Creating Opportunities

Board of Directors’ Report

Item 6 of the agenda of the Ordinary General Shareholders' Meeting called to take place on 19 and 20 April 2021 on first and second call.

Reduction of share capital up to a maximum amount of 10% of BBVA's share capital through the redemption of shares acquired for this purpose

15 March 2021

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1. Introduction

1.1. Purpose of the report

This report is drawn up by the Board of Directors of BANCO BILBAO VIZCAYA ARGENTARIA, S.A. ("**BBVA**", the "**Bank**" or the "**Company**") pursuant to Articles 286 and 318 of the consolidated text of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*) approved by Royal Legislative Decree 1/2010, of 2 July, in its current draft (the "**Corporate Enterprises Act**"), and also serves as a report for the purposes of the provisions of Article 10 of Royal Decree 84/2015, of 13 February, implementing Act 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions, in relation to the proposed resolution submitted to the Ordinary General Shareholders' Meeting under item six of the agenda, to reduce the Bank's share capital up to a maximum amount corresponding to 10% of the share capital as of the date of adoption of the resolution (i.e. up to a maximum nominal amount of THREE HUNDRED AND TWENTY-SIX MILLION SEVEN HUNDRED AND TWENTY-SIX THOUSAND FOUR HUNDRED AND FORTY-TWO EUROS AND FORTY-TWO CENTS OF EURO (EUR 326,726,442.42), corresponding to SIX HUNDRED AND SIXTY-SIX MILLION SEVEN HUNDRED AND EIGHTY-EIGHT THOUSAND SIX HUNDRED AND FIFTY-EIGHT (666,788,658) shares, each having a nominal value of FORTY-NINE CENTS OF EURO (EUR 0.49)), subject to obtaining, where appropriate, the prior applicable regulatory authorisations, through the redemption of own shares that have been acquired by BBVA pursuant to the authorisation granted by BBVA Ordinary General Shareholders' Meeting held on 16 March 2018 under item three of the agenda and by means of any mechanism for the purpose of redeeming such shares, empowering BBVA's Board of Directors to execute the reduction in whole or in part, and on one or more occasions, or not to execute it at all, being the implementation period of this resolution from the time of its adoption to the date of the next Ordinary General Shareholders' Meeting held, all in accordance with the provisions of the applicable legislation and regulations and consistent with the terms of any limitations that may be imposed by any competent authority, as indicated within this report.

1.2. Applicable regulations

Article 286 of the Corporate Enterprises Act establishes, as a requirement for the adoption of any amendments to the corporate bylaws, that the directors must prepare a written report justifying the proposal.

Article 318 of the Corporate Enterprises Act provides that any share capital reduction must be approved at a general meeting in accordance with the requirements for amending the corporate bylaws, and the resolution of the general meeting must state at least the amount of the share capital reduction, the purpose of the reduction, the procedure by which the company is to execute the reduction, the time period established for the execution thereof and the amount to be paid, if any, to the shareholders.

To the extent that the share capital reduction must be agreed in accordance with the requirements for amending the corporate bylaws and necessarily entails the amendment to the article of the corporate bylaws that governs share capital, BBVA’s Board of Directors hereby issues this report in compliance with the above-referenced provisions.

In addition, this report will also serve as a report for the purposes of Article 10 of Royal Decree 84/2015, of 13 February, which provides that, in order to amend a bank's corporate bylaws, a request must be submitted, accompanied by certified minutes of the meeting at which approval was granted, a report justifying the proposal prepared by the board of directors, as well as an updated draft of the corporate bylaws identifying any changes introduced.

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2. Description of the proposal

It is proposed to the BBVA Ordinary General Shareholders' Meeting to approve the reduction of the Bank's share capital up to a maximum amount corresponding to 10% of BBVA's share capital at the time of the adoption of the resolution, subject to obtaining, where appropriate, the prior applicable regulatory authorisations, through the redemption of own shares that have been acquired by BBVA for the purpose of being redeemed, all in accordance with the provisions of the applicable legislation and regulations and consistent with the terms of any limitations that may be imposed by any competent authority.

The share capital reduction does not involve the return of capital to shareholders as the Company itself holds the shares to be redeemed and the share capital reduction will be recorded as a charge to freely distributable reserves by means of the allocation of a restricted reserve for redeemed share capital in an amount equal to the nominal value of the redeemed shares. This restricted reserve will be subject to the same requirements as those applicable to the share capital reduction, as provided for in Article 335 c) of the Corporate Enterprises Act.

It is also proposed to empower the Board of Directors, in the broadest terms, with express powers of sub-delegation, to execute the share capital reduction in whole or in part, on one or several occasions, within the established execution period, or not to execute it at all, with the power to set the terms and conditions of the reduction as regards any matters not provided for in the proposed resolution.

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3. Justification for the proposal

The Bank's priority objective is the creation of value for shareholders. As such, the various options available at any given time are analysed on a recurring basis in light of the applicable circumstances.

In this regard, it should be noted that the Bank's capital ratios at the end of 2020 show a solid position, falling within the target capital range (which is set at between 11.5% and 12% of common equity tier 1 ("**CET1**") fully loaded capital ratio), and significantly above the applicable regulatory requirement.

In addition, it should be noted that the Bank announced its agreement in November 2020 with The PNC Financial Services Group, Inc. to sell 100% of the share capital of its subsidiary BBVA USA Bancshares, Inc., a proprietary company, in turn, of 100% of the share capital of the bank BBVA USA and other BBVA Group companies in the United States with activities related to this banking business (the "**Transaction**"). Completion of the Transaction, which is subject to the receipt of regulatory authorisations from the competent authorities, is expected to occur in the middle of the 2021 financial year and to have a positive impact on the Group's CET1 fully loaded capital ratio of approximately 285 basis points.

Once completion of the Transaction occurs, the Bank's projected CET1 fully loaded ratios are expected to be well above the applicable requirement, as well as above the 12% (which is the upper end of the target capital range), making it necessary to analyse the different opportunities available to create value for shareholders while maintaining adequate levels of solvency and profitability in the Group.

The different options identified include increasing profitability, continuing to reduce costs in the markets in which the Bank currently operates and increasing shareholders' remuneration. With regards to the latter option, and given BBVA's current share prices, there is the possibility of implementing a shareholder's remuneration formula other than the traditional cash distributions, by implementing a share buyback programme for their redemption.

For the potential implementation of a share buyback programme to redeem them, the Board of Directors is authorised to acquire up to 10% of the share capital. This authorisation was conferred on the Board, for a period of five years, by the BBVA Ordinary General Shareholders' Meeting held on 16 March 2018 under item three on the agenda.

However, although the Board of Directors of the Bank is empowered to launch a share buyback programme without the need to call a General Shareholders' Meeting, its full implementation would require, in addition, a resolution to redeem the shares purchased by BBVA, for which purpose it is necessary for the Ordinary General Shareholders' Meeting to adopt a resolution approving a share capital reduction such as the resolution that has been proposed.

This resolution provides for the execution of a share capital reduction through the redemption of own shares that have been acquired by the Bank for this purpose. In addition, to facilitate the share buyback programme's management and implementation, the Board of Directors is empowered to execute the share capital reduction in whole or in part, on one or several occasions, within the established execution period, with the power to set the terms and conditions of the reduction as regards any matters not provided for in the proposed resolution.

Consequently, this resolution proposal is justified by the desirability of equipping the Company with all necessary tools to enable to implement and fully execute a share buyback programme to repurchase the Bank’s own shares to redeem them, both in terms of launching the programme and effectively redeeming the shares acquired and executing the corresponding share capital reduction, all in an expedient and flexible manner, without the need to call and hold a General Shareholders' Meeting for the purpose of carrying out each execution, albeit in any case within the limitations, terms and conditions established by the Corporate Enterprises Act and any limitations, terms or conditions that the General Shareholders' Meeting may impose.

This notwithstanding, if market or Company’s conditions or any event having social or economic significance, make the execution advisable or prevent it, including, but not limited to, a significant change in BBVA's share price, the evolution of the business, the Bank’s capital position, the regulatory framework applicable to the Bank or its capital requirements, the Board of Directors may determine not to make use of the resolution for reasons of corporate interest, in which case it shall communicate this decision at the next Ordinary General Shareholders' Meeting.

In light of the foregoing, the Board of Directors considers the approval of a reduction of the Bank's share capital through the redemption of own shares acquired by BBVA for this purpose up to a maximum of 10% of the share capital at the time of adoption of the resolution, the Board having been delegated all powers necessary to implement the resolution in whole or in part and on one or more occasions up to the maximum amount indicated above and within the established execution period, or even not to implement it at all, as an appropriate and flexible mechanism permitting the Bank to adequately address opportunities that may arise at any given time with the aim of maximising the creation of value for shareholders, avoiding the delays and cost increases that would entail the need to seek authorisation at the General Shareholders' Meeting and, in turn, maintaining adequate levels of solvency and profitability, all in accordance with the applicable conditions then in place and the best interests of the entity.

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4. Exclusion of creditors' right of opposition

The share capital reduction will be recorded as a charge to freely distributable reserves by means of the provision of a restricted reserve for redeemed share capital in an amount equal to the nominal value of the redeemed shares. This restricted reserve will be subject to the same requirements as those applicable to the share capital reduction, as provided for in Article 335 c) of the Corporate Enterprises Act, and, as such, the Company's creditors will not have the right of opposition set forth in Article 334 of the Corporate Enterprises Act.

For the purposes of Article 411.1 of the Corporate Enterprises Act, it is noted that the consent of the holders of outstanding bonds issued by the Company is not required, in accordance with the terms of additional provision no. 1, section 9, of the Act 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions, and the provisions of Article 411 itself.

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5. Proposed resolutions

The full text of the proposed resolution for a share capital reduction up to a maximum amount corresponding to 10% of the share capital at the time of adoption of the resolution through the redemption of own shares that have been acquired by BBVA for this purpose, and delegating the Board of Directors to execute the reduction in whole or in part and on one or more occasions within the established execution period, is as follows:

"*Approve the reduction of the share capital of Banco Bilbao Vizcaya Argentaria, S.A. (the "**Company"** or "**BBVA**") up to a maximum amount of 10% of the share capital as of the date of this resolution (i.e. up to a maximum nominal amount of THREE HUNDRED AND TWENTY-SIX MILLION SEVEN HUNDRED AND TWENTY-SIX THOUSAND FOUR HUNDRED AND FORTY-TWO EUROS AND FORTY-TWO CENTS OF EURO (EUR 326,726,442.42) corresponding to SIX HUNDRED AND SIXTY-SIX MILLION SEVEN HUNDRED AND EIGHTY-EIGHT THOUSAND SIX HUNDRED AND FIFTY-EIGHT (666,788,658) shares with a nominal value of FORTY-NINE CENTS OF EURO (EUR 0.49)), subject to obtaining, where appropriate, the prior corresponding regulatory authorisations, through the redemption of own shares purchased by BBVA by virtue of the authorisation granted by the BBVA Ordinary General Shareholders' Meeting held on 16 March 2018 under item three of the agenda and by means of any mechanism for the purpose of being redeemed, all in compliance with the provisions of the legislation or regulations in force, as well as with any limitations that any competent authorities may establish. The implementation period of this resolution will end on the date of the next Ordinary General Shareholders' Meeting, and shall cease as of such date in respect to the amount not executed.*

The final figure of the share capital reduction will be determined by the Board of Directors, within the maximum amount mentioned above, based on the final number of shares that are purchased and that the Board of Directors decides to redeem in line with the delegation of powers approved below.

The share capital reduction does not involve the repayment of contributions to the shareholders as the Company itself holds the shares to be redeemed and the share capital reduction will be recorded as a charge to freely distributable reserves by means of the allocation of a restricted reserve for redeemed share capital in an amount equal to the nominal value of the redeemed shares, which may only be available under the same conditions as those required for the share capital reduction, in application of the provisions of Article 335 c) of the Corporate Enterprises Act, and therefore the Company's creditors will not be entitled to exercise their right of opposition as referred to in Article 334 of the Corporate Enterprises Act.

To empower the Board of Directors, in the broadest terms, authorising it to sub-delegate on the Executive Committee (in turn, with sub-delegation powers); on the Chairman of the Board of Directors; on the Chief Executive Officer; and on any other person to whom the Board explicitly grants powers for such purpose, in order to fully or partially execute the previously approved share *capital reduction, on one or more occasions, within the established time frame and in the manner it deems most appropriate, including, in particular and without limitation:*

(i) To determine the number of shares to be redeemed in each execution, deciding whether or not to execute the resolution in whole or in part if no own shares are finally repurchased for the purpose of being redeemed or if, having been repurchased for that purpose, (a) they have not been purchased, on one or more occasions, in a sufficient number to reach the 10% of the share capital limit on the date of this resolution; or (b) market conditions, Company circumstances or any event of social or economic importance make it advisable for reasons of corporate interest or prevent its execution. The Board will notify such decision to the next Ordinary General Shareholders' Meeting.

(ii) To declare closed each of the executions of the share capital reduction finally agreed, setting, as appropriate, the final number of shares to be redeemed in each execution and, therefore, the amount by which the Company's share capital must be reduced in each execution, in accordance with the limits established in this resolution.

(iii) To redraft the article of the Bylaws governing the share capital so that it reflects the new share capital figure and the number of outstanding shares after each approved share capital reduction.

(iv) To request, as appropriate, the delisting of the shares to be redeemed by virtue of this delegation in official or unofficial, regulated or unregulated, organised or not, domestic or foreign secondary markets, taking such steps and actions as may be necessary or advisable for this purpose before the relevant public and/or private bodies, including any action, declaration or management before any competent authority in any jurisdiction, including, but not limited to, the United States of America for the delisting of the shares represented by ADSs.

(v) To execute all public and/or private documents, and to enter into as many acts, legal transactions, contracts, declarations and operations that may be necessary or advisable to carry out each approved share capital reduction.

(vi) To publish as many announcements as may be necessary or appropriate regarding the share capital reduction and each of its executions, and carry out any actions required for the effective redemption of the shares referred to in this resolution.

(vii) To set the terms and conditions of the reduction in any matters not provided in this resolution, as well as to carry out any procedures and formalities required to obtain the consents and authorisations required for the effectiveness of this resolution."

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Madrid, 15 March 2021