

Recommendations Report submitted by the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A. for the effects set forth in article 34.1 g) of Spanish Act 10/2014, dated 26th June, on the regulation, supervision and solvency of credit institutions, regarding an increase in the number of employees whose professional activities have a significant impact on the Group's risk profile or perform control functions to which the maximum limit of variable remuneration of up to 200% of the fixed component is applicable, as approved by the General Meeting.

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1. INTRODUCTION

1.1 Purpose of the report and applicable regulations

This recommendations report is formulated by the BANCO BILBAO VIZCAYA ARGENTARIA, S.A. Board of Directors (“**BBVA**”, the “**Bank**” or the “**Company**”), pursuant to article 34.1 g), of Spanish Act 10/2014, dated 26th June, on the regulation, supervision and solvency of credit institutions, in connection with the proposed resolution submitted to the consideration of the Company's Annual General Meeting under Agenda Item 8, comprising the approval of an increase in the number of employees whose professional activities have a significant impact on the Group’s risk profile or perform control functions to which the maximum limit 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, dated 26th June, on the regulation, supervision and solvency of credit institutions, (hereinafter, “Act 10/2014”), stipulates that the institutions shall establish the **appropriate ratios between the fixed and the variable components of the total remuneration**, applying the following principles:

- 1. The variable component shall not exceed 100% of the fixed component of the total remuneration for each individual.*
- 2. Nonetheless, the institution's General Shareholders Meeting may approve a higher level than established in the previous number, providing it does not exceed 200% of the fixed component.*

For the approval of this higher level of variable remuneration, the Company’s General Shareholders Meeting must decide on the resolution on the basis of a detailed recommendation from the Board of Directors that explains the reasons

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and the scope of the resolution and includes the number of persons affected, as well as the expected effect on the requirement to maintain a sound capital base.

The purpose of this Recommendations Report is to explain to the Company shareholders the reasons why the General Meeting should approve an increase in the number of employees whose professional activities have a significant impact on the Group risk profile or perform control functions to which the higher level of variable remuneration of 200% of the fixed component is applicable, and also the scope of the resolution, including the number of employees affected and the areas in which they carry out their activity.

Moreover, as determined by the Act, BBVA has analysed the effect that this resolution would have on the Company maintaining 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 the BBVA Human Resources Global Services & Policies area, which was in turn based on the reports: (i) from the BBVA Global Accounting and Information Management area (GA&IM); and (ii) from MERCER CONSULTING, S.L., a leading consultancy firm in compensation matters.

2. ON THE APPROVAL OF THE MAXIMUM LEVEL OF VARIABLE REMUNERATION

2.1 Reasons and scope: personnel affected

Firstly, we should highlight that BBVA has a sound and consistent remuneration policy that it has been applying over time, which is in line with the long term, the shareholders'

interests and prudent risk management. This alignment has been confirmed by MERCER CONSULTING, S.L. (owned by MARSH & McLENNAN), top-level consultancy firm in remuneration matters, in their reports issued in 2009, 2014 and 2015.

Thus, the BBVA remuneration policy is fully adapted to the requirements in remuneration matters established by legislation applicable to credit institutions, as can be surmised from the outcome of the annual centralised 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.

This policy is put into practice through a remuneration scheme governed by the following principles:

- Long-term value creation.
- Reward achievement of results on the basis of prudent, responsible risk taking.
- Attract and retain the best professionals.
- Reward the level of responsibility and professional track record.
- Ensure internal equitability within the Group and competitiveness outside it.
- Benchmark performance against the market using analyses from prestigious consultancy firms specialising in remuneration.
- Ensure transparency in its remuneration policy.

And it is implemented through the following elements:

- i) Fixed remuneration which, taking into account the principle of internal equitability and the value of the position on the market, compensates employees for the level of responsibility borne and their professional track record.

To such effects, the Human Resources area has a Corporate Policies Manual, which establishes that:

“The remuneration policy marks a salary band (wage benchmark) for each position, which reflects its value for the organisation defined by:

- A control point: is the benchmark fixed remuneration established through a comparison with the market and the analysis of the Group's internal equitability.*
- A fluctuation range: that allows employees holding the same position to have the same control point but a different fixed remuneration as a function of the professional evolution of each one.*

... Consequently, the salary band is defined by the minimum, the control point and the maximum, values amongst which all the Group employees would be optimally placed.”

- ii) Variable remuneration linked to the achievement of previously established targets, which reward individual, Group and organisational performance, measured by customer, financial and non-financial indicators, and which is based for its calculation on benchmarks (benchmark bonus) in cash.

For such purposes, the Human Resources area's Corporate Policy Manual indicates that:

“Each position/function is associated to a benchmark to calculate the variable remuneration: ‘benchmark bonus’, fixed amount, equal for all those holding the same position and growing as a function of their responsibility.”

The calculation of this benchmark bonus takes into account both internal equitability and external competitiveness through the information provided by various wage surveys.

In this way, BBVA's variable remuneration comprises annual variable remuneration applicable to all personnel, based on a benchmark bonus that is established for each position according to their responsibility and equal for all those performing said function and certain value creation indicators.

These indicators, established for each Unit, are of two types: financial and Unit-specific. The variable remuneration to be paid to the members of the Unit in question depends on these indicators, and on the results for the Unit's area and those of the Group as a whole. The distribution of the remuneration between the staff members is based on individual performance, which is calculated through an individual evaluation of the indicators.

Furthermore, the compensation model considers prudent risk management to be a determining element. Thus, for all employees in general, Economic Value Added (EVA) has been established as one of the key financial indicators for calculating the variable remuneration. As well as incorporating present and future risk exposure, EVA also considers the cost of capital incurred in order to obtain such profit.

The Bank also has a specific system applicable to variable remuneration for the categories of staff whose professional activities within the Group have a significant impact on the Group's risk profile or perform control functions, including executive directors and members of the senior management (hereinafter, the “**Identified Staff**”). The system is specially designed to keep the remuneration of this group in line with the risks and the long-term goals and interests of the Group and complies with the requirements in remuneration matters established by legislation applicable to credit institutions.

Up until 2014, BBVA's variable remuneration comprised ordinary variable remuneration, applicable to all employees, and remuneration in shares based on a specific incentive for BBVA's Management Team (MTI).

As of 1 January 2015, variable remuneration applicable to all employees comprises a single annual incentive, based on the establishment of value creation indicators, which combine the employees' results (financial and non-financial) with those of their Unit, those of the Area to which they belong and those of the Group as a whole (the “**Annual Variable Remuneration**”).

The fixed remuneration and the variable remuneration together comprise the employee's total annual remuneration. As a target, the fixed component should constitute a sufficiently high percentage of the total remuneration to allow maximum flexibility regarding the variable component.

Likewise, as of 2015, as agreed by the Board of Directors, a series of amendments have been made to the remuneration policy applicable to all members of the Identified Staff, aligned with the Remuneration Policy for Directors of BBVA whose approval is submitted to the General Meeting.

Regarding the components of the remuneration system for such Staff, various elements of the previous system for settlement and payment of the Identified Staff's variable remuneration have been maintained (such as payment of a certain percentage in shares; deferral of a percentage of the variable remuneration; mandatory withholding periods over such shares; prohibition on hedging; malus clauses, etc.). New measures include:

- An increase in the types of indicators linked to variable remuneration, thereby establishing a stronger link between variable remuneration and risk metrics.
- Long-term strengthening, eliminating pro-rata payments of the parts of the deferred variable remuneration during the deferral period.

- Greater weight of multi-year indicators in determining variable remuneration, establishing the possibility of adjusting (always downward) the unvested deferred annual variable remuneration by linking it to the result of certain Group long-term indicators.
- Increased transparency concerning the link between variable remuneration and the results achieved.

The remuneration system applicable to the Identified Staff thus combines indicators that are assessed after one year, with long-term indicators, which in combination allow the Identified Staff's remunerations to be efficiently aligned with the long-term interests of the Company and its stakeholders, and which contains the following rules:

- Variable remuneration shall comprise a single annual incentive, based on the establishment of value creation indicators, which combine the employees' results (financial and non-financial) with those of their Unit, those of the Area to which they belong and those of the Group as a whole (hereinafter, the “**Annual Variable Remuneration**”).
- Annual Variable Remuneration shall be calculated based on certain indicators, as a function of the corresponding performance scales and according to the weighting attributed to each indicator.
- Payment of 60% of the Annual Variable Remuneration - 50% in the case of executive directors and members of senior management - shall be made, providing the required conditions are met, during the first quarter of the year following the year to which said remuneration corresponds, in both cash and shares in equal parts.

- The remaining percentage of Annual Variable Remuneration, in both cash and shares in equal parts, shall be deferred in its entirety for a period of 3 years, whereby its accrual and vesting shall be subject to compliance with a series of multi-year indicators related to share price performance and the Group's fundamental risk metrics, which shall be established when the Annual Variable Remuneration is determined and calculated over the 3-year deferral period.
- Performance scales shall be associated with these indicators, whereby if the targets set for each indicator in the 3-year deferral period are not achieved, the deferred amount of Annual Variable Remuneration may be reduced and could even lead to the loss of the full deferred amounts, never to an increase thereof.
- The shares shall not be availed for their beneficiaries for a certain period of time. The withholding shall be applicable to their net amount, after discounting the part needed to pay taxes.
- Conditions shall be established whereby part of the Annual Variable Remuneration that is deferred and pending accrual or payment, in accordance with the above rules, may be reduced or not paid to the beneficiaries, in line with those which the Bank has been applying to the Identified Staff (*malus* clauses).
- Furthermore, various elements of the previous system for settlement and payment of the Identified Staff's variable remuneration shall be maintained, whereby:
 - No hedging strategies may be carried out on the shares received as Annual Variable Remuneration or on any deferred and outstanding shares.

- The deferred part of the Annual Variable Remuneration that must be paid to the beneficiaries shall be updated in the terms established by the Board of Directors.
- Lastly, the variable component of the remuneration for members of the Identified Staff shall be restricted to a maximum amount of 100% of the fixed component of the total remuneration, except for those employees for whom the General Meeting agrees to increase the percentage to 200%, in accordance with the provisions of the aforementioned article 34 of Act 10/2014.

As part of the remuneration system described, as can be surmised from the Human Resources Report, there are certain functions within the Identified Staff of BBVA Group in whose remuneration packages the variable remuneration may reach up to two times their fixed remuneration.

In accordance with the provisions of the applicable legislation, BBVA has been determining those professionals who must form part of the Identified Staff following the criteria of the Guidelines on Remuneration Policies and Practices issued by the Committee of European Banking Supervisors (current European Banking Authority – EBA) on 10 December 2010.

The approval of Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, relating to access to the activity of credit institutions and to the prudential supervision of credit institutions and investment companies (“CRD IV Directive”) called for a renewal of the aforementioned rules, as article 94(2) empowers the EBA to establish qualitative and quantitative criteria to identify the specific categories of personnel who must belong to Identified Staff.

In compliance with this mandate, on 13 December 2013, the EBA compiled, and submitted to the European Commission for its approval, a proposal for Regulatory

Technical Standards, which the European Commission ultimately published as Delegated Regulation 604/2014 in June 2014, incorporating the new criteria for the identification of Identified Staff by those institutions put forward by the EBA.

The criteria included in the EU Regulation are of a binding nature and grouped in two large blocks:

- (i) qualitative criteria (defined around the responsibility of the position and the employee's ability to take risks) and
- (ii) quantitative criteria (among other, be within the 0.3% with the highest total remuneration of the Group; or having received a total remuneration above the lowest total remuneration of the qualitative criteria).

To date, and pursuant to the previous legislation, BBVA had Identified Staff amounting to approximately 160 employees, whereas applying the new criteria included in the Regulation entails reaching approximately 400 risk takers.

Consequently, and with a view to providing a suitable framework for the remuneration of these professionals which, as already mentioned, could reach remuneration levels above the maximum levels established in the applicable legislation for Identified Staff, it is considered appropriate to propose to the General Meeting an increase in the number of risk takers to whom the maximum level of variable remuneration of up to 200% of the fixed remuneration may be applicable, to a maximum of 300 additional employees.

The functions performed by these employees are arranged through the following areas.

- Business Areas.

At the date of this Report, they would encompass the functions identified as *risk takers* from the Areas of Spain and Portugal, the United States, Mexico, South America, and Corporate and Investment Banking. The maximum number of *risk takers* in these areas for which this ratio is requested is 240.

- Corporate Support Areas.

This encompasses all Areas that work globally for the Group as a whole without be assigned to a particular Business Area. The maximum number of *risk takers* belonging to these areas is 40.

- Chairman's Office Areas.

The number of *risk takers* to consider in these areas is a maximum of 20.

All *risk takers* for whom the higher level of remuneration is requested:

- (i) They perform senior management functions or hold first levels of responsibility in the areas;
- (ii) They hold positions in business areas with special compensation models, in line with market practices and geographical markets where the weight of the variable remuneration is higher than the fixed remuneration; or
- (iii) They hold first levels of responsibility in geographical areas where the local legislation does not establish such limits and in which the amount of the variable remuneration is relevant.

Thus, the remuneration structure and consequently the level of variable remuneration would stem from their level of responsibility and the importance and nature of the functions they perform. All this is determined by the Human Resources area, through the benchmark bonus and salary band scheme described above.

This benchmark bonus and control point scheme is verified and approved by the Human Resources Corporate Compensation department, as established in the Human Resources Corporate Policies Manual, in such a way that no Unit or Area may unilaterally establish its own benchmarks unrelated to the internal equitability and external competitiveness criteria governing the BBVA compensation scheme.

Moreover, for these purposes, in determining its remuneration structure, BBVA aims to maintain a competitive position, taking into account the particularities of the geographical areas in which it operates and the businesses in which the professional activity is performed, for which it is necessary to attract and retain the best professionals.

To guarantee this competitiveness, BBVA has a scheme of market wage surveys, carried out by specialist firms at local and international level, so that it can benchmark remuneration. This, along with the internal equitability criterion, makes it possible to set wage bands and benchmark bonuses (in cash and shares) for all the Group functions, in line with the characteristics of each function, its internal positioning and its positioning vis-a-vis the market.

To such effects, the Group has a regulated model establishing the procedure to carry out wage surveys, guaranteeing a strict and uniform use of these surveys in all geographical areas. Thus, said Human Resources Corporate Policy Manual establishes that:

"Wage surveys provide a complete and proven benchmark for the total compensation of certain positions, as well as the most widespread remuneration policies and practices in the market. It is a market study that aims to:

- Know the remuneration positioning of the different BBVA functions in the market, in order to assess internal and external competitiveness; and*
- Simplify decision-making with respect to remuneration.*

The information provided by these surveys is one of the factors employed as a criterion in the review of the wage characteristics of the positions and the updating of the Benchmark Bonuses."

Both the determination of the targets established in the compensation model, amongst which EVA has become one of the key financial indicators, which links the payment of variable remuneration to the level of risks incurred not just by the employee but also by the Group as a whole; and the variable remuneration scheme, described above, in which the performance of the person and also the Unit, the Area and the Group as a whole all come into play; prevent an employee from obtaining variable remuneration stemming exclusively from their personal performance.

In addition, the incorporation of a long-term compensation scheme for *risk takers* with multi-year assessment indicators linked to the Risk Appetite Framework and to scales that may entail reducing the deferred amounts of the Annual Variable Remuneration, never increasing them, strengthens prudent risk management, not only in the short term, but also in the medium and long term.

In this way, the remuneration system avoids rewarding those individual results that are not linked to the generation of medium and long-term value, and the individual assumption of excessive risk. This means that there being certain functions whose variable remuneration might comprise a relevant component of their total compensation does not compromise the soundness of the BBVA Group's remuneration policy and

management model, which has been applied consistently over time and is fully aligned with the prevailing legislative framework.

The policy described above is in line with the shareholders' interests and with prudent risk management and is put into practice through a remuneration model, the cornerstones of its management being:

- Attracting and retaining the top talent that the BBVA Group requires globally and locally.
- Remunerating the responsibility of the position and the professional development of each employee, ensuring internal equitability and external competitiveness.
- Rewarding the contribution of tangible results by the employees, fostering differentiation and the recognition of merit.
- Aligning the individual goals with the creation of value for the Group.
- Incorporating into the remuneration system attractive elements for employees in terms of fixed and variable remuneration.
- Boosting the development of BBVA Group employees by helping them in their decision-making processes.

These cornerstones are the basis for the designed remuneration structure within the Group, in which the importance of a position is considered at all times according to the level of responsibility, long-term value creation, contribution of tangible results taking into account the risk incurred and talent retention and the external competitiveness of the specific market in which they operate.

The structure and amounts of variable remuneration for employees who, in accordance with the applicable regulations, have been included in the Identified Staff, have been determined based on the importance and nature of their function, ensuring their retention within the Organisation, and their compliance with market practices; and these are necessary to continue maintaining a remuneration that is appropriate to the characteristics of each function, their level of responsibility and their competitiveness in the market. All of the above falls within the Group's remuneration management policy and model.

2.2 Effect on the maintenance of a sound capital base

For the purposes of this Report, it is stated that the estimated maximum amount which the higher level of variable remuneration could reach for the 300 employees affected by this measure, over the year's total fixed remuneration for these professionals, would be €52.6 million for 2015.

In light of this fact, and also taking into account the impact on the capital base of the Identified Staff that was approved by the 2014 General Meeting, it is stated that the resolution to approve a maximum level of variable remuneration for the specified individuals would not affect the maintenance by BBVA of a sound capital base nor the entity's obligations under solvency regulations, as confirmed by the BBVA Global Accounting and Information Management area, in charge of analysing the impact that this resolution would have on the maintenance of a sound capital base pursuant to the provisions of the Act.

In the light of the foregoing, it has been deemed advisable to propose that the Annual General Meeting, to be held on 13 March 2015, approve an increase in the number of employees whose professional activities have a significant impact on the Group's risk profile or perform control functions to which the maximum limit of variable

remuneration of up to 200% of the fixed component of the total remuneration for said professionals is applicable, pursuant to the provisions of the Act.

3. PROPOSED RESOLUTION

“PROPOSED RESOLUTIONS UNDER AGENDA ITEM 8 FOR THE ANNUAL GENERAL MEETING OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A. TO BE HELD ON 13 MARCH 2015

For the purposes of article 34.1 g) of Act 10/2014 dated 26 June, on the regulation, supervision and solvency of credit institutions, to approve an increase in the number of employees whose professional activities have a significant impact on the Group’s risk profile or perform control functions to which the maximum limit of variable remuneration of up to 200% of the fixed component of the total remuneration for said professionals is applicable, all of which is in accordance with the Recommendations Report issued to such effects by the Banco Bilbao Vizcaya Argentaria, S.A. Board of Directors on 3 February 2015 and made available to shareholders as of the date on which the General Meeting was called.”

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