Remunerations Committee Report

Banco Bilbao Vizcaya Argentaria, S.A.

Report submitted by the Remunerations Committee in accordance with Article 529 *novodecies* of the Corporate Enterprises Act, in relation to the proposed resolution for approval of the Banco Bilbao Vizcaya Argentaria, S.A. Directors' Remuneration Policy

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1. Background and regulatory framework

Article 529 *novodecies* of Royal Legislative Decree 1/2010, of 2 July, approving the revised text of the Corporate Enterprises Act (the "**Corporate Enterprises Act**"), stipulates that the remuneration policy for directors will be approved by the General Shareholders' Meeting and that the remuneration policy proposal from the Board of Directors will be reasoned and accompanied by a specific report issued by the Remunerations Committee.

In this regard, Article 17 of the Regulations of the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter "**BBVA**", the "**Institution**", the "**Company**" or the "**Bank**"), establishes that the competencies of the Board of Directors include the approval of the directors' remuneration policy, for the purposes of its submission to the General Shareholders' Meeting, as stipulated in the applicable regulations.

In turn, Article 5.1 of the Regulations of the Remunerations Committee stipulates that the functions of said Committee include proposing the remuneration policy for BBVA directors to the Board of Directors for its submission to the General Shareholders' Meeting and also submitting to the Board its corresponding report, all in accordance with the terms established by the applicable regulations.

In the 2021 financial year, the Board of Directors, at the proposal of the Remunerations Committee, has deemed it appropriate to submit, to the General Shareholders' Meeting, a new BBVA Directors' Remuneration Policy, among other proposals, to align it with new remuneration regulations, whose entry into force is expected in the 2021 financial year, and to incorporate other changes in the remuneration system for directors in line with advances in market practices, the outcome of dialogue between BBVA and its investors, and with the very nature of the Bank's Corporate Governance System, which is constantly evolving and improving, as well as other technical improvements.

Pursuant to the aforementioned regulations, the Remunerations Committee has resolved to submit to the Board of Directors this Report concerning the remuneration policy for BBVA directors (the "**BBVA Directors' Remuneration Policy**" or the "**Policy**"), so that it may be made available to the shareholders when the General Shareholders' Meeting is convened (hereinafter the "**Report**").

2. Governance model for the Directors' Remuneration Policy

2.1. BBVA's Corporate Governance System

BBVA is aware of the importance of large institutions having a system that guides the structure and functioning of their corporate bodies in the best interests of the Institution and its stakeholders.

Having a **sound and effective Corporate Governance System aligned with the reality of the Bank** that enables sufficient management and supervision is fundamental to the proper development of the Bank's strategic priorities, which are oriented towards, among others, long-term value creation.

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

- The reality of the Bank, its circumstances and its needs.
- BBVA's strategy and corporate culture.
- The regulations applicable to it, as a financial institution listed on both national and international markets.
- The outcome of supervisory actions and expectations and of engagement with shareholders, investors and proxy advisors; and
- The best practices and recommendations on corporate governance.

As such, the BBVA Corporate Governance System has taken shape over time based on the following **principles**:

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

In line with these principles, the BBVA's Corporate Governance System is reflected in various corporate documents, including in the Regulations of the Board of Directors, which detail the rules that comprise the Directors' Statute and the rules governing the organisation and functioning of the Board and its committees, which in turn have their own Regulations. The Regulations of the Board and the Regulations of the various Board committees can be consulted on the Institution's website (www.bbva.com).

In particular, regarding remuneration issues, and in accordance with Article 17 of its Regulations, the Board of Directors has the following functions:

- **Approval of the remuneration policy for directors, for the purposes of its submission to the General Shareholders' Meeting in the terms established under applicable regulations.**
- Determination of directors' remuneration in their condition as such and, in the case of executive directors, the remuneration corresponding to their executive duties as well as other conditions that are incumbent in their contracts.
- Establishment of the basic contractual conditions for senior managers, including their remuneration and severance indemnity in the event of termination, based on the proposals submitted by the Remunerations Committee.
- Approval of the remuneration policy for senior managers and employees whose professional activities have a significant impact on the Group's risk profile.
- Approval of the Group's remuneration policy, which may include the policy for senior managers and the policy for employees whose professional activities have a significant impact on the Group's risk profile, stated in the previous paragraph.

In order to better perform its management and supervision functions, with the aid of an appropriate decision-making process, and to promote a balance of power and the non-occurrence of conflicts of interest, the BBVA Board of Directors, in accordance with Article 31 of the Regulations of the Board, has established specific committees that assist it in matters falling within its remit, having established a coordinated work scheme between these corporate bodies to enable the proper exercise of their functions.

Of the Board of Directors' Committees, the Remunerations Committee is particularly relevant for the purposes of this Report given that it assists the Board in matters regarding remuneration attributed to it by the Regulations of the Board of Directors, its own Regulations and other regulations applicable to it at any given time.

2.2. Remunerations Committee

In accordance with Article 34 of the Regulations of the Board and its own Regulations, the Remunerations Committee has the following characteristics:

Number of members	• The Remunerations Committee will consist of a **minimum of three directors**.
Appointment of its members	• Remunerations Committee members are **appointed by the Board of Directors**, which will also appoint its Chair, seeking to ensure that they

	possess the **necessary dedication, skills and experience** to carry out their duties.
Status of its members	• **All** members of the Remunerations Committee must be **non-executive** directors. • The majority of its members must be **independent** directors**, including the Chair**.
Frequency of meetings	• The Remunerations Committee meets **whenever it is convene by its Chair** and will endeavour to establish an **annual calendar of meetings**, considering the amount of time to be devoted to its different functions.

The Remunerations Committee may request the attendance at its meetings of individuals who, within the Group's organisation, have roles related to the functions of the Remunerations Committee. It may also seek advice, where necessary, in order to form an opinion about matters within its remit.

As of the date of this Report, the Remunerations Committee comprises five directors, all of whom are non-executives, the majority being independent, including the Chair:

Name	Role	Status
Belén Garijo López	Chair	Independent
Lourdes Máiz Carro	Member	Independent
Ana Peralta Moreno	Member	Independent
Carlos Salazar Lomelín	Member	External
Jan Verplancke	Member	Independent

In accordance with Article 5 of the Regulations of the Remunerations Committee, the Committee shall perform the functions set out below, without prejudice to any others assigned to it either by law, the Bylaws, the Regulations of the Board of Directors of the Bank, the Regulations of the Committee itself or by decision of the Board:

1) **Propose to the Board of Directors, for submission to the General Meeting, the remuneration policy for directors**, **and submit to the Board its corresponding report**, all in accordance with the terms established by applicable regulations at any given moment.

2) Determine the remuneration of non-executive directors, as provided for in the remuneration policy for directors, and submit the corresponding proposals to the Board of Directors.

3) Determine the extent and amount of individual remunerations, rights and other economic rewards, as well as the remaining contractual conditions for executive directors, so that these can be contractually agreed in line with the remuneration policy for directors, by submitting the corresponding proposals to the Board.

4) Determine the objectives and criteria for measuring the variable remuneration of the executive directors and assess the degree of achievement thereof, submitting the corresponding proposals to the Board.

5) Analyse, where appropriate, the need to make ex-ante or ex-post adjustments to variable remuneration, including the application of reduction or recovery arrangements for variable remuneration, submitting the corresponding proposals to the Board, prior reports from the relevant committees in each case.

6) Annually submit the proposal of the annual report on the remuneration of the Bank's directors to the Board of Directors, which will be submitted to the Annual General Shareholders' Meeting, in accordance with the provisions of the applicable law.

7) Propose to the Board of Directors the remuneration policy for senior managers and employees whose professional activities have a significant impact on the Group's risk profile. In addition, monitor its implementation, including monitoring the process for identifying such employees.

8) Propose to the Board of Directors, and supervise the implementation of, the remuneration policy for the Group, which may include the policy for senior managers and the policy for any employees whose professional activities have a significant impact on the Group's risk profile, stated in the previous section.

9) Submit to the Board of Directors the proposals for basic contractual conditions for senior managers, including their remuneration and severance indemnity in the event they leave their role.

10) Directly oversee the remuneration of senior managers and determine, within the framework of the remuneration model applicable to Senior Management at any given time, the objectives and criteria for measuring variable remuneration of the heads of the Regulation and Internal Control function and of the Internal Audit function, submitting the corresponding proposals to the Board of Directors, based on those submitted to it in turn by the Risk and Compliance Committee and the Audit Committee, respectively.

11) Ensure observance of the remuneration policies established by the Company and review them periodically, proposing, where appropriate, any modifications that it deems necessary to ensure, amongst other things, that they are adequate for the purposes of attracting and retaining the best professionals, and that they contribute to the creation of long-term value and adequate control and management of risks, and address the principle of equal pay. In particular, the Committee shall ensure that the remuneration policies established by the Company are subject to internal, central and independent review at least once a year.

12) Verify the information on the remuneration of directors and senior managers contained in the various corporate documents, including the annual report on the remuneration of directors.

13) Oversee the selection of external advisers, whose advice or support is required for the performance of their duties in remuneration matters, ensuring that any potential conflicts of interest do not impair the independence of the advice provided.

As such, the BBVA's Corporate Governance System has been configured so that, generally, proposals concerning remuneration that are submitted to the Bank's Board of Directors for consideration come from the Remunerations Committee, which analyses them in advance taking into account, where applicable, analyses conducted beforehand by other Board committees.

In particular, as part of the decision-making process in remuneration matters, the Remunerations Committee **works with the Board's Risk and Compliance Committee**, which, in accordance with Article 5 of its Regulations, **contributes to the formulation of the remuneration policy** by verifying that it is consistent with sound and effective risk management and does not provide incentives for taking risks in excess of the level tolerated by the Institution.

In any case, decisions regarding directors' remuneration are submitted to the **Bank's General Shareholders' Meeting** for approval when so is required by the applicable regulations.

2.3. Decision-making process for the update of the BBVA Directors' Remuneration Policy

In exercising its functions, the Committee continuously examines the BBVA Directors' Remuneration Policy, with the assistance of the Bank's technical services for matters of compensation, and, where applicable, any external experts that it considers necessary at any given time.

On the basis of the foregoing, at the proposal of the Remunerations Committee, the Board of Directors submitted a proposal to the Bank's General Shareholders' Meeting, held on 13 March 2015, to approve the Remuneration Policy for BBVA Directors for the 2015, 2016 and 2017 financial years. This policy was fully aligned with the requirements established in both the Corporate Enterprises Act and in Act 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions (the "**Law 10/2014**") which transposed into Spanish legislation Directive 2013/36/EU on access to the activity of credit institutions and investment firms ("**CRD IV**"), which contains a specific regulation concerning the remuneration systems of credit institutions with respect to the remuneration of certain employees with an impact on the institution's risk profile, including the members of the Board of Directors.

Nevertheless, new regulations governing remuneration that were published in 2016, as well as changes in market standards, the outcome of dialogue between BBVA and its investors, and the very nature of the Bank's Corporate Governance System, led the Remunerations Committee to review the applicable remuneration policy and the remuneration system as a whole.

Therefore, after an in-depth analysis carried out with the collaboration of international first-line independent consultants with regard to compensation, at the proposal of the Remunerations Committee, the Board of Directors submitted a new **BBVA Directors' Remuneration Policy for the 2017, 2018 and 2019 financial years** for the consideration of the General Shareholders' Meeting, which was approved by 96.54% of the votes at the General Shareholders' Meeting on 17 March 2017.

In the 2019 financial year, the Remunerations Committee deemed it necessary to revise, once again, the remuneration policy approved in 2017. This was primarily in order to incorporate the adjustments made to the contractual conditions of the Chairman and the Chief Executive Officer, appointed in December 2018, given their new positions and functions, and to include certain technical improvements, while maintaining, in general terms, the remuneration system as provided for in the policy adopted in 2017.

Thus, the Board of Directors, at the proposal of the Remunerations Committee, submitted, for the consideration of the General Shareholders' Meeting, a **BBVA Directors' Remuneration Policy for the 2019, 2020 and 2021 financial years**, which was approved by 94.83% of the votes at the General Shareholders' Meeting held on 15 March 2019.

In the 2021 financial year, the Board of Directors, at the proposal of the Remunerations Committee and as a result of the remuneration policies ongoing analysis, in order to ensure, among others, that they are adequate for the purposes of attracting and retaining the best professionals, and that they contribute to the creation of long-term value and adequate control and management of risks, and address the principle of equal pay, has deemed it necessary to submit, to the General Shareholders' Meeting, a further update of the policy adopted in 2019.

Without prejudice to the fact that the policy approved in 2019 is fully aligned with the applicable regulations currently in force, and to the fact that the proposed new policy, in general terms, does not alter the structure of the existing remuneration system, the new remuneration regulations, whose entry into force is expected in the 2021 financial year, together with advances in market practices, the outcome of dialogue between BBVA and its investors, and the very nature of the Bank's Corporate Governance System, which is constantly evolving and improving, has led the Remunerations Committee to review the current remuneration policy in force and the remuneration system as a whole.

This update of the remuneration policy, comes at a particularly difficult moment conditioned by the crisis caused by COVID-19, which significantly affects the societies in which the Group's entities conduct their activity, and in the light of which BBVA has carried out an especially active work to support the whole of its stakeholders, which in remuneration terms, has been materialised in the decision of its 330 main executives of waiving, the whole or part, of the annual variable remuneration that they may had been able to accrue in 2020, as a gesture of identification with the Bank's Goal and values and of solidarity with society.

Additionally, the new policy regards as one of its fundamental features the progress in the alignment with the Group's strategy and the creation of long term value. With this aim, the policy submitted to the General Shareholders' Meeting provides for an adequate balance between fixed and variable remuneration components; components which ensure a prudent risk management, the sustainability and the resistance of the business model, as well as solvent growth and its profitability; and a series of indicators for the calculation of the annual variable remuneration which are aligned with the strategic priorities defined by the Group, among which the inclusion of sustainability indicators linked to the direct action of the Institution with regard to climate change may be highlighted.

In this regard, the Board of Directors and the Remunerations Committee have considered the increasing significance of risks, to both the Bank and to society as a whole, related to sustainability and climate change. To this end, and in a manner consistent with BBVA's Strategic Plan which establishes sustainability as one of its strategic priorities, the Board of Directors is driving the integration of sustainability and the fight against climate change into the Group's day-to-day business and activities, establishing objectives that facilitate their implementation, and the supervision and monitoring of their evolution.

In this context, with regard to remuneration, the Bank is also promoting the incorporation of sustainability and ESG (Environmental, Social, Governance) metrics into the variable remuneration schemes of its employees, Senior Management and executive directors.

In the exercise of its functions, the Committee has benefited from the advice of the Bank's technical services and independent advice from top-level firms in the field of remuneration for directors and senior managers: **Willis Towers Watson**, with respect to market analysis and comparisons, and **J&A Garrigues, S.L.P.**, with respect to legal analysis of the Policy.

In accordance with all the above, at the proposal of the Remunerations Committee, the Board of Directors has approved a new BBVA Directors' Remuneration Policy which, if approved by the by the General Shareholders' Meeting, **will be applicable in 2021, 2022 and 2023 financial years** (the "**BBVA Directors' Remuneration Policy**" or the "**Policy**").

3. BBVA Directors' Remuneration Policy

3.1. Main developments

BBVA Directors' Remuneration Policy, which is submitted to the General Shareholders' Meeting for approval, pursuant to the decision-making process described, for the most part retains the same remuneration scheme established in the previous policy. It does however include some new developments, which are outlined below.

Firstly, in light of the increasing significance of risks, to both the Bank and to society, related to sustainability and climate change, and in a manner consistent with BBVA's Strategic Plan, which establishes sustainability as one of its strategic priorities, the Policy promotes the **inclusion of metrics relating to sustainability** and ESG (Environmental, Social, Governance) risks in the variable remuneration scheme for executive directors, in line with the rest of the Bank's staff. In this way, motivation to achieve higher sustainability and foster the fight against climate change, which is present in the day-to-day business and activity of the Group, is integrated in the remunerations scope.

Secondly, the Policy brings forward both the incorporation of applicable remuneration developments included in the National Securities Market Commission's Good Governance Code of Listed Companies, revised in June 2020, and provided for in Directive (EU) 2017/828 on the encouragement of long-term shareholder engagement ("**SRD II**"). In addition, in the review of the Policy, Directive (EU) 2019/878 ("**CRD V**") and the Guidelines on Sound Remuneration Policies, currently being amended by the European Banking Authority ("**EBA Guidelines**"), have been taken into account. In addition to other matters, these guidelines reinforce the need for **gender neutral remuneration policies**, which ensure equal pay between men and women, establish equal remuneration for the same functions or functions of the same value and do not differentiate or discriminate based on gender; this is expressly stated in the Policy.

On the other hand, the Policy seeks **to strengthen BBVA's alignment with the new market standards with regard to remuneration**. This has encouraged the Chairman and the Board of Directors to reach an agreement to adapt **his current pension system to the best market practices.**

It should be recalled that, upon the appointment of the current Chairman as BBVA Chief Executive Officer in 2015, an agreement was reached in order to modify his pension system, which, by then, was a defined benefit system. Through this agreement he also waived part of the pension that he could have generated in the event of early retirement under his former system, limiting this to the amount resulting from the provisions that, following the actuarial criteria applicable at any given time, the Bank had made to cover the retirement pension commitments until the date on which he ceased to hold office, without the Bank having to make any additional contribution.

In 2017, it was agreed to establish a new pension framework for the Chairman, in line with the changes incorporated by the Board of Directors to the Senior Management pension framework. The objective of this agreement was to transform the system he had at that moment of defined benefit for the retirement contingency into a defined contribution one, also eliminating the possibility of receiving the retirement pension in advance and establishing a fixed annual contribution of EUR 1,642 thousand, which also involved a significant reduction with respect to the rights he had by contract until that date.

In 2021 financial year, by virtue of the new **transformation of the Chairman's pension framework** that is now proposed, he will maintain his defined contribution system, but reducing significantly the amount of the Bank's annual contribution to cover the retirement contingency, which will now amount to 15% of his annual fixed remuneration, which corresponds to a percentage more aligned with that of the rest of the members of the Group's Senior Management.

This amendment entails that the difference between the current agreed contribution and the new contribution will be transferred, in a percentage that respects the current distribution between the fixed and variable proportion approved by the Board for the Chairman (45%-55%), to his annual fixed remuneration and his "target" annual variable remuneration with a deduction from the transferred amount of EUR 157,000[1], which will, accordingly, lead to a reduction of the total amount of his remuneration with respect to the one established in the Policy approved in 2019.

Together with this transformation, a review of the amounts agreed with the Chairman to cover the death and disability contingencies has been carried out, having reached, as a result, an agreement to reduce them with respect to the ones established in the former Policy.

To analyse the convenience of implementing the pension system's transformation, a market analysis was carried out by the independent external firm, Willis Towers Watson, which has carried out a comparative study of the pension conditions of the Chairman with respect to those of the executives of other entities of

[1] Which represents a reduction of the amount to be integrated in the Annual Fixed Remuneration of a 25%.

the banking peer group and of the European industry, whose conclusions were shared with the Remunerations Committee.

Likewise, the Policy **modifies the payment schedule of the deferred part of the annual variable remuneration of the executive directors**, which will be paid pro rata during deferral years, in line with that foreseen for those categories of staff whose activities have a significant impact on the risk profile of BBVA's Group (the "**Identified Staff**").

To this end, the Bank has counted with the advice of Willis Towers Watson, which carried out a market study on 11 European banks, in which it concluded that almost all of the banks analysed had similar payment schemes to the one used that has been introduced as an update in the Policy.

Finally, within **reduction (malus) and recovery (clawback) arrangements** for the remuneration already paid, the Policy incorporates the possibility of applying such mechanisms, regardless of the financial impact caused by the circumstances that determine their application, in the case that the beneficiary had caused a relevant **reputational damage** to the Bank.

For the analysis regarding the convenience of introducing these matters into the Policy, along with the rest of the modifications and technical improvements, the law firm J**&A Garrigues, S.L.P** has provided its legal advice, and **has issued an opinion** concluding on the legality of the Policy, which has been analysed by the Remunerations Committee.

3.2. Policy structure

BBVA's Directors Remuneration Policy is structured in a way that is clear, understandable and transparent and in accordance with the regulations taxonomy approved by the BBVA Group for the preparation of its internal rules, including (i) firstly an introductory section detailing the main issues that have led to the revision of the Policy, as well as the main developments contained therein; (ii) a second section describing the Policy's purpose and scope of application; (iii) a third section outlining the general principles on which the Policy is based and which are subsequently embodied in their specific provisions; (iv) a fourth section including said provisions that govern the decision-making process with regard to remuneration, the bylaws framework for Directors' remuneration and the remuneration system for both executive and non-executive directors, as well as the specific amount of the remuneration and main contractual conditions of the executive directors, (v) transitional provisions; and finally (vi) a section governing the Policy's supervision and control model.

Likewise, the Policy includes in its **Parts I and II** with the specific conditions of the remuneration systems involving the delivery of shares to non-executive and executive directors, respectively, including a maximum number of shares to be allocated to these systems in the implementation of the Policy.

3.3. Scope of application and term

The Policy, will apply **to all members of BBVA's Board of Directors** and, if approved by the General Shareholders' Meeting will be applicable to the **2021, 2022 and 2023** financial years.

3.4. General principles

The BBVA Directors' Remuneration Policy continues to be based on the same general principles of the BBVA Group's Remuneration Policy, applicable to all of the Group's employees and Senior Management, which focuses on the **recurring generation of value for the Group and the alignment of the interests of its employees and shareholders with prudent risk management**. It explicitly incorporates, **the principle**, which is already being applied in the BBVA Group, **of ensuring equal pay for men and women**, in line with the BBVA Group's Remuneration Policy.

The Policy has been defined based on the aforementioned general principles, while taking into consideration the need to comply with the legal requirements applicable to credit institutions and the different sectors in which it operates, as well as alignment with best market practices.

Thus, the Policy contributes to the business strategy of BBVA and its Group, and to achieving BBVA's objectives, values, value creation, interests and long-term sustainability. It is compatible with and promotes prudent and effective risk management, by not offering incentives to take risks beyond the level tolerated by the Institution.

In addition, the Policy is clear, understandable and transparent, gender neutral and it includes measures aimed at preventing conflicts of interest and describes the methods to achieve the above.

3.5. Provisions of the Policy

3.5.1. Bylaws framework for the remuneration of Directors

In accordance with the BBVA Bylaws, the BBVA's Directors Remuneration Policy **distinguishes** between the remuneration system applicable to **non-executive directors** (set out in Article 33º bis of the Bylaws) **and the system applicable to executive directors** (set out in Article 50º of the Bylaws). The Policy contains a clear description of both, outlining the nature and amount of their remuneration.

With regard to non-executive directors, the Policy also details the maximum annual remuneration to be paid to all directors in such capacity approved by the General Shareholders' Meeting, in accordance with Article 529 *septdecies* of the Corporate Enterprises Act. With regard to executive directors, the Policy details their fixed remunerations, the parameters for establishing the variable elements of remuneration, as well as the main terms and conditions of their contracts, in accordance with Article 529 *octodecies* of the Corporate Enterprises Act.

3.5.2. Remuneration system for non-executive directors

The Policy also details each of the **specific elements** that make up the remuneration system applicable to all **non-executive directors**, which have not been modified with regard to the previous Policy, and therefore are still the following:

- **a.** An annual fixed allowance for the role of member of the Board and member of the various Committees, as well as for performing any other duties or responsibilities that may be assigned to them under the framework of the Bank's Corporate Governance System.
- **b.** A remuneration in kind, which includes the healthcare and accident insurance policies taken out by the Bank.
- **c.** A fixed remuneration system through deferred delivery of BBVA shares, consisting in an annual allocation of a number of the Bank's theoretical shares to non-executive directors. These shares will be effectively delivered, as applicable, on the date on which they cease to be directors, provided that this is on any grounds other than serious breach of duties.

  The specific conditions of this system during the term of the Policy are established in Part II thereof.

3.5.3. Remuneration system for executive directors

System elements

The Policy also details each of the rights and other economic rewards for each **executive director**, which are set out in their respective contracts and, as of the date of the Policy, are as follows:

A. Fixed remuneration

Made up by the following elements, the structure and description of which is detailed in the Policy with greater clarity:

- a. Annual Fixed Remuneration (gross annual salary), which reflects the level of responsibility of their duties and it is in no case linked to variable parameters or results.
- b. Remuneration in kind, which includes the healthcare and accident insurance policies taken out by the Bank, as well as other benefits in kind applicable to the Bank's Senior Management.
- c. Contributions to pension systems[2] and other fixed benefits or allowances which, in general, may be part of the remuneration of the Bank's Senior Management.

B. Annual Variable Remuneration

a. Annual Variable Remuneration (“**AVR**”)

As defined in the Policy, the AVR of the executive directors remains as a single variable incentive awarded on an annual basis and which reflects their performance. This is measured through the

[2] The part considered as “discretionary pension benefits” (15% of the agreed annual contribution) according to the regulations applicable to the Bank is considered as variable remuneration.

achievement of a set of targets established to assess the results obtained in each financial year for a series of indicators that take into account the strategic priorities defined by the Group and that consider the risk incurred.

As established in the Policy approved in 2019, but seeking greater clarity of concepts in line with the terminology used in the applicable regulations, the Policy establishes a description of the rules for the award, vesting and payment of this variable remuneration:

- Conditions for the accrual of Annual Variable Remuneration

  For the purposes of ensuring alignment with results and the long-term sustainability of the Institution, the Annual Variable Remuneration of executive directors will not be accrued, or will be reduced, if certain profit and capital ratio levels are not achieved.

  Likewise, the Annual Variable Remuneration shall be reduced in the event of a downturn in the Group' results or other parameters, such as the level of achievement of budgeted targets, at the time of the executive directors' performance appraisal.

- Rules for calculating the Annual Variable Remuneration

  The Annual Variable Remuneration for each executive director will be calculated on the basis of a "**Target**" **Annual Variable Remuneration** or **Target Bonus** and based on the Annual Performance Indicators (financial and non-financial), which take into account the Group's strategic priorities, as well as current and future risks and the corresponding achievement scales, according to the weighting assigned to each indicator and the annual targets established for each indicator.

  The **Annual Performance Indicators** approved by the Board of Directors at the proposal of the Remunerations Committee for 2021 financial year are included as **Appendix 1** to the Policy.

  In the total remuneration of executive directors, fixed components and variable components are adequately balanced, making fixed remuneration a sufficiently high portion of overall remuneration. Thus, as of the date of the Policy, the relative ratio between the main fixed and variable components of the remuneration for executive directors is unchanged from the 2019 policy: 45% Fixed Annual Remuneration and 55% Target Annual Variable Remuneration.

  The variable component of the remuneration will always be limited to a maximum amount of 100% of the fixed component of the total remuneration, unless the General Shareholders' Meeting resolves to increase this percentage up to 200%.

- Rules for the vesting and payment of Annual Variable Remuneration

  The Policy maintains, in general, de same settlement and payment rules as the former Policy:

  - A significant percentage of the AVR of each financial year (60%) will be deferred, for a period of 5 years.

- A substantial portion of this AVR (50% of the initial portion and 60% of the deferred portion) will be paid in BBVA shares.

  The number of shares required to cover this system is established in **Part III** of the Policy.

- In order to ensure alignment with prudent risk management and long-term value creation, the deferred component of the AVR may be reduced, but never increased, based on the result of **Multi-year Performance Indicators** aligned with the Group's core risk management and control metrics and the main metrics of long-term value creation (*ex-post* adjustments).

- As a **new development** with respect to the Policy approved in 2019, the Policy includes a new **vesting and payment schedule** of the Deferred AVR, so that this remuneration is received proportionally from the year following the one on which the upfront portion is paid and until termination of the deferral period, which will continue to be five years.

  Under this new schedule, the deferred portion of the AVR that is paid after the third, fourth and fifth year of deferral, shall be subject to *ex-post* adjustments derived from the Multi-year Performance Indicators.

- Throughout the whole deferral and withholding periods, AVR will be subject to **malus** and **clawback clauses**.

  As **new development**, the Policy incorporates the possibility to apply reduction and recovery mechanisms of the Annual Variable Remuneration, regardless the financial impact caused, in case of **relevant reputational damage** to the Bank.

- The deferred cash amounts finally paid may be adjusted by applying the consumer price index (CPI) measured as year-on-year change in prices, or any other criteria established for such purposes by the Bank's Board of Directors.

- A **withholding one-year period** is maintained for all shares delivered since the date in which they were delivered. The above will not apply to shares that are transferred for the purpose of honouring the payment of taxes accruing on the shares delivered.

- No personal hedging strategies or insurance may be used in connection with the remuneration and responsibility that may undermine the effects of alignment with prudent risk management.

b. Other variable remuneration

The Policy, in accordance with the provisions of the Bylaws, and in order to obtain more clarity, sets out that executive directors shall be beneficiaries of the incentive schemes in place for all Senior Management of the Bank, which may include the delivery of shares, or share options or remuneration indexed to the share price, subject to the requirements of the legislation in force at any given time.

In the event that the Board of Directors deems it appropriate to establish an incentive of this nature during the term of this Policy, it shall be submitted for approval to the General Shareholders' Meeting, in accordance with the provisions of the applicable regulations.

Restrictions on the transferability of shares

Finally, as a new development compared to the Policy approved in 2019, and in order to align the Policy with the Code of Good Governance for listed companies of the Spanish National Securities Market Commission, revised in June 2020, the Policy **adapts the wording of the directors' commitment not to transfer shares** and establishes that once executive directors receive shares as part of their Annual Variable Remuneration, ownership may not be transferred until at least three years have elapsed, unless the director in question, at the time of the transfer, has a net financial exposure to changes in share price for a market value equal to at least twice their Annual Fixed Remuneration through the ownership of shares, options or other financial instruments. The foregoing shall not apply to any shares that the director needs to dispose of in order to cover the costs associated with their acquisition or, subject to approval by the Remunerations Committee, in the event of extraordinary situations that require it.

Main terms and conditions of the executive directors' contracts

The main terms and conditions of the executive directors' contracts remain as stated in the previous Policy, and thus:

- They have an indefinite duration.
- They do not establish any prior notice period, tenure or loyalty clauses.
- They may contain a welfare portion, according to the individual conditions of each executive director, including appropriate insurance and pension systems.
- They include a two-year post-contractual non-competition clause.
- They do not include commitments to make severance payments.

Amongst the main terms and conditions of the executive directors' contracts, the Policy stipulates the detail of the commitments made by the Bank in favour of each of the executive directors regarding pension systems.

In this regard, in relation to the **Chairman, Carlos Torres Vila**, as main development, it is included the **transformation of his system**, by which the amount of the agreed annual contribution to be made by the Bank in order to cover the retirement contingency is significantly reduced.

Therefore, the proposed transformation of the Chairman's pension, as previously mentioned, involves a **reduction of the amount of the annual contribution agreed** in 2017 — which was established as an annual fixed amount of EUR 1,642 thousand in line with the rights to which he was entitled to by contract as of that date — to provide for the said annual contribution to represent an amount equivalent to **15% of his Annual Fixed Remuneration**, which corresponds to a percentage aligned with that represented by said contribution in the remuneration of the rest of the Group's Senior Management.

This change involves that the difference between the previous annual contribution and the new contribution will be transferred in a percentage, respecting the current distribution of his fixed and variable remuneration proportion approved by the Board for the Chairman (45%-55%), to his Annual Fixed Remuneration and his Target Annual Variable Remuneration applying a deduction of the amount to be transferred of EUR 157,000[3], which will result in a **reduction of the amount of his total resulting remuneration**.

However, the main characteristics of the commitment made by the Bank in favour of the Chairman to cover retirement contingency are still as follows, in line with the commitments made in favour of the Senior Management:

- It is part of an established defined-contribution system, for which the annual contribution to be made to cover the retirement contingency is established in advance.
- No provision is made regarding the possibility of receiving the retirement pension in advance.
- It is stipulated that 15% of the agreed annual contributions shall be considered "discretionary pension benefits", pursuant to the provisions of Bank of Spain Circular 2/2016.

The Policy also stipulates the commitments made by the Bank in favour of the Chairman to cover the death and disability contingencies. The coverage levels for these contingencies have also been reviewed on the occasion of the system transformation previously referred to.

Therefore, as a **new development**, the Board of Directors has reached an agreement with the Chairman to **reduce the coverage levels for the death and disability contingencies** in terms set out in section 4.4.2 of the Policy.

With regard to the **Chief Executive Officer, Onur Genç**, the Bank maintains unaltered the same conditions provided for the former Policy; and thus:

- He is entitled to an annual cash in lieu of pension for an amount equivalent to 30% of his Annual Fixed Remuneration.
- The Policy also stipulates the commitments made by the Bank in favour of the Chief Executive Officer in order to cover the disability and death contingencies, with the framework recognised in the former Policy remaining unchanged.
- Moreover, in view of his status as an international executive, he maintains the right to a mobility allowance, in line with the commitments made to other expatriate members of the Bank's Senior Management, which has been set at the amount of EUR 600 thousand per year.

Finally, the BBVA Directors' Remuneration Policy, which will be submitted to the General Shareholders' Meeting for approval, includes the amount of remuneration set by the Board of Directors, at the proposal of the Remunerations Committee, for each of the roles and duties of the non-executive directors, within the maximum amount of EUR 6,000 thousand, approved by the General Shareholders' Meeting for all of the directors in their condition as such. In addition, the Policy sets out the conditions of the fixed

[3] Which represents a reduction of the amount to be integrated in the Annual Fixed Remuneration of 25%.

remuneration system with deferred delivery of BBVA shares applicable to non-executive directors, among which the maximum necessary number of shares to implement it is included (Part II).

Likewise, the Policy stipulates the remuneration and economic rights of each executive director reflected in their respective contracts, which are approved by the Board of Directors at the proposal of the Remunerations Committee. Within the described framework, the Remuneration Policy, includes the amounts of the Annual Fixed Remuneration of the executive directors set by the Board of Directors at the proposal of the Remunerations Committee, along with the criteria used for its update during the term of the Policy and the parameters for the accrual and calculation of the Annual Variable Remuneration, indicating the main selected performance criteria and award, vesting and payment rules applicable to this remuneration.

With regard to the Chairman, Carlos Torres Vila, his conditions have changed compared to that stipulated in the 2019 Policy, due to the transformation of the pension system previously referred to, as has been set out in this Report and is provided for in the corresponding sections of the Policy.

In the case of the Chief Executive Officer, Onur Genç, his conditions have not been modified since his appointment in December 2018 and thus remain the same as those stipulated in the Policy approved at the General Shareholders' Meeting in 2019, and are also included in the Policy.

3.6. Conclusion

In accordance with the foregoing, **the Remunerations Committee of the BBVA Board of Directors considers that the modifications to the BBVA Directors' Remuneration Policy proposed are appropriate**, being understood that they provide for better alignment of the Policy with the latest market trends, reinforcing its contribution to the business strategy, objectives and long-term interests of the Bank and its alignment with medium and long-term prudent risk management.

In light of the foregoing, **the Remunerations Committee has concluded that the BBVA Directors' Remuneration Policy for the 2021, 2022 and 2023 financial years**, which is expected to be submitted by the Board of Directors to the General Shareholders' Meeting for approval, **is in accordance with the applicable regulations and recommendations in force and is aligned with the interests of its shareholders**.

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Madrid, 2 February 2021.