

*This English version is a translation of the original in Spanish for information purposes only. In case of discrepancy, the Spanish original will prevail.*

***Report presented by the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A. for the purposes set out in articles 414, 417 and 511 of the Corporate Enterprises Act regarding the resolution to issue preferred securities contingent convertible into newly issued ordinary shares of the Bank, with exclusion of preemptive subscription rights and the corresponding share capital increase by the necessary amount, which is adopted under the authority conferred by the Annual General Meeting, held on 17 March 2017, under agenda item five.***

## CONTENTS

<b>1.</b>	<b>INTRODUCTION.....</b>	<b>1</b>
1.1	PURPOSE OF THE REPORT .....	1
1.2	APPLICABLE REGULATIONS .....	1
1.3	ADVISORY SERVICES RECEIVED .....	3
<b>2.</b>	<b>ON THE ISSUANCE OF THE SECURITIES .....</b>	<b>3</b>
2.1	DELEGATION BY THE GENERAL SHAREHOLDERS' MEETING UNDER WHICH THE ISSUANCE IS CARRIED OUT .....	3
2.2	REGULATORY ENVIRONMENT AND CAPITAL REQUIREMENTS .....	6
2.3	RATIONALE FOR THE ISSUANCE .....	8
	<i>2.3.1 Financial and market rationale.....</i>	<i>8</i>
	<i>2.3.2 Regulatory rationale.....</i>	<i>9</i>
2.4	FINANCIAL CONDITIONS OF THE ISSUANCE .....	11
2.5	TERMS AND METHODS OF CONVERSION.....	12
	<i>2.5.1 Conversion trigger events.....</i>	<i>12</i>
	<i>2.5.2 Conversion ratio .....</i>	<i>13</i>
	<i>2.5.3 Anti-dilution mechanism.....</i>	<i>14</i>
2.6	CAPITAL INCREASE .....	15
<b>3.</b>	<b>GROUND FOR THE EXCLUSION OF PREEMPTIVE SUBSCRIPTION RIGHTS .....</b>	<b>16</b>
3.1	GROUND FOR THE EXCLUSION OF PREEMPTIVE SUBSCRIPTION RIGHTS .....	16
3.2	INVESTORS TO WHOM THE SECURITIES SHOULD BE ATTRIBUTED .....	19
<b>4.</b>	<b>PROPOSED RESOLUTIONS .....</b>	<b>19</b>

## **1. INTRODUCTION**

### **1.1 Purpose of the report**

This report is drawn up by the Board of Directors of BANCO BILBAO VIZCAYA ARGENTARIA, S.A. (“**BBVA**”, the “**Bank**” or the “**Issuer**”) pursuant to articles 414, 417 and 511 of the consolidated text of the Corporate Enterprises Act, approved by Royal Legislative Degree 1/2010, of July 2, as currently in force (the “**Corporate Enterprises Act**”), in relation to the resolution to issue preferred securities contingent convertible into newly-issued ordinary shares of BBVA, which are issued in accordance with the first additional provision of Act 10/2014, of June 26, on the regulation, supervision and solvency of credit institutions (“**Act 10/2014**”) and Regulation (EU) 575/2013 of the European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms (“**EU Regulation 575/2013**”) so that they may be considered additional tier 1 capital instruments (the “**Securities**”), for a maximum nominal amount of 1,500 million euros, or the equivalent amount in any other currency, and with exclusion of preemptive subscription rights (the “**Issuance**”), and the corresponding share capital increase.

This resolution is adopted pursuant to the authority delegated by the Annual General Shareholders’ Meeting of 17 March 2017, under the fifth item of the agenda.

### **1.2 Applicable Regulations**

Article 401.3 of the Corporate Enterprises Act provides that, except for the provisions set out in special Acts, securities recognizing or creating debt issued by joint stock and limited liability companies (*sociedades anónimas*), –such as BBVA by issuing the Securities– shall remain subject to the regulations set forth for bonds under title XI of the Corporate Enterprises Act.

In this respect, articles 414 et seq. of the Corporate Enterprises Act allow *sociedades anónimas* to issue bonds that can be converted into shares provided that the general shareholders' meeting determines the terms and methods of the conversion and resolves to increase the capital by the necessary amount. To this end, the directors must draft a report explaining the terms and methods of the conversion. This must be accompanied by another report from an auditor other than the company's own auditor, appointed for this purpose by the Commercial Registry (*Registro Mercantil*).

Convertible bonds may not be issued for an amount under their nominal value, and may not be convertible into shares when their nominal value is below the share nominal value.

In listed companies, article 511 of the Corporate Enterprises Act allows the general shareholders' meeting to delegate the power to issue convertible bonds to directors and also grants them the power to exclude the preemptive subscription rights for convertible bonds issues under delegated powers, if such exclusion is made in the company's best interest. To this end, the announcement of the general shareholders' meeting that includes the proposal to vest the power to issue convertible bonds in the directors shall also contain explicit mention of the proposal to exclude the preemptive subscription right, and from the date on which the general shareholders' meeting has been called, a directors' report will be made available to shareholders substantiating the grounds for the proposed exclusion.

In addition, article 511 of the Corporate Enterprises Act requires that, in capital increases approved in the exercise of the powers granted by the general shareholders' meeting, the directors' and the auditor's reports must refer to each specific increase.

Thus, pursuant to article 417 of the Corporate Enterprises Act, the aforementioned directors' report must give detailed justification for such proposal to exclude preemptive subscription rights, and the independent expert's report shall contain a

technical judgment on the reasonableness of the data contained in the directors' report and the appropriateness of the conversion ratio and, where applicable, adjustment formulas to offset any possible dilution of economic shareholdings.

These reports shall be made available to the shareholders and submitted to the first general shareholders' meeting held after the date of the decision to increase capital.

### **1.3 Advisory services received**

This report is issued on the basis of (i) the report issued by BBVA's Finance Area, which is in turn supported by the report prepared by Citigroup Global Markets Limited, a top-level investment bank with recognized expertise in this type of issuances; and (ii) the legal report of J&A Garrigues, S.L.P., external legal advisor on Spanish law for the Issuance.

## **2. ON THE ISSUANCE OF THE SECURITIES**

### **2.1 Delegation by the General Shareholders' Meeting under which the Issuance is carried out**

BBVA's Annual General Shareholders' Meeting held on 17 March 2017, validly convened in due time and form, adopted the following resolution under the fifth item of the agenda, the relevant part of which is partially transcribed below:

*“To confer authority on the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A. (the “Company” or the “Bank”), as broad as necessary by law, to issue securities convertible into newly issued Company shares, subject to provisions in the law and in the Company Bylaws that may be applicable at any time and, where appropriate, prior obtaining of the authorizations that may be necessary to such end. The Board of Directors may make issues on one or several occasions within the maximum term of five (5) years to be counted as from the date on which this resolution is adopted, up to the maximum overall amount of eight billion euros (€8,000,000,000) or its equivalent in any other currency.*

*Likewise, to confer authority on the Board of Directors, as broad as necessary by law, such that, in the manner it deems most appropriate, it may:*

- (i) Resolve, establish and determine each and every one of the terms, characteristics and conditions of each of the issues of securities convertible into newly issued Company shares made under this resolution, including, but not limited to, the type of securities and their denomination, whether they be bonds, debentures, preferred securities, warrants or any other debt instruments convertible into newly issued Company shares in any form admitted by law; the amount, always within the maximum total overall amount indicated above; the date(s) of issue; the interest rate; the issue price and, in the case of warrants and similar securities, the issue price and/or issue premium, the strike price –which may be fixed or variable– and the procedure, term and other conditions applicable to the exercise of the subscription or purchase right over the underlying shares; the number of securities and the nominal value of each one; the form in which the securities are to be represented; the form and conditions of the remuneration, the fixed or variable interest rate, and the dates and procedures for payment of the coupon; the seniority of the securities and their potential subordination clauses; where appropriate, the anti-dilution clauses; applicable law; and, where appropriate, the mechanism for the collective organization and association and/or representation and protection of the holders of the securities issued, including the appointment of their representatives.*
- (ii) Resolve, establish and determine the form, the timing and the triggers for conversion and/or redemption, with the possibility of making perpetual issues; and the terms and modalities for conversion; distinguishing between: (a) perpetual issues or issues with no conversion and/or redemption deadline whose conversion is contingent, envisaged to meet regulatory requirements for the eligibility of the securities issued as capital instruments pursuant to solvency rules applicable at any time (“Contingent Convertible Issues - CoCos”); and (b) the rest of the convertible securities issues made under this resolution, including, by way of example and not limited to those issues with a predetermined mandatory conversion deadline (which may be on maturity or at any other time) or that are convertible at the option of the issuer and/or the investor, the total or partial nature of that conversion being determined by the Company, the securities holders or both (“Mandatory Convertible Issues”).*
- (iii) Resolve, establish and determine the conversion ratio, which may be fixed or variable, within the limits set forth below.*

*Should the issue be made at a fixed conversion ratio, the Company share price used for the conversion may not be lower than the greater of: (a) the arithmetic mean of the closing prices of the Company share on the securities market or exchange that the Board of Directors determines, during the period it establishes, which may not be more than three months or less than fifteen trading sessions prior to the date on which the specific issue of convertible securities is approved; and (b) the closing price of the Company share on the*

*securities market or exchange that the Board of Directors determines, the date prior to the date on which the specific issue of convertible securities is approved.*

*Should the issue be made with a variable conversion ratio, the Bank share price used for the conversion must be the arithmetic mean of the closing prices of the Company share on the securities market or exchange that the Board of Directors determines, during the period it establishes, which may not be more than three months or less than five trading sessions prior to the date on which the specific issue of convertible securities is approved. In such case a premium or, where appropriate, a discount may be established on the price per share, although should an issue discount be established on the price per share, it may not exceed 30%. The premium or discount may be different for each conversion date on each of the issues or tranches. Likewise, even if a variable conversion ratio is established, a minimum and/or maximum reference price may be determined for the shares to be used in the conversion, in the terms resolved by the Board of Directors.*

*Subject to whatever others limits may be applicable under prevailing regulations at any time, the value of the Company share for the purpose of the ratio for converting the securities into shares may not be below the nominal value of the Company share at the time of conversion, and securities may not be converted into shares when the nominal value of the securities is below that of the shares.*

*Likewise, the valuation for conversion of securities into shares will be for their nominal value and may or may not include interest accrued but unpaid at the time of their conversion.*

*(...)*

- (v) Increase the Bank's share capital by the amount necessary to cover the conversion commitments or requests, within the limits that, where applicable, are in force and available at any time, being able to declare the issue undersubscribed, should this be the case, establishing the specifications of the Company shares to be issued to cover the conversion of the securities, and to redraft the corresponding article in the Company Bylaws.*

*(...)*

- (vi) Pursuant to the Corporate Enterprises Act, totally or partially exclude preemptive subscription rights within the framework of a specific issue of convertible securities, when corporate interest so requires, in compliance with any legal requirements established to such end.*

*However, for Mandatory Convertible Issues, the power to exclude preemptive subscription rights will be limited to ensure the nominal amount of the capital increases resolved or carried out to cover the conversion of the Mandatory Convertible Issues in use of this authority (without prejudice to anti-dilution adjustments) with exclusion of preemptive subscription rights and of those likewise resolved or carried out with exclusion of preemptive subscription rights in use of the authority conferred under this General Meeting's agenda item four above, do not exceed the maximum nominal amount, overall, of 20% of the Bank's share capital at the time of this authorization, this limit being not applicable to Contingent Convertible Issues – CoCos.”*

## **2.2 Regulatory environment and capital requirements**

As a Spanish credit institution, the Bank is subject to the solvency and own funds framework defined by Regulation (EU) 575/2013 and Directive 2013/36/EU of the European Parliament and of the Council, of June 26, 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (“**Directive 2013/36/EU**” and, jointly with Regulation (EU) 575/2013, “**CRD IV**”), implementing Basel III in Europe.

This CRD IV framework has been implemented in Spain through (i) Act 10/2014; (ii) Royal Decree 84/2015, of February 13, implementing Act 10/2014; and (iii) Bank of Spain Circulars 2/2014 and 2/2016, notwithstanding the direct applicability of EU Regulation 575/2013, supplemented by several binding regulatory technical standards, and other recommendations and guidelines issued by various Spanish and supranational organizations.

These regulations foresee the possibility for credit institutions to have in place different capital instruments to cover, in an efficient manner, the different categories of regulatory capital which, in certain ratios, comprise their capital requirement, all in accordance with the composition and size of their balance sheets.

In this respect, CRD IV establishes, *inter alia*, a minimum capital requirement (“**Pillar 1**”) and increases the capital required through the "combined buffer requirement", which must be met with Common Equity Tier 1 capital (“**CET1**”), in addition to such CET1 envisaged to comply with Pillar 1.



Moreover, the European Central Bank (“**ECB**”) has established specific prudential capital requirements applicable to each credit institution (“**Pillar 2**”), in the framework of the Supervisory Review and Evaluation Process (“**SREP**”). These requirements taken as a whole establish higher levels of capital than those for the minimum capital requirement of Pillar 1 and the "combined buffer requirement" provided for in CRD IV.

As a result of the latest SREP conducted in 2017, the ECB has required the Bank to maintain, with effect from 1 January 2018: (i) phased-in CET1 ratios of 8.438% on a consolidated basis and 7.875% on an individual basis; and (ii) phased-in total capital ratios of 11.938% on a consolidated basis and 11.375% on an individual basis over risk-weighted assets.

The phased-in total capital ratio of 11.938% at consolidated level includes: (i) the minimum CET1 capital ratio required by Pillar 1 (4.5%); (ii) the Additional Tier 1 (“**AT1**”) capital requirement of Pillar 1 (1.5%); (iii) the Tier 2 capital requirement of Pillar 1 (2%); (iv) the CET1 requirement of Pillar 2 (1.5%); (v) the capital conservation buffer (1.875% of CET1); and (vi) the buffer for other systemically important institutions (0.563% of CET1).

On 31 December 2017, the Bank's phased-in total capital ratio was 15.37% on a consolidated basis and 22.54% on an individual basis. Its phased-in CET1 capital ratio was 11.67% on a consolidated basis and 17.67% on an individual basis. These ratios are comfortably above the capital requirements applicable to the Bank.

Nevertheless, the supervisor could impose capital buffers additional to those currently applicable, while the current Pillar 2 requirements will be reviewed annually based on the conclusions drawn by the ECB in subsequent SREPs, who would be entitled to require Pillar 2 capital requirements higher than those currently applicable. In light of the foregoing, it is necessary for BBVA to maintain a capital buffer management that is in line with the supervisory trend.

Moreover, on 23 November 2016 the European Commission published a set of proposed amendments to, *inter alia*, the CRD IV, to strengthen the resilience of Europe's credit institutions and to increase financial stability, so the framework defined by CRD IV, described above, may be subject to significant changes, the implementation and final content of which are still unknown. Among the modifications to CRD IV proposed by the European Commission is the possibility that a part of the Pillar 2 requirement (up to 18.75% of said Pillar 2 requirement) could be met with AT1 instruments.

## **2.3 Rationale for the Issuance**

Although, as indicated previously, BBVA currently complies comfortably with all of its capital requirements at present and has enough issuances of specific instruments to meet its capital requirements efficiently, BBVA's Finance Area has considered advisable to carry out a new issuance of AT1 eligible securities in accordance with CRD IV for the reasons given below and included in its report:

### ***2.3.1 Financial and market rationale***

BBVA issued, in February 2014, financial instruments that met the characteristics required by CRD IV for their eligibility as AT1 instruments, amounting to 1.5 billion euros (the “**AT1 2014 Issuance**”), which is still outstanding.

The AT1 2014 Issuance is perpetual, but includes the possibility of early redemption by the Bank after the fifth year (i.e. as of next February 2019).

As observed in the execution of the last AT1 transactions performed by several entities and in the current prices in the AT1's secondary market, and as indicated by the Finance Area in its report, the current financial conditions are ideal to perform an AT1 issuance, which would allow: (i) anticipate the potential early redemption of the AT1 2014 Issuance in an orderly manner; and; (ii) its replacement with instruments with the same regulatory category,

but with an envisaged lower financial cost. This would continue with the optimization of the financial cost of the capital structure and the compliance with the corporate interest.

In this regard, it is worth noting that in 2017 BBVA already performed two issuances of AT1 instruments in order to replace the first issuance of AT1 instruments that BBVA made in May 2013 (the “**Original Issuance**”). This Original Issuance, which is expected to be redeemed next May, has a higher financial cost in comparison with the issuances that took place in 2017 (9% for the Original Issuance in comparison to the 5.875% and 6.125% for the issuances that took place in 2017).

Nevertheless, it should be considered that the circumstances surrounding the relevant rates for determining the suitability of the early redemption of the AT1 2014 Issuance will be those existing in 2019.

Lastly, as set forth in the report of the Finance Area, the current market conditions are also favourable to the performance of an AT1 issuance. In this regard, a solid demand for these instruments has been detected due to the current interest rate environment and the lack of yield financial products.

In light of the foregoing and based on the content of the Finance Area’s report, it is considered appropriate to carry out the Issuance, from both a financial and market perspective.

### ***2.3.2 Regulatory rationale***

In addition to the financial and market reasons for the Issuance, there are also regulatory reasons that make the Issuance advisable.

As stated in section 2.2 above, CRD IV provides the possibility that credit institutions have in place different capital instruments to cover the different categories of regulatory capital efficiently which, in certain ratios, comprise

their own funds requirement, according to the composition and size of their balance sheets.

In this sense, in addition to CET1, CRD IV includes two additional regulatory capital categories in the composition of the Pillar 1 capital requirement, namely AT1 and "Tier 2 capital" which can be covered with specific instruments and, failing that, with CET1 and with CET1 or AT1, respectively, which would be more burdensome and less efficient. Therefore, it is proposed to issue the Securities that are eligible as AT1 according to CRD IV in order to potentially replace the AT1 2014 Issuance, as they are the only kind of instruments that comply with the features for its eligibility, as described hereunder and thus preserving at all times the Bank's capital position in the most effective way.

Specifically, the Issuance would raise BBVA's capital ratios in accordance with both current (phased-in) regulations and those applicable as from 2019 (fully-loaded), being able to potentially refinancing the AT1 2014 Issuance and guaranteeing at all times the efficient compliance with its solvency requirements and with a management margin that is in line with the current supervisory trend.

Lastly, as indicated by the Finance Area in its report, performing the proposed Issuance implies a prospective management of the refinancing of the AT1 2014 Issuance, such management being understood as the management of the supervisor's mandatory prior authorization to redeem a capital issuance (i.e. the AT1 2014 Issuance) without having started the replacement of the issuance subject to redemption with instruments of the same or greater quality (i.e. the Issuance).

In this context, the Finance Area has proposed to the Board of Directors, which has approved, the issuance of a fixed-income instrument that is eligible as AT1 in accordance with the provisions of CRD IV. To this end, EU Regulation 575/2013

provides that these securities must include, among others, the following characteristics:

- (i) be perpetual;
- (ii) rank below Tier 2 capital instruments in the event of insolvency of the entity;
- (iii) distributions on the securities are only paid out of distributable items and the entity has full discretion at all times to cancel distributions on the securities for an unlimited period and on a non-cumulative basis and non-restrictive effects on the compliance of the remaining obligations of the entity; and
- (iv) they include a mechanism for contingent conversion into entity shares when the trigger event set out in said regulation occurs (as described in section 2.5.1 below) and thus they are able to effectively absorb losses in a context of solvency stress of the issuer. Nevertheless, this contingent trigger event would only occur in a very specific situation of shortfall in CET1 of the issuer or its group.

Consequently, it is considered convenient to perform the Issuance, with the required features for its eligibility as AT1, that may anticipate the refinancing of the AT1 2014 Issuance in an orderly manner (managing in a prospective manner the applicable regulatory authorizations and thus preserving at all times the capital position of the Bank) and with a lower financial cost, benefiting from the current favorable market circumstances, and considering that the relevant rates for determining the suitability of the early redemption of the AT1 2014 Issuance will be those existing in 2019, which is therefore, taken as a whole, in BBVA's best interest.

## **2.4 Financial conditions of the Issuance**

The Issuance will be made for a maximum nominal amount of 1,500 million euros, or its equivalent amount in any other currency, with a nominal value of each

Security being, at least, 100,000 euros, or its equivalent amount in any other currency.

For the purpose of being eligible as AT1, the Securities shall have the characteristics set out in CRD IV including, amongst others, those stated in section 2.3 above.

Investors may receive the distributions set out in the Issuance's final terms and conditions and which shall be in line with market prices for this type of instruments at the time of their issue. As provided for in CRD IV, payment of the distributions shall be conditional, among other factors, on there being distributable items, which will be described in detail in the Issuance's terms and conditions.

However, the Issuer shall have full discretion at all times to cancel, totally or partially, the payment of distributions on the Securities for an unlimited period and on a non-cumulative basis, without such cancellation implying any restriction to meet the rest of its obligations.

## **2.5 Terms and methods of conversion**

The terms and methods of conversion of the Securities, resulting from the proposal of the Bank's Finance Area, will essentially be as follows:

### ***2.5.1 Conversion trigger events***

The Securities will be converted into newly-issued ordinary BBVA's shares if the Issuer, or its consolidated group, has a CET1 ratio below 5.125%, calculated pursuant to EU Regulation 575/2013 or any other regulation applicable at any given time.

The Securities may also be converted into newly-issued ordinary BBVA's shares if the Issuer adopts any measure whose consequence is the approval of a share capital reduction in the terms and conditions set out in article 418.3 of the Corporate Enterprises Act.

The Issuance's terms and conditions may establish additional total or partial conversion events if this is required or advisable to safeguard the Issuer's solvency or so that the Securities may be considered AT 1 instruments and, accordingly, be Tier 1 capital eligible.

### **2.5.2 Conversion ratio**

The ratio for converting the Securities into newly-issued ordinary BBVA's shares (the "**Conversion Ratio**") will be the result of dividing the nominal value of each of the Securities (which will be, at least, 100,000 euros, or its equivalent amount in any other currency) by the unitary value attributed to the ordinary shares of BBVA for the purposes of the conversion (the "**Conversion Price**").

$$Conv_{ratio} = Nom_{convertible} / Sh_P$$

where:

*Conv<sub>ratio</sub>*: Conversion Ratio

*Nom<sub>convertible</sub>*: The nominal value of the Security subject to conversion

*Sh<sub>P</sub>*: Conversion Price

The Conversion Price will correspond, at least, to the market price of BBVA's share at the time of the conversion of the Securities, subject to certain limits.

In this regard, the Conversion Price will be the greater of:

- i) The arithmetic mean of the closing prices of BBVA's share, on the stock exchange or securities market specified, in the five trading sessions prior to the occurrence of the trigger event, rounded to the nearest cent and, in the case of half a cent, up to the nearest cent;

ii) the minimum conversion price to be determined in the terms and conditions of the Issuance, which cannot be lower than 3.75 euros or the equivalent amount in any other currency, all without prejudice to the amendments that can be made to this amount depending on the application of the anti-dilution mechanism set out in the following section (the “**Minimum Conversion Price**”); and

iii) the nominal value of ordinary shares of BBVA at the time of conversion.

In accordance with the above, the Conversion Price will at least be equal to the market price of BBVA’s share upon conversion of the Securities, but in no event such price can be lower than the unitary nominal value of BBVA’s ordinary shares at the time of conversion, so the transaction will, in all events, comply with article 415.2 of the Corporate Enterprises Act.

Each Securities’ holder will be entitled to receive the number of shares resulting from the multiplication of the Conversion Ratio by the number of Securities owned by such holder. If such multiplication provides fractions, these will be treated as stated in the Issuance’s terms and conditions.

### ***2.5.3 Anti-dilution mechanism***

Pursuant to article 418.2 of the Corporate Enterprises Act, anti-dilution mechanisms on the Minimum Conversion Price will be established in the terms and conditions of the Issuance, in line with the market practice in this type of transactions.

These anti-dilution mechanisms must take into account the conversion terms and methods determined above and the fact that the Conversion Price must never be less than the nominal value of BBVA’s ordinary shares at the time of conversion.



## **2.6 Capital increase**

In accordance with article 414 of the Corporate Enterprises Act, upon the adoption of the corporate resolution approving the issuance of the Securities, the share capital increase must be approved for the amount necessary to be able to cover its contingent conversion. For such purposes, the maximum number of BBVA's shares to be issued to cover the conversion of the Securities will be determined by dividing the total nominal amount of the Issuance by the Conversion Price.

This capital increase, if applicable, will be executed by the Board of Directors, which may delegate this authority to the Executive Committee, with express replacement powers, and will empower the proxies that the Board of Directors indicates, by virtue of the resolution adopted at the Annual General Shareholders' Meeting of BBVA held on 17 March 2017, under agenda item five, to cover the contingent conversion of the Securities, by issuing new ordinary shares of the same nominal value, of the same class and series, and with the same rights as BBVA's ordinary shares outstanding on the date of execution of the relevant capital increase. Should the capital increase be executed, the corresponding article in the Company Bylaws will be redrafted to adapt it to the new figure for share capital.

It is not possible yet to determine the exact amount of share capital that would be needed for the contingent conversion of the Securities, given that, pursuant to the terms and methods of the conversion, it will depend on the market price of BBVA's shares at the time of conversion of the Securities.

However, considering that the Issuance is for a nominal maximum amount of 1,500 million euros (or its equivalent amount in any other currency), that the Conversion Price may not be below 3.75 euros (or its equivalent amount in any other currency) and assuming no anti-dilution adjustments prior to the date when the Securities are converted takes place, the maximum number of new ordinary shares that would need to be issued is 400 million.

Pursuant to article 304.2 of the Corporate Enterprises Act, should the Securities be converted into ordinary shares, there would be no preemptive subscription rights on the resulting capital increase.

### **3. GROUND FOR THE EXCLUSION OF PREEMPTIVE SUBSCRIPTION RIGHTS**

#### **3.1 Grounds for the exclusion of preemptive subscription rights**

As indicated above, BBVA's Annual General Shareholders Meeting held on 17 March 2017 resolved, under agenda item five, to delegate to the Board of Directors the authority to issue securities convertible into shares and to increase the share capital. It also resolved to confer on the Board of Directors the authority to exclude preemptive subscription rights over the convertible securities issuances covered by such delegation.

To such end, when convening the aforementioned Annual General Shareholders' Meeting, and in accordance with articles 417 and 511 of the Corporate Enterprises Act, the BBVA Board of Directors approved and gave shareholders access to a report explaining the grounds of the proposal to delegate the power to exclude preemptive subscription rights.

Furthermore, articles 417 and 511 of the Corporate Enterprises Act require that the preemptive subscription rights shall only be excluded in the event of convertible bond issuances when the corporate interest so requires, among others.

BBVA's Board of Directors, by virtue of said delegation granted by the General Shareholders' Meeting and based on the report issued by the Finance Area (which in turn is sustained on the report prepared by Citigroup Global Markets Limited) as well as on the legal report by J&A Garrigues, S.L.P., as external legal advisor helping BBVA in the legal design of this transaction, has resolved to exclude the preemptive subscription rights with respect to the Issuance, as it deems such exclusion to be fully substantiated and in compliance with the requirements

established by law, and necessary to achieve the corporate interest, for the following reasons.

In light of section 2.3, the proposed issuance of these Securities is for the purpose of prospectively managing the potential replacement of the AT1 2014 Issuance with other under more appropriate or suitable financial terms; and complying, in the most efficient way, with the Bank's current or future capital requirements, preserving at all times the Bank's capital position; taking advantage of the interest and demand detected in the market and thus meeting the corporate interest.

For the Securities to be eligible as AT1 capital under CRD IV, these fixed-income securities must be perpetual, subordinate, with discretionary distributions and convertible into newly-issued ordinary shares of BBVA in the event of a possible shortfall of CET1 capital, and therefore the issuance of Securities is being proposed as they are the only instruments that comply with these characteristics, which are indicated in section 2.3 above.

Such characteristics, required by CRD IV, and their sophistication, as well as the latest regulatory changes –specifically regarding placement of this type of instruments–, mean that the Securities are currently a complex product which cannot be allocated to all kind of investors, especially retail investors, which are a relevant part of BBVA's shareholders. In this regard, not excluding the preemptive subscription right would mean offering a product that does not fit the investment profile of all Bank shareholders, which could jeopardize the viability of the Issuance.

In the same sense the Spanish National Securities Market Commission has expressed its position through Circular 1/2018, of 12 March on warnings relating to financial instruments, by virtue of which the CNMV believes that the financial instruments that are eligible as additional Tier 1 (such as the Securities), are not appropriate for retail clients due to their complexity.

Additionally, interest for this type of instruments has been detected among qualified investors, who constitute a group that is appropriate for their subscription. In order to be able to directly target only this kind of investors (which are common subscribers of this kind of instruments), and not compromise the transaction, it is essential to exclude the preemptive subscription rights of BBVA's shareholders.

The combination of the factors described above (the characteristics of these securities, the market conditions and the investors to whom the Issuance is addressed) has led the Finance Area to consider that the optimal alternative for the corporate interest is to manage the potential replacement of the AT1 2014 Issuance by issuing the Securities, addressing the Issuance solely to qualified investors, as this is the appropriate group for subscribing this type of instruments and are also those who have shown interest.

Consequently, the optimal alternative for meeting the corporate interest and providing a joint and comprehensive solution to the matters at hand is the issuance of Securities with exclusion of preemptive subscription rights.

In addition, the following circumstances should be taken into account:

- (i) The nature of the Securities is that of a perpetual fixed-income instrument, whose contingent convertibility is required by the regulations on own funds and solvency for their eligibility as AT1 capital, but which is only foreseen for very specific cases of a regulatory capital shortfall. In this regard, it should be taken into account that BBVA's solvency and own funds ratios currently fairly exceed from the conversion events, reinforcing the nature of the Securities as fixed-income security instruments and the eventuality of their conversion.
- (ii) The issue price for the Securities will be in line with the market prices for this type of instrument.
- (iii) The Conversion Price proposed to cover an eventual conversion corresponds

to the market price of the share of BBVA at the time of conversion, except in the event of such price being less than the Minimum Conversion Price, in which case the Conversion Price would be equal to the Minimum Conversion Price, and therefore being the shares issued with a premium over the market price. In this way, the maximum number of shares to be issued is limited by establishing the Minimum Conversion Price, which guarantees that the shares would be issued at a price equal to or above the market price.

Taking into account that the Securities are issued as perpetual securities, that the issue price will be in line with the market price, that the conversion trigger events are contingent and very limited in number and that the Conversion Price would be the market price or, where appropriate, include a premium over the market price, pursuant to the Finance Area report and the report prepared by Citigroup Global Markets Limited, the theoretical value of the preemptive subscription rights stemming from the Issuance is nil, meaning that current shareholders do not lose any economic value with their exclusion.

In light of the foregoing, the proposed exclusion of the preemptive subscription rights of the Issuance is necessary for the purpose intended, thus achieving the corporate interest.

### **3.2 Investors to whom the Securities should be attributed**

The Issuance is aimed exclusively at qualified investors, as this term is defined in the securities market regulations, excluding, in any event, the retail clients.

## **4. PROPOSED RESOLUTIONS**

***“FIRST.*** - *In use of the authority conferred by the Annual General Shareholders’ Meeting of Banco Bilbao Vizcaya Argentaria, S.A. (“BBVA”, the “Company” or the “Issuer”)* held on 17 March 2017 under agenda item five, to issue preferred securities contingent convertible into newly issued ordinary shares of the Company, in accordance with the first additional provision of Act 10/2014, of 26<sup>th</sup> June, on the regulation, supervision and solvency of credit institutions (***“Act 10/2014”***) and EU Regulation No. 575/2013 of the

European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms (“**EU Regulation 575/2013**”) so that they may be considered Additional Tier 1 capital instruments (the “**Securities**”), for a maximum nominal amount of one thousand five hundred million euros (€1,500,000,000) or the equivalent in any other currency, with exclusion of preemptive subscription rights (the “**Issuance**”), under the following terms:

**Nature of the Securities:** Preferred securities contingent convertible into newly issued ordinary shares of BBVA, pursuant to the first additional provision of Act 10/2014 and EU Regulation 575/2013, so that they may be considered Additional Tier 1 capital instruments.

**Issuer:** BBVA.

**Target Investors:** Exclusively at qualified investors, excluding, in any event, the retail clients.

**Maximum Issuance amount:** One thousand five hundred million euros (€1,500,000,000) euros, or the equivalent amount in any other currency, as set out in the terms and conditions of the Issuance. The Issuance may be made for a lower amount.

**Nominal value:** The Securities will have the nominal value set out in the terms and conditions of the Issuance, with a minimum amount of 100,000 euros, or the equivalent in any other currency.

**Number of Securities:** The number of Securities to be issued will be the result of dividing the total nominal amount of the Issuance by its nominal value. All the Securities will belong to a single series and the same terms and conditions will apply to all of them.

**Distributions:** Holders of the Securities may receive a non-cumulative distribution that will be based on the interest rate applicable to the nominal value of the Securities and which will be paid provided compliance with the conditions set out in the terms and conditions of the Issuance (the “**Distributions**”).

In particular, the Issuer shall have full discretion at all times to totally or partially cancel the payment of Distributions for an unlimited period and on a non-cumulative basis, and such cancelation may not

*entail any restriction to meet the remaining obligations of the Issuer.*

*The foregoing notwithstanding other cases of cancellation of Distributions that may be set out in the terms and conditions of the Issuance or as determined by applicable regulations.*

***Maturity date and early redemption:*** *The Issuance is perpetual, such that it has no maturity date.*

*The Securities may be totally or partially redeemed at the Issuer's option, in accordance with the terms and conditions of the Issuance, provided that at least 5 years have elapsed from their issuance and, where applicable, prior authorisation has been granted by the competent authority.*

*The terms and conditions of the Issuance may include other circumstances for early redemption in favour of the Issuer.*

***Representation of the Securities:*** *The Securities may be represented by physical certificates or by book entries, as determined in the Issuance's terms and conditions.*

***Ranking:*** *The Securities are subordinated obligations with the following ranking:*

- (i) junior to privileged obligations, obligations against the estate and unsubordinated obligations;*
- (ii) junior to subordinated obligations and subordinated securities issued or guaranteed by BBVA, or that may be issued or guaranteed by BBVA, that rank above the Securities;*
- (iii) pari passu with obligations and securities issued or guaranteed by BBVA, or that may be issued or guaranteed by BBVA, that rank pari passu with the Securities;*
- (iv) senior to the obligations and securities issued or guaranteed by BBVA, or that may be issued*

*or guaranteed by BBVA, that rank senior to the Securities; and*

*(v) senior to BBVA's shares.*

**SECOND.** - *The terms and methods for the contingent conversion of the Securities will be as follows:*

**a) Conversion triggers events**

*The Securities will be converted into newly issued ordinary shares of BBVA when the common equity tier 1 ratio of the Issuer or its consolidated group falls below 5.125%, calculated pursuant to EU Regulation 575/2013 or to any other capital and solvency regulation applicable to BBVA at any given time.*

*In addition, the Securities may be converted into newly issued ordinary shares of BBVA if the Issuer adopts any measure whose consequence is the approval of a share capital reduction as set out by article 418.3 of the consolidated text of the Corporate Enterprises Act, approved under Royal Legislative Decree 1/2010, of 2<sup>nd</sup> July, as amended (the "**Corporate Enterprises Act**").*

*The terms and conditions of the Issuance may establish additional total or partial trigger events if this is required or advisable to shore up the Issuer's solvency or so that the Securities may be considered as tier 1 capital instruments.*

**b) Conversion Ratio**

*The ratio for converting the Securities into newly-issued ordinary shares of BBVA (the "**Conversion Ratio**") will be the result of dividing the nominal value of each of the Securities (which will be, at least, 100,000 euros, or its equivalent amount in any other currency) by the unitary value attributed to BBVA's ordinary shares for the purposes of the conversion (the "**Conversion Price**"). The Conversion Price will correspond, at least, to the market price of BBVA's share at the time of the conversion of the Securities, subject to certain limits.*

*In this regard, the Conversion Price will be the greater of:*

- i) the arithmetic mean of the closing prices of BBVA's share, on the stock exchange or securities market specified, in the five trading sessions prior to the occurrence of the trigger event, rounded to the nearest cent and, in the case of half a cent, up to the nearest cent;*
- ii) the minimum conversion price to be determined in the terms and conditions of the Issuance, which cannot be lower than 3.75 euros or the equivalent amount in any other currency, all without prejudice to the amendments that can be made to this amount depending on the application of the anti-dilution mechanism set out in paragraph d) (the "**Minimum Conversion Price**") ; and*



*This English version is a translation of the original in Spanish for information purposes only. In case of discrepancy, the Spanish original will prevail.*

iii) *the nominal value of ordinary shares of BBVA at the time of conversion.*

*In accordance with the above, the Conversion Price will at least be equal to the market price of BBVA's share upon conversion of the Securities, but in no event such price can be lower than the unitary nominal value of BBVA's ordinary shares at the time of conversion, so that the transaction will, in all events, comply with article 415.2 of the Corporate Enterprises Act.*

*Each Securities' holder will be entitled to receive the number of shares resulting from the multiplication of the Conversion Ratio (as defined below) by the number of Securities owned by such holder. If such multiplication provides fractions, these will be treated as stated in the Issuance's terms and conditions.*

**c) Conversion procedure**

*The conversion procedure will be determined in the terms and conditions of the Issuance.*

**d) Anti-dilution mechanism**

*Pursuant to article 418.2 of the Corporate Enterprises Act, anti-dilution mechanisms will be established on the Minimum Conversion Price in compliance with the terms and conditions of the Issuance in line with market practice in this type of transactions.*

*These anti-dilution mechanisms must take into account the conversion terms and methods determined above and the fact that the Conversion Price must never be less than the nominal value of BBVA's ordinary shares at the time of conversion.*

*Notwithstanding other powers that may be granted, the Executive Committee is empowered, with express replacement authority, and the broadest powers are conferred on Mr Jaime Sáenz de Tejada Pulido, with identity card number 823996-K, Mr Antonio Joaquín Borraz Peralta, with identity card number 29100035-K, Mr Javier Malagón Navas, with identity card number 407098-K; Mr Ignacio Echevarría Soriano, with identity card number 837871-G; Mr Francisco Javier Colomer Betoret, with identity card number 25418655-K; and Mr Raúl Moreno Carnero, with identity card number 52473664-S, all of legal age, Spanish nationals and domiciled for these purposes in Madrid, calle Azul n.º 4 (the "**Proxies**"), so that either of them, indistinctly, jointly and severally, may establish, develop or amend the terms and conditions of the Issuance, as well as determine or develop any matter not established by this resolution, including, but not limited to, amend and/or adapt the conversion events, as well as to determine other trigger events, additional to those provided for in this resolution, under the terms and conditions they deem necessary or advisable for the successful outcome of the Issuance.*

**THIRD.**- *On the basis of the report drawn up by BBVA Finance Area, in accordance with the report issued by J&A Garrigues, S.L.P., and pursuant to articles 414, 417 and 511 of the Corporate Enterprises Act, to approve the Directors' Report on the Issuance, which will be made available to shareholders along with the report issued by the independent*

*expert/auditor of accounts different than the Company's auditor, appointed for such purposes by the Commercial Registry, and reported to the first General Shareholders' Meeting held after the capital increase resolution, expressly empowering the General Secretary and of the Board of Directors and the Vice secretary of the Board of Directors to certify the text.*

**FOURTH.** - *In line with the Finance Area's statement reflected in its report, which is reflected in the Directors' Report approved under the above resolution, the corporate interest requires the suppression of preemptive subscription rights in this Issuance. Consequently, the Board of Directors, pursuant to the authority conferred by the Annual General Shareholders' Meeting held on 17 March 2017, under agenda item five, and pursuant to articles 417 and 511 of the Corporate Enterprises Act, hereby resolves to exclude said preemptive subscription rights in this Issuance.*

**FIFTH.** - *To increase BBVA's share capital by the amount and number of shares necessary to cover the eventual conversion of the Securities, pursuant to the Conversion Ratio.*

*Considering that the Minimum Conversion Price cannot be lower than 3.75 euros or its equivalent amount in any other currency, the maximum number of ordinary shares of BBVA to be issued is 400 million (currently with a nominal value of 0.49 euros per share), assuming that no anti-dilution adjustments are made which may impact the Minimum Conversion Price, and expressly envisaging the possibility of the capital increase being implemented with an issue premium, for a lower number of shares and with the possibility of under-subscription.*

*Should the Securities be converted, the new shares of BBVA issued to cover the conversion will be ordinary shares, of the same class and series as those outstanding at that time and will be represented in the same way (currently by book entries, whose recording is attributed to Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal ("IBERCLEAR"), which performs this function together with its participating entities), granting their holders the same rights as the ordinary shares outstanding at that time. Upon execution of this resolution to increase share capital, the corresponding article of the Bylaws will be redrafted accordingly.*

*Pursuant to article 304.2 of the Corporate Enterprises Act, should the Securities be converted, there would be no preemptive subscription rights on the resulting capital increase.*

**SIXTH.** - *In use of the authority conferred by the Annual General Shareholders' Meeting held on 17 March 2017, under agenda item five, it is hereby resolved to delegate the authority on the Executive Committee, with express replacement authority, and to empower the Proxies in the broadest terms, so that either of them, indistinctly and jointly and severally, may, within the limits established in the above resolutions, carry out the aforementioned Issuance and:*

- a) Determine the timing on which the Issuance is to take place, being also authorized to abstain from executing the Issuance if deemed necessary or advisable.*
- b) Determine the terms, characteristics and conditions applicable to the Issuance and to the Securities to be issued, including, but not limited to, the final amount of the Issuance within the limits established under resolution FIRST above, the currency of the Issuance and the nominal value of each Security, the nominal interest rate applicable to the Securities, the interest accrual periods and the applicable payment procedure, the placement system and, when applicable, the effective placement rate, include new conversion terms and methods and/or amend those determined, including amending the Conversion Ratio, determining the Minimum Conversion Price or determining the terms and conditions of the anti-dilution mechanism, as well as determine any additional triggers for conversion and/or redemption any other terms and conditions deemed necessary or advisable for the successful outcome of the Issuance, expressing the amount drawn respect to the limit of the delegation granted by the General Shareholders' Meeting to the Board and the amount remaining, empowering them also to redeem the Securities early, carrying out any actions that may be needed or advisable.*
- c) Declare the Distributions of the Securities, whether partially or totally, and declare the total or partial cancellation of Distributions, as determined in the terms and conditions of the Issuance.*
- d) Apply, where appropriate, the anti-dilution mechanisms as determined in the terms and conditions of the Issuance.*
- e) Negotiate, examine, enter into, perform, execute, sign, amend, terminate or cancel all the contracts, instruments, agreements and documents, whether public or private, that may be necessary or advisable in connection with the Issuance (in particular, including, but not limited to, prospectuses, base prospectus, offering circulars, information documents, supplements, prospectus supplement, term sheets, form of security, liquidity contracts, subscription, placement or underwriting agreements, agency contracts, requests, communications, announcements or notices, with authority to determine the legal and economic conditions of all of them and to make the necessary or advisable designations or appointments, as well as other supplementary acts that may be required or advisable to implement what has been agreed upon.*
- f) With relation to the Issuance or the Securities, appear, personally or through the representative or agent designated in writing by any of the Proxies, before all the representatives, committees or bodies of any securities exchange or market or any supervisor, regulator or registry, including, but without limitation, the Spanish National Securities Market Commission (CNMV), AIAF Mercado de Renta Fija, Mercado Alternativo de Renta Fija or the Irish Stock Exchange, as well as any securities book-entry registration, clearing and/or settlement organization, with authority to execute, issue, sign, grant, modify, terminate and cancel such contracts,*

*certificates and documents as may be necessary or advisable, in the manner that any of the Proxies deems necessary or advisable to comply with the applicable requirements imposed from time to time by each supervisor, regulator, registry, securities exchange or market or securities registration, clearing and/or settlement organization, including, but without limitation, IBERCLEAR, that are necessary or that are considered convenient for the satisfactory outcome of the Issuance.*

- g) Request, where applicable, the eligibility of the Securities as additional tier 1 capital, or any other category applicable, in accordance with the regulations that may apply from time to time.*
- h) Execute and sign any public or private documents as may be required, with authority to appear before a notary, raise these resolutions to public, execute all the deeds that the Proxies deem appropriate, including deeds of issue, rectification, clarification or correction, and those for total or partial subscription of the Issuance, as well as those for total or partial redemption or amendment and, where appropriate, execute any other public or private documents that may be necessary or advisable in relation to the Issuance, as well as complete all relevant formalities, with the possibility of acting through agents and/or representatives, to achieve their registration at the Commercial Registry, when mandatory. Where applicable, file the declaration referred to in article 318 of the Commercial Registry Regulations, in compliance with article 36 of the consolidated text of the Securities Markets Act, should this be necessary.*
- i) If deemed necessary or advisable, constitute the Issuance bondholders' syndicate, as well as to appoint the trustee of said syndicate, or, if deemed necessary or advisable, to establish the mechanisms for collective association or organization and/or representation and protection of Securities holders, including the determination of their characteristics and rules of operation, and, where appropriate, the appointment of their representatives and the rules that are to govern the relationships between the Company and such holders, all in accordance with the terms and conditions deemed necessary or advisable.*
- j) Establish all other aspects not determined by this Board of Directors in relation to the Issuance, including any modification, where necessary or advisable, and determine any other aspect of the Issuance or implement any other measures deemed necessary or advisable in relation to the above powers, executing for this purpose any private or public documents deemed necessary or advisable.*
- k) With respect to the contingent conversion of the Securities into newly issued ordinary shares of BBVA, establish, where appropriate, the Conversion Price, and, if applicable, the issue premium, the Minimum Conversion Price, the final Conversion Ratio for the Issuance, determine the number of shares by which the BBVA capital is finally to be increased, declaring under-subscription when this is the case, and perform such acts as may be necessary, including, but not limited to, granting any public or private documents that may be necessary to implement the*

*capital increase and amend, if applicable, the wording of the corresponding article in the Company Bylaws to adapt it to the new figure for share capital, being also authorized to appear for such purposes before any public or private bodies, including but not limited to a public notary or the Commercial Registry, as well as to execute any deeds deemed necessary or appropriate in this regard.*

- l) Request, where appropriate, the admission to trading, or the inclusion to listing of the Securities and/or the ordinary shares of BBVA issued to cover the contingent conversion of the Securities, on secondary regulated and non-regulated, organized or non-organized, multilateral trading systems, Spanish and international markets, including, but without limitation, AIAF Mercado de Renta Fija, Mercado Alternativo de Renta Fija or the Irish Stock Exchange, and carry out procedures and actions as deemed necessary or advisable in any jurisdiction where the Securities or the newly issued shares of BBVA are offered or traded or requested to trading, where applicable. By way of example:*
  - (i) Draft, approve, formulate, subscribe and sign any documents, contracts, prospectuses, information documents, requests, communications or notifications as deemed necessary or advisable for these purposes and proceed to their subsequent amendment as deemed advisable.*
  - (ii) Take such actions as may be necessary before any competent authorities in each jurisdiction and approve and formalize such public and/or private documents as may be necessary and/or advisable for the full effectiveness of the resolutions, in any aspects or content.*

*Lastly, and for the purposes of the applicable regulations on issuance of securities, it is resolved to appoint the Proxies as representatives of the Company, jointly and severally, before any public and/or private body. They will bear responsibility for the content of the prospectuses, information documents or any other similar documents, where applicable, being likewise authorized to sign any additional contracts and documents, whether public or private, that may be necessary or advisable for the successful outcome of the Issuance.”*

\* \* \*

Madrid, 26 April 2018.

**BANCO BILBAO VIZCAYA ARGENTARIA, S.A.**

**Special report regarding the issue of perpetual securities contingently convertible into shares with the exclusion of the pre-emptive subscription right in the case of articles 414, 417 and 511 of the Restated Text of the Companies Act**

**Bilbao, 11<sup>th</sup> May 2018**



## **SPECIAL REPORT REGARDING THE ISSUE OF PERPETUAL SECURITIES CONTINGENTLY CONVERTIBLE INTO SHARES WITH THE EXCLUSION OF THE PRE-EMPTIVE SUBSCRIPTION RIGHT IN THE CASE OF ARTICLES 414, 417 AND 511 OF THE RESTATED TEXT OF THE COMPANIES ACT**

To the General Shareholders' Meeting of Banco Bilbao Vizcaya Argentaria, S.A.:

For purposes of the provisions of articles 414, 417 and 511 of the Restated Text of the Companies Act (Ley de Sociedades de Capital or "LSC"), and pursuant to the assignment of Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter, "BBVA" or "the Bank"), by appointment of the Mercantile Registrar of Vizcaya, Mr Juan Alfonso Fernández Núñez, corresponding to file number 2018/46, we issue this Special Report regarding the issue of perpetual securities contingently convertible into shares of Banco Bilbao Vizcaya Argentaria, S.A., with the exclusion of pre-emptive rights, under the authorisation and therefore the delegation conferred by the Ordinary General Shareholders' Meeting of the Bank on 17 March 2017.

### **1. Background and purpose of our work**

Banco Bilbao Vizcaya Argentaria, S.A. is a Spanish company organised under private law, subject to the rules and regulations of banking institutions operating in Spain, domiciled in Bilbao. The shares of the Bank are listed on the Continuous Market of the Spanish Securities Markets, as well as on other international markets. All the shares of the Bank have the same political and economic rights without there being any different voting right for any shareholder.

According to the information and documentation received under the delegation conferred by the Ordinary General Shareholders' Meeting of the Bank held on 17 March 2017 the Board of Directors has adopted a resolution to carry out an issue of perpetual securities contingently convertible (hereinafter, the "securities") into shares of the Bank in the amount of up to ONE THOUSAND FIVE HUNDRED MILLION EUROS (€ 1,500,000,000), or its equivalent in any other currency, with a provision for a possible incomplete subscription, with the exclusion of pre-emptive rights, and of a perpetual nature (except upon conversion or prepayment).

In addition, on 26 April 2018, the Board of Directors of the Bank prepared a Directors' Report, attached hereto as Annex I (hereinafter, the "Directors' Report") providing a rationale for the proposal and the rate of conversion into shares of the securities to be issued. According to the information obtained, the issue shall be implemented in accordance with the provisions of the terms and conditions contained in the Directors' Report.





The purpose of our work is not to certify the price of issue or conversion of the securities. The objectives of our work are exclusively the following:

- To state whether the attached Directors' Report of the Bank contains the minimum required information compiled in the Technical Rule on the Preparation of the Special Report regarding the issue of convertible obligations in the case of article 414 of the LSC which includes an explanation of the basis and methods of the conversion corresponding to the securities, by application of the procedures set forth in such Technical Rule.
- To issue a technical opinion, as independent experts, regarding the reasonableness of the data contained in the Directors' Report of the Bank in relation to the issue of the securities with the exclusion of pre-emptive rights, and regarding the suitability of the conversion ratio thereof and, if applicable, the formulas of adjustment thereof to compensate for possible dilution of the financial interest of the shareholders, all in accordance with the provisions of article 417 of the LSC, and by analogy, in those cases where the Technical Rule on the Preparation of the Special Report regarding the exclusion of pre-emptive rights is applicable.

The accounting information used in this work has been obtained from the consolidated annual accounts of Banco Bilbao Vizcaya Argentaria, S.A. and companies making up the BBVA Group (hereinafter, "the Group" or "BBVA Group") for the financial year ended 31 December 2017, which were audited by KPMG Auditores, S.L., which issued its audit report on 13 February 2018, in which it expressed an unqualified opinion.

## 2. Procedures applied in our work

Our work consisted of the application of the following procedures in accordance with the Technical Rule on Preparation of the Special Report regarding the issue of convertible obligations in the case of article 414 of the Restated Text of the Companies Act, as well as those complementary procedures that we have deemed necessary to comply with the provisions of articles 417 and 511 of the Companies Act:

- a) Obtaining and analysing the resolution of the Ordinary General Shareholders' Meeting of the Bank of 17 March 2017 with respect to the delegation to the Bank's Board of Directors, with the express power of substitution in the Bank's Executive Committee, or in any other person with powers of attorney in the company, of the power to issue, among other things, convertible securities and to exclude the right to pre-emptive subscription.
- b) Obtaining of the report prepared by the Directors of Banco Bilbao Vizcaya Argentaria, S.A., explaining the basis and methods of the conversion and the justification of the exclusion of pre-emptive rights dated 26 April 2018, which as mentioned above is included as Annex I to this Report.





- c) Obtaining of the report from the Finance Area of BBVA, and other financial and legal reports issued by the Bank's advisors in relation to the planned transaction.
- d) Obtaining and analysing the following financial statements:
  - Stand alone and consolidated annual accounts together with the report of the auditor of Banco Bilbao Vizcaya Argentaria, S.A. and companies making up BBVA Group for the financial year ended 31 December 2017
  - Condensed Interim Consolidated Financial Statements and Interim Consolidated Management Report corresponding to the three month period ended March 31, 2018.
- e) Verification that the Directors' Report regarding the issue of the perpetual securities contingently convertible into shares contains the information deemed necessary and sufficient, within the context of the Resolution of 23 October 1991 of the Instituto de Contabilidad y Auditoría de Cuentas (ICAC), for a proper interpretation and comprehension by the addressees thereof.
- f) Obtaining and analysing the information used by the Directors of Banco Bilbao Vizcaya Argentaria, S.A. in determining the basis and methods of the conversion of the securities; verifying that they comply with the provisions established for such purpose in the delegation agreement adopted by the General Shareholders' Meeting of 17 March 2017 cited in paragraph a) above.
- g) Verification that, in accordance with the Directors' Report, the issue price of the contingent convertible perpetual securities is not below the nominal value thereof, and that the conversion price thereof into shares (the conversion price) is not below the nominal value of the shares into which they are to be converted.
- h) Evaluation of the reasonability of the data contained in the Directors' Report justifying the issue of the securities, and the reasons and documentation provided to justify the exclusion of the right of pre-emptive subscription.
- i) Verification that the accounting information contained in the Directors' Report, if any, matches the information contained in the audited consolidated annual accounts of Banco Bilbao Vizcaya Argentaria, S.A. for financial year 2017.
- j) Reading of available minutes of the General Shareholders' Meetings and of meetings of the Board of Directors held since 1 January 2017 and through the date of issue of this Report.
- k) Holding of meetings with executives of Banco Bilbao Vizcaya Argentaria, S.A. in order to obtain information regarding the issues raised or that might be of interest for the objective of our work.



- l) Study of changes in the listing price of the shares of the Company and determination of the average listing value of such shares during the latest representative listing period prior to the date of this Special Report (the last quarter) and of the latest available listing price prior to such date, also considering the listing frequency and volume of the periods under analysis.
- m) Given that the conversion ratio proposed by the Directors is variable, verification that the application of the formula proposed by the Directors that serves as the basis to establish the applicable conversion price each time ensures that this is in no case less than the reasonable value of the shares of the Bank, as the Floor Price (as defined in section 4 below) will correspond to at least the reasonable value of the shares of the Bank. Evaluation in this regard of whether the proposed conversion mechanism is reasonable, considering the contingency terms of the conversion proposed by the Directors.
- n) Analysis of the suitability of the conversion ratio and the formulas for adjustment thereof, to compensate for a possible dilution of the financial interest of the shareholders.
- o) Analysis of material subsequent events occurring after the formulation of the latest consolidated and audited annual accounts of Banco Bilbao Vizcaya Argentaria, S.A. for financial year 2017, and through the date of this Report that could significantly affect the issue of perpetual securities contingently convertible into Bank's shares.
- p) Obtaining a representations letter by the Management of Banco Bilbao Vizcaya Argentaria, S.A. in which they confirm, among other items, that they have provided us with all information needed for the preparation of our special Report, have informed us of all significant hypotheses, data or information, and that there have been no subsequent events through the date of our special report that we have not been made aware of and that might have a material effect on the conclusions of our work.

### 3. Characteristics of the issue

The amount of the issue will be up to a maximum of one thousand five hundred million euros (€ 1,500,000,000), or its equivalent in any other currency, made up of securities with a minimum nominal value of 100,000 euros which shall be issued at par, expressly providing for a possible incomplete subscription, all belonging to a single series, and suppressing the right of pre-emptive subscription.



The convertible securities shall be of a perpetual nature (except for conversion or prepayment upon the terms included in the Directors' Report included as Annex I) and shall give the right to a non-cumulative remuneration determined based on the applicable interest rate on the nominal value of the securities and provided that the rest of the conditions set forth in the issue terms are met.

Specifically the issuer will be able to cancel, at their discretion, when deemed necessary, the remuneration's payment during a limitless period, without cumulative effect, independently of other events that might be established in the terms and conditions of the issue.

The issue is of a perpetual nature, thus it lacks due date. The securities might be paid totally or partially at the issuer's choice in accordance with the final terms and conditions of the issue, provided that at least 5 years have elapsed from their issue and as long as the Bank of Spain or the competent supervisory authority has previously authorized it.

#### **4. Evaluation of the conversion ratio and formulas for adjustment thereof**

The Directors' Report proposes that the conversion ratio of the perpetual securities contingently convertible into shares of the Bank be variable. Due to this reason fluctuations in the market value of the shares of the Bank would give rise to adjustments in the conversion ratio, but with the establishment of a maximum limit on the number of shares to be delivered in the conversion.

The basis and methods of the conversion are the following:

##### **Events of contingent conversion**

The securities will necessarily be converted into newly-issued ordinary shares of BBVA in the event that the issuer or the issuer's consolidated group has a common equity tier 1 ratio less than 5.125%, calculated in accordance with Regulation (EU) No. 575/2013 or such other solvency rules as are applicable to the Bank at each time.

Furthermore, the securities might be converted into newly-issued ordinary shares of BBVA if the issuer adopts any measure resulting on the approval of a reduction of its share capital in the terms spelled out in article 418.3 of the LSC.

Nevertheless, the terms and conditions of the issue may establish additional events to safeguard the issuer's solvency or in order for the securities to count as additional equity tier 1.





## Conversion ratio

The conversion ratio of the securities into ordinary shares of BBVA will be the one resulting from the ratio between their nominal value (i.e. a minimum of 100,000 euros) and the value attributed to the ordinary shares of BBVA for conversion purposes (the latter being the "Conversion Price"). The Conversion Price will correspond to the market value of the shares of BBVA at the time of the conversion of the securities, subject to the limitations outlined below.

Thus, the number of shares that will correspond to each security holder as a consequence of the conversion will be the result of multiplying the conversion ratio by the number of securities owned by the investor. In the case of fractions of shares, it will be based according to the provisions on the terms of the issue.

The Conversion Price will be the arithmetic average of the closing prices of BBVA's shares corresponding to the five listing days previous to the day in which the conversion event takes place, rounding to the closest cent euro and, in case of half a cent, the immediately higher cent euro (the "Price of Reference")

If the resulting Reference Price is lower than 3.75 euros, the Conversion Price will be 3.75 euros per share ("the Floor Price"), without prejudice of the modifications that this amount may suffer based on the expected application of anti-dilution mechanisms.

Independently of the aforementioned, the Conversion Price may not be in any case lower than the nominal value of the shares of BBVA at the time of the conversion, so that in all cases the provisions set forth in article 415 of the LSC will be met.

Therefore, the Conversion Price of the ordinary shares of the Bank will be the highest of the following:

- a) The Price of Reference
- b) The Conversion Floor Price of 3.75 euros (without prejudice of the modifications that this amount may suffer based on the application of the anti-dilution mechanism); and
- c) The Nominal Value of the shares of BBVA at the time of the conversion.

Based on the aforementioned, the Conversion price suggested by the Directors will correspond, at least, to the reasonable value of the shares in the Bank at the date of the conversion.

The listing price per share at the closing of 10<sup>th</sup> May 2018 was 6,85 euros and the average listing price per share of the last 3 months ended at of 10<sup>th</sup> May 2018 has been 6,64 euros.



Since the conversion ratio is variable, the conversion ratio proposed by the Directors does not have a dilutive effect on the shareholders of the Bank for the reasons explained below:

- The contingent (non-mandatory) nature of the conversion; in other words, it is possible that the conversion never takes place, and thus the potential dilution of the Bank's shares would not be raised. The securities would only be converted in certain situations in which the solvency of the Bank or of the Bank's consolidable Group for regulatory purposes shows a common equity Tier 1 ratio of less than 5.125%. At 31 December 2017, according to information contained in the management report attached to the consolidated annual accounts for such financial year, the common equity Tier 1 ratio was 11.7%.
- A variable conversion ratio is established in the event of conversion, based on the listing price of the Bank's shares calculated, as for a determined date, as the arithmetic average of the closing price of the BBVA's share in the five working days immediately preceding such date. Therefore the types of issue of the shares that may be issued due to the conversion corresponds to the market value of BBVA's shares at the time of conversion (or at a fixed price per share of 3.75 euros, the Floor Price, if the market value is less) and thus at least with a reasonable value, so that there would be no dilution of the Bank's shareholders.
- Finally, the fixed conversion mechanism contains a Floor Price that by definition would be higher than the market price of the shares at the time of conversion, for which reason the economic dilution of the shareholders in such event would even be negative. This Floor Price will be adjusted if necessary by application of customary anti-dilution clauses in issues of convertible securities, but may not be less than the nominal value of the shares at the time of the conversion (currently 0.49 euros).

Taking into account both these same characteristics and the exchange ratio, the theoretical value of the pre-emptive subscription rights that are proposed to be suppressed would be null, estimating based on the higher of the listing price of the shares at the time of conversion of the securities and the Floor Price – adjusted if applicable by the anti-dilution mechanisms included in the Directors' Report attached as Annex I.

## **5. Significant aspects and special difficulties to consider in interpreting the results of our work**

In addition to objective factors, both the interpretation of what is required in articles 414, 417 and 511 of the LSC, as well as the opinions expressed in this report, implicitly carry other subjective factors that involve judgment, and it is therefore not possible to guarantee that third parties will necessarily agree with the interpretation and judgments expressed in this Report.



The information necessary to carry out our work has been provided to us by the Management of Banco Bilbao Vizcaya Argentaria, S.A. or has been obtained from public sources.

As regards information obtained from public sources, our work did not compare such information with external evidence, although, to the extent possible, we have verified that the information submitted is consistent with other data obtained during the course of our work.

During our work we have performed tests and we have also applied judgments regarding the information contained in the Directors' Report, and we have also applied working hypotheses, compliance with which depends to a large extent on future events, for which reason it is not possible, at this time, to know the final result thereof.

We do not have the obligation to update our report based on events that may occur after the issue hereof. The content of this report should be understood to refer to all information received regarding events happening prior to the date hereof.

We assume that all authorisations and registrations that may be necessary for the effectiveness of the transaction and that might affect our work will be obtained without any adverse effect on the objective of the transaction that we have studied.

Finally, it is important to emphasise that our work is of an independent nature, and therefore does not involve any recommendation to the Management of Banco Bilbao Vizcaya Argentaria, S.A., to the shareholders thereof or to third parties with respect to the position they should take with respect to the issue of the securities or with respect to any exchange transactions offered to third parties with respect thereto.

## 6. Conclusion

According to the work performed, with the scope described in the preceding paragraphs, and subject to the significant aspects to consider in the interpretation of the results of our work, all for the sole purpose of complying with the requirements set forth in articles 414, 417 and 511 of the LSC, in our professional opinion:

- The attached Directors' Report of Banco Bilbao Vizcaya Argentaria, S.A. regarding the issue of perpetual securities contingently convertible into shares of the Bank, with the exclusion of pre-emptive subscription rights, contains the information required by the Technical Rule on the Preparation of special reports regarding the issue of convertible obligations in the case of article 414 of the Restated Text of the Companies Act.





- The data contained in the aforementioned Directors' Report to justify the exclusion of pre-emptive rights are reasonable as they are properly documented and outlined.
- The conversion ratio for the perpetual securities contingently convertible into shares of Banco Bilbao Vizcaya Argentaria, S.A., with exclusion of pre-emptive subscription rights and the formulas for adjustment thereof are suitable for offsetting a possible dilution of the financial interest of the shareholders. Thus at the date of the report and taking into account the characteristics and context of the proposed transaction of issue, the theoretical value of the pre-emptive subscription rights linked to such securities is null.

This Special Report has been prepared only for the purposes provisioned in articles 414, 417 and 511 of the Restated Text of the Companies Act. Therefore it should not be used for any other purpose.

Bilbao, 11<sup>th</sup> May 2018

MAZARS AUDITORES, S.L.P.

---

Francisco Tuset

---

Alberto Martínez



#### ANNEX 1:

BANCO BILBAO VIZCAYA ARGENTARIA, S.A.'S BOARD OF DIRECTORS REPORT ON THE  
ISSUE OF PERPETUAL SECURITIES CONTINGENTLY CONVERTIBLE INTO SHARES WITH  
EXCLUSION PRE-EMPTIVE SUBSCRIPTION RIGHTS



*This English version is a translation of the original in Spanish for information purposes only. In case of discrepancy, the Spanish original will prevail.*

***Report presented by the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A. for the purposes set out in articles 414, 417 and 511 of the Corporate Enterprises Act regarding the resolution to issue preferred securities contingent convertible into newly issued ordinary shares of the Bank, with exclusion of preemptive subscription rights and the corresponding share capital increase by the necessary amount, which is adopted under the authority conferred by the Annual General Meeting, held on 17 March 2017, under agenda item five.***

## CONTENTS

<b>1.</b>	<b>INTRODUCTION.....</b>	<b>1</b>
1.1	PURPOSE OF THE REPORT .....	1
1.2	APPLICABLE REGULATIONS .....	1
1.3	ADVISORY SERVICES RECEIVED .....	3
<b>2.</b>	<b>ON THE ISSUANCE OF THE SECURITIES .....</b>	<b>3</b>
2.1	DELEGATION BY THE GENERAL SHAREHOLDERS' MEETING UNDER WHICH THE ISSUANCE IS CARRIED OUT .....	3
2.2	REGULATORY ENVIRONMENT AND CAPITAL REQUIREMENTS .....	6
2.3	RATIONALE FOR THE ISSUANCE .....	8
	<i>2.3.1 Financial and market rationale.....</i>	<i>8</i>
	<i>2.3.2 Regulatory rationale.....</i>	<i>9</i>
2.4	FINANCIAL CONDITIONS OF THE ISSUANCE .....	11
2.5	TERMS AND METHODS OF CONVERSION.....	12
	<i>2.5.1 Conversion trigger events.....</i>	<i>12</i>
	<i>2.5.2 Conversion ratio .....</i>	<i>13</i>
	<i>2.5.3 Anti-dilution mechanism.....</i>	<i>14</i>
2.6	CAPITAL INCREASE .....	15
<b>3.</b>	<b>GROUND FOR THE EXCLUSION OF PREEMPTIVE SUBSCRIPTION RIGHTS .....</b>	<b>16</b>
3.1	GROUND FOR THE EXCLUSION OF PREEMPTIVE SUBSCRIPTION RIGHTS .....	16
3.2	INVESTORS TO WHOM THE SECURITIES SHOULD BE ATTRIBUTED .....	19
<b>4.</b>	<b>PROPOSED RESOLUTIONS .....</b>	<b>19</b>

## **1. INTRODUCTION**

### **1.1 Purpose of the report**

This report is drawn up by the Board of Directors of BANCO BILBAO VIZCAYA ARGENTARIA, S.A. (“**BBVA**”, the “**Bank**” or the “**Issuer**”) pursuant to articles 414, 417 and 511 of the consolidated text of the Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010, of July 2, as currently in force (the “**Corporate Enterprises Act**”), in relation to the resolution to issue preferred securities contingent convertible into newly-issued ordinary shares of BBVA, which are issued in accordance with the first additional provision of Act 10/2014, of June 26, on the regulation, supervision and solvency of credit institutions (“**Act 10/2014**”) and Regulation (EU) 575/2013 of the European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms (“**EU Regulation 575/2013**”) so that they may be considered additional tier 1 capital instruments (the “**Securities**”), for a maximum nominal amount of 1,500 million euros, or the equivalent amount in any other currency, and with exclusion of preemptive subscription rights (the “**Issuance**”), and the corresponding share capital increase.

This resolution is adopted pursuant to the authority delegated by the Annual General Shareholders’ Meeting of 17 March 2017, under the fifth item of the agenda.

### **1.2 Applicable Regulations**

Article 401.3 of the Corporate Enterprises Act provides that, except for the provisions set out in special Acts, securities recognizing or creating debt issued by joint stock and limited liability companies (*sociedades anónimas*), –such as BBVA by issuing the Securities– shall remain subject to the regulations set forth for bonds under title XI of the Corporate Enterprises Act.

In this respect, articles 414 et seq. of the Corporate Enterprises Act allow *sociedades anónimas* to issue bonds that can be converted into shares provided that the general shareholders' meeting determines the terms and methods of the conversion and resolves to increase the capital by the necessary amount. To this end, the directors must draft a report explaining the terms and methods of the conversion. This must be accompanied by another report from an auditor other than the company's own auditor, appointed for this purpose by the Commercial Registry (*Registro Mercantil*).

Convertible bonds may not be issued for an amount under their nominal value, and may not be convertible into shares when their nominal value is below the share nominal value.

In listed companies, article 511 of the Corporate Enterprises Act allows the general shareholders' meeting to delegate the power to issue convertible bonds to directors and also grants them the power to exclude the preemptive subscription rights for convertible bonds issues under delegated powers, if such exclusion is made in the company's best interest. To this end, the announcement of the general shareholders' meeting that includes the proposal to vest the power to issue convertible bonds in the directors shall also contain explicit mention of the proposal to exclude the preemptive subscription right, and from the date on which the general shareholders' meeting has been called, a directors' report will be made available to shareholders substantiating the grounds for the proposed exclusion.

In addition, article 511 of the Corporate Enterprises Act requires that, in capital increases approved in the exercise of the powers granted by the general shareholders' meeting, the directors' and the auditor's reports must refer to each specific increase.

Thus, pursuant to article 417 of the Corporate Enterprises Act, the aforementioned directors' report must give detailed justification for such proposal to exclude preemptive subscription rights, and the independent expert's report shall contain a

technical judgment on the reasonableness of the data contained in the directors' report and the appropriateness of the conversion ratio and, where applicable, adjustment formulas to offset any possible dilution of economic shareholdings.

These reports shall be made available to the shareholders and submitted to the first general shareholders' meeting held after the date of the decision to increase capital.

### **1.3 Advisory services received**

This report is issued on the basis of (i) the report issued by BBVA's Finance Area, which is in turn supported by the report prepared by Citigroup Global Markets Limited, a top-level investment bank with recognized expertise in this type of issuances; and (ii) the legal report of J&A Garrigues, S.L.P., external legal advisor on Spanish law for the Issuance.

## **2. ON THE ISSUANCE OF THE SECURITIES**

### **2.1 Delegation by the General Shareholders' Meeting under which the Issuance is carried out**

BBVA's Annual General Shareholders' Meeting held on 17 March 2017, validly convened in due time and form, adopted the following resolution under the fifth item of the agenda, the relevant part of which is partially transcribed below:

*“To confer authority on the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A. (the “Company” or the “Bank”), as broad as necessary by law, to issue securities convertible into newly issued Company shares, subject to provisions in the law and in the Company Bylaws that may be applicable at any time and, where appropriate, prior obtaining of the authorizations that may be necessary to such end. The Board of Directors may make issues on one or several occasions within the maximum term of five (5) years to be counted as from the date on which this resolution is adopted, up to the maximum overall amount of eight billion euros (€8,000,000,000) or its equivalent in any other currency.*

*Likewise, to confer authority on the Board of Directors, as broad as necessary by law, such that, in the manner it deems most appropriate, it may:*

- (i) Resolve, establish and determine each and every one of the terms, characteristics and conditions of each of the issues of securities convertible into newly issued Company shares made under this resolution, including, but not limited to, the type of securities and their denomination, whether they be bonds, debentures, preferred securities, warrants or any other debt instruments convertible into newly issued Company shares in any form admitted by law; the amount, always within the maximum total overall amount indicated above; the date(s) of issue; the interest rate; the issue price and, in the case of warrants and similar securities, the issue price and/or issue premium, the strike price –which may be fixed or variable– and the procedure, term and other conditions applicable to the exercise of the subscription or purchase right over the underlying shares; the number of securities and the nominal value of each one; the form in which the securities are to be represented; the form and conditions of the remuneration, the fixed or variable interest rate, and the dates and procedures for payment of the coupon; the seniority of the securities and their potential subordination clauses; where appropriate, the anti-dilution clauses; applicable law; and, where appropriate, the mechanism for the collective organization and association and/or representation and protection of the holders of the securities issued, including the appointment of their representatives.*
- (ii) Resolve, establish and determine the form, the timing and the triggers for conversion and/or redemption, with the possibility of making perpetual issues; and the terms and modalities for conversion; distinguishing between: (a) perpetual issues or issues with no conversion and/or redemption deadline whose conversion is contingent, envisaged to meet regulatory requirements for the eligibility of the securities issued as capital instruments pursuant to solvency rules applicable at any time (“Contingent Convertible Issues - CoCos”); and (b) the rest of the convertible securities issues made under this resolution, including, by way of example and not limited to those issues with a predetermined mandatory conversion deadline (which may be on maturity or at any other time) or that are convertible at the option of the issuer and/or the investor, the total or partial nature of that conversion being determined by the Company, the securities holders or both (“Mandatory Convertible Issues”).*
- (iii) Resolve, establish and determine the conversion ratio, which may be fixed or variable, within the limits set forth below.*

*Should the issue be made at a fixed conversion ratio, the Company share price used for the conversion may not be lower than the greater of: (a) the arithmetic mean of the closing prices of the Company share on the securities market or exchange that the Board of Directors determines, during the period it establishes, which may not be more than three months or less than fifteen trading sessions prior to the date on which the specific issue of convertible securities is approved; and (b) the closing price of the Company share on the*

*securities market or exchange that the Board of Directors determines, the date prior to the date on which the specific issue of convertible securities is approved.*

*Should the issue be made with a variable conversion ratio, the Bank share price used for the conversion must be the arithmetic mean of the closing prices of the Company share on the securities market or exchange that the Board of Directors determines, during the period it establishes, which may not be more than three months or less than five trading sessions prior to the date on which the specific issue of convertible securities is approved. In such case a premium or, where appropriate, a discount may be established on the price per share, although should an issue discount be established on the price per share, it may not exceed 30%. The premium or discount may be different for each conversion date on each of the issues or tranches. Likewise, even if a variable conversion ratio is established, a minimum and/or maximum reference price may be determined for the shares to be used in the conversion, in the terms resolved by the Board of Directors.*

*Subject to whatever others limits may be applicable under prevailing regulations at any time, the value of the Company share for the purpose of the ratio for converting the securities into shares may not be below the nominal value of the Company share at the time of conversion, and securities may not be converted into shares when the nominal value of the securities is below that of the shares.*

*Likewise, the valuation for conversion of securities into shares will be for their nominal value and may or may not include interest accrued but unpaid at the time of their conversion.*

*(...)*

- (v) Increase the Bank's share capital by the amount necessary to cover the conversion commitments or requests, within the limits that, where applicable, are in force and available at any time, being able to declare the issue undersubscribed, should this be the case, establishing the specifications of the Company shares to be issued to cover the conversion of the securities, and to redraft the corresponding article in the Company Bylaws.*

*(...)*

- (vi) Pursuant to the Corporate Enterprises Act, totally or partially exclude preemptive subscription rights within the framework of a specific issue of convertible securities, when corporate interest so requires, in compliance with any legal requirements established to such end.*

*However, for Mandatory Convertible Issues, the power to exclude preemptive subscription rights will be limited to ensure the nominal amount of the capital increases resolved or carried out to cover the conversion of the Mandatory Convertible Issues in use of this authority (without prejudice to anti-dilution adjustments) with exclusion of preemptive subscription rights and of those likewise resolved or carried out with exclusion of preemptive subscription rights in use of the authority conferred under this General Meeting's agenda item four above, do not exceed the maximum nominal amount, overall, of 20% of the Bank's share capital at the time of this authorization, this limit being not applicable to Contingent Convertible Issues – CoCos.”*

## **2.2 Regulatory environment and capital requirements**

As a Spanish credit institution, the Bank is subject to the solvency and own funds framework defined by Regulation (EU) 575/2013 and Directive 2013/36/EU of the European Parliament and of the Council, of June 26, 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (“**Directive 2013/36/EU**” and, jointly with Regulation (EU) 575/2013, “**CRD IV**”), implementing Basel III in Europe.

This CRD IV framework has been implemented in Spain through (i) Act 10/2014; (ii) Royal Decree 84/2015, of February 13, implementing Act 10/2014; and (iii) Bank of Spain Circulars 2/2014 and 2/2016, notwithstanding the direct applicability of EU Regulation 575/2013, supplemented by several binding regulatory technical standards, and other recommendations and guidelines issued by various Spanish and supranational organizations.

These regulations foresee the possibility for credit institutions to have in place different capital instruments to cover, in an efficient manner, the different categories of regulatory capital which, in certain ratios, comprise their capital requirement, all in accordance with the composition and size of their balance sheets.

In this respect, CRD IV establishes, *inter alia*, a minimum capital requirement (“**Pillar 1**”) and increases the capital required through the "combined buffer requirement", which must be met with Common Equity Tier 1 capital (“**CET1**”), in addition to such CET1 envisaged to comply with Pillar 1.



Moreover, the European Central Bank (“**ECB**”) has established specific prudential capital requirements applicable to each credit institution (“**Pillar 2**”), in the framework of the Supervisory Review and Evaluation Process (“**SREP**”). These requirements taken as a whole establish higher levels of capital than those for the minimum capital requirement of Pillar 1 and the "combined buffer requirement" provided for in CRD IV.

As a result of the latest SREP conducted in 2017, the ECB has required the Bank to maintain, with effect from 1 January 2018: (i) phased-in CET1 ratios of 8.438% on a consolidated basis and 7.875% on an individual basis; and (ii) phased-in total capital ratios of 11.938% on a consolidated basis and 11.375% on an individual basis over risk-weighted assets.

The phased-in total capital ratio of 11.938% at consolidated level includes: (i) the minimum CET1 capital ratio required by Pillar 1 (4.5%); (ii) the Additional Tier 1 (“**AT1**”) capital requirement of Pillar 1 (1.5%); (iii) the Tier 2 capital requirement of Pillar 1 (2%); (iv) the CET1 requirement of Pillar 2 (1.5%); (v) the capital conservation buffer (1.875% of CET1); and (vi) the buffer for other systemically important institutions (0.563% of CET1).

On 31 December 2017, the Bank's phased-in total capital ratio was 15.37% on a consolidated basis and 22.54% on an individual basis. Its phased-in CET1 capital ratio was 11.67% on a consolidated basis and 17.67% on an individual basis. These ratios are comfortably above the capital requirements applicable to the Bank.

Nevertheless, the supervisor could impose capital buffers additional to those currently applicable, while the current Pillar 2 requirements will be reviewed annually based on the conclusions drawn by the ECB in subsequent SREPs, who would be entitled to require Pillar 2 capital requirements higher than those currently applicable. In light of the foregoing, it is necessary for BBVA to maintain a capital buffer management that is in line with the supervisory trend.

Moreover, on 23 November 2016 the European Commission published a set of proposed amendments to, *inter alia*, the CRD IV, to strengthen the resilience of Europe's credit institutions and to increase financial stability, so the framework defined by CRD IV, described above, may be subject to significant changes, the implementation and final content of which are still unknown. Among the modifications to CRD IV proposed by the European Commission is the possibility that a part of the Pillar 2 requirement (up to 18.75% of said Pillar 2 requirement) could be met with AT1 instruments.

## **2.3 Rationale for the Issuance**

Although, as indicated previously, BBVA currently complies comfortably with all of its capital requirements at present and has enough issuances of specific instruments to meet its capital requirements efficiently, BBVA's Finance Area has considered advisable to carry out a new issuance of AT1 eligible securities in accordance with CRD IV for the reasons given below and included in its report:

### ***2.3.1 Financial and market rationale***

BBVA issued, in February 2014, financial instruments that met the characteristics required by CRD IV for their eligibility as AT1 instruments, amounting to 1.5 billion euros (the “**AT1 2014 Issuance**”), which is still outstanding.

The AT1 2014 Issuance is perpetual, but includes the possibility of early redemption by the Bank after the fifth year (i.e. as of next February 2019).

As observed in the execution of the last AT1 transactions performed by several entities and in the current prices in the AT1's secondary market, and as indicated by the Finance Area in its report, the current financial conditions are ideal to perform an AT1 issuance, which would allow: (i) anticipate the potential early redemption of the AT1 2014 Issuance in an orderly manner; and; (ii) its replacement with instruments with the same regulatory category,

but with an envisaged lower financial cost. This would continue with the optimization of the financial cost of the capital structure and the compliance with the corporate interest.

In this regard, it is worth noting that in 2017 BBVA already performed two issuances of AT1 instruments in order to replace the first issuance of AT1 instruments that BBVA made in May 2013 (the “**Original Issuance**”). This Original Issuance, which is expected to be redeemed next May, has a higher financial cost in comparison with the issuances that took place in 2017 (9% for the Original Issuance in comparison to the 5.875% and 6.125% for the issuances that took place in 2017).

Nevertheless, it should be considered that the circumstances surrounding the relevant rates for determining the suitability of the early redemption of the AT1 2014 Issuance will be those existing in 2019.

Lastly, as set forth in the report of the Finance Area, the current market conditions are also favourable to the performance of an AT1 issuance. In this regard, a solid demand for these instruments has been detected due to the current interest rate environment and the lack of yield financial products.

In light of the foregoing and based on the content of the Finance Area’s report, it is considered appropriate to carry out the Issuance, from both a financial and market perspective.

### ***2.3.2 Regulatory rationale***

In addition to the financial and market reasons for the Issuance, there are also regulatory reasons that make the Issuance advisable.

As stated in section 2.2 above, CRD IV provides the possibility that credit institutions have in place different capital instruments to cover the different categories of regulatory capital efficiently which, in certain ratios, comprise

their own funds requirement, according to the composition and size of their balance sheets.

In this sense, in addition to CET1, CRD IV includes two additional regulatory capital categories in the composition of the Pillar 1 capital requirement, namely AT1 and "Tier 2 capital" which can be covered with specific instruments and, failing that, with CET1 and with CET1 or AT1, respectively, which would be more burdensome and less efficient. Therefore, it is proposed to issue the Securities that are eligible as AT1 according to CRD IV in order to potentially replace the AT1 2014 Issuance, as they are the only kind of instruments that comply with the features for its eligibility, as described hereunder and thus preserving at all times the Bank's capital position in the most effective way.

Specifically, the Issuance would raise BBVA's capital ratios in accordance with both current (phased-in) regulations and those applicable as from 2019 (fully-loaded), being able to potentially refinancing the AT1 2014 Issuance and guaranteeing at all times the efficient compliance with its solvency requirements and with a management margin that is in line with the current supervisory trend.

Lastly, as indicated by the Finance Area in its report, performing the proposed Issuance implies a prospective management of the refinancing of the AT1 2014 Issuance, such management being understood as the management of the supervisor's mandatory prior authorization to redeem a capital issuance (i.e. the AT1 2014 Issuance) without having started the replacement of the issuance subject to redemption with instruments of the same or greater quality (i.e. the Issuance).

In this context, the Finance Area has proposed to the Board of Directors, which has approved, the issuance of a fixed-income instrument that is eligible as AT1 in accordance with the provisions of CRD IV. To this end, EU Regulation 575/2013

provides that these securities must include, among others, the following characteristics:

- (i) be perpetual;
- (ii) rank below Tier 2 capital instruments in the event of insolvency of the entity;
- (iii) distributions on the securities are only paid out of distributable items and the entity has full discretion at all times to cancel distributions on the securities for an unlimited period and on a non-cumulative basis and non-restrictive effects on the compliance of the remaining obligations of the entity; and
- (iv) they include a mechanism for contingent conversion into entity shares when the trigger event set out in said regulation occurs (as described in section 2.5.1 below) and thus they are able to effectively absorb losses in a context of solvency stress of the issuer. Nevertheless, this contingent trigger event would only occur in a very specific situation of shortfall in CET1 of the issuer or its group.

Consequently, it is considered convenient to perform the Issuance, with the required features for its eligibility as AT1, that may anticipate the refinancing of the AT1 2014 Issuance in an orderly manner (managing in a prospective manner the applicable regulatory authorizations and thus preserving at all times the capital position of the Bank) and with a lower financial cost, benefiting from the current favorable market circumstances, and considering that the relevant rates for determining the suitability of the early redemption of the AT1 2014 Issuance will be those existing in 2019, which is therefore, taken as a whole, in BBVA's best interest.

## **2.4 Financial conditions of the Issuance**

The Issuance will be made for a maximum nominal amount of 1,500 million euros, or its equivalent amount in any other currency, with a nominal value of each

Security being, at least, 100,000 euros, or its equivalent amount in any other currency.

For the purpose of being eligible as AT1, the Securities shall have the characteristics set out in CRD IV including, amongst others, those stated in section 2.3 above.

Investors may receive the distributions set out in the Issuance's final terms and conditions and which shall be in line with market prices for this type of instruments at the time of their issue. As provided for in CRD IV, payment of the distributions shall be conditional, among other factors, on there being distributable items, which will be described in detail in the Issuance's terms and conditions.

However, the Issuer shall have full discretion at all times to cancel, totally or partially, the payment of distributions on the Securities for an unlimited period and on a non-cumulative basis, without such cancellation implying any restriction to meet the rest of its obligations.

## **2.5 Terms and methods of conversion**

The terms and methods of conversion of the Securities, resulting from the proposal of the Bank's Finance Area, will essentially be as follows:

### ***2.5.1 Conversion trigger events***

The Securities will be converted into newly-issued ordinary BBVA's shares if the Issuer, or its consolidated group, has a CET1 ratio below 5.125%, calculated pursuant to EU Regulation 575/2013 or any other regulation applicable at any given time.

The Securities may also be converted into newly-issued ordinary BBVA's shares if the Issuer adopts any measure whose consequence is the approval of a share capital reduction in the terms and conditions set out in article 418.3 of the Corporate Enterprises Act.

The Issuance's terms and conditions may establish additional total or partial conversion events if this is required or advisable to safeguard the Issuer's solvency or so that the Securities may be considered AT 1 instruments and, accordingly, be Tier 1 capital eligible.

### **2.5.2 Conversion ratio**

The ratio for converting the Securities into newly-issued ordinary BBVA's shares (the "**Conversion Ratio**") will be the result of dividing the nominal value of each of the Securities (which will be, at least, 100,000 euros, or its equivalent amount in any other currency) by the unitary value attributed to the ordinary shares of BBVA for the purposes of the conversion (the "**Conversion Price**").

$$Conv_{ratio} = Nom_{convertible} / Sh_P$$

where:

*Conv<sub>ratio</sub>*: Conversion Ratio

*Nom<sub>convertible</sub>*: The nominal value of the Security subject to conversion

*Sh<sub>P</sub>*: Conversion Price

The Conversion Price will correspond, at least, to the market price of BBVA's share at the time of the conversion of the Securities, subject to certain limits.

In this regard, the Conversion Price will be the greater of:

- i) The arithmetic mean of the closing prices of BBVA's share, on the stock exchange or securities market specified, in the five trading sessions prior to the occurrence of the trigger event, rounded to the nearest cent and, in the case of half a cent, up to the nearest cent;

ii) the minimum conversion price to be determined in the terms and conditions of the Issuance, which cannot be lower than 3.75 euros or the equivalent amount in any other currency, all without prejudice to the amendments that can be made to this amount depending on the application of the anti-dilution mechanism set out in the following section (the “**Minimum Conversion Price**”); and

iii) the nominal value of ordinary shares of BBVA at the time of conversion.

In accordance with the above, the Conversion Price will at least be equal to the market price of BBVA’s share upon conversion of the Securities, but in no event such price can be lower than the unitary nominal value of BBVA’s ordinary shares at the time of conversion, so the transaction will, in all events, comply with article 415.2 of the Corporate Enterprises Act.

Each Securities’ holder will be entitled to receive the number of shares resulting from the multiplication of the Conversion Ratio by the number of Securities owned by such holder. If such multiplication provides fractions, these will be treated as stated in the Issuance’s terms and conditions.

### ***2.5.3 Anti-dilution mechanism***

Pursuant to article 418.2 of the Corporate Enterprises Act, anti-dilution mechanisms on the Minimum Conversion Price will be established in the terms and conditions of the Issuance, in line with the market practice in this type of transactions.

These anti-dilution mechanisms must take into account the conversion terms and methods determined above and the fact that the Conversion Price must never be less than the nominal value of BBVA’s ordinary shares at the time of conversion.



## **2.6 Capital increase**

In accordance with article 414 of the Corporate Enterprises Act, upon the adoption of the corporate resolution approving the issuance of the Securities, the share capital increase must be approved for the amount necessary to be able to cover its contingent conversion. For such purposes, the maximum number of BBVA's shares to be issued to cover the conversion of the Securities will be determined by dividing the total nominal amount of the Issuance by the Conversion Price.

This capital increase, if applicable, will be executed by the Board of Directors, which may delegate this authority to the Executive Committee, with express replacement powers, and will empower the proxies that the Board of Directors indicates, by virtue of the resolution adopted at the Annual General Shareholders' Meeting of BBVA held on 17 March 2017, under agenda item five, to cover the contingent conversion of the Securities, by issuing new ordinary shares of the same nominal value, of the same class and series, and with the same rights as BBVA's ordinary shares outstanding on the date of execution of the relevant capital increase. Should the capital increase be executed, the corresponding article in the Company Bylaws will be redrafted to adapt it to the new figure for share capital.

It is not possible yet to determine the exact amount of share capital that would be needed for the contingent conversion of the Securities, given that, pursuant to the terms and methods of the conversion, it will depend on the market price of BBVA's shares at the time of conversion of the Securities.

However, considering that the Issuance is for a nominal maximum amount of 1,500 million euros (or its equivalent amount in any other currency), that the Conversion Price may not be below 3.75 euros (or its equivalent amount in any other currency) and assuming no anti-dilution adjustments prior to the date when the Securities are converted takes place, the maximum number of new ordinary shares that would need to be issued is 400 million.

Pursuant to article 304.2 of the Corporate Enterprises Act, should the Securities be converted into ordinary shares, there would be no preemptive subscription rights on the resulting capital increase.

### **3. GROUNDS FOR THE EXCLUSION OF PREEMPTIVE SUBSCRIPTION RIGHTS**

#### **3.1 Grounds for the exclusion of preemptive subscription rights**

As indicated above, BBVA's Annual General Shareholders Meeting held on 17 March 2017 resolved, under agenda item five, to delegate to the Board of Directors the authority to issue securities convertible into shares and to increase the share capital. It also resolved to confer on the Board of Directors the authority to exclude preemptive subscription rights over the convertible securities issuances covered by such delegation.

To such end, when convening the aforementioned Annual General Shareholders' Meeting, and in accordance with articles 417 and 511 of the Corporate Enterprises Act, the BBVA Board of Directors approved and gave shareholders access to a report explaining the grounds of the proposal to delegate the power to exclude preemptive subscription rights.

Furthermore, articles 417 and 511 of the Corporate Enterprises Act require that the preemptive subscription rights shall only be excluded in the event of convertible bond issuances when the corporate interest so requires, among others.

BBVA's Board of Directors, by virtue of said delegation granted by the General Shareholders' Meeting and based on the report issued by the Finance Area (which in turn is sustained on the report prepared by Citigroup Global Markets Limited) as well as on the legal report by J&A Garrigues, S.L.P., as external legal advisor helping BBVA in the legal design of this transaction, has resolved to exclude the preemptive subscription rights with respect to the Issuance, as it deems such exclusion to be fully substantiated and in compliance with the requirements

established by law, and necessary to achieve the corporate interest, for the following reasons.

In light of section 2.3, the proposed issuance of these Securities is for the purpose of prospectively managing the potential replacement of the AT1 2014 Issuance with other under more appropriate or suitable financial terms; and complying, in the most efficient way, with the Bank's current or future capital requirements, preserving at all times the Bank's capital position; taking advantage of the interest and demand detected in the market and thus meeting the corporate interest.

For the Securities to be eligible as AT1 capital under CRD IV, these fixed-income securities must be perpetual, subordinate, with discretionary distributions and convertible into newly-issued ordinary shares of BBVA in the event of a possible shortfall of CET1 capital, and therefore the issuance of Securities is being proposed as they are the only instruments that comply with these characteristics, which are indicated in section 2.3 above.

Such characteristics, required by CRD IV, and their sophistication, as well as the latest regulatory changes –specifically regarding placement of this type of instruments–, mean that the Securities are currently a complex product which cannot be allocated to all kind of investors, especially retail investors, which are a relevant part of BBVA's shareholders. In this regard, not excluding the preemptive subscription right would mean offering a product that does not fit the investment profile of all Bank shareholders, which could jeopardize the viability of the Issuance.

In the same sense the Spanish National Securities Market Commission has expressed its position through Circular 1/2018, of 12 March on warnings relating to financial instruments, by virtue of which the CNMV believes that the financial instruments that are eligible as additional Tier 1 (such as the Securities), are not appropriate for retail clients due to their complexity.

Additionally, interest for this type of instruments has been detected among qualified investors, who constitute a group that is appropriate for their subscription. In order to be able to directly target only this kind of investors (which are common subscribers of this kind of instruments), and not compromise the transaction, it is essential to exclude the preemptive subscription rights of BBVA's shareholders.

The combination of the factors described above (the characteristics of these securities, the market conditions and the investors to whom the Issuance is addressed) has led the Finance Area to consider that the optimal alternative for the corporate interest is to manage the potential replacement of the AT1 2014 Issuance by issuing the Securities, addressing the Issuance solely to qualified investors, as this is the appropriate group for subscribing this type of instruments and are also those who have shown interest.

Consequently, the optimal alternative for meeting the corporate interest and providing a joint and comprehensive solution to the matters at hand is the issuance of Securities with exclusion of preemptive subscription rights.

In addition, the following circumstances should be taken into account:

- (i) The nature of the Securities is that of a perpetual fixed-income instrument, whose contingent convertibility is required by the regulations on own funds and solvency for their eligibility as AT1 capital, but which is only foreseen for very specific cases of a regulatory capital shortfall. In this regard, it should be taken into account that BBVA's solvency and own funds ratios currently fairly exceed from the conversion events, reinforcing the nature of the Securities as fixed-income security instruments and the eventuality of their conversion.
- (ii) The issue price for the Securities will be in line with the market prices for this type of instrument.
- (iii) The Conversion Price proposed to cover an eventual conversion corresponds

to the market price of the share of BBVA at the time of conversion, except in the event of such price being less than the Minimum Conversion Price, in which case the Conversion Price would be equal to the Minimum Conversion Price, and therefore being the shares issued with a premium over the market price. In this way, the maximum number of shares to be issued is limited by establishing the Minimum Conversion Price, which guarantees that the shares would be issued at a price equal to or above the market price.

Taking into account that the Securities are issued as perpetual securities, that the issue price will be in line with the market price, that the conversion trigger events are contingent and very limited in number and that the Conversion Price would be the market price or, where appropriate, include a premium over the market price, pursuant to the Finance Area report and the report prepared by Citigroup Global Markets Limited, the theoretical value of the preemptive subscription rights stemming from the Issuance is nil, meaning that current shareholders do not lose any economic value with their exclusion.

In light of the foregoing, the proposed exclusion of the preemptive subscription rights of the Issuance is necessary for the purpose intended, thus achieving the corporate interest.

### **3.2 Investors to whom the Securities should be attributed**

The Issuance is aimed exclusively at qualified investors, as this term is defined in the securities market regulations, excluding, in any event, the retail clients.

## **4. PROPOSED RESOLUTIONS**

***“FIRST.*** - *In use of the authority conferred by the Annual General Shareholders’ Meeting of Banco Bilbao Vizcaya Argentaria, S.A. (“BBVA”, the “Company” or the “Issuer”)* held on 17 March 2017 under agenda item five, to issue preferred securities contingent convertible into newly issued ordinary shares of the Company, in accordance with the first additional provision of Act 10/2014, of 26<sup>th</sup> June, on the regulation, supervision and solvency of credit institutions (***“Act 10/2014”***) and EU Regulation No. 575/2013 of the

European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms (“**EU Regulation 575/2013**”) so that they may be considered Additional Tier 1 capital instruments (the “**Securities**”), for a maximum nominal amount of one thousand five hundred million euros (€1,500,000,000) or the equivalent in any other currency, with exclusion of preemptive subscription rights (the “**Issuance**”), under the following terms:

**Nature of the Securities:** Preferred securities contingent convertible into newly issued ordinary shares of BBVA, pursuant to the first additional provision of Act 10/2014 and EU Regulation 575/2013, so that they may be considered Additional Tier 1 capital instruments.

**Issuer:** BBVA.

**Target Investors:** Exclusively at qualified investors, excluding, in any event, the retail clients.

**Maximum Issuance amount:** One thousand five hundred million euros (€1,500,000,000) euros, or the equivalent amount in any other currency, as set out in the terms and conditions of the Issuance. The Issuance may be made for a lower amount.

**Nominal value:** The Securities will have the nominal value set out in the terms and conditions of the Issuance, with a minimum amount of 100,000 euros, or the equivalent in any other currency.

**Number of Securities:** The number of Securities to be issued will be the result of dividing the total nominal amount of the Issuance by its nominal value. All the Securities will belong to a single series and the same terms and conditions will apply to all of them.

**Distributions:** Holders of the Securities may receive a non-cumulative distribution that will be based on the interest rate applicable to the nominal value of the Securities and which will be paid provided compliance with the conditions set out in the terms and conditions of the Issuance (the “**Distributions**”).

In particular, the Issuer shall have full discretion at all times to totally or partially cancel the payment of Distributions for an unlimited period and on a non-cumulative basis, and such cancelation may not

*entail any restriction to meet the remaining obligations of the Issuer.*

*The foregoing notwithstanding other cases of cancellation of Distributions that may be set out in the terms and conditions of the Issuance or as determined by applicable regulations.*

***Maturity date and early redemption:*** *The Issuance is perpetual, such that it has no maturity date.*

*The Securities may be totally or partially redeemed at the Issuer's option, in accordance with the terms and conditions of the Issuance, provided that at least 5 years have elapsed from their issuance and, where applicable, prior authorisation has been granted by the competent authority.*

*The terms and conditions of the Issuance may include other circumstances for early redemption in favour of the Issuer.*

***Representation of the Securities:*** *The Securities may be represented by physical certificates or by book entries, as determined in the Issuance's terms and conditions.*

***Ranking:*** *The Securities are subordinated obligations with the following ranking:*

- (i) junior to privileged obligations, obligations against the estate and unsubordinated obligations;*
- (ii) junior to subordinated obligations and subordinated securities issued or guaranteed by BBVA, or that may be issued or guaranteed by BBVA, that rank above the Securities;*
- (iii) pari passu with obligations and securities issued or guaranteed by BBVA, or that may be issued or guaranteed by BBVA, that rank pari passu with the Securities;*
- (iv) senior to the obligations and securities issued or guaranteed by BBVA, or that may be issued*

*or guaranteed by BBVA, that rank senior to the Securities; and*

*(v) senior to BBVA's shares.*

**SECOND.** - *The terms and methods for the contingent conversion of the Securities will be as follows:*

**a) Conversion triggers events**

*The Securities will be converted into newly issued ordinary shares of BBVA when the common equity tier 1 ratio of the Issuer or its consolidated group falls below 5.125%, calculated pursuant to EU Regulation 575/2013 or to any other capital and solvency regulation applicable to BBVA at any given time.*

*In addition, the Securities may be converted into newly issued ordinary shares of BBVA if the Issuer adopts any measure whose consequence is the approval of a share capital reduction as set out by article 418.3 of the consolidated text of the Corporate Enterprises Act, approved under Royal Legislative Decree 1/2010, of 2<sup>nd</sup> July, as amended (the "**Corporate Enterprises Act**").*

*The terms and conditions of the Issuance may establish additional total or partial trigger events if this is required or advisable to shore up the Issuer's solvency or so that the Securities may be considered as tier 1 capital instruments.*

**b) Conversion Ratio**

*The ratio for converting the Securities into newly-issued ordinary shares of BBVA (the "**Conversion Ratio**") will be the result of dividing the nominal value of each of the Securities (which will be, at least, 100,000 euros, or its equivalent amount in any other currency) by the unitary value attributed to BBVA's ordinary shares for the purposes of the conversion (the "**Conversion Price**"). The Conversion Price will correspond, at least, to the market price of BBVA's share at the time of the conversion of the Securities, subject to certain limits.*

*In this regard, the Conversion Price will be the greater of:*

- i) the arithmetic mean of the closing prices of BBVA's share, on the stock exchange or securities market specified, in the five trading sessions prior to the occurrence of the trigger event, rounded to the nearest cent and, in the case of half a cent, up to the nearest cent;*
- ii) the minimum conversion price to be determined in the terms and conditions of the Issuance, which cannot be lower than 3.75 euros or the equivalent amount in any other currency, all without prejudice to the amendments that can be made to this amount depending on the application of the anti-dilution mechanism set out in paragraph d) (the "**Minimum Conversion Price**") ; and*



<p><i>This English version is a translation of the original in Spanish for information purposes only. In case of discrepancy, the Spanish original will prevail.</i></p>
--

iii) *the nominal value of ordinary shares of BBVA at the time of conversion.*

*In accordance with the above, the Conversion Price will at least be equal to the market price of BBVA's share upon conversion of the Securities, but in no event such price can be lower than the unitary nominal value of BBVA's ordinary shares at the time of conversion, so that the transaction will, in all events, comply with article 415.2 of the Corporate Enterprises Act.*

*Each Securities' holder will be entitled to receive the number of shares resulting from the multiplication of the Conversion Ratio (as defined below) by the number of Securities owned by such holder. If such multiplication provides fractions, these will be treated as stated in the Issuance's terms and conditions.*

**c) *Conversion procedure***

*The conversion procedure will be determined in the terms and conditions of the Issuance.*

**d) *Anti-dilution mechanism***

*Pursuant to article 418.2 of the Corporate Enterprises Act, anti-dilution mechanisms will be established on the Minimum Conversion Price in compliance with the terms and conditions of the Issuance in line with market practice in this type of transactions.*

*These anti-dilution mechanisms must take into account the conversion terms and methods determined above and the fact that the Conversion Price must never be less than the nominal value of BBVA's ordinary shares at the time of conversion.*

*Notwithstanding other powers that may be granted, the Executive Committee is empowered, with express replacement authority, and the broadest powers are conferred on Mr Jaime Sáenz de Tejada Pulido, with identity card number 823996-K, Mr Antonio Joaquín Borraz Peralta, with identity card number 29100035-K, Mr Javier Malagón Navas, with identity card number 407098-K; Mr Ignacio Echevarría Soriano, with identity card number 837871-G; Mr Francisco Javier Colomer Betoret, with identity card number 25418655-K; and Mr Raúl Moreno Carnero, with identity card number 52473664-S, all of legal age, Spanish nationals and domiciled for these purposes in Madrid, calle Azul n.º 4 (the "**Proxies**"), so that either of them, indistinctly, jointly and severally, may establish, develop or amend the terms and conditions of the Issuance, as well as determine or develop any matter not established by this resolution, including, but not limited to, amend and/or adapt the conversion events, as well as to determine other trigger events, additional to those provided for in this resolution, under the terms and conditions they deem necessary or advisable for the successful outcome of the Issuance.*

**THIRD.**- *On the basis of the report drawn up by BBVA Finance Area, in accordance with the report issued by J&A Garrigues, S.L.P., and pursuant to articles 414, 417 and 511 of the Corporate Enterprises Act, to approve the Directors' Report on the Issuance, which will be made available to shareholders along with the report issued by the independent*

*expert/auditor of accounts different than the Company's auditor, appointed for such purposes by the Commercial Registry, and reported to the first General Shareholders' Meeting held after the capital increase resolution, expressly empowering the General Secretary and of the Board of Directors and the Vice secretary of the Board of Directors to certify the text.*

**FOURTH.** - *In line with the Finance Area's statement reflected in its report, which is reflected in the Directors' Report approved under the above resolution, the corporate interest requires the suppression of preemptive subscription rights in this Issuance. Consequently, the Board of Directors, pursuant to the authority conferred by the Annual General Shareholders' Meeting held on 17 March 2017, under agenda item five, and pursuant to articles 417 and 511 of the Corporate Enterprises Act, hereby resolves to exclude said preemptive subscription rights in this Issuance.*

**FIFTH.** - *To increase BBVA's share capital by the amount and number of shares necessary to cover the eventual conversion of the Securities, pursuant to the Conversion Ratio.*

*Considering that the Minimum Conversion Price cannot be lower than 3.75 euros or its equivalent amount in any other currency, the maximum number of ordinary shares of BBVA to be issued is 400 million (currently with a nominal value of 0.49 euros per share), assuming that no anti-dilution adjustments are made which may impact the Minimum Conversion Price, and expressly envisaging the possibility of the capital increase being implemented with an issue premium, for a lower number of shares and with the possibility of under-subscription.*

*Should the Securities be converted, the new shares of BBVA issued to cover the conversion will be ordinary shares, of the same class and series as those outstanding at that time and will be represented in the same way (currently by book entries, whose recording is attributed to Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal ("IBERCLEAR"), which performs this function together with its participating entities), granting their holders the same rights as the ordinary shares outstanding at that time. Upon execution of this resolution to increase share capital, the corresponding article of the Bylaws will be redrafted accordingly.*

*Pursuant to article 304.2 of the Corporate Enterprises Act, should the Securities be converted, there would be no preemptive subscription rights on the resulting capital increase.*

**SIXTH.** - *In use of the authority conferred by the Annual General Shareholders' Meeting held on 17 March 2017, under agenda item five, it is hereby resolved to delegate the authority on the Executive Committee, with express replacement authority, and to empower the Proxies in the broadest terms, so that either of them, indistinctly and jointly and severally, may, within the limits established in the above resolutions, carry out the aforementioned Issuance and:*

- a) Determine the timing on which the Issuance is to take place, being also authorized to abstain from executing the Issuance if deemed necessary or advisable.*
- b) Determine the terms, characteristics and conditions applicable to the Issuance and to the Securities to be issued, including, but not limited to, the final amount of the Issuance within the limits established under resolution FIRST above, the currency of the Issuance and the nominal value of each Security, the nominal interest rate applicable to the Securities, the interest accrual periods and the applicable payment procedure, the placement system and, when applicable, the effective placement rate, include new conversion terms and methods and/or amend those determined, including amending the Conversion Ratio, determining the Minimum Conversion Price or determining the terms and conditions of the anti-dilution mechanism, as well as determine any additional triggers for conversion and/or redemption any other terms and conditions deemed necessary or advisable for the successful outcome of the Issuance, expressing the amount drawn respect to the limit of the delegation granted by the General Shareholders' Meeting to the Board and the amount remaining, empowering them also to redeem the Securities early, carrying out any actions that may be needed or advisable.*
- c) Declare the Distributions of the Securities, whether partially or totally, and declare the total or partial cancellation of Distributions, as determined in the terms and conditions of the Issuance.*
- d) Apply, where appropriate, the anti-dilution mechanisms as determined in the terms and conditions of the Issuance.*
- e) Negotiate, examine, enter into, perform, execute, sign, amend, terminate or cancel all the contracts, instruments, agreements and documents, whether public or private, that may be necessary or advisable in connection with the Issuance (in particular, including, but not limited to, prospectuses, base prospectus, offering circulars, information documents, supplements, prospectus supplement, term sheets, form of security, liquidity contracts, subscription, placement or underwriting agreements, agency contracts, requests, communications, announcements or notices, with authority to determine the legal and economic conditions of all of them and to make the necessary or advisable designations or appointments, as well as other supplementary acts that may be required or advisable to implement what has been agreed upon.*
- f) With relation to the Issuance or the Securities, appear, personally or through the representative or agent designated in writing by any of the Proxies, before all the representatives, committees or bodies of any securities exchange or market or any supervisor, regulator or registry, including, but without limitation, the Spanish National Securities Market Commission (CNMV), AIAF Mercado de Renta Fija, Mercado Alternativo de Renta Fija or the Irish Stock Exchange, as well as any securities book-entry registration, clearing and/or settlement organization, with authority to execute, issue, sign, grant, modify, terminate and cancel such contracts,*

*certificates and documents as may be necessary or advisable, in the manner that any of the Proxies deems necessary or advisable to comply with the applicable requirements imposed from time to time by each supervisor, regulator, registry, securities exchange or market or securities registration, clearing and/or settlement organization, including, but without limitation, IBERCLEAR, that are necessary or that are considered convenient for the satisfactory outcome of the Issuance.*

- g) Request, where applicable, the eligibility of the Securities as additional tier 1 capital, or any other category applicable, in accordance with the regulations that may apply from time to time.*
- h) Execute and sign any public or private documents as may be required, with authority to appear before a notary, raise these resolutions to public, execute all the deeds that the Proxies deem appropriate, including deeds of issue, rectification, clarification or correction, and those for total or partial subscription of the Issuance, as well as those for total or partial redemption or amendment and, where appropriate, execute any other public or private documents that may be necessary or advisable in relation to the Issuance, as well as complete all relevant formalities, with the possibility of acting through agents and/or representatives, to achieve their registration at the Commercial Registry, when mandatory. Where applicable, file the declaration referred to in article 318 of the Commercial Registry Regulations, in compliance with article 36 of the consolidated text of the Securities Markets Act, should this be necessary.*
- i) If deemed necessary or advisable, constitute the Issuance bondholders' syndicate, as well as to appoint the trustee of said syndicate, or, if deemed necessary or advisable, to establish the mechanisms for collective association or organization and/or representation and protection of Securities holders, including the determination of their characteristics and rules of operation, and, where appropriate, the appointment of their representatives and the rules that are to govern the relationships between the Company and such holders, all in accordance with the terms and conditions deemed necessary or advisable.*
- j) Establish all other aspects not determined by this Board of Directors in relation to the Issuance, including any modification, where necessary or advisable, and determine any other aspect of the Issuance or implement any other measures deemed necessary or advisable in relation to the above powers, executing for this purpose any private or public documents deemed necessary or advisable.*
- k) With respect to the contingent conversion of the Securities into newly issued ordinary shares of BBVA, establish, where appropriate, the Conversion Price, and, if applicable, the issue premium, the Minimum Conversion Price, the final Conversion Ratio for the Issuance, determine the number of shares by which the BBVA capital is finally to be increased, declaring under-subscription when this is the case, and perform such acts as may be necessary, including, but not limited to, granting any public or private documents that may be necessary to implement the*

*capital increase and amend, if applicable, the wording of the corresponding article in the Company Bylaws to adapt it to the new figure for share capital, being also authorized to appear for such purposes before any public or private bodies, including but not limited to a public notary or the Commercial Registry, as well as to execute any deeds deemed necessary or appropriate in this regard.*

- l) Request, where appropriate, the admission to trading, or the inclusion to listing of the Securities and/or the ordinary shares of BBVA issued to cover the contingent conversion of the Securities, on secondary regulated and non-regulated, organized or non-organized, multilateral trading systems, Spanish and international markets, including, but without limitation, AIAF Mercado de Renta Fija, Mercado Alternativo de Renta Fija or the Irish Stock Exchange, and carry out procedures and actions as deemed necessary or advisable in any jurisdiction where the Securities or the newly issued shares of BBVA are offered or traded or requested to trading, where applicable. By way of example:*
  - (i) Draft, approve, formulate, subscribe and sign any documents, contracts, prospectuses, information documents, requests, communications or notifications as deemed necessary or advisable for these purposes and proceed to their subsequent amendment as deemed advisable.*
  - (ii) Take such actions as may be necessary before any competent authorities in each jurisdiction and approve and formalize such public and/or private documents as may be necessary and/or advisable for the full effectiveness of the resolutions, in any aspects or content.*

*Lastly, and for the purposes of the applicable regulations on issuance of securities, it is resolved to appoint the Proxies as representatives of the Company, jointly and severally, before any public and/or private body. They will bear responsibility for the content of the prospectuses, information documents or any other similar documents, where applicable, being likewise authorized to sign any additional contracts and documents, whether public or private, that may be necessary or advisable for the successful outcome of the Issuance.”*

\* \* \*

Madrid, 26 April 2018.

*THIS ENGLISH VERSION IS FOR INFORMATION PURPOSES ONLY. IN THE EVENT OF A DISCREPANCY OR INCONSISTENCY BETWEEN THE SPANISH AND ENGLISH LANGUAGE VERSIONS OF THIS RATIFICATION REPORT, THE SPANISH LANGUAGE VERSION WILL PREVAIL.*

**BANCO BILBAO VIZCAYA ARGENTARIA, S.A**

**Ratification of the special report regarding the issue of perpetual securities contingently convertible into shares with the exclusion of the pre-emptive subscription right in the case of articles 414, 417 and 511 of the Restated Text of the Companies Act, issued on 11<sup>th</sup> May 2018**

**Bilbao, 1st of August 2018**

**RATIFICATION OF THE SPECIAL REPORT REGARDING THE ISSUE OF PERPETUAL SECURITIES  
CONTINGENTLY CONVERTIBLE INTO SHARES WITH THE EXCLUSION OF THE PRE-EMPTIVE  
SUBSCRIPTION RIGHT IN THE CASE OF ARTICLES 414, 417 AND 511 OF THE RESTATED TEXT  
OF THE COMPANIES ACT**

To the General Shareholders' Meeting of Banco Bilbao Vizcaya Argentaria, S.A.:

On May 11<sup>th</sup> 2018, for purposes of the provisions of articles 414, 417 and 511 of the Restated Text of the Companies Act (Ley de Sociedades de Capital or "LSC"), and pursuant to the assignment of Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter, "BBVA" or "the Bank"), by appointment of the Mercantile Registrar of Vizcaya, Mr Juan Alfonso Fernández Núñez, corresponding to file number 2018/46, we issued a Special Report regarding the issue of perpetual securities contingently convertible into shares of Banco Bilbao Vizcaya Argentaria, S.A., with the exclusion of pre-emptive rights, under the authorisation and therefore the delegation conferred by the Ordinary General Shareholders' Meeting of the Bank on 17 March 2017, with the following **conclusions**:

*"According to the work performed, with the scope described in the preceding paragraphs, and subject to the significant aspects to consider in the interpretation of the results of our work, all for the sole purpose of complying with the requirements set forth in articles 414, 417 and 511 of the LSC, in our professional opinion:*

- *The attached Directors' Report of Banco Bilbao Vizcaya Argentaria, S.A. regarding the issue of perpetual securities contingently convertible into shares of the Bank, with the exclusion of pre-emptive subscription rights, contains the information required by the Technical Rule on the Preparation of special reports regarding the issue of convertible obligations in the case of article 414 of the Restated Text of the Companies Act.*
- *The data contained in the aforementioned Directors' Report to justify the exclusion of pre-emptive rights are reasonable as they are properly documented and outlined.*
- *The conversion ratio for the perpetual securities contingently convertible into shares of Banco Bilbao Vizcaya Argentaria, S.A., with exclusion of pre-emptive subscription rights and the formulas for adjustment thereof are suitable for offsetting a possible dilution of the financial interest of the shareholders. Thus at the date of the report and taking into account the characteristics and context of the proposed transaction of issue, the theoretical value of the pre-emptive subscription rights linked to such securities is null.*

*This Special Report has been prepared only for the purposes provisioned in articles 414, 417 and 511 of the Restated Text of the Companies Act. Therefore it should not be used for any other purpose."*

As we have been informed by Banco Bilbao Vizcaya Argentaria, S.A. to date such issuance of perpetual securities eventually convertible into ordinary shares, excluding the right of pre-emptive subscription, has not yet occurred. In this context and under the provisions of Article 347 of the Mercantile Registry Regulation ("Expiration of the report: The report issued by the expert will expire three months after its date, unless previously ratified by the expert, in which case it will extend its validity three more months, counting from the date of ratification"), we have been requested to ratify our Special Report dated May 11, 2018.

## **1. Procedures applied in our work**

In order to prepare the ratification of our special report we have updated the procedures applied detailed in our special report dated May 11th 2018. Specifically, we have carried out the following procedures:

- a) Obtaining confirmation that the Bank's Finance Area Report, as well as other financial and legal reports issued by the Bank's advisors in relation to the planned operation, are still valid.
- b) Obtaining and analysing the Interim Consolidated Financial Statements, Report from the auditors, Explanatory Notes and Management Report corresponding to the six month period ended June 30, 2018.
- c) Reading of available minutes of the General Shareholders' Meetings and of meetings of the Board of Directors held since the date of our Special Report (May 11th 2018) and through the date of issue of this ratification report.
- d) Holding of meetings with executives of Banco Bilbao Vizcaya Argentaria, S.A. in order to obtain information regarding the issues raised or that might be of interest for the objective of our work.
- e) Study of changes in the listing price of the shares of the Company and determination of the average listing value of such shares during the latest representative listing period prior to the date of this ratification report (the last quarter) and of the latest available listing price prior to such date, also considering the listing frequency and volume of the periods under analysis.
- f) Analysis of material subsequent events occurring after the formulation of the latest consolidated and audited annual accounts of Banco Bilbao Vizcaya Argentaria, S.A. for financial year 2017, and through the date of this Report that could significantly affect the issue of perpetual securities contingently convertible into Bank's shares.
- g) Obtaining a representations letter by the Management of Banco Bilbao Vizcaya Argentaria, S.A. in which they confirm, among other items, that they have provided us with all information needed for the preparation of our ratification report, have informed



us of all significant hypotheses, data or information, and that there have been no subsequent events from the issue date of our special report (May 11th 2018) through the date of our ratification report that we have not been made aware of and that might have a material effect on the conclusions of our work.

## **2. Significant aspects and special difficulties to consider in interpreting the results of our work**

In addition to objective factors, both the interpretation of what is required in articles 414, 417 and 511 of the LSC, as well as the opinions expressed in this report, implicitly carry other subjective factors that involve judgment, and it is therefore not possible to guarantee that third parties will necessarily agree with the interpretation and judgments expressed in our special report dated May 11<sup>th</sup> 2018.

The information necessary to carry out our work has been provided to us by the Management of Banco Bilbao Vizcaya Argentaria, S.A. or has been obtained from public sources.

As regards information obtained from public sources, our work did not compare such information with external evidence, although, to the extent possible, we have verified that the information submitted is consistent with other data obtained during the course of our work.

During our work we have performed tests and we have also applied judgments regarding the information contained in the Directors' Report, and we have also applied working hypotheses, compliance with which depends to a large extent on future events, for which reason it is not possible, at this time, to know the final result thereof.

We do not have the obligation to update our ratification report based on events that may occur after the issue hereof. The content of this ratification report should be understood to refer to all information received regarding events happening prior to the date hereof.

We assume that all authorisations and registrations that may be necessary for the effectiveness of the transaction and that might affect our work will be obtained without any adverse effect on the objective of the transaction that we have studied.

Finally, it is important to emphasise that our work is of an independent nature, and therefore does not involve any recommendation to the Management of Banco Bilbao Vizcaya Argentaria, S.A., to the shareholders thereof or to third parties with respect to the position they should take with respect to the issue of the securities or with respect to any exchange transactions offered to third parties with respect thereto.

### **3. Conclusión**

In accordance with the work carried out and under the provisions of article 347 of the Mercantile Registry Regulation, we ratify the conclusion issued in our Special Report on the issue of perpetual securities eventually convertible into common shares of Banco Bilbao Vizcaya Argentaria, SA, with exclusion of the pre-emptive subscription right, dated May 11, 2018.

This ratification of our Special Report has been prepared only for the purposes set forth in articles 414, 417 and 511 of the Restated Text of the Capital Companies Act, so it should not be used for any other purpose.

Bilbao, 1st of August 2018

MAZARS AUDITORES, S.L.P.

\_\_\_\_\_  
Francisco Tuset

\_\_\_\_\_  
Alberto Martínez