

5. Information on remuneration

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In accordance with the provisions of article 85 of Act 10/2014, dated June 26, on the regulation, supervision and solvency of credit institutions (hereinafter the "Act 10/2014") and article 93 of Royal Decree 84/2015, dated February 13, which implements said Act, and pursuant to the provisions of Bank of Spain Circular 2/2016, dated February 2, to credit institutions, on supervision and solvency, completing the adaptation of the Spanish legal system to Directive 2013/36/

EU and Regulation (EU) No. 575/2013 (hereinafter "Bank of Spain Circular 2/2016"), credit institutions shall update, at least once a year, and provide the public with information including its remuneration policy and practices established in part eight of Regulation 575/2013/EU in relation to the categories of personnel whose professional activities have a significant impact on the Group's risk profile (hereinafter, the "Identified Staff" or "Risk Takers").

5.1. Information on the decision-making process to establish the remuneration policy for Identified Staff

In the framework set out in BBVA's Bylaws, the Regulations of the Board of Directors of BBVA empower the Board of Directors (hereinafter, "the Board") to approve, among others, the remuneration policy for directors, for its submission to the General Meeting, as well as the remuneration policy for senior managers and employees whose professional activities have material impact on the Group's risk profile, and to determine the remuneration of directors acting in their capacity as such; additionally, in the case of executive directors, the remuneration for their executive functions, together with the remaining conditions to be respected in their contracts.

The Board Regulations likewise include the internal rules for the operation of the Board and its Committees, which provide assistance on matters within their remit. The Remuneration Committee assists the Board with matters related to remuneration, as set out in the Board Regulations, ensuring compliance with the remuneration policy established.

In accordance with Article 36 of the Board Regulations, the duties of the Remuneration Committee are as follows:

1. Propose directors' remuneration policy to the Board, for its submission to the General Meeting, as regards its items, amounts, and parameters for its determination and its vesting, likewise submitting the corresponding report, in the terms established by applicable law at any time.
2. Determine, so that they can be reflected in their contracts, the extent and amount of individual remuneration, entitlements and other economic rewards, as well as other contractual conditions of executive directors, submitting the appropriate proposals to the Board.
3. Yearly submit a proposal to the Board regarding the annual report on the remuneration of the Bank's directors, which will in turn be submitted to the Annual General Shareholders' Meeting, in accordance with the applicable legislation.

4. Propose the remuneration policy for senior managers and other Identified Staff members, for its submission to the Board.
5. Propose the basic conditions of senior managers' contracts to the Board, and directly supervise the remuneration of senior managers in charge of risk management and compliance functions within the Company.
6. Oversee observance of the remuneration policy established by the Company and periodically review the remuneration policy applied to members of the Identified Staff, including executive directors and senior managers.
7. Verify the information on directors and senior managers' remuneration contained in the different corporate documents, including the annual report on the remuneration of directors.
8. Any other duties that may have been allocated under the Regulations or attributed by a Board resolution or by applicable legislation.

As at year-end 2017, the Remuneration Committee is composed of five members, all of them non-executive directors; the majority are independent, including its Chair. The names, positions and status of the directors that make up the Remuneration Committee are detailed below:

Table 93. Composition of the Remuneration Committee (12-31-17)

Name and surname(s)	Position	Status
Belén Garijo López	Chair	Independent
Tomás Alfaro Drake	Member	Independent
José Antonio Fernández Rivero	Member	External
Lourdes Máiz Carro	Member	Independent
Carlos Loring Martínez de Irujo	Member	External

The Committee performs its duties with full operational autonomy. It meets as often as necessary to comply with its duties, led by its Chair, having met on 5 occasions in 2017.

In order to adequately perform its duties, the Committee uses advisory services provided by the Bank's in-house staff and can further count on outsourced advice as necessary to establish criteria regarding matters within its competence. For these purposes, during 2017 the Committee has received the information and advice provided by leading global consulting firms in the field of compensation for directors and senior managers, such as McLagan and Garrigues Human Capital Services with regards to the modification of the remuneration policy for BBVA directors, and the firm Willis Towers Watson for the analysis of fixed and variable remuneration of executive directors and members of the Senior Management.

In addition, the Board's Risk Committee participates in the establishment of the remuneration policy, ensuring it is compatible with adequate and effective risk management and that it offers no incentives to assume risks beyond the level tolerated by the Group. As at year-end 2017, the Risk Committee includes one of the members of the Remuneration Committee.

In 2017, the Remuneration Committee was particularly busy in terms of analysis of the new regulations on remuneration published in 2016, which have had an impact on the remuneration policies and practices of credit institutions; in particular, Bank of Spain Circular 2/2016 and the provisions of the European Banking Authority (EBA) Guidelines dated June 27, 2016, on sound remuneration policies under articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under article 450 of Regulation (EU) No. 575/2013, adopted by the Bank of Spain on July 27, 2016 (hereinafter the "EBA Guidelines").

As a result of new regulations on remuneration, developments in market practices, the outcome of dialog between BBVA and its investors and the nature of the Bank's corporate governance system itself, the Remuneration Committee conducted a review of the remuneration policy in place and the overall remuneration system, with the collaboration of the independent consultants of international prestige in remuneration mentioned above. As a result, it submitted the following proposals to the Board for approval:

- A new remuneration policy for BBVA directors (the "Remuneration Policy for BBVA Directors"), for the

years 2017, 2018 and 2019. This policy was submitted to the Bank's General Meeting held on March 17, 2017, in accordance with article 529 novodecies of Royal Legislative Decree 1/2010, dated July 2, approving the consolidated text of the Corporate Enterprises Act (hereinafter, the "Corporate Enterprises Act"), and approved by 96.54% of votes in favor, 1.75% of the votes against and an abstention of 1.72%, representing 63.71% of the share capital present or represented at said General Meeting.

In accordance with the provisions of the Company Bylaws, the Remuneration Policy for BBVA Directors distinguishes between the remuneration system for non-executive directors and the system applicable to executive directors. The remuneration system for executive directors corresponds in general to that applicable to the remaining Identified Staff members, including certain specificities derived from their condition as directors. The remuneration system for non-executive directors is based on criteria of responsibility, dedication and incompatibilities inherent to the role that they perform, and consists exclusively of fixed remuneration elements, receiving no variable remuneration.

The full text of the Remuneration Policy for BBVA Directors is available on the Bank's corporate website (www.bbva.com).

- A new remuneration policy that applies generally to BBVA employees and employees of subsidiaries part of its consolidated group (the "BBVA Group" or the "Group"), which includes the specificities of the remuneration system applicable to Identified Staff members of the BBVA Group, as well as the procedure for their identification, in accordance with the provisions of applicable regulations, as specified below (the "BBVA Group Remuneration Policy").

This Policy was approved by the Board, and is coordinated at corporate level by BBVA's Talent and Culture area. The Bank's control functions cooperate actively and regularly in its design and supervision, in accordance with the attributions assigned to them by applicable law.

The remuneration system applicable to Identified Staff members, included in this Policy, aims to further align BBVA's remuneration practices with applicable regulations, good governance recommendations and best market practices. The specific remuneration system for Identified Staff is, in general, applicable to BBVA's executive directors,

as members of this group, notwithstanding that they are subject to the provisions of the Remuneration Policy for BBVA Directors approved by the General Meeting, and not the Group's Remuneration Policy.

For the purposes of implementation of the remuneration policies approved by the Bank's corporate bodies, in the course of the year the Remuneration Committee has conducted an analysis of the remuneration proposals necessary for the implementation and realization of these policies and, in particular, for the application of the special system for settlement and payment of the annual variable remuneration for Identified Staff members; it analyzed, *inter alia*, the necessary adjustments to the structure and variable compensation model of executive directors and members of the Senior Management, in order to increase the link between their variable remuneration and the Group's strategy, as well as the financial and non-financial targets established.

The Remuneration Committee likewise analyzed the appropriateness of the annual performance indicators used for the calculation of 2017 annual variable remuneration for executive directors, and their corresponding weightings, along with the targets and scales of achievement associated with these indicators, submitting the corresponding proposals to the Board for its approval.

The Committee also conducted an analysis of the minimum thresholds of Attributable Profit and Capital Ratio established as *ex ante* adjustments to variable remuneration for Identified Staff, as well as the corresponding scales established to determine the accrual of annual variable remuneration in 2017 for executive directors and remaining Identified Staff members.

Likewise, the Remuneration Committee has determined, and submitted the corresponding proposals to the Board, the multi-year performance indicators established as *ex post* adjustments, applicable to the deferred annual variable remuneration for 2017 for executive directors and remaining Identified Staff, including senior managers, availing itself of the prior analysis carried out by the Board's Risk Committee, which ensured alignment with the Bank's risk profile.

In addition, within the framework of the duties attributed to the Remuneration Committee for the observance and periodic review of the remuneration policy applicable to the Identified Staff, the Committee has reviewed its application in 2016, including the process carried out by the Bank for the identification of Risk Takers for that year, on the basis of the internal, central and independent review carried out by the Bank's Internal Audit area.

The Committee has also received information from the Bank's technical areas concerning application of the procedure for

the identification of Risk Takers of the BBVA Group in 2017, in accordance with the criteria established in applicable regulations and the internal criteria established by the Bank.

In addition, the Remuneration Committee submitted the proposed agreement to the Board, for its submission to the General Shareholders' Meeting in 2017, relating to the approval of a maximum level of variable remuneration of up to 200% of the fixed component of total remuneration for a specific group of employees whose professional activities have a significant impact on the Group's risk profile. It also proposed the Board's Recommendations Report that accompanies said proposal and is addressed to the Bank's shareholders.

Finally, following the proposal submitted by the Remuneration Committee, the Board approved the Annual Report on the Remuneration of BBVA Directors, in accordance with the model established by the National Securities Market Commission (CNMV) in its Circular 4/2013, dated June 12, submitted annually to a consultative vote at the General Shareholders' Meeting, in compliance with the provisions of article 541 of the Corporate Enterprises Act, and available on the Bank's corporate website (www.bbva.com) from the date on which the General Meeting was convened.

The Annual Report on the Remuneration of BBVA Directors includes a description of the basic principles of the Bank's remuneration policy as regards the members of the Board, executive and non-executive, as well as a detailed description of the different elements and amounts that make up their remuneration.

All the matters outlined above, along with further matters within its remit, are specified in the Activity Report of the Remuneration Committee for 2017, published on the Bank's corporate website on the date on which the General Meeting for 2018 was convened (www.bbva.com).

As already indicated, BBVA has a decision-making process for remuneration issues where the Remuneration Committee is a core element. It is responsible for determining the remuneration policy for Identified Staff, submitting the corresponding proposals to the Board for its approval. All this ensures an appropriate decision-making process for remuneration-related matters.

The members of the Remuneration Committee who held the position in 2017 received an aggregate total of €271 thousand for their membership. In addition, the Annual Report on the Remuneration of BBVA Directors includes a breakdown of the remuneration by item for each director.

5.2. Description of the different types of employees included in the Identified Staff

In accordance with the provisions of the BBVA Group Remuneration Policy, the selection of members making up the Identified Staff in the Group is part of an annual process, determined on the basis of the qualitative and quantitative criteria established by Commission Delegated Regulation (EU) 604/2014 of March 4, 2014, supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile ("Delegated Regulation 604/2014"). This process also includes internal criteria established by BBVA that supplement those indicated in this Regulation, in compliance with Rule 38 of Bank of Spain Circular 2/2016 (hereinafter, the "Identification Process").

The qualitative criteria established in the Identification Process are defined on the basis of the responsibility of the position (for example, members of BBVA's management body, members of BBVA's Senior Management, staff responsible for control functions and other key functions or significant business units within the Group), as well as on the basis of the staff's capacity or responsibility to assume or manage risks.

The quantitative criteria establish that staff has significant impact on the Group's risk profile on the basis of the total remuneration granted; unless BBVA determines that the professional activity of this staff de facto has no significant impact on the risk profile, in accordance with the provisions of article 4 of the Delegated Regulation 604/2014.

The Identification Process is updated during the year and takes into consideration all the BBVA Group staff, allowing for the inclusion within the Identified Staff of employees

that comply with, or are likely to comply with, the qualitative criteria established in article 3 of Delegated Regulation 604/2014 for at least three months in a financial year.

All the companies that are part of the BBVA Group will actively participate in the Identification Process carried out by BBVA, providing all the information needed to adequately identify the staff with material impact on the Group's risk profile.

In accordance with the Identification Process specified, as at year-end 2017 a total of 572 Risk Takers had been identified, including:

- Members of BBVA's Board of Directors.⁶
- Members of BBVA's Senior Management.
- Risk Takers by function: configured according to the functions that correspond to the qualitative criteria established in article 3 of Delegated Regulation 604/2014, in points 4 to 15 inclusive, as well as those Risk Takers identified according to the Bank's internal criteria.
- Risk Takers by remuneration: made up of employees who met the quantitative criteria of article 4 of Delegated Regulation 604/2014.

The total number of Risk Takers identified in 2017 remained at a similar level as the previous year, in which the total number of identified members was 565. The figure has thus not experimented significant changes.

Notwithstanding the foregoing, BBVA will adapt the definition of Identified Staff, including the categories of professionals necessary at any time, according to the requirements set out by applicable regulations.

5.3. Key features of the remuneration system

As specified in section 5.1, in 2017 the Board, at the proposal of the Remuneration Committee, approved the new BBVA Group Remuneration Policy, which includes the remuneration system applicable to Identified Staff, as well as the Identification Process specified in section 5.2 above.

The BBVA Group Remuneration Policy is geared towards the recurring generation of value for the Group, likewise seeking

to align the interests of employees and shareholders with sound risk management.

This Policy is one of the elements devised by the Board as part of BBVA's corporate governance system to ensure adequate management of the Group. It is based on the following principles:

6. Non-executive directors qualify as Risk Takers under article 3 of Delegated Regulation 604/2014, although, as specified hereunder in section 5.3, they have a specific remuneration system, different from that applicable to executive directors, and they do not receive variable remuneration.

- long-term value creation;
- reward achievement of results on the basis of sound and responsible risk assumption;
- attract and retain the best professionals;
- reward the level of responsibility and professional track record;
- ensure internal equity and external competitiveness; and
- ensure transparency of the remuneration model.

BBVA has defined the Group Remuneration Policy on the basis of the general principles outlined above, taking into consideration the need to comply with legal requirements for credit institutions and those applicable in the different sectors in which it carries out its business, as well as alignment with best market practices, while including items devised to reduce exposure to excessive risks and adjust remuneration to the targets, values and long-term interests of the Group. To this end, the Policy is guided by the following premises:

- it is consistent with and promotes sound and effective risk management, not providing incentives that encourage risk-assumption beyond the levels tolerated by the Group;
- it is in line with the business strategy, objectives, values and long-term interests, and will include measures to prevent conflicts of interest;
- it provides a clear distinction between the criteria for the establishment of remuneration and variable remuneration;
- it promotes equal treatment for all staff, not establishing any differences for reasons of gender or personal characteristics of any other type; and
- it pursues that remuneration not be based exclusively or primarily on quantitative criteria, and that it takes into account appropriate qualitative criteria that reflect compliance with applicable regulations.

In accordance with the above, the remuneration scheme generally applicable to employees is implemented through the following:

- a) Fixed remuneration, which takes into account the level of responsibility, the functions carried out and the professional career of each employee, the principles of internal equity and the market value of the function, and constitutes a significant portion of total pay.

The award and amount of fixed remuneration are based on predetermined objective and non-discretionary criteria.

- b) Variable remuneration, consisting of payments or benefits in addition to fixed remuneration, monetary or non-monetary, based on variable parameters. Under no circumstance shall variable remuneration impose any limits on the Group's capacity to strengthen its capital base in accordance with regulatory requirements, and it shall take into account current and future risks as well as the necessary cost of capital and liquidity, reflecting a performance that is sustainable and adapted to risk.

Within this generally applicable remuneration model, the BBVA Group Remuneration Policy includes certain particularities applicable, on the one hand, to staff who exercise control functions and, on the other hand, to staff involved in the provision of customer service. Thus:

- i. Staff who perform control functions are independent from the business units they supervise, have the necessary authority and are compensated according to the achievement of targets associated with their duties, regardless of the results of the business areas they control.

To strengthen the independence and objectivity of these functions, the fixed components of their remuneration have greater weight than the variable components, with the variable components mainly related to objectives specific to the function.

In addition, the remuneration of BBVA senior managers in independent control functions, including the compliance and risk management functions, is supervised directly by BBVA's Remuneration Committee, as in the case of the remaining members of Senior Management.

- ii. When designing and establishing the remuneration of staff involved in the provision of customer service, care must be taken to protect their interests and the quality of the services provided, to ensure that:
- it fosters responsible business conduct and fair treatment of customers;
 - incentives are not established that may induce staff to put their own interests or those of the BBVA Group first, to the possible detriment of the interests of their customers;
 - remuneration is not primarily or exclusively linked to the sale of a product, or a category or specific type of product, such as products that are more lucrative for the entity or employee, where there are others more appropriate with customer needs; and that this objective is not set as that with greatest weight in the remuneration package; and

- an appropriate balance is maintained between the fixed and variable elements of the remuneration.

On the basis of the aforementioned principles and premises, and pursuant to the statutory requirements established by Act 10/2014 and its implementing regulations, BBVA has defined the particularities of the remuneration policy applicable to Identified Staff, designing an incentives system particularly geared towards maintaining alignment of their remuneration with risks, as well as the Group's long-term objectives and interests.

The result is a remuneration scheme for Identified Staff based on the following basic characteristics:

- Balance between the fixed and variable components of total remuneration, in line with applicable regulations, to ensure a policy that is fully flexible with regard to payment of the variable components, allowing for such components to be reduced in their entirety, where appropriate. The proportion between the two components has been established in accordance with the kind of functions carried out by each beneficiary (business, support or control) and, consequently, their impact on the Group's risk profile, adapted in each case to the reality of the different countries or functions.
- Variable remuneration of Identified Staff members shall be based on effective risk management and linked to the level of achievement of previously established financial and non-financial targets, defined at the Group, area and individual levels, which take into account present and future risks assumed and the Group's long-term interests.
- Variable remuneration of Identified Staff members for each financial year shall not accrue, or will accrue in a reduced amount, should certain level of profits and capital ratios not be achieved. It will also be subject to ex ante adjustments, so that it shall be reduced at the time of the performance assessment in the event of negative performance of the Group's results or other parameters such as the level of achievements of budgeted targets.
- The annual variable remuneration for each Identified Staff member shall be calculated on the basis of: (i) annual performance indicators for the Group, area and individual (financial and non-financial); (ii) scales of achievement, as per the weightings allocated to each indicator; and (iii) a "target" annual variable remuneration, representing the amount of annual variable remuneration if 100% of the pre-established targets are met. The resulting amount shall constitute the annual variable remuneration of each beneficiary (hereinafter the "Annual Variable Remuneration").

In the event of termination of contractual relationship of an Identified Staff member before the closing of the financial year to which the Annual Variable Remuneration corresponds, the member will have the right to receive the proportional amount of said Annual Variable Remuneration, pro-rated for the length of service provided in the financial year and subject, in any case, to the same settlement and payment system applicable had the member remained active, in accordance with the rules set out below. The above shall not be applicable to cases where the termination of contractual relationship is due to a voluntary resignation or lawful dismissal, where the right to receive the Annual Variable Remuneration shall not accrue.

- The Annual Variable Remuneration for Identified Staff members shall be subject to specific rules for settlement and payment, specifically:
 - 60% of the Annual Variable Remuneration will be paid, if conditions are met, in the year following that to which it corresponds (the "Upfront Payment"). For executive directors, members of the Senior Management and Identified Staff members with particularly high variable remuneration, the Upfront Payment will be 40% of the Annual Variable Remuneration. The remaining portion will be deferred in time (hereinafter, the "Deferred Component").
 - The deferral period will be 5 years for executive directors and members of Senior Management, and 3 years for the remaining Risk Takers.
 - 50% of the Annual Variable Remuneration, both of the Upfront Payment and Deferred Component, shall be established in BBVA shares. As regards executive directors and Senior Management, a larger proportion of the Deferred Component shall be established in shares (60%).
 - Shares received as Annual Variable Remuneration shall be withheld for a one-year period after delivery, except for the transfer of those shares required to honor the payment of taxes.

As regards executive directors, the Remuneration Policy for BBVA Directors additionally includes a commitment of the executive directors not to transfer a number of shares equivalent to twice their annual fixed remuneration for a period of, at least, three years from the time of their vesting, on top of the general one-year retention period applicable to all the shares. The aforementioned shall not apply to the transfer of those shares required to honor the payment of taxes.
 - The Deferred Component of the Annual Variable Remuneration may be reduced in its entirety, but never increased, based on the result of multi-year

performance indicators aligned with the Group's core risk management and control metrics related to the solvency, capital, liquidity, funding or profitability, or to the share performance and the recurring results of the Group, measured over a period of three years.

These multi-year performance indicators are approved by the Board at the proposal of the Remuneration Committee, following an analysis by the Risk Committee, which ensures they are appropriate to align deferred remuneration with sound risk management.

These multi-year performance indicators to which the Deferred Component of Annual Variable Remuneration for 2017 will be subject, approved by the Board at the proposal of the Remuneration Committee, are as follows:

Table 94. Settlement and payment system for annual variable remuneration (12-31-17)

Indicator	Weighting
Economic Adequacy (Economic Equity/Economic Capital at Risk)	20%
Common Equity Tier (CET) 1 Fully Loaded	20%
Liquidity Coverage Ratio (LCR)	10%
Loan to Stable Customer Deposits (LtSCD)	10%
Return on Equity (ROE)	20%
(Operating Income - Loan-loss provisions) / Average Total Assets	10%
Total Shareholder Return (TSR)	10%

These multi-year performance indicators have certain scales of achievement associated, approved by the Board at the proposal of the Remuneration Committee. Thus, if the targets set for each indicator in the 3-year measurement period from the start of the deferral period are not achieved, the Deferred Component of Annual Variable Remuneration for 2017 may be reduced, even in its entirety, but never increased.

In the case of executive directors and Senior Management, the Deferred Component of Annual Variable Remuneration payable subject to the multi-year performance indicators shall be delivered, if the conditions are met, according to the following schedule: 60% after the third year of deferral, 20% after the fourth year of deferral and 20% after the fifth year of deferral.

- Resulting cash portions of the Deferred Component of Annual Variable Remuneration finally vested, subject to the multi-year performance indicators, shall be updated on the criteria established by the Board.
- The entire Annual Variable Remuneration shall be subject to malus and clawback arrangements during the whole deferral and withholding period, under the terms indicated below.
- No personal hedging strategies or insurance may be used in connection with remuneration or liability that

may undermine the effects of alignment with sound risk management.

- The variable component of the remuneration for a financial year shall be limited to a maximum amount of 100% of the fixed component of total remuneration, unless the General Meeting resolves to increase this percentage up to a maximum of 200%. As explained in detail in section 5.7 of this report, the General Shareholders' Meeting held on March 17, 2017 authorized a raise of the maximum limit to 200%, for a maximum of 200 Risk Takers.

In addition, as indicated above, up to 100% of the Annual Variable Remuneration of each Identified Staff member corresponding to each financial year shall be subject to malus and clawback arrangements, both linked to a downturn in financial performance of the Bank as a whole, or of a specific unit or area, or of exposures generated by an Identified Staff member, when such downturn in financial performance arises from any of the following circumstances:

- c) Misconduct, fraud or serious infringement of the Code of Conduct and other applicable internal rules by an Identified Staff member.
- d) Regulatory sanctions or judicial convictions due to events that could be attributed to a specific unit or to the staff responsible for such events.
- e) Significant failure of risk management committed by the Bank or by a business or risk control unit, to which the willful misconduct or gross negligence of an Identified Staff member contributed.
- f) Restatement of the Bank's annual accounts, except where such restatement is due to a change in applicable accounting legislation.

For these purposes, the Bank will compare the performance assessment carried out for the Identified Staff member with the ex post behavior of some of the criteria that contributed to achieve the targets. Both malus and clawback will apply to the Annual Variable Remuneration of the financial year in which the event giving rise to application of the arrangement occurred, and they shall be in force during the entire period of deferral and retention applicable to the Annual Variable Remuneration.

Notwithstanding the foregoing, in the event that these scenarios give rise to a dismissal or termination of contract of the Identified Staff member due to serious and guilty breach of duties, malus arrangements may apply to the entire deferred Annual Variable Remuneration pending payment at the date of the dismissal or termination of contract, in light of the extent of the damage caused.

In any case, the variable remuneration is paid or vests only if it is sustainable according to the Group's situation as a whole, and justified on the basis of the performance of the Bank, the business unit and of the Identified Staff member concerned.

Regarding payments for the early termination of contracts for Identified Staff members, in accordance with the provisions of the BBVA Group Remuneration Policy and in line with the applicable regulations, they shall be based on the results obtained over time. In no case shall bad results or inappropriate conduct be rewarded, and payments shall not be awarded in cases where there have been clear and serious infringements that justify the immediate termination of contract or the dismissal of the Identified Staff member. As regards BBVA directors, the Bank has no commitments to pay severance indemnity.

As regards the pension policy, it shall be compatible with the entity's long-term business strategy, objectives, values and interests. In accordance with the foregoing, BBVA has a pension system in place, arranged on the basis of geographic areas and coverage offered to different groups of employees. In general, the Bank's pension schemes are defined-contribution. The contributions to pension schemes of the Group's employees are made within the framework of applicable labor law and individual or group agreements applicable in each entity, sector or geographic area. BBVA will determine the characteristics of the pension commitments with the different professional categories of employees, including the pensionable salary.

The basis for the calculation of the benefits (commitments for retirement, death and disability) reflect fixed annual amounts; no temporary fluctuations exist derived from variable components or individual results.

As regards executive directors and members of the Senior Management, they are subject to the specificities included in applicable regulations regarding "discretionary pension benefits." Thus, 15% of the annual contributions agreed to cover the pension commitments will be based on variable components and be considered "discretionary pension

benefits", subject to the conditions established in the applicable regulations and remuneration policies. Detailed information on the implementation of pension commitments accrued in the year ended may be consulted in Note 54 of the Annual Report corresponding to the Consolidated Financial Statements of the Bank for 2017, available on the Bank's corporate website (www.bbva.com).

As regards non-executive directors, the Remuneration Policy for BBVA Directors distinguishes between the remuneration system applicable to executive directors and the system applicable to non-executive directors, as set out in the Bank's Bylaws. A detailed description of the remuneration system for non-executive BBVA directors is included in the mentioned Policy, and the implementation of this system has been explained in the Annual Report on the Remuneration of BBVA Directors corresponding to 2017. Both documents are available on the Bank's corporate website (www.bbva.com).

As set out in those documents, non-executive directors do not receive variable remuneration; they receive a fixed annual amount in cash for holding the position of director and another for membership of the various committees, with greater weight allocated to the role as chair of each committee, and the amount depending on the nature and duties of the functions attributed to each committee.

In addition, the Bank has a remuneration system in shares with deferred delivery for its non-executive directors, approved by the General Meeting, which also constitutes fixed remuneration. It comprises an annual allocation to non-executive directors, as part of their remuneration, of a number of "theoretical shares" of the Bank that will be delivered, where appropriate, on the date they leave directorship for any reason other than serious breach of their duties. The number of "theoretical shares" annually allotted to each non-executive director will be equivalent to 20% of their total remuneration in cash received the previous year, calculated according to the average closing prices of the BBVA share during the 60 trading sessions prior to the dates of the Annual General Shareholders' Meetings that approve the financial statements for each year.

5.4. Information on the link between the remuneration of Identified Staff and the performance of the Group

As explained in the above sections, the BBVA Group Remuneration Policy includes the entitlement by Identified Staff members to an Annual Variable Remuneration, payment of which is subject to ex ante adjustments and the amount of which is calculated according to compliance with the objectives established at the start of the year for each of

the annual performance indicators, in accordance with the scales and weightings associated to each indicator. Thus, the amount of variable remuneration received by Identified Staff is linked to the results of the BBVA Group and varies in accordance with them.

Thus, the application of the scales of achievement defined for each indicator, on the basis on the targets established, has determined the amount of the Annual Variable Remuneration for executive directors. For the remaining Identified Staff members, along with the result of the Group's annual performance indicators, the amount of Annual Variable Remuneration has been determined in accordance with the level of achievement of the financial and non-financial targets set for the area and for each individual, according to the weightings associated with each indicator which, as was already indicated, have been set according to the type of function carried out by each beneficiary (business, support or control).

In 2017, the BBVA Group has generated an Attributable Profit of €3,519 million, an increase in 1.3% with respect to the previous year. This result has been affected by a number of factors, including the accounting impairment of the Group's stake in the share capital of Telefónica, as well as by certain transactions related to the sale and purchase of shareholdings in other companies, wholesale real-estate portfolio sales and changes in tax policies of some countries where the BBVA Group is present (mainly, United States).

As regards the accounting impairment of the stake in the share capital of Telefónica, it derives from the application of an accounting standard (IAS 39) and the Group's accounting policies, and has resulted in the Bank having to record the unrealized losses arising from this stake in the income statement for 2017 (€1,123 million), previously recorded under the Group's total equity. This accounting reclassification has not had an impact in either the Group's solvency or real value, since it has had no impact on the Bank's equity, or in its CET 1 fully loaded capital ratio, or in its liquidity, given that it has not involved an outflow of cash.

Likewise, this event has not affected the Bank's capability for dividend distribution, thus not affecting shareholders' profitability.

As regards transactions related to the sale and purchase of shareholdings in other companies, wholesale real estate portfolio sales and changes in tax policies of some of the countries where the BBVA Group is present; these transactions have entailed an overall gain amounting €355 million.

Thus, in order to determine the result of the financial annual performance indicators that are part of the remuneration system applicable to Identified Staff, as indicated in section 5.3 of this report, and are used to determine the Annual

Variable Remuneration, the aforementioned impacts have not been taken into account, as they derive from transactions or circumstances that the Bank has deemed unconnected to the day to day management of the Group.

In accordance with the foregoing, the outcome and evolution of the annual performance indicators established to determine 2017 Annual Variable Remuneration for executive directors, and likewise included as Group indicators for the remaining Identified Staff members, has been as follows:

- The Group's net attributable profit without corporate operations, once adjusted to exclude the aforementioned transactions or circumstances, has reached a figure of €4,286 million in 2017, an increase of 23.3% with respect to the previous year, with a positive trend in recurring income, moderation of expenses and effective risk management, allowing the contention of provisions.
- The Group's RORC (Return on Regulatory Capital) stood at 7.96% in 2017, 151 basis points above the figure for 2016 (6.45%), which is due to the increase in the attributable result, as well as the Group prioritizing more efficient activities as regards regulatory capital consumption.
- RAROE (Risk Adjusted Return on Economic Capital) declined slightly in 2017 to 10.4%, compared with 10.9% the previous year, however the Group's risk profile is maintained and a reduction of economic capital is observed. This slight retrocession means the level of achievement of this indicator is situated slightly below the target established for the year.
- On the other hand, the Efficiency Ratio has observed notable improvement, situated at 49.9% in 2017 (vs 51.9% in 2016), driven by the strength in recurring income growth, as well as the discipline maintained in terms of expense contention, with synergies that have materialized (particularly in Spain) and the advances in transformation.

As regards the Net Promoter Score (NPS), part of non-financial indicators, an improvement has been observed in nearly all geographies in relation to competing financial entities, which has resulted in a level of achievement of 107.9.

In accordance with the above, the Annual Variable Remuneration for Identified Staff members is linked to the Group's financial and non-financial results, all in the framework and in accordance with rules established in the remuneration system, detailed in section 5.3.

5.5. Description of the criteria used to take into consideration present and future risks in the remuneration processes

In line with section 5.3 of this report, the remuneration policy applicable to Risk Takers in 2017 includes the following elements:

- Balance between the fixed and variable components of the total remuneration.
- Ex ante adjustments, compliance with which has been verified before determining the Annual Variable Remuneration.
- Use of indicators for the evaluation of results, which incorporate adjustments for current and future risks. Among the financial indicators defined in 2017 at Group level is RAROEC, an indicator that takes into account the present and future risks and relates the profit obtained to the economic capital needed to obtain it, and which is applicable in general for all employees. This indicator has also been included at the area level in the business areas.
- When measuring the performance of financial and non-financial indicators, consideration is given to both individual management aspects and to the targets set at the area and Group levels.
- Upon measurement of performance of staff members performing control functions, greater weighting is given to objectives related to their specific functions, to strengthen the independence and objectivity of these functions.
- At least 50% of Annual Variable Remuneration is established in shares (60% in the case of the Deferred Component of the executive directors and Senior Management).
- Deferral clauses, designed so that a substantial portion of variable remuneration -60% in the case of executive directors, Senior Management and Risk Takers with particularly high variable remuneration, 40% for the remaining cases – is deferred in time, thus taking into account the economic cycle and the business risks. The deferral period established for 2017 Annual Variable Remuneration is 5 years for executive directors and Senior Management, and 3 years for the remaining Risk Takers.
- Inclusion of multi-year performance indicators, measured for the 3-year period from the start of the deferral period, to which weightings have been attributed, and for which scales of achievement have been established, so that in the event that the targets set for each indicator are not obtained, the Deferred Component of the Annual Variable Remuneration may be reduced, even in its entirety, yet never increased.
- Obligatory withholding periods of any shares delivered as Annual Variable Remuneration, so that beneficiaries may not freely dispose of them until one year after their delivery date, except for those that should be divested to pay tax obligations.
- Prohibition of the use of personal hedging strategies or insurance related to remuneration and liability.
- Limitation of the variable component of remuneration for the year to 100% of the fixed component of the total remuneration, except for the maximum of 200 employees for whom BBVA's General Meeting held on March 17, 2017, authorized the application of a maximum ratio of 200%, as explained in detail in section 5.7 of this report.
- Submission of the entire Annual Variable Remuneration to malus and clawback arrangements during the whole deferral and withholding period, under the terms indicated in section 5.3 of this report.

5.6. Main parameters and reasons for any component of the possible variable remuneration plans and other non-cash benefits

The main parameters and reasons for the components of the variable remuneration plans for Identified Staff have been set out in previous sections of this report.

5.7. Ratios between the fixed and variable remuneration of Identified Staff

As specified in section 5.3 above, in the total remuneration for Identified Staff the fixed and variable components must be appropriately balanced, in line with applicable regulations, to ensure a policy that is fully flexible with regard to payment of the variable components, allowing for such components to be reduced even in their entirety, where appropriate.

The proportion between both components is established taking into account the type of functions developed by each beneficiary (business, support or control) and, as a result, their impact on the risk profile, adapted in each case to the existing reality in the different countries where the Identified Staff members carry out their activity or functions.

For these purposes, the Bank has defined “target” ratios between fixed and target variable remuneration, which take into account both the function carried out by each Identified Staff member and the impact on the risk profile.

Notwithstanding the above, pursuant to applicable law, the variable component of Identified Staff members’ remuneration for a financial year shall be limited to a maximum amount of 100% of the fixed component of total remuneration, except for the functions for which the General Meeting agrees to raise this percentage to a maximum of 200%.

For this purpose, the General Meeting held on March 17, 2017 agreed to raise the maximum level of the variable component of remuneration up to a maximum 200% of the fixed component of total remuneration for specific members of the Identified Staff, in accordance with the Recommendations Report issued in this regard by the Board on February 9, 2017. Thus the Bank submitted the following proposed resolution to the General Meeting:

“For the purposes of the provisions of Article 34.1 g) of Act 10/2014 of June 26, on the regulation, supervision and solvency of credit institutions, to approve the group of employees whose professional activities have a significant

impact on the Group’s risk profile to whom the maximum level of variable remuneration of up to 200% of the fixed component of their total remuneration is applicable, enabling subsidiaries of Banco Bilbao Vizcaya Argentaria, S.A., to likewise introduce such maximum level to their professionals, all in light of the Recommendations Report issued in this regard by the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A., on 9 February 2017, and which has been made available to shareholders as of the date on which this General Meeting was called.”

This resolution was adopted by the General Meeting, for a maximum of 200 Risk Takers, with 98.39% of votes in favor, over a total share capital present or represented in the General Meeting of 63.59%.

The proposal submitted to the General Meeting included the detailed recommendation of the Board, explaining the reasons and scope of the decision proposed to the General Meeting and included the number of persons affected, as well as the expected effect on the maintenance of a sound capital base, taking into account the considerations established by the competent authority as regards dividend distribution policies.

As reflected in the Board’s Recommendations Report, the persons for whom approval of the higher level of remuneration for 2017 was requested performed one of the following functions:

- Executive members of BBVA’s Board of Directors.
- Members of BBVA’s Senior Management.
- Identified Staff members who held first levels of responsibility in different areas of the Group.
- Identified Staff members who carried out technological or digital activities, competing in salary markets with companies which have different remuneration structures and remuneration levels than those of financial entities.

- Identified Staff Members who performed their activity in regions where the weight of variable remuneration is greater than fixed remuneration.
- Identified Staff members who held first levels of responsibility in regions where the local legislation does not establish such limits, and where the amount of the variable remuneration is relevant.

5.8. Quantitative information on the remuneration of Identified Staff

After year-end 2017, and in accordance with the results obtained (described in section 5.4 above), the Annual Variable Remuneration for Identified Staff members corresponding to said year was calculated.

In accordance with the settlement and payment system established for 2017 Annual Variable Remuneration for Identified Staff members:

- The Upfront Payment is made in 2018, 40% in the case of executive directors, members of Senior Management and Identified Staff members with variable remuneration of particularly high amounts, and 60% for the remaining Identified Staff members.

- The Deferred Component will be subject to the multi-year performance indicators mentioned in section 5.3 of this report, to be paid, if conditions are met, in 2021. For executive directors and members of the Senior Management, the Deferred Component will be paid, where applicable, according to the following schedule: 60% in 2021; 20% in 2022 and the remaining 20% in 2023.

This gives rise, among others, to the amounts that are detailed in the following table, broken down by types of employees:

Table 95. Total remuneration of the Identified Staff in 2017 (12-31-17)

Remuneration for Identified Staff in 2017	Executive Directors ^(*)	Non-executive directors ⁽¹⁾	Senior Management ^(*)	Rest of Identified Staff	Total Identified Staff
Number of beneficiaries of fixed remuneration	3	12	15	542	572
Amount of fixed remuneration for 2017 (thousands of euros) ⁽²⁾	5,491	3,961	16,357	220,016	245,825
Number of beneficiaries of variable remuneration	3	-	15	511	529
Amount of variable remuneration for 2017 (thousands of euros)	6,545	-	7,491	90,173	104,210
In cash (thousands of euros)	2,880	-	3,296	45,087	51,263
Number of BBVA shares	505,277	-	574,304	5,918,775	6,998,356
Variable remuneration corresponding to 2017 of immediate payment (thousands of euros)	2,618	-	2,997	51,627	57,241
In cash (thousands of euros)	1,309	-	1,498	25,813	28,621
Number of BBVA shares	180,455	-	205,104	3,390,708	3,776,267
Outstanding deferred variable remuneration corresponding to 2017 (thousands of euros) ⁽³⁾	3,927	-	4,495	38,547	46,969
In cash (thousands of euros)	1,571	-	1,798	19,273	22,642
Number of BBVA shares	324,822	-	369,200	2,528,067	3,222,089

⁽¹⁾ Includes remuneration paid to the two non-executive directors who ceased as directors during 2017, amounting 277 thousand euro. Note 54 of the Annual Report of BBVA's Consolidated Financial Statements includes the information for each non-executive director, itemized.

⁽²⁾ Fixed remuneration, including remuneration in cash or in kind, received in 2017. Fixed remuneration for Identified Staff is received fully in cash, not subject to deferral. Non-executive directors have a fixed remuneration system in shares with deferred delivery, at the time they leave directorship. Detailed information regarding said system, including the number of shares allocated in 2017 (corresponding to 20% their fixed remuneration received the previous year) is detailed in Note 54 of the Annual Report of BBVA's Consolidated Financial Statements

⁽³⁾ The variable remuneration corresponding to 2017 that is deferred and outstanding is subject to multi-annual performance indicators related to the Risk Appetite Framework and shareholder profitability that can reduce, even in its entirety (but never increase), the outstanding deferred amounts

^(*) In accordance with applicable regulations, 15% of the annual contributions agreed to retirement coverage of executive directors and members of the Senior Management will be based on variable components. Detailed information regarding the implementation of benefit-scheme entitlements can be found in Note 54 of the Annual Report of BBVA's Consolidated Financial Statements

Table 96. Extraordinary remuneration of the Identified Staff in 2017 (12-31-17)

Extraordinary remuneration for Identified Staff in 2017	Executive Directors	Non-executive directors	Senior Management	Rest of Identified Staff	Total Identified Staff
Number of beneficiaries of guaranteed bonuses	-	-	-	1	1
Total amount of guaranteed bonuses granted in 2017 (thousands of euros)	-	-	-	30	30
Number of beneficiaries of hiring incentives	-	-	-	1	1
Total amount of hiring incentives paid in 2017 (thousands of euros)	-	-	-	125	125
Number of beneficiaries of severance indemnity	-	-	-	23	23
Total amount of severance indemnity paid in 2017 (thousands of euros) ⁽¹⁾	-	-	-	19,104	19,104
Paid in 2017	-	-	-	18,845	18,845
Deferred amount	-	-	-	259	259

⁽¹⁾ At the time of disengagement of severance indemnity beneficiaries, non-competition agreements have been signed with some staff members, for a total amount of 3,773 thousand euro, which will be paid periodically over the course of the non-competition period. In line with applicable regulations, neither legal indemnity amounts nor the aforementioned amount linked to non-competition agreements have been taken into account for the purposes of calculating the fixed/variable ratio, the application of deferral and payment in instruments

Of the total severance indemnity paid, the highest paid to a single member amounts to €4,252 thousand.

In addition, in accordance with the provisions of Rule 40.1 of Bank of Spain Circular 2/2016, indication is given that, from the 23 cases of payments for early termination of contracts, there are 8 cases in which the amount paid has exceeded two annual payments of the fixed remuneration.

In 2017, payment has also been made of the amounts deferred from years prior to 2017. The following table shows the amounts paid in both cash and shares, as well as the amounts that will continue to be deferred from years prior to December 31, 2017:

Table 97. Deferred variable remuneration from previous periods to 2017 (12-31-17)

Variable deferred remuneration for years prior to 2017 for the identified staff	Executive Directors ⁽³⁾	Non-executive directors	Senior Management	Rest of Identified Staff	Total Identified Staff
Consolidated ⁽¹⁾					
In cash (thousands of euros)	853	-	1,016	10,666	12,535
Number of BBVA shares	92,099	-	110,105	1,179,888	1,382,092
Not Consolidated ⁽²⁾					
In cash (thousands of euros)	3,347	-	5,852	50,721	59,921
Number of BBVA shares	502,791	-	885,217	7,813,325	9,201,333
Implicit ex-post adjustments applied during the period	-	-	-	-	-
Explicit ex-post adjustments applied during the period	-	-	-	-	-

⁽¹⁾ Includes the deferred amounts of the variable remuneration corresponding to previous years paid in 2017 and its update (the second third deferred variable remuneration in 2014 and the last third deferred variable remuneration in 2013)

⁽²⁾ Includes the deferred variable remuneration corresponding to years prior to 2017 pending payment at December 31st 2017 (last third of the deferred variable remuneration for 2014 and the full amount of the deferred variable remuneration for 2015 and 2016)

⁽³⁾ The deferred amounts of the variable remuneration paid in 2017 and corresponding to previous years are accounted individually for each executive director in Note 54 of BBVA's Consolidated Financial Statements Annual Report . Respect to the non-consolidated deferred variable remuneration at the end of 2017, the amounts corresponding to each executive director are as follows:

- Last third of the deferred variable annual remuneration for 2014: 289 thousand euros and 37,390 BBVA shares in the case of the Chairman; 91 thousand euros and 11,766 BBVA shares in the case of the CEO; and 28 thousand euros and 3,678 BBVA shares in the case of the Chief Executive Officer of GERPA
- Deferred variable annual remuneration for 2015: 897 thousand euros and 135,299 BBVA shares in the case of the Chairman; 530 thousand euros and 79,956 BBVA shares in the case of the CEO; and 98 thousand euros and 14,815 BBVA shares in the case of the Chief Executive Officer of GERPA
- Deferred variable annual remuneration for 2016: 734 thousand euros and 114,204 BBVA shares in the case of the Chairman; 591 thousand euros and 91,915 BBVA shares in the case of the CEO and 89 thousand euros and 13,768 BBVA shares in the case of the Chief Executive Officer of GERPA

The table below gives the total remuneration of the Identified Staff for the year 2017, broken down by area of activity:

Table 98. Remunerations of the identified staff in 2017 by activity areas

Activity area	Number of people	Total remuneration 2017 (thousands of euros ⁽¹⁾)	Average variable/fixed ratio
December 2017	3	12,036	105%
Non-executive directors	12	3,961	0%
Commercial Banking ⁽²⁾	177	123,656	43%
Investment banking ⁽³⁾	97	64,787	67%
Assets management ⁽⁴⁾	29	14,583	54%
Corporate functions ⁽⁵⁾	138	88,340	32%
Control functions ⁽⁶⁾	116	42,671	25%
Others ⁽⁷⁾	-	-	-
Total Identified Staff	572	350,034	

⁽¹⁾ Fixed remuneration paid in 2017 and variable remuneration generated in 2017

⁽²⁾ Includes Retail, Business, Corporate and Insurance activities

⁽³⁾ Includes Trading activities and other Investment Banking activities

⁽⁴⁾ Includes Assets Management activities and Private Banking activities

⁽⁵⁾ Includes support areas for the BBVA Group and support areas for the business (Finance, Legal, Human Resources, etc.)

⁽⁶⁾ Includes Risk Management activities, Internal Audit and Compliance

⁽⁷⁾ Other activities not included in the previous categories

As regards the number of employees receiving remuneration equal to or higher than 1 million euro, it is as follows:

Table 99. Number of individuals with total remuneration in excess of €1 million in 2017 (12-31-17)

Total remuneration in 2017 ⁽¹⁾	Number of individuals
Between 6 million and 7 million euros	1
Between 5 million and 6 million euros	1
Between 4.5 million and 5 million euros	1
Between 4 million and 4.5 million euros	1
Between 3.5 million and 4 million euros	1
Between 3 million and 3.5 million euros	0
Between 2.5 million and 3 million euros	1
Between 2 million and 2.5 million euros	6
Between 1.5 million and 2 million euros	13
Between 1 million and 1.5 million euros	34
Total	59

⁽¹⁾ Sum of the fixed remuneration for 2017 and the variable remuneration generated in 2017. The part of the variable remuneration corresponding to the 2017 financial year that is deferred is subject to multiannual indicators and objectives whose compliance could reduce (never increase) those deferred amounts and therefore the total amount of remuneration in 2017.