

# **BBVA Corporate Governance Overview**

**2017**

**Table of Contents**

**1. Introduction: Principles of BBVA's Corporate Governance System..... 3**

**2. Organizational structure ..... 5**

2.1. Shareholders.....5

2.2. Board of Directors..... 7

2.3. Board Committees..... 17

**3. Decision-making process of the corporate bodies and informational model..... 21**

**4. Oversight, control and monitoring system ..... 24**

**5. Self-assessment of performance of corporate bodies ..... 25**

**6. BBVA Group Corporate Governance ..... 27**

**7. BBVA's corporate website..... 28**

**ANNEX ..... 29**

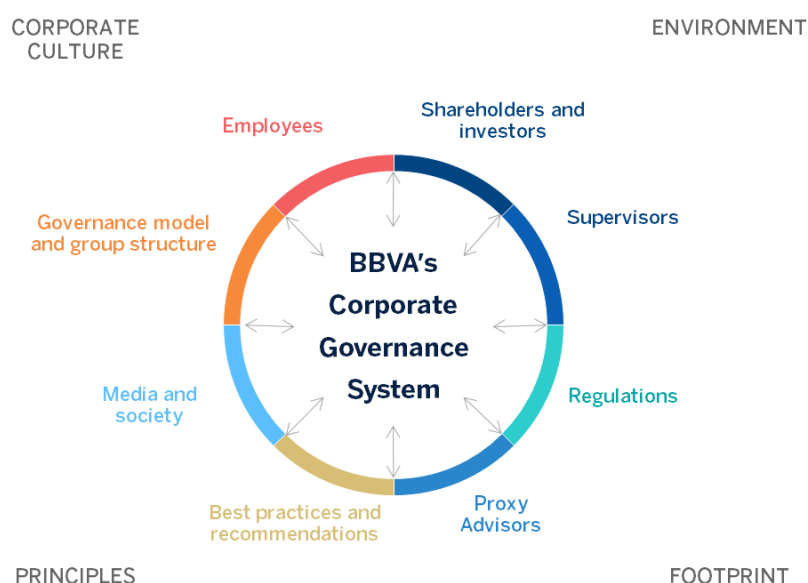
# 1. Introduction: Principles of BBVA's Corporate Governance System

This document describes the principles, structure and elements on which the corporate governance system of Banco Bilbao Vizcaya Argentaria S.A. ("**BBVA**," the "**Company**" or the "**Bank**") is based, by virtue of which the relationships between the Bank, its management, its shareholders and other stakeholders are governed, allowing for the proper management and oversight of the Company (the "**Corporate Governance System**").

BBVA's Corporate Governance System has been designed over time, taking into consideration the following elements:

- the reality of the Bank, its circumstances and its needs;
- the strategy and corporate culture;
- the applicable regulations, as a financial institution listed on national and international markets;
- the outcome of actions and expectations from supervisors, and the different points of view arising from direct contact and dialogue with shareholders, investors and proxy advisors; and
- the best practices and recommendations on corporate governance.

## Elements affecting BBVA's Corporate Governance System



BBVA's Corporate Governance System has been shaped over time based on the following **principles**, which materialize in the characteristics and elements laid out in this document:

1. An appropriate **composition of its corporate bodies**.
2. A clear **distribution of functions** between the Board of Directors and its Committees, and between these and the Senior Management.
3. A sound **decision-making process** and a robust **informational model**.
4. A complete **monitoring, oversight and control system** of the management of the Company.

BBVA's Corporate Governance System is expressed in different documents, internal regulations, procedures and practices that are adapted to the strategy and needs of the Company, to the regulatory and oversight context and to the best market practices.

Specifically, the Bank's Corporate Governance System is laid down in the Bylaws, in the Regulations of the General Shareholders' Meeting, in the Regulations of the Board of Directors; and, for certain Board Committees, in their own regulations. All of these documents are available on the Bank's corporate website ([www.bbva.com](http://www.bbva.com)).



## 2. Organizational structure

BBVA's Corporate Governance System has the following **organizational structure**:

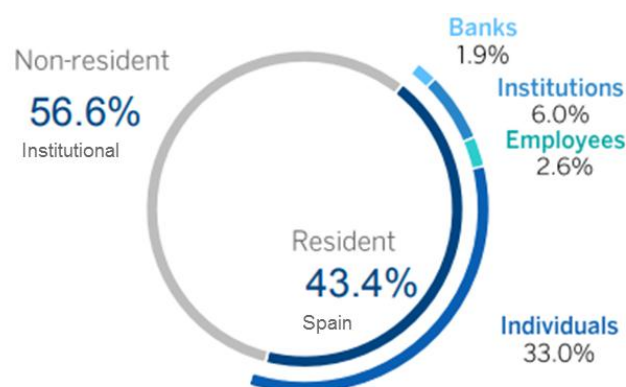


(\*) The current composition of the Board shall change upon proposals on appointments and re-elections submitted by the Board to next General Shareholders' Meeting. Should such proposals be approved, the Board will comprise 15 directors: 3 executive, 4 external and 8 independent directors.

### 2.1. Shareholders

BBVA Group has a global presence and a diversified shareholding base in terms of both geography and structure. Such shareholding base is made up of almost one million shareholders, both national and international, of which the international institutional holding represents more than 50% of the share capital. The free float of the Bank is 100% and none of the shareholders has a material or controlling stake in the company.

#### Shareholding structure of BBVA Group



Figures as of December 31, 2017

Considering said shareholding structure, the relationship model between BBVA and its shareholders is based on the following pillars:

|    |  |  |
|----|--|--|
| 01 | <b>General Meeting</b>   | <ul style="list-style-type: none"> <li>Has the power to decide on matters of utmost relevance for the Company</li> </ul>   |
| 02 | <b>"One share, one vote" principle</b>                                 | <ul style="list-style-type: none"> <li>There are no limitations on the exercise of shareholders' rights or on the acquisition or transfer of shares</li> <li>Equal treatment and same rights for all shareholders in the same position</li> </ul>  |
| 03 | <b>Policy on shareholders and investors' communication and contact</b> | <ul style="list-style-type: none"> <li>Based on the principles of transparency, veracity, immediacy and consistency in disclosure of information</li> <li>Encourages participation and exercise of the right to vote in General Shareholders' Meetings</li> <li>Transparency and disclosure of information for the appropriate exercise of shareholders' rights</li> <li>Development of an active engagement policy with both institutional and retail shareholders</li> </ul> <p>This Policy, approved by the Board of Directors and which specifies the channels and means of communication and contacts with the Bank, is published on the BBVA corporate website (<a href="#">link</a>).</p> |

The Bank has been obtaining over the past five years **attendance quorums** in excess of **62%** at its General Meetings. In turn, shareholders have repeatedly shown a very significant **percentage of support** for the issues submitted for their consideration, such as matters related to the composition of the Board of Directors, corporate management and annual financial statements, the remuneration policy and financial resolutions.

### General Shareholders' Meeting

- Decision on utmost relevant matters
- "One share, one vote" principle
- Equal treatment for all shareholders in the same position
- No limitation on the exercise of shareholders' rights
- Policy on shareholders and investors' communication and contact
  - Transparency
  - Engagement
  - Promotion of participation

The Regulations of the General Shareholders' Meeting, available on the Bank's corporate website at the following [link](#), include the basic functions, organization and operation of the General Meeting.

## 2.2. Board of Directors

In line with Spanish regulations and market practice, BBVA has a **"one-tier" board system**, which entails the existence of a unique collegiate body, the Board of Directors, which is collectively responsible for the highest functions of **management** of the Company (definition and approval of decisions) and of **oversight and control** of the management (monitoring and review of proper implementation), all with the purpose of promoting the corporate interest.

### Functions

The most relevant functions, set out in the Regulations of the Board of Directors ([link](#)), are related to the following matters:

|                                   |  |
|-----------------------------------|--|
| Strategy and general policies     | Remuneration policy                              |
| Control and risk management (RAF) | Financial and accounting information             |
| Annual budgets                    | Appointment and removal of Senior Management     |
| Capital and liquidity             | Oversight of Senior Management                   |
| Strategic transactions            | Internal organization and annual self-assessment |

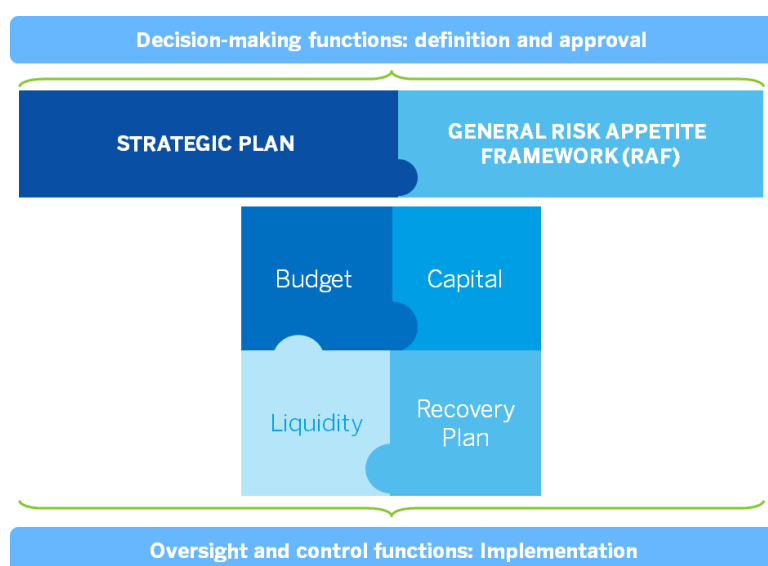
The fact that these powers are reserved to the Board, without the possibility of delegating them, is a **key element of balance and control of management**, ensuring that the most relevant matters affecting the Company are analyzed and decided by the Board of Directors, which also carries out general oversight functions over the Bank and its Group.

Furthermore, on the basis on the above, for a better performance of the management and control functions through a suitable decision-making process and to promote the checks and balances, BBVA's Board of Directors has established **specific Committees** that assist it in matters falling within their remit, with a coordinated working system among them.

The joint work carried out by the Board of Directors and its Committees, in interaction with the Bank's Senior Management, safeguards an adequate analysis of the matters submitted for their consideration, through the analysis and critical review of the approaches and proposals submitted. It also strengthens the existing control environment at BBVA, through the monitoring and control of the adopted management decisions, which are implemented by the Senior Management.

The approval of the overall strategy of the Group is one of the functions assigned to the Board of Directors. Thus, the Board of Directors **defines and approves the Strategic Plan of BBVA Group**, which includes the strategy to be followed by the Company in the medium- and long-term, defining the guidelines through which the Group aims to reach its goals. For this purpose, the Strategic Plan is integrated in the decision-making process for the core strategic-prospective decisions regarding the management and control of the Group, such as (i) the risk appetite framework, (ii) the annual budget, (iii) the capital and liquidity self-assessment exercises (i.e. ICAAP and ILAAP), and (iv) the Group's recovery plan. The Strategic Plan is also reflected in matters such as the Group's remuneration; all with the purpose of creating long-term value.

### Integration of the strategic-prospective decisions of BBVA



The definition of these strategic-prospective decisions also allows the Board of Directors to define the guidelines for behavior, values and principles that govern the Company, setting the “tone at the top” and **promoting the Group's corporate culture** from the highest level. This ensures that these guidelines are transmitted through the entire organization and promotes conduct based on the principles of transparency and business ethics.

Finally, within the framework of the Corporate Governance System, the Board of Directors carries out a **monitoring, oversight and control of the implementation of the defined strategy** by: (i) the definition and oversight of the implementation of strategic indicators (KPIs or Key Performance Indicators) that measure the degree of achievement of the strategic objectives and their integration into management; (ii) the oversight of the management actions conducted by Senior Management, ensuring that they are in line with the defined strategy, budget and risk appetite framework; and (iii) the review and update of the Strategic Plan and remaining strategic-prospective decisions, adapting them to the needs and changes of the business and the environment, if required.

As described in this document, BBVA's Corporate Governance System is designed so that the Board of Directors has set up Committees that, based on a solid decision-making process and an adequate distribution of functions, **assist the Board in the adoption of the relevant decisions and the oversight and control of the strategy** and ensure suitable coordination and interaction both between the different strategic decisions and between the different corporate bodies, according to their functions.

## Composition

The composition of the Board of Directors is one of the key elements of BBVA's Corporate Governance System and, as such, must allow corporate bodies to carry out their management and oversight functions with different perspectives and opinions, ensuring the **debate, analysis** and **critical revision** of the proposals submitted for their consideration, along with the necessary **consensus** in the decision-making.

### ■ Policy on the selection, appointment, rotation and diversity of the Board

BBVA has a **Policy on the selection, appointment, rotation and diversity of the Board of Directors**, available on the corporate website ([link](#)), which outlines the principles and procedures for the selection, appointment and rotation of the Bank's directors, as well as the necessary requirements to be fulfilled in order to hold the position of director at BBVA.

#### Principles of the Policy on the selection, appointment, rotation and diversity

- Suitable composition of corporate bodies to ensure their adequate performance in the best corporate interest
- Promotion of diversity of experience, knowledge, skills and gender
- Absence of biases that may entail discrimination in the composition, with a target of 30% female directors for 2020
- Balance between categories of directors, with at least 50% of independent directors
- Progressive and continuous refreshment of the Board
- Directors' suitability, dedication and absence of incompatibilities
- Key role of the Appointments Committee in the selection, appointment and rotation process of the Board

### ■ Board's refreshment process

To ensure the appropriate composition of the Board at all times, the Bank undertakes a **well-ordered refreshment process** of its corporate bodies, based on an adequate rotation planning for their members. This process is aimed at achieving the objectives established in the aforementioned Policy and involves identifying the needs of the corporate bodies and thus, the most suitable candidates to be appointed at any given time.

This process begins with BBVA's Appointments Committee periodically analyzing: (i) the structure, size and composition of the Board; (ii) its adequacy to the needs of the corporate bodies; and (iii) the existing knowledge, skills and experience. This allows identifying and assessing potential changes, whether necessary or advisable, in the composition of the corporate bodies, and initiating, where the Committee deems it appropriate, the candidate identification and selection processes to be proposed to the General Meeting as new members of the Board of Directors.

During this refreshment process, the Appointments Committee also ensures the promotion of **diversity** in the directors' selection process, both in gender (with the target of reaching 30% female directors in 2020) and experience, knowledge and skills, in line with the Policy.

### Main features of the Board's selection and refreshment process

| Selection and refreshment process  | Analysis of candidates   | Proposal to the Board / Submission to the AGM  | AGM resolution  |
|--|--|--|---|
| <ul style="list-style-type: none"> <li>Regular assessment of structure, size and composition</li> <li>Evaluation of skills, knowledge and expertise</li> <li>Analysis of current and future needs</li> </ul> | <ul style="list-style-type: none"> <li>Assessment of suitability requirements</li> <li>Dedication and time commitment</li> </ul> | <ul style="list-style-type: none"> <li>Independent directors: proposal by Appointments Committee</li> <li>Others: prior report by Appointments Committee</li> <li>Explanatory reports and proposals</li> </ul> | <ul style="list-style-type: none"> <li>Term of office: 3 years (bylaws)</li> <li>Induction plans and training programs for directors</li> </ul> |

This allows the Board of Directors and its Committees to have an appropriate composition that is always adapted to their needs, and can thus perform their functions effectively. The composition of the Board and the refreshment process are likewise aligned with the Bank's **strategy**, enabling the progress towards the Group's current **digital transformation** process.

Within the framework of the Board's refreshment process, in 2017 the Appointments Committee initiated different **selection processes for directors aimed at reinforcing the level of diversity and independence in the Board**, which has led to proposals for new appointments to be submitted at the next General Shareholders' Meeting.

These selection processes have also been directed at selecting candidates who (i) complete the current knowledge and experience of the corporate bodies, especially in the areas of **finance** and **technology**, as well as (ii) increase diversity in terms of **gender** and **international experience**; taking into consideration in each process the time dedication considered necessary for the adequate performance of their functions as well as compliance with the incompatibilities requirements and conflicts of interest established in the Board's Regulations and in applicable law.



## Current composition of the Board

As of the date of this document, BBVA's Board of Directors is composed of a total of thirteen directors<sup>(\*)</sup>.

| Name and surnames                            | Position on the Board    | Category    | Date of appointment/last re-appointment | Other positions  |
|--|--------------------------|-------------|---|--|
| Francisco González Rodríguez                 | Group Executive Chairman | Executive   | 11-03-2016                              | Director in BBVA Financial Group Bancomer and in BBVA Bancomer, Multiple Banking Institution |
| Carlos Torres Vila                           | Chief Executive Officer  | Executive   | 11-03-2016                              | Director in BBVA Financial Group Bancomer and in BBVA Bancomer, Multiple Banking Institution |
| Tomás Alfaro Drake                           | Director                 | Independent | 17-03-2017                              | -  |
| José Miguel Andrés Torrecillas               | Lead Director            | Independent | 13-03-2015                              | Director in Zardoya Otis   |
| José Antonio Fernández Rivero                | Director                 | External    | 13-03-2015                              | -  |
| Belén Garijo López                           | Director                 | Independent | 13-03-2015                              | Director in L'Oreal  |
| José Manuel González-Páramo Martínez-Murillo | Director                 | Executive   | 17-03-2017                              | -  |
| Sunir Kumar Kapoor                           | Director                 | Independent | 11-03-2016                              | -  |
| Carlos Loring Martínez de Irujo              | Director                 | External    | 17-03-2017                              | -  |
| Lourdes Máiz Carro                           | Director                 | Independent | 17-03-2017                              | -  |
| José Maldonado Ramos                         | Director                 | External    | 13-03-2015                              | -  |
| Juan Pi Llorens                              | Director                 | Independent | 13-03-2015                              | Chairman of Ecolumbar  |
| Susana Rodríguez Vidarte                     | Director                 | External    | 17-03-2017                              | -  |

(\*) The current composition of the Board shall change upon proposals on appointments and re-elections submitted by the Board to next General Shareholders' Meeting. Should such proposals be approved, the Board will comprise 15 directors: 3 executive, 4 external and 8 independent directors.

The profiles of BBVA's directors are available on the corporate website at the following [link](#).

## Main features of the composition of BBVA's Board of Directors

### Independence

Following the General Shareholders' Meeting held on March 17, 2017, the Board of Directors was composed of fourteen directors, of which seven were independent, four were external directors and three were executive directors. Upon resignation in 2017 of an independent director, at the end of 2017 the Bank's Board of Directors was composed of thirteen directors, six of whom were independent.

The Appointments Committee, in exercise of its functions and within the Board's refreshment process, has initiated several selection processes in 2017 to increase the level of independence of the Board, aiming at reaching a number of independent directors that represents at least half of the total, as set out in the proposals submitted to the next General Shareholders' Meeting of the Bank. As a result, should these proposals be approved, the Board of Directors will comprise **fifteen directors and over 50% of independent directors**.

The Committees of the Board have also a high level of independence in their composition, which promotes the appropriate performance of the management, oversight and control functions, as well as objective and independent judgment in the decisions adopted.

### Diversity

The Board of Directors has a **diverse composition**, combining directors with extensive experience and knowledge in finance-related matters, with profiles that have experience and knowledge in various areas of interest to the Bank and its Group, such as the auditing, legal and academic fields, multinational business, digital businesses and technology, both national and internationally. This enables the Board, as a whole, to have an appropriate balance in its composition and **suitable knowledge** of the Bank and the Group's environment, activities, strategy and risks, contributing to a better performance of its functions.

Alongside this combination of profiles and expertise, the Board has members with extensive experience in the Bank's Board of Directors, which provides them with a deep knowledge of the Group and its businesses and facilitates the progressive refreshment process of the corporate bodies so that the addition of new profiles, with less knowledge of the Company, takes place without affecting the correct operation of the Board.



## Non-executive directors' background

| Director                        | Background                                    |
|---------------------------------|---|
| Tomás Alfaro Drake              | Academic, finance, marketing                  |
| José Miguel Andrés Torrecillas  | Accounting, auditing, multinational           |
| José Antonio Fernández Rivero   | Banking, accounting, risks                    |
| Belén Garijo López              | Multinational, pharmaceutical                 |
| Sunir Kumar Kapoor              | Technology, digital businesses, multinational |
| Carlos Loring Martínez de Irujo | Legal, banking                                |
| Lourdes Máiz Carro              | Legal   |
| José Maldonado Ramos            | Legal, banking                                |
| Juan Pi Llorens                 | Multinational, technology                     |
| Susana Rodríguez Vidarte        | Academic, economics, banking                  |

As mentioned, the Appointments Committee promotes the diversity in the selection processes, in terms of gender, as well as experiences, knowledge and skills; in line with the Policy on the selection, appointment, rotation and diversity of the Board.

### Suitability and dedication

The Board of Directors, in accordance with the provisions set out in its Regulations and in applicable law, requires that its members have the **necessary suitability** to hold their positions. For these purposes, BBVA directors must have the repute, skills, experience and necessary training, as well as availability and dedication required to perform their functions.

BBVA directors are also subject to a strict **system of incompatibilities and limitations** established by the applicable regulation, which includes, among other aspects, that they may only hold up to four non-executive directorships or one executive and two non-executive directorships.

The Board of Directors also has a procedure for **assessing the suitability** of the Bank's directors on an ongoing basis, performed by the Appointments Committee. No circumstances occurred in 2017 that could affect the suitability of the Bank's directors for the performance of their positions.

All directors are **highly dedicated**, attending 99% of the Board meetings held in 2017 and participating in the deliberations, discussions and debates on matters submitted for their consideration.

| Corporate body                         | No. of meetings in 2017 | No. of absences (*)                                    |
|--|-------------------------|--|
| Board of Directors                     | 15                      | Two absences at one extraordinary meeting <sup>1</sup> |
| Audit and Compliance Committee         | 14                      | -  |
| Risk Committee                         | 20                      | -  |
| Remuneration Committee                 | 5                       | -  |
| Appointments Committee                 | 5                       | One absence at one of the meetings <sup>2</sup>        |
| Technology and Cybersecurity Committee | 7                       | One absence at one of the meetings <sup>3</sup>        |
| Executive Committee                    | 19                      | -  |

(\*) Information regarding the absences without expressed delegations during the financial year.

## ■ Training

Given the complexity and diversity of BBVA's businesses, and in order to assist directors in acquiring, updating, and reinforcing their knowledge and skills for the better performance of their duties, the Board of Directors has various **initiatives in place for the training** of its members. These are aimed at offering sufficient and relevant information on various matters, ensuring a proper understanding of all the issues submitted for consideration of the Bank's corporate bodies.

For these purposes, at the ordinary meetings of the different corporate bodies, directors are given extensive information on the most relevant issues relative to the scope of their respective functions. Additionally, **new directors are offered individual programs** on the Bank's various areas of activity, which include comprehensive training plans designed specifically for each director based on their profile. All directors are also offered **ongoing training**, which includes seminars and presentations given by experts in the relevant topic, which help update and strengthen the knowledge and information they need for the best performance of their functions.

<sup>1</sup> Ms. Garijo and Mr. Kapoor.

<sup>2</sup> Ms. Máiz.

<sup>3</sup> Mr. Stott.

As part of said training program, ten sessions were held in 2017 covering the following topics:

| No. | Topic  | Month held |
|-----|--|------------|
| 1.  | From IAS to IFRS 9                                   | February   |
| 2.  | Trends and insights around digital transformation    | March      |
| 3.  | Access to clients' data (PSD2 & GDPR)                | April      |
| 4.  | Tax-related matters                                  | May        |
| 5.  | New ways of working                                  | June       |
| 6.  | Capital Allocation Methodology and Management Levers | July       |
| 7.  | Digital Regulation                                   | September  |
| 8.  | Machine Learning for Humans                          | October    |
| 9.  | MREL: Key elements and future challenges             | November   |
| 10. | Cybersecurity Trends & Digital Trust                 | December   |

Directors were provided with extensive information on the referred topics and presentations given by the Group's experts in each topic at these training sessions. In 2017, the training program was conducted with open participation by all directors.

## Checks and balances

The Board's composition allows for the implementation of a system for the distribution of powers among its members, to ensure an appropriate **balance of power** at all times and, accordingly, prevent the concentration of powers in one person or body.

The checks and balances structure achieved at the corporate bodies through the proper composition and distribution of functions is rounded off, at the executive level, with the existence of an **Executive Chairman** and a **Chief Executive Officer**. Each role has specific functions assigned in the Bylaws and Regulations of the Board of Directors, ensuring the appropriate oversight and control of management by the corporate bodies, as well as driving the Bank's strategy from the executive level throughout the entire Company. Under this model, both roles and functions of the Chairman and Chief Executive Officer are separate, ensuring an adequate balance of powers between both positions.

Moreover, to strengthen the structure of checks and balances, the Board of Directors has designated, among the independent directors, a **Lead Director**, who has all the functions conferred both by law and by good governance recommendations.

Thus, the Lead Director, among other functions, may: request a meeting of the Board or the inclusion of new items on the agenda of a Board meeting already convened; coordinate and meet with non-executive directors; conduct the periodic assessment of the Chairman of the Board; coordinate, with the Appointments Committee, the Chairman's succession; and maintain contact with investors and shareholders to ascertain their views and form an opinion on their concerns, specifically regarding the Company's corporate governance. At BBVA, the Lead Director is currently also the Chair of the Audit and Compliance Committee and a member of the Risk Committee and Appointments Committee, which enables the performance of his functions and is positioned as a key figure in the Bank's control environment.

### **Board of Directors**

- Collegiate body responsible for representing, administrating, managing and overseeing the Company
- Specific non-delegable management and oversight and control functions
- Coordinated working system and interaction with Committees and Senior Management
- Policy on the selection, appointment, rotation and diversity of directors
- Independence and diversity in gender, experience, knowledge and skills
- Highly dedicated and suitable
- Structure of checks and balances

The above highlights that BBVA has (i) a diversified Board of Directors in terms of knowledge, experience and skills; (ii) a distribution of functions between positions and bodies; (iii) a balance of powers (checks and balances); all of which enables an adequate performance of the functions attributed by law, Bylaws and own regulations, in the best corporate interest, and taking into account the nature of the Bank's businesses and strategy geared towards digital transformation.

## 2.3. Board Committees

One of the core elements of BBVA's Corporate Governance System is the **existence of Board Committees**, created to assist the Board with matters falling within their remit, based on an adequate distribution of functions. The Board determines the Committees' composition, appoints their members and establishes the functions that each of the Committees shall assume, in accordance with the provisions of the Bylaws, Board Regulations and/or the own Regulations of the different Committees.

### Functions

For the best performance of its functions, the Board of Directors has set up **six specific Committees** with broad and significant functions: the **Executive Committee**, the **Audit and Compliance Committee**, the **Risk Committee**, the **Remuneration Committee**, the **Appointments Committee** and the **Technology and Cybersecurity Committee**, which was created in 2016 and whose functions were strengthened in 2017. The Technology and Cybersecurity Committee is a necessary support for the Board in the understanding and acknowledgment of the risks associated to technology and information systems related to the Group's activity, as well as the oversight and control of infrastructures and the technology and cybersecurity strategy.

The Board Committees have a **clear allocation of functions**, both in the Regulations of the Board of Directors and, where applicable, in their specific Regulations, and have the necessary resources for their operation, free access to the Group's Senior Management, and the ability to engage external advisors when deemed necessary.

The Executive Committee performs both management functions and oversight and control functions. It is a delegated body of the Board of Directors aimed at assisting the Board in its general oversight role, specifically overseeing the running of the day-to-day business and monitoring the risks to which the Bank is or may be exposed. It also assists the Board in the adoption of decisions regarding those matters falling within the remit of the Board of Directors, provided that they do not constitute non-delegable powers under law.

The Audit and Compliance Committee, the Risk Committee, the Remuneration Committee and the Appointments Committee assist the Board in the performance of control and oversight functions, as well as the analysis of the decisions that correspond to them under the applicable regulations.

These committees help ensure that the oversight and control functions, as well as the day-to-day management of the Bank, are carried out thoroughly, having the Audit and Compliance Committee and the Risk Committee key roles in this regard. As explained in section 3 hereunder, the Committees also contribute to a suitable decision-making process, analyzing

in detail the proposals submitted for consideration and challenging the approaches of the Senior Management through the direct interaction with them.

### Functions of the Committees

- They assist the Board in the performance of the functions falling within their remit
  - They have broad and relevant functions, particularly of oversight and control
  - They analyze and submit proposals to the Board prior to approval, which is a key element of the decision-making process
  - They perform a critical and constructive analysis (challenge) of proposals
  - They operate with full autonomy
  - They have ongoing access to, and interaction with, Senior Management, external experts and other Committees
- They perform a direct oversight of Senior Management

### Composition

The Audit and Compliance Committee, the Risk Committee, the Remuneration Committee and the Appointments Committee, which assist the Board with its oversight and control functions, are exclusively made up of external (non-executive) directors. They have a majority of **independent directors**, with the exception of the Audit and Compliance Committee, which is composed exclusively of independent directors.

The Bank's executive directors do not sit on any of these committees. They are neither members nor do they attend the meetings. The Committees are also chaired by independent directors, who have **extensive functions and full autonomy**, as well as specialized knowledge and broad experience.

The chairs of the various Board Committees direct their operation with full independence, as they see fit to fulfill the duties assigned to them. In this respect, the chairs of the Committees freely determine the items to be included in the meeting agendas and can request attendance by the pertinent Group's Senior Management so that issues are properly addressed. They receive the information they consider necessary in each case, hold preparatory meetings with the Group personnel as considered appropriate and may engage the assistance of external experts as deemed convenient.

For the proper operation of the corporate bodies, it is essential not only the distribution of the functions between the Board and the different Committees, but also a **suitable coordination** between them, based on their functions, which is strengthened by the **cross-membership** of the different members of the Board sitting on various Committees. This facilitates the decision-making process, the exchange of information between the Committees and the exercise of the oversight and control functions, while ensuring that the Board adopts

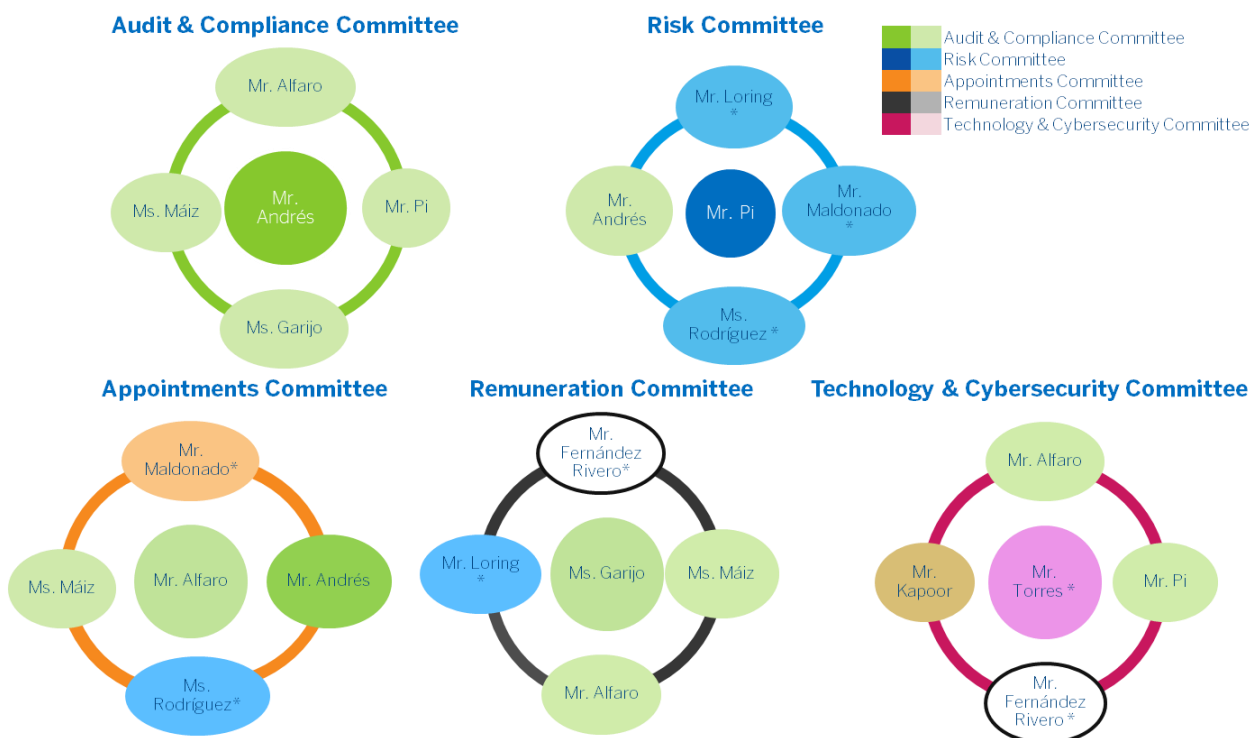
decisions with complete and adequate information. Cross-membership also guarantees that each of the Committees has the knowledge and experience that is required at all times and ensures that all issues submitted to the corporate bodies are analyzed from all perspectives by the specialized Committees.

Coordination between the Audit and Compliance Committee, the Risk Committee and the Remuneration Committee is particularly relevant. For instance, the Chair of the Audit and Compliance Committee currently sits on the Risk Committee and the Chair of the Risk Committee is also a member of the Audit and Compliance Committee.

| Director                        | Committee of which he/she is a member  |
|---------------------------------|--|
| Tomás Alfaro Drake              | Appointments Committee (Chair), Audit and Compliance Committee, Remuneration Committee, Technology and Cybersecurity Committee |
| José Miguel Andrés Torrecillas  | Audit and Compliance Committee (Chair), Appointments Committee, Risk Committee   |
| José Antonio Fernández Rivero   | Executive Committee, Remuneration Committee, Technology and Cybersecurity Committee  |
| Belén Garijo López              | Remuneration Committee (Chair), Audit and Compliance Committee   |
| Sunir Kumar Kapoor              | Technology and Cybersecurity Committee   |
| Carlos Loring Martínez de Irujo | Executive Committee, Risk Committee, Remuneration Committee  |
| Lourdes Máiz Carro              | Audit and Compliance Committee, Appointments Committee, Remuneration Committee   |
| José Maldonado Ramos            | Executive Committee, Appointments Committee, Risk Committee  |
| Juan Pi Llorens                 | Risk Committee (Chair), Audit and Compliance Committee, Technology and Cybersecurity Committee                                 |
| Susana Rodríguez Vidarte        | Executive Committee, Appointments Committee, Risk Committee  |



## Current cross-membership in the Committees



### Board Committees

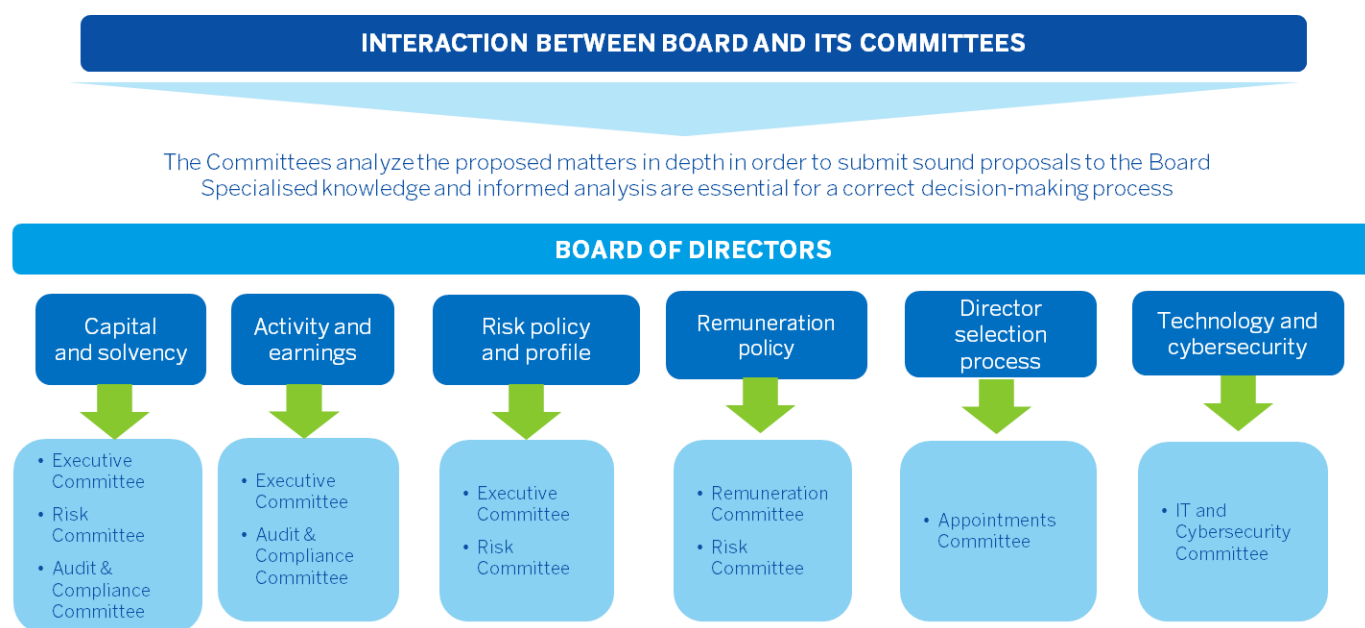
- Suitable composition: high levels of independence
- Intense activity and dedication
- Relevant functions, particularly oversight and control
- Operation with full autonomy
- Coordination between the Committees and the Board in the performance of functions
- Support in the decision-making process and in the oversight and control functions of the Board
- Direct access to and interaction with Senior Management



### 3. Decision-making process of the corporate bodies and informational model

One of the principles of BBVA's Corporate Governance System is to have a suitable **decision-making process**, which requires an **interaction among the corporate bodies**, and between corporate bodies with the Bank's Senior Management, integrating the work carried out in the Committees and the Board of Directors. This decision-making process entails the involvement of the Board Committees in matters falling within their remit, reinforcing the analysis and critical review of the matters to be considered by the corporate bodies.

In this regard, these Committees play a key role in the Bank's Corporate Governance System, given that: (i) they facilitate the corporate bodies' oversight and control functions in an independent fashion; (ii) they analyze in-depth matters that fall within their remit and they report to the Board the outcome of their activity, before they propose to the Board of Directors the adoption of the corresponding decisions; and (iii) they critically and comprehensively review the matters submitted by Senior Management.



Likewise, as a key element of the decision-making process, BBVA also has an **information model** for the corporate bodies that allows decisions to be made based on sufficient, complete and comprehensive information that is available in advance.

Therefore, decision-making in BBVA is an orderly process that combines the activity and functions of the Senior Management with those reserved for the corporate bodies.

## Decision-making process:

- In general, the Board Committees analyze in detail matters that fall within their remit and perform a critical and in-depth review of the issues submitted by Senior Management, for the adoption of the corresponding decisions prior to submission to the Board of Directors. This ensures that proposals to be submitted to the Board for consideration include the opinions, indications and requirements that arise from this analysis and discussion process and are in line with the strategies and policies approved by the Board of Directors.
- Following approval of the proposals by the various Committees, they are submitted to the Board for final approval and decision.
- Once the corresponding resolution has been adopted by the relevant corporate body, it delegates the implementation and development of the decisions, at both the Bank and Group level, to the Senior Management in charge of the relevant areas, which have the appropriate oversight and control systems by corporate bodies.

Based on the above, the main elements of this decision-making process are:

- All decisions must be adopted based on the corporate interest.
- The decisions must be adopted by bodies and/or individuals with the necessary authority and powers to do so, in accordance with regulations and internal procedures.
- All proposals submitted for consideration by the corporate bodies must take into account the corporate policies in force and the risk appetite framework, and be aligned with the Company's strategy and business plan.
- Proposals must be accompanied by suitable, complete and consistent information to enable an analysis of the proposed issue considering all aspects that may affect it.
- Before they are considered by the Board of Directors, the proposals are analyzed and debated, as required, by the various Board Committees, depending on the matter in question. The Committees therefore provide for a specific forum for critical review and search for consensus in the proposals to be raised to the Board of Directors.

In 2017 **the decision-making process regarding the Bank's strategic-prospective decisions has been strengthened**, improving its coordination and coherence. In this regard, the Group's Strategic Plan integrates all core decisions for the Group's management and control, such as the definition of the risk appetite framework, the budget, the capital and liquidity self-assessment exercises and the Group's recovery plan.

## Example of the decision-making process in BBVA



- The joint work carried out by the Board of Directors and its Committees, interacting with the Bank's Senior Management, guarantees a suitable analysis of the matters for consideration or oversight by the corporate bodies through the analysis and critical review of the proposals submitted, and strengthens the existing control environment at BBVA, through monitoring and control of the decisions adopted.
- Therefore, one of the basic pillars of the decision-making process of BBVA's corporate bodies is the interaction between the Board and its Committees, and between these and the Senior Management, through direct, regular and recurrent access, enabling these bodies to effectively exercise control, oversight and challenge the Group's main management actions and decisions, as well as their subsequent monitoring.

## 4. Oversight, control and monitoring system

As mentioned above, BBVA's corporate bodies conduct an in-depth analysis of all the relevant matters related to the Group's activity, which provides the global perspective needed to properly adopt their decisions, in addition to monitoring and oversight the decisions adopted in the performance of their functions.

Once the corresponding decisions have been adopted, the Board of Directors assigns the responsibility for their execution and implementation to the competent senior managers and performs general oversight and control functions over the Company and of the development and implementation by the Senior Management of the Board's decisions, for which it relies on its various Committees.

The Bank's corporate bodies oversee the activity of the Group's Senior Management and of the CEO, who are responsible for the development and implementation of the policies and decisions adopted by the Board of Directors.

To perform this oversight functions, the Senior Management, which is comprised of the heads of the Group's corresponding business, control and support areas, may attend, on a regular basis, meetings of the corporate bodies, whether the Board, the Executive Committee or the different Committees. This allows not only the oversight and control of their actions, but also the dissemination of the corporate culture and strategy from the corporate bodies to the rest of the Company.

These monitoring, oversight and control functions performed directly by the Board of Directors and, in a more specific and detailed way, by its various Committees, combined with their management functions, provide the Board with a comprehensive view of the Bank's position and businesses and of the work carried out by the Senior Management, adopting the decisions deemed appropriate at any given time.

## 5. Self-assessment of performance of corporate bodies

The quality and efficiency of the performance of the Board of Directors is evaluated annually by the Board through a process directed and coordinated by the Chairman of the Board and the chairs of the Committees, based on a report submitted by the Appointments Committee, all in accordance with the procedure set out in the Regulations of the Board of Directors.

The Board of Directors is also responsible for assessing the quality and efficiency of the Committees. This assessment begins with the reports submitted to the Board by the respective chairs of the Committees, which include a description of the work performed throughout the year in the performance of the functions assigned. In this regard, a summary of the activities carried out by the Committees in 2017 are included as [Annex](#) to this document.

In order to assess the Board's performance, the Appointments Committee may engage, when necessary, renowned independent experts, which is generally carried out every three years. In this regard, international consultancy firms have assisted the Board in past self-assessments.

This annual self-assessment process is a core element in the analysis of the efficiency of BBVA's Corporate Governance System. It is conducted by the Board of Directors on an ongoing basis throughout the year in the discharge of its duties and ensures the Board's proper performance. Accordingly, it allows for a continuous evolution of the system to adapt it to the needs of the corporate bodies at any time, in accordance with the circumstances that may affect the Company and its environment.

Within the framework of the ongoing self-assessment process conducted by the Board throughout **2017**, developments on the regulatory and supervisory front, best market practices, at both Spanish and international level, and the policies and recommendations of the main institutional investors received in the ongoing engagement process carried out by BBVA Group were analyzed.

As a result of the foregoing, in 2017, BBVA introduced a series of **measures designed to continue developing its Corporate Governance System**, in accordance with the context in which BBVA carries out its activity and with its own reality and strategy, which include:

- The **advancement of the Group's transformation plan**, reinforcing the oversight and control system for its implementation, through both reporting and developing a set of financial and non-financial indicators used to monitor compliance with the strategic priorities defined by the Board.

- The **consolidation of the Technology and Cybersecurity Committee**, which held seven meetings in 2017, assisting the Board in understanding the Group's technology strategy and the acknowledgement and oversight of technology-related and cybersecurity risks.
- The development of a **new organizational structure for Data**, with the creation of the positions of "Head of Data" at the top level of the organization to boost the integration of a global and strategic data management in all of the Bank's areas and businesses; and the "Data Protection Officer" to provide the Group with a data control and protection system adapted to the new supervisory and business context.
- The definition of a **new remuneration policy for directors**, marking further progress in its alignment with international best practices, increasing the deferral period and the share component, introducing clawback arrangements for variable remuneration and modifying the pension system toward a defined-contribution system.
- The development of the **decision-making process** of corporate bodies, to include greater involvement by the Board Committees and the interaction among the various corporate bodies, facilitating the analysis and review of key issues considered by the corporate bodies, as well as the critical review by directors.
- The **improvement of the informational model** for corporate bodies, to allow decisions to be made based on sufficient, complete and consistent information, and to also facilitate appropriate oversight of management.

## 6. BBVA Group Corporate Governance

BBVA Group has a **decentralized management model**, mainly based on legally independent subsidiaries which operate in different geographical areas, within a common framework which enables them to reach the objectives set by the Group.

This common governance framework for the Group's companies is based on the strategy, corporate policies and management guidelines set by BBVA's corporate bodies for the whole Group, and is specified by the different heads of the business areas and the transversal corporate areas, on which the local counterpart areas depend. These are responsible for applying the common framework in each geographical area.

Within the common corporate framework, the subsidiaries carry out their activity and manage their businesses with a high level of autonomy, having their own means and resources for these purposes, which allow for a suitable decision-making process and the monitoring and control of their activities.

This monitoring and control is integrated in a system coordinated at Group level, based on methodologies and processes that are consistent in all the geographical areas and in an organization with transversal areas and control functions, with reporting lines from local areas to corporate areas, making it possible to monitor the Group activities as a whole and to oversee compliance with the common management framework.



## 7. BBVA's corporate website

BBVA has a corporate website ([www.bbva.com](http://www.bbva.com)) which contains all the information it makes available to its shareholders and other stakeholders.

In particular, the Bank has a special section for shareholders and investors that offers wide-ranging **institutional, financial and economic information** on the Group's activity and results, as well as any information the Bank deems useful, in addition to any other content legally required by the applicable regulations and by best practices and recommendations in this regard.

The corporate website also provides detailed information on the **communication and contact channels with the Bank**, such as the Shareholder's Office, the help line and e-mail inbox, available to all shareholders, as well as other information services and retransmission channels on financial and institutional presentations. The corporate website also includes contact information of BBVA's Shareholders and Investors Relations unit, which is the natural and permanent communication and contact channel between BBVA and its shareholders, investors and the market in general.

On the occasion of each General Shareholders' Meeting, BBVA also provides, through the website, all types of means and resources to facilitate their participation in the meeting as well as all information necessary to decide on the issues that are put forward for consideration, publishing this information sufficiently in advance and in detail, as required by law and by best practice in good governance, both in Spain and internationally.

The corporate website complies with the **principles of transparency, veracity, immediacy and consistency** in the disclosure of information, as outlined in the Policy on shareholders and investors' communication and contact, approved by the Board of Directors (see section 2.1 above). Therefore, the Bank ensures that all the information on its website is clear, complete, correct, true and up-to-date, and that the content is available both in Spanish and English.



## **ANNEX**

# **ACTIVITY OF THE BOARD'S COMMITTEES 2017**

# 1. Activity of the Audit and Compliance Committee

In accordance with article 48 of the Bank's Bylaws, the Board of Directors of BBVA, in order to better perform its duties, has set up an Audit and Compliance Committee for the oversight of both the financial information and the discharge of the control function.

In addition to the Company Bylaws and prevailing legislation, the Audit and Compliance Committee is regulated by articles 29, 30 and 31 of the Regulations of the Board of Directors. This Committee also has its own Regulations which, inter alia, regulate its operation and duties (both Regulations are available on the Company's website [www.bbva.com](http://www.bbva.com)).

## Composition

In accordance with the Regulations of the Board of Directors, the Audit and Compliance Committee is formed exclusively by independent directors. At the end of 2017, the Audit and Compliance Committee was made up of the following directors, all of them independent:

| Director                       | Position | Category    | Date of appointment in the Board |
|--------------------------------|----------|-------------|----------------------------------|
| José Miguel Andrés Torrecillas | Chair    | Independent | 13/03/2015                       |
| Tomás Alfaro Drake             | Member   | Independent | 18/03/2006                       |
| Belén Garijo López             | Member   | Independent | 16/03/2012                       |
| Lourdes Máiz Carro             | Member   | Independent | 14/03/2014                       |
| Juan Pi Llorens                | Member   | Independent | 27/07/2011                       |

The profiles of each member of the Committee, including information about their professional and educational background, can be consulted on the corporate website, [www.bbva.com](http://www.bbva.com).

## Operation

As set out in the Regulations of the Board of Directors and in its own Regulations, the Audit and Compliance Committee shall meet as often as necessary to perform its duties. The meetings may also be attended by the Heads of Accounting & Supervisors, Internal Audit and Compliance, and at the proposal of such executives, by such other employees belonging to those areas with knowledge of or responsibility for the matters on the agenda. The Committee may engage external advisory services and call on the personal cooperation and reports of any employee or member of the Group's senior management when it considers that this is necessary for compliance with its functions in relevant issues.

## Functions

The Committee's functions are detailed in article 30 of the Regulations of the Board of Directors, as well as in article 3 of the specific Regulations of the Audit and Compliance Committee. Its main duties are summarized as follows:

- Oversee the effectiveness of the Company's internal control, internal audit and management systems in

the process of drawing up and reporting financial information, including fiscal risks.

- Oversee the drafting and presentation of the financial information and submit recommendations or proposals to the Board of Directors aimed at safeguarding its completeness.
- To submit to the Board of Directors the proposals for the selection, appointment, re-appointment and replacement of the external auditor, taking responsibility for the selection process in accordance with applicable regulations, as well as the conditions for its engagement, and periodically obtain from the external auditor information on the audit plan and its execution, in addition to preserving its independence in the discharge of its duties.
- To establish appropriate relations with the external auditor in order to receive information on any matters that may jeopardize its independence, for examination by the Committee, and any others that have to do with the process of auditing the accounts, as well as those other communications provided for by law and in auditing standards.
- Each year, before the audit report is issued, to submit a report expressing an opinion on whether the Auditor's independence has been compromised.
- Oversee compliance with applicable domestic and international

regulations on matters related to money laundering, conduct on the securities markets, data protection and the scope of Group activities with respect to anti-trust regulations, and also to ensure that any requests for action or information made by official authorities competent in these matters are dealt with in due time and form.

- Ensure that the internal codes of ethics and conduct on the securities market trading, as they apply to Group personnel, comply with legislation and are suitable.
- Oversee compliance with the provisions applicable to directors contained in the BBVA Board Regulations, as well as their compliance with the applicable standards of conduct on the securities markets.
- Report, prior to the decisions that the Board of Directors may adopt, on all those matters provided for by law, in the Company Bylaws and in these Regulations, and in particular on: (a) the financial information that the Company must periodically publish; (b) the creation or acquisition of holdings in special-purpose entities or entities domiciled in countries or territories considered tax havens; and (c) related party transactions; and
- Inform the General Shareholders' Meeting on the questions raised in relation to matters within the Committee's remit.

## **Activity of the Committee**

The Committee carries out its duties with full autonomy, under the authority of its Chair, who is responsible for convening the meetings, deciding on the matters included on the agenda and requesting the attendance of any employees or members of the Bank's senior management or third parties as necessary to better perform its duties. In any event, the Committee relies on the full collaboration of the Bank's executive areas and the support of the Board of Directors, to which it reports its activities on a regular basis.

In 2017, the Audit and Compliance Committee held 14 meetings, with the attendance of all of its members, either in person or duly represented.

Also, as mentioned above, the Committee meetings were attended by the top executives of the areas responsible for the matters brought before it, when considered necessary and by invitation only, and limited to the items in the meeting's agenda for which they were convened.

The main activities carried out by BBVA's Audit and Compliance Committee in 2017 are described below:

### **– Financial-accounting information**

In accordance with the functions set out in the Regulations of the Audit and Compliance Committee, in 2017 the Committee has analyzed and overseen, prior to their submission to the Board, sufficiently in detail to verify their accuracy, reliability, scope and clarity, the financial statements and the management

reports of the Bank and of its consolidated Group contained in the annual, six-monthly and quarterly reports. For this purpose, the Committee has had all the necessary information with the level of detail it deemed appropriate, and was provided with the necessary support by the Group's Senior Management, especially of the area responsible for the Accounting function, as well as the Company's and Group's statutory auditor, in the way described below.

In connection with the foregoing, in 2017, the Committee was made aware of and approved the accounting principles, policies and practices, as well as the valuation criteria followed by the Bank and the Group during the process of drafting and submitting the mandatory financial information, and verified that such principles, policies and practices coincided with those established by the competent regulators and supervisors and were applied correctly, also reviewing the proper delimitation of the scope of consolidation.

Similarly, the Committee reviewed in detail the relevant information from a prudential point of view and the registration documents drafted by the Bank, prior to their submission to the relevant domestic and international regulators.

The Committee also monitored, on a monthly basis, the main figures on the balance sheet, the income statement and the capital ratios of the Bank and of its Group and analyzed the additional information it considered appropriate to clarify any doubt arising during its reviews, prior to submitting the information to the Board of Directors.

It is worth noting that the Committee offered its opinion to the Board of Directors on the Annual Financial Statements of the Bank and of the consolidated Group for 2017 that their content and form comply with all the requirements established by the regulatory authorities and were drawn up following best domestic and international practices and recommendations on this matter and by current legislation.

Likewise, the Committee has provided its favorable opinion on the Management Report of BBVA and of the companies that form part of its Group, in the sense that it includes an accurate analysis of the evolution of the Bank's and the Group's results and a description of the main risks and uncertainties they face, as well as the non-financial information required by the applicable regulation.

Thus, at the meeting held on February 8, 2018, the Audit and Compliance Committee proposed to the Bank's Board of Directors that it drafts the individual and consolidated Financial Statements and Management Reports of Bank on the same terms they are put to the vote at the Bank's General Shareholders' Meeting, and which are provided along with the relevant audit report issued by the Statutory Auditor, KPMG Auditores, S.L., which has expressed its favorable and unqualified opinion.

Moreover, the Committee has ensured that, in accordance with best practices and as provided for in article 3 of its Regulations, the external auditor met with the Board of Directors to submit in person its audit opinion on the Annual Financial Statements, and on the developments in

the accounting, financial and risk situation of the Bank and its Group.

Finally, in 2017, the Audit and Compliance Committee closely monitored the application of the new accounting standards regarding accounting provisions and their impact on the Group's financial statements, following up on the implementation of IFRS 9 accounting standards on a monthly basis.

#### – **Internal control systems**

The Committee was informed of the internal control systems established by BBVA Group, the internal audit work and the risk management systems in the drafting and presentation of mandatory financial information, including fiscal risks. Moreover, the Committee supervised and was made aware of the different reports drafted both internally and by the Group's external auditor on the effectiveness of the internal control related to the Financial Information Systems.

The Committee has considered favorably its conclusions in the sense that the BBVA Group has in place a sound and proven internal control model for financial information, in accordance with the requirements established by the applicable regulation, which enable the Bank to guarantee that the financial information is drafted correctly, having implemented for this purpose the necessary procedures and controls.

#### – **Relations with the external auditor**

Given that external audit is one of the essential elements in the chain of control

mechanisms put in place for the purpose of ensuring the quality and completeness of the financial information, the Audit and Compliance Committee established the appropriate relations with the statutory auditor, KPMG Auditores, S.L., which started rendering audit services to BBVA and its consolidated Group in 2017, following its appointment by the Bank's General Shareholders' Meeting on March 17, 2017.

The statutory auditor has reported directly to the Audit and Compliance Committee at all the monthly meetings of 2017 on its work strategy and plan, the development of its activity and its significant findings. Also, in connection with the auditing work, the Committee:

- Was made aware and oversaw the progress of the statutory auditor's work during the year, including the planning of the external audit, the scope of the tests, the work schedules proposed by the statutory auditor, the judgments of the auditor regarding the quality and applicability of the accounting criteria and principles, the auditor's opinion on the treatment of relevant corporate transactions, the materiality figures for the audit, the results of the works reflected in reports submitted to the Committee, as well as the fee proposal for 2017.
- The representatives of the statutory auditor have also attended all Committee meetings during the year, having also held working meetings with the statutory auditor to analyze certain specific issues regarding the information comprising the subject matter of the audit.

- It has ensured the application of internal procedures to prevent situations that may give rise to conflicts with the independence and objectivity required from the external auditor, ensuring also that the statutory auditor had access to all the information needed to perform its work and received full collaboration from all the Group's areas. In addition, the Committee checked the statements made by the external auditor regarding its confirmation of independence with regards to its relationship with the entity or its related entities, issuing the corresponding report on the Account Auditor's independence, as per the requirements set out by applicable regulations, which is attached to this report in accordance with best practices in good corporate governance.

It is also worth noting that the Committee followed the progress of the work being performed and was in permanent contact with the managers of the external auditor to so that Bank could promptly respond to any potential problem arising in the course of their work. Likewise, it has been made aware of the external auditor's recommendations and the plans adopted by the Group entities for their implementation.

Finally, regarding the appointment of KPMG Auditores, S.L. as new Auditor of BBVA and its Consolidated Group, among other issues, the Committee supervised the transition process between the outgoing auditor, Deloitte, S.L. and the new auditor, and analyzed the conformation and perceptive statements of independence prior to the appointment and approved the contractual framework



that will govern the provision of audit services.

### – Internal Audit

As regards the duties performed by the Group's Internal Audit Area, which Head reported directly to the Audit and Compliance Committee at each meeting, it has analyzed and approved the annual working plan for 2017 prepared by the Area itself, monitored its execution on a regular basis and was informed directly of the incidents arising during its execution.

Within the framework for the oversight of the effectiveness of the Internal Audit area, it was made aware of the results of its most relevant work, of the weaknesses and possibilities for improvement, as well as of the reports issued by said area at the end of its work. The Committee concluded that none of them revealed situations that could entail significant weaknesses in its Financial Information System.

In addition, the Committee was made aware of the recommendations issued by Internal Audit as a result of its review work, and of the specific action plans defined and implemented for their resolution, monitoring on a regular basis those that were more significant for the entity. Finally, the Committee paid special attention to compliance with the requirements that, in the internal audit area, had been notified by the European Central Bank following its 2016 SREP review.

Also, the Committee has been aware of the process for the selection of independent experts for the review of the Internal Audit function, in accordance with the Internal Audit's Statutes.

Lastly, at the Audit and Compliance Committee's meetings held throughout the year, the responsible of the Internal Audit function provided the Committee in all the meetings specific information on the evolution of the annual working plan and on the results of its works.

### – Regulators

The Committee was made aware of the communications sent to the Group's entities by national and international regulators, amongst others the European Central Bank, the Bank of Spain and the National Securities Market Commission, and monitored the matters that gave rise to such communications and, where applicable, was made aware of the replies given, the specific action plans to implement the requests received and their implementation in the financial information.

In this year, the Committee paid special attention to the communications in connection to the Supervisory Review and Evaluation Process SREP for 2017, the theme reviews on various issues (IFRS 9, governance and risk appetite etc.) carried out by the JST and the review of the Group's Recovery Plan by the ECB.

### – Regulatory Compliance

The Audit and Compliance Committee closely oversees all matters related to regulatory compliance by the Bank and the entities making up BBVA Group, given its special significance for the provision of the Group's services across its global footprint.

For this purpose, the Committee has been made aware of and approved the annual

plan for 2017 prepared by the Group's Compliance Unit. Also, it has been informed of the reviews and examinations carried out by the Area and the level of progress of the implementation of ongoing measures and plans in 2017.

Lastly, it is worth noting the oversight over the Area's Compliance reports, reviewed by the Committee, drafted in accordance with MiFID regulations as well as to the proposed amendments to the Internal Code of Conduct in Securities Markets and to Treasury Share Policy.

#### – **Fiscal policy and strategy and legal risk**

The Committee oversaw and monitored on a quarterly basis in 2017 the Group's tax management, including the main tax figures and the total tax contribution. Also, the Committee monitored the implementation of the Group's tax policy and strategy.

Also, the Committee, on a recurring basis, monitored the main issues related to the Group's legal risks arising from regulatory changes or ongoing legal proceedings, and analyzed their potential impact on the financial statements.

#### – **Corporate operations**

Regarding of the Committee's function to request information, analyze and prepare, prior to its submission to the Board of Directors, a report on the economic conditions and its accounting impact, and, where appropriate, the exchange ratio proposed, of relevant corporate transactions and structural modifications that the Company may be planning, in 2017

the Committee reviewed and issued its favorable report to the Board of Directors regarding the accounting considerations of the relevant corporate operations agreed during the year.

For such purpose, the Committee received information and analysis provided by the executive areas of the Bank and, when appropriate, counted on the collaboration of external experts that it considered convenient for the best performance of its duties.

#### – **Related-party transactions**

The functions of the Audit and Compliance Committee also include the duty to report, prior to the decisions to be adopted by the Board of Directors, on the related-party transactions that BBVA or the companies in its Group conduct with directors or shareholders with a significant ownership interest.

In 2017, in the performance of the aforementioned supervisory role, the Audit and Compliance Committee has not been aware of any related-party transactions which, belonging to the Company's ordinary course of business, have not been conducted under normal market conditions and are of little relevance for the Company and its Group.

-----

All the above issues, along with other matters within its remit, were analyzed by the Audit and Compliance Committee at its meeting held on February 8, 2018, and, in addition, were included in the activity report of the Committee for 2017 which, as set out in the Regulations of the Board of



Directors, was submitted to the Board of Directors by the Audit and Compliance Committee for the purpose of evaluating its performance.

After analyzing the aforementioned activity report, the Board of Directors of the Bank assessed the quality of the work carried

out by the Audit and Compliance Committee as part of the functions assigned to it, concluding that the Audit and Compliance Committee had satisfactorily discharged the functions entrusted to it, with a favorable assessment of the quality and efficiency of its performance.

## Appendix

### **REPORT BY THE AUDIT AND COMPLIANCE COMMITTEE OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A. ON THE INDEPENDENCE OF THE EXTERNAL AUDITOR**

#### **INTRODUCTION**

Pursuant to the provisions of article 529.14.4 f) of Spain's Royal Decree 1/2010 of July 2 approving the Revised Corporate Enterprises Act (hereinafter the **"Corporate Enterprises Act"**), and article 30.6 of the Regulations of the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter **"BBVA"** or the **"Bank"**), prior to issuing the audit report on the 2017 annual financial statements, the Audit and Compliance Committee shall draw up this report concerning the independence of the auditor of the accounts of BBVA and of its Group, KPMG Auditores, S.L. (hereinafter **"KPMG"** or the **"External Auditor"**).

#### **EXTERNAL AUDITOR INDEPENDENCE**

In accordance with the functions set out in article 30 of the Regulations of the Board of Directors and in article 3 of the Regulations of the Audit and Compliance Committee, and for the purpose of checking the accuracy, reliability, scope and clarity of the financial statements of the Bank and of its consolidated Group, the Audit and Compliance Committee constantly monitors the process of preparation of the financial statements, with the support of the Bank's senior management and, in particular, of the area in charge of the Accounting functions, as well as of the External Auditor.

The Committee also conducted a dual supervision of the independence of the Auditor: (i) by preventing any conditions that could be placed on the auditors' warnings, opinions and recommendations; and (ii) establishing the incompatibility of provision of audit services and consultancy services, except in the case of tasks required by regulators or tasks which the applicable legislation allows auditors to carry out and the market cannot offer any alternatives with the same value in terms of content, quality and efficiency, with any that could be provided by the audit firm or companies forming part of its group, and in this case the agreement of the Committee would have to be forthcoming, which may be issued in advance through delegation by its Chairman.

For such purposes, the Audit and Compliance Committee has established appropriate relations with the External Auditor in order to receive information on any matters that may jeopardize its independence, as well as those related to the conducting of the audit work.

Thus the Committee maintains direct contact with the External Auditor, and the latter attends all meetings of the Audit and Compliance Committee throughout the year, which are not attended by the Bank's senior managers.

In relation to the provisions of the aforementioned article 529.14.4 f) of the Corporate Enterprises Act, BBVA's Audit and Compliance Committee received on February 8, 2018 a written statement by KPMG, as the External Auditor of BBVA and of its Group (attached to this report), prior to the issuing of the audit report, confirming its independence with regard to BBVA and the entities linked directly or

indirectly to the Bank (BBVA Group), in accordance with the requirements set out in the Audit Act 22/2015, dated July 20, in view of which and not having any additional information that calls into question the content of said statement, the Audit and Compliance Committee understands that there are no objective reasons that may call into question the confirmation of independence made by KPMG.

Moreover, in relation to the additional services provided by the Auditor in the course of 2017, the Committee declares that these are the services described in Appendix I to the statement of independence by KPMG on February 8, 2018, in the amount and with the breakdown stipulated therein, and that the External Auditor has not provided any additional services for the BBVA Group other than those set out in the

aforementioned Appendix I, as verified in the report drawn up by the Group's Internal Audit Division and sent to this Committee.

## **CONCLUSIONS**

Pursuant to the foregoing and in compliance with the provisions of Article 30 of the Regulations of the Board of Directors, the Audit and Compliance Committee declares a favorable opinion concerning the independence of the External Auditor, having considered in this regard that the additional services provided by the auditors in 2017, considered individually and as a whole, as transpires from the analyses conducted by both the External Auditor and by the Bank's Internal Audit Division, meet the requirements of independence established by the legislation applicable concerning audits.

## 2. Activity of the Risk Committee

In accordance with article 48 of its Bylaws the Board of Directors of BBVA, in order to better perform its duties, has set up a Risk Committee with no executive functions to assist the Board in compliance with its risk oversight functions.

In addition to the provisions set out in the Company Bylaws and current legislation, the Risk Committee is regulated by articles 38, 39 and 40 of the Board of Directors Regulations, as well as the Risk Committee Regulations, which regulate, inter alia, objective and functions (both documents are available on the Company's website: [www.bbva.com](http://www.bbva.com)).

### ■ Composition

In accordance with the Board Regulations, Risk Committee is fully composed by non-executive directors, of whom at least one-third must be independent directors. Its Chair must also be an independent director.

The composition of the Risk Committee at the end of 2017, after changes in its composition during the year, was:

| Director                        | Position | Category    |
|---------------------------------|----------|-------------|
| Juan Pi Llorens                 | Chair    | Independent |
| José Miguel Andrés Torrecillas  | Member   | Independent |
| Carlos Loring Martínez de Irujo | Member   | External    |
| José Maldonado Ramos            | Member   | External    |
| Susana Rodríguez Vidarte        | Member   | External    |

### ■ Operation

In accordance with the Regulations of the Board of Directors and its specific Regulations, the Risk Committee shall meet as often as necessary to fulfill its duties, although an annual meeting calendar will be drawn up in accordance with its functions.

The Committee may request the attendance at its meetings of the Group's Chief Risk Officer, as well as the executives to whom the various risk areas report or persons with tasks in the Group that are related to the Committee's duties. It may also obtain such advice as may be necessary to establish an informed opinion on matters related to its business.

### ■ Functions

The scope of the Risk Committee's functions is as follows:

- To analyze and assess the proposals on the control and management strategy in relation to the Group's risks, as well as on the specific corporate policies related to the management of each type of risk, and, where appropriate, submit them for approval to the Board of Directors and the Executive Committee, respectively.
- To monitor the performance of the Group's risks and their suitability to the risk strategy established.

- To participate in the process of establishing the remuneration policy, checking that it is consistent with sound and effective risk management.
- To verify that the Group is equipped with appropriate means, systems, structures and resources to manage its risks.
- To promote the establishment of a risk culture that ensures the consistency of the model for risk control and management model within the Group and its application at all levels in the organization.

Notwithstanding the foregoing, the Committee's functions are detailed in article 39 of the Regulations of the Board of Directors, as well as in article 3 of the Regulations of the Risk Committee.

### **Activity of the Committee**

The Committee carries out its duties with full autonomy of operation, under the authority of its Chair, who is responsible for setting the meeting calendar and, where appropriate, for convening meetings not previously included in such calendar; deciding on the items included on the agenda; and requesting the attendance of any Bank employees or senior managers, or third parties, as necessary to better perform its duties.

In any event, it relies on the full cooperation of the Bank's executive and support areas and the support of the Board of Directors, to which it reports its activities on a regular basis.

The Risk Committee also relies on the collaboration of the Technical Secretariat, which is integrated into the Risk area and oversees and coordinates the information made available to the Committee by the various areas of the Bank.

The Risk Committee held twenty meetings in 2017. All of its members attended all the meetings held, either in person or duly represented.

In addition, all the meetings were attended by executives from the areas responsible for the issues addressed, as well as by the Group's Chief Risk Officer, who usually attends the Committee monthly.

The main activities carried out by the BBVA Risk Committee in 2017 were:

#### **– The Group's general risk management and control model**

The Risk Committee participated actively in the update of the Group's general risk management and control model. It received information both from the Risk area and the Chief Risk Officer on the contents of the modifications proposed, and analyzed their suitability and alignment with the grounds on which they were based. Following approval by the Committee, the resulting document was submitted to the Board of Directors, which gave its approval.

#### **– Proposals on risk strategy and control**

The functions set out in the Risk Committee's Regulations include the analysis and assessment of the proposals on risk strategy, control and management,

including the analysis of, inter alia, the risk appetite statement; the core metrics in relation to solvency, liquidity, funding, profitability and recurrence of revenue; the metrics for each type of risk and the basic structure of limits for each type of risk, before submitting them to the Board or the Executive Committee, as appropriate.

This function has been carried out by the Risk Committee with the necessary scope and detail for verifying their accuracy and appropriateness. This process entailed use of all the information necessary, with the appropriate level of disaggregation, and the support of the Chief Risk Officer, senior management and the various areas of the Group participating in these processes, particularly the Risk area.

The Risk Committee also performed periodic monitoring of compliance with the metrics and limits established for 2017, with the necessary detail and frequency to ensure adequate control of the indicators. All this was prior to their monitoring by the Executive Committee.

The Committee also analyzed in detail the various proposals put forward by the Risk area for establishing the essential metrics and the basic structure of limits for each type of risk, and verified alignment with the General Risk Appetite Framework approved by the Board for 2018.

#### – **Analysis of corporate policies**

In the exercise of the functions expressly attributed to it by its specific Regulations, the Risk Committee conducted a detailed analysis of the proposed corporate policies, prior to submission to the Executive Committee. In 2017, the

Committee participated in the processes for amending the Corporate Policies for wholesale and retail credit risk, market and insurance risk, which materialize the Group's risk strategy and culture. To this end it received all the information necessary to conduct a proper analysis of the amendments proposed.

#### – **Regular monitoring of metrics and limits**

In 2017, the Risk Committee carried out a monitoring of developments in credit risk as well as structural risks, market risk, operational risk and non-banking risk affecting the Group.

To do so, it received and analyzed information from the Risk area with the required frequency to be able to assess compliance with the metrics and limits set by Risk Appetite Framework.

For these purposes, the Committee was assisted by the Chief Risk Officer, the officers responsible for each type of risk at corporate level, and the risk officers of the Group's main entities, thereby gaining both global and individualized direct knowledge of the development of the Group's risks.

In occasional cases where the approved limits were breached, the Committee received detailed information on the reasons for the overruns, along with proposals on the action plans for their rectification. When the Risk Committee had approved these action plans, they were submitted to the Executive Committee.



- **Regular monitoring of transactions examined by the Risk committees. Monitoring of sectors**

In 2017, the Risk Committee had access on a monthly basis to information on the main credit-risk transactions authorized by the committees of the Corporate Risk area within the scope of its competence, enabling it to monitor the Group's largest exposures, as well as the main risks classified as non-performing or on watch-list.

The Risk Committee also had access to information about the qualitative risk transactions authorized by the Risk area.

Throughout the year, the Risk Committee conducted an analysis of trends in the main business sectors, using information received on the situations of the Group's main customers operating in those sectors. This analysis enabled the Committee, together with the Risk area, to assess the advisability of establishing specific strategies for action for those sectors and/or customers in order to preserve the Group's credit quality and comply with its risk profile.

- **Internal capital and liquidity adequacy assessment process (ICAAP and ILAAP) reports**

In 2017 the Risk Committee conducted a review of the Internal Capital Adequacy Assessment Report (ICAAP) and the Internal Liquidity Adequacy Assessment Report (ILAAP), to supervise the elaboration of stress scenarios and verify its alignment with the Risk Appetite Framework.

In this process, the Committee relied on the collaboration and assistance of the Risk area and other areas in the Group involved in drawing up these documents. This ensures that the documents provided a fair view of the Group's situation in the areas analyzed.

Following approval by the Risk Committee, the documents with the conclusions of the self-assessment process were submitted to the Board of Directors for its approval, and hence to the regulator.

- **Recovery plan**

In 2017, the Risk Committee participated in the review of the Group's Recovery Plan to assess its alignment with the Group's Risk Appetite Framework, prior to submission of the Plan to the Board of Directors. It was assisted in this task by the Risk Area and the Finance Area.

The objective of the Recovery Plan is to illustrate the Group's ability to restore its viability in different scenarios. To do so, an agile escalation process in decision-making is in place, along with various combinations of options, all based on the defined risk policies.

- **Credit risk transactions in favor of members of the Board of Directors and senior management**

The functions attributed to the Risk Committee also include the analysis, prior to the decision adopted by the Board of Directors, of the credit risk proposals that, given the nature of the applicants (due to their membership of the Board of Directors of BBVA or its senior management), are to be approved by the Bank.



### – **Additional control functions**

Among the functions of the Risk Committee stated expressly in its Regulations is to oversee that the pricing policy for the assets and liabilities offered to customers takes full account of the Bank's business model and risk strategy. The Committee verified this in 2017 in collaboration with the Risk Area.

The Commission also received occasional information concerning issues relating to supervisory activity in connection with risks, and specifically those concerning the process to review internal models with the Group, or the thematic review of the Risk Data Aggregation (RDA) process, for effective aggregation of data and presentation of reports on banks' risks.

### – **Other matters**

In 2017, the Committee verified the progress and effectiveness of the various actions designed by the Risk Area to strengthen the risk culture among employees of the Group, to enable them to perform their functions in a secure environment, and mitigate the risks to which their activities are exposed.

Moreover, the Committee has received timely information on relevant current matters that have arisen over the year, which could affect the situation of the Group.

Finally, the Committee was informed of and supervised the strengthening of the risk function and reorganization of functions for internal control, the purpose of which is to ensure that the Corporate Risk area and the Group's various risk areas comply with the established risk management rules and procedures.

-----

All the matters detailed above, along with other matters within its remit, were included in the activity report of the Risk Committee for 2017 which, as set out in the Company's Board of Directors Regulations, was submitted by the Risk Committee to the Board for the purpose of assessing its performance.

The Board of Directors has assessed the quality of the work carried out by the Committee in compliance of the functions assigned, concluding that its work had been extremely positive.

### 3. Activity of the Remuneration Committee

Among the Committees set up by BBVA's Board of Directors to assist it for a better performance of its duties, the Remuneration Committee is the body that assists the Board in remuneration-related matters within its remit.

In addition to what is legally established, the functions, rules of operation and composition of this Committee are set out in Articles 35, 36 and 37 of the Regulations of the Board of Directors, available at the Bank's website ([www.bbva.com](http://www.bbva.com)).

#### Composition

The Remuneration Committee is comprised of five members, appointed by the Board. All members are non-executive directors and the majority of them, including the Chair, are independent directors.

In 2017, the Board agreed to changes in the composition of the Remuneration Committee, so that at year-end it was composed of the following directors:

| Director                        | Position | Category    |
|---------------------------------|----------|-------------|
| Belén Garijo López              | Chair    | Independent |
| Tomás Alfaro Drake              | Member   | Independent |
| José Antonio Fernández Rivero   | Member   | External    |
| Lourdes Máiz Carro              | Member   | Independent |
| Carlos Loring Martínez de Irujo | Member   | External    |

#### Operation

As set out in the Regulations of the Board of Directors, the Remuneration Committee meets as often as necessary to perform its duties. In 2017, the Committee met on five occasions, with the attendance of all of its members to all meetings held.

The Committee carries out its functions with full autonomy under the authority of its Chair, who is responsible for convening the meetings and deciding the matters to be included on the agenda and on the attendance of any Bank employees or third parties as necessary to better perform its duties. For these purposes, it relies on the full cooperation of the Bank's internal services and the support of the Board of Directors, to which it reports its activities on a regular basis.

In addition, the Committee may seek the advice of external experts that may be necessary to form an opinion on matters within its competence and may request attendance at the meetings of persons within the Group that have duties related to its functions. In particular, in 2017 it received external advice from the independent expert Willis Towers Watson and from Heidrick & Struggles, and the heads of the areas responsible for the matters submitted to it participated in all meetings.

To enable all decisions to be taken with sufficient, proper and transparent information, the Committee received this information in due time and format before

each meeting, so that it was able to conduct a critical review (challenge) of the remuneration issues submitted for its consideration.

## ■ Functions

In accordance with the provisions of article 36 of the Regulations of the Board of Directors, the Remuneration Committee carries out the following functions:

- Propose to the Board of Directors, for its submission to the General Shareholders' Meeting, the directors' remuneration policy, with respect to its items, amounts and parameters for the purposes of determination and implementation, and to submit the corresponding report, in the terms established by applicable law at any time.
- Determine the extent and amount of individual remuneration, entitlements and other economic compensations and other contractual conditions for the executive directors, and submit the corresponding proposals to the Board of Directors.
- Propose the Annual Report on the Remuneration of the Bank's directors each year, which shall then be submitted to the General Shareholders' Meeting, in compliance with the applicable legislation.
- Propose the remuneration policy to the Board of Directors for senior managers and employees whose professional activities have a significant impact on the Company's risk profile.
- Propose the basic conditions of senior manager contracts to the Board of Directors, and directly supervise the remuneration of the senior managers in charge of risk management and compliance functions at the Company.
- Oversee observance of the remuneration policy established by the Company and periodically review the remuneration policy applied to directors, senior managers and employees whose professional activities may have a significant impact on the Company's risk profile (the "**Identified Staff**").
- Verify the information on directors and senior managers' remuneration contained in the various corporate documents, including the Annual Report on the Remuneration of Directors.
- Any other functions that may have been allocated under the Regulations of the Board of Directors or attributed to the Committee by a Board resolution or by the applicable legislation.

## ■ Activity of the Committee

The activity of the Remuneration Committee focused on carrying out the functions attributed by the Regulations of the Board of Directors, and its main task was to provide assistance to the Board of Directors in matters related to the remuneration policy for directors, senior managers and remaining Identified Staff of BBVA Group.

In 2017, the activity of the Remuneration Committee has been particularly affected by the new regulations concerning remuneration published in 2016 (the Bank of Spain Circular 2/2016, of February 2, to credit institutions on supervision and solvency and the European Banking Authority's guidelines on proper remuneration policies), which have had an impact on the remuneration policies and practices at credit institutions.

The main activities carried out by BBVA's Remuneration Committee in 2017 are described below:

– **Proposals submitted to the Board regarding remuneration policies**

As a result of new regulations on remuneration issues published in 2016, developments in market practices, the outcome of the dialogue between BBVA and its investors and the nature of the Bank's Corporate Governance System, which is constantly evolving and improving, in 2016 the Remuneration Committee conducted a review of the remuneration policy applicable and the overall remuneration system, for the purposes of considering a possible update.

Thus, following an in-depth analysis with the assistance of leading independent international consultants specializing in remuneration, such as McLagan (a McLagan/AonHewitt Group company) and Garrigues Human Capital Services, in early 2017 the Remuneration Committee submitted to the Board of Directors a proposal for a new Remuneration Policy for BBVA Directors for the years 2017, 2018 and 2019 (the **"Remuneration Policy for BBVA Directors"**), which, maintaining the clarity of concepts and the simplicity of the

previous remuneration scheme, added the following new features for executive directors:

- A clear allocation between fixed and variable components of remuneration, as well as criteria to determine these components:
- A change in the balance between the fixed and variable of components remuneration, pursuant to the "target ratios" established for each function, to better align it with the applicable regulations, providing more flexibility to variable remuneration with respect to fixed remuneration. In no case such change entails an increase in the total remuneration of beneficiaries.
- An increase in the deferred components of variable remuneration (60%) and an increase in the deferral period (5 years).
- An increase in the share-based component of variable remuneration.
- A review of arrangements for the reduction and recoupment of variable remuneration ("malus" and "clawback") to better align them with the criteria set forth in new regulations.
- The transformation of the defined-benefit scheme for the Chief Executive Officer into a defined-contribution scheme and the elimination of the possibility of receiving the retirement pension in advance.
- The consideration of a portion of the contributions to pension schemes as

"discretionary pension benefits", as required by new regulations.

- The inclusion of a post-contractual non-compete clause and the elimination of any payments for termination of the contractual relationship.
- The introduction of a commitment not to transfer a number of shares equivalent to twice the annual fixed remuneration for a period of, at least, three years from the time of their vesting, maintaining the general one-year withholding period applicable to all shares; the foregoing does not apply to the transfer of shares required to honor the payment of taxes.

Pursuant to the regulations applicable to listed companies, the Remuneration Policy for BBVA Directors was submitted to a binding vote at the Bank's Annual General Shareholders' Meeting held on March 17, 2017 and was approved by a majority of 96.54% of the share capital.

The changes made to the Remuneration Policy for BBVA Directors were framed within the changes made to the remuneration policy applicable to Identified Staff, which includes executive directors and Senior Management of BBVA (the "**Remuneration Policy for BBVA's Identified Staff**"), which was also approved by the Board of Directors at the proposal of the Remuneration Committee, following an analysis by the Risk Committee, the functions of which include assistance in establishing the remuneration policy in order to ensure that this is compatible with sound and effective risk management, and does not provide

incentives to undertake risks beyond the levels tolerated by the Bank.

Following analysis of the new regulatory requirements, the Committee submitted to the Board the approval of a new corporate remuneration policy for BBVA Group (the "**BBVA Group Remuneration Policy**"), generally applicable to all employees of the Bank and of subsidiaries forming part of its consolidated group, including the Identified Staff, with the exception of members of BBVA's Board of Directors, who are subject to the Remuneration Policy for BBVA Directors approved by the aforesaid General Shareholders' Meeting.

This Policy is based on recurring generation of value for the Group, while seeking alignment of the interests of its employees and shareholders with sound risk management, and is based on the same general principles as the rest of the Group's remuneration policies and practices. This Policy includes the specific rules applicable to the remuneration of Identified Staff and the procedure for their identification, as well as particularities specific to control functions within the BBVA Group and those applicable to staff providing services for customers, pursuant to the new regulations applicable.

Additionally, in the course of the year the Remuneration Committee conducted an analysis of the remuneration proposals necessary for the implementation of these policies and, in particular, for the application of the special system for settlement and payment of the annual variable remuneration of executive directors and remaining Identified Staff. Thus, it analyzed, *inter alia*, the necessary adjustments to the structure and compensation model for the variable



remuneration of executive directors and Senior Management, in order to increase the link between variable remuneration and the Group's strategy and the financial and non-financial targets established.

- **Proposals on remuneration issues in execution of the policies applicable**

Pursuant to the foregoing, in 2017 the Remuneration Committee carried out the following activities, submitting, where necessary, the corresponding proposals for resolutions to the Board of Directors:

**a) Remuneration issues concerning non-executive directors**

Within the framework of the remuneration system established in the Company Bylaws and in the Remuneration Policy for BBVA Directors, the Committee has conducted an analysis of the remuneration of non-executive directors as members of the Board and its Committees, and submitted a proposal to the Board not to update, for 2017, the amounts agreed by this body at previous meetings, amounts that have not been updated since 2007.

**b) Remuneration issues concerning executive directors**

The Committee has analyzed the various issues related to the remuneration of executive directors, and thus:

It determined the annual variable remuneration for the year 2016, settlement of which was to be approved by the Board in the first quarter of 2017, based on the level of achievement of the annual performance indicators and their

weightings that served as the basis to calculate remuneration, as previously established by the Board in 2016, and the application of the corresponding targets, scales and weightings; and the updating of deferred remuneration from previous years to be paid in the first quarter of 2017, pursuant to the criteria approved by the Board for the updating and payment of deferred remuneration from previous years.

In addition, for the purposes of implementation of the Remuneration Policy for BBVA Directors, the Committee submitted a proposal for approval by the Board of Directors regarding the scales of achievement of the multi-year performance indicators of deferred annual variable remuneration for 2016, including the determination of the peer group and the scale for the TSR (Total Shareholder Return) indicator, conditions that are also applicable to all Identified Staff.

The Committee also analyzed the pay conditions of executive directors for 2017, determining for these purposes the amounts of fixed and target variable remuneration of executive directors arising from the new "target ratios" between fixed and variable remuneration set out in the new Remuneration Policy for BBVA Directors, based on the market information provided by the external consultant Willis Towers Watson.

The Committee has likewise analyzed the appropriateness of the annual performance indicators used for the calculation of the annual variable remuneration of executive directors for 2017 and its weightings, and the targets and new performance scales with respect to the previous year associated with the

indicators, and submitted to the Board the necessary proposals for their determination.

The Committee likewise determined, for submission to the Board, the multi-year performance indicators applicable to the deferred annual variable remuneration for 2017 of executive directors and remaining Identified Staff, including senior managers, following an analysis by the Risk Committee.

The Committee also conducted an analysis of the minimum thresholds of Attributable Profit and Capital Ratio established as *ex ante* adjustments to variable remuneration in the respective remuneration policies for directors and Identified Staff, and the corresponding scales established to determine the accrual of 2017 annual variable remuneration of executive directors and remaining Identified Staff.

Finally, pursuant to the Remuneration Policy for BBVA Directors, which includes the basic contractual framework for executive directors, the Committee determined, for the purposes of submitting a proposal to the Board of Directors, the new contractual conditions for the Chief Executive Officer and the executive director Head of Global Economics Regulations and Public Affairs ("**Head of GERPA**") which include, *inter alia*, benefit schemes to cover retirement, death and disability, transforming the Chief Executive Officer's previous "defined benefit" pension system into a new "defined contribution" system, determining the annual contribution to this system; along with the post-contractual non-competition clauses applicable to both directors by virtue of the Remuneration Policy for BBVA Directors,

which were reflected in their contracts as approved by the Board of Directors.

### **c) Remuneration issues concerning Senior Management**

In relation to the Bank's Senior Management, the activity of the Remuneration Committee was particularly intense in 2017 with regard to the revision of their basic contractual framework in the light of the new applicable regulations, and in particular those applicable to benefit schemes and conditions of severance payment.

Thus, the Committee determined the basic contractual conditions of members of BBVA's Senior Management for 2017 in terms of their fixed and annual variable remuneration (pursuant to the "target ratios" by functions established by the Board for the various support, control or business areas); contributions to benefit schemes (taking into consideration the transformation of the benefit schemes of members still entitled to defined-benefit plans, into defined-contribution systems), and other remuneration applicable, submitting to the Board the corresponding proposals for resolution.

Likewise, as a result of the new regulations applicable to credit institutions, in 2017 the Remuneration Committee conducted an analysis of the Bank's contractual commitments with members of Senior Management, submitting the corresponding proposals to the Board for the purposes of adapting them to the new regulations and best market practices.

Finally, prior to submission to the Board, the Remuneration Committee analyzed the



proposals necessary for the settlement of the annual variable remuneration of 2016 for each member of the Senior Management, and also analyzed the pay review for this group, on the basis of the market comparisons for this kind of positions provided by the independent expert Willis Towers Watson.

– **Compliance and regular review of with the Company's remuneration policy**

The functions of the Committee included observance of the remuneration policy established by the Company and regular review of the remuneration policy applied to directors, senior managers and remaining Identified Staff.

The Committee reviewed the application of the Remuneration Policy for BBVA's Identified Staff during 2016, including the process carried out by the Bank to identify this Staff in said year, on the basis of the internal central independent review carried out by the Bank's Internal Audit area.

The Committee also received information from the Bank's technical areas concerning application of the procedure for the identification of Group's Identified Staff in 2017, in accordance with the criteria established in the applicable regulations and the internal criteria established by the Bank.

– **Other activities**

In compliance with its functions, the Remuneration Committee analyzed the Annual Report on the Remuneration of Directors for 2017, verifying the

information concerning the remuneration of directors contained in said report.

This Report has been subsequently submitted to the Board of Directors for approval, and submitted to an advisory vote at the Annual General Shareholders' Meeting, as established in the applicable legislation.

The Committee has also submitted a proposal to the Board, for subsequent submission to the Annual General Shareholders' Meeting, regarding the approval of a maximum level of variable remuneration of up to 200% of the fixed component of total remuneration for a group of employees whose professional activities have a significant impact on the Group's risk profile, likewise proposing the Board's Recommendations Report accompanying this proposal and which is directed to the Bank's shareholders.

-----

All of the matters detailed above, along with other matters within its competence, were included in the corresponding activity report of the Remuneration Committee, which, pursuant to the Regulations of the Board of Directors, the Committee submitted to the Board for the purpose of assessing its performance.

The Board of Directors has assessed the quality of the work carried out by the Remuneration Committee in compliance of the functions assigned, concluding that it has satisfactorily discharged the functions entrusted to it, with a favorable assessment of the quality and efficiency of its performance.

## 4. Activity of the Appointments Committee

In order to better perform its duties, BBVA's Board of Directors has set up several Committees to help it in matters falling within its remit. Among these Committees, the Board of Directors has set up an Appointments Committee which assists it on the issues attributed to it under the Board Regulations.

Its regulation, in addition to that set out by current legislation, is established in articles 32, 33 and 34 of the Regulations of the Board of Directors which establish the rules on its composition, duties, organization and functioning (accessible on the Company website [www.bbva.com](http://www.bbva.com)).

### Composition

In accordance with the Regulations of the Board of Directors, the Appointments Committee shall comprise a minimum of three members appointed by the Board of Directors. All members must be non-executive directors, and the majority, including the Chair, must be independent.

At the end of 2017, the Appointments Committee comprised the following directors:

| Director                       | Position | Category    |
|--------------------------------|----------|-------------|
| Tomás Alfaro Drake             | Chair    | Independent |
| José Miguel Andrés Torrecillas | Member   | Independent |
| Lourdes Máiz Carro             | Member   | Independent |
| José Maldonado Ramos           | Member   | External    |
| Susana Rodríguez Vidarte       | Member   | External    |

### Operation

As set out in the Regulations of the Board of Directors, the Appointments Committee shall meet as often as necessary to perform its duties.

The Committee may request the attendance at its meetings of persons with tasks in the Group that are related to the Appointments Committee's duties. It may also obtain external advice as necessary to form a judgment about the matters within its remit.

### Functions

The main task of the Appointments Committee is to assist the Board of Directors in matters relating to the selection and appointment of Board members.

This is in addition to the functions detailed in article 33 of the Regulations of the Board of Directors.

### Activity of the Committee

In 2017, the Appointments Committee met on five occasions, with an average attendance of Committee members, either in person or duly represented, of 96%.

The main activities carried out by BBVA's Appointments Committee in 2017 are described below:

## – **Appointment and re-appointment of directors**

The Appointments Committee considered advisable to continue with the process of gradual renewal of the Board of Directors aimed at achieving a composition that includes directors with experience and knowledge of the financial sector and of the Group's culture and businesses, gradually bringing on board people with different profiles and professional experiences to increase diversity in the Bank's corporate bodies.

These selection processes were aimed at selecting candidates whose knowledge, competences and experience complement those of the directors currently comprising the corporate bodies; ensuring that independent directors comprise at least 50% pursuant to the target laid down in the Policy on Selection, Appointment, Rotation and the Diversity of the Board of Directors; and increasing diversity in terms of international experience and gender to achieve the objectives laid down in this Policy.

The above shall at all times respect the time considered necessary for BBVA directors to dedicate to correctly discharge their duties; respecting the rules on incompatibilities, limitations, suitability, independence and conflicts of interest laid down in the Regulations of the Board of Directors of BBVA, prevailing legislation and best practices in this field; and the requirements of the Corporate Bodies to pursue the Bank's corporate interest at all times.

Pursuant to the foregoing, the Committee analyzed the characteristics of the short-listed candidates, concluding the selection

process with the Appointments Committee's proposal to the Board of Directors so the latter may submit the proposals for the appointment of new directors to the General Shareholders' Meeting, to be held on March 16, 2018.

Also, the Committee analyzed the convenience of re-appointing directors whose terms expire in 2018's General Shareholders' Meeting, and to this end it took account of the current needs of BBVA's corporate bodies, the structure, size and composition of the Policy on Selection, Appointment, Rotation and the Diversity of the Board of Directors, and the knowledge, competence and experience of the board members.

The Committee thus resolved to submit a favorable report or propose that the Board submit a proposal for the re-appointment of directors to the General Shareholders' Meeting in 2018.

## – **Assessment of the Board of Directors and the Chairman of the Board of Directors**

With the aim of assessing the operation of the Board of Directors, the Appointments Committee has analyzed over the year the structure, size and composition of the Board. It has also considered, among other information, a report on the activity of the Board of Directors and of its Executive Committee during the year.

Based on the analysis conducted, the Committee concluded, in its report submitted to the Board, that the Board's operation in 2017 was very positive, having fulfilled all the duties attributed by law, by the Company Bylaws and by its own

Regulations, and that its composition, organization and preparation and conduct of its meetings were adequate to properly discharge its duties.

Moreover, the Appointments Committee has defined the process for assessing the performance of the Chairman's duties, which are attributed by the Company Bylaws and the Board Regulations, as well as those that have been delegated by the Board of Directors itself.

The assessment of the Chairman's functions was conducted on the basis of an activities report that was included in the aforementioned report on activity for the Board and the Executive Committee.

Following the analysis of the activity Report, the Committee considered that the Chairman had competently discharged his duties both as Chairman of the Board and as the Bank's chief executive, and that his performance had been very positive and, consequently, resolved to submit to the Board of Directors its favorable report on the assessment of the performance of his duties by the Chairman of the Board.

#### **– Review of the suitability of directors**

Credit institutions, within the framework of the assessment of the performance of the members of their management body, must conduct an ongoing assessment of the suitability of the members of their Board of Directors.

For the purpose of conducting this ongoing assessment, the Appointments Committee has analyzed the suitability of the members of BBVA's Board of Directors for

performing their duties and has assessed the existence of circumstances that might affect the commercial and professional repute of BBVA directors.

As a result of the assessment conducted, the Appointments Committee submitted a favorable report to the Board of Directors on the analysis conducted on the suitability of the Bank's directors for performing their duties, considering it positive.

#### **– Review of the status as independent directors**

As set out in the Board Regulations, the Appointments Committee is responsible for reviewing on an annual basis the status of each director so it can be reflected in the Annual Corporate Governance Report.

The Committee has reviewed the independent status of all the directors who, according to the definition established in article 1 of the Board Regulations, had such status, analyzing the possible changes in their personal circumstances and concluding that those directors could maintain their status as independent, informing the Board of Directors so the conclusions could be included in the Bank's Corporate Governance Report.

#### **– Changes in the composition of senior management**

The Committee has analyzed the proposals for changing the senior management structure, as well as the proposals for the appointment and dismissal of the members of the Bank's senior management that were submitted by the Chairman during the year, issuing its favorable report in relation to the proposed

changes, which were subsequently approved by the Board of Directors.

-----

All the above issues, along with other matters within its remit, were included in the activity report of the Committee for 2017 which, as set out in the Company's Board Regulations, was submitted by the

Appointments Committee to the Board for the purpose of assessing its performance.

The Board of Directors assessed the quality of the work carried out by the Committee as part of the functions that have been assigned to it, concluding that it had satisfactorily discharged the functions entrusted to it, with a favorable assessment of the quality and efficiency of its performance.