

Explanatory Document on the Remuneration of BBVA Directors

2017

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SNAPSHOT: REMUNERATIONS 2017

01 Non-executive directors

Amounts in € thousand

Non-executive directors	Board of Directors	Executive Committee	Audit & Compliance Committee	Risk Committee	Remuneration Committee	Appointments Committee	Technology & Cyber-Security Committee	Total
Tomás Alfaro Drake	129	-	71	-	25	102	43	370
José Miguel Andrés Torrecillas	129	-	179	107	-	41	-	455
José Antonio Fernández Rivero	129	167	-	-	43	-	25	363
Belén Garijo López	129	-	71	-	80	-	-	280
Sunir Kumar Kapoor	129	-	-	-	-	-	43	172
Carlos Loring Martínez de Irujo	129	167	-	107	25	-	-	427
Lourdes Máiz Carro	129	-	71	-	25	41	-	266
José Maldonado Ramos	129	167	-	62	-	41	-	399
Juan Pi Llorens	129	-	71	125	45	-	43	412
Susana Rodríguez Vidarte	129	167	-	107	-	41	-	443
Total	1,287	667	464	508	243	265	154	3,587

Non-executive directors	Theoretical shares allocated in 2017	Accumulated theoretical shares as at December 31, 2017
Tomás Alfaro Drake	10,630	73,082
José Miguel Andrés Torrecillas	14,002	23,810
José Antonio Fernández Rivero	11,007	102,053
Belén Garijo López	7,313	26,776
Sunir Kumar Kapoor	4,165	4,165
Carlos Loring Martínez de Irujo	11,921	86,891
Lourdes Máiz Carro	7,263	15,706
José Maldonado Ramos	10,586	67,819
Juan Pi Llorens	10,235	42,609
Susana Rodríguez Vidarte	13,952	92,558
Total	101,074	535,469





This information is further detailed in [sections 3.1 and 3.2](#) below.

02 Executive directors

Executive director	Annual Fixed Remuneration (€ thousand)
Group Executive Chairman	2,475
Chief Executive Officer (CEO)	1,965
Head of GERPA	834

Financial indicators of variable remuneration	2016 result	2017 result (*)	% change
Net Attributable Profit without corporate transactions	€3,475 million	€4,286 million	+23.3%
Return on Regulatory Capital (RORC)	6.45%	7.96%	+151 bps
Risk Adjusted Return on Economic Capital (RAROEC)	10.86%	10.40%	-46 bps
Efficiency Ratio	51.89%	49.92%	-197 bps

(*) Without considering the impact on the financial results derived from the accounting reclassification of the Bank's stake in the share capital of Telefonica, or the gains resulting from non-recurring transactions in 2017, as described in section 3.2 below, at page 16.

Financial indicators of variable remuneration	Level of achievement	
	Target	%
Net Attributable Profit without corporate transactions		110.40%
Return on Regulatory Capital (RORC)		110.67%
Risk Adjusted Return on Economic Capital (RAROEC)		87.68%
Efficiency Ratio		119.29%

Non-financial indicators: the level of achievement of the **Net Promoter Score (NPS)** has been **107.87 points**, exceeding the set target; and, as regards the **indicators specific** to the CEO and to the Head of GERPA, these have obtained a positive assessment, also exceeding the targets established for the year.

Executive director	2017 Variable Remuneration (€ thousand)	Variation with regards to 2016
Group Executive Chairman	3,298	+12.3%
CEO	2,810	+18.9%
Head of GERPA	436	+23.2%

Additionally, the Bank has made the annual contributions to pension schemes, as set out in section 3.3 below (page 21).

This information is further detailed in **sections 3.1 to 3.3** hereunder.

1. Introduction

For Banco Bilbao Vizcaya Argentaria, S.A. (“**BBVA**”, the “**Company**” or the “**Bank**”) transparency is one of the guiding principles in remuneration. In application of this principle, this document is made available to BBVA shareholders for information purposes, aiming to provide a clear and detailed explanation of the remuneration system applicable to the members of BBVA’s Board of Directors, as well as of the specific remuneration accrued in 2017, as a result of the implementation of the applicable remuneration policy.

The remuneration policy applicable to BBVA directors in 2017 was approved by the Bank’s General Shareholders’ Meeting held on March 17, 2017 (the “**Remuneration Policy for BBVA Directors**” or the “**Policy**”). The Policy was approved by shareholders by 96.54% of the share capital and is available at the Company’s corporate website ([link](#)).

The Remuneration Policy for BBVA Directors is fully aligned with legal requirements and best market practices, and incorporates the result of the dialogue between BBVA and its investors and the constant evolution of the Bank’s corporate governance system.

Thus, as described in section 2 of this document, the Remuneration Policy for BBVA Directors is geared towards the recurring generation of value for the Group, likewise seeking to align 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 document should be read together with the **Annual Report on the Remuneration of Directors in BBVA**, which will be submitted to a consultative vote at the Bank’s next Annual General Shareholders’ Meeting, as well as with **Note 54 of the Annual Report of BBVA’s consolidated Financial Statements for the year 2017**, which includes the remuneration paid to directors in 2017, individually and itemized. Both documents have been made available to shareholders on the Bank’s website upon notice of the General Meeting (www.bbva.com).

2. Remuneration policy in BBVA

2.1. BBVA Group Remuneration Policy

BBVA has been implementing over time a sound and consistent remuneration policy, which is aligned with its long-term interests, with the interests of its shareholders and with sound risk management. All these circumstances have been confirmed by Mercer Consulting, S.L. in reports issued throughout the years, since 2009.

Thus, as part of the Bank's corporate governance system, the BBVA Group has a remuneration policy which applies to all its staff (the "**BBVA Group Remuneration Policy**") fully adjusted with the requirements concerning remuneration stipulated in regulations applicable to credit institutions, and is materialized in a remuneration scheme which attends to the following principles:

- long-term value creation;
- reward achievement of results on the basis of sound and responsible risk assumption;
- attract and retain the best professionals;
- reward the level of responsibility and professional track record;
- ensure internal equity and external competitiveness; and
- ensure transparency of the remuneration model.

The Bank has defined the BBVA Group Remuneration Policy on the basis of these general principles, taking into consideration compliance with legal requirements applicable to credit institutions and those applicable in the different sectors in which it carries out its business, as well as alignment with best market practices, while including items devised to reduce exposure to excessive risks and to adjust remuneration to the targets, values and long-term interests of the Group.

The remuneration scheme generally applicable to all staff is implemented through the following:

- a) **Fixed remuneration**, which takes into account the level of responsibility, the functions carried out and the professional career of each employee, the principles of internal equity and market value of the function, and which constitutes a significant portion of total pay. The award and amount of fixed remuneration are based on pre-determined objective and non-discretionary criteria; and

- b) **Variable remuneration**, consisting of payments or benefits in addition to fixed remuneration, monetary or non-monetary, based on variable parameters. Under no circumstances shall variable remuneration impose a limitation on the Group's capacity to strengthen its capital base in accordance with regulatory requirements, and it shall take into account current and future risks as well as the necessary cost of capital and liquidity, reflecting a performance that is sustainable and adapted to risk.

2.2. Specific features of the Remuneration Policy for BBVA Directors

On the basis of the principles of the BBVA Group Remuneration Policy, already stated, and pursuant to the statutory requirements established by applicable regulations, BBVA has defined a specific remuneration policy applicable to those categories of staff whose professional activities have a significant impact on the Group's risk profile (the "**Identified Staff**"), which includes BBVA's executive directors and members of BBVA's Senior Management.

As regards executive directors, notwithstanding the above, they are covered by a specific remuneration policy, the already mentioned Remuneration Policy for BBVA Directors, approved by the Bank's General Shareholders' Meeting held on March 17, 2017 for the years 2017, 2018 and 2019. Within the framework of the remuneration policy applicable to Identified Staff, the Remuneration Policy for BBVA Directors includes certain particularities derived from their status as directors, as mentioned hereunder.

The incentives system devised for Identified Staff is specifically oriented towards aligning their remuneration with risks, as well as with the long-term interests and objectives of the Group. The result is a remuneration scheme based, *inter alia*, on the following basic characteristics:

- **Adequate balance between the fixed and variable components** of total remuneration, in line with applicable regulations, ensuring a policy that is fully flexible with regard to payment of the variable components, allowing for such components to be reduced, even in their entirety, where appropriate. The proportion between the two components is established in accordance with the type of functions carried out by each beneficiary.
- The variable remuneration shall be based on **effective risk management and linked to the level of achievement of financial and non-financial targets** previously established and defined at the Group, area and individual level, that take into account present and future risks assumed and the Group's long-term interests.
- The variable remuneration for each financial year will not accrue, or will accrue in a reduced amount, should a certain level of profit and capital ratio not be achieved, and it shall be subject to **ex ante adjustments**, so that it shall be reduced at the time of the

performance assessment in the event of negative performance in the Group's results or other parameters such as the level of achievement of budgeted targets.

- The annual variable remuneration shall be calculated on the basis of: (i) annual performance indicators for the Group, area and individual (financial and non-financial); (ii) scales of achievement, as per the weightings allocated to each indicator; and (iii) a "target" annual variable remuneration, representing the amount of annual variable remuneration if 100% of the pre-established targets are met. The resulting amount shall constitute the annual variable remuneration of each beneficiary (hereinafter the "**Annual Variable Remuneration**" or "**AVR**").
- The Annual Variable Remuneration shall be subject to specific settlement and payment rules, specifically **the following with regards to executive directors**:
 - 60% of the Annual Variable Remuneration shall be deferred over a period of five years.
 - 60% of the deferred portion of the Annual Variable Remuneration shall be established in BBVA shares, whereas for the upfront portion, the share-based component shall be 50%.
 - Shares received as Annual Variable Remuneration shall be withheld for a one-year period after delivery, except for the transfer of those shares required to honor the payment of taxes.
 - Additionally, upon vesting of the shares, executive directors will not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration for at least three years after their delivery. This shall likewise not apply to the transfer of those shares required to honor the payment of taxes.
 - The deferred component of Annual Variable Remuneration may be reduced in its entirety, but never increased, based on the result of multi-year performance indicators aligned with the Group's core risk management and control metrics, related to the solvency, capital, liquidity, funding or profitability, or to the share performance and recurring results of the Group, measured over a period of three years.
 - The deferred component of Annual Variable Remuneration, subject to the multi-year performance indicators, shall be delivered, if conditions are met, under the following schedule: 60% after the third year of deferral, 20% after the fourth year of deferral and 20% after the fifth year of deferral.

- Resulting cash portions of the deferred Annual Variable Remuneration, after assessment of multi-year performance indicators, shall be updated according to the criteria established by the Board of Directors.
- The entire Annual Variable Remuneration shall be subject to **malus** and **clawback** arrangements during the entire deferral and withholding periods.
- No personal hedging strategies or insurance may be used in connection with remuneration or liability that may undermine the effects of alignment with sound risk management.
- The variable component of remuneration for a financial year shall be limited to a maximum amount of 100% of the fixed component of total remuneration, unless the General Shareholders' Meeting resolves to increase this percentage up to a maximum 200%.

As regards the remuneration of **non-executive directors**, as established in the Remuneration Policy for BBVA Directors and in the Bylaws, it comprises a fixed annual allowance, which shall be distributed by the Board of Directors, taking into account the condition of each director, the duties and responsibilities attributed to them by the Board and their membership of the different Committees. The Board is likewise responsible for determining the timing and form of settlement for said allowance, which can include the insurance and pension schemes established at any given time.

The amount of the annual allowance will be determined by the General Meeting, and will remain applicable until the General Meeting resolves to change it, notwithstanding the Board's entitlement to reduce said amount if deemed appropriate.

In addition to the aforementioned allowance, the remuneration of non-executive directors may encompass delivery of shares or option plans over the shares, or amounts benchmarked to share performance.

3. Implementation of the Remuneration Policy for BBVA Directors in 2017

Below is a description of the remuneration system and, where applicable, basic contractual conditions applicable to BBVA directors in 2017, as well as a breakdown of the individual remuneration awarded to each director in application of the Policy, along with the link between the remuneration awarded and 2017's results.

3.1. Remuneration system applicable to BBVA directors in 2017

The Remuneration Policy for BBVA Directors distinguishes between the compensation system applicable to directors in their capacity as such (non-executive directors) and the system applicable to executive directors.

01 Non-executive directors

The remuneration system for non-executive directors, in accordance with the Bank's Bylaws and in the Policy, is based on the criteria of responsibility, dedication and incompatibilities inherent to their role, and consists of **fixed remuneration** which comprises the following components:

Concept	Allocation criteria	Payment	Annual amount	Adjustments / Condition	Remuneration component
Annual allowance for carrying out the role of director and, where applicable, membership of Committees	Relative amount based on the nature of the duties attributed, dedication required and number of meetings Greater weighting allocated to the role of Chair of each Committee	Cash, monthly payment	Aggregated annual limit of €6 million, approved by the 2012 AGM € 3,587 thousand in 2017(*)	N/A	Fixed
Deferred delivery of BBVA shares	Applicable to all non-executive directors	Annual allocation of a number of "theoretical shares" Vesting at the time of leave of directorship	20% of the total annual cash remuneration received in the previous year 101,074 theoretical shares allocated in 2017(*)	Not vested if they cease as directors due to serious breach of duties	Fixed
Remuneration in kind (e.g. healthcare and casualty insurance policies)	Applicable to all non-executive directors	The Bank pays the relevant premiums, which are attributed to the directors as remuneration in kind	€ 126 thousand in total for 2017(*)	N/A	Fixed

(*) Members of the Board as at December 31, 2017. Further information detailed in section 3.2.

02 Executive directors

Executive directors have a remuneration system defined in accordance with best market practices, which includes the concepts set forth in the Bylaws and which correspond to those generally applicable to members of BBVA's Senior Management, comprising the following:

Concept	Allocation criteria	Payment	Annual amount	Adjustments / Condition	Remuneration component
Annual Fixed Remuneration	Performance of duties, level of responsibility and dedication required Competitive within the market	Cash, monthly payment	Group Executive Chairman: € 2,475 thousand	N/A	Fixed
			CEO: €1,965 thousand		
			Head of GERPA: €834 thousand		
Remuneration in kind and other social benefits or allowances (e.g. healthcare and casualty insurance policies)	Applicable to executive directors, in line with those applicable to Senior Management	Premiums or payments made by the Bank, attributed as remuneration in kind and/or allowances in cash	Group Executive Chairman: €16 thousand CEO: €121 thousand Head of GERPA: €79 thousand (For 2017)	N/A	Fixed
Annual Variable Remuneration (AVR)	Result of annual performance indicators (financial and non-financial), according to the scales of achievement and weightings assigned, and on the basis of a "target" AVR	40% AVR in the first quarter of the following year (" Upfront Payment ") and 60% AVR deferred for 5 years and subject to multi-year indicators (" Deferred Component ")	Maximum 200% of fixed remuneration , as approved by 2017's AGM	<ul style="list-style-type: none"> Ex ante adjustments: levels of profit and capital ratio and the level of achievement of targets for annual performance indicators Ex post adjustments: result of the multi-year performance indicators (downward adjustments) 	Variable
<i>Annual assessment and Upfront Payment</i>	Targets aligned with Group management metrics, strategic priorities and targets specific to role	Upfront Payment: in cash and BBVA shares, in equal portions	40% Upfront Payment	<ul style="list-style-type: none"> Malus and clawback arrangements 	
<i>Multi-year assessment and payment of Deferred Component</i>	Targets aligned with the Group's core risk management and control metrics, solvency, capital, liquidity, funding, profitability, share performance and recurring results, measured over a 3-year period	Result of Deferred Component to be awarded upon multi-year assessment (after 3-years of deferral), payable 60% in BBVA shares and 40% in cash: 60% after 3 rd year, 20% after 4 th year, and remaining 20% after 5 th year of deferral	Maximum 60% AVR	<ul style="list-style-type: none"> 1-year withholding period for vested shares 3-year retention commitment of shares (2 times Annual Fixed Remuneration) Hedging or insurance prohibitions Updates of Deferred Component in cash 	
Pension scheme contributions	Set forth contractually and in the Policy (to cover retirement, death and disability) Aligned with those applicable to Senior Management	Upon occurrence of contingency, payment as lump sum or income	Group Executive Chairman: N/A	Conditions provided for in their contracts and, in any case, provided that they cease as directors for any reason other than serious breach of their duties	Fixed (*)
			CEO: Annual defined contribution of €1,642 thousand, plus premiums		
			Head of GERPA: Annual defined contribution of 30% Annual Fixed Remuneration		

(*) Pursuant to the Policy, 15% of annual contributions agreed to pension systems for the CEO and for the executive director Head of Global Economics, Regulation & Public Affairs ("**Head of GERPA**") shall be based on variable components and be considered "discretionary pension benefits", subject to the conditions set forth in the Policy.

3.2. Remuneration accrued by BBVA directors in 2017

01 Non-executive directors

Pursuant to the Policy, and in accordance with BBVA's Bylaws, the General Meeting shall set the global annual allowance that the Bank may grant to its non-executive directors. The Board of Directors is responsible for distributing said amount and may reduce it, in a given year, if deemed appropriate.

To this end, the Bank's General Shareholders' Meeting held in 2012 resolved to set the aggregated annual allowance payable by the Bank to non-executive directors at six million euro. This amount shall remain in force until the General Meeting resolves to change it. Remunerations paid to non-executive in 2017 directors have not reached said amount.

The **remuneration received by non-executive directors in 2017** in this regard is detailed individually (in thousands of euros) below:

Non-executive directors	Board of Directors	Executive Committee	Audit & Compliance Committee	Risk Committee	Remuneration Committee	Appointments Committee	Technology & Cyber-Security Committee	Total
Tomás Alfaro Drake	129	-	71	-	25	102	43	370
José Miguel Andrés Torrecillas	129	-	179	107	-	41	-	455
José Antonio Fernández Rivero	129	167	-	-	43	-	25	363
Belén Garijo López	129	-	71	-	80	-	-	280
Sunir Kumar Kapoor	129	-	-	-	-	-	43	172
Carlos Loring Martínez de Irujo	129	167	-	107	25	-	-	427
Lourdes Máiz Carro	129	-	71	-	25	41	-	266
José Maldonado Ramos	129	167	-	62	-	41	-	399
Juan Pi Llorens	129	-	71	125	45	-	43	412
Susana Rodríguez Vidarte	129	167	-	107	-	41	-	443
Total (*)	1,287	667	464	508	243	265	154	3,587

(*) Includes the amounts awarded for membership of the different Committees during 2017 (composition changed on May 31, 2017). Additionally, José Luis Palao García-Suelto and James Andrew Stott, who ceased as directors on March 17, 2017 and May 31, 2017, respectively, received in 2017 a total amount of €70 thousand and €178 thousand, respectively, as members of the Board and of the different Committees.

Moreover, as indicated, the Policy establishes a **remuneration system in BBVA shares with deferred delivery** to non-executive directors, as part of their fixed remuneration, based on the annual allocation of a number of BBVA "theoretical shares" equivalent to 20% of their annual cash remuneration received in the previous year, calculated according to the average closing prices of the BBVA share during the 60 trading sessions prior to the dates of the respective Annual General Shareholders' Meetings approving the corresponding financial statements for each year.

The shares will be vested, where applicable, to each beneficiary on the date they leave directorship for any reason other than serious breach of their duties.

The following **"theoretical shares" were allocated in 2017 to non-executive directors** benefiting from the remuneration system in BBVA shares with deferred delivery:

Non-executive directors	Theoretical shares allocated in 2017	Accumulated theoretical shares as at December 31, 2017
Tomás Alfaro Drake	10,630	73,082
José Miguel Andrés Torrecillas	14,002	23,810
José Antonio Fernández Rivero	11,007	102,053
Belén Garijo López	7,313	26,776
Sunir Kumar Kapoor	4,165	4,165
Carlos Loring Martínez de Irujo	11,921	86,891
Lourdes Máiz Carro	7,263	15,706
José Maldonado Ramos	10,586	67,819
Juan Pi Llorens	10,235	42,609
Susana Rodríguez Vidarte	13,952	92,558
Total (*)	101,074	535,469

(*) Additionally, José Luis Palao García-Suelto and James Andrew Stott, who ceased as directors on March 17, 2017 and May 31, 2017, respectively, were allocated 8,752 and 10,226 theoretical shares, respectively. Upon leave of directorship, these two directors have received 60,137 and 10,226 BBVA shares, respectively.

As regards **remunerations in kind**, during 2017, €126 thousand was paid in healthcare and casualty insurance premiums for non-executive directors.

02 Executive directors

Remuneration components

In order to ensure an appropriate balance between the fixed and variable components of total remuneration, in line with applicable regulations, the Bank has determined **"target" ratios between executive directors' annual fixed remuneration** and their "target" annual variable remuneration, which take into account the functions carried out and their impact on the risk profile.

The "target" ratios established for each executive director in the Policy are the following:

Executive director	Annual Fixed Remuneration	Target Annual Variable Remuneration
Group Executive Chairman	45%	55%
CEO	45%	55%
Head of GERPA	70%	30%

2017 fixed remuneration

The **fixed remuneration awarded to executive directors in 2017**, in line with the amounts set forth in the Policy is detailed hereunder:

Executive director	Annual Fixed Remuneration (€ thousand)
Group Executive Chairman	2,475
CEO	1,965
Head of GERPA	834

In addition, BBVA's executive directors have been awarded in 2017 the following amounts as **remuneration in kind** and other allowances established generally for the Bank's Senior Management: €16 thousand as regards the Group Executive Chairman, €121 thousand as regards the CEO and €79 thousand as regards the executive director Head of GERPA.

The contributions made to pension schemes of the CEO and the Head of GERPA in 2017 are detailed in section 3.3 ("Basic contractual conditions of executive directors") below.

2017 variable remuneration

The Annual Variable Remuneration for executive directors corresponding to each year is based on an incentive which is calculated on the basis of annual performance indicators (financial and non-financial), which take into account present and future risks as well as the Group's strategic priorities, and according to a "target" annual variable remuneration.

Thus, following year-end 2017, and having met the minimum thresholds for Attributable Profit and Capital Ratio established for the accrual of 2017 Annual Variable Remuneration, the Board, at the proposal of the Remuneration Committee, has approved the amount of Annual Variable Remuneration for each executive director.

In order to calculate 2017 Annual Variable Remuneration, the following annual performance indicators and their respective weightings were established at the beginning of the year by the Board of Directors, at the proposal of the Remuneration Committee:

■ Annual performance indicators for 2017 Annual Variable Remuneration

Annual performance indicators	Weightings		
	Group Executive Chairman	CEO	Head of GERPA
Net Attributable Profit without corporate transactions	25%	20%	12.5%
Return on Regulatory Capital (RORC)	25%	20%	15%
Risk Adjusted Return on Economic Capital (RAROEC)	15%	10%	10%
Efficiency Ratio	25%	20%	12.5%
Net Promoter Score (NPS)	10%	10%	10%
Non-financial indicators	-	20%	40%

These annual performance indicators are aligned with the Group's core metrics and financial and non-financial strategic indicators (Key Performance Indicators or KPIs); as well as targets specific to their role, in the case of the CEO and the Head of GERPA (non-financial indicators).

Link between pay and performance in 2017

The Annual Variable Remuneration of executive directors is obtained on the basis of the level of achievement of the targets established at the beginning of the year for each annual performance indicator described in this document, taking into account their associated scales and weightings.

In 2017, the Bank's financial results have been affected by the recording of an accounting impairment derived from the Group's stake in the share capital of Telefonica, as well as by certain transactions related to the sale and purchase of shareholdings in other companies, wholesale real estate portfolio sales and changes in tax policies of some of the countries where the BBVA Group is present (mainly, United States).

Regarding the accounting impairment of the stake in the share capital of Telefonica, this derives from the application of an accounting regulation (IAS 39) and from the Group's accounting policies, and has resulted in the Bank having to record the unrealized losses arising from said stake in the Income Statement for financial year 2017 (€1,123 million), previously recorded under the Group's total equity. This accounting reclassification has not had an impact in either the Group's solvency or real value, since it has had no impact on the Bank's equity, or in its CET 1 fully loaded capital ratio, or in its liquidity, given that it has not involved an outflow of cash.

Likewise, this event has not affected the Bank's capability for dividend distribution, thus not affecting shareholders' profitability.

As regards transactions related to the sale and purchase of shareholdings in other companies, wholesale real estate portfolio sales and changes in tax policies of some of the countries where the BBVA Group is present; these transactions have entailed an overall gain amounting €355 million.





Thus, in order to determine the result of the annual performance indicators, the aforementioned impacts have not been taken into account, as they derive from transactions or circumstances that the Bank has deemed unconnected to the day to day management of the Group.

Consequently, the outcome and evolution of such indicators during 2017 has been as follows:

Financial indicators	RESULTS		
	2016	2017 (*)	% change
Net Attributable Profit without corporate transactions	€3,475 million	€4,286 million	+23.3%
Return on Regulatory Capital (RORC)	6.45%	7.96%	+151 bps
Risk Adjusted Return on Economic Capital (RAROEC)	10.86%	10.40%	-46 bps
Efficiency Ratio	51.89%	49.92%	-197 bps

(*) Without considering the impact on the financial results derived from the accounting reclassification of the Bank's stake in the share capital of Telefonica, or the gains resulting from non-recurring transactions in 2017, described above.

The result of the financial indicators mentioned above has determined the following level of achievement of the targets established for each financial indicator:

Financial indicators	Level of achievement	
	Target	%
Net Attributable Profit without corporate transactions		110.40%
Return on Regulatory Capital (RORC)		110.67%
Risk Adjusted Return on Economic Capital (RAROEC)		87.68%
Efficiency Ratio		119.29%

As regards non-financial indicators, the Net Promoter Score (NPS) has improved in nearly all geographies in relation to competing financial entities, which has resulted in a level of achievement of 107.87%, exceeding the target set; and likewise the indicators specific to the CEO and to the Head of GERPA have obtained a positive assessment, also exceeding the targets established for the year.

As a result, the **2017 Annual Variable Remuneration** for each executive director, based on the results obtained for the aforementioned indicators and in application of the associated scales of achievement, is as follows:

Result of 2017 Annual Variable Remuneration for executive directors

Executive director	2017 AVR (€ thousand)	Variation with regards to 2016 AVR
Group Executive Chairman	3,298	+12.3%
CEO	2,810	+18.9%
Head of GERPA	436	+23.2%

■ Settlement and payment system of 2017 Annual Variable Remuneration

These amounts, pursuant to the applicable settlement and payment system, shall vest in accordance with the following rules:

- **Upfront Payment:** 40% of 2017 Annual Variable Remuneration will take place in the first quarter of 2018, in equal portions of cash and BBVA shares.
- **Deferred Component:** the remaining 60% of 2017 Annual Variable Remuneration will be deferred for a period of five years and subject to compliance with multi-year performance indicators established by the Board in 2017, with vesting, if conditions are met, 40% in cash and 60% in BBVA shares, under the following schedule: 60% in 2021; 20% in 2022; and 20% in 2023, for every payment.
- Both the Upfront Payment and Deferred Component to be paid in BBVA shares shall be calculated on the basis of the average closing price of the BBVA share during the trading sessions comprised between December 15, 2017 and January 15, 2018, both inclusive (i.e. €7.25 per share).

Accordingly, the amounts corresponding to the Upfront Payment and the Deferred Component of 2017 Annual Variable Remuneration are as follows:

Director	Upfront Payment: 40% 2017 AVR (to be paid in 2018)		Deferred Component: Maximum 60% 2017 AVR					
	Cash (50%) (€ thousand)	Shares (50%)	Cash (40%) (€ thousand)			Shares (60%)		
			2021	2022	2023	2021	2022	2023
Group Executive Chairman	660	90,933	475	158	158	98,208	32,736	32,736
CEO	562	77,493	405	135	135	83,692	27,898	27,898
Head of GERPA	87	12,029	63	21	21	12,992	4,331	4,331

2017 deferred variable remuneration

The Deferred Component will be subject to compliance with the multi-year performance indicators detailed below, calculated over the first three years of the deferral period, which may reduce the Deferred Component in its entirety, but in no case increase it:

Multi-year performance indicators	Weighting
Economic adequacy (Economic Equity / Economic Capital at Risk)	20%
Common Equity Tier 1 (CET 1) Fully Loaded	20%
Loan to Stable Customer Deposits (LtSCD)	10%
Liquidity Coverage Ratio (LCR)	10%
Return On Equity (ROE)	20%
(Operating Income – Loan-loss provisions) / Average Total Assets	10%
Total Shareholder Return (TSR)	10%

The result of these indicators, according to the weighting and scales of achievement associated to each of them, will determine the final amount of the Deferred Component which shall be awarded in accordance with the payment schedule described above.

In any event, 2017 Annual Variable Remuneration will be subject to the remaining conditions of the settlement and payment system provided for in the Policy, and specifically:

- malus and clawback arrangements during the entire deferral and withholding periods;
- mandatory withholding and unavailability periods;
- hedging prohibitions; and
- criteria for the update of the Deferred Component in cash.

Peer group for remuneration purposes

In order to establish compensations that are appropriate to the function performed by directors and competitive with those applied in equivalent functions across the main peer institutions, the following peer group has been used for remuneration purposes:

Peer group for remuneration purposes	
Banco Santander	Spain
BNP Paribas	France
Société Générale	France
Barclays	United Kingdom
HSBC Holdings	United Kingdom
Lloyds Banking Group	United Kingdom
Deutsche Bank	Germany
Commerzbank	Germany
UniCredit	Italy
Intesa SanPaolo	Italy
Bank of America Corporation	United States
Citigroup	United States
Wells Fargo & Company	United States
The Bank of Nova Scotia	Canada
ING Groep	Netherlands

Said peer group is the same as that approved by the Board of Directors, following the proposal of the Remuneration Committee, for the calculation of the TSR (Total Shareholder Return) indicator¹ of the Deferred Component of Annual Variable Remuneration of executive directors for 2017.

¹ Regarding the TSR indicator, the evolution of total return for the Bank's shareholders will be compared with the evolution of said indicator for the described peer group during the same period.

3.3. Basic contractual conditions of executive directors

In 2017, the contractual conditions applicable to the CEO and the Head of GERPA were modified in order to accommodate them to the framework provided for in the Remuneration Policy for BBVA Directors, as follows:

- The "**defined-benefit**" scheme for the CEO was **transformed into a "defined-contribution"** scheme.
- The possibility for the CEO of **receiving the retirement pension in advance** was **eliminated**; instead, vesting is subject to reaching the legal retirement age.
- 15% of the annual contributions to benefits systems agreed will be considered "**discretionary pension benefits**".
- A **2-year** post-contractual **non-compete clause** was established upon leave of directorship, compensated with an amount equivalent to **one Annual Fixed Remuneration per year** of duration of the non-compete agreement.
- Executive directors are not entitled to any **severance indemnity for termination of contract**.

The contractual conditions applicable during 2017 as regards pension commitments with the CEO and the Head of GERPA to cover retirement, disability and death, were as follows:

■ CEO

Coverage	Conditions
Retirement	<p>Defined-contribution scheme:</p> <ul style="list-style-type: none"> ■ Entitlement to a retirement benefit, upon reaching the legal retirement age, which amount shall result from the funds accumulated by the Bank until December 2016 to cover the commitments under his previous benefits scheme and the sum of the annual contributions made by the Bank as of January 1, 2017, to cover said benefit under the new pension scheme, along with the corresponding accumulated yields ■ Annual contribution: €1,642 thousand (subject to the same updating as the Annual Fixed Remuneration) ■ Entitlement to receive the benefit (vesting), as lump sum or income, upon reaching the legal retirement age, provided he does not leave his position as CEO due to serious breach of duties. The amount of the benefit shall result from the contributions made by the Bank to that date, under the terms established, until the date he leaves directorship ■ Application of rules on discretionary pension benefits to 15% of the annual contribution
Death	<ul style="list-style-type: none"> ■ Annual widow's pension, as well as an orphan's pension for each child until they reach the age of 25, of an amount equivalent to 70% and 25% (40% in the event of total orphaning), respectively, of the Annual Fixed Remuneration, with a limit of 150% of the Annual Fixed Remuneration ■ Payment will be made from the total fund accumulated for retirement at that time and the Bank will assume the amount of the corresponding annual insurance premiums in order to top up the benefits coverage
Disability	<ul style="list-style-type: none"> ■ Annual pension in an amount equivalent to the Annual Fixed Remuneration, which would revert to his spouse and children in the event of death in the percentages described above and in any case limited to the disability pension itself ■ Payment will be made firstly from the total fund accumulated for retirement at that time, and the Bank will assume the amount of the corresponding annual insurance premiums in order to top up the benefits coverage

Coverage	Conditions
Post-contractual non-compete	<ul style="list-style-type: none"> Duration: 2 years from termination of directorship Amount: 1 Annual Fixed Remuneration per year of duration of the non-compete agreement Provided leave of directorship is not due to retirement, disability or serious breach of duties

Head of GERPA

Coverage	Conditions
Retirement	<ul style="list-style-type: none"> Entitlement to a retirement benefit, as lump sum or income, upon reaching the legal retirement age, which shall be the amount arising from the cumulative annual contributions and the corresponding accumulated yields up to that date Annual contribution of 30% of Annual Fixed Remuneration Application of rules on discretionary pension benefits to 15% of the annual contribution
Death	<ul style="list-style-type: none"> Annual widow's pension, as well as an orphan's pension for each child until they reach the age of 25, of an amount equivalent to 50% and 20% (30% in the event of total orphaning), respectively, of the Annual Fixed Remuneration of the previous 12 months, with a limit of 100% of the Annual Fixed Remuneration Payment will be made from the total fund accumulated for retirement at that time and the Bank will assume the amount of the corresponding annual insurance premiums in order to top up the benefits coverage
Disability	<ul style="list-style-type: none"> Annual pension of 46% of the Annual Fixed Remuneration over the previous 12 months, which would revert to his spouse and children in the event of death in the percentages described above, and is in any case limited to the disability pension itself Payment will be made firstly from the total fund accumulated for retirement at that time, and the Bank will assume the amount of the corresponding annual insurance premiums in order to top up the benefits coverage
Post-contractual non-compete	<ul style="list-style-type: none"> Duration: 2 years from termination of directorship Amount: 1 Annual Fixed Remuneration per year of duration of the non-compete agreement Provided leave of directorship is not due to retirement, disability or serious breach of duties

Pursuant to the referred conditions, the Bank has made the following contributions (thousands of euros) in 2017 to cover the contractually recognized coverage of retirement, death and disability:

Director	Pension contributions in 2017			Accumulated funds as at 31/12/2017
	Retirement (*)	Insurance Premiums	Total	
CEO	1,642	211	1,853	17,503
Head of GERPA	250	143	393	842

(*) Pursuant to the Policy, 15% of this annual contribution (i.e. €246 thousand for the CEO and €38 thousand for the Head of GERPA) has been registered in 2017 as "discretionary pension benefits". Following year-end 2017, the amount of the "discretionary pension benefits" has been adjusted under the same criteria for the determination of 2017 Annual Variable Remuneration for each executive director. As a result, the "discretionary pension benefits" for 2017 have been determined in €288 thousand for the CEO and €46 thousand for the Head of GERPA, to be included in the accumulated fund in 2018 and subject to the same conditions as the Deferred Component of 2017 Annual Variable Remuneration, as well as the remaining conditions established in the Policy.

4. Governance on remuneration

As set out in BBVA's Bylaws, the Board Regulations empower the Board to adopt decisions pertaining directors' remuneration, as well as, in the case of executive directors, the remuneration for their executive functions and the remaining conditions to be respected in their contracts; all the aforementioned, in the framework of the Remuneration Policy for BBVA Directors, as approved by the General Shareholders' Meeting.

Additionally, as part of the elements that make up the Bank's corporate governance system, the Board has set up different committees to assist it in matters falling within its remit, to enhance performance of its duties. Among them, the **Remuneration Committee** is the body that assists the Board in matters related to remuneration, as set out in the Board Regulations.

Thus, BBVA's corporate governance system has been configured so that remuneration proposals submitted to the Board of Directors for consideration originate in the Remuneration Committee, which previously analyzes them and, additionally, assists the Board in monitoring their implementation.

Composition of the Remuneration Committee

This Committee is comprised of five members, appointed by the Board of Directors. All members are non-executive directors, with a majority of independent directors, including the Committee Chair. As at December 31, 2017, the Committee comprised the following directors:

Name	Position	Status
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

^(*) Also a member of the Risk Committee

Activity of the Remuneration Committee in 2017

In 2017, the activity of the Remuneration Committee focused on carrying out the duties attributed to it by the Board Regulations, its main task being to provide assistance to the Board in **matters related to the remuneration policy for directors, Senior Management and remaining BBVA Group Identified Staff**.

The activity of the Remuneration Committee has been particularly affected by the regulations concerning remuneration published in 2016, which have had an impact on the remuneration policies and practices of credit institutions. As a result of new regulations, developments in market practices, the outcome of the dialogue between BBVA and its investors and the nature of the Bank's corporate governance system, in 2016 the Remuneration Committee conducted a **review of the remuneration policy and of the overall remuneration system**, with the assistance of leading independent international consultants. Consequently, the Remuneration Committee submitted to the Board a proposal for a new Remuneration Policy for BBVA Directors for the years 2017, 2018 and 2019, with the features described in this document.

The changes included in the Remuneration Policy for BBVA Directors were framed within those made to the remuneration policy applicable to Identified Staff, which was also approved by the Board at the proposal of the Remuneration Committee, following an analysis by the Risk Committee. This Committee has, *inter alia*, the duty to assist the Remuneration Committee in establishing the remuneration policy, in order to ensure that it is compatible with sound and effective risk management, and does not provide incentives to undertake risks beyond the levels tolerated by the Bank.

Additionally, in the course of the year, the Remuneration Committee analyzed the remuneration proposals necessary for the **implementation of said remuneration policies**. In particular it examined, *inter alia*, the necessary adjustments to the structure and compensation model for the variable remuneration of Identified Staff members, in order to increase the link between their variable remuneration and the Group's strategy and its financial and non-financial targets.

Pursuant to the foregoing, in 2017 the Remuneration Committee carried out, among others, the following activities, submitting where necessary the corresponding proposed resolutions to the Board:

- The Committee has conducted an analysis of the remuneration of **non-executive directors** as members of the Board and its different Committees, and submitted a proposal to the Board not to update, for 2017, the amounts agreed by this body at previous meetings.
- Likewise, the Committee has analyzed various issues related to the remuneration of **executive directors**, determining, among others, for approval by the Board: the

annual variable remuneration which settlement corresponded in 2017 and the amounts of fixed and target variable remuneration of executive directors for the year, resulting from the "target" ratios set out in the Policy; as well as the annual and multi-year performance indicators used for the calculation of 2017 variable remuneration for executive directors, together with the associated weightings.

- Moreover, pursuant to the basic contractual framework for executive directors established in the Remuneration Policy for BBVA Directors, the Committee has determined the **new contractual conditions for the CEO and the Head of GERPA**, which include, *inter alia*, benefit schemes to cover retirement, death and disability, transforming the CEO's previous "defined benefit" pension system into a new "defined contribution" system, and determining the annual contribution to this system, along with the post-contractual non-competition clauses applicable to both directors, all of which were reflected in their contracts, approved by the Board of Directors.
- Lastly, the Committee has **reviewed the remuneration policy** applied to directors, Senior Management and remaining BBVA 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.

All of the matters detailed above, along with others falling within its remit, are detailed in the **Activity Report of the Remuneration Committee** for 2017, which has been made available at the Bank's website upon notice of 2018's Annual General Shareholders' Meeting (www.bbva.com).