

*Report presented by the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A. for the purposes set out in articles 414, 417 and 511 of the Corporate Enterprises Act regarding the resolution to issue contingent perpetual securities convertible into ordinary shares of the entity, with exclusion of preemptive subscription rights and the corresponding share capital increase by the necessary amount, which is adopted under the authority conferred by the General Shareholders' Meeting held on 16<sup>th</sup> March 2012.*

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## 1. INTRODUCTION

### 1.1 Purpose of the report and applicable regulations

This report is drawn up by the Board of Directors of BANCO BILBAO VIZCAYA ARGENTARIA, S.A. (“**BBVA**”, the “**Bank**” or the “**Issuer**”) pursuant to articles 414, 417 and 511 of the consolidated text of the Corporate Enterprises Act, approved by Royal Legislative Degree 1/2010, of 2<sup>nd</sup> July, as amended (the “**Corporate Enterprises Act**” or the “**CEA**”), in relation to the resolution to issue contingent preferred securities convertible into newly-issued BBVA ordinary shares, which are issued in accordance with the first additional provision of Act 10/2014, of 26<sup>th</sup> June, on the regulation, supervision and solvency of credit institutions (the “**10/2014 Act**”) and with EU Regulation No. 575/2013 of the European Parliament and of the Council, of 26<sup>th</sup> June 2013, on prudential requirements for credit institutions and investment firms (“**EU Regulation 575/2013**”) (hereinafter the “**Securities**”), for a maximum nominal amount of 1.5 billion euros (or the equivalent in any other currency) and with exclusion of preemptive subscription rights (the “**Issuance**”), and the corresponding share capital increase. This resolution is adopted pursuant to the authority delegated by the Annual General Shareholders’ Meeting on 16<sup>th</sup> March 2012 under agenda item five.

Article 401.3 of the CEA provides that, except for the provisions set out in special Acts, securities recognizing or creating debt issued by a *sociedad anónima*, such as the Securities, will be subject to the regulations set forth for bonds under title XI of the Corporate Enterprises Act.

Said articles 414 et seq. of the CEA allow *sociedades anónimas* to issue bonds that can be converted into shares provided that the general shareholders’ meeting determines the terms and methods of the conversion and resolves to increase the capital by the necessary amount. To this end, the directors must draft a report explaining the terms and methods of the conversion. This must be accompanied

by another report from an auditor, different than the auditor of the company accounts, appointed for this purpose by the Commercial Registry.

Convertible bonds must not be issued for a sum below their nominal value, and must not be converted into shares when the nominal value of the bonds is below the nominal value of the shares.

For listed companies, article 511 of the CEA allows the general shareholders' meeting to confer authority on the directors not only to issue convertible bonds, but also to exclude the preemptive subscription rights over the convertible bond issues being delegated when the corporate interest so requires. To this end, the notice of the general shareholders' meeting in which the proposal to confer authority on the directors to issue convertible bonds is included must also contain express reference to the proposal to exclude the preemptive subscription rights.

In the capital increase resolution made on the basis of the delegation of the general shareholders' meeting, the directors' report and the auditor's report mentioned above must refer to each specific issue.

Thus, pursuant to article 417 of the CEA, the aforementioned directors' report must give detailed explanation of the grounds for the proposed suppression of preemptive subscription rights, and the independent expert's report will contain a technical judgment as to the reasonableness of the information contained in the directors' report and on the suitability of the conversion ratio and, where applicable, its adjustment formulas for offsetting any possible dilution of the economic value of shareholders' holdings.

These reports will be made available to the shareholders and communicated to the first general shareholders' meeting held after the increase resolution.

## **1.2 Advisory services received**

This report is issued on the basis of (i) the report issued by the BBVA Finance Department, which in turn is supported by the report prepared by Goldman Sachs International, a top-level investment bank with recognized expertise in this type of issuances, and (ii) the legal report of the external advisor, J&A Garrigues, S.L.P., legal advisor on Spanish law for the Issuance.

## **2. ON THE ISSUANCE OF THE SECURITIES**

### **2.1 Delegation by the Annual General Shareholders' Meeting under which the Securities are issued**

The BBVA Annual General Shareholders' Meeting held on 16<sup>th</sup> March 2012, validly convened in due time and form, adopted the following resolution under agenda item five, the relevant part of which is partially transcribed below:

*“Repealing the unveiled part of the authorization conferred by the Annual General Meeting, 14<sup>th</sup> March 2008, under agenda item six, to confer authority on the Board of Directors to issue convertible securities and/or securities exchangeable for Company shares, subject to applicable legal provisions and after obtaining the necessary authorizations, pursuant to the following conditions:*

*(...)*

*3. The authority to issue securities convertible and/or exchangeable for securities for Company shares will be extended to the following aspects and will also comprise the following powers:*

- i) Establishment of the various aspects and conditions of each issue, including, but not limited to: determining the amount of each issue or tranche within an issue, always within the overall quantitative limit established; the place of the issue (in or outside Spain) and the currency or exchange, plus its equivalent value in euros when denominated in another currency; the type of securities and their denomination, whether they are bonds, including subordinated bonds, preferred securities, warrants or any other admissible by law; the date(s) of issue; the number of securities and their nominal value; the issue price; in the case of warrants and similar securities, the issue price and/or 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 form and conditions of the yield and the fixed or variable interest rate, the dates and procedures for payment of the coupon; whether the issue is in perpetuity or repayable, and if so, the repayment term and the maturity date; the reimbursement ratio, premiums and bundling, guarantees; whether to represent the issue in certificates or book entries; the regulations governing subscription; anti-dilution clauses; applicable legislation and, in general, any other condition for the issue. Also, where applicable, to appoint a commissioner and approve the fundamental rules governing the legal relations between the Bank and the syndicate of security-holders, should it be necessary to constitute such a syndicate.*

- ii) The power to increase capital as much as necessary to meet applications for conversion or subscription with the limits that may be applicable, in force and available at any time, and redraft article 5 of the Company Bylaws.*
- iii) The power to exclude the preemptive subscription rights of shareholders, when this is necessary or when the Company's best interest may require such exclusion. Whatever the case, pursuant to article 511 of the Corporate Enterprises Act, should the Board resolve to exclude the preemptive subscription rights over a specific issue that it may decide to implement under this authorization, at the same time as the issue is approved, it will issue a report giving the grounds for proposing such exclusion, which will be subject of a parallel report from the auditor of the accounts referred to in articles 417 and 511 of the Corporate Enterprises Act. These reports will be made available to the shareholders and communicated to the first General Meeting held after the increase resolution.*
- iv) The power to determine the conversion and/or exchange ratio, which may be fixed or variable, within the limits established below, as well as the time of the conversion and/or exchange; whether the conversion and/or exchange of the securities is mandatory or voluntary, and whether at the option of the Company or the securities holders or both, and in general, such limits and conditions as may be necessary or advisable for the issue.*

*If the issue is made at a fixed conversion and/or exchange ratio, the corresponding share conversion and/or exchange price may not be lower than whichever is higher of (i) the arithmetic mean of the closing prices on the continuous market over a period to be specified but not exceeding three months and not less than fifteen days prior to the date on which the issue of convertible and/or exchangeable securities is approved, and (ii) the closing share price on the continuous market the day prior to the date on which the issue of convertible and/or exchangeable securities is approved.*

*Should the issue be made with a variable conversion and/or exchange ratio, the share price for the conversion and/or exchange must be the arithmetic*

*mean of the closing prices of the Company's shares on the Continuous Market during a period not exceeding three months and not less than five days prior to the conversion or exchange date, with a premium or, as applicable, a discount on said price per share. The premium/discount may be different for every date of conversion or exchange of each issue. However, if a discount is established on said price per share, it may not exceed 30%.*

*(...)*

*For the purpose of conversion and/or exchange, the value of the share must never drop below its nominal value 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 and/or exchange 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 and/or exchange.”*

## **2.2 Rationale for the Issuance**

### **2.2.1 Regulatory framework and capital requirements**

The approval and definitive coming into force of Basel III in Europe through EU Regulation 575/2013 and Directive 2013/36/EU of the European Parliament and of the Council, of 26<sup>th</sup> June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms ("**Directive 2013/36/EU**", jointly with EU Regulation 575/2013, "**CRD IV**"), have determined the new solvency framework applicable to financial institutions.

This new CRD IV framework has been implemented in Spain through Act 10/2014 and Royal Decree 84/2015, of 13<sup>th</sup> February, implementing Act 10/2014, notwithstanding the direct applicability of EU Regulation 575/2013.

During 2015 the requirements related to certain regulatory buffers have been partially determined, the definition of which is discretionary for the supervisory authority (the systemic risk buffer and the specific

countercyclical buffer) and the European Central Bank ("ECB") has established specific prudential capital requirements (Pillar II measures) specifically for each credit institution in the framework of the Supervisory Review and Evaluation Process (SREP). These new demands and uncertainties establish a total capital requirement applicable to credit institutions that is higher than the capital requirement provided for in CRD IV.

In this sense, in December 2015 the ECB informed the Bank its decision regarding the prudential capital requirements applicable to BBVA, as a result of the SREP process. This decision requires BBVA to maintain a common equity tier 1 capital ratio of 9.5% over risk-weighted assets, both on a consolidated and individual basis. This decision also established that said 9.5% ratio includes: (i) the minimum common equity tier 1 capital ratio required under article 92(1)(a) of EU Regulation 575/2013, which stands at 4.5%; (ii) the additional common equity tier 1 capital ratio (Pillar II measures), required under article 16(2)(a) of EU Regulation 1024/2013, which stands at 4.375%; and (iii) the capital conservation buffer required under article 44 of Act 10/2014, which currently stands at 0.625%.

Additionally, during 2016 BBVA will be subject, on a consolidated basis, to a 0.25% capital buffer for global systemically important institutions ("**G-SII**"), and therefore the minimum total requirement for common equity tier 1 capital ratio for BBVA in 2016 is set at 9.75% on a consolidated basis. However, BBVA has been excluded from the Financial Stability Board G-SII list with effect as of 1<sup>st</sup> January 2017. Therefore, the G-SII buffer will no longer be applicable to BBVA as from that date, being then required to maintain the capital buffer for other systemically important institutions<sup>1</sup>.

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<sup>1</sup> It is expected that the capital buffer requirement for other systemically important institutions will be set at 0.25% for 2017.



Currently, BBVA complies with all applicable capital requirements. Nevertheless, the supervisory authority could impose further capital buffers in addition to those already required, whilst Pillar II measures already in place will be revised on an annual basis, in accordance with the ECB conclusions arisen from subsequent SREPs. In light of the foregoing, it is necessary for BBVA to maintain an adequate capital buffer management.

### **2.2.2 Additional Tier 1 Capital**

In order to be considered properly capitalized, CRD IV provides that credit institutions must have in place different capital instruments to cover the different categories of regulatory capital which, in certain ratios, comprise their capital requirement. In this sense, in addition to "common equity tier 1 capital", CRD IV includes two additional regulatory capital categories in the composition of the capital requirement, which are "additional tier 1 capital" and "tier 2 capital", which must be covered with specific instruments and, failing that, with common equity tier 1 capital, which would be more burdensome and less efficient.

In this regard, CRD IV stipulates that the instruments issued by credit institutions that have been eligible until now as additional tier 1 capital and which do not comply with the new requirements set forth in EU Regulation 575/2013 will gradually become ineligible up to 2023, ceasing from that moment to be eligible as additional tier 1 capital.

For this reason, despite the fact that BBVA is above its total capital requirement, BBVA's Finance Department has considered advisable to issue securities that can be eligible as additional tier 1 capital in accordance with CRD IV in order to continue to cover, as efficiently as possible, this requirement for additional tier 1 capital (as its cost is lower than the cost associated with common equity tier 1 capital, it is tax-deductible and it is not

dilutive for shareholders, except in the event of contingent conversion) and, at the same time, be able to address in an orderly fashion the gradual loss of eligibility of the old instruments that currently partially comprise the additional tier 1 capital of BBVA, on an individual and on a consolidated basis.

This will enable the Bank to take advantage of the current interest and demand detected among some types of professional investors, as seen with the issuance of contingent convertible perpetual securities by the Bank in May 2013, February 2014 and February 2015.

In this context, the Finance Department has proposed to the Board of Directors, which has approved, the issuance of a fixed-income instrument that is eligible as additional tier 1 capital in accordance with the provisions of CRD IV. To this end, EU Regulation 575/2013 provides that these securities must include, among others, the following characteristics:

- (i) be perpetual;
- (ii) rank senior only with respect to shares (meaning that they rank below tier 2 instruments in the event of insolvency of the entity);
- (iii) distributions on the securities are only paid out of distributable items and the entity has full discretion at all times to cancel distributions on the securities for an unlimited period and on a non-cumulative basis; and
- (iv) they include a mechanism for contingent conversion into entity shares when the trigger event set out in said regulation occurs (as described in section 2.4.1 below) and thus they are able to effectively absorb losses in a context of solvency stress of the issuer. Nevertheless, this contingent trigger event would only occur in a very specific situation of shortfall in common equity tier 1 capital at the issuer or its group.

This way, BBVA covers the requirement to shore up additional tier 1 capital in the most efficient way possible and faces the gradual loss of eligibility of the old instruments that currently and partially comprise its additional tier 1 capital, taking advantage of the demand detected for this type of instruments, which is in the best interests for BBVA.

### **2.3 Financial conditions of the Issuance**

The Issuance will be made for a maximum nominal amount of 1.5 billion euros, the minimum nominal value of each Security being, at least, 100,000 euros.

For the purpose of eligibility as additional tier 1 capital, the Securities shall have the characteristics set out in CRD IV and, specifically, those stated in section 2.2.2. above.

Investors may receive the distributions set out in the Issuance final terms and conditions and which shall be in line with market prices for this type of instruments. As provided for in CRD IV, payment of the distributions shall be conditional, amongst other factors, on there being distributable items, which will be described in detail in the Issuance terms and conditions.

Moreover, the Issuer shall have full discretion at all times to cancel, totally or partially, the payment of distributions on the Securities for an unlimited period and on a non-cumulative basis, and may use such cancelled payments without restriction to meet its obligations as they fall due.

Should any of the trigger events set out in section 2.4.1 below occur, the Securities will be converted into ordinary BBVA shares according to the following variable conversion ratio, which depends on BBVA share price at the time of conversion:

$$Num_{Shrs} = Nom_{convertible} / P_{Shr}$$

Where:

$Num_{Shr}$ : Number of BBVA shares to be delivered against each Security.

$Nom_{convertible}$ : The nominal value of the Security subject to conversion (minimum 100,000 euros).

$P_{Shr}$ : Conversion Price (as defined in section 2.4.2 below).

## 2.4 Terms and methods of conversion

The terms and methods of conversion of the Securities, resulting from the proposal of the Finance Department, will essentially be as follows:

### 2.4.1 *Conversion trigger events*

The Securities will be converted into newly-issued ordinary BBVA shares if the Issuer, or its consolidated group or subgroup, has a common equity tier 1 capital ratio below 5.125%, calculated pursuant to EU Regulation 575/2013 or any other capital and solvency regulation applicable at any given time to the Issuer.

The Securities may also be converted into newly-issued ordinary BBVA shares if the Issuer adopts any measure whose consequence is the approval of a share capital reduction in the terms and conditions set out in article 418.3 of the CEA.

The Issuance terms and conditions may establish additional total or partial trigger events if this is required to shore up the Issuer's solvency or so that the Securities are eligible as additional tier 1 capital.

### 2.4.2 *Conversion ratio*

The ratio for converting the Securities into newly-issued ordinary BBVA shares (the "**Conversion Ratio**") will be the result of dividing the nominal

value of the Securities (which will be, at least, 100,000 euros) by the value attributed to the ordinary BBVA shares for the purposes of the conversion (the "**Conversion Price**"). The Conversion Price will correspond to the market price of BBVA shares at the time of the conversion of the Securities, subject to the limits set forth below.

Thus, the number of shares corresponding to each Securities holder as a result of the conversion will be the number resulting from multiplying the Conversion Ratio by the number of Securities held. If this transaction results in fractions, these will be subject to the stipulations included in the Issuance terms and conditions.

The Conversion Price shall be the arithmetic mean of the closing prices of BBVA share in the five days of trading prior to the occurrence of the trigger event, rounded to the nearest cent and, in the case of half a cent, up to the nearest cent (the "**Reference Price**").

If the Reference Price is below 3.75 euros, the Conversion Price will be 3.75 euros per share, although this amount may vary subject to the application of the anti-dilution mechanism established in the following section.

The above notwithstanding, the Conversion Price may never be lower than the nominal value of BBVA shares at the time of conversion, so that, in all events, the transaction will be compliant with article 415 of the Corporate Enterprises Act.

Consequently, the Conversion Price will be the greater of the following:

- a) the Reference Price;
- b) 3.75 euros (although this amount may vary due to application of the anti-dilution mechanism); and

- c) the nominal value of ordinary BBVA shares at the time of conversion.

#### **2.4.3 *Anti-dilution mechanism***

Pursuant to article 418.2 of the Corporate Enterprises Act, anti-dilution mechanisms will be established on the Conversion Price in line with the market practice in this type of transactions, in compliance with the Issuance terms and conditions.

These anti-dilution mechanisms must take into account the conversion terms and methods determined above and the fact that the Conversion Price must never be less than the nominal value of ordinary BBVA shares at the time of conversion.

### **2.5 Capital increase**

In accordance with article 414 of the Corporate Enterprises Act, the share capital increase must be completed for the maximum amount necessary to be able to cover the eventual conversion of the Securities issued. For such purposes, the maximum number of shares to be issued to cover the conversion will be determined by dividing the amount of the Issuance by the Conversion Price.

This capital increase will be executed by the Board of Directors, which may delegate this authority to the Executive Committee, with express powers to delegate it in turn, and will empower the proxies that the Board of Directors indicates, under the authority of the convertible securities issuance resolution approved by BBVA Annual General Shareholders' Meeting held on 16<sup>th</sup> March 2012 under agenda item five, to cover the contingent conversion of the Securities, by issuing new ordinary shares of the same nominal value and with the same rights as BBVA shares outstanding on the date of execution of the relevant capital increase. Should the capital increase be executed, the corresponding article in the Company Bylaws will be reworded to adapt it to the new figure for share capital.

It is not yet possible to determine the exact amount of share capital that would be needed for the contingent conversion of the Securities, given that, pursuant to the terms and methods of the conversion, it will be based on the market price of BBVA shares at the time of conversion.

The above notwithstanding, considering that the Issuance is for a nominal maximum amount of 1.5 billion euros, that the current nominal value of ordinary BBVA shares is 0.49 euros, that the Conversion Price may not be below 3.75 euros, and assuming there will be no anti-dilution adjustments prior to the date when the Securities are converted, the maximum number of new ordinary shares that would need to be issued is 400,000,000.

Pursuant to article 304.2 of the Corporate Enterprises Act, should the Securities be converted into ordinary shares, there would be no preemptive subscription rights on the resulting capital increase.

### **3. GROUNDS FOR THE EXCLUSION OF PREEMPTIVE SUBSCRIPTION RIGHTS**

#### **3.1 Grounds for the exclusion of preemptive subscription rights**

As indicated above, the BBVA Annual General Shareholders' Meeting held on 16<sup>th</sup> March 2012 resolved, under agenda item five, to delegate to the Board of Directors the authority to issue securities convertible into shares and to increase the share capital. It also resolved to confer on the Board of Directors the authority to exclude preemptive subscription rights over the convertible securities issuances made under such delegation.

To such end, when convening the aforementioned Annual General Meeting, the BBVA Board of Directors approved and gave shareholders access to a report explaining the grounds of the proposal to delegate the power to exclude preemptive subscription rights.

Article 511 of the Corporate Enterprises Act requires that preemptive subscription rights would only be excluded in the event of convertible bond issuances when corporate interest so requires.

BBVA Board of Directors, by virtue of said delegation and with due substantiation provided by the report issued by the Finance Department, which in turn is based on the report prepared by Goldman Sachs International and on the legal report by J&A Garrigues, S.L.P. as external legal advisor helping BBVA in the legal design of this transaction, has resolved to exclude the preemptive subscription rights with respect to the issuance of the Securities, as it deems such exclusion to be fully substantiated and in compliance with the requirements established by law, and necessary to achieve the corporate interest, as explained below.

With the intention of dealing with the necessity to complete additional tier 1 capital in the most efficient way possible and the gradual loss of eligibility of the old instruments that currently and partially comprise the additional tier 1 capital of the Bank and of its Group, the Finance Department has proposed to the Board of Directors an issuance of securities that are eligible as additional tier 1 capital under CRD IV, taking advantage of the interest and demand detected among some types of professional investors.

For the Securities to be eligible as additional tier 1 capital under CRD IV, these fixed-income securities must be perpetual, subordinate, with discretionary distributions and convertible into newly-issued ordinary BBVA shares in the event of a possible shortfall of common equity tier 1 capital, and therefore the issuance of Securities is being proposed as they are the only instruments that comply with the described characteristics, which are described in section 2.2.2. above.

Such complex characteristics, required by CRD IV, and their sophistication, as well as the latest regulatory changes, specifically regarding placement of this type



of instruments, mean that Securities are currently a product only suitable for placement among professional investors (to whom the Issuance is addressed) and not among all types of investors, especially retail investors, which are a relevant part of BBVA shareholders; in this way, not excluding the preemptive subscription right would mean offering a product that does not fit the investment profile of all Bank shareholders and, therefore, would compromise the viability of the Issuance given the high risk incurred if the Issuance is not subscribed in the initially planned time frame and at the amount set.

This would firstly have a very negative impact for BBVA on the market as an Issuer and would also make it necessary to carry out a subsequent additional placement among non-shareholder investors under conditions that would foreseeably be less favorable for the Bank, in terms of effective and operational costs, as well as the execution time and capital that it would entail, thereby clearly undermining BBVA's corporate interest.

However, growing interest for this type of instruments has been detected among qualified investors and foreign private banking customers, who are familiar with and usually subscribe this type of product, as demonstrated by the success of the issuances of contingent convertible perpetual securities by the Bank in May 2013, February 2014 and February 2015, as well as the issuances completed recently by various national and international credit institutions, which have been aimed at this type of investors.

In order to ensure the success of the Issuance and aim it directly at this type of investors, it is essential to exclude the preemptive subscription rights of BBVA shareholders.

The combination of the factors described above, reinforcing BBVA's own funds, the characteristics of these securities, the market conditions and the investors to whom the Issuance is addressed, have led the Finance Department to consider that the optimal alternative for the corporate interest is to reinforce BBVA's own

funds by issuing the Securities, aiming the Issuance solely at qualified investors and foreign private banking customers, as this is the appropriate group for subscribing this type of instruments and is also where most interest has been detected for these contingent convertible perpetual fixed-income instruments.

Consequently, the optimal alternative for meeting the corporate interest and providing a joint and comprehensive solution to the matters at hand is the issuance of Securities with exclusion of preemptive subscription rights.

In addition, the following circumstances should be taken into account:

- (i) The nature of the Securities is that of a perpetual fixed-income instrument, whose contingent convertibility is required by the regulations on capital and solvency for their eligibility as additional tier 1 capital, but which is only foreseen for very specific cases of a regulatory capital shortfall. Likewise, it should be taken into account that BBVA's solvency and equity ratios are currently very far from the trigger events, reinforcing the nature of the Securities as fixed-income security instruments and the eventuality of their conversion.
- (ii) The issue price for the Securities will be in line with the market prices for this type of instrument.
- (iii) The Conversion Price proposed to cover an eventual conversion corresponds to the market price of the share at the time of conversion, except in the event of such price being less than 3.75 euros, in which case the Conversion Price would be 3.75 euros and the shares would be issued with a premium over the market price. In this way, the maximum number of shares to be issued is limited by establishing the minimum Conversion Price, which guarantees that they will be issued at a price equal to or above the market price.

Taking into account that the Securities are issued as perpetual securities, that the issue price will be in line with the market price, that the conversion trigger events

are very limited in number and that the Conversion Price would be the market price or, where appropriate, include a premium over the market price, pursuant to the Finance Department report and the report prepared by Goldman Sachs International, the theoretical value of the preemptive subscription rights stemming from the Issuance is nil, meaning that current shareholders do not lose any financial value with their exclusion.

In light of the foregoing, the proposed Issuance is necessary for the purpose intended, thus achieving the corporate interest.

### **3.2 Investors to whom the Securities should be attributed**

As stated above, the Issuance is aimed exclusively at qualified investors and foreign private banking customers, notwithstanding the sale restrictions that may be determined in the Issuance terms and conditions.

## **4. PROPOSED RESOLUTIONS**

***“ONE.-** In use of the authority conferred by the Annual General Shareholder’s Meeting of Banco Bilbao Vizcaya Argentaria, S.A. (**“BBVA”** or the **“Company”**) held on 16<sup>th</sup> March 2012 under agenda item five, to issue contingent preferred securities convertible into newly-issued ordinary shares of the Company, in accordance with the first additional provision of Act 10/2014, of 26<sup>th</sup> June, on the regulation, supervision and solvency of credit institutions (**“Act 10/2014”**) and EU Regulation No. 575/2013 of the European Parliament and of the Council, of 26<sup>th</sup> June 2013, on prudential requirements for credit institutions and investment firms (**“EU Regulation 575/2013”**) (hereinafter the **“Securities”**), for a maximum nominal amount of 1.5 billion euros or the equivalent in any other currency, with exclusion of preemptive subscription rights (the **“Issuance”**), under the following terms:*

***Nature of the Securities:***

*Contingent preferred securities convertible into newly-issued ordinary BBVA shares, pursuant to the first additional provision of Act 10/2014 and EU Regulation 575/2013.*

***Issuer:***

*BBVA.*

***Target Investors:***

*Qualified investors and foreign private banking customers, notwithstanding the sale restrictions that may be determined in the Issuance terms and*

conditions.

**Maximum Issuance amount:**

*1.5 billion euros, or the equivalent in any other currency, as set out in the Issuance terms and conditions.*

**Nominal value:**

*The Securities will have the nominal value set out in the Issuance terms and conditions, with a minimum of one hundred thousand euros (€100,000), or the equivalent in any other currency.*

**Maximum number of Securities:**

*The maximum number of Securities to be issued will be the result of dividing the total amount of the Issuance by its nominal value. All the Securities will belong to a single series, with the same terms and conditions.*

**Issuance interest:**

*The Issuance will be at par, i.e. at one hundred per cent of its nominal value.*

**Distributions:**

*Holders of the Securities may receive a predetermined non-cumulative distribution that will be based on the interest rate applicable to the nominal value of the Securities and which will be paid provided compliance with the conditions set out in the Issuance terms and conditions (the “Distributions”).*

*In particular, the Issuer shall have full discretion at all times to cancel, totally or partially, the payment of Distributions for an unlimited period and with on a non-cumulative basis, and may use such cancelled payments without restriction to meet its obligations as they fall due.*

*The foregoing notwithstanding other cases of cancellation of Distributions that may be set out in the Issuance terms and conditions or as determined by applicable regulations.*

**Maturity date and early redemption:**

*The Issue is perpetual, such that it has no maturity date.*

*The Securities may be totally or partially redeemed at the Issuer's option, in accordance with the Issuance terms and conditions, provided that, at least, 5 years have elapsed from their issue, as long as, where applicable, prior authorization has been granted by the competent authority.*

*The Issuance terms and conditions may include other circumstances for early redemption by the Issuer.*

**Representation of the Securities:**

*The Securities may be represented by physical certificates or book entries.*

**Ranking:**

*The Securities are subordinated obligations with the following ranking:*

- (i) junior to unsubordinated obligations;*
- (ii) junior to subordinated obligations and subordinated securities issued or guaranteed by BBVA, or that may be issued or guaranteed by BBVA, that rank above the Securities;*
- (iii) pari passu with obligations and securities issued or guaranteed by BBVA, or that may be issued or guaranteed by BBVA, that rank pari passu with the Securities;*
- (iv) senior to the obligations and securities issued or guaranteed by BBVA, or that may be issued or guaranteed by BBVA, that rank senior to the Securities; and*
- (v) senior to ordinary BBVA shares.*

**TWO.**- *The terms and methods for conversion of the Securities will be as follows:*

**a) Conversion triggers events**

*The Securities will be converted into newly-issued ordinary BBVA shares if the Issuer, or its consolidated group or subgroup, has a common equity tier 1 ratio below 5.125%, calculated pursuant to EU Regulation 575/2013 or to any other capital and solvency regulation applicable at any given time to the Issuer.*

*In turn, the Securities may be converted into newly-issued ordinary BBVA shares if the Issuer adopts any measure whose consequence is the approval of a share capital reduction as set out by article 418.3 of the consolidated text of the Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010, of 2<sup>nd</sup> July, as amended (the "Corporate Enterprises Act").*

*Finally, the Issuance terms and conditions may establish additional total or partial trigger events if this is required to shore up the Issuer's solvency or so that the Securities are eligible as additional tier 1 capital.*

**b) Conversion Ratio**

*The ratio for converting the Securities into newly-issued ordinary BBVA shares (the "Conversion Ratio") will be the result of dividing the nominal value of the Securities by the value attributed to the ordinary BBVA shares for the purposes of the conversion (the "Conversion Price"). The Conversion Price will correspond to the market price of BBVA shares at the time of conversion of the Securities, subject to the limits set forth below.*

*Thus, the number of shares corresponding to each Securities holder as a result of the conversion will be the number resulting from multiplying the Conversion Ratio by the number of Securities held. If this transaction results in fractions, these will be subject to the stipulations included in the Issuance terms and conditions.*

*The Conversion Price shall be the arithmetic mean of the closing prices of BBVA share in the five days of trading prior to the occurrence of the trigger event, rounded to the nearest cent and, in the case of half a cent, up to the nearest cent (the "Reference Price").*

*If the resulting Reference Price is below 3.75 euros, the Conversion Price will be 3.75 per share, although this amount may vary subject to the application of the anti-dilution mechanism established in the section d) below.*

*The above notwithstanding, the Conversion Price may never be lower than the nominal value of BBVA shares at the time of conversion, so that, in all events, the transaction will be compliant with article 415 of the Corporate Enterprises Act.*

*Consequently, the Conversion Price will be the greater of the following:*

- a) the Reference Price;*
- b) 3.75 euros (although this amount may vary due to application of the anti-dilution mechanism); and*
- c) the nominal value of ordinary BBVA shares at the time of conversion.*

**c) Conversion procedure**

*The conversion procedure will be determined in the Issuance terms and conditions.*

**d) Anti-dilution mechanism**

*Pursuant to article 418.2 of the Corporate Enterprises Act, anti-dilution mechanisms will be established on the Conversion Price in line with the market practice in this type of transactions, in compliance with the Issuance terms and conditions.*

*These anti-dilution mechanisms must take into account the conversion terms and methods determined above and the fact that the Conversion Price must never be less than the nominal value of ordinary BBVA shares at the time of conversion.*

Notwithstanding other proxies that may be appointed pursuant to these resolutions, the Executive Committee is expressly empowered, with express authority to delegate in turn, and the broadest powers are conferred on Mr Jaime Sáenz de Tejada Pulido, a Spanish national, with identity card number 823996-K, Mr Erik Schotkamp, a Dutch national, with foreign residency identity card number Y2126590-R, Mr Antonio Joaquín Borraz Peralta, a Spanish national, with identity card number 29100035-K, Mr Raúl Moreno Carnero, a Spanish national, with identity card number 52473664-S and Mr Francisco Javier Colomer Betoret, a Spanish national, with identity card number 25418655-K, all of legal age and domiciled for these purposes in Madrid, calle Azul n.º 4 (the “**Proxies**”), so that either of them, indistinctly, jointly and severally, may establish, develop or amend the Issuance terms and conditions, as well as determine or develop any matter not established by this resolution, including, but not limited to, amend, adapt and/or determine other trigger events, additional to those provided for in this resolution, under the terms and conditions they deem necessary or advisable for the successful outcome of the transaction.

**THREE.**- On the basis of the report drawn up by BBVA Finance Department, in accordance with the report prepared by J&A Garrigues, S.L.P., and pursuant to articles 414, 417 and 511 of the Corporate Enterprises Act, to approve the Directors’ Report on the Issuance, which will be made available to shareholders along with the report issued by the auditor (different than the Company’s auditor), appointed for such purposes by the Commercial Registry, and reported to the first General Shareholders’ Meeting held after the capital increase resolution, expressly empowering the General Secretary and of the Board of Directors to certify the text.

**FOUR.**- In line with the Finance Department report, which is reflected in the Directors’ Report approved in the foregoing resolution, the corporate interest requires the suppression of preemptive subscription rights in this Issuance. Consequently, the Board of Directors, pursuant to the authority attributed by the Annual General Shareholders’ Meeting held on 16<sup>th</sup> March 2012, under agenda item five, and pursuant to article 511 of the Corporate Enterprises Act, hereby resolves to exclude said preemptive subscription rights in this Issuance.

**FIVE.**- To increase the share capital by the amount and number of shares necessary to cover the eventual conversion of the Securities, pursuant to the Conversion Ratio.

The maximum number of shares to be issued is 400,000,000 ordinary shares (currently with a nominal value of 0,49 euros), assuming that no anti-dilution adjustments are made, expressly envisaging the possibility of the capital increase being implemented with an issue premium, for a lower number of shares and with the possibility of under-subscription.

Should the Securities be converted, the new shares issued to cover the conversion will be ordinary shares, of the same class and series as those outstanding at that time and will be represented in the same way (currently by book entries, whose recording is attributed to Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (“Iberclear”), which performs this function together with its participating entities), granting their holders the same rights as the ordinary shares outstanding at that time. Upon execution of this resolution to increase share capital, the corresponding Company Bylaws article will be reworded accordingly.

Pursuant to article 304.2 of the Corporate Enterprises Act, should the Securities be converted, there would be no preemptive subscription rights on the resulting capital increase.

**SIX.**- *In use of the authority conferred by the Annual General Shareholders' Meeting held on 16<sup>th</sup> March 2012 under agenda item five, it is hereby resolved to delegate on the Executive Committee, with express faculties to delegate in turn, and to empower the Proxies in the broadest terms, so that either of them, indistinctly, jointly and severally, may, within the limits established in the resolutions above, carry out the aforementioned Issuance and:*

- a) Determine the timing on which the Issuance is to take place, being also authorized to abstain from executing the Issuance if deemed necessary or advisable.*
- b) Determine the terms and conditions applicable to the Issuance and to the Securities to be issued, including, but not limited to, the final amount of the Issuance within the limits established under resolution ONE above, the currency of the Issuance and the nominal value of each Security, the nominal interest rate applicable to the Securities, the interest accrual periods, the placement system and, when applicable, the effective placement rate, include new conversion terms and methods and/or amend them, including the Conversion Ratio or the terms and conditions of the anti-dilution mechanism, as well as determine any additional triggers for early redemption and any other terms and conditions deemed necessary or advisable for the successful outcome of the transaction, expressing the amount drawn respect to the limit of the delegation granted by the General Shareholders' Meeting to the Board and the amount remaining, empowering them also to redeem the Securities early.*
- c) Declare the Distributions of the Securities, whether partially or totally, and declare the total or partial cancellation of Distributions, as determined in the Issuance terms and conditions.*
- d) Apply, where appropriate, the anti-dilution mechanisms as determined in the Issuance terms and conditions.*
- e) Negotiate, examine, enter into, perform, execute, sign, amend or cancel all the contracts, instruments, agreements and documents, whether public or private, that may be necessary or advisable in relation to the Issuance (in particular, including, but not limited to, prospectuses or offering circulars, liquidity contracts, subscription, placement or underwriting agreements, payment agency contracts, requests, communications or announcements, as well as any other contracts formalizing the Issuance or that are necessary for the Issuance of the Securities), with authority to determine the legal and economic conditions of all of them and to make the necessary or advisable designations or appointments, as well as other supplementary acts that may be required or advisable to implement what has been agreed upon.*
- f) Appear, personally or through the representative or agent designated in writing by any of the Proxies, before all the representatives, committees or bodies of any securities exchange or market or any supervisor, regulator or registry, as well as any securities book-entry registration, clearing and/or settlement organization, with authority to execute, issue, sign, grant, modify and cancel such contracts, certificates and documents as may be necessary or advisable, in the manner that any of the Proxies deems necessary or advisable to comply with the applicable requirements imposed from time to time by each supervisor, regulator, registry, securities exchange or market or securities registration, clearing and/or settlement organization.*



- g) *Request, where applicable, the eligibility of the Securities as additional tier 1 capital, or any other own fund category of the Company and/or of its group, in accordance with the capital and solvency regulations that may apply from time to time.*
- h) *Execute and sign any public or private documents as may be required, with authority to appear before a notary, raise these resolutions, execute deeds of issue, rectification, clarification or correction, and those for total or partial subscription of the Issuance, as well as those for total or partial redemption or amendment and, where appropriate, execute any other public or private documents that may be necessary or advisable in relation to the Issuance, as well as complete all relevant formalities, with the possibility of acting through agents, to achieve their registration at the Commercial Registry, as long as this is mandatory. Where applicable, file the declaration referred to in article 318 of the Commercial Registry Regulations, in compliance with article 36 of the Consolidated Text of the Securities Markets Act, should this be necessary.*
- i) *If deemed necessary or advisable, establish the mechanisms for collective association or organization and/or representation and protection of Securities holders, including the determination of their characteristics and rules of operation, and, where appropriate, the appointment of their representatives and the rules that are to govern the relationships between the Company and such holders, all in accordance with the terms and conditions deemed necessary or advisable.*
- j) *Establish all other aspects not determined by this Board of Directors in relation to the Issuance, including any modification, where necessary or advisable, and determine any other aspect of the Issuance or implement any other measures deemed necessary or advisable in relation to the above powers, executing for this purpose any private or public documents deemed necessary or advisable.*
- k) *With respect to the contingent conversion of the Securities into newly-issued ordinary BBVA shares, establish, where appropriate, the Conversion Price, the final conversion rate for the Issuance and, if applicable, the issue premium, determine the number of shares by which the BBVA capital is finally to be increased, declaring under-subscription when this is the case, and perform such acts as may be necessary, including, but not limited to, granting any public or private documents that may be necessary to implement the capital increase and amend, if applicable, the wording of the corresponding article in the Company Bylaws to adapt it to the new figure for share capital, being also authorized to appear for such purposes before any public or private bodies, including but not limited to a public notary or the Commercial Registry.*
- l) *Request, where appropriate, the admission to trading of the Securities and/or the ordinary BBVA shares issued to cover the contingent conversion of the Securities, on regulated and non-regulated, organized or non-organized, Spanish and international secondary markets, and take any actions as deemed necessary in any jurisdiction where the Securities or the newly-issued BBVA shares are offered or traded or requested to trading, where applicable. By way of example:*
  - *Draft, approve, formulate, subscribe and sign any documents, contracts, prospectuses, requests, communications or notifications as deemed necessary or*

*advisable for these purposes and proceed to their subsequent amendment as deemed advisable.*

- *Take such actions as may be necessary before any competent authorities in each jurisdiction and approve and formalize such public and/or private documents as may be necessary and/or advisable for the full effectiveness of the resolutions, in any aspects or content.*

*Lastly, and for the purposes of the applicable regulations on issuance of securities, it is resolved to appoint the Proxies as representatives of the Company, jointly and severally, before any public and/or private body. They will bear responsibility for the content of the prospectuses, information documents or any other similar documents, where applicable, being likewise authorized to sign any additional contracts and documents, whether public or private, that may be necessary or advisable for the successful outcome of the transaction.”*

\* \* \*

Madrid, 2<sup>nd</sup> February 2016

*Free translation from the original in Spanish, for information purposes only. In the event of a discrepancy or inconsistency between the Spanish and English language versions of this report, the Spanish-language version will prevail.*

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

Special report on the issue of  
contingent perpetual securities  
convertible into shares with  
exclusion of preemptive  
subscription rights in accordance  
with the provisions of articles  
414, 417 and 511 of the  
Corporate Enterprises Act

Bilbao, 3 February 2016



**SPECIAL REPORT ON THE ISSUE OF CONTINGENT PERPETUAL SECURITIES CONVERTIBLE INTO SHARES WITH EXCLUSION OF PREEMPTIVE SUBSCRIPTION RIGHTS IN ACCORDANCE WITH THE PROVISIONS OF ARTICLES 414, 417 AND 511 OF THE CORPORATE ENTERPRISES ACT**

To the Shareholders of **Banco Bilbao Vizcaya Argentaria, S.A.**

For the purposes set out in articles 414, 417 and 511 of the Corporate Enterprises Act (hereinafter “CEA”), and in accordance with the assignment received from Banco Bilbao Vizcaya Argentaria, S.A. (“BBVA”, the “Bank” or the “Company”), by appointment made by the Commercial Registrar for Vizcaya, Mr. Carlos Alonso Olarra, we issue the following Special Report on the issue of contingent perpetual securities convertible into newly-issued BBVA ordinary shares (hereinafter “the Securities”) with exclusion of preemptive subscription rights, accompanied by the attached report from the Company's Board of Directors (hereinafter, the “Report from the Board of Directors”), which are made available to the Company's shareholders.

The purpose of our work is not to certify the price of issue or conversion of the Securities into shares but to state, from the application of the procedures set out in the relevant Technical Standards relating to the preparation of this type of special reports in accordance with the provisions of article 414 of the CEA, whether the Report from the Board of Directors, dated 2nd February 2016, and attached as appendix to this report, contains the required information, which includes the explanation of the bases and forms relating to the conversion, as well as to issue a technical opinion, as independent experts and auditors, in accordance with article 417 of the CEA, on the sufficiency and reasonability of the information contained in the attached Report from the Board of Directors and on the suitability of the conversion ratio and, if applicable, its adjustment formulas for compensating a possible dilution of the economic value of shareholders' holdings.

The Company's Board of Directors have drawn up the attached report in which they provide a detailed description of the bases and forms relating to the conversion as well as the justification for the suppression of preemptive subscription rights for the Company's shareholders.

In accordance with articles 414 and 417 of the CEA and the aforementioned Technical Standards, the following were the procedures applied in the performance of our work:

- a. Obtaining and analysing the following information:
  - Application document for appointment of independent expert and auditor presented to the Commercial Registry of Vizcaya by BBVA.
  - Decision of the Company's General Shareholders' Meeting in respect of the delegation to the Directors of the authority to issue convertible securities and to exclude preemptive subscription rights.
  - Report from the Board of Directors of BBVA in connection with the issue of contingent perpetual securities convertible into shares of the Company and the exclusion of preemptive subscription rights.

- The Company's audited annual accounts, individual and consolidated, corresponding to the financial year ended on 31 December 2015.
  - Minutes of the Shareholders' Meetings and of the meetings of the Board of Directors of the Bank for the last year.
  - Report from the BBVA Finance Department in connection with the planned transaction.
  - Other financial and legal reports issued by the Company's advisors in relation to the planned transaction.
  - Other information considered to be of interest for the performance of our work.
- b. Review and analysis of the main aspects of the above information in connection with the issuance of the Securities.
- c. Meetings held with the Company's Management for the purpose of gathering other information considered to be of use in the performance of our work.
- d. Evaluation as to whether the Report from the Board of Directors contains the information considered to be necessary and sufficient for its adequate interpretation and understanding by its addressees.
- e. Verification of the calculations used by BBVA's Management in determining the bases and forms relating to the conversion and other rights, if any, guaranteed to the Securities' subscribers.
- f. Verification that the issue price for the Securities is not below their nominal value, and that the conversion price for the Securities is not below the nominal value of the shares for which they will be converted.
- g. Verification that the accounting information contained in the Report from the Board of Directors concurs, as applicable, with the Company's accounting data that served as a basis for preparing its audited annual accounts.
- h. Evaluation of the reasonability of the data contained in the Report from the Board of Directors justifying the suppression of the shareholders' preemptive rights for the subscription of the Securities.
- i. Evaluation of the suitability of the conversion ratio and, as applicable, of its adjustment formulas for compensating a possible dilution of the shareholders' economic participation.
- j. Obtaining a letter signed by the Company's Management in which it confirms to us that we have been provided with all the information necessary for preparing our report, as well as confirming that there have been no subsequent events between 31 December 2015 and the date of this report that have not been notified to us and which could have a significant effect on the results of our work.

With regard to the procedures applied we should mention that certain aspects of our work implicitly involve, in addition to objective factors, others that imply judgements and working hypotheses, compliance with which depends to a great extent on future events for which it is not possible at present to know the final outcome and, therefore, it is not possible to ensure that third



parties will necessarily be in agreement with the interpretation and opinions expressed in this report.

We should state that, as set out in the Report from the Board of Directors, the conversion ratio for the Securities will be determined by reference to the market value of the BBVA share at the time of conversion or at a fixed price of 3.75 euros per share were the market value to be lower, without the conversion price being, in any case, below the nominal value of the BBVA shares at the time of conversion. For this reason and taking into account the remaining characteristics of the proposed issue and its context, the theoretical value of the preemptive subscription rights associated with the Securities would be nil. It is also important to emphasise that our work is of an independent nature, and therefore does not involve any recommendation to the Management of the Company, to the shareholders thereof or to third parties with respect to the position they should take with respect to the issue of the Securities or with respect to any exchange transactions offered to third parties with respect thereto.

Based on the information and procedures performed, as described in the previous paragraphs, and with the exclusive objective to comply with the requirements established in the articles 414, 417 and 511 of the CEA, in our professional judgment:

- The Report from the Board of Directors contains the required information, as set out in the Technical Standards relating to the preparation of special reports of this type in accordance with the provisions of article 414.2 of the CEA.
- The information contained in the Report from the Board of Directors to justify the exclusion of preemptive subscription rights is reasonable by being properly documented and presented.
- The conversion ratio for the Securities and, if applicable, its adjustment formulas for compensating a possible dilution of the economic value of shareholders' holding is suitable, the theoretical value of preemptive subscription rights associated with the Securities being nil, at the date of this report taking into account the characteristics and context of the proposed issue.

This special report has been prepared solely for the purposes set out in articles 414, 417 and 511 of the CEA, and so it may not be used for any other purpose.

**BDO Auditores, S.L.P.**

Alfonso Berganza Hernández  
Partner: Auditor  
ROAC N°: 09501  
Bilbao, 3 February 2016



*Special report on the issue of contingent perpetual securities convertible into shares with exclusion of preemptive subscription rights in accordance with the provisions of articles 414, 417 and 511 of the CEA*

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## **APPENDIX:**

### **REPORT FROM THE BOARD OF DIRECTORS OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A. ON THE ISSUE OF CONTINGENT PERPETUAL SECURITIES CONVERTIBLE INTO SHARES WITH EXCLUSION OF PREEMPTIVE SUBSCRIPTION RIGHTS**

*Report presented by the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A. for the purposes set out in articles 414, 417 and 511 of the Corporate Enterprises Act regarding the resolution to issue contingent perpetual securities convertible into ordinary shares of the entity, with exclusion of preemptive subscription rights and the corresponding share capital increase by the necessary amount, which is adopted under the authority conferred by the General Shareholders' Meeting held on 16<sup>th</sup> March 2012.*



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## 1. INTRODUCTION

### 1.1 Purpose of the report and applicable regulations

This report is drawn up by the Board of Directors of BANCO BILBAO VIZCAYA ARGENTARIA, S.A. (“BBVA”, the “Bank” or the “Issuer”) pursuant to articles 414, 417 and 511 of the consolidated text of the Corporate Enterprises Act, approved by Royal Legislative Degree 1/2010, of 2<sup>nd</sup> July, as amended (the “Corporate Enterprises Act” or the “CEA”), in relation to the resolution to issue contingent preferred securities convertible into newly-issued BBVA ordinary shares, which are issued in accordance with the first additional provision of Act 10/2014, of 26<sup>th</sup> June, on the regulation, supervision and solvency of credit institutions (the “10/2014 Act”) and with EU Regulation No. 575/2013 of the European Parliament and of the Council, of 26<sup>th</sup> June 2013, on prudential requirements for credit institutions and investment firms (“EU Regulation 575/2013”) (hereinafter the “Securities”), for a maximum nominal amount of 1.5 billion euros (or the equivalent in any other currency) and with exclusion of preemptive subscription rights (the “Issuance”), and the corresponding share capital increase. This resolution is adopted pursuant to the authority delegated by the Annual General Shareholders’ Meeting on 16<sup>th</sup> March 2012 under agenda item five.

Article 401.3 of the CEA provides that, except for the provisions set out in special Acts, securities recognizing or creating debt issued by a *sociedad anónima*, such as the Securities, will be subject to the regulations set forth for bonds under title XI of the Corporate Enterprises Act.

Said articles 414 et seq. of the CEA allow *sociedades anónimas* to issue bonds that can be converted into shares provided that the general shareholders’ meeting determines the terms and methods of the conversion and resolves to increase the capital by the necessary amount. To this end, the directors must draft a report explaining the terms and methods of the conversion. This must be accompanied

by another report from an auditor, different than the auditor of the company accounts, appointed for this purpose by the Commercial Registry.

Convertible bonds must not be issued for a sum below their nominal value, and must not be converted into shares when the nominal value of the bonds is below the nominal value of the shares.

For listed companies, article 511 of the CEA allows the general shareholders' meeting to confer authority on the directors not only to issue convertible bonds, but also to exclude the preemptive subscription rights over the convertible bond issues being delegated when the corporate interest so requires. To this end, the notice of the general shareholders' meeting in which the proposal to confer authority on the directors to issue convertible bonds is included must also contain express reference to the proposal to exclude the preemptive subscription rights.

In the capital increase resolution made on the basis of the delegation of the general shareholders' meeting, the directors' report and the auditor's report mentioned above must refer to each specific issue.

Thus, pursuant to article 417 of the CEA, the aforementioned directors' report must give detailed explanation of the grounds for the proposed suppression of preemptive subscription rights, and the independent expert's report will contain a technical judgment as to the reasonableness of the information contained in the directors' report and on the suitability of the conversion ratio and, where applicable, its adjustment formulas for offsetting any possible dilution of the economic value of shareholders' holdings.

These reports will be made available to the shareholders and communicated to the first general shareholders' meeting held after the increase resolution.



## **1.2 Advisory services received**

This report is issued on the basis of (i) the report issued by the BBVA Finance Department, which in turn is supported by the report prepared by Goldman Sachs International, a top-level investment bank with recognized expertise in this type of issuances, and (ii) the legal report of the external advisor, J&A Garrigues, S.L.P., legal advisor on Spanish law for the Issuance.

## **2. ON THE ISSUANCE OF THE SECURITIES**

### **2.1 Delegation by the Annual General Shareholders' Meeting under which the Securities are issued**

The BBVA Annual General Shareholders' Meeting held on 16<sup>th</sup> March 2012, validly convened in due time and form, adopted the following resolution under agenda item five, the relevant part of which is partially transcribed below:

*“Repealing the unveiled part of the authorization conferred by the Annual General Meeting, 14<sup>th</sup> March 2008, under agenda item six, to confer authority on the Board of Directors to issue convertible securities and/or securities exchangeable for Company shares, subject to applicable legal provisions and after obtaining the necessary authorizations, pursuant to the following conditions:*

*(...)*

*3. The authority to issue securities convertible and/or exchangeable for securities for Company shares will be extended to the following aspects and will also comprise the following powers:*

- i) Establishment of the various aspects and conditions of each issue, including, but not limited to: determining the amount of each issue or tranche within an issue, always within the overall quantitative limit established; the place of the issue (in or outside Spain) and the currency or exchange, plus its equivalent value in euros when denominated in another currency; the type of securities and their denomination, whether they are bonds, including subordinated bonds, preferred securities, warrants or any other admissible by law; the date(s) of issue; the number of securities and their nominal value; the issue price; in the case of warrants and similar securities, the issue price and/or 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 form and conditions of the yield and the fixed or variable interest rate, the dates and procedures for payment of the coupon; whether the issue is in perpetuity or repayable, and if so, the repayment term and the maturity date; the reimbursement ratio, premiums and bundling, guarantees; whether to represent the issue in certificates or book entries; the regulations governing subscription; anti-dilution clauses; applicable legislation and, in general, any other condition for the issue. Also, where applicable, to appoint a commissioner and approve the fundamental rules governing the legal relations between the Bank and the syndicate of security-holders, should it be necessary to constitute such a syndicate.*

- ii) The power to increase capital as much as necessary to meet applications for conversion or subscription with the limits that may be applicable, in force and available at any time, and redraft article 5 of the Company Bylaws.*
- iii) The power to exclude the preemptive subscription rights of shareholders, when this is necessary or when the Company's best interest may require such exclusion. Whatever the case, pursuant to article 511 of the Corporate Enterprises Act, should the Board resolve to exclude the preemptive subscription rights over a specific issue that it may decide to implement under this authorization, at the same time as the issue is approved, it will issue a report giving the grounds for proposing such exclusion, which will be subject of a parallel report from the auditor of the accounts referred to in articles 417 and 511 of the Corporate Enterprises Act. These reports will be made available to the shareholders and communicated to the first General Meeting held after the increase resolution.*
- iv) The power to determine the conversion and/or exchange ratio, which may be fixed or variable, within the limits established below, as well as the time of the conversion and/or exchange; whether the conversion and/or exchange of the securities is mandatory or voluntary, and whether at the option of the Company or the securities holders or both, and in general, such limits and conditions as may be necessary or advisable for the issue.*

*If the issue is made at a fixed conversion and/or exchange ratio, the corresponding share conversion and/or exchange price may not be lower than whichever is higher of (i) the arithmetic mean of the closing prices on the continuous market over a period to be specified but not exceeding three months and not less than fifteen days prior to the date on which the issue of convertible and/or exchangeable securities is approved, and (ii) the closing share price on the continuous market the day prior to the date on which the issue of convertible and/or exchangeable securities is approved.*

*Should the issue be made with a variable conversion and/or exchange ratio, the share price for the conversion and/or exchange must be the arithmetic*



*mean of the closing prices of the Company's shares on the Continuous Market during a period not exceeding three months and not less than five days prior to the conversion or exchange date, with a premium or, as applicable, a discount on said price per share. The premium/discount may be different for every date of conversion or exchange of each issue. However, if a discount is established on said price per share, it may not exceed 30%.*

*(...)*

*For the purpose of conversion and/or exchange, the value of the share must never drop below its nominal value 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 and/or exchange 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 and/or exchange.”*

## **2.2 Rationale for the Issuance**

### **2.2.1 Regulatory framework and capital requirements**

The approval and definitive coming into force of Basel III in Europe through EU Regulation 575/2013 and Directive 2013/36/EU of the European Parliament and of the Council, of 26<sup>th</sup> June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms ("**Directive 2013/36/EU**", jointly with EU Regulation 575/2013, "**CRD IV**"), have determined the new solvency framework applicable to financial institutions.

This new CRD IV framework has been implemented in Spain through Act 10/2014 and Royal Decree 84/2015, of 13<sup>th</sup> February, implementing Act 10/2014, notwithstanding the direct applicability of EU Regulation 575/2013.

During 2015 the requirements related to certain regulatory buffers have been partially determined, the definition of which is discretionary for the supervisory authority (the systemic risk buffer and the specific

countercyclical buffer) and the European Central Bank ("ECB") has established specific prudential capital requirements (Pillar II measures) specifically for each credit institution in the framework of the Supervisory Review and Evaluation Process (SREP). These new demands and uncertainties establish a total capital requirement applicable to credit institutions that is higher than the capital requirement provided for in CRD IV.

In this sense, in December 2015 the ECB informed the Bank its decision regarding the prudential capital requirements applicable to BBVA, as a result of the SREP process. This decision requires BBVA to maintain a common equity tier 1 capital ratio of 9.5% over risk-weighted assets, both on a consolidated and individual basis. This decision also established that said 9.5% ratio includes: (i) the minimum common equity tier 1 capital ratio required under article 92(1)(a) of EU Regulation 575/2013, which stands at 4.5%; (ii) the additional common equity tier 1 capital ratio (Pillar II measures), required under article 16(2)(a) of EU Regulation 1024/2013, which stands at 4.375%; and (iii) the capital conservation buffer required under article 44 of Act 10/2014, which currently stands at 0.625%.

Additionally, during 2016 BBVA will be subject, on a consolidated basis, to a 0.25% capital buffer for global systemically important institutions ("G-SII"), and therefore the minimum total requirement for common equity tier 1 capital ratio for BBVA in 2016 is set at 9.75% on a consolidated basis. However, BBVA has been excluded from the Financial Stability Board G-SII list with effect as of 1<sup>st</sup> January 2017. Therefore, the G-SII buffer will no longer be applicable to BBVA as from that date, being then required to maintain the capital buffer for other systemically important institutions<sup>1</sup>.

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<sup>1</sup> It is expected that the capital buffer requirement for other systemically important institutions will be set at 0.25% for 2017.

Currently, BBVA complies with all applicable capital requirements. Nevertheless, the supervisory authority could impose further capital buffers in addition to those already required, whilst Pillar II measures already in place will be revised on an annual basis, in accordance with the ECB conclusions arisen from subsequent SREPs. In light of the foregoing, it is necessary for BBVA to maintain an adequate capital buffer management.

### **2.2.2 Additional Tier 1 Capital**

In order to be considered properly capitalized, CRD IV provides that credit institutions must have in place different capital instruments to cover the different categories of regulatory capital which, in certain ratios, comprise their capital requirement. In this sense, in addition to "common equity tier 1 capital", CRD IV includes two additional regulatory capital categories in the composition of the capital requirement, which are "additional tier 1 capital" and "tier 2 capital", which must be covered with specific instruments and, failing that, with common equity tier 1 capital, which would be more burdensome and less efficient.

In this regard, CRD IV stipulates that the instruments issued by credit institutions that have been eligible until now as additional tier 1 capital and which do not comply with the new requirements set forth in EU Regulation 575/2013 will gradually become ineligible up to 2023, ceasing from that moment to be eligible as additional tier 1 capital.

For this reason, despite the fact that BBVA is above its total capital requirement, BBVA's Finance Department has considered advisable to issue securities that can be eligible as additional tier 1 capital in accordance with CRD IV in order to continue to cover, as efficiently as possible, this requirement for additional tier 1 capital (as its cost is lower than the cost associated with common equity tier 1 capital, it is tax-deductible and it is not



dilutive for shareholders, except in the event of contingent conversion) and, at the same time, be able to address in an orderly fashion the gradual loss of eligibility of the old instruments that currently partially comprise the additional tier 1 capital of BBVA, on an individual and on a consolidated basis.

This will enable the Bank to take advantage of the current interest and demand detected among some types of professional investors, as seen with the issuance of contingent convertible perpetual securities by the Bank in May 2013, February 2014 and February 2015.

In this context, the Finance Department has proposed to the Board of Directors, which has approved, the issuance of a fixed-income instrument that is eligible as additional tier 1 capital in accordance with the provisions of CRD IV. To this end, EU Regulation 575/2013 provides that these securities must include, among others, the following characteristics:

- (i) be perpetual;
- (ii) rank senior only with respect to shares (meaning that they rank below tier 2 instruments in the event of insolvency of the entity);
- (iii) distributions on the securities are only paid out of distributable items and the entity has full discretion at all times to cancel distributions on the securities for an unlimited period and on a non-cumulative basis; and
- (iv) they include a mechanism for contingent conversion into entity shares when the trigger event set out in said regulation occurs (as described in section 2.4.1 below) and thus they are able to effectively absorb losses in a context of solvency stress of the issuer. Nevertheless, this contingent trigger event would only occur in a very specific situation of shortfall in common equity tier 1 capital at the issuer or its group.

This way, BBVA covers the requirement to shore up additional tier 1 capital in the most efficient way possible and faces the gradual loss of eligibility of the old instruments that currently and partially comprise its additional tier 1 capital, taking advantage of the demand detected for this type of instruments, which is in the best interests for BBVA.

### **2.3 Financial conditions of the Issuance**

The Issuance will be made for a maximum nominal amount of 1.5 billion euros, the minimum nominal value of each Security being, at least, 100,000 euros.

For the purpose of eligibility as additional tier 1 capital, the Securities shall have the characteristics set out in CRD IV and, specifically, those stated in section 2.2.2. above.

Investors may receive the distributions set out in the Issuance final terms and conditions and which shall be in line with market prices for this type of instruments. As provided for in CRD IV, payment of the distributions shall be conditional, amongst other factors, on there being distributable items, which will be described in detail in the Issuance terms and conditions.

Moreover, the Issuer shall have full discretion at all times to cancel, totally or partially, the payment of distributions on the Securities for an unlimited period and on a non-cumulative basis, and may use such cancelled payments without restriction to meet its obligations as they fall due.

Should any of the trigger events set out in section 2.4.1 below occur, the Securities will be converted into ordinary BBVA shares according to the following variable conversion ratio, which depends on BBVA share price at the time of conversion:

$$Num_{Shrs} = Nom_{convertible} / P_{Shr}$$

Where:

$Num_{Shr}$ : Number of BBVA shares to be delivered against each Security.

$Nom_{convertible}$ : The nominal value of the Security subject to conversion (minimum 100,000 euros).

$P_{Shr}$ : Conversion Price (as defined in section 2.4.2 below).

## 2.4 Terms and methods of conversion

The terms and methods of conversion of the Securities, resulting from the proposal of the Finance Department, will essentially be as follows:

### 2.4.1 *Conversion trigger events*

The Securities will be converted into newly-issued ordinary BBVA shares if the Issuer, or its consolidated group or subgroup, has a common equity tier 1 capital ratio below 5.125%, calculated pursuant to EU Regulation 575/2013 or any other capital and solvency regulation applicable at any given time to the Issuer.

The Securities may also be converted into newly-issued ordinary BBVA shares if the Issuer adopts any measure whose consequence is the approval of a share capital reduction in the terms and conditions set out in article 418.3 of the CEA.

The Issuance terms and conditions may establish additional total or partial trigger events if this is required to shore up the Issuer's solvency or so that the Securities are eligible as additional tier 1 capital.

### 2.4.2 *Conversion ratio*

The ratio for converting the Securities into newly-issued ordinary BBVA shares (the "**Conversion Ratio**") will be the result of dividing the nominal



value of the Securities (which will be, at least, 100,000 euros) by the value attributed to the ordinary BBVA shares for the purposes of the conversion (the "**Conversion Price**"). The Conversion Price will correspond to the market price of BBVA shares at the time of the conversion of the Securities, subject to the limits set forth below.

Thus, the number of shares corresponding to each Securities holder as a result of the conversion will be the number resulting from multiplying the Conversion Ratio by the number of Securities held. If this transaction results in fractions, these will be subject to the stipulations included in the Issuance terms and conditions.

The Conversion Price shall be the arithmetic mean of the closing prices of BBVA share in the five days of trading prior to the occurrence of the trigger event, rounded to the nearest cent and, in the case of half a cent, up to the nearest cent (the "**Reference Price**").

If the Reference Price is below 3.75 euros, the Conversion Price will be 3.75 euros per share, although this amount may vary subject to the application of the anti-dilution mechanism established in the following section.

The above notwithstanding, the Conversion Price may never be lower than the nominal value of BBVA shares at the time of conversion, so that, in all events, the transaction will be compliant with article 415 of the Corporate Enterprises Act.

Consequently, the Conversion Price will be the greater of the following:

- a) the Reference Price;
- b) 3.75 euros (although this amount may vary due to application of the anti-dilution mechanism); and

- c) the nominal value of ordinary BBVA shares at the time of conversion.

#### **2.4.3 *Anti-dilution mechanism***

Pursuant to article 418.2 of the Corporate Enterprises Act, anti-dilution mechanisms will be established on the Conversion Price in line with the market practice in this type of transactions, in compliance with the Issuance terms and conditions.

These anti-dilution mechanisms must take into account the conversion terms and methods determined above and the fact that the Conversion Price must never be less than the nominal value of ordinary BBVA shares at the time of conversion.

### **2.5 Capital increase**

In accordance with article 414 of the Corporate Enterprises Act, the share capital increase must be completed for the maximum amount necessary to be able to cover the eventual conversion of the Securities issued. For such purposes, the maximum number of shares to be issued to cover the conversion will be determined by dividing the amount of the Issuance by the Conversion Price.

This capital increase will be executed by the Board of Directors, which may delegate this authority to the Executive Committee, with express powers to delegate it in turn, and will empower the proxies that the Board of Directors indicates, under the authority of the convertible securities issuance resolution approved by BBVA Annual General Shareholders' Meeting held on 16<sup>th</sup> March 2012 under agenda item five, to cover the contingent conversion of the Securities, by issuing new ordinary shares of the same nominal value and with the same rights as BBVA shares outstanding on the date of execution of the relevant capital increase. Should the capital increase be executed, the corresponding article in the Company Bylaws will be reworded to adapt it to the new figure for share capital.

It is not yet possible to determine the exact amount of share capital that would be needed for the contingent conversion of the Securities, given that, pursuant to the terms and methods of the conversion, it will be based on the market price of BBVA shares at the time of conversion.

The above notwithstanding, considering that the Issuance is for a nominal maximum amount of 1.5 billion euros, that the current nominal value of ordinary BBVA shares is 0.49 euros, that the Conversion Price may not be below 3.75 euros, and assuming there will be no anti-dilution adjustments prior to the date when the Securities are converted, the maximum number of new ordinary shares that would need to be issued is 400,000,000.

Pursuant to article 304.2 of the Corporate Enterprises Act, should the Securities be converted into ordinary shares, there would be no preemptive subscription rights on the resulting capital increase.

### **3. GROUNDS FOR THE EXCLUSION OF PREEMPTIVE SUBSCRIPTION RIGHTS**

#### **3.1 Grounds for the exclusion of preemptive subscription rights**

As indicated above, the BBVA Annual General Shareholders' Meeting held on 16<sup>th</sup> March 2012 resolved, under agenda item five, to delegate to the Board of Directors the authority to issue securities convertible into shares and to increase the share capital. It also resolved to confer on the Board of Directors the authority to exclude preemptive subscription rights over the convertible securities issuances made under such delegation.

To such end, when convening the aforementioned Annual General Meeting, the BBVA Board of Directors approved and gave shareholders access to a report explaining the grounds of the proposal to delegate the power to exclude preemptive subscription rights.



Article 511 of the Corporate Enterprises Act requires that preemptive subscription rights would only be excluded in the event of convertible bond issuances when corporate interest so requires.

BBVA Board of Directors, by virtue of said delegation and with due substantiation provided by the report issued by the Finance Department, which in turn is based on the report prepared by Goldman Sachs International and on the legal report by J&A Garrigues, S.L.P. as external legal advisor helping BBVA in the legal design of this transaction, has resolved to exclude the preemptive subscription rights with respect to the issuance of the Securities, as it deems such exclusion to be fully substantiated and in compliance with the requirements established by law, and necessary to achieve the corporate interest, as explained below.

With the intention of dealing with the necessity to complete additional tier 1 capital in the most efficient way possible and the gradual loss of eligibility of the old instruments that currently and partially comprise the additional tier 1 capital of the Bank and of its Group, the Finance Department has proposed to the Board of Directors an issuance of securities that are eligible as additional tier 1 capital under CRD IV, taking advantage of the interest and demand detected among some types of professional investors.

For the Securities to be eligible as additional tier 1 capital under CRD IV, these fixed-income securities must be perpetual, subordinate, with discretionary distributions and convertible into newly-issued ordinary BBVA shares in the event of a possible shortfall of common equity tier 1 capital, and therefore the issuance of Securities is being proposed as they are the only instruments that comply with the described characteristics, which are described in section 2.2.2. above.

Such complex characteristics, required by CRD IV, and their sophistication, as well as the latest regulatory changes, specifically regarding placement of this type

of instruments, mean that Securities are currently a product only suitable for placement among professional investors (to whom the Issuance is addressed) and not among all types of investors, especially retail investors, which are a relevant part of BBVA shareholders; in this way, not excluding the preemptive subscription right would mean offering a product that does not fit the investment profile of all Bank shareholders and, therefore, would compromise the viability of the Issuance given the high risk incurred if the Issuance is not subscribed in the initially planned time frame and at the amount set.

This would firstly have a very negative impact for BBVA on the market as an Issuer and would also make it necessary to carry out a subsequent additional placement among non-shareholder investors under conditions that would foreseeably be less favorable for the Bank, in terms of effective and operational costs, as well as the execution time and capital that it would entail, thereby clearly undermining BBVA's corporate interest.

However, growing interest for this type of instruments has been detected among qualified investors and foreign private banking customers, who are familiar with and usually subscribe this type of product, as demonstrated by the success of the issuances of contingent convertible perpetual securities by the Bank in May 2013, February 2014 and February 2015, as well as the issuances completed recently by various national and international credit institutions, which have been aimed at this type of investors.

In order to ensure the success of the Issuance and aim it directly at this type of investors, it is essential to exclude the preemptive subscription rights of BBVA shareholders.

The combination of the factors described above, reinforcing BBVA's own funds, the characteristics of these securities, the market conditions and the investors to whom the Issuance is addressed, have led the Finance Department to consider that the optimal alternative for the corporate interest is to reinforce BBVA's own



funds by issuing the Securities, aiming the Issuance solely at qualified investors and foreign private banking customers, as this is the appropriate group for subscribing this type of instruments and is also where most interest has been detected for these contingent convertible perpetual fixed-income instruments.

Consequently, the optimal alternative for meeting the corporate interest and providing a joint and comprehensive solution to the matters at hand is the issuance of Securities with exclusion of preemptive subscription rights.

In addition, the following circumstances should be taken into account:

- (i) The nature of the Securities is that of a perpetual fixed-income instrument, whose contingent convertibility is required by the regulations on capital and solvency for their eligibility as additional tier 1 capital, but which is only foreseen for very specific cases of a regulatory capital shortfall. Likewise, it should be taken into account that BBVA's solvency and equity ratios are currently very far from the trigger events, reinforcing the nature of the Securities as fixed-income security instruments and the eventuality of their conversion.
- (ii) The issue price for the Securities will be in line with the market prices for this type of instrument.
- (iii) The Conversion Price proposed to cover an eventual conversion corresponds to the market price of the share at the time of conversion, except in the event of such price being less than 3.75 euros, in which case the Conversion Price would be 3.75 euros and the shares would be issued with a premium over the market price. In this way, the maximum number of shares to be issued is limited by establishing the minimum Conversion Price, which guarantees that they will be issued at a price equal to or above the market price.

Taking into account that the Securities are issued as perpetual securities, that the issue price will be in line with the market price, that the conversion trigger events

are very limited in number and that the Conversion Price would be the market price or, where appropriate, include a premium over the market price, pursuant to the Finance Department report and the report prepared by Goldman Sachs International, the theoretical value of the preemptive subscription rights stemming from the Issuance is nil, meaning that current shareholders do not lose any financial value with their exclusion.

In light of the foregoing, the proposed Issuance is necessary for the purpose intended, thus achieving the corporate interest.

### **3.2 Investors to whom the Securities should be attributed**

As stated above, the Issuance is aimed exclusively at qualified investors and foreign private banking customers, notwithstanding the sale restrictions that may be determined in the Issuance terms and conditions.

## **4. PROPOSED RESOLUTIONS**

***“ONE.- In use of the authority conferred by the Annual General Shareholder’s Meeting of Banco Bilbao Vizcaya Argentaria, S.A. (“BBVA” or the “Company”) held on 16<sup>th</sup> March 2012 under agenda item five, to issue contingent preferred securities convertible into newly-issued ordinary shares of the Company, in accordance with the first additional provision of Act 10/2014, of 26<sup>th</sup> June, on the regulation, supervision and solvency of credit institutions (“Act 10/2014”) and EU Regulation No. 575/2013 of the European Parliament and of the Council, of 26<sup>th</sup> June 2013, on prudential requirements for credit institutions and investment firms (“EU Regulation 575/2013”) (hereinafter the “Securities”), for a maximum nominal amount of 1.5 billion euros or the equivalent in any other currency, with exclusion of preemptive subscription rights (the “Issuance”), under the following terms:***

***Nature of the Securities:***

*Contingent preferred securities convertible into newly-issued ordinary BBVA shares, pursuant to the first additional provision of Act 10/2014 and EU Regulation 575/2013.*

***Issuer:***

*BBVA.*

***Target Investors:***

*Qualified investors and foreign private banking customers, notwithstanding the sale restrictions that may be determined in the Issuance terms and*

conditions.

**Maximum Issuance amount:**

1.5 billion euros, or the equivalent in any other currency, as set out in the Issuance terms and conditions.

**Nominal value:**

The Securities will have the nominal value set out in the Issuance terms and conditions, with a minimum of one hundred thousand euros (€100,000), or the equivalent in any other currency.

**Maximum number of Securities:**

The maximum number of Securities to be issued will be the result of dividing the total amount of the Issuance by its nominal value. All the Securities will belong to a single series, with the same terms and conditions.

**Issuance interest:**

The Issuance will be at par, i.e. at one hundred per cent of its nominal value.

**Distributions:**

Holders of the Securities may receive a predetermined non-cumulative distribution that will be based on the interest rate applicable to the nominal value of the Securities and which will be paid provided compliance with the conditions set out in the Issuance terms and conditions (the "Distributions").

In particular, the Issuer shall have full discretion at all times to cancel, totally or partially, the payment of Distributions for an unlimited period and with on a non-cumulative basis, and may use such cancelled payments without restriction to meet its obligations as they fall due.

The foregoing notwithstanding other cases of cancellation of Distributions that may be set out in the Issuance terms and conditions or as determined by applicable regulations.

**Maturity date and early redemption:**

The Issue is perpetual, such that it has no maturity date.

The Securities may be totally or partially redeemed at the Issuer's option, in accordance with the Issuance terms and conditions, provided that, at least, 5 years have elapsed from their issue, as long as, where applicable, prior authorization has been granted by the competent authority.



*The Issuance terms and conditions may include other circumstances for early redemption by the Issuer.*

***Representation of the Securities:***

*The Securities may be represented by physical certificates or book entries.*

***Ranking:***

*The Securities are subordinated obligations with the following ranking:*

- (i) junior to unsubordinated obligations;*
- (ii) junior to subordinated obligations and subordinated securities issued or guaranteed by BBVA, or that may be issued or guaranteed by BBVA, that rank above the Securities;*
- (iii) pari passu with obligations and securities issued or guaranteed by BBVA, or that may be issued or guaranteed by BBVA, that rank pari passu with the Securities;*
- (iv) senior to the obligations and securities issued or guaranteed by BBVA, or that may be issued or guaranteed by BBVA, that rank senior to the Securities; and*
- (v) senior to ordinary BBVA shares.*

**TWO.** - *The terms and methods for conversion of the Securities will be as follows:*

***a) Conversion triggers events***

*The Securities will be converted into newly-issued ordinary BBVA shares if the Issuer, or its consolidated group or subgroup, has a common equity tier 1 ratio below 5.125%, calculated pursuant to EU Regulation 575/2013 or to any other capital and solvency regulation applicable at any given time to the Issuer.*

*In turn, the Securities may be converted into newly-issued ordinary BBVA shares if the Issuer adopts any measure whose consequence is the approval of a share capital reduction as set out by article 418.3 of the consolidated text of the Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010, of 2<sup>nd</sup> July, as amended (the "Corporate Enterprises Act").*

*Finally, the Issuance terms and conditions may establish additional total or partial trigger events if this is required to shore up the Issuer's solvency or so that the Securities are eligible as additional tier 1 capital.*

**b) Conversion Ratio**

*The ratio for converting the Securities into newly-issued ordinary BBVA shares (the "Conversion Ratio") will be the result of dividing the nominal value of the Securities by the value attributed to the ordinary BBVA shares for the purposes of the conversion (the "Conversion Price"). The Conversion Price will correspond to the market price of BBVA shares at the time of conversion of the Securities, subject to the limits set forth below.*

*Thus, the number of shares corresponding to each Securities holder as a result of the conversion will be the number resulting from multiplying the Conversion Ratio by the number of Securities held. If this transaction results in fractions, these will be subject to the stipulations included in the Issuance terms and conditions.*

*The Conversion Price shall be the arithmetic mean of the closing prices of BBVA share in the five days of trading prior to the occurrence of the trigger event, rounded to the nearest cent and, in the case of half a cent, up to the nearest cent (the "Reference Price").*

*If the resulting Reference Price is below 3.75 euros, the Conversion Price will be 3.75 per share, although this amount may vary subject to the application of the anti-dilution mechanism established in the section d) below.*

*The above notwithstanding, the Conversion Price may never be lower than the nominal value of BBVA shares at the time of conversion, so that, in all events, the transaction will be compliant with article 415 of the Corporate Enterprises Act.*

*Consequently, the Conversion Price will be the greater of the following:*

- a) the Reference Price;*
- b) 3.75 euros (although this amount may vary due to application of the anti-dilution mechanism); and*
- c) the nominal value of ordinary BBVA shares at the time of conversion.*

**c) Conversion procedure**

*The conversion procedure will be determined in the Issuance terms and conditions.*

**d) Anti-dilution mechanism**

*Pursuant to article 418.2 of the Corporate Enterprises Act, anti-dilution mechanisms will be established on the Conversion Price in line with the market practice in this type of transactions, in compliance with the Issuance terms and conditions.*

*These anti-dilution mechanisms must take into account the conversion terms and methods determined above and the fact that the Conversion Price must never be less than the nominal value of ordinary BBVA shares at the time of conversion.*



Notwithstanding other proxies that may be appointed pursuant to these resolutions, the Executive Committee is expressly empowered, with express authority to delegate in turn, and the broadest powers are conferred on Mr Jaime Sáenz de Tejada Pulido, a Spanish national, with identity card number 823996-K, Mr Erik Schotkamp, a Dutch national, with foreign residency identity card number Y2126590-R, Mr Antonio Joaquín Borraz Peralta, a Spanish national, with identity card number 29100035-K, Mr Raúl Moreno Carnero, a Spanish national, with identity card number 52473664-S and Mr Francisco Javier Colomer Betoret, a Spanish national, with identity card number 25418655-K, all of legal age and domiciled for these purposes in Madrid, calle Azul n.º 4 (the “**Proxies**”), so that either of them, indistinctly, jointly and severally, may establish, develop or amend the Issuance terms and conditions, as well as determine or develop any matter not established by this resolution, including, but not limited to, amend, adapt and/or determine other trigger events, additional to those provided for in this resolution, under the terms and conditions they deem necessary or advisable for the successful outcome of the transaction.

**THREE.**- On the basis of the report drawn up by BBVA Finance Department, in accordance with the report prepared by J&A Garrigues, S.L.P., and pursuant to articles 414, 417 and 511 of the Corporate Enterprises Act, to approve the Directors’ Report on the Issuance, which will be made available to shareholders along with the report issued by the auditor (different than the Company’s auditor), appointed for such purposes by the Commercial Registry, and reported to the first General Shareholders’ Meeting held after the capital increase resolution, expressly empowering the General Secretary and of the Board of Directors to certify the text.

**FOUR.**- In line with the Finance Department report, which is reflected in the Directors’ Report approved in the foregoing resolution, the corporate interest requires the suppression of preemptive subscription rights in this Issuance. Consequently, the Board of Directors, pursuant to the authority attributed by the Annual General Shareholders’ Meeting held on 16<sup>th</sup> March 2012, under agenda item five, and pursuant to article 511 of the Corporate Enterprises Act, hereby resolves to exclude said preemptive subscription rights in this Issuance.

**FIVE.**- To increase the share capital by the amount and number of shares necessary to cover the eventual conversion of the Securities, pursuant to the Conversion Ratio.

The maximum number of shares to be issued is 400,000,000 ordinary shares (currently with a nominal value of 0,49 euros), assuming that no anti-dilution adjustments are made, expressly envisaging the possibility of the capital increase being implemented with an issue premium, for a lower number of shares and with the possibility of under-subscription.

Should the Securities be converted, the new shares issued to cover the conversion will be ordinary shares, of the same class and series as those outstanding at that time and will be represented in the same way (currently by book entries, whose recording is attributed to Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (“Iberclear”), which performs this function together with its participating entities), granting their holders the same rights as the ordinary shares outstanding at that time. Upon execution of this resolution to increase share capital, the corresponding Company Bylaws article will be reworded accordingly.

Pursuant to article 304.2 of the Corporate Enterprises Act, should the Securities be converted, there would be no preemptive subscription rights on the resulting capital increase.

SIX - In use of the authority conferred by the Annual General Shareholders' Meeting held on 16<sup>th</sup> March 2012 under agenda item five, it is hereby resolved to delegate on the Executive Committee, with express faculties to delegate in turn, and to empower the Proxies in the broadest terms, so that either of them, indistinctly, jointly and severally, may, within the limits established in the resolutions above, carry out the aforementioned Issuance and:

- a) Determine the timing on which the Issuance is to take place, being also authorized to abstain from executing the Issuance if deemed necessary or advisable.
- b) Determine the terms and conditions applicable to the Issuance and to the Securities to be issued, including, but not limited to, the final amount of the Issuance within the limits established under resolution ONE above, the currency of the Issuance and the nominal value of each Security, the nominal interest rate applicable to the Securities, the interest accrual periods, the placement system and, when applicable, the effective placement rate, include new conversion terms and methods and/or amend them, including the Conversion Ratio or the terms and conditions of the anti-dilution mechanism, as well as determine any additional triggers for early redemption and any other terms and conditions deemed necessary or advisable for the successful outcome of the transaction, expressing the amount drawn respect to the limit of the delegation granted by the General Shareholders' Meeting to the Board and the amount remaining, empowering them also to redeem the Securities early.
- c) Declare the Distributions of the Securities, whether partially or totally, and declare the total or partial cancellation of Distributions, as determined in the Issuance terms and conditions.
- d) Apply, where appropriate, the anti-dilution mechanisms as determined in the Issuance terms and conditions.
- e) Negotiate, examine, enter into, perform, execute, sign, amend or cancel all the contracts, instruments, agreements and documents, whether public or private, that may be necessary or advisable in relation to the Issuance (in particular, including, but not limited to, prospectuses or offering circulars, liquidity contracts, subscription, placement or underwriting agreements, payment agency contracts, requests, communications or announcements, as well as any other contracts formalizing the Issuance or that are necessary for the Issuance of the Securities), with authority to determine the legal and economic conditions of all of them and to make the necessary or advisable designations or appointments, as well as other supplementary acts that may be required or advisable to implement what has been agreed upon.
- f) Appear, personally or through the representative or agent designated in writing by any of the Proxies, before all the representatives, committees or bodies of any securities exchange or market or any supervisor, regulator or registry, as well as any securities book-entry registration, clearing and/or settlement organization, with authority to execute, issue, sign, grant, modify and cancel such contracts, certificates and documents as may be necessary or advisable, in the manner that any of the Proxies deems necessary or advisable to comply with the applicable requirements imposed from time to time by each supervisor, regulator, registry, securities exchange or market or securities registration, clearing and/or settlement organization.

- g) *Request, where applicable, the eligibility of the Securities as additional tier 1 capital, or any other own fund category of the Company and/or of its group, in accordance with the capital and solvency regulations that may apply from time to time.*
- h) *Execute and sign any public or private documents as may be required, with authority to appear before a notary, raise these resolutions, execute deeds of issue, rectification, clarification or correction, and those for total or partial subscription of the Issuance, as well as those for total or partial redemption or amendment and, where appropriate, execute any other public or private documents that may be necessary or advisable in relation to the Issuance, as well as complete all relevant formalities, with the possibility of acting through agents, to achieve their registration at the Commercial Registry, as long as this is mandatory. Where applicable, file the declaration referred to in article 318 of the Commercial Registry Regulations, in compliance with article 36 of the Consolidated Text of the Securities Markets Act, should this be necessary.*
- i) *If deemed necessary or advisable, establish the mechanisms for collective association or organization and/or representation and protection of Securities holders, including the determination of their characteristics and rules of operation, and, where appropriate, the appointment of their representatives and the rules that are to govern the relationships between the Company and such holders, all in accordance with the terms and conditions deemed necessary or advisable.*
- j) *Establish all other aspects not determined by this Board of Directors in relation to the Issuance, including any modification, where necessary or advisable, and determine any other aspect of the Issuance or implement any other measures deemed necessary or advisable in relation to the above powers, executing for this purpose any private or public documents deemed necessary or advisable.*
- k) *With respect to the contingent conversion of the Securities into newly-issued ordinary BBVA shares, establish, where appropriate, the Conversion Price, the final conversion rate for the Issuance and, if applicable, the issue premium, determine the number of shares by which the BBVA capital is finally to be increased, declaring under-subscription when this is the case, and perform such acts as may be necessary, including, but not limited to, granting any public or private documents that may be necessary to implement the capital increase and amend, if applicable, the wording of the corresponding article in the Company Bylaws to adapt it to the new figure for share capital, being also authorized to appear for such purposes before any public or private bodies, including but not limited to a public notary or the Commercial Registry.*
- l) *Request, where appropriate, the admission to trading of the Securities and/or the ordinary BBVA shares issued to cover the contingent conversion of the Securities, on regulated and non-regulated, organized or non-organized, Spanish and international secondary markets, and take any actions as deemed necessary in any jurisdiction where the Securities or the newly-issued BBVA shares are offered or traded or requested to trading, where applicable. By way of example:*
  - *Draft, approve, formulate, subscribe and sign any documents, contracts, prospectuses, requests, communications or notifications as deemed necessary or*



*advisable for these purposes and proceed to their subsequent amendment as deemed advisable.*

- *Take such actions as may be necessary before any competent authorities in each jurisdiction and approve and formalize such public and/or private documents as may be necessary and/or advisable for the full effectiveness of the resolutions, in any aspects or content.*

*Lastly, and for the purposes of the applicable regulations on issuance of securities, it is resolved to appoint the Proxies as representatives of the Company, jointly and severally, before any public and/or private body. They will bear responsibility for the content of the prospectuses, information documents or any other similar documents, where applicable, being likewise authorized to sign any additional contracts and documents, whether public or private, that may be necessary or advisable for the successful outcome of the transaction.”*

\* \* \*

Madrid, 2<sup>nd</sup> February 2016



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