

# Corporate governance system of BBVA and its Group

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The corporate governance system of Banco Bilbao Vizcaya Argentaria S.A. (hereinafter "BBVA", the "Company" or the "Bank"), which is considered as the set of principles and rules that regulate the operation of the Company's governing bodies, is covered in the different corporate documents (Bylaws, General Meeting Regulations, Board of Directors Regulations and, for certain Committees of the Board, their own regulations, as well as in other internal corporate governance rules and procedures). The purpose of this document is to summarize the main principles and rules and the operation of such corporate governance system.

BBVA has a corporate governance system that is designed taking into consideration the Bank's idiosyncrasies and nature, as well as the set of rules that are applicable to the Bank, as a financial institution listed on national and international markets, in addition to the best practices and recommendations on this field.

BBVA is a company that has a very broad shareholding base with a strong presence of minority and national and international institutional shareholders. No shareholder has a significant or controlling holding in the Company (its shareholding structure is 100% free float).

Considering this shareholding structure, the Bank's relationship model with its shareholders is based on two basic pillars: respect for the principle of "one share, one vote", without imposing limitations on the exercise of shareholders' rights; and reserving certain matters for the final say of the General Shareholders' Meeting, in accordance with its specific Regulations.

Furthermore, the Bank has a policy on communication with shareholders and investors, which can be accessed via the corporate website and whose general principles are as follows:

- Transparency, truthfulness, immediacy and standardization in the dissemination of information.
- Facilitate awareness of those issues that may be necessary to enable an appropriate exercise of shareholders' rights, providing clear and direct communication channels and lines which allow any doubt on the provided information to be cleared up.
- Periodic disclosure of information, adequately and available in time, to enable shareholders and investors to be informed of the most relevant aspects of the Bank at any time.
- Equal treatment for all shareholders and investors in the same situation, in terms of information, participation and exercise of their rights as shareholders and investors.
- Use of a variety of communication instruments and channels that enable shareholders to access the Bank in the easiest and most convenient way.

With respect to BBVA's managing and supervisory body, according to Spanish regulations, the Bank has a one tier board system, which entails the existence of a single body (the Board of Directors) that performs management, control and oversight, and administration functions.

On this basis, BBVA's corporate governance system mainly rests on the adequate composition of its corporate bodies, on the distribution of duties between the Board of Directors and its Committees, on a suitable decision-making process and on a solid supervision and control system:



The composition of BBVA Board of Directors is a key element of its corporate governance system. Therefore, in accordance with the Board of Directors selection, appointment, rotation and diversity policy, which can be accessed via the corporate website ([www.bbva.com](http://www.bbva.com)), it shall be ensured that its composition has an appropriate balance between the different categories of Board members; that non-executive directors represent an ample majority over executive directors; and that the number of independent directors accounts for, at least, 50% of the total Board members.

The Bank shall ensure that the selection processes do not entail any discrimination that may hinder the selection of female directors and that, by 2020, the number of female Board members represent, at least, 30% of the total number of members of the Board of Directors.

The corporate bodies shall also ensure that they have a suitable and diverse composition, combining individuals who have experience and knowledge of the Group, its businesses and the financial sector in general, with others who have training, skills, knowledge and expertise in other areas and sectors that enable the right balance to be attained in the composition of corporate bodies, in order to improve operation and performance of their duties.

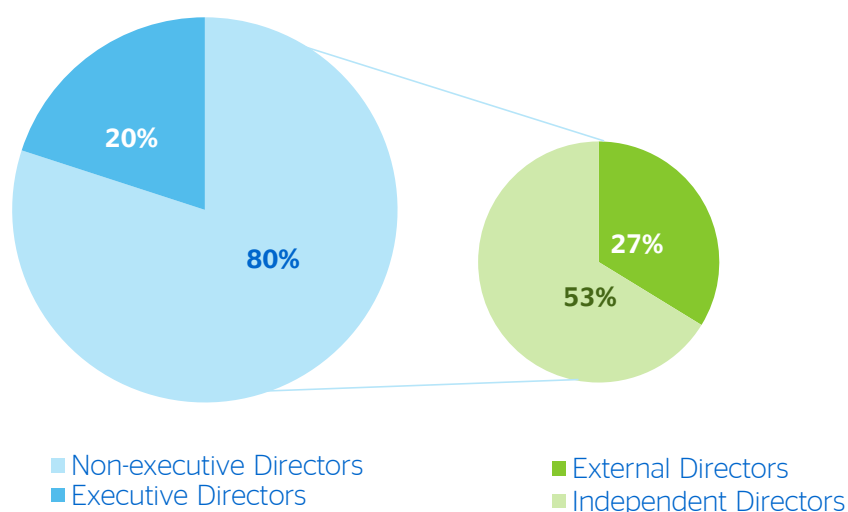
Furthermore, the corporate bodies will assess the advisability of carrying out an orderly rotation of the Board of Directors, which enables to achieve the objectives set out in said policy and an adequate composition on the corporate bodies from time to time.

In accordance with the previous principles and taking into account that in March 2016 two of the current independent directors of the Bank will lose their condition as independent directors due to the fact that they have held their directorships for more than twelve years, BBVA Board of Directors has agreed to propose to the General Meeting to be held in that month, to appoint two new independent members to replace other independent directors who lost this condition, therefore ensuring the goal of having, at least, 50% independent directors on the Board, incorporating the profile deemed necessary.

The new independent directors whose appointment is proposed have a remarkable international background and a diverse experience, in financial and risks fields, one of them; and in IT, digital business and cyber security, the other. This will complement the knowledge and expertise of the Board in matters of high interest for BBVA corporate bodies at this time and increase the diversity in nationality, all of which may contribute to the better performance of the Board's duties.

On the date of this document, BBVA Board of Directors comprises a total of 15 members, three of which are executive directors and the remaining twelve are non-executive directors. Eight of the non-executive directors are independent and the other four are external directors.

### Independence of BBVA Board of Directors (composition before 2016 General Meeting)



Given that the composition of the Board is considered to be an essential element of the Bank's corporate governance system, to ensure its suitable composition at any given time, BBVA's Appointments Committee periodically assesses its structure, size and composition, setting out the relevant processes for the identification and selection of candidates to be put forward as new members of the Board of Directors, where applicable.

This is reflected in a Board rotation process, aimed at identifying the needs of the corporate bodies and the most suitable individuals to form part of them at any given time, thus achieving the most appropriate composition for the better performance of its duties.

This analysis shall also consider the composition of the different Board Committees that assist the Board in the performance of its duties and which is an essential element in BBVA's corporate governance.

The members of the BBVA Board have the skills, experience and qualifications needed to exercise their positions; they meet the suitability requirements legally required for this purpose; and they possess the required availability and dedication to perform their duties.

The dedication of the members of the BBVA Board is especially high due to the number of meetings held by both the Board of Directors and its different Committees and its broad content. The number of meetings held during 2015 and the level of attendance of the respective members are shown below:

|                                | Number of meetings 2015 | Level of attendance* |
|--------------------------------|-------------------------|----------------------|
| Board of Directors             | 13                      | 100%                 |
| Executive Committee            | 20                      | 100%                 |
| Audit and Compliance Committee | 11                      | 100%                 |
| Appointments Committee         | 7                       | 100%                 |
| Remuneration Committee         | 7                       | 97%                  |
| Risks Committee                | 45                      | 99%                  |

\*Includes both personal attendance and by proxy granted with express voting instructions.

BBVA has an executive Chairmanship, having also a Chief Executive Officer (CEO) responsible for the ordinary management of the business. Thus, BBVA's current system maintains the positions and duties of the Group Executive Chairman and of the CEO separate. Furthermore, in 2016, the name of both positions was standardized, under international scope, assigning them the aforementioned names.

Additionally, to reinforce the suitable balance of powers in the Board of Directors, BBVA also has a senior lead director who, since December 2014, has not only been assigned the duties provided by Spanish regulations, but also the additional duties set forth in the 2015 Good Governance Code of listed Spanish companies.

Likewise, the adequate distribution of duties between the Board of Directors and its Committees is another key element of BBVA corporate governance system.

In accordance with the Board Regulations, the Board of Directors has been assigned a set of duties which refer to both corporate management, and supervision and oversight of the Bank, being any matter of importance for the Group reserved for the Board's consideration (i.e. strategic or business plan, budget, corporate governance policy, control and risk management policy, capital and liquidity matters, etc.).

For a better performance of its management and control duties and in order to have a suitable decision-making process, BBVA Board of Directors has set up five specialized Committees that are conferred a broad range of duties pursuant to its Regulations, with the aim of assisting the Board on matters within the scope of their powers. A working scheme coordinated among the Committees and between the Committees and the Board has also been set up. This way, knowledge by the corporate bodies of relevant matters within the Group is ensured and the control environment existing in BBVA is reinforced.

Thus, the Board of Directors has set up four committees that will assist it in the performance of its supervisory and control duties: Audit and Compliance, Appointments, Remuneration and Risks. These Committees are all composed exclusively of external directors and have a majority of independent directors, except for the Audit and Compliance Committee, which is comprised exclusively of independent members. The duties of the Committees refer exclusively to the scope of supervision and control, and their operating rules are set out in the Board Regulations and in their specific regulations in the case of the Audit and Compliance Committee and Risks Committee.

These Committees are chaired by independent members with broad experience in the matters within their scope. In accordance with the Board Regulations, they have extensive and full powers and autonomy in managing their respective Committees, and may convene the meetings as they see fit for the performance their duties, decide on the agenda and be assisted by external experts, when deemed appropriate. They also have direct access to the Bank's senior management, when deemed necessary, who report, on an ongoing basis, both to the Committees and to the Board of Directors.

The Board Committees shall receive the necessary information directly from the managers in charge of the relevant Group's executive areas, thus enabling the most suitable performance of the supervision and control duties.

The BBVA website will include the activity reports of each of the Board Committees that assist the Board with its supervision and control duties.

The Board of Directors has also set up an Executive Committee, comprised of a majority of external directors, which performs both management and supervision and control duties. The Executive Committee develops the risk appetite framework set by the Board of Directors and periodically monitors it; it continuously analyzes and supervises the Group's results and activity and the evolution of the environment in which the businesses are carried out; and it also approves certain transactions which do not fall within the scope of the Board of Directors.

The Board Committees analyze in detail issues falling within the scope of their powers before they are submitted to the Board of Directors for the adoption of the relevant decisions, and carry out a critical and in-depth review of matters presented by the senior management so as the proposals to be submitted to the Board of Directors for its consideration are in-line with the strategy and policies approved by the Board of Directors.

For instance, the Audit and Compliance Committee reviews the financial and accounting information and the financial accounts; the Risks Committee analyzes proposals regarding the Group's risk profile; the Remuneration Committee assesses the remuneration system of the members of the Board and the risk takers; and the Appointments Committee is in charge of appointment proposals for new directors, among other duties.

As a result, the BBVA corporate governance system allows non-executive directors to monitor not only the Group's senior management proposals, but also the implementation and development of the matters that have been approved by the Board, supported essentially on the work carried out by the Committees.

The quality and efficiency of the performance of the Board and its Committees is assessed on an annual basis by the full Board of Directors, based on the report submitted by the Appointments Committee, in the case of the Board's evaluation, and on the report submitted by each Committee, in the case of the Committees' evaluation. Assistance from external experts may be requested for the Board's self-evaluation.

In 2015, the Board's self-evaluation process was carried out following the normal procedures, and it was also assisted by an external expert with acknowledged experience, independence and international prestige, Russell Reynolds Associates.

The result of the evaluation has been very positive and it has confirmed that the Board of Directors suitably fulfilled all its duties, especially highlighting the importance of the adequate decision-making process of the corporate bodies and the composition of the Board and its Committees. It has also been proposed for 2016 the following:

- a) To try to increase the international diversity of the composition of the Board of Directors.
- b) To move forward in the organization of the Board meetings in order to continue analyzing all relevant matters, dedicating the necessary time to debate, given the notable increase of duties attributed to the Board of Directors which cannot be delegated.
- c) To further develop additional training to be made available to non-executive members (training programs), extending such programs, in a more specialized manner, to members of the Committees that may require it.

The BBVA corporate governance system incorporates and promotes, as one of its basic elements, the suitable decision-making process, which integrates the work of the Committees and of the Board of Directors and where the interaction of the corporate bodies with the Bank's senior management is expressed.

Thus, in general, and as indicated, proposals within the senior management's scope are firstly and in-detail analyzed and discussed within the different Board Committees, depending on the subject-matter, and subsequently, once these proposals have been approved by the relevant Committees, they are submitted to the Board for their approval and final decision.

Once the relevant decision has been adopted on the matters within its scope, the Board of Directors delegates the implementation and development of such decisions to the relevant senior managers in charge of the different areas, at both Bank and Group level.

Likewise, with the objective that all decisions are taken with sufficient, appropriate and transparent information, the corporate governance system includes procedures aimed at ensuring that the corporate bodies have this information.

This decision-making process enables the corporate bodies to have a control and monitoring system within the Group, which is completed with a control structure within the senior management scope that reaches all the companies in the BBVA Group.

The BBVA Group has a decentralized management model, mainly based on subsidiaries with legal entity, operating in different geographical areas, within a common framework enabling to reach the goals set by the Group.



This common government framework for the Group companies is based on the strategy, corporate policies and management guidelines set by the BBVA corporate bodies for the Group and is specified by the different managers of the global business areas and the transversal corporate areas, on which the local counterpart areas depend and which are responsible for applying this common framework in each geographical area.

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

This monitoring and control is integrated in a supervisory and control system which is coordinated at Group level and based on methodologies and processes that are consistent in all geographical areas. As a result, the report from the local areas to the corporate areas and global businesses, and the report from the later to BBVA corporate bodies, allow to monitor the Group activities as a whole and to supervise compliance with the common management framework.

The BBVA corporate governance system is in constant evolution and improvement, it is an essential element of its principles and values and forms part of the basic pillars of the Bank's strategy.