halves being rounded upwards); and
- (b) the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is an **Interest Period** for the purposes of this paragraph (B).

(C) If this is a floating rate interest bearing Note, interest shall be calculated on the Nominal Amount as follows:

- (i) interest shall be payable on the Nominal Amount in respect of each successive Interest Period (as defined below) from (and including) the Issue Date to (but excluding) the Maturity Date (or, as the case may be, the Relevant Date) only, in arrear on the relevant Interest Payment Date, on the basis of the Day Count Convention or, if none is specified in the applicable Pricing Supplement, on the basis of the actual number of days in such Interest Period and a year of 365 days at a rate (the **Rate of Interest**) determined on the following basis:

- (A) on the second business day (which shall be a day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London) before each Interest Period (the **LIBOR Interest Determination Date**) the Calculation Agent will determine the offered rate for deposits in the Specified Currency in the London interbank market for the Interest Period concerned as at 11.00 a.m. (London time) on the LIBOR Interest Determination Date in question. Such offered rate will be that which appears on the display designated as Reuters page LIBOR01 or Reuters page LIBOR02 (or such other page or service as may replace it for the purpose of displaying London interbank offered rates of major banks for deposits in the Specified Currency for a duration equal to the Interest Period (or approximately equal, where no rate matches the Interest Period)). The Rate of Interest for such Interest Period shall

be the Margin (expressed as a percentage rate per annum) above (if a positive number) or below (if a negative number) the rate which so appears, as determined by the Calculation Agent;

- (B) if on any LIBOR Interest Determination Date for any reason such offered rate is unavailable the Calculation Agent will request each of the Reference Banks to provide its offered quotation to leading banks in the London interbank market for deposits in the relevant currency for a duration equal to the Interest Period concerned as at 11.00 a.m. (London time) on the LIBOR Interest Determination Date in question. The Rate of Interest for such Interest Period shall be the Margin (expressed as a percentage rate per annum) above (if a positive number) or below (if a negative number) such quotation (if only one is provided) or the arithmetic mean (rounded, if necessary, up to the nearest four decimal places) of such quotations (if two are so provided), as determined by the Calculation Agent; and
  - (C) if the Calculation Agent is unable to determine the Rate of Interest for an Interest Period in accordance with (A) or (B) above, the Rate of Interest for such Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which (A) or (B) above shall have applied;
- (ii) the Calculation Agent will, as soon as practicable after 11.00 a.m. (London time) on the LIBOR Interest Determination Date, determine the Rate of Interest and calculate the amount of interest payable (the **Amount of Interest**) for the relevant Interest Period. The Amount of Interest shall be calculated by applying the Rate of Interest to the Nominal Amount of one Note of each denomination, multiplying such product by the actual number of days in the Interest Period concerned divided by 365 and rounding the resulting figure to the nearest penny. The determination of the Rate of Interest and the Amount of Interest by the Calculation Agent named above shall (in the absence of manifest error) be final and binding upon all parties;
  - (iii) a certificate of the Calculation Agent as to the Rate of Interest payable hereon for any Interest Period shall be conclusive and binding as between the Issuer and the bearer hereof;
  - (iv) the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an **Interest Period** for the purposes of this paragraph (C); and
  - (v) the Issuer will procure that a notice specifying the Rate of Interest payable in respect of each Interest Period be published as soon as practicable after the determination of the Rate of Interest. Such notice will be delivered to the bearer of this Note or, if that is not practicable, will be published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*). In addition, for so long as the Notes are listed on the Irish Stock Exchange plc (the **Irish Stock Exchange**), all notices required to be published concerning the Notes shall be published on the website of the Irish Stock Exchange or, in lieu of such publication, the Issuer may publish the notice by any other means acceptable to the Irish Stock Exchange.]

**SCHEDULE**

**PAYMENTS OF INTEREST**

The following payments of interest in respect of this Note have been made:

Date Made	Payment From	Payment To	Amount Paid	Notation on behalf of Issuing and Paying Agent
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....



## TAXATION

### SPANISH TAXATION

*The following summary refers solely to certain Spanish tax consequences of the acquisition, ownership and disposition of the Notes. It does not purport to be a complete analysis of all tax consequences relating to the Notes 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 Notes and receiving any payments under the Notes. This summary is based upon the law as in effect on the date of this Information Memorandum and is subject to any change in law that may take effect after such date. References in this section to Noteholders include the beneficial owners of the Notes.*

#### **Acquisition of the Notes**

The issue of, subscription for, transfer and acquisition of the Notes 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 Notes**

The tax treatment of the acquisition, holding and subsequent transfer of the Notes is summarised below and is based on the tax regime applicable to the Notes pursuant to Royal Legislative Decree 5/2004 of 5th March approving the consolidated text of the Non-Resident Income Tax Law (*Impuesto sobre la Renta de los no Residentes*), as amended (the **Non-Resident Income Tax Law**), Law 27/2014 of 27th November on Corporate Income Tax (*Impuesto sobre Sociedades*) (the **Corporate Income Tax Law**), Law 35/2006 of 28th November on Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*) (the **Individuals Income Tax Law**), as amended, Law 19/1991 of 6th June approving the Wealth Tax Law (*Impuesto sobre el Patrimonio*) and Law 29/1987 of 18th December approving the Inheritance and Gift Tax Law (*Impuesto sobre Sucesiones y Donaciones*). The summary below also considers the rules for the implementation of such regulations (Royal Decree 1776/2004 of 30th July approving the Non-Resident Income Tax Regulations as amended, Royal Decree 439/2007 of 30th March, approving the Individuals Income Tax Regulations as amended and Royal Decree 634/2015 of 10th July approving the Corporate Income Tax Regulations).

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 10/2014 and RD 1065/2007 approving the General Regulations relating to tax inspection and management procedures and developing the common rules of the procedures to apply taxes.

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

Income obtained by Noteholders who are not tax resident in Spain acting for these purposes without a permanent establishment within Spain is exempt from Non-Resident Income Tax subject to the reporting obligations as set out in RD 1065/2007 (see “-Tax Reporting Obligations of the Issuer”).

#### ***Income obtained through a permanent establishment in Spain in respect of the Notes/Corporate Income Tax taxpayers.***

The holding of Notes by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

Income obtained by non-Spanish resident holders acting through a permanent establishment in Spain in respect of the Notes will be taxed under the rules provided by Chapter III of the Non-Resident Income Tax

Law. These Noteholders will be subject to taxation substantially in the same manner as Spanish Corporate Income Tax taxpayers and, therefore, it shall be computed as taxable income in accordance with the general rules set out in the Corporate Income Tax Law and will therefore be taxed generally at the current rate of 25 per cent.

According to RD 1065/2007, the Issuer is not obliged to withhold any tax amount on income derived from payment of interest, redemption or repayment of the Notes provided that the information procedures (which do not require identification of the Noteholders) are complied with by the Issuing and Paying Agent as it is described in section “*Taxation - Tax Reporting Obligations of the Issuer*”.

Income derived from the transfer of the Notes shall not be subject to withholding tax as provided by Section 61(s) of the Corporate Income Tax Regulations, to the extent that the Notes satisfy the requirements laid down by the reply to the Directorate General for Taxation's (*Dirección General de Tributos*) consultation, on 27th July, 2004, indicating that in the case of issuances made by entities with tax residency in Spain (as in the case of the Issuer), application of the exemption requires that the Notes be placed outside Spain in another OECD country and traded on organised markets in OECD countries. Notes issued under the Programme are expected to satisfy these requirements.

### ***Individuals with tax residency in Spain***

Income obtained by Noteholders who are Personal Income Tax taxpayers, both as interest and in connection with the transfer, redemption or repayment of the Notes, shall be considered income on investments obtained from the assignment of an individual's capital to third parties, as defined in Section 25.2 of Individuals Income Tax Law, and therefore will be taxed as savings income at the applicable rate (currently varying from 19 per cent. to 23 per cent.).

The above mentioned income will be subject to the corresponding personal income tax withholding at the applicable tax rate of 19 per cent. Article 44 of the RD 1065/2007 has established new information procedures for debt instruments issued under the Law 10/2014 (which do not require identification of the Noteholders) and has provided that the interest will be paid by the Issuer to the Issuing and Paying Agent for the whole amount, provided that such information procedures are complied with.

Nevertheless, withholding tax at the applicable rate of 19 per cent. may have to be deducted by other entities (such as depositaries or financial entities), provided that such entities are resident for tax purposes in Spain or have a permanent establishment in Spanish territory.

According to RD 1065/2007, the Issuer is not obliged to withhold any tax amount provided that the information procedures (which do not require identification of the Noteholders) are complied with by the Issuing and Paying Agent as it is described in section “*Tax Reporting Obligations of the Issuer*”.

However, regarding the interpretation of the “*Tax Reporting Obligations of the Issuer*” please refer to “*Risk Factors – Spanish Tax Rules*”.

### **Wealth Tax**

According to Royal Decree-law 13/2011 dated 16th September, 2011, as amended by the Royal Decree Law 3/2016, dated 2nd December, 2016, individuals with tax residency in Spain are subject to Wealth Tax in the tax year 2017 to the extent that their net worth exceeds €700,000. Therefore, they should take into account the value of the Notes which they hold as at 31st December, 2017.

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

As a consequence of the European Court of Justice judgment (Case C-127/12), the Net Wealth Tax Law has been amended by Law 26/2014, of 27th November. As a result, Non-Spanish tax resident individuals who are residents in the EU or in the European Economic Area (**EEA**) can apply the legislation of the region in which the highest value of the assets and rights of the individuals are located.

In accordance with article 4 of Royal Decree-Law 3/2016, a full exemption from Net Wealth Tax will apply in 2018 unless such exemption is revoked. Legal entities are not subject to Wealth Tax.

### **Inheritance and Gift Tax**

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

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

However, a judgment from the European Court of Justice dated 3rd September, 2014 (Case C-127/12) declared that the Spanish Inheritance Tax Act is against the principle of free movement of capital within the EU as Spanish residents are granted tax benefits that, in practice, allow them to pay much lower taxes than non-residents. According to Law 26/2014, of 27th November, it will be possible to apply tax benefits approved in some Spanish regions to residents either in the EU or in the EEA by following certain specific rules.

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.

### ***Tax Reporting Obligations of the Issuer***

Article 44 of RD 1065/2007 sets out the reporting obligations applicable to preference shares and debt instruments issued under Law 10/2014. The procedures apply to interest deriving from preference shares and debt instruments to which Law 10/2014 refers, including debt instruments issued for a period of 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 Euroclear or Clearstream, Luxembourg), will be paid free of Spanish withholding tax provided that the Issuing and Paying Agent appointed by the Issuer submits a statement to the Issuer, the form of which is included in the Issue and Paying Agency Agreement, with the following information:

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

In accordance with Article 44 of RD 1065/2007, the Issuing and Paying Agent should provide the Issuer with the statement on the business day immediately prior to each interest payment date. The statement must reflect the situation at the close of business of that same day. In the event that on the date, the entities obliged to provide the declaration fail to do so, the Issuer or the Issuing and Paying Agent on its behalf will make a

withholding at the general rate of 19 per cent. on the total amount of the return on the relevant Notes otherwise payable to such entity.

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

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 Issuer will notify the Noteholders of such information procedures and their implications, as the Issuer may be required to apply withholding tax on interest payments in respect of the Notes if the Noteholders do not comply with such information procedures.

Regarding the interpretation of Article 44 RD 1065/2007 and the simplified information procedures please refer to "*Risk Factors – Spanish Tax Rules*".

### **THE PROPOSED FINANCIAL TRANSACTIONS TAX (FTT)**

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

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

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

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

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

## SUBSCRIPTION AND SALE

The arrangements by which the Dealers or any of them may from time to time agree with the Issuer to purchase or to procure subscribers for Notes issued by the Issuer are set out in an amended and restated dealer agreement dated 16th December, 2016 as supplemented by a supplemental dealer agreement dated 15th December, 2017 (such amended and restated dealer agreement as further amended, supplemented or restated from time to time, the **Dealer Agreement**) and made between, *inter alios*, the Issuer and the Dealers.

### 1. GENERAL

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will observe all applicable laws and regulations in any jurisdiction in which it may offer, sell, or deliver Notes and it will not directly or indirectly offer, sell, resell, re-offer or deliver Notes or distribute the Information Memorandum or any Pricing Supplement, circular, advertisement or other offering material in any country or jurisdiction except under circumstances that will result, to the best of its knowledge and belief, in compliance with all applicable laws and regulations.

### 2. UNITED STATES OF AMERICA

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has offered and sold, and will offer and sell, Notes only outside the United States to non-US persons in accordance with Rule 903 of Regulation S. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that neither it, its affiliates nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the Notes, and that it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Dealer has also agreed, and each further Dealer appointed under the Programme will be required to agree, that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling commission, fee or other remuneration that purchases Notes from it a confirmation or notice to substantially the following effect:

“The securities covered hereby have not been registered under the United States Securities Act of 1933, as amended (the **Securities Act**) and may not be offered or sold within the United States or to, or for the account or benefit of, US persons. Terms used above have the meanings given to them by Regulation S under the Securities Act.”

Terms used in this paragraph have the meanings given to them by Regulation S.

### 3. THE UNITED KINGDOM

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, 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 Notes in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer; 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 Notes in, from or otherwise involving the United Kingdom.

#### **4. JAPAN**

Each Dealer has acknowledged, and each other Dealer appointed under the Programme will be required to acknowledge, that the Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **FIEA**) and, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

#### **5. SPAIN**

Each Dealer has acknowledged and each other Dealer appointed under the Programme will be required to acknowledge that the Notes must not be offered, distributed or sold in Spain in the primary market. However, the Notes may be sold to Spanish resident investors in circumstances that satisfy the requirements set forth in the ruling of the Directorate General for Taxation (*Dirección General de Tributos*) of 27th July, 2004.

No publicity of any kind shall be made in Spain.

## GENERAL INFORMATION

### Authorisation

The update of the Programme and the issue of Notes have been duly authorised by a resolution of the shareholder's general meeting of the Issuer dated 13th March, 2015 and by a resolution of the Board of Directors of the Issuer dated 25th November, 2015.

### Listing of Notes on the Irish Stock Exchange

Applications may, in respect of particular tranches or series of Notes, be made to the Irish Stock Exchange for such Notes to be admitted to the Official List and to trading on the Irish Stock Exchange's regulated market. The Irish Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). No Notes may be issued pursuant to the Programme on an unlisted basis.

### Use of Proceeds

The net proceeds from each issue of Notes will be used for the Group's general corporate purposes.

### Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42, Avenue J.F. Kennedy, L-1855, Luxembourg.

### Significant Change

There has been no significant change in the financial or trading position of the Group since 30th September, 2017.

### Litigation

Except as disclosed in the section entitled "*Description of Banco Bilbao Vizcaya Argentaria, S.A - Legal Proceedings*" on pages 59 to 60, there are no, and have not been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

### Independent Auditors

The current auditors of the Issuer are KPMG Auditores, S.L. (**KPMG**, registered as auditors on the *Registro Oficial de Auditores de Cuentas*).

Deloitte, S.L. (registered as auditors on the *Registro Oficial de Auditores de Cuentas*) audited the Issuer's consolidated and non-consolidated financial statements, for each of the two financial years ended 31st December, 2016 and 31st December, 2015.

## **DETAILS OF PROGRAMME PARTICIPANTS**

### **ISSUER**

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Attention: Finance Department

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*To the Issuer*

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