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Report presented by the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A., pursuant to articles 414 and 511 of the Corporate Enterprises Act, regarding the proposed resolutions to confer authority on the Board of Directors to issue securities convertible into newly issued Company shares, with the power to exclude pre-emptive subscription rights, albeit limited to 20% of the Bank's share capital at the time of the approval of the proposed transaction under the terms describes in the proposed resolutions and to increase share capital by the necessary amount, referred to under agenda item five of the Annual General Shareholders' Meeting to be held on 16th and 17th March 2017, at first and second summons, respectively.

This report is drawn up by the Board of Directors of BANCO BILBAO VIZCAYA ARGENTARIA, S.A. ("BBVA", the "Company" or the "Bank"), pursuant to articles 414 and 511 of the consolidated text of the Corporate Enterprises Act approved under Royal Legislative Decree 1/2010, 2nd July, in its current wording (the "**Corporate Enterprises Act**"), with respect to the proposed resolutions presented to the Annual General Shareholders' Meeting under agenda item five, to confer authority on the Board of Directors to resolve, on one or several occasions, to issue securities convertible into newly issued BBVA shares and to exclude pre-emptive subscription rights, this latter authority being limited to no more than 20% of the Bank's share capital at the time of the approval of the proposed authorisation, in line with the indications of this report, as well as to increase capital by the amount needed to cover the conversion and to amend the corresponding article of the Company Bylaws.

1.- Applicable regulations

Article 414 of the Corporate Enterprises Act allows public limited liability companies to issue securities convertible into shares provided the general meeting determines the terms and modalities of the conversion and resolves to increase the share capital by the necessary amount. To such end, directors must draft a report explaining the terms and modalities of the conversion. This must be accompanied by another report from an auditor other than the auditor of the company accounts, appointed for this purpose by the Companies Registry.

For listed companies, article 511 of the Corporate Enterprises Act allows the general shareholders' meeting to confer authority on the directors not just to issue convertible securities, but also to exclude pre-emptive subscription rights over the convertible bond issues made under that authority when the company's interests so require. To do so, the announcement of the general shareholders' meeting in which the proposal to confer to

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the directors authority to issue convertible securities must also expressly mention the proposal to exclude pre-emptive subscription rights, and from the date on which the general shareholders' meeting has been called, a directors' report will be made available to shareholders substantiating the grounds for the proposed exclusion.

In the resolution to increase share capital being made under authority conferred by the general shareholders' meeting, the directors' report and the auditor's report mentioned in the first paragraph above must refer to each specific issue. These reports will be made available to shareholders and reported to the first general shareholders' meeting to be held after the resolution to issue convertible securities and the consequent share capital increase have been adopted.

2.- Description of the proposal

It is proposed to the Annual General Shareholders' Meeting of BBVA to confer authority to the Board of Directors, with powers to delegate such authority, to make issues of securities convertible into newly issued Company shares, on one or several occasions within a maximum term of five (5) years to be counted from the date on which the authority is resolved, up to the total maximum overall amount of 8 billion euros (€8,000,000,000) or its equivalent in any other currency.

Likewise, it is proposed to authorise the Board of Directors such that, in the manner it deems most appropriate, it may:

- (i) Resolve, establish and determine each and every one of the terms, characteristics and conditions of each of the issues of securities convertible into newly issued Company shares made under the proposed resolutions.

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- (ii) Resolve, establish and determine the form, the timing and the triggers for conversion and/or redemption; and the terms and modalities for conversion; distinguishing between: (a) perpetual issues or issues with no conversion and/or redemption deadline whose conversion is contingent, envisaged to meet regulatory requirements for the eligibility of the securities issued as capital instruments pursuant to solvency rules applicable at any time ("**Contingent Convertible Issues - CoCos**"); and (b) the rest of the convertible securities issues made under this resolution ("**Mandatory Convertible Issues**").

- (iii) Resolve, establish and determine the conversion ratio, which may be fixed or variable, within the limits set forth below.

Should the issue be made with a fixed conversion ratio, the BBVA share price used for the conversion may not be lower than the greater of (a) the arithmetic mean of the closing prices of the Company share on the securities market or exchange that the Board of Directors determines, during the period it establishes, which may not be more than three months or less than fifteen trading sessions prior to the date on which the specific issue of convertible securities is approved; and (b) the closing price of the Company share on the securities market or exchange that the Board of Directors determines, on the day preceeding to the date on which the specific issue of convertible securities is approved.

Should the issue be made with a variable conversion ratio, the BBVA share price used for the conversion must be the arithmetic mean of the closing prices of the Company share on the securities market or exchange that the Board of Directors determines, during the period it establishes, which may not be more than three months or less than five trading sessions prior to the date on which the conversion event occurs. In such case a premium or, where appropriate, a discount may be

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established on the share price, although should an issue discount be established on the price per share, it may not exceed 30%. The premium or discount may be different for each conversion date on each of the issues or tranches. Likewise, even if a variable conversion ratio is established, a minimum and/or maximum reference price may be determined for the shares to be used in the conversion, in the terms resolved by the Board of Directors.

Subject to any others limits that may be applicable under prevailing regulations at any time, the value of the BBVA share for the purpose of the ratio for converting the securities into shares may not be below the nominal value of the BBVA share at the time of conversion, and securities may not be converted into shares when the nominal value of the securities is below the nominal value of the shares.

Likewise, for the purpose of the conversion, the convertible securities shall be valued their nominal value and may or may not include interest accrued but unpaid at the time of their conversion.

- (iv) Request, where appropriate, that the convertible securities issued under the resolution and/or the shares issued to cover their conversion be listed for trading on any securities markets.
- (v) Increase the Bank's share capital by the amount necessary to cover the conversion commitments or requests, establishing the specifications of the Company shares to be issued to cover the conversion of the securities, and re-draft the corresponding article in the Company Bylaws.

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- (vi) Pursuant to the Corporate Enterprises Act, totally or partially exclude shareholders' pre-emptive subscription rights within the framework of a specific issue of convertible securities, when this is in the corporate interests.

However, for Mandatory Convertible Issues, the power to exclude pre-emptive subscription rights will be limited to ensure the nominal amount of the capital increases resolved or carried out to cover the conversion of the Mandatory Convertible Issues that are made under the authority conferred (without prejudice to anti-dilution adjustments) with exclusion of pre-emptive subscription rights and of those likewise resolved or carried out with exclusion of pre-emptive subscription rights in use of the authority conferred under the General Shareholders' Meeting's agenda item four, do not exceed the maximum nominal overall amount of 20% of the Company share capital at the time of the authorisation, this limit not being applicable to Contingent Convertible Issues - CoCos.

As indicated above, at the first General Shareholders' Meeting held after the approval of each specific securities issue made under the proposed authorisation, the reports required by the Corporate Enterprises Act from the directors and the independent expert/financial auditors will be made available to shareholders.

3.- Grounds for the proposed conferral of authority to issue convertible securities

The proposed resolutions for conferral of authority are substantiated on the grounds that it is advisable for the Company to have a mechanism, expressly established in prevailing corporate legislation, that enables it to resolve to issue securities convertible into newly issued Company shares as necessary or appropriate, on one or several occasions, in an agile and flexible manner, without needing to call and hold a General Shareholders'

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Meeting on the occasion of each issue, providing the issuance is within the limits, terms and conditions that the General Shareholders' Meeting itself resolves when conferring such authority. All this must be done in accordance with the Bank's needs and the situation with respect to regulations and the financial markets on which it operates.

Thus, it must be taken into account that regulations on solvency and own funds require financial institutions to endow different capital instruments to cover the different categories of regulatory capital that, in certain proportions, make up their own funds requirements. These capital requirements may be covered, among others, by convertible instruments including convertibles that meet certain requirements in order to be eligible as capital instruments for the Company and, where appropriate, the Group.

Specifically, the solvency rules establish that the Contingent Convertible Issues - CoCos can be eligible as additional tier-1 capital instruments and thus serve to comply with the solvency requirements, providing they envisage, amongst other things, their contingent conversion into newly issued shares upon occurrence of a significant shortfall in regulatory capital. This possibility enables financial institutions to cover their solvency requirements in a more flexible manner and under more appropriate financial and capital-management conditions, the issuance of such contingent convertible securities having become habitual practice amongst financial institutions, including BBVA.

For this reason, and despite the fact that BBVA's current consolidated and individual capital ratios are significantly higher than the regulatory requirements applicable to it, it is deemed appropriate that, for the sake of suitable management, the Board of Directors be empowered to flexibly and agilely issue those convertible securities that enable the Company to renew its capital instruments and maintain and, as appropriate, increase capital ratios in line with the solvency rules in force at any time.

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In particular, it should be recognised that the Contingent Convertible Issues - CoCos that BBVA has made so far (and that are currently eligible as capital instruments) are subject to regulatory and market conditions that may evolve towards a situation in which suitable management could require they be rolled over for new Contingent Convertible Issues - CoCos with regulatory and financial conditions that are more appropriate or advisable for BBVA.

Likewise, although BBVA, as indicated, currently exceeds its total capital requirement, it must be taken into account that any organic or inorganic growth or change in the risk-weighted assets of the Company and its Group (on which the applicable capital requirements are calculated and established), and any other change in the set of regulations applicable to the Bank, especially with regard to solvency and resolution, could entail the need for new issuance of instruments that efficiently meet these new requirements, including the issuance of convertible securities that can be eligible as capital instruments.

Thus, the current regulatory situation and the performance of the financial markets and the Company itself make it necessary to have the widest possible range of instruments enabling the Bank to most efficiently take up opportunities that may arise in order to meet any present or future requirements on solvency and own funds in an efficient and agile manner. Consequently, the proposed authority allows the Company to obtain finance and shore up its solvency ratios by issuing securities that are convertible at the time deemed most appropriate, in line with the conditions at each moment, providing sufficient agility in execution and avoiding delays and cost increases that would be entailed by the need to take such matters to the General Shareholders' Meeting in order to issue such securities.

On the grounds of the above, and given the expiry of the authority conferred by the General Meeting, 16 March 2012, in similar terms to the proposed resolution being presented to the Annual General Shareholders' Meeting under agenda item five, the

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Board of Directors considers that conferring authority on it to resolve on one or several occasions, to issue convertible securities to a maximum amount of eight billion euros (€8bn) is a suitable and flexible mechanism to ensure that at all times and in an agile and efficient manner, the Bank will be able to obtain finance and make up its own funds to the situation and the needs that may arise at any moment.

4.- Grounds for the proposal to confer authority to exclude pre-emptive subscription rights

To ensure the Board of Directors can efficiently use the authority to issue convertible securities, in many cases it is important that the speed and the selection of the source of funding becomes important. When there is limited time and availability must be immediate, it may become necessary to exclude pre-emptive subscription rights to thereby maximise corporate's interests, which the Board of Directors consider to be a fundamental goal.

Likewise, the power to exclude pre-emptive subscription rights may help to perform specific transactions such as, for example, (i) the substitution or roll-over of BBVA's currently outstanding Contingent Convertible Issues - CoCos (which are currently eligible as capital instruments) with others whose financial and regulatory conditions are more appropriate and advisable for BBVA; or (ii) making new Contingent Convertible Issues - CoCos that, due to their complex specifications to be eligible as Company own funds (perpetual, subordinated, with discretionary remuneration and contingently convertible) and due to regulatory requirements regarding their placement, can only be placed amongst professional investors and not amongst any kind of investors, especially the retail investors that make up a major part of the BBVA shareholding structure, such that not to exclude the pre-emptive subscription rights

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would mean offering a product that does not match the investment profile of all the Bank shareholders.

On these grounds, it is proposed that, alongside the conferral of authority to resolve, on one or several occasions, to issue convertible securities, the Board of Directors also be conferred power to totally or partially exclude pre-emptive subscription rights with respect to the convertible securities issues made under such authority, pursuant to article 511 of the Corporate Enterprises Act.

However, in the case of Mandatory Convertible Issues, the Board of Directors has deemed it appropriate, in line with international standards and recommended best practices, for the sake of protecting shareholders' interests, that this power be limited so that the nominal amount of the capital increases resolved or carried out to cover the conversion of Mandatory Convertible Issues under this authority (without prejudice to anti-dilution adjustments) with exclusion of pre-emptive subscription rights and of those likewise resolved or carried out with exclusion of pre-emptive subscription rights in use of the authority conferred under the General Meeting's agenda item four, do not exceed the maximum nominal overall amount of 20% of the Bank's share capital at the moment when the proposed authorisation is adopted, this limit not being applicable to Contingent Convertible Issues - CoCos.

In this sense, it should be indicated that, unlike Mandatory Convertible Issues, which are issued in order to be converted, the Contingent Convertible Issues - CoCos are by nature perpetual fixed-income instruments and are not issued in order to be converted, since they have no pre-established conversion date and their contingent conversion is only envisaged for the very specific event of a significant shortfall in regulatory capital under the solvency regulations, so that they are eligible as additional tier-1 capital and are not dilutive for the shareholders at the time of their issue.

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Moreover, it should be taken into account that BBVA's own funds and solvency ratios are far removed from the conversion threshold, strengthening the "fixed-income" nature of these issues into the forefront and reducing the probability of their conversion. Thus, appropriate management of the Company's capital requires that this option not be subject to the limits of exclusion of the pre-emptive rights applicable to Mandatory Convertible Issues.

Nonetheless, note should be taken that the power to exclude the pre-emptive subscription rights may only be exercised in those cases in which the Board of Directors deems that the measure of suppressing the pre-emptive subscription right is proportional to the benefits that the Company will obtain in the final instance and that consequently, suppressing it is done because corporate interests so demand. In all cases, it is possible to make issues with pre-emptive subscription rights under this authorisation.

Likewise, on the occasion of each resolution to issue convertible securities with exclusion of pre-emptive subscription rights made under the authorisation from the General Shareholders' Meeting, the directors must draw up a report substantiating the details behind the suppression of pre-emptive subscription rights. This will be accompanied by a report from an independent expert/financial auditor other than the auditor of the Company accounts, appointed for such purpose by the Companies Registry. This latter report will contain technical judgement regarding the fairness of the data contained in the directors' report and on the suitability of the conversion ratio and, where appropriate, its adjustment formulae, to offset possible dilution of shareholders' financial own funds. All this will be done pursuant to articles 417 and 511 of the Corporate Enterprises Act.

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These reports must refer to each specific issue and will be made available to shareholders and reported to the first General Meeting to be held after the resolution to issue the securities and the subsequent capital increase.

5.- Use made by the Board of Directors of the authority conferred by the Annual General Shareholders' Meeting, 16 March 2012 under agenda item five

It is hereby stated that the authorisation conferred by the Annual General Shareholders' Meeting, 16 March 2012 under agenda item five that it is proposed to repeal insofar as it has not been effectively utilised, has been used by the Board of Directors on four occasions and only to make Contingent Convertible Issues - CoCos in order to shore up the Company's solvency ratios, in the terms detailed below:

- (i) On 3 April 2013, the BBVA Board of Directors resolved to issue preferred securities contingently convertible into Company shares up to a maximum amount of two billion US dollars (\$2,000,000,000) and to increase share capital by the amount required to cover their conversion, excluding pre-emptive subscription rights. This issue was made by BBVA on 30 April 2013 for a total nominal amount of one billion, five hundred million US dollars (\$1,500,000,000), equivalent to one billion, one hundred and fifty million, forty-two thousand, one hundred and sixty-eight euros, twenty-one euro-cents (€1,150,042,168.21) at that time.
- (ii) On 30 January 2014, the BBVA Board of Directors resolved to issue preferred securities contingently convertible into Company shares up to a maximum amount of one billion, five hundred million euros (€1,500,000,000) and to increase share capital by the amount required to cover their conversion, excluding pre-emptive

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subscription rights. This issue was made by BBVA on 11 February 2014 for the total nominal amount shown above.

- (iii) On 3 February 2015, the BBVA Board of Directors resolved to issue preferred securities contingently convertible into Company shares up to a maximum amount of one billion, five hundred million euros (€1,500,000,000) and to increase share capital by the amount required to cover their conversion, excluding pre-emptive subscription rights. This issue was made by BBVA on 11 February 2015 for the total nominal amount shown above.
- (iv) On 2 February 2016, the BBVA Board of Directors resolved to issue preferred securities contingently convertible into Company shares up to a maximum amount of one billion, five hundred million euros (€1,500,000,000) and to increase share capital by the amount required to cover their conversion, excluding pre-emptive subscription rights. This issue was made by BBVA on 8 April 2016 for a total nominal amount of one billion euros (€1,000,000,000).

None of the convertible securities issues referred to have been converted into BBVA shares.

6.- Proposed resolutions

The full text of the proposed resolutions conferring authority on the Board of Directors to issue convertible securities and exclude the pre-emptive subscription rights and to resolve to increase the share capital by the amount necessary for the conversion, in compliance with articles 414 and following and 511 in the Corporate Enterprises Act, which is presented to the approval of the General Shareholders' Meeting, is as follows:

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“One.- To confer authority on the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A. (the “Company” or the “Bank”), as broad as necessary by law, to issue securities convertible into newly issued Company shares, subject to provisions in the law and in the Company Bylaws that may be applicable at any time and, where appropriate, prior obtaining of the authorisations that may be necessary to such end. The Board of Directors may make issues on one or several occasions within the maximum term of five (5) years to be counted as from the date on which this resolution is adopted, up to the maximum overall amount of eight billion euros (€8,000,000,000) or its equivalent in any other currency.

Likewise, to confer authority on the Board of Directors, as broad as necessary by law, such that, in the manner it deems most appropriate, it may:

- (i) Resolve, establish and determine each and every one of the terms, characteristics and conditions of each of the issues of securities convertible into newly issued Company shares made under this resolution, including, but not limited to, the type of securities and their denomination, whether they be bonds, debentures, preferred securities, warrants or any other debt instruments convertible into newly issued Company shares in any form admitted by law; the amount, always within the maximum total overall amount indicated above; the date(s) of issue; the interest rate; the issue price and, in the case of warrants and similar securities, the issue price and/or issue premium, the strike price –which may be fixed or variable– and the procedure, term and other conditions applicable to the exercise of the subscription or purchase right over the underlying shares; the number of securities and the nominal value of each one; the form in which the securities are to be represented; the form and conditions of the remuneration, the fixed or variable interest rate, and the dates and procedures for payment of the coupon; the seniority of the securities and their potential subordination clauses; where appropriate, the anti-dilution clauses; applicable law; and, where appropriate,*

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the mechanism for the collective organisation and association and/or representation and protection of the holders of the securities issued, including the appointment of their representatives.

- (ii) *Resolve, establish and determine the form, the timing and the triggers for conversion and/or redemption, with the possibility of making perpetual issues; and the terms and modalities for conversion; distinguishing between: (a) perpetual issues or issues with no conversion and/or redemption deadline whose conversion is contingent, envisaged to meet regulatory requirements for the eligibility of the securities issued as capital instruments pursuant to solvency rules applicable at any time ("**Contingent Convertible Issues - CoCos**") and (b) the rest of the convertible securities issues made under this resolution, including, by way of example and not limited to those issues with a predetermined mandatory conversion deadline (which may be on maturity or at any other time) or that are convertible at the option of the issuer and/or the investor, the total or partial nature of that conversion being determined by the Company, the securities holders or both ("**Mandatory Convertible Issues**").*
- (iii) *Resolve, establish and determine the conversion ratio, which may be fixed or variable, within the limits set forth below.*

Should the issue be made with a fixed conversion ratio, the Company share price used for the conversion may not be lower than the greater of (a) the arithmetic mean of the closing prices of the Company share on the securities market or exchange that the Board of Directors determines, during the period it establishes, which may not be more than three months or less than fifteen trading sessions prior to the date on which the specific issue of convertible securities is approved; and (b) the closing price of the Company share on the securities market or

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exchange that the Board of Directors determines, the date prior to the date on which the specific issue of convertible securities is approved.

Should the issue be made with a variable conversion ratio, the Bank share price used for the conversion must be the arithmetic mean of the closing prices of the Company share on the securities market or exchange that the Board of Directors determines, during the period it establishes, which may not be more than three months or less than five trading sessions prior to the date on which the specific issue of convertible securities is approved. In such case a premium or, where appropriate, a discount may be established on the price per share, although should an issue discount be established on the price per share, it may not exceed 30%. The premium or discount may be different for each conversion date on each of the issues or tranches. Likewise, even if a variable conversion ratio is established, a minimum and/or maximum reference price may be determined for the shares to be used in the conversion, in the terms resolved by the Board of Directors.

Subject to whatever others limits may be applicable under prevailing regulations at any time, the value of the Company share for the purpose of the ratio for converting the securities into shares may not be below the nominal value of the Company share at the time of conversion, and securities may not be converted into shares when the nominal value of the securities is below that of the shares.

Likewise, the valuation for conversion of securities into shares will be for their nominal value and may or may not include interest accrued but unpaid at the time of their conversion.

- (iv) Request, where appropriate, that the convertible securities issued hereunder and/or the shares issued to cover their conversion be listed for trading on official or unofficial, regulated or non-regulated, domestic or foreign secondary markets,*

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empowering the Board of Directors to complete appropriate or necessary actions and formalities with the corresponding public and/or private bodies.

It is expressly recognised that the Company is subject to any rules existing now or in the future regarding negotiation, especially trading, listing and delisting of the securities, and the commitment that, should application be made for subsequent delisting of the securities or shares, this will be adopted pursuant to the formal requirements under applicable regulations.

- (v) Increase the Bank's share capital by the amount necessary to cover the conversion commitments or requests, within the limits that, where applicable, are in force and available at any time, being able to declare the issue undersubscribed, should this be the case, establishing the specifications of the Company shares to be issued to cover the conversion of the securities, and to redraft the corresponding article in the Company Bylaws.*

Should the issue be convertible and exchangeable, the Board of Directors may establish that the Company reserves the right at any time to choose between converting the securities into newly issued Company shares or exchanging them for shares already issued. It may also resolve to deliver a combination of newly issued shares and already issued shares, providing it respects the equitable treatment of all holders of the securities that are being converted and/or exchanged on the same date.

- (vi) Pursuant to the Corporate Enterprises Act, totally or partially exclude preemptive subscription rights within the framework of a specific issue of convertible securities, when corporate interest so require, in compliance with any legal requirements established to such end.*

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However, for Mandatory Convertible Issues, the power to exclude pre-emptive subscription rights will be limited to ensure the nominal amount of the capital increases resolved or carried out to cover the conversion of the Mandatory Convertible Issues in use of this authority (without prejudice to anti-dilution adjustments) with exclusion of pre-emptive subscription rights and of those likewise resolved or carried out with exclusion of pre-emptive subscription rights in use of the authority conferred under this General Meeting's agenda item four above, do not exceed the maximum nominal amount, overall, of 20% of the Bank's share capital at the time of this authorisation, this limit being not applicable to Contingent Convertible Issues - CoCos.

Two.- *To repeal the authority conferred by the Annual General Shareholders' Meeting, held on 16 March 2012, under its agenda item five, in the unused part.*

Three.- *In relation to the foregoing resolutions, to empower the Board of Directors to delegate the authority to the Executive Committee (in turn, with express powers to delegate such authority); to the Chairman of the Board of Directors; to the Chief Executive Officer; to any other Director; and any other person the Board of Directors may expressly empower for such purpose; with respect to the delegations and the powers conferred under the above resolutions."*

Madrid, 9 February 2017.

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