



# Remuneration Policy for BBVA Directors

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# I. Remuneration Policy for BBVA Directors

## 1. Background and regulatory framework

This policy has been designed within the framework of Spanish commercial legislation as set out in the Royal Legislative Decree 1/2010, of 2 July, approving the revised text of the Corporate Enterprises Act (hereinafter, the “**Corporate Enterprises Act**”), as well as in specific regulations applicable to credit institutions, mainly laid down in Act 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions (hereinafter, “**Act 10/2014**”) and in its implementing legislation, and in accordance with the provisions of the Bylaws of Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter, “**BBVA**” or the “**Bank**”), likewise taking into consideration best market practices and recommendations, at both national and international levels.

Article 29 of Act 10/2014 stipulates that credit institutions and consolidated groups of credit institutions shall have robust corporate governance arrangements which shall include, among other aspects, remuneration policies and practices compatible with sound and effective risk management.

Article 33.3 of this Act provides that the remuneration policy for board members of credit institutions shall be submitted for approval to the General Shareholders’ Meeting under the same terms as established for listed companies.

In this regard, article 17 of BBVA’s Board Regulations establishes, among the functions of the Board of Directors, the approval of the directors’ remuneration policy, in order to submit it to the General Shareholders’ Meeting for approval, as set out in Article 529 *novodecies* of the Corporate Enterprises Act. These Regulations also lay down, in article 36, that the functions of the Remunerations Committee include to submit a proposal to the Board of Directors regarding the directors’ remuneration policy.

On the basis of the foregoing, the Board of Directors, at the proposal of the Remunerations Committee, 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 years 2015, 2016 and 2017. This policy was approved by 95.41% of the votes.

This policy was fully in line with the requirements established by both the Corporate Enterprises Act and Act 10/2014, which, among others, transposed into Spanish law Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (“**CRD IV**”), which contains specific regulation concerning the remuneration systems of credit institutions with respect to the



remuneration of certain staff with impact on the risk profile, among which members of the Board of Directors are included.

Notwithstanding the aforementioned, new regulations on remuneration matters were introduced in 2016 (i.e. Bank of Spain Circular 2/2016, of 2 February, on the supervision and solvency of credit institutions, and the European Banking Authority Guidelines on sound remuneration policies (“**EBA Guidelines**”)) which, along with developments in market practices, the outcome of the dialogue between BBVA and its investors and the nature of the Bank’s Corporate Governance System, which is under constant development and improvement, led the Remunerations Committee to conduct a review of the applicable remuneration policy and the overall compensation system, in order to assess a possible update.

Thus, following an in-depth analysis carried out with the assistance of leading independent international consultants specialising in compensation, such as McLagan (part of McLagan/AonHewitt group) and Garrigues Human Capital Services, the Board of Directors, at the proposal of the Remunerations Committee, has approved a new remuneration policy applicable to BBVA directors for the years 2017, 2018 and 2019 (hereinafter, the “**Policy**” or the “**Remuneration Policy for Directors**”), which, maintaining the clarity of concepts and the simplicity of the remuneration scheme, adds the following new characteristics for executive directors:

- ✓ A clearer allocation between fixed and variable components of remuneration, as well as criteria to determine these components.
- ✓ A change in the balance between the fixed and variable components of remuneration, to better align it with applicable regulations, providing more flexibility to variable remuneration with respect to fixed remuneration. In no case such change entails an increase in the total remuneration of beneficiaries.
- ✓ An increase of the deferred components of variable remuneration (60%) and an increase in the deferral period (5 years).
- ✓ An increase in the share-based component of variable remuneration.
- ✓ A review of arrangements for the reduction and recoupment of variable remuneration (“malus” and “clawback”) to align them with the criteria set forth in new regulations.
- ✓ Elimination of the defined-benefit pension scheme established for the Chief Executive Officer.
- ✓ Consideration of a portion of the contributions to pension schemes as “discretionary pension benefits”, as required by new regulations.
- ✓ Modification of the contractual conditions applicable to payments for termination of contracts.

- ✓ The commitment not to transfer a number of shares equivalent to twice the annual fixed remuneration for a period of, at least, three years from the time of their vesting, maintaining the general one-year retention period applicable to all shares. This shall not apply to the transfer of those shares required to honour the payment of taxes.

These changes are framed within the modification of the remuneration policy for those categories of staff whose professional activities have a significant impact on the Group's risk profile, among which BBVA's executive directors and Senior Management are included (hereinafter jointly referred to as the "**Identified Staff**"), which has been approved by the Board of Directors, at the proposal of the Remunerations Committee, as detailed below.

The new Remuneration Policy for Directors for the years 2017, 2018 and 2019 will be submitted for approval by BBVA's next Annual General Shareholders' Meeting, to be held on 17 March 2017, under agenda item Six, accompanied by the mandatory report on the Policy prepared by the Bank's Remunerations Committee.

## 2. General principles of the remuneration policy for BBVA Group

The remuneration policy for BBVA Group is oriented to the recurring creation of value for the Group, seeking at the same time alignment between the interests of its employees and shareholders with prudent risk management.

For these purposes, the remuneration policy for BBVA Group is based on the following principles:

- long-term value creation;
- reward achievement of results on the basis of prudent 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;
- benchmark performance against the market using analyses from prestigious consultancy firms specialising in compensation;
- ensure transparency of the remuneration scheme.

BBVA has defined its remuneration policy on the basis of these general principles, taking into consideration compliance with the applicable legal requirements for credit institutions

and the alignment with best market practices, and has also included mechanisms devised to reduce exposure to excessive risks and to adjust remuneration to the targets, values and long-term interests of the Bank.

### 3. General principles of the remuneration policy for the Identified Staff

On the basis of the Group's general principles of remuneration policy, BBVA has a specific policy applicable to the Identified Staff approved by the Board of Directors, at the proposal submitted by the Remunerations Committee, and is aligned with the regulations and recommendations applicable to remuneration schemes for this staff.

This policy is part of the mechanisms designed by the Board of Directors, as part of BBVA's Corporate Governance System, to guarantee sound and prudent management of the Bank and, as such, it serves the following principles:

- ✓ It is consistent with and promotes sound and effective risk management at both medium and long term, and does not provide incentives to encourage risk-taking that exceed the level tolerated by the Bank.
- ✓ It is in line with the Bank's business strategy, objectives, values and long-term interests.
- ✓ It provides a clear distinction between criteria for the allocation of remuneration to fixed and variable components, and offers an adequate balance between both components.

As indicated above, the Board of Directors, at the proposal of the Remunerations Committee, has approved a new remuneration policy applicable to the Identified Staff (hereinafter, the "**Remuneration Policy for the Identified Staff**"), aimed at improving alignment of BBVA's compensation practices with applicable regulations, good governance recommendations and best market practices, thereby enabling BBVA to continue as a market reference in remuneration.

This new Remuneration Policy for the Identified Staff includes the following main features:

- **Balance between the fixed and variable components** of the total remuneration for Identified Staff, in order to better align it with applicable regulations, enabling a policy which is fully flexible with regard to payment of the variable components. Thus allowing for the variable component to be reduced in its entirety, where appropriate. The proportion between fixed and variable components shall be determined taking into account the type of functions performed by each beneficiary (business, support or control functions), and hence their impact on the Bank's risk profile, adapted in each case to the reality of different countries or functions.

- **Variable remuneration** comprises **an incentive**, based on the establishment of indicators of value-creation, which combine the staff's results with those of their unit, of the area to which they belong and those of the Group as a whole. It shall be calculated on the basis of certain annual performance indicators (financial and non-financial), according to the corresponding scales of achievement and the weight allocated to each indicator.
- A significant percentage of annual variable remuneration (60% in the case of executive directors, Senior Management and those Identified Staff members with particularly high variable remuneration, and 40% for the rest of the Identified Staff) **shall be deferred** over a 5-year period, in the case of executive directors and Senior Management, and a 3-year period, for the remaining Identified Staff.
- A substantial portion and, at least, 50% of the variable remuneration of each year (including both upfront and deferred remuneration) **shall be established in BBVA shares**, albeit a larger proportion (60%) of variable remuneration in shares shall be deferred in the case of executive directors and Senior Management.
- Variable remuneration shall be subject to **ex ante adjustments** based on present and future risks and taking also into consideration the cost of capital and liquidity.
- The deferred portion of annual variable remuneration (both in shares and in cash) may be reduced in accordance with **ex post adjustments**, based on the result of multi-year performance indicators associated with the share performance and the Group's fundamental risk metrics, related to profitability, liquidity and long-term solvency, calculated over a 3-year period. A number of scales of achievement will be associated to such indicators whereby, should the targets set for each indicator during the 3-year period not be achieved, the deferred amount of variable remuneration may be reduced, even in its entirety (yet never be increased).
- During the entire deferral period (5 or 3 years, in each case) and retention period, the variable remuneration shall be subject to **malus and clawback arrangements** both linked to a downturn in financial performance of the Group, a unit or individual, under certain circumstances, in the terms described hereafter.
- All shares shall be **withheld** from the beneficiaries for one year from the date of delivery, except for the transfer of those shares required to honour the payment of taxes.
- No **personal hedging strategies** or insurance may be used in connection with remuneration and responsibility that may undermine the effects of alignment with sound risk management.



- The deferred amounts in cash of variable remuneration subject to multi-year performance indicators that are finally paid shall be subject to **updating**, in the terms determined by the Bank's Board of Directors, whereas deferred amounts in shares shall not be updated.
- Lastly, the variable component of the remuneration of the Identified Staff members shall be **limited to a maximum amount of 100%** of the fixed component of total remuneration, except for those Identified Staff members for whom the General Meeting agrees to increase such percentage up to 200%.

#### 4. Remuneration Policy for BBVA Directors

Pursuant to the provisions of BBVA's Bylaws and in the framework of the Remuneration Policy for the Identified Staff described above, the Remuneration Policy for Directors distinguishes between the compensation system applicable to directors in their capacity as such (non-executive directors) and the system applicable to executive directors.

The remuneration system for **non-executive directors**, in accordance with article 33 *bis* of the Bylaws, is based on the criteria of responsibility, dedication and incompatibilities inherent to the role, and consists of a **fixed remuneration** which comprises the following elements:

- ✓ An annual remuneration in cash for carrying out the role of director and, where applicable, as member of the different Committees, with a greater weight allocated to the role of Chairman of each Committee; being the specific amount set depending on the nature of the duties attributed to each Committee, the dedication required and the number of meetings of these Committees.
- ✓ A deferred remuneration in shares, instrumented through the annual allocation to each non-executive director of a number of "theoretical shares", equivalent to 20% of their annual cash remuneration received the previous year. These shares shall be delivered, where applicable, on the date on which they cease to be directors for any grounds other than serious breach of their duties.

**Executive directors** have a remuneration system defined in accordance with best market practices, which includes the concepts set forth in article 50 *bis* of BBVA's Bylaws and which in turn correspond to those generally applicable to members of BBVA's Senior Management.

Therefore, executive directors have a remuneration system comprising the following elements:

- ✓ A fixed remuneration, which takes into account the level of responsibility of the functions carried out and constitutes a significant portion of their total



compensation, ensuring it is competitive in relation to the remuneration applied to equivalent functions in leading peer institutions; and

- ✓ A variable remuneration, the amount of which is determined on the basis of the level of achievement of pre-established targets, linked to the Group's results, to long-term value creation and to the performance of the functions carried out; and which is subject to the same settlement and payment system applicable to the rest of the Identified Staff, in a manner compatible with effective risk management, all with the specific features set out below.

A detailed explanation of the various elements of the remuneration system for BBVA directors is provided below. These shall be applicable to the current directors as well as to any other directors who may be appointed during the term of this Policy.

#### 4.1 Remuneration system for non-executive directors

BBVA's Board of Directors has 12 non-executive directors at the date of this Policy:

Non-executive directors	Executive Committee	Audit & Compliance Committee	Risks Committee	Remunerations Committee	Appointments Committee	Technology & Cybersecurity Committee
Tomás Alfaro Drake		X			X	X
José Miguel Andrés Torrecillas		X	X		X	
José Antonio Fernández Rivero	X			X		
Belén Garijo López		X		X		
Sunir Kumar Kapoor						X
Carlos Loring Martínez de Irujo	X		X			
Lourdes Máiz Carro		X			X	
José Maldonado Ramos	X				X	
José Luis Palao García-Suelto			X	X		
Juan Pi Llorens		X		X		X
Susana Rodríguez Vidarte	X		X		X	
James Andrew Stott			X	X		X

Non-executive directors have a specific remuneration system based on the responsibility, dedication and incompatibilities required to hold the position. As mentioned above, this system is made up of the following elements:

##### a) Annual fixed remuneration in cash

Pursuant to article 33 *bis* of the Bylaws, the General Shareholders' Meeting shall set the amount of the annual allowance that the Bank may grant to directors acting in such capacity, and the Board of Directors is, in turn, responsible for distributing this amount,



according to the criteria described below, with powers to reduce the amount allocated if deemed appropriate.

To this end, the Bank's General Shareholders' Meeting held in 2012 resolved to set the aggregated annual amount payable by the Bank to directors acting in their capacity as such at six million euro (€6,000,000). This amount shall remain in force until the General Meeting resolves to change it.

As a result, non-executive directors shall receive a fixed annual amount in cash for their condition as directors and members of the different Committees, with the specific amount being set according to the nature of the duties attributed to each Committee and the dedication required, with greater weight allocated to the function of Chairman of each Committee. These amounts, in accordance with the resolution approved by the Board of Directors at the proposal of the Remunerations Committee, are as follows:

Position	Amount (thousands of euros)
Member of the Board	129
Member of the Executive Committee	167
Chair of the Audit and Compliance Committee	179
Chair of the Risks Committee	214
Chair of the Remunerations Committee	107
Chair of the Appointments Committee	102
Chair of the Technology and Cybersecurity Committee	107
Member of the Audit and Compliance Committee	71
Member of the Risks Committee	107
Member of the Remunerations Committee	43
Member of the Appointments Committee	41
Member of the Technology and Cybersecurity Committee	43

The Annual Reports on the Remuneration of Directors submitted each year for consideration by the General Meeting shall include a breakdown of the amounts and concepts received by each director in the course of the corresponding year.

#### **b) Other fixed remuneration**

Pursuant to article 14 of BBVA's Board Regulations, non-executive directors are beneficiaries of healthcare and accident insurance policies taken out by the Bank, which pays the relevant premiums, and which are attributed to the directors as remuneration in kind, as detailed in the Annual Report on the Remuneration of Directors.

### c) Remuneration system with deferred delivery of shares

Furthermore, as provided in article 33 *bis* of the Bylaws, the Bank has a remuneration system in BBVA shares with deferred delivery to non-executive directors, which was approved by the Bank's General Shareholders' Meeting held on 18 March 2006, initially extended by the General Meeting held on 11 March 2011 and subsequently, for a further 5-year term, by the General Meeting held on 11 March 2016.

This system is based on the annual allocation to non-executive directors, as part of their fixed remuneration, of a number of "theoretical shares" of the Bank, which will be delivered to each beneficiary, where applicable, on the date they cease in their position as directors for any reason other than serious breach of their duties.

The number of annual "theoretical shares" to be allocated to each non-executive director shall be equivalent to 20% of the total remuneration in cash received by each non-executive director in the previous year, according to the average closing prices of the BBVA share during the 60 trading sessions prior to the Annual General Shareholders' Meetings approving the corresponding financial statements for each year.

#### New non-executive directors

This same remuneration system will be applicable to any new non-executive director that may be appointed during the term of this Policy.

## 4.2 Remuneration system for executive directors

BBVA's Board of Directors currently has 3 executive directors, out of a total of 15:

Director	Position
Francisco González Rodríguez	Group Executive Chairman
Carlos Torres Vila	Chief Executive Officer
José Manuel González-Páramo Martínez-Murillo	Director of Global Economics, Regulations & Public Affairs ("GERPA")

As mentioned, the remuneration system for executive directors has the following components:

### a) Annual fixed remuneration

The annual fixed remuneration (or annual basic remuneration) of each executive director corresponds to the annual amount received for the performance of their functions, which reflects the level of responsibility of said functions and which is in no case linked to variable parameters or results obtained (hereinafter, the "**Annual Fixed Remuneration**").

- ✓ The Annual Fixed Remuneration of each executive director will be set annually by the Remunerations Committee, which is composed exclusively of non-executive directors and of a majority of independent directors, to be subsequently submitted for approval by the Board of Directors.
- ✓ For the purposes of determining this remuneration and its potential updates, the Remunerations Committee shall take into account the level of responsibility and the required dedication. Additionally, it shall take into account market analyses carried out by leading independent consultants in order to determine compensations which are appropriate to the functions carried out and competitive in the market. Other factors shall also be considered, such as average increases in the annual basic remuneration of members of the Bank's Senior Management.

### b) Other fixed remuneration

Other fixed components of the remuneration of executive directors are: remuneration in kind, contributions to pension plans<sup>1</sup>, where applicable, and any other benefits or allowances which are generally part of the remuneration of Senior Management and are not based on variable parameters.

Pursuant to article 50 *bis* of the Bylaws, executive directors are beneficiaries of healthcare and accident insurance policies taken out by the Bank, which pays the relevant premiums, and which are attributed to the directors as remuneration in kind.

Additionally, the Bank pays executive directors other remuneration in kind and the social benefits or allowances generally applicable to the Bank's Senior Management, the amounts of which are included in the Annual Report on the Remuneration of Directors.

The pension scheme applicable for executive directors is detailed in paragraph d) below.

### c) Variable remuneration

The variable remuneration of executive directors corresponding to each year is based on an annual incentive which reflects their performance on the basis of the level of achievement of objectives that are in line with the risk incurred.

- ✓ Annual variable remuneration of each executive director for each year shall be calculated on the basis of:
  - (i) annual performance indicators (financial and non-financial) which take into account present and future risks, as well as the strategic priorities defined by the Group;

<sup>1</sup> In the portion that does not constitute "discretionary pension benefits", pursuant to this Policy and the applicable regulations.

- (ii) the scales of achievement, according to the weight assigned to each indicator;
- (iii) a "target" annual variable remuneration, which represents the amount of annual variable remuneration if 100% of the objectives set are met (the "**Target Annual Variable Remuneration**").

All of the above as established annually by the Board of Directors, at the proposal of the Remunerations Committee.

- ✓ The financial annual performance indicators shall be aligned with the Group's most relevant management metrics, among others, those related to the capacity to generate profits, efficiency, return on capital and present and future risks implicit in results; while non-financial indicators will be related to customer satisfaction and to strategic targets defined at Group level and specific to each executive director (hereinafter, the "**Annual Performance Indicators**").
- ✓ The amount resulting each year shall constitute the annual variable remuneration of each executive director, which shall be determined by the Remunerations Committee and submitted to the Board of Directors for approval (hereinafter, the "**Annual Variable Remuneration**").

### **Balance between fixed remuneration and variable remuneration**

The fixed and variable components of the total remuneration of executive directors will be appropriately balanced.

For these purposes, the Annual Fixed Remuneration of executive directors shall constitute a sufficiently large proportion of the total remuneration, in order to enable the implementation of a policy on the Annual Variable Remuneration which is fully objective in terms of its application and stringency, allowing even for variable remuneration not to accrue in a given year.

In this regard, the Bank has determined "target" ratios between the Annual Fixed Remuneration and the Target Annual Variable Remuneration for BBVA's executive directors, which take into account the functions carried out by each executive director and their impact on the Bank's risk profile, and are aligned with the ratios established in general terms for the Identified Staff.

The "target" ratios for executive directors during the term of this Policy are the following:

Executive Director	Annual Fixed Remuneration	Target Annual Variable Remuneration
Group Executive Chairman	45%	55%
Chief Executive Officer	45%	55%
Director of GERPA	70%	30%



Pursuant to the above, the Board of Directors, at the proposal of the Remunerations Committee, has approved the following amounts of Annual Fixed Remuneration for each executive director:

Executive Director	Annual Fixed Remuneration (in euros)
Group Executive Chairman	2,474,993
Chief Executive Officer	1,965,032
Director of GERPA	833,970

These amounts shall remain in force until the Board of Directors agrees to update them pursuant to the aforementioned criteria, i.e. the level of responsibility within the organisation, market research and analyses carried out by external third parties and the average remuneration increases for the Bank's Senior Management. In the event that these updates take place, they shall be included in the Annual Report on the Remuneration of Directors, which is submitted yearly to consideration by the General Meeting.

### **Specific system for the settlement and payment of the variable remuneration of executive directors**

The Annual Variable Remuneration of each executive director, calculated as described above, shall be subject to the same settlement and payment system applicable to the Identified Staff, with the particularities applicable to executive directors. The settlement and payment system has the following features:

#### Deferral rules

- ✓ 60% of the Annual Variable Remuneration of executive directors shall be deferred for a period of five (5) years.

#### Payment in shares

- ✓ The upfront payment of the Annual Variable Remuneration of executive directors shall be made, in equal portions, in cash and in BBVA shares, whilst the deferred portion shall be divided into 60% in BBVA shares and 40% in cash.

#### Ex ante adjustments to Annual Variable Remuneration

- ✓ The Annual Variable Remuneration of executive directors will not be accrued, or will be accrued in a reduced amount, should a certain level of profit and capital ratio not be obtained.
- ✓ Likewise, the Annual Variable Remuneration will be reduced upon performance assessment in the event of negative evolution of the Bank's

results or other parameters such as the level of achievement of budgeted targets (i.e. depending on the results of the Annual Performance Indicators).

#### Ex post adjustments to Annual Variable Remuneration

- ✓ The deferred component of the Annual Variable Remuneration of executive directors may be reduced in its entirety, yet not increased, based on the result of multi-year performance indicators aligned with the Bank's fundamental 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 ("**Multi-year Performance Indicators**"). These indicators are approved by the Board of Directors, after analysis by the Risks Committee, which verifies their adequacy to align the deferred variable remuneration with sound risk management.

#### Malus and clawback arrangements to Annual Variable Remuneration

- ✓ The entire Annual Variable Remuneration of executive directors will be subject to malus and clawback arrangements during the entire deferral and retention period, in the same terms as for rest of the Identified Staff, as stipulated hereunder.

#### Retention periods for shares

- ✓ Shares received by executive directors as Annual Variable Remuneration shall be withheld for a period of one year after delivery.
- ✓ Additionally, upon reception 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.

The above shall not apply to the transfer of those shares required to honour the payment of taxes.

#### Hedging prohibitions

- ✓ Executive directors shall not be allowed to use personal hedging strategies or insurance in connection with remuneration and responsibility that may undermine the effects of alignment with sound risk management.

#### Limitation of variable remuneration

- ✓ The variable component of the remuneration of executive directors for a financial year shall be limited to a maximum amount of 100% of the fixed component of total remuneration, unless the General Meeting resolves to increase this percentage up to 200%.

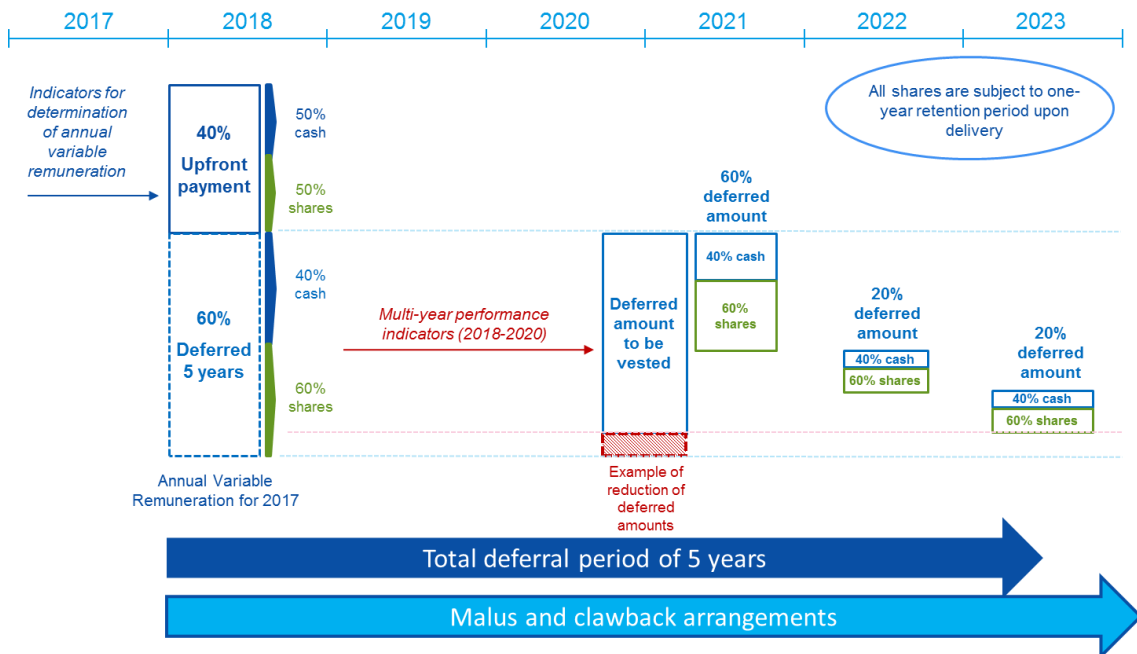
#### Updating criteria

- ✓ On an annual basis, the Board of Directors, at the proposal of the



Remunerations Committee, may establish criteria to update only the portion of Annual Variable Remuneration deferred in cash.

A **graphic example** of the settlement and payment system for the Annual Variable Remuneration of BBVA's executive directors, as described in this Policy, is represented below, with the year 2017 as reference:



Under this system, the upfront payment of Annual Variable Remuneration shall be made during the first quarter of the year following the year of accrual, if conditions have been met, and the shares delivered shall be subject to a one-year retention period.

The deferred portion of the Annual Variable Remuneration of each executive director, as mentioned, shall be subject to *ex post* adjustments, based on the results of the Multi-year Performance Indicators established for each year, to be calculated over the first three (3) years of the deferral period.

The Multi-year Performance Indicators will have scales of achievement associated, established by the Board of Directors once the Annual Variable Remuneration is awarded for each year. Thus, should the targets set for each indicator not be achieved, the deferred amount of Annual Variable Remuneration may be reduced, even in its entirety (yet never be increased).

The result of the Multi-year Performance Indicators shall determine the amount of the deferred portion of Annual Variable Remuneration to be paid to each executive director, which will vest 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.

Notwithstanding the foregoing, the entire Annual Variable Remuneration of each executive directors will be subject to **malus and clawback** arrangements during the entire deferral and retention period, in the same terms as for the rest of the Identified Staff, and as follows:

Up to 100% of the Annual Variable Remuneration of each Identified Staff member corresponding to each financial year shall be subject to malus and clawback arrangements, both linked to a downturn in financial performance of the Bank as a whole, or of a specific unit or area, or of exposures generated by an Identified Staff member, when such downturn in financial performance arises from any of the following circumstances:

- a) Misconduct, fraud or serious infringement of the Code of Conduct and other applicable internal rules by an Identified Staff member;
- b) Regulatory sanctions or judicial convictions due to events that could be attributed to a specific unit or to the staff responsible for such events;
- c) Significant failure of risk management committed by the Bank or by a business or risk control unit, to which the wilful misconduct or gross negligence of an Identified Staff member contributed;
- d) Restatement of the Bank's annual accounts, except where such restatement is due to a change in applicable accounting legislation.

For these purposes, the Bank will compare the performance assessment carried out for the Identified Staff member with the *ex post* behaviour of some of the criteria that contributed to achieve the targets. Both malus and clawback will apply to the Annual Variable Remuneration of the financial year in which the event giving rise to application of the arrangement occurred, and they shall be in force during the entire period of deferral and retention applicable to the Annual Variable Remuneration.

Notwithstanding the foregoing, in the event that these scenarios give rise to a dismissal or termination of contract of the Identified Staff member due to serious and guilty breach of duties, malus arrangements may apply to the entire deferred Annual Variable Remuneration pending payment at the date of the dismissal or termination of contract, in light of the extent of the damage caused.

In any case, the variable remuneration is paid or vests only if it is sustainable according to the Group's situation as a whole, and justified on the basis of the performance of the Bank, the business unit and of the Identified Staff member concerned.

Malus and clawback arrangements will be applicable to the Annual Variable Remuneration awarded as of the year 2016, inclusive.

The Board of Directors, prior report of the Remunerations Committee and, where applicable, the Audit and Compliance Committee, shall determine whether the circumstances leading to the application of malus and clawback arrangements have arisen, in those scenarios affecting the Group, the executive directors or the Senior Management and, in this case, in light of the level of achievement of such circumstances, the variable remuneration to be reduced or recovered and the manner in which the reduction or the recovery shall apply.

#### **d) Other contractual conditions**

The remuneration, entitlements and economic rewards of each executive director are determined in their respective contracts -which comprise the elements set out in article 50 *bis* of the Bylaws- and approved by the Board of Directors at the proposal of the Remunerations Committee.

Main features of executive directors' contracts:

- ✓ The contracts of executive directors are open-ended and do not include any notice periods, or tenure or loyalty clauses.
- ✓ They include a welfare component, which may include pension schemes and insurance.

#### ***Pension schemes for executive directors***

The Bank has undertaken pension commitments in favour of the Chief Executive Officer and the Director of GERPA to cover retirement, disability and death.

With respect to the Chief Executive Officer, the Board of Directors has approved, at the proposal of the Remunerations Committee, a new benefits framework in order to adapt the framework established in his current contract to the new regulatory requirements and improve its alignment with best market practices. As a result:

- ✓ The former "defined-benefit" pension scheme has been transformed into a "defined-contribution" scheme.
- ✓ The possibility of receiving an early retirement pension has been eliminated.
- ✓ 15% of the annual contributions to pension schemes agreed with the Chief Executive Officer will be considered "discretionary pension benefits", in accordance with Circular 2/2016.

The main features of the new benefits framework for the Chief Executive Officer are as follows:

- The Chief Executive Officer is entitled to a **retirement benefit** when he reaches the legal retirement age, which shall be the amount arising from the annual contributions made by the Bank and applicable yields up to that date.

The annual contribution to this system has been determined on the basis of the benefits committed under the previous defined-benefit scheme and taking into consideration the provision made by the Bank to date to cover such commitment. The contribution determined in this regard amounts to €1,642 thousand.

The annual contribution to this benefits system shall be updated in the same proportion as the Annual Fixed Remuneration for the Chief Executive Officer in the terms established in this Policy.

When retirement age is reached, the Chief Executive Officer shall be entitled to the benefits arising from the contributions made by the Bank in the terms described, provided he does not leave his position as Chief Executive Officer due to serious breach of duties. In the event the contractual relationship terminates before he reaches the retirement age, for reasons other than breach of duties, benefits shall be calculated on the basis of the contributions made by the Bank to that date, with no further contributions made by the Bank.

- Additionally, pursuant to Bank of Spain Circular 2/2016 on the supervision and solvency of credit institutions, 15% of the annual contributions agreed to pension schemes as of the entry into force of said Circular shall be based on variable components and be considered "**discretionary pension benefits**", subject to share delivery, retention and clawback conditions as determined in applicable regulations, as well as to those conditions of variable remuneration applicable under this Policy.
- In the event of **death** prior to retirement, an annual widow's pension, as well as an orphan's pension for each child until they reach the age of 25, will be granted, of an amount equivalent to 70% and 25% (40% in the event of total orphanhood), respectively, of the Annual Fixed Remuneration. This pension shall be paid from the total fund accumulated for the retirement benefit at that time. The Bank will assume the amount of the corresponding annual insurance premiums in order to supplement the benefits coverage.

The cumulative benefits of the widow's and orphan's pension shall not exceed 150% of the Annual Fixed Remuneration.

- The Chief Executive Officer is likewise entitled to an annual pension in the event of total or absolute permanent **disability** while in discharge of his duties, 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 supplement the benefits coverage.

As regards the Director of GERPA, the Board of Directors has approved, at the proposal of the Remunerations Committee, the modification of his benefits framework, as in the case of the Chief Executive Officer, in order to adapt it to the new regulatory requirements and the scheme generally applicable to Senior Management. As a result:

- ✓ A defined-contribution pension scheme is established of an amount equivalent to 30% of his Annual Fixed Remuneration, in line with the general conditions generally established for similar positions at peer institutions; and
- ✓ 15% of the agreed annual contributions will be considered "discretionary pension benefits", in accordance with Circular 2/2016, in the same terms as the Chief Executive Director.

In this regard, the Bank has undertaken benefit commitments to cover the same contingencies as the Chief Executive Officer, in the following terms:

- The Director of GERPA is entitled to a **retirement benefit** when he reaches the legal retirement age, which shall be the amount arising from the cumulative annual contributions and corresponding yields up to that date; to that effect, the contributions regime for each year shall be the result of applying 30% to the Annual Fixed Remuneration.

When retirement age is reached, the Director of GERPA shall be entitled to the benefits arising from the contributions made by the Bank in the terms described, provided he does not leave his position due to serious breach of his duties. In the event the contractual relationship terminates before he reaches the retirement age at his own choice, benefits shall be limited to 50% of the contributions made by the Bank to that date. In any case, the Bank's contributions shall cease upon leave of directorship.

- Pursuant to Bank of Spain Circular 2/2016 on the supervision and solvency of credit institutions, 15% of the annual contributions agreed to pension systems as of the entry into force of said Circular shall be based on variable components and be considered "**discretionary pension benefits**", subject to share delivery, retention and clawback conditions as determined in applicable regulations, as well as to those conditions of variable remuneration applicable under this Policy.
- In the event of **death** prior to retirement, an annual widow's pension, as well as an orphan's pension for each child until they reach the age of 25, will be granted, of an amount equivalent to 50% and 20% (30% in the event of total orphanhood) respectively of the Annual Fixed Remuneration over the previous 12 months, to be paid from the total fund accumulated for retirement pension at that time. The Bank will assume the amount of the corresponding annual insurance premiums in order to supplement the benefits coverage.

The cumulative benefits of the widow's and orphan's pension shall not exceed 100% of the Annual Fixed Remuneration over the previous 12 months.

- The Director of GERPA is likewise entitled to an annual pension in the event of total or absolute permanent **disability** while in discharge of his duties, in an amount equivalent to 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 supplement the benefits coverage.

There are no other pension obligations in favour of executive directors at the date of this Policy.

### **Payments for termination of contracts**

The Bank has no commitments to pay severance indemnity to executive directors.

The new contractual framework for the Chief Executive Officer and the Director of GERPA includes a post-contractual non-compete agreement for a period of two (2) years after they cease as BBVA executive directors, in accordance to which they shall receive remuneration in an amount equivalent to two (2) times their Annual Fixed Remuneration, which shall be paid periodically over course of the two (2) years of non-competition, provided that leave of directorship is not due to death, retirement, disability or serious breach of duties.

### **New executive directors**

This remuneration system shall also be applicable to any new executive directors that may be appointed as members of BBVA's Board of Directors during the term of this Policy, albeit it will be adapted to the functions attributed, the responsibilities undertaken and their professional experience.

In this regard, the Board of Directors shall set a fixed remuneration suitable to these characteristics, in line with the fixed remuneration of current executive directors and in due consideration of the competitive environment comprised by leading peer institutions, applying the same variable remuneration system contained in this Policy as well as any other contractual conditions that may be applicable.

## **5. Final considerations**

The amount of the Annual Variable Remuneration and its link to results shall be included each year in the Annual Report on the Remuneration of Directors to be submitted for consideration by the Annual General Shareholders' Meeting.

For payment of the share-based portion of Annual Variable Remuneration, the reference price shall be the average closing price of the BBVA share between 15 December of the



year to which the Annual Variable Remuneration refers to and 15 January of the following year (both inclusive).

At the proposal of the Remunerations Committee, the Board of Directors shall conduct a regular analysis of the annual and multi-year indicators and their effect on the variable remuneration of beneficiaries, and may make adjustments in accordance with the exceptional circumstances that may arise during the term of this Policy.

Should any event, circumstance or corporate transaction occur at BBVA which, in the opinion of the Board of Directors, could significantly affect the vesting of the deferred portion of the Annual Variable Remuneration, the Board may alter the rules for settlement and the payment schedule described in this Policy.

Specifically, in the event of a takeover or change of control in BBVA as the result of a takeover bid, the outstanding deferred portion of the Annual Variable Remuneration in shares shall be subject to early settlement, with the beneficiaries receiving the equivalent of their shares in cash, on the basis of the price offered in the takeover bid.

## **6. Term of the Policy**

This Policy shall be applicable for the remuneration of BBVA directors during financial years 2017, 2018 and 2019, unless a new resolution is approved by the General Shareholders' Meeting.

In any event, this Policy shall be construed notwithstanding any payments due to executive directors during these years, corresponding to deferred amounts of variable remuneration from previous years, which will be subject to the conditions established for said remuneration.

The Board of Directors may interpret this Policy, and in particular the settlement and payment system of the Annual Variable Remuneration applicable to executive directors, adapting it, where necessary and at the proposal of the Remunerations Committee, to the rules established in applicable regulations, recommendations or best market practices, or to specific requirements made by regulators.



## II. Resolution for the delivery of BBVA shares to executive directors

Pursuant to this Policy, a substantial amount of the variable remuneration of executive directors for each year, whether or not deferred, shall be paid in shares, provided that the conditions established in this regard have been met.

For the implementation of this Policy in the terms set forth herein, the General Shareholders' Meeting is expressly requested authorisation to deliver an overall maximum total of 3 million shares of Banco Bilbao Vizcaya Argentaria, S.A., representing 0.046% of the Bank's current share capital to executive directors and for the three-year term of the Policy (allocating a maximum of 1 million shares per year).

For the purposes of delivery of the shares, the reference price shall be the average closing price of the BBVA share between 15 December of the year to which the Annual Variable Remuneration refers to and 15 January of the following year (both inclusive). For these purposes, the Bank may use any shares comprising or that may comprise its treasury shares, or resort to any other adequate financial system that it determines.

In any case, receipt of these shares is unconnected to share price trends.