

**JOINT REPORT BY THE BOARDS OF DIRECTORS OF BANCO BILBAO
VIZCAYA ARGENTARIA, S.A. AND BANCO BILBAO VIZCAYA ARGENTARIA
(PORTUGAL), S.A. ON THE COMMON TERMS OF THE CROSS-BORDER
MERCER BY ABSORPTION OF BANCO BILBAO VIZCAYA ARGENTARIA
(PORTUGAL), S.A. INTO BANCO BILBAO VIZCAYA ARGENTARIA, S.A.**

December 21, 2017

This report has been prepared by the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A. (“**BBVA**”) and by the Board of Directors of Banco Bilbao Vizcaya Argentaria (Portugal), S.A. (“**BBVA Portugal**”) in compliance with the provisions of articles 33 and 60 of Spanish Law 3/2009, of April 3, 2009, on structural modifications to commercial companies (“**LME**”), in order to explain and justify in detail, for the purposes required by the legislation in force, the terms of the merger (hereinafter, the “**Terms**” or the “**Terms of Merger**”) by absorption of BBVA Portugal into BBVA, drafted by the Board of Directors of BBVA Portugal on December 20, 2017, and by the Board of Directors of BBVA on December 21, 2017.

BBVA and BBVA Portugal will be referred to jointly as the “**Companies**”.

This report has been unanimously approved by the Board of Directors of BBVA Portugal, as well as by the Board of Directors of BBVA upon favourable report by the Audit and Compliance Committee of BBVA on the economic terms and accounting impact of the merger, at the meetings held on December 20 and 21, 2017, respectively.

1. JUSTIFICATION OF THE MERGER

The absorption of BBVA Portugal by BBVA seeks to improve operational efficiency and facilitate the proper management and supervision of the BBVA Group’s businesses in Portugal, simplifying the corporate and organisational structure.

The merger will help maximise the advantages and capabilities of the BBVA Group, particularly as regards the design of client solutions and the formulation of the product catalogue, as well as a higher integration of Portugal’s business into BBVA, which will lead to a greater strength in the management and internal control, regulatory reporting, policies and risk management and control tools.

The proposed merger must be contextualized within the framework of the process of creation of the branch of BBVA Group’s activity in Portugal. Therefore, on the date on which this cross-border merger is effective, all the assets and liabilities of BBVA Portugal (the absorbed company) will be transferred en bloc to BBVA (the absorbing company), which will acquire them by universal succession and immediately assign them to the branch.

The new branch of BBVA in Portugal created in the process, which will encompass the assets and liabilities of BBVA Portugal, will continue the activities of the absorbed company.

2. LEGAL ASPECTS OF THE MERGER

2.1. General characteristics

In accordance with the provisions of the Terms of Merger, the terms of which are deemed to be herein reproduced to the extent necessary, the planned merger will consist of the absorption of BBVA Portugal into BBVA with the

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extinguishment, by means of its dissolution without liquidation, of BBVA Portugal and the block transfer of all its assets and liabilities to BBVA, which will acquire the rights and obligations of the absorbed company by universal succession.

On the date of the definitive registration of the merger, all of the shares of BBVA Portugal will be cancelled and the absorbed company will be extinguished, transferring all of its assets and liabilities to BBVA on the terms set out in the preceding paragraph.

This merger constitutes a special merger since, at the time the merger takes full effect, BBVA (absorbing company) will be the direct holder of the shares representing 100% of the share capital of BBVA Portugal (absorbed company), and therefore the simplified merger procedure regulated under article 49.1 LME will apply.

Consequently, BBVA will not increase its share capital nor will there be any share exchange as a result of the merger.

2.2. Conditions precedent

The effectiveness of the planned merger is subject to authorisation from the Spanish Ministry of Economy and Competitiveness, as well as any other authorisation necessary from any other supervisory authority or administrative body.

2.3. Legislation applicable

The transaction described herein, as well as all procedures and acts necessary for its performance, will be carried out in accordance with the provisions of the LME, the revised text of the Capital Companies Law, approved by Legislative Royal Decree 1/2010, of July 2, 2010 (“LSC”), the Commercial Registry Regulations, approved by Royal Decree 1784/1996, of July 19, 1996 (“RRM”) and any other applicable provisions in force.

With respect to BBVA Portugal, the Portuguese Commercial Companies Code (*Código das Sociedades Comerciais*) (“CSC”), the Portuguese Commercial Registry Regulations and any other applicable provisions in force will apply to the merger process.

2.4. Legal merger procedure

2.4.1. Terms of Merger

On December 20 and 21, 2017, respectively, the Boards of Directors of BBVA Portugal and of BBVA have drafted the Terms of Merger, with the signature of all of their members.

2.4.2. Publication of the Terms of Merger

In accordance with the provisions of article 32 LME, the Terms of Merger will

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be published on the website of BBVA (www.bbva.com).

The fact of the publication of the Terms of Merger on the corporate website will be published in the Official Commercial Registry Gazette in accordance with the provisions of the LME.

Moreover, the Terms of Merger will be filed for registration at the Portugal Commercial Registry, in accordance with the provisions of article 4.º1 CSC, article 10.º, letter c) of the Portuguese Commercial Registry Code and article 8.º1, letter e) of the Portuguese Commercial Registry Regulations.

2.4.3. Reports by the Boards of Directors

On December 20 and 21, 2017, respectively, the members of the Boards of Directors of BBVA Portugal and of BBVA have approved and signed this report explaining and justifying the legal and economic aspects of the Terms of Merger.

2.4.4. Approval of the merger and consultation of documentation

In accordance with the provisions of article 51 LME, since BBVA is the direct holder of more than 90% of the share capital of BBVA Portugal, the merger will be performed without submitting it to the General Shareholders' Meeting of BBVA for approval, unless so requested by shareholders representing at least 1% of its share capital, on the terms provided for in the law.

In accordance with the provisions of article 117.º-I CSC, it is not necessary to hold a Shareholders' Meeting of BBVA Portugal to approve the merger.

In accordance with the provisions of article 51.1 LME and article 101.º CSC (*ex vi* article 117.º-B CSC), the following documents will be made available to the shareholders, bondholders and holders of special rights other than shares, creditors and workers' representatives, for examination at the registered office:

- (a) At the registered office and on the corporate website of BBVA, for a period of one month following the publication of the Terms of Merger and the publication of the notice referred to in article 51.1 LME on the corporate website:
 - (i) the Terms of Merger and the Annexes thereto;
 - (ii) this joint directors' report on the Terms of Merger;
 - (iii) the financial statements and directors' reports for the last three financial years of BBVA and BBVA Portugal, with the relevant audit reports;
 - (iv) the half-yearly financial report of BBVA closed at June 30, 2017 and the merger balance sheet of BBVA Portugal at September 30, 2017, with the relevant audit reports;
 - (v) the current bylaws of BBVA and of BBVA Portugal; and

- (vi) the list of names, nationalities and addresses of the members of the Boards of Directors of BBVA and of BBVA Portugal, as well as the date of their appointment to office.
- (b) At the registered office of BBVA Portugal, for a period of one month following the publication of the Terms of Merger:
 - (i) the Terms of Merger and the Annexes thereto;
 - (ii) the opinion of the Audit Committee (*Conselho Fiscal*) of BBVA Portugal on the Terms of Merger; and
 - (iii) the financial statements, the directors' reports, the audit report and opinion drafted by the auditors of the Companies and the decisions adopted at the shareholders' meetings of both Companies in relation to approval of the financial statements for the last three financial years.

2.4.5. Application for administrative authorisation

Once the merger has been approved by the Board of Directors or, as applicable, by the General Shareholders' Meeting of BBVA, a request for authorisation will be submitted to the Ministry of Economy and Competitiveness in accordance with the terms of section 2.2 above, and for the rest of the administrative authorisations that may be necessary.

2.4.6. Publication of the merger resolutions and period for objection by creditors

As a result of fulfilment of the mandatory publications procedure, the phase for consultation of documentation and the possibility of the creditors objecting to the cross-border merger, the rights of the creditors of the companies will be duly safeguarded:

a) Spain

The creditors of the absorbing company may object to the merger on the terms and conditions established in article 44 LME, during a period of one month as from the publication of the pertinent notices, including those provided for in articles 51 and 66 LME, on the corporate website of BBVA and in the Official Commercial Registry Gazette, respectively. Creditors whose claims are already sufficiently secured will not have the right to object. In accordance with the provisions of article 44.4 LME, if the merger is performed despite the exercise, in due time and form, of the right of objection by a legitimate creditor in accordance with the provisions of the law, without observing the provisions of article 44.3 LME, the creditor that objected to the merger may ask the Vizcaya Commercial Registry to place on record the exercise of the right of objection by making a note in the margin of the relevant entry.

b) Portugal

In accordance with article 101.º-A CSC (*ex vi* article 117.º-B CSC), for a period of one month following the publication of the notice to creditors of BBVA Portugal (which is published immediately after the deposit of the Terms of Merger at the office of the Portuguese Commercial Registry), creditors may object to the cross-border merger in court, provided that (i) their claim arose prior to the publication of the notice and (ii) payment has been sought and not received at least fifteen days beforehand.

As a result of the foregoing, the rights of the Companies' creditors shall be considered duly safeguarded and protected and, accordingly, no special or additional measures are expected to be adopted to protect creditor rights other than those provided in the law.

2.4.7. Merger deed and submission for registration

Once the merger has been approved, the relevant notices have been published, the statutory period has elapsed without any creditor having exercised its right of objection or, as the case may be, once the claims of creditors who have exercised such right have been duly satisfied or secured, and the relevant administrative authorisations and registrations have been obtained, the relevant merger deed will be executed and submitted for registration to the Commercial Registries of Vizcaya and of Portugal.

2.5. Bylaw amendments at the absorbing company

It will not be necessary to amend the corporate bylaws of BBVA as a result of the merger, the current wording of which is published on the corporate website (www.bbva.com).

2.6. Tax regime applicable

The merger will be performed under the following tax regimes:

- a) the special tax regime provided for in Chapter VII of Title VII of Corporate Income Tax Law 27/2014, of November 27, 2014 (articles 76 et seq.); and
- b) the Portuguese tax neutrality regime established in articles 73 through 78 of the Portuguese Corporate Income Tax Code (*Código do Imposto sobre o Rendimento das Pessoas Coletivas*, "CIRC") (by virtue of the regime provided for in Council Directive 2009/133/EC, of October 19, 2009).

3. ECONOMIC ASPECTS

3.1. Merger balance sheet

The half-yearly financial report of BBVA closed at June 30, 2017 and the balance sheet of BBVA Portugal at September 30, 2017 will be considered the merger balance sheets.

Such balance sheets have been audited by the auditors of each of the Companies.

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3.2. Information regarding the valuation of the assets and liabilities of BBVA Portugal to be transferred

As indicated in section 5 of the Terms of Merger, the assets and liabilities to be transferred by BBVA Portugal to BBVA will be recorded in the accounting records of BBVA for the amount corresponding to them, once the transaction has been executed, in the consolidated financial statements on the date of effect of the merger for accounting purposes, that is, January 1, 2018.

3.3. Date of effect for accounting purposes

The date of effect of the merger for accounting purposes will be January 1, 2018.

4. OTHER ASPECTS

4.1. Shareholders' industry contributions or ancillary obligations

Since there are no shareholders' industry contributions or ancillary obligations at either of the Companies, no consideration whatsoever will be granted for such items.

4.2. Securities and special rights

Since there are no special shares or holders of special rights other than shares at either of the Companies, no right will be granted and no option will be offered in this respect.

4.3. Advantages granted to independent experts and directors

No advantages of any kind will be granted to the directors or to the members of the supervisory bodies of either of the Companies.

4.4. Consequences of the merger on employment and possible gender impact

In accordance with the provisions of articles 285 et seq. of Law 7/2009, of February 12, 2009, approving the Portuguese Labour Code (*Código do Trabalho*) and regulating transfers of undertakings or establishment, BBVA will be subrogated to the labour rights and obligations of BBVA Portugal in relation to its employees. This notwithstanding, no other consequence regarding employment is envisaged as a result of the merger.

Since no changes to the composition of the managing body of the absorbing company are envisaged as a result of the merger, the merger will not have any gender impact on the managing body.

The merger will not affect the corporate social responsibility of BBVA.

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