

***Report presented by the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A., for the effects established in articles 414, 417 and 511 of the Corporate Enterprises Act, regarding the resolution to issue contingent convertible perpetual securities into ordinary shares of the entity itself with exclusion of pre-emptive subscription rights and the corresponding share capital increase by the necessary amount, that is adopted under the authority conferred by the Annual General Meeting, held on 16th March 2012***

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## 1. INTRODUCTION

### 1.1 Subject of the report and applicable regulations

This report is formulated by the BANCO BILBAO VIZCAYA ARGENTARIA, S.A. Board of Directors (“**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 Decree 1/2010, of 2nd July, in its prevailing drafting (the “**Corporate Enterprises Act**” or the “**CEA**”), regarding the resolution to issue contingent convertible preferred securities into newly issued BBVA ordinary shares, which are issued pursuant to the First Additional Provision of Act 10/2014, of 26th June, on the regulation, supervision and solvency of credit institutions (“**Act 10/2014**”) and Regulation (EU) n.º 575/2013 of the European Parliament and Council, of 26th June 2013, on prudential requirements for credit institutions and investment firms (“**Regulation EU 575/2013**”) (hereinafter the “**Securities**”), for a maximum nominal amount of 1.5 billion euro (or the equivalent in any other currency as set out in the issuance terms and conditions) with exclusion of pre-emptive subscription rights (the “**Issuance**”), and the corresponding share capital increase; that is adopted under the authority conferred by the Annual General Meeting, held on 16th March 2012 under item five on its agenda.

Article 401.2 of the CEA stipulates that the securities recognising or creating debt issued by a public limited company, such as the Securities, will be subject to the regulations established for bonds under title XI of the Corporate Enterprises Act.

Said articles 414 and following of the CEA allow public limited companies to issue bonds that can be converted into shares provided the annual general meeting determines the terms and modalities of the conversion and resolves to increase the capital by the necessary amount. For this, the directors must draft a report explaining the terms and modalities of the conversion. This must be accompanied

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

The convertible bonds may not be issued for a sum below their nominal value, and may 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 annual general meeting to delegate authority to the directors not just to issue convertible bonds, but also to exclude the pre-emptive subscription rights over the convertible bond issues that are subject to the authority when the company's interest so require. To such effects, the notice of the annual general 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 right of pre-emptive subscription.

In the resolution to increase capital being made on the basis of the annual general meeting conferral of authority, 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 substantiation of the grounds for the proposed suppression of pre-emptive subscription rights and the auditor's report will contain a technical judgement 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 formulae to offset any possible dilution of the economic value of shareholders' holdings.

These reports will be made available to the shareholders and communicated to the first annual general 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 Strategy and Finance Department, which is in turn supported by a report from UBS Limited, a top-level investment bank with recognised expertise in this type of issuances; and (ii) the legal report of the external consultant, J&A Garrigues, S.L.P., legal consultant on Spanish law.

## 2. ABOUT THE ISSUANCE OF THE SECURITIES

### 2.1 Conferral of authority by the Annual General Meeting under which to issue Securities

The BBVA Annual General Meeting, held on 16th March 2012, validly called in time and form, adopted the following resolution under its agenda item five, the relevant part of which is transcribed below:

*“Repealing the unavailed part of the authorisation conferred by the Annual General Meeting, 14th 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 authorisations, pursuant to the following conditions:*

*(...)*

*3. The authority to issue securities convertible and/or exchangeable 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*

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*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 re-draft article 5 of the Company Bylaws.*
- iii) The power to exclude the pre-emptive 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 pre-emptive subscription rights over a specific issue that it may decide to implement under this authorisation, 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 moment of 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**

The approval and definitive entry into force of Basel III in Europe through Regulation EU 575/2013 and Directive 2013/36/EU of the European Parliament and of the Council, of 26th 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 Regulation EU 575/2013, "**CRD IV**"), have clarified the new solvency framework applicable to financial institutions.

This new CRD IV framework has been implemented in Spain via Act 10/2014, it being set out that regulatory implementations will occur through the enactment of lower rank regulations throughout 2015, all without prejudice to the direct applicability of Regulation EU 575/2013.

CRD IV requires credit institutions to endow, in certain proportions, their regulatory capital composition with different instruments in order to be deemed well capitalised. In this sense, in addition to "ordinary tier 1 capital", CRD IV includes two additional regulatory capital categories, "additional tier 1 capital" and "tier 2 capital", which shall be covered by specific instruments and, failing

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that, with ordinary tier 1 capital that would be more burdensome and less efficient.

In this regard, CRD IV establishes that the instruments issued by credit institutions that have counted to present as additional tier 1 capital and which do not comply with the new requirements established in Regulation EU 575/2013 will gradually lose eligibility up to 2023, ceasing from that moment to be eligible as additional tier 1 capital instruments.

Notwithstanding the above, CRD IV continues to be in the definitive implementation stage regarding requirements relating to certain regulatory buffers, the definition of which is at the discretion of the regulator (buffer against systemic risks and specific countercyclical capital buffer) and relating to prudential supervision requirements (Pillar II measures), coming out of the specific supervisory review process of each credit institution; meanwhile, different international fora are setting out new additional requisites, such as the TLAC requirements (*Total Loss Absorbing Capacity*) at the Financial Stability Board, with the aim of providing credit institutions with instruments that guarantee loss absorption at a sufficient proportion so as not to have to recur to injections of public funds. All these new regulatory requirements and uncertainties may require entities have additional capital instruments to those already required under CRD IV.

Due to all of this, and despite the strong current position of BBVA in terms of its ordinary tier 1 capital, the BBVA Strategy and Finance Department has put forward the advisability, in terms of diligent and prudent management, of issuing securities that may be eligible, as per CRD IV, as additional tier 1 capital to thus anticipate the requirement that BBVA has to have this type of instrument while, at the same time, being able to deal orderly with the progressive loss of eligibility of older instruments that currently and partially comprise additional tier 1 capital in the most efficient way, in addition to dealing with the requirements arising from organic and non-organic corporate expansion the Group is undergoing.

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This will enable the Bank to take advantage of the current favourable situation of the financial markets for the issue of this type of instrument considering also the interest and demand detected amongst some types of professional investors, as seen with the issuance of contingent convertible perpetual securities performed by the Bank in May 2013 and February 2014.

In this scenario, and in order to be able to thus cover the regulatory requirements in the most efficient way possible, the Strategy and Finance Department has proposed to the Board of Directors, and the latter has agreed, to issue a debt security instrument that is eligible as additional tier 1 capital in accordance with what is set out in CRD IV, to which effect Regulation EU 575/2013 establishes the requirement for these securities to include, amongst others, the following features:

- (i) be perpetual;
- (ii) have a subordination level placing them only above shares (meaning that their credit priority is lower than that for tier 2 capital instruments in the event the entity becomes insolvent);
- (iii) remuneration of the securities is only paid out of distributable items and the entity has full discretion at all times to cancel remuneration indefinitely without cumulative effects; and
- (iv) they include a contingent conversion mechanism into entity shares when the conversion event set out in said regulation occurs (described in section 2.4.1 below) and this they are able to effectively absorb losses in a solvency stress context for the issuer. Nevertheless, this contingent conversion event would only occur in a very specific ordinary tier 1 capital deficit situation at the issuer or group.

Therefore, the Securities are perpetual, subordinate debt securities with discretionary remuneration, convertible into newly issued ordinary shares of BBVA

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in the face of a possible ordinary tier 1 capital deficit and which can be eligible as additional tier 1 capital, all as per CRD IV.

In this way, BBVA covers the requirement to shore up additional tier 1 capital in the most efficient way possible and the progressive loss of eligibility of the old instruments that currently and partially make up additional tier 1 capital, taking advantage of the demand detected for this type of instrument which is in the best interest of BBVA.

### **2.3 Financial conditions of the Issue**

The Issuance will be made for a maximum nominal amount of 1.5 billion euro, the nominal value of each Security being €200,000.

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 the section above.

Investors may receive remuneration that shall be set out in the final terms and conditions of the Issuance and which shall be in line with market prices for this type of instrument. The payment of the remuneration shall be conditional, amongst other factors, on there being distributable items, as set out in the capital base regulations that will be described in detail in the Issuance terms and conditions.

The Issuer may, at its own discretion and at all times when it deems this to be necessary or appropriate, cancel the total or partial remuneration payment for an unlimited period, without cumulative effect.

Should any of the conversion triggers established in section 2.4.1 below occur, the Securities will be converted into ordinary BBVA shares pursuant to the following variable conversion ratio, which depends on the BBVA share price at the time of conversion:

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

Where:

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

$Nom_{convertible}$ : The nominal Security value subject to conversion (200,000 euro).

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

## 2.4 Terms and modalities of the Conversion

The terms and modalities of the conversion of the Securities, resulting from the proposal made by the Strategy and Finance Department, will essentially be as follows:

### 2.4.1 Conversion triggers

The Securities will be converted into newly issued BBVA ordinary shares if the ordinary tier 1 capital ratio of the Issuer or its consolidated group or subgroup, is below 5.125%, calculated pursuant to Regulation EU 575/2013, or any other capital base regulation applicable at any time.

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

The Issuance terms and conditions may establish total mandatory additional conversion triggers if this is required to shore up Issuer 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 ordinary BBVA shares (the "**Conversion Ratio**") will be the result of dividing the nominal unit value

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(i.e., €200,000) 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 the BBVA shares at the moment of conversion of the Securities, subject to the limits established below.

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

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

If the Reference Price is below €3.75, 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 following section.

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

Consequently, the Conversion Price will be whichever is the greater of:

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

- c) the nominal value of the 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 habitual practices in this type of transactions, in compliance with the terms and conditions of the Issuance.

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

### **2.5 Capital increase**

According to article 414 of the Corporate Enterprises Act, the share capital increase must be resolved for the maximum amount necessary to be able to cover the eventual conversion of the Securities issued. To such purpose, 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.

Said capital increase will be executed by the Board of Directors, being able to delegate to the Executive Committee, with express powers of substitution and delegation to those proxies that the Board of Directors may empower, under the authority of the convertible securities issuance agreement adopted by the BBVA Annual General Meeting, held on 16th 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 containing the same rights as BBVA shares outstanding on the date of execution of the corresponding 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 necessary for the contingent conversion of the Securities, given that, pursuant to the terms and modalities 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 euro, that the Conversion Price may not be below 3.75 euro, and assuming there will be no anti-dilution adjustment prior to the date when the Securities are converted, the maximum number of new ordinary shares it would be necessary to issue would be 400,000,000 ordinary shares.

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

### **3. GROUNDS FOR THE EXCLUSION OF PRE-EMPTIVE SUBSCRIPTION RIGHTS**

#### **3.1 Grounds for the exclusion of pre-emptive subscription rights**

As indicated above, the BBVA Annual General Meeting, held on 16th March 2012, resolved under agenda item five, to confer authority on the Board of Directors to issue securities that could be converted into shares and to increase the share capital. It also resolved to empower the Board of Directors to exclude pre-emptive subscription rights over the convertible securities issuances made under such authority.

To such end, when convening the aforementioned Annual General Meeting, the BBVA Board of Directors approved and gave shareholders access to a report substantiating the grounds of the proposal to confer authority to exclude pre-emptive subscription rights.

Article 511 of the Corporate Enterprises Act requires that pre-emptive subscription rights only be excluded in the event of convertible bond issuances when corporate interests so require.

The BBVA Board of Directors, by virtue of said authority and with due substantiation provided by the reports issued by the Strategy and Finance Department, in turn substantiated by the report produced by UBS Limited, and in the legal report by J&A Garrigues, S.L.P. as external legal advisor helping BBVA in the legal structure of this transaction, has resolved to exclude the pre-emptive 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 interests, as explained below.

With the intention of dealing with the requirement to complete additional tier 1 capital in the most efficient way possible and the progressive loss of eligibility of the old instruments that currently and partially comprise the Bank's additional tier 1 capital, as well as executing the Group's growth strategy, the Strategy and Finance Department has proposed to the Board of Directors a securities issuance that is eligible as additional tier 1 capital according to CRD IV, taking advantage of the current favourable situation on the financial markets for issuances of this type of instrument and also taking into account the detected interest and demand amongst some types of professional investors.

So that they are eligible as additional tier 1 capital according to CRD IV, these debt securities shall be perpetual, subordinate, with discretionary remuneration and convertible into newly issued ordinary BBVA shares in the face of a possible ordinary tier 1 capital deficit; therefore, the issuance of Securities is put forward as the only way to comply with the described characteristics.

The complex characteristics of this type of instrument, required by CRD IV, and its sophistication, as well as the latest regulatory changes, specifically regarding

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placement of this type of instrument, mean that the Securities are suitable only for placement with professional investors (to whom the Issuance is aimed) and not with all types of investors, especially retail, which are a very important part of BBVA shareholders; in this way, not excluding the right to pre-emptive subscription would mean offering a product that does not match the investment profile of all Bank shareholders and, therefore, would compromise the viability of the Issuance given the high risk that it would not be 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 Issuer, and would also make it necessary to carry out a subsequent additional placement amongst non-shareholder investors under conditions that would foreseeably be less favourable for the Bank, in terms of the money and operational costs, as well as the execution time and capital that it would entail, thereby clearly prejudicing BBVA's corporate interests.

However, growing interest for this type of instrument has been detected amongst qualified investors and sophisticated foreign private banking customers (who know and habitually subscribe this type of product). This is demonstrated by the success of the issuances of the contingent convertible perpetual securities by the Bank in May 2013 and February 2014, as well as the issuances made over recent months by various national and international credit institutions, which have been directed to this type of investors.

In order to guarantee the success of the Issuance and aim it directly to this type of investors, it is vital to exclude the pre-emptive subscription rights of BBVA shareholders.

The combination of the factors described above (reinforcing BBVA equity, the characteristics of these securities, the market conditions and the investors to whom the Issuance is directed) have led the Strategy and Finance Department to consider that the optimum alternative for corporate interests is to reinforce BBVA

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equity by issuing the Securities, and directing the Issuance solely to qualified investors and foreign private banking customers, as this is the right group to subscribe to this type of instrument and is also where most interest has been detected for contingent convertible perpetual debt instruments.

Consequently, the optimal alternative to meet the corporate interests and provide a complete and comprehensive solution is the issuance of Securities excluding the pre-emptive subscription rights.

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

- (i) The nature of the Securities is that of a perpetual debt instrument, whose contingent convertibility is determined by the regulations on equity 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 considered that BBVA's capital adequacy and equity ratios are currently very far from the conversion triggers, reinforcing the nature of the Securities as debt 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 euro, in which case the Conversion Price will be 3.75 euro and the shares would be issued with a premium over the market price. In this manner, the maximum number of shares deliverable is limited by establishing the minimum Conversion Price, guaranteeing that they are 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 triggers are

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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 Strategy and Finance Department report, the theoretical value of the pre-emptive subscription rights stemming from the Issuance is nil, meaning current shareholders do not lose any financial value with their exclusion.

### **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, without prejudice to the sale restrictions that may determine the terms and conditions of the Issuance.

## **4. PROPOSED RESOLUTIONS**

***"ONE.-** By using the authority delegated by the Company's Annual General Meeting held on 16th March 2012, under agenda item five, to issue preferred securities contingently convertible into newly issued ordinary shares of the Banco Bilbao Vizcaya Argentaria, S.A. ("**BBVA**" or the "**Company**"), pursuant to First Additional Provision of Act 10/2014, of 26th June, on the regulation, supervision and solvency of credit institutions ("**Act 10/2014**") and Regulation (EU) n.º 575/2013 of the European Parliament and Council, of 26th June 2013, on prudential requirements for credit institutions and investment firms ("**Regulation EU 575/2013**") (hereinafter the "**Securities**"), for a maximum nominal value of one billion five hundred million euro (€1,500,000,000€) (or the equivalent in any other currency as determined by the terms and conditions of the issuance), excluding pre-emptive subscription rights (the "**Issuance**"), pursuant to the following terms and conditions:*

***Nature of the Securities:***

*The securities to be issued will be contingent convertible preferred securities into newly issued ordinary BBVA shares, pursuant to the First Additional Provision of Act 10/2014 and Regulation EU 575/2013.*

***Issuer:***

*BBVA*

***Target Investors:***

*Qualified investors and foreign private banking customers, without prejudice to the sale restrictions that may determine the terms and conditions of the Issuance.*

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**Maximum amount:** *One billion five hundred million euro (€1,500,000,000) (or the equivalent in any other currency as set by the terms and conditions of the Issuance).*

**Nominal value:** *The Securities will have a nominal unit value of two hundred thousand euro (€200,000).*

**Number of Securities:** *The maximum number of Securities to be issued is seven thousand five hundred (7,500), all belonging to one single series and with the same terms and conditions.*

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

**Distribution:** *Holders of the Securities may receive a predetermined non-cumulative distribution that will be determined as a function of the interest rate applicable to the nominal value of the Securities, provided they comply with the rest of the conditions established in the Issuance terms and conditions (the “**Distribution**”).*

*Specifically, the Issuer may cancel at its own discretion and at all times where it deems it so necessary or appropriate total or partial payment of the Distribution indefinitely, with no cumulative effect, without prejudice to other instances that may be established in the terms and conditions of the Issuance or that are 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 terms and conditions of the issuance, provided that at least 5 years have elapsed from their issue, and always if, where applicable, prior authorisation has been granted by the competent authority.*

*The issuance terms and conditions may include*

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*other circumstances for early redemption by the Issuer.*

**Representation of the Securities:** *The Securities may be represented by notes or book entries.*

**Status:** *The Securities will be ranked in order of priority:*

*(i) junior to (a) ordinary or subordinated BBVA creditors; and (b) those securities that BBVA has issued (or guaranteed) or may issue (or guarantee) ranking senior to the Securities;*

*(ii) in the same rank (pari passu) as other issues of preferred securities, preferred shares or other securities with the same rank as the Securities that the Issuer may have issued (or guaranteed) or may issue (or guarantee);*

*(iii) senior to those securities that the Issuer may have issued (or guaranteed) or may issue (or guarantee) ranking junior to the Securities; and*

*(iv) senior to BBVA ordinary shares.*

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

**a) Conversion triggers**

*The Securities will be converted into newly issued BBVA ordinary shares if the ordinary tier 1 capital of the Issuer or its consolidated group or subgroup, is less below 5.125%, calculated pursuant to Regulation EU 575/2013, or any other capital base and adequacy regulation applicable at any time to the Issuer.*

*Likewise, the Securities may be converted into newly issued BBVA ordinary shares if the Issuer adopts any measure whose consequence is the approval of a reduction of its share capital in the terms set out by article 418.3 of the Consolidated Text of the Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010, of 2nd July, in its current drafting at all times (the "Corporate Enterprises Act").*

*Lastly, the Issuance terms and conditions may establish additional total mandatory conversion triggers if this is required to shore up Issuer 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 BBVA ordinary shares (the "**Conversion Ratio**") will be the result of dividing the nominal unit value (i.e., €200,000) 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 the BBVA shares at the moment of conversion of the Securities, subject to the limits established below.*

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

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

*If the Reference Price is below €3.75, 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 section d) below.*

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

*Consequently, the Conversion Price will be whichever is the greater of:*

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

**c) Procedures for conversion**

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

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**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 habitual practices in this type of transactions, in compliance with the terms and conditions of the Issuance.*

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

*Without prejudice to other proxies that may be conferred by virtue of these resolutions, the Executive Committee is expressly empowered, with express authority to delegate these powers, and powers are conferred on Mr Jaime Sáenz de Tejada Pulido, Spanish national, of legal age, with identity card number 823.996-K, Mr Erik Schotkamp, Dutch national, of legal age, with foreign residency card number Y-2126590-R, Mr Ignacio Echevarría Soriano, Spanish national, of legal age, with identity card number 837.871-G, Mr Raúl Moreno Carnero, Spanish national, of legal age, with identity card number 52.473.664-S, and Mr Francisco Javier Colomer Betoret, Spanish national, of legal age, with identity card number 25.418.655-K all domiciled for these purposes at Paseo de la Castellana number 81, Madrid (the “**Proxies**”), so that any of them indistinctly and jointly may establish, develop or modify the Issuance terms and conditions as well as determine or develop any matter not established by this resolution, including but not limited to, sufficient powers to amend, adapt and/or to determine other conversion triggers, additional to those established 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 the BBVA Strategy and Finance Department, in accordance with the report by J&A Garrigues, S.L.P., and by virtue of articles 414, 417 and 511 of the Corporate Enterprises Act, approve the Directors’ Report on the Securities issuance, which will be made available to shareholders along with the report issued by the auditor other than the auditor of the Company accounts, appointed to do so by the Companies Registry, and reported to the first Annual General Meeting held after the capital increase resolution, expressly empowering the Company Secretary & Secretary of the Board of Directors to certify its text.*

**FOUR**- *In line with the Strategy and Finance Department report, which is reflected in the Directors’ Report approved in the foregoing resolution, the corporate interests require suppression of pre-emptive subscription rights in this Issuance. Consequently, the Board of Directors, pursuant to the powers attributed by the Annual General Meeting, held on 16th March 2012, under agenda item five and by virtue of article 511 of the Corporate Enterprises Act, hereby resolves to suppress said pre-emptive 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, assuming that no anti-dilution adjustment is made, expressly envisaging the possibility of the capital increase being implemented with an issue premium, by a lower number of shares and with the possibility of under-subscription.*

*Should the Securities be converted, the newly issued shares issued to cover said conversion will be ordinary shares, in the same category and series as those that at the time are outstanding and will equally be represented in the same way as those ordinary shares (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**”) and its accountholders), granting their holders the same rights as are recognised for the ordinary shares outstanding at the time. On executing 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 pre-emptive subscription rights on the resulting capital increase.*

**SIX**- *By virtue of the authority conferred by the BBVA Annual General Meeting, held on 16th March 2012, under agenda item five, the Executive Committee is expressly delegated with the authority, and which may in turn delegate such authority, and the Proxies are empowered in the broadest terms, jointly and severally, within the limits established in the resolutions above, to carry out the Issuance, such that they may:*

- a) Determine the timing on which the Issuance is to take place, and refrain from going ahead with the Issuance should this be deemed necessary or advisable.*
- b) Determine the characteristics of 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, include new conversion terms and modalities 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 determine any matter not established in the resolutions above that may be necessary for the successful outcome of the transaction, expressing the amount availed against the limit of the authority granted by the Annual General Meeting to the Board and the amount still available.*
- c) Declare the Distribution of the Securities, whether partially or completely, and declare no Distribution, as determined in the Issuance terms and conditions.*

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- d) *Apply, where appropriate, the anti-dilution mechanism as determined in the Issuance terms and conditions.*
- e) *Carry out any arrangement, request or appointment that may be legally necessary to achieve the filing of the Issuance with the Companies Registry or any other public or private bodies or entities.*
- f) *Grant any public and private documents required, appear before a Notary Public and finalise the formalities on the preceding resolutions, including deeds to issue, correct, clarify or rectify them, and deeds of the total or partial subscription of the Issuance, as well as the total or partial redemption or amendment and, where applicable, any others that may have preceded it of may be resolved in the future. Where applicable, file the declaration referred to in article 318 of the Companies Registry Regulations, in order to comply with the procedures established in article 26 of Act 24/1988 of 28th July, on Securities Markets, should this be necessary.*
- g) *Formalise or register the offering circulars that may be necessary and the documents in which the Issue is formalised and any other documents that may be necessary before any bodies, regulators, registries, the Companies Registry and exchanges or markets in or outside Spain, including but not limited to any regulated and non-regulated, secondary markets and exchanges, organised or non-organised. Request, where appropriate, listing for trading of the Securities on regulated and non-regulated, organised or non-organised, secondary markets in or outside Spain, as well as the eligibility of the Securities as own funds or additional tier 1 capital of the Company and/or its group.*
- h) *Proceed, where necessary, to constitute a Syndicate of the Securities holders, determine its characteristics and rules of operation, and to appoint its Provisional Commissioner, and the fundamental rules governing relations between the Company and the Syndicate.*
- i) *Establish any other parameters not established by this Board of Directors with respect to the Issuance and determine any other parameter for the Issuance that may be necessary for its successful completion.*
- j) *Negotiate, undersign and grant public and private documents, including but not limited to, information brochures, liquidity contracts, subscription, placement and/or insurance contracts, payment agency contracts, and any other contracts that may be necessary for the issuance of the Securities under the conditions deemed most appropriate.*
- k) *With respect to the conversion of the Securities into BBVA shares, establish, where appropriate, the Conversion Price, the definitive conversion 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*

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*when this is the case, and engage in 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 the wording of corresponding article in the Company Bylaws to adapt it to the new figure for capital, appearing to such effects before any public or private bodies, including but not limited to public notary or the Companies Registry.*

- l) Request, where appropriate, listing for trading on regulated and non-regulated, organised or non-organised, Spanish and non-Spanish secondary markets and take any actions they deem necessary in any jurisdiction where the BBVA shares are offered or traded or listing for their trading has been requested, where this is the case, in order to cover the eventual conversion of the Securities. By way of example:*
- (i) Write and file any offering circulars, requests, communications or notifications that may be required by applicable legislation in each competent jurisdiction and agree later amendments to these that they deem advisable.*
  - (ii) Take such actions as may be necessary before any competent authorities in each jurisdiction and approve and formalise such public and/or private documents as may be necessary and/or advisable for any aspects or content of the resolutions to increase capital to enter into full force.*

*Finally, and for the effects of the applicable regulations on the issuance of securities, it is resolved to appoint Proxies to represent the Company before any public and/or private body. They will have joint and several powers and will bear responsibility for the content of the issuance brochures, information documents or any other similar documents to these, where applicable, being similarly authorised to sign however many additional contracts and documents, whether public or private, that may be necessary for the successful outcome of the transaction."*

\* \* \*

Madrid, on the third of February of the year two thousand and fifteen

*THIS ENGLISH VERSION IS 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 regarding the issue of perpetual securities contingently convertible into shares with the exclusion of the pre-emptive subscription right in the case of articles 414, 417 and 511 of the Restated Text of the Companies Act

**Bilbao, 4 February 2015**

**SPECIAL REPORT REGARDING THE ISSUE OF PERPETUAL SECURITIES  
CONTINGENTLY CONVERTIBLE INTO SHARES WITH THE EXCLUSION OF THE PRE-  
EMPTIVE SUBSCRIPTION RIGHT IN THE CASE OF ARTICLES 414, 417 AND 511 OF  
THE RESTATED TEXT OF THE COMPANIES ACT**

To the General Shareholders' Meeting of  
Banco Bilbao Vizcaya Argentaria, S.A.:

For purposes of the provisions of articles 414, 417 and 511 of the Restated Text of the Companies Act (Ley de Sociedades de Capital), and pursuant to the assignment of Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter, "BBVA", "the Bank" or "the Institution"), by appointment of the Mercantile Registrar of Vizcaya, Mr Juan Alfonso Fernández Núñez, corresponding to file number 2015/5, we issue this Special Report regarding the issue of perpetual securities contingently convertible into shares of Banco Bilbao Vizcaya Argentaria, S.A., with the exclusion of pre-emptive rights, under the authorisation and therefore the delegation conferred by the Ordinary General Shareholders' Meeting of the Bank on 16 March 2012.

## **1. Background and purpose of our work**

Banco Bilbao Vizcaya Argentaria, S.A. is a Spanish company organised under private law, subject to the rules and regulations of banking institutions operating in Spain, domiciled in Bilbao. The shares of the Bank are listed on the Continuous Market of the Spanish Securities Markets, as well as on other international markets. All the shares of the Bank have the same political and economic rights without there being any different voting right for any shareholder.

According to the information and documentation received under the delegation conferred by the Ordinary General Shareholders' Meeting of the Institution held on 16 March 2012 the Board of Directors has adopted a resolution to carry out an issue of perpetual securities contingently convertible (hereinafter, the "securities") into shares of the Bank in the amount of up to ONE THOUSAND FIVE HUNDRED MILLION EUROS (€ 1,500,000,000), with a provision for a possible incomplete subscription, with the exclusion of pre-emptive rights, and of a perpetual nature (except upon conversion or prepayment).

In addition, on 3 February 2015, the Board of Directors of the Institution prepared a Directors' Report, attached hereto as Annex I (hereinafter, the "Directors' Report") providing a rationale for the proposal and the rate of conversion into shares of the securities to be issued. According to the

information obtained, the issue shall be implemented in accordance with the provisions of the terms and conditions contained in the Directors' Report.

The purpose of our work is not to certify the price of issue or conversion of the securities. The objectives of our work are exclusively the following:

- To state whether the attached Directors' Report of the Bank contains the minimum required information compiled in the Technical Rule on the Preparation of the Special Report regarding the issue of convertible obligations in the case of article 292 of the Restated Text of the Companies Act (current art. 414 of the Restated Text of the Companies Act) which includes an explanation of the basis and methods of the conversion corresponding to the securities, by application of the procedures set forth in such Technical Rule.
- To issue a technical opinion, as independent experts, regarding the reasonableness of the data contained in the Directors' Report of the Bank in relation to the issue of the securities with the exclusion of pre-emptive rights, and regarding the suitability of the conversion ratio thereof and, if applicable, the formulas of adjustment thereof to compensate for possible dilution of the financial interest of the shareholders, all in accordance with the provisions of article 417 of the Companies Act, and by analogy, in those cases where the Technical Rule on the Preparation of the Special Report regarding the exclusion of pre-emptive rights is applicable.

The accounting information used in this work has been obtained from the consolidated annual accounts of Banco Bilbao Vizcaya Argentaria, S.A. and companies making up the BBVA Group (hereinafter, "the Group" or "BBVA Group") for the financial year ended 31 December 2014, which were audited by Deloitte, S.L., which issued its audit report on 4 February 2015, in which it expressed an unqualified opinion.

## 2. Procedures applied in our work

Our work consisted of the application of the following procedures in accordance with the Technical Rule on Preparation of the Special Report regarding the issue of convertible obligations in the case of article 414 of the Restated Text of the Companies Act, as well as those complementary procedures that we have deemed necessary to comply with the provisions of articles 417 and 511 of the Companies Act:

- a) Obtaining and analysing the resolution of the Ordinary General Shareholders' Meeting of the Institution of 16 March 2012 with respect to the delegation to the Institution's Board of Directors, with the express power of substitution in the Bank's Executive Committee, of the Board of Directors' president, of the Chief Executive Officer or any other director or

person with powers of attorney in the company, of the power to issue, among other things, convertible securities and to exclude the right to pre-emptive subscription.

- b) Obtaining of the report prepared by the Directors of Banco Bilbao Vizcaya Argentaria, S.A. explaining the basis and methods of the conversion and the exclusion of pre-emptive rights dated 3 February 2015, which as mentioned above is included as Annex I to this Report.
- c) Obtaining and analysing the stand alone and consolidated annual accounts together with the report of the auditor of Banco Bilbao Vizcaya Argentaria, S.A. and companies making up BBVA Group for the financial year ended 31 December 2014.
- d) Verification that the Directors' Report regarding the issue of the perpetual securities contingently convertible into shares contains the information deemed necessary and sufficient, within the context of the Resolution of 23 October 1991 of the Instituto de Contabilidad y Auditoría de Cuentas, for a proper interpretation and comprehension by the addressees thereof.
- e) Obtaining and analysing the information used by the Directors of Banco Bilbao Vizcaya Argentaria, S.A. in determining the basis and methods of the conversion of the securities; verifying that they comply with the provisions established for such purpose in the delegation agreement adopted by the General Shareholders' Meeting of 16 March 2012 cited in paragraph a) above.
- f) Verification that, in accordance with the Directors' Report, the issue price of the contingent convertible perpetual securities is not below the nominal value thereof, and that the conversion price thereof into shares (the conversion price) is not below the nominal value of the shares into which they are to be converted.
- g) Verification of the calculations from the valuation methods used by the Directors of Banco Bilbao Vizcaya Argentaria, S.A. in determining the basis and methods of the conversion corresponding to the securities.
- h) Evaluation of the reasonableness of the data contained in the Directors' Report to justify the issue of the securities and the reasons and documentation provided to justify the suppression of pre-emptive rights.
- i) Verification that the accounting information contained in the Directors' Report, if any, matches the information contained in the audited consolidated annual accounts of Banco Bilbao Vizcaya Argentaria, S.A. for financial year 2014.

- j) Reading of available minutes of the General Shareholders' Meetings and of meetings of the Board of Directors held since 1 January 2014 and through the date of issue of this Report.
- k) Holding of meetings with executives of Banco Bilbao Vizcaya Argentaria, S.A. in order to obtain information regarding the issues raised or that might be of interest for the objective of our work.
- l) Study of changes in the listing price of the shares of the Company and determination of the average listing value of such shares during the latest representative listing period prior to the date of this Special Report (the last quarter) and of the latest available listing price prior to such date, also considering the listing frequency and volume of the periods under analysis.
- m) Given that the conversion ratio proposed by the Directors is variable, verification that the application of the formula proposed by the Directors that serves as the basis to establish the applicable conversion price each time ensures that this is in no case less than the reasonable value of the shares of the Institution, as the Floor Price (as defined in section 4 below) will correspond to at least the reasonable value of the shares of the Institution. Evaluation in this regard of whether the proposed conversion mechanism is reasonable, considering the contingency terms of the conversion proposed by the Directors.
- n) Verification of the reasonableness of the estimate of the theoretical value of the pre-emptive subscription rights the exercise of which is proposed to be eliminated, calculated with reference to the average listing price for the three-month period ended 3 February 2015 and the latest listing price of the Company's shares prior to the date of this Special Report, also considering the possible conversion of the securities, given their nature as contingently, but not necessarily, convertible.
- o) Analysis of the suitability of the conversion ratio and the formulas for adjustment thereof, to compensate for a possible dilution of the financial interest of the shareholders.
- p) Analysis of material subsequent events occurring after the formulation of the latest consolidated and audited annual accounts of Banco Bilbao Vizcaya Argentaria, S.A. for financial year 2014, and through the date of this Report that could significantly affect the issue of perpetual securities contingently convertible into Bank's shares.
- q) Obtaining a representations letter by the Management of Banco Bilbao Vizcaya Argentaria, S.A. in which they confirm, among other items, that they have provided us with all information needed for the preparation of our special Report, have informed us of all significant hypotheses, data or information, and that there have been no subsequent

events through the date of our special report that we have not been made aware of and that might have a material effect on the conclusions of our work.

### 3. Characteristics of the issue

The amount of the issue will be up to one thousand five hundred million euros (€ 1,500,000,000), made up of 7,500 securities with a nominal value of 200,000 euros – above the nominal value of the shares of the Institution (0.49 euros) – which shall be issued at par, expressly providing for a possible incomplete subscription, all belonging to a single series, and suppressing the right of pre-emptive subscription.

The convertible securities shall be of a perpetual nature (except for conversion or prepayment upon the terms included in the Directors' Report included as Annex I) and shall give the right to a non-cumulative remuneration determined based on the applicable interest rate on the nominal value of the securities and provided that the rest of the conditions set forth in the issue terms are met.

Specifically the issuer will be able to cancel, at their discretion, when deemed necessary, the remuneration's payment during a limitless period, without cumulative effect, independently of other events that might be established in the terms and conditions of the issue.

The issue is of a perpetual nature, thus it lacks due date. The securities might be paid totally or partially at the issuer's choice in accordance with the final terms and conditions of the issue, provided that at least 5 years have elapsed from their issue and as long as the Bank of Spain or the competent supervisory authority has previously authorized it.

### 4. Evaluation of the conversion ratio and formulas for adjustment thereof

The Directors' Report proposes that the conversion ratio of the perpetual securities contingently convertible into shares of the Bank be variable. Due to this reason fluctuations in the market value of the shares of the Bank would give rise to adjustments in the conversion ratio, but with the establishment of a maximum limit on the number of shares to be delivered in the conversion.

The basis and methods of the conversion are the following:

#### Events of contingent conversion

The securities will necessarily be converted into newly-issued ordinary shares of BBVA in the event that the issuer or the issuer's consolidated subgroup has a common equity tier 1 ratio less than

5.125%, calculated in accordance with Regulation (EU) No. 575/2013 or such other solvency rules as are applicable to the Bank at each time.

Furthermore, the securities might be converted into newly-issued ordinary shares of BBVA if the issuer adopts any measure resulting on the approval of a reduction of its share capital in the terms spelled out in article 418.3 of the Company Act.

Nevertheless, the terms and conditions of the issue may establish additional events to safeguard the issuer's solvency or in order for the securities to count as additional equity tier 1.

### **Conversion ratio**

The conversion ratio of the securities into ordinary shares of BBVA will be the one resulting from the ratio between their nominal value (i.e. 200,000 euros) and the value attributed to the ordinary shares of BBVA for conversion purposes (the latter being the "Conversion Price"). The Conversion Price will correspond to the market value of the shares of BBVA at the time of the conversion of the securities, subject to the limitations outlined below.

Thus, the number of shares that will correspond to each security holder as a consequence of the conversion will be the result of multiplying the conversion ratio by the number of securities owned by the investor. In the case of fractions of shares, it will be based according to the provisions on the terms of the issue.

The Conversion Price will be the arithmetic average of the closing prices of BBVA's shares corresponding to the five listing days previous to the day in which the conversion event takes place, rounding to the closest cent euro and, in case of half a cent, the immediately higher cent euro (the "Price of Reference")

If the resulting Reference Price is lower than 3.75 euros, the Conversion Price will be 3.75 euros per share ("the Floor Price"), without prejudice of the modifications that this amount may suffer based on the expected application of anti-dilution mechanisms.

Independently of the aforementioned, the Conversion Price may not be in any case lower than the nominal value of the shares of BBVA at the time of the conversion, so that in all cases the provisions set forth in article 415 of the Company Act will be met.

Therefore, the Conversion Price of the ordinary shares of the Bank will be the highest of the following:

- a) The Price of Reference
- b) The Conversion Floor Price of 3.75 euros (without prejudice of the modifications that this amount may suffer based on the application of the anti-dilution mechanism); and
- c) The Nominal Value of the shares of BBVA at the time of the conversion.

Based on the aforementioned, the Conversion price suggested by the Directors will correspond, at least, to the reasonable value of the shares in the Institution at the date of the conversion.

The listing price per share at the closing of 3 February 2015 was 7.93 euros and the average listing price per share of the last 3 months ended at 3 February 2015 has been 8.09 euros.

Since the conversion ratio is variable, the conversion ratio proposed by the Directors does not have a dilutive effect on the shareholders of the Bank for the reasons explained below:

- The contingent (non-mandatory) nature of the conversion; in other words, it is possible that the conversion never takes place, and thus the potential dilution of the Bank's shares would not be raised. The securities would only be converted in certain situations in which the solvency of the Bank or of the Bank's consolidable Group for regulatory purposes shows a common equity Tier 1 ratio of less than 5.125%. At 31 December 2014, according to information contained in the management report attached to the consolidated annual accounts for such financial year, the common equity Tier 1 ratio was 12.0%.
- A variable conversion ratio is established in the event of conversion, based on the listing price of the Bank's shares calculated, as for a determined date, as the arithmetic average of the volume weighted average price of the Banco Bilbao Vizcaya Argentaria, S.A.'s share in the five working days immediately preceding such date. Therefore the types of issue of the shares that may be issued due to the conversion corresponds to the market value of BBVA's shares at the time of conversion (or at a fixed price per share of 3.75 euros, the Floor Price, if the market value is less) and thus at least with a reasonable value, so that there would be no dilution of the Bank's shareholders.
- Finally, the fixed conversion mechanism contains a Floor Price that by definition would be higher than the market price of the shares at the time of conversion, for which reason the economic dilution of the shareholders in such event would even be negative. This Floor Price will be adjusted if necessary by application of customary anti-dilution clauses in issues of convertible securities, but may not be less than the nominal value of the shares at the time of the conversion (currently 0.49 euros).

Taking into account both these same characteristics and the exchange ratio, the theoretical value of the pre-emptive subscription rights that are proposed to be suppressed would be null, estimating based on the higher of the listing price of the shares at the time of conversion of the securities and the Floor Price – adjusted if applicable by the anti-dilution mechanisms included in the Directors' Report attached as Annex I.

## 5. Significant aspects and special difficulties to consider in interpreting the results of our work

In addition to objective factors, both the interpretation of what is required in articles 414, 417 and 511 of the Companies Act, as well as the opinions expressed in this report, implicitly carry other subjective factors that involve judgment, and it is therefore not possible to guarantee that third parties will necessary agree with the interpretation and judgments expressed in this Report.

The information necessary to carry out our work has been provided to us by the Management of Banco Bilbao Vizcaya Argentaria, S.A. or has been obtained from public sources.

As regards information obtained from public sources, our work did not compare such information with external evidence, although, to the extent possible, we have verified that the information submitted is consistent with other data obtained during the course of our work.

During our work we have performed tests and we have also applied judgments regarding the information contained in the Directors' Report, and we have also applied working hypotheses, compliance with which depends to a large extent on future events, for which reason it is not possible, at this time, to know the final result thereof.

We do not have the obligation to update our report based on events that may occur after the issue hereof. The content of this report should be understood to refer to all information received regarding events happening prior to the date hereof.

We assume that all authorisations and registrations that may be necessary for the effectiveness of the transaction and that might affect our work will be obtained without any adverse effect on the objective of the transaction that we have studied.

Finally, it is important to emphasise that our work is of an independent nature, and therefore does not involve any recommendation to the Management of Banco Bilbao Vizcaya Argentaria, S.A., 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.

## 6. Conclusion

According to the work performed, with the scope described in the preceding paragraphs, and subject to the significant aspects to consider in the interpretation of the results of our work, all for the sole purpose of complying with the requirements set forth in articles 414, 417 and 511 of the Companies Act, in our professional opinion:

- The attached Directors' Report of Banco Bilbao Vizcaya Argentaria, S.A. regarding the issue of perpetual securities contingently convertible into shares of the Bank, with the exclusion of pre-emptive subscription rights, contains the information required by the Technical Rule on the Preparation of special reports regarding the issue of convertible obligations in the case of article 414 of the Restated Text of the Companies Act.
- The data contained in the aforementioned Directors' Report to justify the exclusion of pre-emptive rights are reasonable as they are properly documented and outlined.
- The conversion ratio for the perpetual securities contingently convertible into shares of Banco Bilbao Vizcaya Argentaria, S.A., with exclusion of pre-emptive subscription rights and the formulas for adjustment thereof are suitable for offsetting a possible dilution of the financial interest of the shareholders. Thus at the date of the report and taking into account the characteristics and context of the proposed transaction of issue, the theoretical value of the pre-emptive subscription rights linked to such securities is null.

This Special Report has been prepared only for the purposes provisioned in articles 414, 417 and 511 of the Restated Text of the Companies Act. Therefore it should not be used for any other purpose.

Bilbao, 4 February 2015

MAZARS AUDITORES, S.L.P.

\_\_\_\_\_  
Francisco Tuset

\_\_\_\_\_  
Alberto Martínez

## **ANNEX**

**BANCO BILBAO VIZCAYA ARGENTARIA, S.A.'S BOARD OF DIRECTORS REPORT ON  
THE ISSUE OF PERPETUAL SECURITIES CONTINGENTLY CONVERTIBLE INTO SHARES  
WITH EXCLUSION PRE-EMPTIVE SUBSCRIPTION RIGHTS**

***Report presented by the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A., for the effects established in articles 414, 417 and 511 of the Corporate Enterprises Act, regarding the resolution to issue contingent convertible perpetual securities into ordinary shares of the entity itself with exclusion of pre-emptive subscription rights and the corresponding share capital increase by the necessary amount, that is adopted under the authority conferred by the Annual General Meeting, held on 16th March 2012***

The English version is a translation of the original in Spanish for information purposes only. In case of a discrepancy, the Spanish original will prevail.

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## 1. INTRODUCTION

### 1.1 Subject of the report and applicable regulations

This report is formulated by the BANCO BILBAO VIZCAYA ARGENTARIA, S.A. Board of Directors (“**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 Decree 1/2010, of 2nd July, in its prevailing drafting (the “**Corporate Enterprises Act**” or the “**CEA**”), regarding the resolution to issue contingent convertible preferred securities into newly issued BBVA ordinary shares, which are issued pursuant to the First Additional Provision of Act 10/2014, of 26th June, on the regulation, supervision and solvency of credit institutions (“**Act 10/2014**”) and Regulation (EU) n.º 575/2013 of the European Parliament and Council, of 26th June 2013, on prudential requirements for credit institutions and investment firms (“**Regulation EU 575/2013**”) (hereinafter the “**Securities**”), for a maximum nominal amount of 1.5 billion euro (or the equivalent in any other currency as set out in the issuance terms and conditions) with exclusion of pre-emptive subscription rights (the “**Issuance**”), and the corresponding share capital increase; that is adopted under the authority conferred by the Annual General Meeting, held on 16th March 2012 under item five on its agenda.

Article 401.2 of the CEA stipulates that the securities recognising or creating debt issued by a public limited company, such as the Securities, will be subject to the regulations established for bonds under title XI of the Corporate Enterprises Act.

Said articles 414 and following of the CEA allow public limited companies to issue bonds that can be converted into shares provided the annual general meeting determines the terms and modalities of the conversion and resolves to increase the capital by the necessary amount. For this, the directors must draft a report explaining the terms and modalities of the conversion. This must be accompanied

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

The convertible bonds may not be issued for a sum below their nominal value, and may 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 annual general meeting to delegate authority to the directors not just to issue convertible bonds, but also to exclude the pre-emptive subscription rights over the convertible bond issues that are subject to the authority when the company's interest so require. To such effects, the notice of the annual general 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 right of pre-emptive subscription.

In the resolution to increase capital being made on the basis of the annual general meeting conferral of authority, 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 substantiation of the grounds for the proposed suppression of pre-emptive subscription rights and the auditor's report will contain a technical judgement 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 formulae to offset any possible dilution of the economic value of shareholders' holdings.

These reports will be made available to the shareholders and communicated to the first annual general 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 Strategy and Finance Department, which is in turn supported by a report from UBS Limited, a top-level investment bank with recognised expertise in this type of issuances; and (ii) the legal report of the external consultant, J&A Garrigues, S.L.P., legal consultant on Spanish law.

## 2. ABOUT THE ISSUANCE OF THE SECURITIES

### 2.1 Conferral of authority by the Annual General Meeting under which to issue Securities

The BBVA Annual General Meeting, held on 16th March 2012, validly called in time and form, adopted the following resolution under its agenda item five, the relevant part of which is transcribed below:

*“Repealing the unavailed part of the authorisation conferred by the Annual General Meeting, 14th 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 authorisations, pursuant to the following conditions:*

*(...)*

*3. The authority to issue securities convertible and/or exchangeable 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*

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*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 re-draft article 5 of the Company Bylaws.*
- iii) The power to exclude the pre-emptive 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 pre-emptive subscription rights over a specific issue that it may decide to implement under this authorisation, 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 moment of 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**

The approval and definitive entry into force of Basel III in Europe through Regulation EU 575/2013 and Directive 2013/36/EU of the European Parliament and of the Council, of 26th 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 Regulation EU 575/2013, "**CRD IV**"), have clarified the new solvency framework applicable to financial institutions.

This new CRD IV framework has been implemented in Spain via Act 10/2014, it being set out that regulatory implementations will occur through the enactment of lower rank regulations throughout 2015, all without prejudice to the direct applicability of Regulation EU 575/2013.

CRD IV requires credit institutions to endow, in certain proportions, their regulatory capital composition with different instruments in order to be deemed well capitalised. In this sense, in addition to "ordinary tier 1 capital", CRD IV includes two additional regulatory capital categories, "additional tier 1 capital" and "tier 2 capital", which shall be covered by specific instruments and, failing

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that, with ordinary tier 1 capital that would be more burdensome and less efficient.

In this regard, CRD IV establishes that the instruments issued by credit institutions that have counted to present as additional tier 1 capital and which do not comply with the new requirements established in Regulation EU 575/2013 will gradually lose eligibility up to 2023, ceasing from that moment to be eligible as additional tier 1 capital instruments.

Notwithstanding the above, CRD IV continues to be in the definitive implementation stage regarding requirements relating to certain regulatory buffers, the definition of which is at the discretion of the regulator (buffer against systemic risks and specific countercyclical capital buffer) and relating to prudential supervision requirements (Pillar II measures), coming out of the specific supervisory review process of each credit institution; meanwhile, different international fora are setting out new additional requisites, such as the TLAC requirements (*Total Loss Absorbing Capacity*) at the Financial Stability Board, with the aim of providing credit institutions with instruments that guarantee loss absorption at a sufficient proportion so as not to have to recur to injections of public funds. All these new regulatory requirements and uncertainties may require entities have additional capital instruments to those already required under CRD IV.

Due to all of this, and despite the strong current position of BBVA in terms of its ordinary tier 1 capital, the BBVA Strategy and Finance Department has put forward the advisability, in terms of diligent and prudent management, of issuing securities that may be eligible, as per CRD IV, as additional tier 1 capital to thus anticipate the requirement that BBVA has to have this type of instrument while, at the same time, being able to deal orderly with the progressive loss of eligibility of older instruments that currently and partially comprise additional tier 1 capital in the most efficient way, in addition to dealing with the requirements arising from organic and non-organic corporate expansion the Group is undergoing.

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This will enable the Bank to take advantage of the current favourable situation of the financial markets for the issue of this type of instrument considering also the interest and demand detected amongst some types of professional investors, as seen with the issuance of contingent convertible perpetual securities performed by the Bank in May 2013 and February 2014.

In this scenario, and in order to be able to thus cover the regulatory requirements in the most efficient way possible, the Strategy and Finance Department has proposed to the Board of Directors, and the latter has agreed, to issue a debt security instrument that is eligible as additional tier 1 capital in accordance with what is set out in CRD IV, to which effect Regulation EU 575/2013 establishes the requirement for these securities to include, amongst others, the following features:

- (i) be perpetual;
- (ii) have a subordination level placing them only above shares (meaning that their credit priority is lower than that for tier 2 capital instruments in the event the entity becomes insolvent);
- (iii) remuneration of the securities is only paid out of distributable items and the entity has full discretion at all times to cancel remuneration indefinitely without cumulative effects; and
- (iv) they include a contingent conversion mechanism into entity shares when the conversion event set out in said regulation occurs (described in section 2.4.1 below) and this they are able to effectively absorb losses in a solvency stress context for the issuer. Nevertheless, this contingent conversion event would only occur in a very specific ordinary tier 1 capital deficit situation at the issuer or group.

Therefore, the Securities are perpetual, subordinate debt securities with discretionary remuneration, convertible into newly issued ordinary shares of BBVA

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in the face of a possible ordinary tier 1 capital deficit and which can be eligible as additional tier 1 capital, all as per CRD IV.

In this way, BBVA covers the requirement to shore up additional tier 1 capital in the most efficient way possible and the progressive loss of eligibility of the old instruments that currently and partially make up additional tier 1 capital, taking advantage of the demand detected for this type of instrument which is in the best interest of BBVA.

### **2.3 Financial conditions of the Issue**

The Issuance will be made for a maximum nominal amount of 1.5 billion euro, the nominal value of each Security being €200,000.

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 the section above.

Investors may receive remuneration that shall be set out in the final terms and conditions of the Issuance and which shall be in line with market prices for this type of instrument. The payment of the remuneration shall be conditional, amongst other factors, on there being distributable items, as set out in the capital base regulations that will be described in detail in the Issuance terms and conditions.

The Issuer may, at its own discretion and at all times when it deems this to be necessary or appropriate, cancel the total or partial remuneration payment for an unlimited period, without cumulative effect.

Should any of the conversion triggers established in section 2.4.1 below occur, the Securities will be converted into ordinary BBVA shares pursuant to the following variable conversion ratio, which depends on the BBVA share price at the time of conversion:

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

Where:

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

$Nom_{convertible}$ : The nominal Security value subject to conversion (200,000 euro).

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

## 2.4 Terms and modalities of the Conversion

The terms and modalities of the conversion of the Securities, resulting from the proposal made by the Strategy and Finance Department, will essentially be as follows:

### 2.4.1 Conversion triggers

The Securities will be converted into newly issued BBVA ordinary shares if the ordinary tier 1 capital ratio of the Issuer or its consolidated group or subgroup, is below 5.125%, calculated pursuant to Regulation EU 575/2013, or any other capital base regulation applicable at any time.

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

The Issuance terms and conditions may establish total mandatory additional conversion triggers if this is required to shore up Issuer 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 ordinary BBVA shares (the "**Conversion Ratio**") will be the result of dividing the nominal unit value

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(i.e., €200,000) 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 the BBVA shares at the moment of conversion of the Securities, subject to the limits established below.

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

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

If the Reference Price is below €3.75, 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 following section.

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

Consequently, the Conversion Price will be whichever is the greater of:

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

- c) the nominal value of the 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 habitual practices in this type of transactions, in compliance with the terms and conditions of the Issuance.

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

### **2.5 Capital increase**

According to article 414 of the Corporate Enterprises Act, the share capital increase must be resolved for the maximum amount necessary to be able to cover the eventual conversion of the Securities issued. To such purpose, 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.

Said capital increase will be executed by the Board of Directors, being able to delegate to the Executive Committee, with express powers of substitution and delegation to those proxies that the Board of Directors may empower, under the authority of the convertible securities issuance agreement adopted by the BBVA Annual General Meeting, held on 16th 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 containing the same rights as BBVA shares outstanding on the date of execution of the corresponding 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.

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It is not yet possible to determine the exact amount of share capital that would be necessary for the contingent conversion of the Securities, given that, pursuant to the terms and modalities 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 euro, that the Conversion Price may not be below 3.75 euro, and assuming there will be no anti-dilution adjustment prior to the date when the Securities are converted, the maximum number of new ordinary shares it would be necessary to issue would be 400,000,000 ordinary shares.

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

### **3. GROUNDS FOR THE EXCLUSION OF PRE-EMPTIVE SUBSCRIPTION RIGHTS**

#### **3.1 Grounds for the exclusion of pre-emptive subscription rights**

As indicated above, the BBVA Annual General Meeting, held on 16th March 2012, resolved under agenda item five, to confer authority on the Board of Directors to issue securities that could be converted into shares and to increase the share capital. It also resolved to empower the Board of Directors to exclude pre-emptive subscription rights over the convertible securities issuances made under such authority.

To such end, when convening the aforementioned Annual General Meeting, the BBVA Board of Directors approved and gave shareholders access to a report substantiating the grounds of the proposal to confer authority to exclude pre-emptive subscription rights.

Article 511 of the Corporate Enterprises Act requires that pre-emptive subscription rights only be excluded in the event of convertible bond issuances when corporate interests so require.

The BBVA Board of Directors, by virtue of said authority and with due substantiation provided by the reports issued by the Strategy and Finance Department, in turn substantiated by the report produced by UBS Limited, and in the legal report by J&A Garrigues, S.L.P. as external legal advisor helping BBVA in the legal structure of this transaction, has resolved to exclude the pre-emptive 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 interests, as explained below.

With the intention of dealing with the requirement to complete additional tier 1 capital in the most efficient way possible and the progressive loss of eligibility of the old instruments that currently and partially comprise the Bank's additional tier 1 capital, as well as executing the Group's growth strategy, the Strategy and Finance Department has proposed to the Board of Directors a securities issuance that is eligible as additional tier 1 capital according to CRD IV, taking advantage of the current favourable situation on the financial markets for issuances of this type of instrument and also taking into account the detected interest and demand amongst some types of professional investors.

So that they are eligible as additional tier 1 capital according to CRD IV, these debt securities shall be perpetual, subordinate, with discretionary remuneration and convertible into newly issued ordinary BBVA shares in the face of a possible ordinary tier 1 capital deficit; therefore, the issuance of Securities is put forward as the only way to comply with the described characteristics.

The complex characteristics of this type of instrument, required by CRD IV, and its sophistication, as well as the latest regulatory changes, specifically regarding

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placement of this type of instrument, mean that the Securities are suitable only for placement with professional investors (to whom the Issuance is aimed) and not with all types of investors, especially retail, which are a very important part of BBVA shareholders; in this way, not excluding the right to pre-emptive subscription would mean offering a product that does not match the investment profile of all Bank shareholders and, therefore, would compromise the viability of the Issuance given the high risk that it would not be 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 Issuer, and would also make it necessary to carry out a subsequent additional placement amongst non-shareholder investors under conditions that would foreseeably be less favourable for the Bank, in terms of the money and operational costs, as well as the execution time and capital that it would entail, thereby clearly prejudicing BBVA's corporate interests.

However, growing interest for this type of instrument has been detected amongst qualified investors and sophisticated foreign private banking customers (who know and habitually subscribe this type of product). This is demonstrated by the success of the issuances of the contingent convertible perpetual securities by the Bank in May 2013 and February 2014, as well as the issuances made over recent months by various national and international credit institutions, which have been directed to this type of investors.

In order to guarantee the success of the Issuance and aim it directly to this type of investors, it is vital to exclude the pre-emptive subscription rights of BBVA shareholders.

The combination of the factors described above (reinforcing BBVA equity, the characteristics of these securities, the market conditions and the investors to whom the Issuance is directed) have led the Strategy and Finance Department to consider that the optimum alternative for corporate interests is to reinforce BBVA

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equity by issuing the Securities, and directing the Issuance solely to qualified investors and foreign private banking customers, as this is the right group to subscribe to this type of instrument and is also where most interest has been detected for contingent convertible perpetual debt instruments.

Consequently, the optimal alternative to meet the corporate interests and provide a complete and comprehensive solution is the issuance of Securities excluding the pre-emptive subscription rights.

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

- (i) The nature of the Securities is that of a perpetual debt instrument, whose contingent convertibility is determined by the regulations on equity 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 considered that BBVA's capital adequacy and equity ratios are currently very far from the conversion triggers, reinforcing the nature of the Securities as debt 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 euro, in which case the Conversion Price will be 3.75 euro and the shares would be issued with a premium over the market price. In this manner, the maximum number of shares deliverable is limited by establishing the minimum Conversion Price, guaranteeing that they are 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 triggers are

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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 Strategy and Finance Department report, the theoretical value of the pre-emptive subscription rights stemming from the Issuance is nil, meaning current shareholders do not lose any financial value with their exclusion.

### **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, without prejudice to the sale restrictions that may determine the terms and conditions of the Issuance.

## **4. PROPOSED RESOLUTIONS**

***"ONE.-** By using the authority delegated by the Company's Annual General Meeting held on 16th March 2012, under agenda item five, to issue preferred securities contingently convertible into newly issued ordinary shares of the Banco Bilbao Vizcaya Argentaria, S.A. ("**BBVA**" or the "**Company**"), pursuant to First Additional Provision of Act 10/2014, of 26th June, on the regulation, supervision and solvency of credit institutions ("**Act 10/2014**") and Regulation (EU) n.º 575/2013 of the European Parliament and Council, of 26th June 2013, on prudential requirements for credit institutions and investment firms ("**Regulation EU 575/2013**") (hereinafter the "**Securities**"), for a maximum nominal value of one billion five hundred million euro (€1,500,000,000€) (or the equivalent in any other currency as determined by the terms and conditions of the issuance), excluding pre-emptive subscription rights (the "**Issuance**"), pursuant to the following terms and conditions:*

***Nature of the Securities:***

*The securities to be issued will be contingent convertible preferred securities into newly issued ordinary BBVA shares, pursuant to the First Additional Provision of Act 10/2014 and Regulation EU 575/2013.*

***Issuer:***

*BBVA*

***Target Investors:***

*Qualified investors and foreign private banking customers, without prejudice to the sale restrictions that may determine the terms and conditions of the Issuance.*

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**Maximum amount:** *One billion five hundred million euro (€1,500,000,000) (or the equivalent in any other currency as set by the terms and conditions of the Issuance).*

**Nominal value:** *The Securities will have a nominal unit value of two hundred thousand euro (€200,000).*

**Number of Securities:** *The maximum number of Securities to be issued is seven thousand five hundred (7,500), all belonging to one single series and with the same terms and conditions.*

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

**Distribution:** *Holders of the Securities may receive a predetermined non-cumulative distribution that will be determined as a function of the interest rate applicable to the nominal value of the Securities, provided they comply with the rest of the conditions established in the Issuance terms and conditions (the “**Distribution**”).*

*Specifically, the Issuer may cancel at its own discretion and at all times where it deems it so necessary or appropriate total or partial payment of the Distribution indefinitely, with no cumulative effect, without prejudice to other instances that may be established in the terms and conditions of the Issuance or that are 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 terms and conditions of the issuance, provided that at least 5 years have elapsed from their issue, and always if, where applicable, prior authorisation has been granted by the competent authority.*

*The issuance terms and conditions may include*

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*other circumstances for early redemption by the Issuer.*

**Representation of the Securities:** *The Securities may be represented by notes or book entries.*

**Status:** *The Securities will be ranked in order of priority:*

*(i) junior to (a) ordinary or subordinated BBVA creditors; and (b) those securities that BBVA has issued (or guaranteed) or may issue (or guarantee) ranking senior to the Securities;*

*(ii) in the same rank (pari passu) as other issues of preferred securities, preferred shares or other securities with the same rank as the Securities that the Issuer may have issued (or guaranteed) or may issue (or guarantee);*

*(iii) senior to those securities that the Issuer may have issued (or guaranteed) or may issue (or guarantee) ranking junior to the Securities; and*

*(iv) senior to BBVA ordinary shares.*

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

**a) Conversion triggers**

*The Securities will be converted into newly issued BBVA ordinary shares if the ordinary tier 1 capital of the Issuer or its consolidated group or subgroup, is less below 5.125%, calculated pursuant to Regulation EU 575/2013, or any other capital base and adequacy regulation applicable at any time to the Issuer.*

*Likewise, the Securities may be converted into newly issued BBVA ordinary shares if the Issuer adopts any measure whose consequence is the approval of a reduction of its share capital in the terms set out by article 418.3 of the Consolidated Text of the Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010, of 2nd July, in its current drafting at all times (the "Corporate Enterprises Act").*

*Lastly, the Issuance terms and conditions may establish additional total mandatory conversion triggers if this is required to shore up Issuer 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 BBVA ordinary shares (the "**Conversion Ratio**") will be the result of dividing the nominal unit value (i.e., €200,000) 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 the BBVA shares at the moment of conversion of the Securities, subject to the limits established below.*

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

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

*If the Reference Price is below €3.75, 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 section d) below.*

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

*Consequently, the Conversion Price will be whichever is the greater of:*

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

**c) Procedures for conversion**

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

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**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 habitual practices in this type of transactions, in compliance with the terms and conditions of the Issuance.*

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

*Without prejudice to other proxies that may be conferred by virtue of these resolutions, the Executive Committee is expressly empowered, with express authority to delegate these powers, and powers are conferred on Mr Jaime Sáenz de Tejada Pulido, Spanish national, of legal age, with identity card number 823.996-K, Mr Erik Schotkamp, Dutch national, of legal age, with foreign residency card number Y-2126590-R, Mr Ignacio Echevarría Soriano, Spanish national, of legal age, with identity card number 837.871-G, Mr Raúl Moreno Carnero, Spanish national, of legal age, with identity card number 52.473.664-S, and Mr Francisco Javier Colomer Betoret, Spanish national, of legal age, with identity card number 25.418.655-K all domiciled for these purposes at Paseo de la Castellana number 81, Madrid (the “**Proxies**”), so that any of them indistinctly and jointly may establish, develop or modify the Issuance terms and conditions as well as determine or develop any matter not established by this resolution, including but not limited to, sufficient powers to amend, adapt and/or to determine other conversion triggers, additional to those established 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 the BBVA Strategy and Finance Department, in accordance with the report by J&A Garrigues, S.L.P., and by virtue of articles 414, 417 and 511 of the Corporate Enterprises Act, approve the Directors’ Report on the Securities issuance, which will be made available to shareholders along with the report issued by the auditor other than the auditor of the Company accounts, appointed to do so by the Companies Registry, and reported to the first Annual General Meeting held after the capital increase resolution, expressly empowering the Company Secretary & Secretary of the Board of Directors to certify its text.*

**FOUR**- *In line with the Strategy and Finance Department report, which is reflected in the Directors’ Report approved in the foregoing resolution, the corporate interests require suppression of pre-emptive subscription rights in this Issuance. Consequently, the Board of Directors, pursuant to the powers attributed by the Annual General Meeting, held on 16th March 2012, under agenda item five and by virtue of article 511 of the Corporate Enterprises Act, hereby resolves to suppress said pre-emptive 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, assuming that no anti-dilution adjustment is made, expressly envisaging the possibility of the capital increase being implemented with an issue premium, by a lower number of shares and with the possibility of under-subscription.*

*Should the Securities be converted, the newly issued shares issued to cover said conversion will be ordinary shares, in the same category and series as those that at the time are outstanding and will equally be represented in the same way as those ordinary shares (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**”) and its accountholders), granting their holders the same rights as are recognised for the ordinary shares outstanding at the time. On executing 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 pre-emptive subscription rights on the resulting capital increase.*

**SIX**- *By virtue of the authority conferred by the BBVA Annual General Meeting, held on 16th March 2012, under agenda item five, the Executive Committee is expressly delegated with the authority, and which may in turn delegate such authority, and the Proxies are empowered in the broadest terms, jointly and severally, within the limits established in the resolutions above, to carry out the Issuance, such that they may:*

- a) Determine the timing on which the Issuance is to take place, and refrain from going ahead with the Issuance should this be deemed necessary or advisable.*
- b) Determine the characteristics of 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, include new conversion terms and modalities 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 determine any matter not established in the resolutions above that may be necessary for the successful outcome of the transaction, expressing the amount availed against the limit of the authority granted by the Annual General Meeting to the Board and the amount still available.*
- c) Declare the Distribution of the Securities, whether partially or completely, and declare no Distribution, as determined in the Issuance terms and conditions.*

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- d) *Apply, where appropriate, the anti-dilution mechanism as determined in the Issuance terms and conditions.*
- e) *Carry out any arrangement, request or appointment that may be legally necessary to achieve the filing of the Issuance with the Companies Registry or any other public or private bodies or entities.*
- f) *Grant any public and private documents required, appear before a Notary Public and finalise the formalities on the preceding resolutions, including deeds to issue, correct, clarify or rectify them, and deeds of the total or partial subscription of the Issuance, as well as the total or partial redemption or amendment and, where applicable, any others that may have preceded it of may be resolved in the future. Where applicable, file the declaration referred to in article 318 of the Companies Registry Regulations, in order to comply with the procedures established in article 26 of Act 24/1988 of 28th July, on Securities Markets, should this be necessary.*
- g) *Formalise or register the offering circulars that may be necessary and the documents in which the Issue is formalised and any other documents that may be necessary before any bodies, regulators, registries, the Companies Registry and exchanges or markets in or outside Spain, including but not limited to any regulated and non-regulated, secondary markets and exchanges, organised or non-organised. Request, where appropriate, listing for trading of the Securities on regulated and non-regulated, organised or non-organised, secondary markets in or outside Spain, as well as the eligibility of the Securities as own funds or additional tier 1 capital of the Company and/or its group.*
- h) *Proceed, where necessary, to constitute a Syndicate of the Securities holders, determine its characteristics and rules of operation, and to appoint its Provisional Commissioner, and the fundamental rules governing relations between the Company and the Syndicate.*
- i) *Establish any other parameters not established by this Board of Directors with respect to the Issuance and determine any other parameter for the Issuance that may be necessary for its successful completion.*
- j) *Negotiate, undersign and grant public and private documents, including but not limited to, information brochures, liquidity contracts, subscription, placement and/or insurance contracts, payment agency contracts, and any other contracts that may be necessary for the issuance of the Securities under the conditions deemed most appropriate.*
- k) *With respect to the conversion of the Securities into BBVA shares, establish, where appropriate, the Conversion Price, the definitive conversion 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*

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*when this is the case, and engage in 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 the wording of corresponding article in the Company Bylaws to adapt it to the new figure for capital, appearing to such effects before any public or private bodies, including but not limited to public notary or the Companies Registry.*

- l) Request, where appropriate, listing for trading on regulated and non-regulated, organised or non-organised, Spanish and non-Spanish secondary markets and take any actions they deem necessary in any jurisdiction where the BBVA shares are offered or traded or listing for their trading has been requested, where this is the case, in order to cover the eventual conversion of the Securities. By way of example:*
- (i) Write and file any offering circulars, requests, communications or notifications that may be required by applicable legislation in each competent jurisdiction and agree later amendments to these that they deem advisable.*
  - (ii) Take such actions as may be necessary before any competent authorities in each jurisdiction and approve and formalise such public and/or private documents as may be necessary and/or advisable for any aspects or content of the resolutions to increase capital to enter into full force.*

*Finally, and for the effects of the applicable regulations on the issuance of securities, it is resolved to appoint Proxies to represent the Company before any public and/or private body. They will have joint and several powers and will bear responsibility for the content of the issuance brochures, information documents or any other similar documents to these, where applicable, being similarly authorised to sign however many additional contracts and documents, whether public or private, that may be necessary for the successful outcome of the transaction."*

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Madrid, on the third of February of the year two thousand and fifteen