Recommendations Report presented by the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A. for the purposes established in Article 34.1 g) of Act 10/2014 of June 26 on the regulation, supervision and solvency of credit institutions, concerning the group of employees whose professional activities have a significant impact on the Group’s risk profile to whom the maximum level of variable remuneration of up to 200% of the fixed component of their total remuneration is applicable, for approval by the General Meeting.

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1. INTRODUCTION.

1.1 Purpose of the report and applicable regulations.

This recommendations report was drawn up by the Board of Directors of BANCO BILBAO VIZCAYA ARGENTARIA, S.A. (“BBVA” or the “Bank”), in compliance with the provisions of Article 34.1 g) of Act 10/2014 of June 26, on the regulation, supervision and solvency of credit institutions, regarding the proposed resolution submitted for the consideration of the Bank’s Annual General Meeting of Shareholders, under agenda item Seven, consisting of the approval of the group of employees whose professional activities have a significant impact on the Group’s risk profile, to whom the maximum level of variable remuneration of up to 200% of the fixed component is applicable (hereinafter the “Recommendations Report” or the “Report”).

Article 34.1 g) of Act 10/2014 stipulates that banks shall establish appropriate ratios between the fixed and variable components of total remuneration, and shall apply the following principles:

“1. The variable component shall not exceed 100% of the fixed component of each individual’s total remuneration.

2. However, the institution’s Annual General Meeting may approve a higher maximum percentage, provided the variable component does not exceed 200% of the fixed component.”

For the approval of this higher level of variable remuneration, the Company’s General Meeting of Shareholders must take its decision on the basis of a detailed recommendation from the Board of Directors explaining the reasons for, and the scope of the decision, including the number of staff members affected, as well as the expected effect on the Bank’s maintenance of a sound capital base, with consideration given, where applicable, to the need to restrict the dividend payment policy as established by the competent authority.

The purpose of this Recommendations Report is to explain to the Bank’s shareholders the reasons why the General Meeting should approve the highest level of variable remuneration of 200% of the fixed component for a certain number of persons whose professional activities have a material impact on the Group’s risk profile, as well as the scope of the decision, including the number of persons affected, their functions and the areas in which they carry out their activity.

Moreover, as determined by Act 10/2014, BBVA has analysed the effect that this decision would have on the Bank’s maintenance of a sound capital base, as explained below.
1.2 **Advisory services received.**

This Report is issued on the basis of the report drawn up by BBVA’s Talent & Culture’s Global Services and Policies Area, which in turn based its report on the following reports: (i) from BBVA’s Accounting & Supervisors Area; and (ii) from MERCER CONSULTING, S.L. (part of MARSH & McLENNAN), a leading consultancy firm in issues relating to compensation.

2. **CONCERNING THE REMUNERATION POLICY IN BBVA.**

2.1 **BBVA Group’s Remuneration Policy.**

Firstly, it should be noted that BBVA has been applying over time a Remuneration Policy that is solid and consistent, and which is aligned with the Bank’s long-term interests, its shareholders’ interests and sound risk management. All the foregoing has been confirmed by MERCER CONSULTING, S.L., in reports drawn up in 2009, 2014, 2015 and 2017.

BBVA’s Remuneration Policy is thus fully in line with the remuneration requirements established by applicable legislation to credit institutions, as may be deduced from the outcome of the annual centralized review carried out by the Bank’s Internal Audit Area on the application of the Remuneration Policy approved by the Board of Directors, in compliance with the provisions of Act 10/2014 and Bank of Spain Circular 2/2016.

This policy is implemented in a remuneration scheme governed by the following principles:

- ✔ Long-term value creation.
- ✔ Reward the achievement of results on the basis of prudent and responsible risk assumption.
- ✔ Attract and retain the best professionals.
✓ Reward the level of responsibility and professional track record.
✓ Ensure internal equity and external competitiveness.
✓ Benchmark performance against the market using analyses from prestigious consultancy firms specialized in compensation.
✓ Ensure transparency of the remuneration scheme.

The incentive scheme generally applicable to employees, which was reviewed and adapted in 2016, is implemented through the following elements:

a) A fixed remuneration which, taking into account the principle of internal equity and the value of the function in the market, rewards employees for the level of responsibility and the professional track record, and which constitutes a major part of their total compensation. The salary ranges are established for each position by means of a minimum (a reference point established by market comparisons and an analysis of internal equity within the Group) and a maximum (which enables employees with the same position and reference point to have different salaries depending on their professional development).

b) A variable remuneration based on effective risk management and linked to the achievement of pre-established financial and non-financial objectives, which take into account present and future risks undertaken, as well as the Bank’s long-term interests.

Thus the variable remuneration for each financial year for each beneficiary shall be calculated on the basis of (i) annual indicators at Group, area and individual level (financial and non-financial), which take into account the current and future risks as well as the strategic priorities defined, (ii) the scales of achievement, in accordance with the weight allocated to each indicator and (iii) a target annual variable remuneration (“target bonus”), which is the amount to be awarded as annual variable remuneration when
100% of targets are met, and which constitutes a single amount for each function.

2.2 Specific features of the Remuneration Policy applicable to the Identified Staff.

The Bank also has a specific incentive scheme applicable to the variable remuneration of the group of persons who, within the Group, carry out professional activities which have a material impact on the Group’s risk profile, including executive directors and Senior Management (hereinafter, the “Identified Staff”). This system, which meets the requirements established by the applicable legislation to credit institutions in relation to remuneration, has been specifically devised to maintain the alignment of this group’s remuneration with risks, as well as the long-term interests and objectives of the Group and its stakeholders.

From 2015 onwards, as agreed by the Board of Directors, a series of amendments were made to the Remuneration Policy applicable to the Identified Staff, aligned with the Remuneration Policy for BBVA Directors approved at the General Meeting held on 13 March 2015. This policy retained several features of the previous system for the settlement and payment of variable remuneration of the Identified Staff, and added a number of new features to enhance the long-term (setting the payment of deferred variable remuneration after the deferral period had elapsed; establishing the possibility of making downward adjustments of the deferred variable remuneration pending payment, on the basis of the outcome of certain long-term Group indicators), and linking variable remuneration to risk metrics and the results achieved by the Bank.

In the course of the preceding year, on the basis of the latest regulatory changes, and in line with the constant development of the Remuneration Policy, following a proposal by the Talent & Culture Area, the Bank’s Remunerations Committee
proposed the introduction of a number of improvements, the result of which is a remuneration scheme applicable to the Identified Staff, based on the following essential characteristics:

- Balance between the fixed and variable components of the total remuneration of the Identified Staff, in order to better align it with applicable regulations, enabling a policy which is fully flexible with regard to payment of the variable components, allowing for such components to be reduced in its entirety, where appropriate. The proportion between the two components shall be established in accordance with the type of functions carried out by each beneficiary (business, support or control) and, consequently, their impact on the Bank’s risk profile, adapted in each case to the reality of different countries or functions.

- Variable remuneration shall comprise an incentive, based on the establishment of indicators of value-creation, which combine the staff member’s results with those of their unit, of the area to which they belong and those of the Group as a whole. It shall be calculated on the basis of certain annual performance indicators (financial and non-financial), according to the corresponding scales of achievement and the weight allocated to each indicator (the “Annual Variable Remuneration”).

- Annual Variable Remuneration shall be divided into a 50% share payment and a 50% cash payment, except in the case of executive directors and Senior Management, where the percentage in shares shall be increased to 60% of deferred Annual Variable Remuneration, with upfront payments remaining at a proportion of 50%-50%.

- The upfront payment of Annual Variable Remuneration (40% of the total, in the case of executive directors, members of Senior Management and
risk-takers with particularly high remuneration, and 60% for the rest of the Identified Staff) shall be made, provided that the required conditions are met, during the first quarter of the year following the year to which the remuneration refers, in equal portions of cash and shares.

- The remaining percentage of Annual Variable Remuneration shall be deferred in its entirety over a period of 5 years, in the case of executive directors and Senior Management, and over a period of 3 years for the rest of the Identified Staff.

- The deferred portion of the Annual Variable Remuneration of the Identified Staff members may be reduced in its entirety, yet not increased, based on the result of multi-year performance indicators aligned with the Group’s fundamental risk management and control metrics, related to the solvency, capital, liquidity, funding or profitability, or to the share performance and recurring results of the Group (“Multi-year Performance Indicators”), calculated over a 3-year period. These indicators are approved by the Board of Directors, after analysis by the Risks Committee, which verifies their adequacy to align the deferred variable remuneration with sound risk management.

- Shares received as Annual Variable Remuneration shall be withheld for a period of one year from the date of delivery, except for those shares the transfer of which is derived from tax obligations originated from their delivery.

- During the entire deferral and retention period (5 or 3 years, in each case), Annual Variable Remuneration shall be subject to malus and clawback arrangements, both related to a downturn in performance by the Group, a unit or an individual in certain scenarios (misconduct, sanctions, fraud, restatement of the annual accounts etc.).
 ➢ No personal hedging strategies or insurance shall be allowed in connection with remuneration and responsibility that may undermine the risk alignment effects with sound risk management.

 ➢ The amounts of Annual Variable Remuneration deferred in cash which are finally paid, subject to Multi-year Performance Indicators, shall be subject to updating in the terms established by the Board of Directors of the Bank; albeit the deferred amounts in shares shall not be updated.

 ➢ Lastly, the variable component of the remuneration of the Identified Staff members shall continue to be limited to a maximum amount of 100% of the fixed component of total remuneration, except in the case of functions for whom the General Meeting agrees to increase the percentage to 200%, as is laid down in section 3 of this Report.

 These modifications have led to the approval by the Board of Directors of a new Remuneration Policy for Identified Staff, in line with the proposed Remuneration Policy for BBVA Directors which will be submitted to a vote at the General Meeting under agenda item Six.

 3. CONCERNING APPROVAL OF THE MAXIMUM LEVEL OF VARIABLE REMUNERATION FOR CERTAIN RISK-TAKERS.

 3.1 Reasons and scope: affected staff.

 As stipulated in the Talent & Culture Area’s report, there are a series of profiles within BBVA Group in respect of whom, considering the characteristics of the functions they carry out and the importance attached to their retention in the Bank, their variable remuneration may extend to twice the fixed remuneration.

 The analysis of those persons to whom the maximum level of variable remuneration of up to 200% of the fixed component is appropriate is carried out
by reference to those persons whose professional activities have a material impact on the Group’s risk profile, determined as per the regulations applicable – particularly the provisions of Commission Delegated Regulation 604/2014 and Bank of Spain Circular 2/2016 – as well as in accordance with additional internal criteria drawn up by the Bank.

The group of risk-takers is determined on the basis of:

i. Qualitative criteria (defined pursuant to the responsibility of the position and the employee’s ability to undertake risks).

ii. Quantitative criteria (among others, being included among the 0.3% with the highest total remuneration in the Group, or having received total remuneration greater than the lowest total remuneration of those meeting the qualitative criteria).

Pursuant to these criteria, as of the date of this Report BBVA has an Identified Staff of approximately 567 risk-takers. Yet it does not remain essential that the variable remuneration of all risk-takers can reach two times their fixed remuneration, thus approval of the higher level is sought as follows:

i. BBVA executive directors and BBVA Senior Management;

ii. those occupying first levels of responsibility in the different areas of the Group;

iii. those who carry out technological/digital activities, competing with companies that have a wage market where the structure and remuneration levels differ from that of credit institutions;

iv. those who carry out their activities in geographic markets where the weight of variable remuneration is greater than fixed remuneration;
v. those with first level of responsibility in geographies where local legislation does not establish such limits, and thus the amount of the variable remuneration is particularly relevant.

Specifically, the number of Identified Staff whose variable remuneration could reach up to twice their fixed remuneration would be a maximum of 200 persons. These persons carry out the following functions or are integrated in the following areas:

- BBVA executive directors and BBVA Senior Management.

- Business Areas. Currently, this would include Identified Staff functions in Spain, the United States, Mexico, Turkey and countries in South America, as well as Corporate and Investment Banking. The maximum number of people in these areas for whom a higher ratio is requested is 158.

- Corporate Support Areas. This encompasses all areas that work globally for the Group as a whole without being assigned to a particular Business Area. The higher level is requested for a maximum of 15 people.

- Digital Transformation Areas. This includes activities focusing on digital transformation of the Bank in accordance with the strategic objectives defined. The higher level is requested for a maximum of 10 people.

Raising the ratio between fixed and variable components for persons in the functions and areas stipulated is appropriate in order to maintain the competitive position of BBVA Group’s Remuneration Policy, in due consideration of the specific characteristics of the regions in which it carries out its business, as well as the type of business, for which it remains necessary to attract and retain the best professionals.
The functions and areas that would be affected by raising the maximum ratio of variable remuneration up to 200% of their total fixed remuneration have been determined on the basis of their importance and nature, the Bank’s need to retain the persons included within them, and on the basis of their alignment with market practices; they are therefore necessary in order to maintain an adequate remuneration that is suitable to each function’s characteristics, their level of responsibility and market competitiveness.

All the above has been designed within the pillars and framework of the Group’s remuneration structure, striving at all times to align remuneration with the interests of shareholders, sound risk management and the creation of long term value.

This Report has been drawn up on the basis of the latest available information from the competent authority regarding dividend payment policy, with currently no restrictions existing that prevent the Board of Directors from submitting the proposed resolution detailed hereunder to the General Meeting.

3.2 **Effect on the maintenance of a sound capital base.**

For the purposes of this Report, it is stated that the estimated overall maximum amount which the higher level of variable remuneration could reach for the 200 persons affected by this measure, over the year’s total fixed remuneration for these professionals, would be 78.3 million euros for 2017.

In light of this information, it is further stipulated that the decision to approve a maximum level of variable remuneration for the specified individuals would not affect BBVA’s maintenance of a sound capital base, or the Bank’s obligations under solvency regulations, as confirmed by BBVA’s Accounting & Supervisors Area, in charge of analysing the impact that this decision would have on the
maintenance of a sound capital base pursuant to the provisions established by the Law.

In the light of the foregoing, it has been deemed advisable to propose the approval by the Annual General Meeting of Shareholders, to be held on 17 March 2017, of the group of employees whose professional activities have a significant impact on the Group’s risk profile to whom the maximum level of variable remuneration of up to 200% of the fixed component of their total remuneration is applicable, pursuant to the provisions established by the Law.

4. PROPOSED RESOLUTION.

"PROPOSED RESOLUTION UNDER AGENDA ITEM SEVEN FOR THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A. TO BE HELD ON 17 MARCH 2017.

For the purposes of the provisions of Article 34.1 g) of Act 10/2014 of June 26, on the regulation, supervision and solvency of credit institutions, to approve the group of employees whose professional activities have a significant impact on the Group’s risk profile to whom the maximum level of variable remuneration of up to 200% of the fixed component of their total remuneration is applicable, enabling subsidiaries of Banco Bilbao Vizcaya Argentaria, S.A., to likewise introduce such maximum level to their professionals, all in light of the Recommendations Report issued in this regard by the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A., on 9 February 2017, and which has been made available to shareholders as of the date on which this General Meeting was called."

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