BBVA
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Directors' Report

Issuance of preferred securities contingently convertible into shares excluding preferential subscription rights

26 February 2020

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1. Introduction

1.1. Purpose of the report

This report was drafted 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 Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*), approved by Royal Legislative Decree 1/2010, of 2 July, in its current draft ("**Corporate Enterprises Act**"), in relation to the resolution to issue preferred securities contingent convertible into newly issued BBVA ordinary shares, which are issued in accordance with the stipulations of the first additional provision of Act 10/2014, of 26 June, 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 ("**Regulation (EU) 575/2013**") applicable at the time of issuance, so that they may be considered to be additional tier 1 capital instruments ("**Securities**"), for a maximum nominal amount of EUR 1.5 billion, or the equivalent in any other currency, excluding preferential subscription rights ("**Issuance**") and the corresponding increase in share capital to cover the contingent conversion of the Securities, if applicable.

This resolution is adopted pursuant to the authority conferred by the Ordinary General Shareholders' Meeting of 17 March 2017 under agenda item five.

1.2. Applicable regulations

Article 401.3 of the Corporate Enterprises Act provides that, except for the provisions stipulated in special Acts, securities that recognise or create debt that are issued by a public limited company—such as the Securities in BBVA's case—will remain subject to the regulations established for bonds under title XI of the Corporate Enterprises Act.

In this regard, it should be noted that said Articles 414 *et seq*. of the Corporate Enterprises Act allow public limited companies 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 par value, and may not be convertible into shares when their par value is below the share par value.

For listed companies, Article 511 of the Corporate Enterprises Act allows the general meeting of these companies to authorise directors to issue convertible bonds and waive preferential subscription rights relating to the issuance of convertible bonds under such delegation, if in the company's best interest. To this end, the notice of the general 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 waive the preemptive subscription right, and from the date on which the general meeting has been called, a directors' report will be made available to shareholders substantiating the grounds for the proposed exclusion.

In addition to the foregoing, the aforementioned Article 511 of the Corporate Enterprises Act also requires that, when the resolution to increase the share capital is adopted, based on the delegation of the shareholders' meeting, the directors' report and auditor's report must refer to each specific issuance.

To this end, pursuant to Article 417 of the Corporate Enterprises Act, the aforementioned directors' report must give detailed justification for the proposal to waive preferential subscription rights, and the independent expert's report must 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 compensate for any possible dilution to shareholders' holdings.

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

1.3. Advisory services received

This report is issued based on (i) the report issued by the BBVA Finance area, which is in turn supported by the report prepared by Goldman Sachs International, a top-tier investment bank with recognised expertise in this type of issuances and (ii) the legal report from J&A Garrigues, S.L.P., an external legal advisor on Spanish issuance law.

2. Issuance of the Securities

2.1. Delegation by the General Meeting

The BBVA Ordinary General Shareholders' Meeting held on 17 March 2017, validly convened in due time and form, adopted the following resolution under agenda item five, 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

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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."

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2.2. Regulatory environment and capital requirements

As a Spanish credit institution, the Bank is subject to the solvency and equity framework defined by Regulation (EU) 575/2013 and Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms ("**Directive 2013/36/EU**"), which implements Basel III in Europe.

This Directive 2013/36/UE has been implemented in Spain through: (i) Act 10/2014; (ii) Royal Decree 84/2015, of 13 February, implementing Act 10/2014; and (iii) Bank of Spain Circulars 2/2014 and 2/2016, among other rules, notwithstanding the direct applicability of Regulation (EU) 575/2013, and supplemented by several binding technical standards and other recommendations and guidelines issued by various Spanish and supranational organisations.

It should also be noted that, on 27 June 2019, a regulatory package came into force which has amended, among other rules, Directive 2013/36/EU and EU Regulation 575/2013, including measures to increase the resilience of European credit institutions and increase financial stability ("**CRD V**", and together with Directive 2013/36/EU and EU Regulation (EU) 575/2013, the "**Solvency Regulation**").

This Solvency Regulation provides for the possibility that credit institutions have different capital instruments to effectively cover the different categories of regulatory capital that comprise their capital requirement in certain proportions, according to the composition and size of their balance sheets.

In this regard, the Solvency Regulation has set out, among other provisions, a minimum capital requirement ("**Pillar 1**") and has increased the required level of capital through the "combined capital buffer requirement", which must be fulfilled with Common Equity Tier 1 ("**CET1**") capital in addition to the CET1 set out for compliance 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**"). In all, these establish higher levels of capital than those for the minimum capital requirement of "Pillar 1" and the "combined capital buffer requirement" provided for in the Solvency Regulation.

According to the most recent information available, the Bank's current total capital ratio, as of 31 December 2019, was 15.92% on consolidated basis and 20.08% on individual basis, with the

Bank's CET1 capital ratio at 11.98% on consolidated basis and 16.42% on individual basis. These ratios were above the capital requirements applicable to the Bank.

Nevertheless, the supervisor may implement additional capital buffers to those currently applicable, while the current Pillar 2 requirements will be reviewed periodically based on the conclusions drawn by the ECB in subsequent SREPs, and may be replaced with greater Pillar 2 capital requirements. In light of the foregoing, BBVA must maintain an adequate capital management buffer for such supervisory movement.

2.3. Reasons for the Issuance

Although, as previously indicated, BBVA complies with all of its capital requirements at present and has sufficient issuances of specific instruments to efficiently meet its capital requirements, the BBVA Finance area recommends the adoption of a resolution to make a new issuance of instruments that are eligible as AT1 capital—in accordance with the Solvency Regulation—as market conditions require, for the reasons indicated below and covered in its report:

Financial reasons

In April 2016, BBVA issued financial instruments that met the Solvency Regulation specifications (irrespective of CRD V) to be eligible as AT1 capital. These instruments (the "**2016 AT1 Issuance**") amount EUR 1.5 billion and are still outstanding.

The 2016 AT1 Issuance is perpetual, although its terms and conditions provide for the possibility of early redemption in favour of the Bank from the fifth year following issuance—an option that will be available from April 2021.

According to the Financial Area report, it is appropriate to adopt a resolution to issue AT1 instruments to be able to proceed with executing it in an adaptable and efficient way when market conditions so advise, thereby: (i) anticipating the potential early redemption of the 2016 AT1 Issuance in an orderly way; and (ii) replacing the Issuance with instruments from the same regulatory category but optimising the financial cost of the capital structure, in turn satisfying corporate interest.

In this regard, it should be noted that two sets of AT1 instruments were issued in 2017 to replace the first AT1 issuance by BBVA in May 2013 (the "**Initial Issuance**"), which was amortised in May 2018 and had a higher financial cost than the 2017 issuances replacing it (9% for the Initial Issuance compared to 5.875% and 6.125% for the referred 2017 issuances). In September 2018, the bank issued AT1 instruments to replace the AT1 issuance carried out by BBVA in February 2014 (the "**2014 AT1 Issuance**"), which was amortised on 19 February 2019 and had a higher financial cost than the 2018 issuance (7% for the 2014 AT1 Issuance compared to 5.875% for the 2018 issuance). Likewise, in March and August 2019, BBVA carried out two AT1 issuances, the first of which was denominated in Euros and the second in U.S. Dollars, replacing the AT1 issuance carried out in February 2015 (the "**2015 AT1 Issuance**"), which was amortised on 18 February 2020 and had a higher financial cost than the 2019 issuances which replaced it (6.75% of 2015 AT1 Issuance compared to 6% and 6.5% (equivalent to 4% annual in Euros) of the referred 2019 issuances, respectively).

Finally, as indicated in the Financial Area report, the current situation in the markets makes it advisable to take advantage of the present conditions in order to anticipate the refinancing of the 2016 AT1 Issuance. To do so, it is necessary to have prior authorisation to make a new issuance of AT1 instruments and therefore take advantage of any situation in economic and market conditions that is considered appropriate, mitigating its execution risk.

In light of the foregoing, and based on the indications given by the Finance Area in its report, it is considered appropriate to adopt a resolution to make the Issuance.

Regulatory reasons

In addition to the financial reasons discussed, there are also regulatory reasons to support resolving to make the Issuance.

As indicated in section 2.2 above, the Solvency Regulation provides for the possibility that credit institutions have different capital instruments to effectively cover the different categories of regulatory capital that comprise their capital requirement in certain proportions, according to the composition and size of their balance sheets.

Precisely, the Solvency Regulation provides, in addition to CET1, for two other categories of regulatory capital in the composition of the Pillar 1 requirement: AT1 and Tier 2 capital. These may be made up of specific instruments or, in their absence, of CET1 and of CET1 or AT1 respectively, which would be more burdensome and less efficient.

As previously indicated, the 2016 AT1 Issuance is currently eligible as the Bank's AT1 at individual and consolidated level. In order for its replacement to take place, an instrument that can also count at least as AT1 will need to be issued. As a result, the Issuance must be resolved in order to carry out the replacement of the 2016 AT1 Issuance in an orderly way, as it is expected that the Securities will have the required specifications to be eligible as AT1, as provided for by the Solvency Regulation and that are described below, maintaining the Bank's capital position as efficiently as possible.

It should also be noted that the Issuance, depending on its final amount and the execution of the potential redemption of the 2016 AT1 Issuance, may additionally serve to reinforce BBVA's solvency position with respect to the applicable requirements.

As indicated in the Finance area's report, the refinancing of the 2016 AT1 Issuance is subject to the prior authorisation from the supervisor in accordance with the Solvency Regulation, being necessary to carry out a prospective management that anticipates the replacement of the 2016 AT1 Issuance by instruments of equal or higher quality (the Issuance) and that takes into account the regulatory deadlines required by the applicable legislation to obtain the abovementioned prior authorisation.

All this, together with the current market situation, makes it advisable to decide on the Issuance early enough in order to take advantage of such circumstances and properly manage the regulatory deadlines, giving the Bank the necessary flexibility to carry out a new AT1 issuance when considered appropriate based on economic and market terms, mitigating the risks related to execution.

In this context, the Board of Directors has agreed to the Finance area's proposal to issue a fixed-income instrument that is eligible as AT1 (in accordance with the Solvency Regulation) and which will be executed when the market conditions are favourable to carry out the refinancing of the potential redemption of the 2016 AT1 Issuance and, where appropriate, strengthen BBVA's solvency position.

In particular, the Solvency Regulation sets out the requirement for these securities to have, inter alia, the following characteristics:

(i) be perpetual;

(ii) be ranked below Tier 2 instruments in the event of the insolvency of the institution;

(iii) their distributions are only paid out of distributable items and the institution has full discretion at all times to cancel the distributions on the instruments for an unlimited period and on a non-cumulative basis, without restriction to meet the rest of its obligations; 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 when the ratio CET1 of the issuer or its group falls below 5.125 %.

In view of all this, it is considered appropriate to adopt the necessary resolutions to make the Issuance with the aim of carrying out the refinancing of the 2016 AT1 Issuance in an orderly way, in sufficient time to properly manage the applicable regulatory deadlines, providing flexibility to be able to carry out the Issuance taking advantage of favourable economic and market conditions, thereby preserving at all times, and if applicable reinforcing, the capital position of the Bank, which is in BBVA's best interests.

2.4. Financial conditions of the Issuance

The maximum nominal value of the Issuance is EUR 1.5 billion (or its equivalent in any other currency), with a nominal value of at least EUR 100,000 per Security (or its equivalent in any other currency).

For the purpose of eligibility as AT1, the Securities must have the characteristics set out in the Solvency Regulation, including, inter alia, those stated in section 2.3 above.

The investor may receive distributions, which will be determined in the final terms and conditions of the Issuance and will be aligned with market prices for this type of instruments at the time of issuance. In this regard, as indicated in the Finance area's report, Securities are expected to be placed through a book-building procedure collectively addressed to the institutional market, through which the price of the Issuance will be determined by reference to the market offers received (investment banks advising the transaction will carry out dissemination and promotional activities, receiving thereafter offers detailing the price and amount that each investor would be willing to subscribe the Securities). This process is generally accepted as the most suitable to ensure that the issuance price matches with the market price.

As provided for in the Solvency Regulation, payment of the distributions will be conditional, among other factors, on the issuer having distributable items (as defined in article 4 of Regulation (EU) 575/2013), which will be described in detail in the terms and conditions of the Issuance.

Nevertheless, the Issuer will have full discretion at all times to fully or partially cancel the payment of the distributions on the Securities for an unlimited period and on a non-cumulative basis, and such cancellation will not restrict the Issuer's ability to fulfil its other obligations in any way.

2.5. Bases and methods of conversion

According to the proposal submitted by the Bank's Finance area, the bases and methods of conversion of the Securities will essentially be as follows:

Conversion trigger events

The Securities will be converted into newly issued ordinary BBVA shares when the CET1 ratio of the Issuer or its consolidated group falls below 5.125 %, calculated in accordance with the Solvency Regulation or with any other regulation applicable to BBVA at any time.

The Securities may also be converted into newly-issued ordinary BBVA 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 terms and conditions of the Issuance may set out additional whole or partial trigger events if this is necessary or advisable, to safeguard the Issuer's solvency or so that the Securities can be considered AT1 instruments and, in turn, are eligible as Tier 1 capital.

Conversion ratio

The ratio for converting Securities into newly issued ordinary BBVA shares (the "**Conversion Ratio**") will be the quotient between the nominal unit value of the Securities (at least EUR 100,000

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or its equivalent in any other currency) and the unit value linked to ordinary BBVA shares for conversion (the "**Conversion Price**").

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

where:

- $Conv_{Ratio}$: Conversion Ratio
- $Nom_{convertible}$: Nominal Value of the convertible item
- Sh_P: Conversion Price

Consequently, the Conversion Price will be the greater of the following:

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

(ii) the minimum conversion price set out in the terms and conditions of the Issuance, which cannot be lower than EUR 3.75 or its equivalent in any other currency, notwithstanding any modifications made to this amount as a result of implementing the anti-dilution mechanism provided for in the following section (the "**Minimum Conversion Price**"); and

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

Based on the above, the Conversion Price will be equal to or higher than the market price of the BBVA share at the time the Securities are converted and may never be lower than the nominal unit value of ordinary BBVA shares at the time of conversion, so that, in any case, it will be compliant with Article 415.2 of the Corporate Enterprises Act.

The number of shares corresponding to each Securities holder after the conversion will be the result of multiplying the Conversion Ratio by the number of Securities he or she holds. If said calculation results in a fraction, this will be determined in accordance with the terms and conditions of the Issuance.

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 line with market practice in this type of transactions, in compliance with the terms and conditions of the Issuance.

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 ordinary BBVA shares at the time of conversion.

2.6. Share capital increase

In accordance with Article 414 of the Corporate Enterprises Act, when the resolution to issue Securities is adopted, it must also be resolved to increase the share capital by the amount necessary for the Securities to be converted. The maximum number of BBVA shares to be issued to cover the conversion of the Securities will therefore be determined by the quotient between the total nominal value of the Issuance and the Conversion Price.

This share capital increase will, if necessary, be executed by the Board of Directors, which may delegate this execution to the Executive Committee, with express powers of substitution, and authorise those empowered by the Board of Directors, by virtue of the resolution adopted by the BBVA Ordinary General Shareholders' Meeting held on 17 March 2017, under agenda item five, in order to cover the potential conversion of the Securities by issuing new ordinary shares of equal nominal value, of the same class and series, and with the same rights as ordinary BBVA shares that are in circulation on the date on which the increase takes place. Should the share capital increase be executed, the corresponding article in the Company Bylaws will be reworded to adapt it to the new figure for share capital.

It is not currently possible to determine the exact value of the share capital that will be required to cover the potential future conversion of the Securities, as it will depend on the definitive nominal value of the Issuance and the Conversion Price, to be determined based on the bases and methods of conversion.

However, taking into account that the Issuance has a maximum nominal value of EUR 1.5 billion (or its equivalent in any other currency) and that the Conversion Price may not be lower than EUR 3.75 (or the equivalent in any other currency), and assuming that no anti-dilution adjustment is made prior to the date on which the Securities are converted, the maximum number of new ordinary shares that must be issued is 400 million.

In accordance with Article 304.2 of the Corporate Enterprises Act, should the Securities be converted, there would be no preferential subscription rights on the resulting share capital increase.

3. Exclusion of preferential subscription rights

3.1. Grounds for the exclusion of preferential subscription rights

As indicated above, the BBVA Ordinary 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 waive preemptive subscription rights over the convertible securities issuances covered by such delegation.

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

However, for the purpose of waiving preferential subscription rights for the issuance of convertible bonds, Articles 417 and 511 of the Corporate Enterprises Act require, among other matters, that this be in the company's best interest.

BBVA's Board of Directors, by virtue of said Meeting's authorisation and based on the report issued by the Finance area—which is in turn supported by the report prepared by Goldman Sachs International—and on the legal report from J&A Garrigues, S.L.P. as an external legal advisor helping BBVA in the legal design of this transaction, has resolved to waive preferential subscription rights relating to Issuance, as it deems such exclusion to be fully substantiated, in compliance with the requirements established by law and necessary to achieve the corporate interest, as explained below.

In accordance with section 2.3, it is proposed that the Securities be issued in order to carry out the potential replacement of the 2016 AT1 Issuance with another that has more desirable or appropriate financial terms, and thus comply with the Bank's current and future capital requirements as efficiently as possible, in turn satisfying corporate interest and preserving the Bank's capital position.

For the Securities to be eligible as AT1 capital under the Solvency Regulation, these fixed-income instruments must be perpetual and subordinate, with discretionary distribution, and convertible into newly issued ordinary BBVA shares in the event of a possible CET1 shortfall. The issuance of

Securities is therefore being proposed, as they are the instruments that comply with these characteristics, which are described in section 2.3 above.

Additionally, according to the provisions of Article 217.3 of Royal Legislative Decree 4/2015 of 23 October approving the revised text of the Spanish Securities Market Act, any debt instruments which in turn are eligible liabilities for internal recapitalisation (bail-in) in the event of resolution of the issuer (as would be the case of the Securities), are considered complex instruments.

These characteristics, which are required by the Solvency Regulation, as well as their sophistication and the latest regulatory changes (specifically relating to this type of instruments being considered complex), mean that the Securities are currently a product that cannot be targeted towards all types of investors, especially retail clients, which form a significant portion of the BBVA shareholders. Not excluding preferential subscription rights would therefore entail offering a product that does not fit the investment profile of all of the Bank's shareholders, which could compromise the Issuance's viability.

In this regard, the Spanish National Securities Market Commission stated through its Circular 1/2018 of 12 March on warnings relating to financial instruments, that instruments eligible as additional Tier 1 capital (as is the case of the Securities) are products that, due to their particular complexity, are not suitable for retail clients.

Therefore, in order to directly allocate the potential Issuance to professional clients and eligible counterparties (who are also those who usually subscribe to this type of instrument, as was the case for AT1 issued by the Bank to date), and to not compromise the transaction, it is essential that the preferential subscription rights are excluded for BBVA shareholders.

The combination of the aforementioned factors (the characteristics of the securities, and the Issuance recipients) means that the Finance area has suggested, as the most suitable alternative to corporate interest, carrying out the potential replacement of the 2016 AT1 Issuance by issuing Securities at market price, targeting the Issuance solely at professional clients and eligible counterparties, as they are the appropriate group to subscribe to this type of instrument. Consequently, the most suitable alternative to satisfy corporate interest and provide a whole and joint solution to the matters at hand is to resolve to issue Securities excluding preferential subscription rights.

The following circumstances should also be taken into account:

(i) The nature of the Securities is that of a perpetual fixed-income instrument, whose contingent

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convertibility is required by the own funds and solvency regulations 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 noted that BBVA's solvency and equity ratios are currently much higher than the conversion trigger event, reinforcing the nature of the Securities as fixed-income instruments and the contingency of their conversion.

(ii) The issue price for the Securities will be in line with the market prices for this type of instrument (as indicated in section 2.4 above and as stated in the Finance area's report).

(iii) The proposed Conversion Price to cover a contingent conversion corresponds to the market price of the BBVA share at the time of conversion, except in the event that said market price is less than the Minimum Conversion Price, in which case the Conversion Price would equal the Minimum Conversion Price and the shares would therefore be issued with a premium over the market price. The maximum number of shares to be issued is therefore limited by determining the Minimum Conversion Price, which guarantees that the shares will be issued at a price equal to or higher than 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 strictly limited, and that the Conversion Price would be the market price or, where appropriate, include a premium over the market price, pursuant to the report by the Finance area and the report prepared by Goldman Sachs International, the theoretical value of the preferential subscription rights derived from the Issuance is nil and, as a consequence, current shareholders do not lose any economic value due to their exclusion.

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

3.2. Persons receiving Securities

The Issuance will be targeted exclusively at professional clients and eligible counterparties, as defined in the securities market regulations, excluding retail clients or investors in any case.

4. Resolution proposal

"***FIRST***.- *Under the authority conferred by the Ordinary 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, issue contingent preference shares convertible into newly issued ordinary Company shares, in accordance with the first additional provision of Act 10/2014, of 26 June, 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 applicable at the time of issuance (jointly with Law 10/2014, the "**Solvency Regulations**") so that they may be considered to be additional tier 1 capital instruments ("**Securities**"), for a maximum nominal amount of one billion five hundred million euro (EUR 1,500,000,000) or the equivalent in any other currency, excluding preferential subscription rights ("**Issuance**"), in accordance with the following terms:*

Nature of the Securities:	*Contingent preference shares convertible into newly issued ordinary BBVA shares, in accordance with the Solvency Regulations, so that these may be considered to be additional tier 1 capital instruments.*
Issuer:	*BBVA.*
Issuance recipients:	*Exclusively professional customers and eligible counterparties or their US regulatory equivalents, excluding retail clients in any case.*
Maximum Issuance amount:	*One billion five hundred million euro (EUR 1,500,000,000), or the equivalent in any other currency, as stipulated in the terms and conditions of the Issuance, with the possibility of a lower Issuance amount.*
Nominal unit value:	*The nominal unit value of the Securities will be as stipulated in the terms and conditions of the Issuance, with a minimum value of one hundred thousand euro (EUR 100,000), or the equivalent in any other currency.*

Number of Securities:	*The maximum number of Securities to be issued will be as a result of dividing the total nominal Issuance amount by its nominal unit value. All of the Securities will belong to a single series and will assume the same terms and conditions.*
Distribution:	*Securities holders may receive non-cumulative distributions that will be determined based on the interest rate applicable to the nominal value of the Securities, which will be payable provided that the conditions established in the terms and conditions of the Issuance are met ("the **Distribution**").* *Nevertheless, the Issuer will have full discretion at all times to fully or partially cancel the payment of the Distributions for an unlimited period, on a non-cumulative basis, and said cancellation will not restrict the Issuer's ability to fulfil its other obligations in any way.* *The foregoing is without prejudice to other Distribution cancellation instances that may be stipulated in the terms and conditions of the Issuance or as determined by applicable regulations.*
Maturity date and early redemption:	*The Issuance is perpetual and therefore has no maturity date.* *The Securities may be wholly or partially redeemed at the option of the Issuer, in accordance with the Solvency Regulation and with the terms and conditions of the Issuance.* *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 book entries, as stipulated in the terms and conditions of the Issuance.*
Ranking:	*The Securities are subordinated credits with the following BBVA payment ranking in the event of bankruptcy:* *(i) junior to privileged claims, claims against the insolvency estate and ordinary claims;* *(ii) junior to subordinated credits 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 credits 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 credits and securities issued or guaranteed by BBVA, or that may be issued or guaranteed by BBVA, that rank below the Securities;* *(v) senior to BBVA shares.*

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

a) Conversion trigger events

The Securities will be converted into newly issued ordinary BBVA shares when the common equity tier 1 ratio of the Issuer or its consolidated group falls below 5.125%, calculated in accordance with the Solvency Regulations or with any other regulation on capital and solvency applicable to BBVA at any time.

*Similarly, the Securities may be converted into newly issued ordinary BBVA shares if the Issuer adopts any measure that results in the approval of a reduction of its share capital in the terms and conditions set out in Article 418.3 of the consolidated text of the Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010, of 2 July (the "**Corporate Enterprises Act**").*

The terms and conditions of the Issuance may set out additional whole or partial trigger events if this is required or advisable, to safeguard the Issuer's solvency or so that the Securities can be considered tier 1 capital instruments.

b) Conversion Ratio

*The ratio for converting Securities into newly issued ordinary BBVA shares (the "**Conversion Ratio**") will be the quotient between the nominal unit value of the Securities (at least EUR 100,000 or its equivalent in any other currency) and the unit value linked to ordinary BBVA shares for conversion (the latter being the "**Conversion Price**").*

Consequently, the Conversion Price will be the greater of:

i) the arithmetic mean of the closing prices of the BBVA share on the specified securities market or stock exchange in the five trading sessions prior to the day on which the conversion trigger event takes place, rounded to the nearest cent and, in the case of half a cent, rounded up to the nearest cent;

*ii) the minimum conversion price set out in the terms and conditions of the Issuance, which must not be lower than EUR 3.75 or its equivalent in any other currency, notwithstanding any modifications made to this amount as a result of implementing the anti-dilution mechanism provided for in section d) below (the "**Minimum Conversion Price**"); and*

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

Based on the above, the Conversion Price will be equal to or higher than the market price of the BBVA share at the time the Securities are converted and may never be lower than the nominal unit value of ordinary BBVA shares at the time of conversion, so that, in any case, it will be compliant with Article 415.2 of the Corporate Enterprises Act.

The number of shares corresponding to each Securities holder after the conversion will be the result of multiplying the Conversion Ratio by the number of Securities he or she holds.

If said calculation results in a fraction, this will be determined in accordance with the terms and conditions of the Issuance.

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 and in accordance with standard practice for this type of transaction, anti-dilution mechanisms will be established based on the Minimum Conversion Price, as per the terms and conditions of the Issuance.

These anti-dilution mechanisms must take into account the bases and methods of conversion described above and the requirement that the Conversion Price is never lower than the nominal value of ordinary BBVA shares at the time of conversion.

*Notwithstanding other powers that may be conferred, the Executive Committee is empowered, with express powers of substitution, with the broadest powers conferred to Jaime Sáenz de Tejada Pulido, with DNI (Spanish national identity document) 00823996K; Antonio Joaquín Borraz Peralta, with DNI 29100035K; Javier Malagón Navas, with DNI 00407098K, Ignacio Echevarría Soriano, with DNI 00837871G, and Francisco Javier Colomer Betoret, with DNI 25418655K; all of legal age, of Spanish nationality and domiciled for the purposes herein at Calle Azul, No. 4, Madrid, Spain (the "**Proxies**"), so that any of them may, jointly or severally and indistinctly 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, sufficient powers to amend and/or adapt other conversion trigger events, as well as to determine other conversion trigger events in addition to those provided for in this resolution, under the terms and conditions that they deem necessary or advisable in the best interest of the Issuance.*

***THIRD**.- Based on the report prepared by the 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, approve the Directors' Report on the Issuance, which will be made available to shareholders along with the report issued by the independent expert/accounts auditor (other than the Company's auditor appointed for such purposes by the Commercial Registry) and reported to the first General Meeting held after the share capital increase resolution, expressly empowering the Corporate Secretary and Secretary of the Board of Directors and the Deputy Secretary to the Board of Directors to certify the text.*

***<u>FOURTH</u>*.- As stated in the report by the Finance area, which is reflected in the Directors' Report approved under the above resolution, corporate interest requires the exclusion of preferential subscription rights in this Issuance. Consequently, the Board of Directors, pursuant to the powers conferred by the Ordinary 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 preferential subscription rights in this Issuance.*

***<u>FIFTH</u>*.- Increase BBVA's share capital by the amount and number of shares necessary to cover the contingent conversion of the Securities, in accordance with the Conversion Ratio.*

Taking into account that the Minimum Conversion Price must not be lower than EUR 3.75 or its equivalent in any other currency, the maximum number of ordinary BBVA shares to be issued will be 400 million (each currently EUR 0.49 of the nominal unit value), assuming that no anti-dilution adjustment is made that affects the Minimum Conversion Price, and expressly foreseeing the possibility of a share capital increase with an issue premium for a lower number of shares and the possibility of undersubscription.

*In the event that Securities are converted, newly issued BBVA shares that are issued to cover the conversion will be ordinary shares, of the same class and series as those that are currently in circulation, and will be represented in the same way as said ordinary shares (currently through book entries recorded by the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal ("**IBERCLEAR**" — Spanish Central Securities Depository), which performs this role together with its participating entities), granting their holders the same rights as the ordinary shares that are currently in circulation. Upon execution of this resolution to increase share capital, the corresponding article in the Bylaws will be adapted accordingly.*

In accordance with Article 304.2 of the Corporate Enterprises Act, should the Securities be converted into newly issued shares, there would be no preferential subscription rights on the resulting share capital increase.

***<u>SIXTH</u>*.- Under the authority conferred by the BBVA Ordinary General Shareholders' Meeting held on 17 March 2017, under agenda item five, empower the Executive Committee with express powers of substitution and confer the broadest powers to the Proxies so that any of them may, jointly or severally and indistinctly, within the limits established in the above resolutions, execute the Issuance and:*

a) *Determine when the Issuance should take place and even abstain from executing the Issuance if deemed necessary or advisable.*

b) *Determine the terms, characteristics and conditions applicable to the Issuance and Securities to be issued, including, but not limited to, the final amount of the Issuance within the limits established under resolution ONE above, the currency of the Issuance and the nominal value of each Security, the nominal interest rate applicable to the Securities, the interest rate accrual periods and the applicable payment procedure, the placement system and, when applicable, the effective placement rate; include new bases and methods of conversion and/or amend those that already exist, including amending the Conversion Ratio, determining the Minimum Conversion Price or determining the terms and conditions of the anti-dilution mechanism, as well as establishing any additional conversion and/or amortisation trigger events and any other terms or conditions deemed necessary or appropriate in the best interest of the Issuance, expressing the amount available in terms of the limits of the authorisation conferred to the Board of Directors by the Ordinary General Shareholders' Meeting and the amount to be made available, also authorising the Board, where appropriate, to redeem the Securities in advance, performing any procedures deemed necessary or advisable.*

c) *Declare the Distribution of the Securities, whether wholly or partially, and declare the whole or partial cancellation of the Distribution, as determined in the terms and conditions of the Issuance.*

d) *Apply, where appropriate, the anti-dilution mechanism as determined in the terms and conditions of the Issuance.*

e) *Negotiate, examine, conclude, execute, sign, grant, modify, terminate or cancel all contracts, securities, agreements and documents, whether public or private, that are necessary or deemed appropriate with regard to the Issuance (in particular, including, but not limited to, information leaflets, base prospectuses, offering circulars, information documents, supplements, supplement prospectuses, term sheets, security forms, liquidity contracts, subscription contracts, placement and/or underwriting agreements, agency agreements, requests, communications, announcements or notices, as well as any other contracts formalising the Issuance or that are necessary to issue the Securities), with authority to determine the legal and economic conditions for them all and to make the necessary or appropriate designations or appointments, as well as other supplementary acts that may be required or advisable to implement the resolutions.*

f) *In relation to the Issuance or Securities, appear, personally or through the representative or agent authorised in writing by any of the Proxies, before all the representatives, committees or bodies of any securities market or stock exchange, or any supervisor, regulator or registry, including, but not limited to, the Securities and Exchange Commission, the Spanish National Securities Market Commission, the Irish Stock Exchange, Euronext Dublin, the New York Stock Exchange, the AIAF Fixed-Income Market, the Alternative Fixed-Income Market, as well as any book-entry, registration, clearing and/or settlement company for securities, with authority to underwrite, issue, sign, grant, modify, resolve and cancel any contracts, certificates and documents as deemed necessary or appropriate, in the manner in which any of the Proxies deems necessary or advisable in order to comply with the applicable requirements imposed at any time by each supervisor, regulator, registry, securities exchange or market or securities registration, clearing and/or settlement companies, including, but not limited to, DTC or IBERCLEAR, as deemed necessary or advisable in the best interest of the Issuance.*

g) *Request, where applicable, the eligibility of the Securities as additional tier 1 capital, or any other applicable category, in accordance with the regulations in force at any given time.*

h) *Authorise and underwrite any public or private documents as required, with authority to appear before a notary public, raise these resolutions to public, authorise all notary deeds and acts considered necessary by the Proxies, including deeds of issue, rectification, clarification, correction or cancelation, those for whole or partial Issuance subscription and those for whole or partial amortisation or modification and, where appropriate, authorise any other public or private documents that may be necessary or advisable in relation to the Issuance, and complete all relevant procedures, with the possibility of acting through agents and/or representatives, to achieve their registration at the Commercial Registry, when required. Where applicable and if required, draft the declaration referred to in Article 318 of the Regulations of the Commercial Registry or any other rule amending or superseding it.*

i) *Set up, if necessary, the syndicate of bondholders for the Issuance and appoint its commissioner or, if deemed necessary or advisable, establish the mechanisms for the collective association or organisation and/or representation and protection of Securities holders, including the determination of their characteristics and operating rules, and, where appropriate, the appointment of their representatives and the rules that are to govern the relationships between the Company and said holders, all in accordance with the terms and conditions deemed necessary or advisable, and convening on behalf of BBVA any meetings when deemed necessary or convenient.*

j) *Establish all other terms not determined by this Board of Directors relating to the Issuance, including any modifications if necessary or advisable, and determine any other aspect of the Issuance or implement any other measures deemed necessary or appropriate in relation to the above powers, authorising any private or public documents deemed necessary or advisable for this purpose.*

k) *With regard to the contingent conversion of the Securities into newly issued ordinary BBVA shares, where appropriate, establish the Conversion Price and, where applicable, the premium, the Minimum Conversion Price and the definitive Conversion Ratio of the Issuance, determine the number of shares by which BBVA's capital is to be increased, declaring undersubscription in such an event, and perform necessary acts, including, but not limited to, authorising any public or private documents that may be necessary to implement the share capital increase and amend, if applicable, the wording of the corresponding article in the Bylaws to adapt it to the new share capital figure, with authority to appear for such purposes before any public or private bodies, including, but not limited to, a notary public or the Commercial Registry, and authorise any deeds considered necessary or advisable for this purpose.*

l) *Request, where appropriate, the admission to trading or listing of the Securities and/or ordinary BBVA shares issued to cover the contingent conversion of the Securities, if applicable, on regulated or non-regulated, organised or non-organised secondary markets, Spanish or foreign multilateral trading systems, including, but not limited to the Irish Stock Exchange, Euronext Dublin, the New York Stock Exchange, the AIAF Fixed-Income Market, the Alternative Fixed-Income Market or the Spanish securities markets and carry out any procedures or actions deemed necessary or advisable in any jurisdiction where the Securities and/or the newly issued BBVA shares to cover the contingent conversion of the Securities are offered or traded or requested to trade. Without limitation:*

   (i) *Draft, approve, formulate, underwrite and sign any documents, contracts, prospectuses, information documents, requests, communications or notifications deemed necessary or advisable for these purposes and grant their subsequent amendment where appropriate.*

   (ii) *Take any necessary actions before competent authorities in each jurisdiction and approve and formalise any public or private documents as may be necessary or advisable for the full effectiveness of the resolutions, in any aspects or content.*

To conclude, and for the purpose of the applicable regulations on the issuance of securities, it is hereby resolved to appoint the Proxies as representatives of the Company, jointly and severally, before any public or private body. They will take responsibility for the content of the prospectuses of issue, information documents or any other similar documents, where applicable, and are similarly authorised to sign any additional public or private contracts and documents that are deemed necessary or advisable in the best interest of the Issuance."

* * *

Madrid, twenty-six February, two thousand twenty

Free translation from the original in Spanish, for information purposes only. In the event of a discrepancy or inconsistency between the Spanish and English language versions of this report, the Spanish-language version will prevail.

BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

Special report on the issue of contingent convertible preferred securities into ordinary shares with exclusion of preemptive subscription rights in accordance with the provisions of articles 414, 417 and 511 of the Corporate Enterprises Act

Bilbao, 19 June 2020

BDO

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Spain

SPECIAL REPORT ON THE ISSUE OF CONTINGENT CONVERTIBLE PREFERRED SECURITIES INTO ORDINARY SHARES WITH EXCLUSION OF PREEMPTIVE SUBSCRIPTION RIGHTS IN ACCORDANCE WITH THE PROVISIONS OF ARTICLES 414, 417 AND 511 OF THE CORPORATE ENTERPRISES ACT

To the Shareholders of **Banco Bilbao Vizcaya Argentaria, S.A.**

For the purposes set out in articles 414, 417 and 511 of the Corporate Enterprises Act (hereinafter "CEA"), and in accordance with the assignment received from Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA" or the "Bank"), by appointment made by the Commercial Registrar for Vizcaya, Mr. Juan Alfonso Fernández Núñez, we issue this Special Report on the issue of contingent convertible preferred securities into newly-issued ordinary BBVA shares (hereinafter "the Securities"), with exclusion of preemptive subscription rights, accompanied by the attached report from the Bank's Board of Directors (hereinafter, the "Report from the Board of Directors"), which are made available to the Bank's shareholders.

The purpose of our work is not to certify the price of issue or conversion of the Securities into shares but to state, from the application of the procedures set out in the relevant technical standards relating to the preparation of this type of special reports in accordance with the provisions of article 414 of the CEA, whether the Report from the Board of Directors, dated 26 February 2020, and attached as appendix to this report, contains the required information, which includes the explanation of the bases and forms relating to the conversion, as well as to issue a technical opinion, as independent experts and auditors, in accordance with article 417 of the CEA, on the sufficiency and reasonability of the information contained in the attached Report from the Board of Directors and on the suitability of the conversion ratio and, if applicable, its adjustment formulas for compensating a possible dilution of the economic value of shareholders' holdings.

The Board of Directors of BBVA have drawn up the attached report in which they provide a detailed description of the bases and forms relating to the conversion as well as the justification for the exclusion of preemptive subscription rights for the Bank's shareholders.

In accordance with articles 414, 417 and 511 of the CEA and the aforementioned technical standards, the following were the procedures applied in the performance of our work:

a. Obtaining and analysing the following information:

  - Application document for appointment of independent expert and auditor presented to the Commercial Registry of Vizcaya by BBVA.
  - Decision of the Bank's General Shareholders' Meeting in respect of the delegation to the Directors of the authority to issue convertible securities and to exclude preemptive subscription rights.
  - Report from the Board of Directors of BBVA in connection with the issue of contingent convertible preferred securities into shares of the Bank and the exclusion of preemptive subscription rights.

- Audited consolidated and individual annual accounts of the Bank as of 31 December 2019.
- Available resolutions of the General Shareholders' Meetings and the minutes of the meetings of the Board of Directors of the Bank for the last year.
- Report from the Finance Department of BBVA in connection with the planned transaction.
- Other financial and legal reports issued by the Bank's advisors in relation to the planned transaction.
- Other information considered to be of interest for the performance of our work.

b. Review and analysis of the main aspects of the above information in connection with the issuance of the Securities.

c. Meetings held with the Bank's Management for the purpose of gathering other information considered to be of use in the performance of our work.

d. Evaluation as to whether the Report from the Board of Directors contains the information considered to be necessary and sufficient for its adequate interpretation and understanding by its addressees.

e. Verification of the calculations used by BBVA's Management in determining the bases and forms relating to the conversion and other rights, if any, guaranteed to the Securities' subscribers.

f. Verification that the issue price for the Securities is not below their nominal value, and that the conversion price for the Securities is not below the nominal value of the shares for which they will be converted.

g. Verification that the accounting information contained in the Report from the Board of Directors concurs, as applicable, with the Bank's accounting data that served as a basis for preparing its audited financial statements.

h. Evaluation of the reasonability of the data contained in the Report from the Board of Directors justifying the exclusion of the shareholders' right to the preemptive subscription of the Securities.

i. Evaluation of the suitability of the conversion ratio and, as applicable, of its adjustment formulas for compensating a possible dilution of the shareholders' economic holdings.

j. Obtaining a letter signed by the Bank's Management in which it confirms to us that we have been provided with all the information necessary for preparing our report, as well as confirming that there have been no subsequent events between 31 December 2019 and the date of this report that have not been notified to us and which could have a significant effect on the results of our work.

With regard to the procedures applied we should mention that certain aspects of our work implicitly involve, in addition to objective factors, others that imply judgements and working hypotheses, compliance with which depends to a great extent on future events for which it is not possible at present to know the final outcome and, therefore, it is not possible to ensure that third parties will necessarily be in agreement with the interpretation and opinions expressed in this report.

We should state that, as set out in the Report from the Board of Directors, the conversion ratio for the Securities will be determined by reference to the market price of the BBVA share at the time of conversion or at a fixed price of at least 3.75 euros per share in the event of such price being lower, without the conversion price being, in any case, below the nominal value of the BBVA shares at the time of conversion. For this reason and taking into account the remaining characteristics of the proposed issue and its context, the theoretical value of the preemptive subscription rights associated with the Securities would be nil.

It is also important to emphasise that our work is of an independent nature, and therefore does not involve any recommendation to the Management of the Bank, 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.

Based on the information and procedures performed, as described in the previous paragraphs, and with the exclusive objective to comply with the requirements established in the articles 414, 417 and 511 of the CEA, in our professional judgment:

- The Report from the Board of Directors contains the required information, as set out in the technical standards relating to the preparation of special reports of this type in accordance with the provisions of article 414.2 of the CEA.
- The information contained in the Report from the Board of Directors to justify the exclusion of preemptive subscription rights is reasonable by being properly documented and presented.
- The conversion ratio for the Securities and, if applicable, its adjustment formulas for compensating a possible dilution of the economic value of shareholders' holdings is suitable, being nil the theoretical value of preemptive subscription rights associated with the Securities at the date of this report, taking into account the characteristics and context of the proposed issue.

This special report has been prepared solely for the purposes set out in articles 414, 417 and 511 of the CEA, and so it may not be used for any other purpose.

BDO Auditores, S.L.P.

Alfonso Berganza Hernández
Partner: Auditor
ROAC Nº: 09501
Bilbao, 19 June 2020

APPENDIX:

REPORT FROM THE BOARD OF DIRECTORS OF BANCO BILBAO VIZCAYA ARGENTARIA, S.A. ON THE ISSUE OF CONTINGENT CONVERTIBLE PREFERRED SECURITIES INTO ORDINARY SHARES WITH EXCLUSION OF PREEMPTIVE SUBSCRIPTION RIGHTS

Directors' Report

Issuance of preferred securities contingently convertible into shares excluding preferential subscription rights

26 February 2020

BBVA

Creating Opportunities

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1. Introduction

1.1. Purpose of the report

This report was drafted 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 Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*), approved by Royal Legislative Decree 1/2010, of 2 July, in its current draft ("**Corporate Enterprises Act**"), in relation to the resolution to issue preferred securities contingent convertible into newly issued BBVA ordinary shares, which are issued in accordance with the stipulations of the first additional provision of Act 10/2014, of 26 June, 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 ("**Regulation (EU) 575/2013**") applicable at the time of issuance, so that they may be considered to be additional tier 1 capital instruments ("**Securities**"), for a maximum nominal amount of EUR 1.5 billion, or the equivalent in any other currency, excluding preferential subscription rights ("**Issuance**") and the corresponding increase in share capital to cover the contingent conversion of the Securities, if applicable.

This resolution is adopted pursuant to the authority conferred by the Ordinary General Shareholders' Meeting of 17 March 2017 under agenda item five.

1.2. Applicable regulations

Article 401.3 of the Corporate Enterprises Act provides that, except for the provisions stipulated in special Acts, securities that recognise or create debt that are issued by a public limited company—such as the Securities in BBVA's case—will remain subject to the regulations established for bonds under title XI of the Corporate Enterprises Act.

In this regard, it should be noted that said Articles 414 *et seq*. of the Corporate Enterprises Act allow public limited companies 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

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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 par value, and may not be convertible into shares when their par value is below the share par value.

For listed companies, Article 511 of the Corporate Enterprises Act allows the general meeting of these companies to authorise directors to issue convertible bonds and waive preferential subscription rights relating to the issuance of convertible bonds under such delegation, if in the company's best interest. To this end, the notice of the general 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 waive the preemptive subscription right, and from the date on which the general meeting has been called, a directors’ report will be made available to shareholders substantiating the grounds for the proposed exclusion.

In addition to the foregoing, the aforementioned Article 511 of the Corporate Enterprises Act also requires that, when the resolution to increase the share capital is adopted, based on the delegation of the shareholders' meeting, the directors' report and auditor's report must refer to each specific issuance.

To this end, pursuant to Article 417 of the Corporate Enterprises Act, the aforementioned directors' report must give detailed justification for the proposal to waive preferential subscription rights, and the independent expert's report must 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 compensate for any possible dilution to shareholders' holdings.

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

1.3. Advisory services received

This report is issued based on (i) the report issued by the BBVA Finance area, which is in turn supported by the report prepared by Goldman Sachs International, a top-tier investment bank with recognised expertise in this type of issuances and (ii) the legal report from J&A Garrigues, S.L.P., an external legal advisor on Spanish issuance law.

2. Issuance of the Securities

2.1. Delegation by the General Meeting

The BBVA Ordinary General Shareholders' Meeting held on 17 March 2017, validly convened in due time and form, adopted the following resolution under agenda item five, 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

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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 equity framework defined by Regulation (EU) 575/2013 and Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms ("**Directive 2013/36/EU**"), which implements Basel III in Europe.

This Directive 2013/36/UE has been implemented in Spain through: (i) Act 10/2014; (ii) Royal Decree 84/2015, of 13 February, implementing Act 10/2014; and (iii) Bank of Spain Circulars 2/2014 and 2/2016, among other rules, notwithstanding the direct applicability of Regulation (EU) 575/2013, and supplemented by several binding technical standards and other recommendations and guidelines issued by various Spanish and supranational organisations.

It should also be noted that, on 27 June 2019, a regulatory package came into force which has amended, among other rules, Directive 2013/36/EU and EU Regulation 575/2013, including measures to increase the resilience of European credit institutions and increase financial stability ("**CRD V**", and together with Directive 2013/36/EU and EU Regulation (EU) 575/2013, the "**Solvency Regulation**").

This Solvency Regulation provides for the possibility that credit institutions have different capital instruments to effectively cover the different categories of regulatory capital that comprise their capital requirement in certain proportions, according to the composition and size of their balance sheets.

In this regard, the Solvency Regulation has set out, among other provisions, a minimum capital requirement ("**Pillar 1**") and has increased the required level of capital through the "combined capital buffer requirement", which must be fulfilled with Common Equity Tier 1 ("**CET1**") capital in addition to the CET1 set out for compliance 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**"). In all, these establish higher levels of capital than those for the minimum capital requirement of "Pillar 1" and the "combined capital buffer requirement" provided for in the Solvency Regulation.

According to the most recent information available, the Bank's current total capital ratio, as of 31 December 2019, was 15.92% on consolidated basis and 20.08% on individual basis, with the

Bank's CET1 capital ratio at 11.98% on consolidated basis and 16.42% on individual basis. These ratios were above the capital requirements applicable to the Bank.

Nevertheless, the supervisor may implement additional capital buffers to those currently applicable, while the current Pillar 2 requirements will be reviewed periodically based on the conclusions drawn by the ECB in subsequent SREPs, and may be replaced with greater Pillar 2 capital requirements. In light of the foregoing, BBVA must maintain an adequate capital management buffer for such supervisory movement.

2.3. Reasons for the Issuance

Although, as previously indicated, BBVA complies with all of its capital requirements at present and has sufficient issuances of specific instruments to efficiently meet its capital requirements, the BBVA Finance area recommends the adoption of a resolution to make a new issuance of instruments that are eligible as AT1 capital—in accordance with the Solvency Regulation—as market conditions require, for the reasons indicated below and covered in its report:

Financial reasons

In April 2016, BBVA issued financial instruments that met the Solvency Regulation specifications (irrespective of CRD V) to be eligible as AT1 capital. These instruments (the "**2016 AT1 Issuance**") amount EUR 1.5 billion and are still outstanding.

The 2016 AT1 Issuance is perpetual, although its terms and conditions provide for the possibility of early redemption in favour of the Bank from the fifth year following issuance—an option that will be available from April 2021.

According to the Financial Area report, it is appropriate to adopt a resolution to issue AT1 instruments to be able to proceed with executing it in an adaptable and efficient way when market conditions so advise, thereby: (i) anticipating the potential early redemption of the 2016 AT1 Issuance in an orderly way; and (ii) replacing the Issuance with instruments from the same regulatory category but optimising the financial cost of the capital structure, in turn satisfying corporate interest.

In this regard, it should be noted that two sets of AT1 instruments were issued in 2017 to replace the first AT1 issuance by BBVA in May 2013 (the "**Initial Issuance**"), which was amortised in May 2018 and had a higher financial cost than the 2017 issuances replacing it (9% for the Initial Issuance compared to 5.875% and 6.125% for the referred 2017 issuances). In September 2018, the bank issued AT1 instruments to replace the AT1 issuance carried out by BBVA in February 2014 (the "**2014 AT1 Issuance**"), which was amortised on 19 February 2019 and had a higher financial cost than the 2018 issuance (7% for the 2014 AT1 Issuance compared to 5.875% for the 2018 issuance). Likewise, in March and August 2019, BBVA carried out two AT1 issuances, the first of which was denominated in Euros and the second in U.S. Dollars, replacing the AT1 issuance carried out in February 2015 (the "**2015 AT1 Issuance**"), which was amortised on 18 February 2020 and had a higher financial cost than the 2019 issuances which replaced it (6.75% of 2015 AT1 Issuance compared to 6% and 6.5% (equivalent to 4% annual in Euros) of the referred 2019 issuances, respectively).

Finally, as indicated in the Financial Area report, the current situation in the markets makes it advisable to take advantage of the present conditions in order to anticipate the refinancing of the 2016 AT1 Issuance. To do so, it is necessary to have prior authorisation to make a new issuance of AT1 instruments and therefore take advantage of any situation in economic and market conditions that is considered appropriate, mitigating its execution risk.

In light of the foregoing, and based on the indications given by the Finance Area in its report, it is considered appropriate to adopt a resolution to make the Issuance.

Regulatory reasons

In addition to the financial reasons discussed, there are also regulatory reasons to support resolving to make the Issuance.

As indicated in section 2.2 above, the Solvency Regulation provides for the possibility that credit institutions have different capital instruments to effectively cover the different categories of regulatory capital that comprise their capital requirement in certain proportions, according to the composition and size of their balance sheets.

Precisely, the Solvency Regulation provides, in addition to CET1, for two other categories of regulatory capital in the composition of the Pillar 1 requirement: AT1 and Tier 2 capital. These may be made up of specific instruments or, in their absence, of CET1 and of CET1 or AT1 respectively, which would be more burdensome and less efficient.

As previously indicated, the 2016 AT1 Issuance is currently eligible as the Bank's AT1 at individual and consolidated level. In order for its replacement to take place, an instrument that can also count at least as AT1 will need to be issued. As a result, the Issuance must be resolved in order to carry out the replacement of the 2016 AT1 Issuance in an orderly way, as it is expected that the Securities will have the required specifications to be eligible as AT1, as provided for by the Solvency Regulation and that are described below, maintaining the Bank's capital position as efficiently as possible.

It should also be noted that the Issuance, depending on its final amount and the execution of the potential redemption of the 2016 AT1 Issuance, may additionally serve to reinforce BBVA's solvency position with respect to the applicable requirements.

As indicated in the Finance area's report, the refinancing of the 2016 AT1 Issuance is subject to the prior authorisation from the supervisor in accordance with the Solvency Regulation, being necessary to carry out a prospective management that anticipates the replacement of the 2016 AT1 Issuance by instruments of equal or higher quality (the Issuance) and that takes into account the regulatory deadlines required by the applicable legislation to obtain the abovementioned prior authorisation.

All this, together with the current market situation, makes it advisable to decide on the Issuance early enough in order to take advantage of such circumstances and properly manage the regulatory deadlines, giving the Bank the necessary flexibility to carry out a new AT1 issuance when considered appropriate based on economic and market terms, mitigating the risks related to execution.

In this context, the Board of Directors has agreed to the Finance area's proposal to issue a fixed-income instrument that is eligible as AT1 (in accordance with the Solvency Regulation) and which will be executed when the market conditions are favourable to carry out the refinancing of the potential redemption of the 2016 AT1 Issuance and, where appropriate, strengthen BBVA's solvency position.

In particular, the Solvency Regulation sets out the requirement for these securities to have, inter alia, the following characteristics:

(i) be perpetual;

(ii) be ranked below Tier 2 instruments in the event of the insolvency of the institution;

(iii) their distributions are only paid out of distributable items and the institution has full discretion at all times to cancel the distributions on the instruments for an unlimited period and on a non-cumulative basis, without restriction to meet the rest of its obligations; 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 when the ratio CET1 of the issuer or its group falls below 5.125 %.

In view of all this, it is considered appropriate to adopt the necessary resolutions to make the Issuance with the aim of carrying out the refinancing of the 2016 AT1 Issuance in an orderly way, in sufficient time to properly manage the applicable regulatory deadlines, providing flexibility to be able to carry out the Issuance taking advantage of favourable economic and market conditions, thereby preserving at all times, and if applicable reinforcing, the capital position of the Bank, which is in BBVA's best interests.

2.4. Financial conditions of the Issuance

The maximum nominal value of the Issuance is EUR 1.5 billion (or its equivalent in any other currency), with a nominal value of at least EUR 100,000 per Security (or its equivalent in any other currency).

For the purpose of eligibility as AT1, the Securities must have the characteristics set out in the Solvency Regulation, including, inter alia, those stated in section 2.3 above.

The investor may receive distributions, which will be determined in the final terms and conditions of the Issuance and will be aligned with market prices for this type of instruments at the time of issuance. In this regard, as indicated in the Finance area's report, Securities are expected to be placed through a book-building procedure collectively addressed to the institutional market, through which the price of the Issuance will be determined by reference to the market offers received (investment banks advising the transaction will carry out dissemination and promotional activities, receiving thereafter offers detailing the price and amount that each investor would be willing to subscribe the Securities). This process is generally accepted as the most suitable to ensure that the issuance price matches with the market price.

As provided for in the Solvency Regulation, payment of the distributions will be conditional, among other factors, on the issuer having distributable items (as defined in article 4 of Regulation (EU) 575/2013), which will be described in detail in the terms and conditions of the Issuance.

Nevertheless, the Issuer will have full discretion at all times to fully or partially cancel the payment of the distributions on the Securities for an unlimited period and on a non-cumulative basis, and such cancellation will not restrict the Issuer's ability to fulfil its other obligations in any way.

2.5. Bases and methods of conversion

According to the proposal submitted by the Bank's Finance area, the bases and methods of conversion of the Securities will essentially be as follows:

Conversion trigger events

The Securities will be converted into newly issued ordinary BBVA shares when the CET1 ratio of the Issuer or its consolidated group falls below 5.125 %, calculated in accordance with the Solvency Regulation or with any other regulation applicable to BBVA at any time.

The Securities may also be converted into newly-issued ordinary BBVA 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 terms and conditions of the Issuance may set out additional whole or partial trigger events if this is necessary or advisable, to safeguard the Issuer's solvency or so that the Securities can be considered AT1 instruments and, in turn, are eligible as Tier 1 capital.

Conversion ratio

The ratio for converting Securities into newly issued ordinary BBVA shares (the "**Conversion Ratio**") will be the quotient between the nominal unit value of the Securities (at least EUR 100,000 or its equivalent in any other currency) and the unit value linked to ordinary BBVA shares for conversion (the "**Conversion Price**").

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

where:

- $Conv_{Ratio}$: Conversion Ratio
- $Nom_{convertible}$: Nominal Value of the convertible item
- Sh_P: Conversion Price

Consequently, the Conversion Price will be the greater of the following:

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

(ii) the minimum conversion price set out in the terms and conditions of the Issuance, which cannot be lower than EUR 3.75 or its equivalent in any other currency, notwithstanding any modifications made to this amount as a result of implementing the anti-dilution mechanism provided for in the following section (the "**Minimum Conversion Price**"); and

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

Based on the above, the Conversion Price will be equal to or higher than the market price of the BBVA share at the time the Securities are converted and may never be lower than the nominal unit value of ordinary BBVA shares at the time of conversion, so that, in any case, it will be compliant with Article 415.2 of the Corporate Enterprises Act.

The number of shares corresponding to each Securities holder after the conversion will be the result of multiplying the Conversion Ratio by the number of Securities he or she holds. If said calculation results in a fraction, this will be determined in accordance with the terms and conditions of the Issuance.

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 line with market practice in this type of transactions, in compliance with the terms and conditions of the Issuance.

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 ordinary BBVA shares at the time of conversion.

2.6. Share capital increase

In accordance with Article 414 of the Corporate Enterprises Act, when the resolution to issue Securities is adopted, it must also be resolved to increase the share capital by the amount necessary for the Securities to be converted. The maximum number of BBVA shares to be issued to cover the conversion of the Securities will therefore be determined by the quotient between the total nominal value of the Issuance and the Conversion Price.

This share capital increase will, if necessary, be executed by the Board of Directors, which may delegate this execution to the Executive Committee, with express powers of substitution, and authorise those empowered by the Board of Directors, by virtue of the resolution adopted by the BBVA Ordinary General Shareholders' Meeting held on 17 March 2017, under agenda item five, in order to cover the potential conversion of the Securities by issuing new ordinary shares of equal nominal value, of the same class and series, and with the same rights as ordinary BBVA shares that are in circulation on the date on which the increase takes place. Should the share capital increase be executed, the corresponding article in the Company Bylaws will be reworded to adapt it to the new figure for share capital.

It is not currently possible to determine the exact value of the share capital that will be required to cover the potential future conversion of the Securities, as it will depend on the definitive nominal value of the Issuance and the Conversion Price, to be determined based on the bases and methods of conversion.

However, taking into account that the Issuance has a maximum nominal value of EUR 1.5 billion (or its equivalent in any other currency) and that the Conversion Price may not be lower than EUR 3.75 (or the equivalent in any other currency), and assuming that no anti-dilution adjustment is made prior to the date on which the Securities are converted, the maximum number of new ordinary shares that must be issued is 400 million.

In accordance with Article 304.2 of the Corporate Enterprises Act, should the Securities be converted, there would be no preferential subscription rights on the resulting share capital increase.

3. Exclusion of preferential subscription rights

3.1. Grounds for the exclusion of preferential subscription rights

As indicated above, the BBVA Ordinary 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 waive preemptive subscription rights over the convertible securities issuances covered by such delegation.

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

However, for the purpose of waiving preferential subscription rights for the issuance of convertible bonds, Articles 417 and 511 of the Corporate Enterprises Act require, among other matters, that this be in the company's best interest.

BBVA's Board of Directors, by virtue of said Meeting's authorisation and based on the report issued by the Finance area—which is in turn supported by the report prepared by Goldman Sachs International—and on the legal report from J&A Garrigues, S.L.P. as an external legal advisor helping BBVA in the legal design of this transaction, has resolved to waive preferential subscription rights relating to Issuance, as it deems such exclusion to be fully substantiated, in compliance with the requirements established by law and necessary to achieve the corporate interest, as explained below.

In accordance with section 2.3, it is proposed that the Securities be issued in order to carry out the potential replacement of the 2016 AT1 Issuance with another that has more desirable or appropriate financial terms, and thus comply with the Bank's current and future capital requirements as efficiently as possible, in turn satisfying corporate interest and preserving the Bank's capital position.

For the Securities to be eligible as AT1 capital under the Solvency Regulation, these fixed-income instruments must be perpetual and subordinate, with discretionary distribution, and convertible into newly issued ordinary BBVA shares in the event of a possible CET1 shortfall. The issuance of

Securities is therefore being proposed, as they are the instruments that comply with these characteristics, which are described in section 2.3 above.

Additionally, according to the provisions of Article 217.3 of Royal Legislative Decree 4/2015 of 23 October approving the revised text of the Spanish Securities Market Act, any debt instruments which in turn are eligible liabilities for internal recapitalisation (bail-in) in the event of resolution of the issuer (as would be the case of the Securities), are considered complex instruments.

These characteristics, which are required by the Solvency Regulation, as well as their sophistication and the latest regulatory changes (specifically relating to this type of instruments being considered complex), mean that the Securities are currently a product that cannot be targeted towards all types of investors, especially retail clients, which form a significant portion of the BBVA shareholders. Not excluding preferential subscription rights would therefore entail offering a product that does not fit the investment profile of all of the Bank's shareholders, which could compromise the Issuance's viability.

In this regard, the Spanish National Securities Market Commission stated through its Circular 1/2018 of 12 March on warnings relating to financial instruments, that instruments eligible as additional Tier 1 capital (as is the case of the Securities) are products that, due to their particular complexity, are not suitable for retail clients.

Therefore, in order to directly allocate the potential Issuance to professional clients and eligible counterparties (who are also those who usually subscribe to this type of instrument, as was the case for AT1 issued by the Bank to date), and to not compromise the transaction, it is essential that the preferential subscription rights are excluded for BBVA shareholders.

The combination of the aforementioned factors (the characteristics of the securities, and the Issuance recipients) means that the Finance area has suggested, as the most suitable alternative to corporate interest, carrying out the potential replacement of the 2016 AT1 Issuance by issuing Securities at market price, targeting the Issuance solely at professional clients and eligible counterparties, as they are the appropriate group to subscribe to this type of instrument. Consequently, the most suitable alternative to satisfy corporate interest and provide a whole and joint solution to the matters at hand is to resolve to issue Securities excluding preferential subscription rights.

The following circumstances should also 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 own funds and solvency regulations 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 noted that BBVA's solvency and equity ratios are currently much higher than the conversion trigger event, reinforcing the nature of the Securities as fixed-income instruments and the contingency of their conversion.

(ii) The issue price for the Securities will be in line with the market prices for this type of instrument (as indicated in section 2.4 above and as stated in the Finance area's report).

(iii) The proposed Conversion Price to cover a contingent conversion corresponds to the market price of the BBVA share at the time of conversion, except in the event that said market price is less than the Minimum Conversion Price, in which case the Conversion Price would equal the Minimum Conversion Price and the shares would therefore be issued with a premium over the market price. The maximum number of shares to be issued is therefore limited by determining the Minimum Conversion Price, which guarantees that the shares will be issued at a price equal to or higher than 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 strictly limited, and that the Conversion Price would be the market price or, where appropriate, include a premium over the market price, pursuant to the report by the Finance area and the report prepared by Goldman Sachs International, the theoretical value of the preferential subscription rights derived from the Issuance is nil and, as a consequence, current shareholders do not lose any economic value due to their exclusion.

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

3.2. Persons receiving Securities

The Issuance will be targeted exclusively at professional clients and eligible counterparties, as defined in the securities market regulations, excluding retail clients or investors in any case.

4. Resolution proposal

“***FIRST***.- *Under the authority conferred by the Ordinary 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, issue contingent preference shares convertible into newly issued ordinary Company shares, in accordance with the first additional provision of Act 10/2014, of 26 June, 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 applicable at the time of issuance (jointly with Law 10/2014, the “**Solvency Regulations**") so that they may be considered to be additional tier 1 capital instruments ("**Securities**"), for a maximum nominal amount of one billion five hundred million euro (EUR 1,500,000,000) or the equivalent in any other currency, excluding preferential subscription rights ("**Issuance**"), in accordance with the following terms:*

Nature of the Securities:	*Contingent preference shares convertible into newly issued ordinary BBVA shares, in accordance with the Solvency Regulations, so that these may be considered to be additional tier 1 capital instruments.*
Issuer:	*BBVA.*
Issuance recipients:	*Exclusively professional customers and eligible counterparties or their US regulatory equivalents, excluding retail clients in any case.*
Maximum Issuance amount:	*One billion five hundred million euro (EUR 1,500,000,000), or the equivalent in any other currency, as stipulated in the terms and conditions of the Issuance, with the possibility of a lower Issuance amount.*
Nominal unit value:	*The nominal unit value of the Securities will be as stipulated in the terms and conditions of the Issuance, with a minimum value of one hundred thousand euro (EUR 100,000), or the equivalent in any other currency.*

Number of Securities:	*The maximum number of Securities to be issued will be as a result of dividing the total nominal Issuance amount by its nominal unit value. All of the Securities will belong to a single series and will assume the same terms and conditions.*
Distribution:	*Securities holders may receive non-cumulative distributions that will be determined based on the interest rate applicable to the nominal value of the Securities, which will be payable provided that the conditions established in the terms and conditions of the Issuance are met ("the **Distribution**").* *Nevertheless, the Issuer will have full discretion at all times to fully or partially cancel the payment of the Distributions for an unlimited period, on a non-cumulative basis, and said cancellation will not restrict the Issuer's ability to fulfil its other obligations in any way.* *The foregoing is without prejudice to other Distribution cancellation instances that may be stipulated in the terms and conditions of the Issuance or as determined by applicable regulations.*
Maturity date and early redemption:	*The Issuance is perpetual and therefore has no maturity date.* *The Securities may be wholly or partially redeemed at the option of the Issuer, in accordance with the Solvency Regulation and with the terms and conditions of the Issuance.* *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 book entries, as stipulated in the terms and conditions of the Issuance.*
Ranking:	*The Securities are subordinated credits with the following BBVA payment ranking in the event of bankruptcy:* *(i) junior to privileged claims, claims against the insolvency estate and ordinary claims;* *(ii) junior to subordinated credits 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 credits 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 credits and securities issued or guaranteed by BBVA, or that may be issued or guaranteed by BBVA, that rank below the Securities;* *(v) senior to BBVA shares.*

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

a) Conversion trigger events

The Securities will be converted into newly issued ordinary BBVA shares when the common equity tier 1 ratio of the Issuer or its consolidated group falls below 5.125%, calculated in accordance with the Solvency Regulations or with any other regulation on capital and solvency applicable to BBVA at any time.

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

*Similarly, the Securities may be converted into newly issued ordinary BBVA shares if the Issuer adopts any measure that results in the approval of a reduction of its share capital in the terms and conditions set out in Article 418.3 of the consolidated text of the Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010, of 2 July (the "**Corporate Enterprises Act**").*

The terms and conditions of the Issuance may set out additional whole or partial trigger events if this is required or advisable, to safeguard the Issuer's solvency or so that the Securities can be considered tier 1 capital instruments.

b) Conversion Ratio

*The ratio for converting Securities into newly issued ordinary BBVA shares (the "**Conversion Ratio**") will be the quotient between the nominal unit value of the Securities (at least EUR 100,000 or its equivalent in any other currency) and the unit value linked to ordinary BBVA shares for conversion (the latter being the "**Conversion Price**").*

Consequently, the Conversion Price will be the greater of:

i) the arithmetic mean of the closing prices of the BBVA share on the specified securities market or stock exchange in the five trading sessions prior to the day on which the conversion trigger event takes place, rounded to the nearest cent and, in the case of half a cent, rounded up to the nearest cent;

*ii) the minimum conversion price set out in the terms and conditions of the Issuance, which must not be lower than EUR 3.75 or its equivalent in any other currency, notwithstanding any modifications made to this amount as a result of implementing the anti-dilution mechanism provided for in section d) below (the "**Minimum Conversion Price**"); and*

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

Based on the above, the Conversion Price will be equal to or higher than the market price of the BBVA share at the time the Securities are converted and may never be lower than the nominal unit value of ordinary BBVA shares at the time of conversion, so that, in any case, it will be compliant with Article 415.2 of the Corporate Enterprises Act.

The number of shares corresponding to each Securities holder after the conversion will be the result of multiplying the Conversion Ratio by the number of Securities he or she holds.

If said calculation results in a fraction, this will be determined in accordance with the terms and conditions of the Issuance.

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 and in accordance with standard practice for this type of transaction, anti-dilution mechanisms will be established based on the Minimum Conversion Price, as per the terms and conditions of the Issuance.

These anti-dilution mechanisms must take into account the bases and methods of conversion described above and the requirement that the Conversion Price is never lower than the nominal value of ordinary BBVA shares at the time of conversion.

*Notwithstanding other powers that may be conferred, the Executive Committee is empowered, with express powers of substitution, with the broadest powers conferred to Jaime Sáenz de Tejada Pulido, with DNI (Spanish national identity document) 00823996K; Antonio Joaquín Borraz Peralta, with DNI 29100035K; Javier Malagón Navas, with DNI 00407098K, Ignacio Echevarría Soriano, with DNI 00837871G, and Francisco Javier Colomer Betoret, with DNI 25418655K; all of legal age, of Spanish nationality and domiciled for the purposes herein at Calle Azul, No. 4, Madrid, Spain (the "**Proxies**"), so that any of them may, jointly or severally and indistinctly 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, sufficient powers to amend and/or adapt other conversion trigger events, as well as to determine other conversion trigger events in addition to those provided for in this resolution, under the terms and conditions that they deem necessary or advisable in the best interest of the Issuance.*

***THIRD**.- Based on the report prepared by the 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, approve the Directors' Report on the Issuance, which will be made available to shareholders along with the report issued by the independent expert/accounts auditor (other than the Company's auditor appointed for such purposes by the Commercial Registry) and reported to the first General Meeting held after the share capital increase resolution, expressly empowering the Corporate Secretary and Secretary of the Board of Directors and the Deputy Secretary to the Board of Directors to certify the text.*

__FOURTH__.- As stated in the report by the Finance area, which is reflected in the Directors' Report approved under the above resolution, corporate interest requires the exclusion of preferential subscription rights in this Issuance. Consequently, the Board of Directors, pursuant to the powers conferred by the Ordinary 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 preferential subscription rights in this Issuance.

__FIFTH__.- Increase BBVA's share capital by the amount and number of shares necessary to cover the contingent conversion of the Securities, in accordance with the Conversion Ratio.

Taking into account that the Minimum Conversion Price must not be lower than EUR 3.75 or its equivalent in any other currency, the maximum number of ordinary BBVA shares to be issued will be 400 million (each currently EUR 0.49 of the nominal unit value), assuming that no anti-dilution adjustment is made that affects the Minimum Conversion Price, and expressly foreseeing the possibility of a share capital increase with an issue premium for a lower number of shares and the possibility of undersubscription.

*In the event that Securities are converted, newly issued BBVA shares that are issued to cover the conversion will be ordinary shares, of the same class and series as those that are currently in circulation, and will be represented in the same way as said ordinary shares (currently through book entries recorded by the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal ("**IBERCLEAR**" — Spanish Central Securities Depository), which performs this role together with its participating entities), granting their holders the same rights as the ordinary shares that are currently in circulation. Upon execution of this resolution to increase share capital, the corresponding article in the Bylaws will be adapted accordingly.*

In accordance with Article 304.2 of the Corporate Enterprises Act, should the Securities be converted into newly issued shares, there would be no preferential subscription rights on the resulting share capital increase.

__SIXTH__.- Under the authority conferred by the BBVA Ordinary General Shareholders' Meeting held on 17 March 2017, under agenda item five, empower the Executive Committee with express powers of substitution and confer the broadest powers to the Proxies so that any of them may, jointly or severally and indistinctly, within the limits established in the above resolutions, execute the Issuance and:

a) *Determine when the Issuance should take place and even abstain from executing the Issuance if deemed necessary or advisable.*

b) *Determine the terms, characteristics and conditions applicable to the Issuance and Securities to be issued, including, but not limited to, the final amount of the Issuance within the limits established under resolution ONE above, the currency of the Issuance and the nominal value of each Security, the nominal interest rate applicable to the Securities, the interest rate accrual periods and the applicable payment procedure, the placement system and, when applicable, the effective placement rate; include new bases and methods of conversion and/or amend those that already exist, including amending the Conversion Ratio, determining the Minimum Conversion Price or determining the terms and conditions of the anti-dilution mechanism, as well as establishing any additional conversion and/or amortisation trigger events and any other terms or conditions deemed necessary or appropriate in the best interest of the Issuance, expressing the amount available in terms of the limits of the authorisation conferred to the Board of Directors by the Ordinary General Shareholders' Meeting and the amount to be made available, also authorising the Board, where appropriate, to redeem the Securities in advance, performing any procedures deemed necessary or advisable.*

c) *Declare the Distribution of the Securities, whether wholly or partially, and declare the whole or partial cancellation of the Distribution, as determined in the terms and conditions of the Issuance.*

d) *Apply, where appropriate, the anti-dilution mechanism as determined in the terms and conditions of the Issuance.*

e) *Negotiate, examine, conclude, execute, sign, grant, modify, terminate or cancel all contracts, securities, agreements and documents, whether public or private, that are necessary or deemed appropriate with regard to the Issuance (in particular, including, but not limited to, information leaflets, base prospectuses, offering circulars, information documents, supplements, supplement prospectuses, term sheets, security forms, liquidity contracts, subscription contracts, placement and/or underwriting agreements, agency agreements, requests, communications, announcements or notices, as well as any other contracts formalising the Issuance or that are necessary to issue the Securities), with authority to determine the legal and economic conditions for them all and to make the necessary or appropriate designations or appointments, as well as other supplementary acts that may be required or advisable to implement the resolutions.*

f) *In relation to the Issuance or Securities, appear, personally or through the representative or agent authorised in writing by any of the Proxies, before all the representatives, committees or bodies of any securities market or stock exchange, or any supervisor, regulator or registry, including, but not limited to, the Securities and Exchange Commission, the Spanish National Securities Market Commission, the Irish Stock Exchange, Euronext Dublin, the New York Stock Exchange, the AIAF Fixed-Income Market, the Alternative Fixed-Income Market, as well as any book-entry, registration, clearing and/or settlement company for securities, with authority to underwrite, issue, sign, grant, modify, resolve and cancel any contracts, certificates and documents as deemed necessary or appropriate, in the manner in which any of the Proxies deems necessary or advisable in order to comply with the applicable requirements imposed at any time by each supervisor, regulator, registry, securities exchange or market or securities registration, clearing and/or settlement companies, including, but not limited to, DTC or IBERCLEAR, as deemed necessary or advisable in the best interest of the Issuance.*

g) *Request, where applicable, the eligibility of the Securities as additional tier 1 capital, or any other applicable category, in accordance with the regulations in force at any given time.*

h) *Authorise and underwrite any public or private documents as required, with authority to appear before a notary public, raise these resolutions to public, authorise all notary deeds and acts considered necessary by the Proxies, including deeds of issue, rectification, clarification, correction or cancelation, those for whole or partial Issuance subscription and those for whole or partial amortisation or modification and, where appropriate, authorise any other public or private documents that may be necessary or advisable in relation to the Issuance, and complete all relevant procedures, with the possibility of acting through agents and/or representatives, to achieve their registration at the Commercial Registry, when required. Where applicable and if required, draft the declaration referred to in Article 318 of the Regulations of the Commercial Registry or any other rule amending or superseding it.*

i) *Set up, if necessary, the syndicate of bondholders for the Issuance and appoint its commissioner or, if deemed necessary or advisable, establish the mechanisms for the collective association or organisation and/or representation and protection of Securities holders, including the determination of their characteristics and operating rules, and, where appropriate, the appointment of their representatives and the rules that are to govern the relationships between the Company and said holders, all in accordance with the terms and conditions deemed necessary or advisable, and convening on behalf of BBVA any meetings when deemed necessary or convenient.*

j) *Establish all other terms not determined by this Board of Directors relating to the Issuance, including any modifications if necessary or advisable, and determine any other aspect of the Issuance or implement any other measures deemed necessary or appropriate in relation to the above powers, authorising any private or public documents deemed necessary or advisable for this purpose.*

k) *With regard to the contingent conversion of the Securities into newly issued ordinary BBVA shares, where appropriate, establish the Conversion Price and, where applicable, the premium, the Minimum Conversion Price and the definitive Conversion Ratio of the Issuance, determine the number of shares by which BBVA's capital is to be increased, declaring undersubscription in such an event, and perform necessary acts, including, but not limited to, authorising any public or private documents that may be necessary to implement the share capital increase and amend, if applicable, the wording of the corresponding article in the Bylaws to adapt it to the new share capital figure, with authority to appear for such purposes before any public or private bodies, including, but not limited to, a notary public or the Commercial Registry, and authorise any deeds considered necessary or advisable for this purpose.*

l) *Request, where appropriate, the admission to trading or listing of the Securities and/or ordinary BBVA shares issued to cover the contingent conversion of the Securities, if applicable, on regulated or non-regulated, organised or non-organised secondary markets, Spanish or foreign multilateral trading systems, including, but not limited to the Irish Stock Exchange, Euronext Dublin, the New York Stock Exchange, the AIAF Fixed-Income Market, the Alternative Fixed-Income Market or the Spanish securities markets and carry out any procedures or actions deemed necessary or advisable in any jurisdiction where the Securities and/or the newly issued BBVA shares to cover the contingent conversion of the Securities are offered or traded or requested to trade. Without limitation:*

   (i) *Draft, approve, formulate, underwrite and sign any documents, contracts, prospectuses, information documents, requests, communications or notifications deemed necessary or advisable for these purposes and grant their subsequent amendment where appropriate.*

   (ii) *Take any necessary actions before competent authorities in each jurisdiction and approve and formalise any public or private documents as may be necessary or advisable for the full effectiveness of the resolutions, in any aspects or content.*

To conclude, and for the purpose of the applicable regulations on the issuance of securities, it is hereby resolved to appoint the Proxies as representatives of the Company, jointly and severally, before any public or private body. They will take responsibility for the content of the prospectuses of issue, information documents or any other similar documents, where applicable, and are similarly authorised to sign any additional public or private contracts and documents that are deemed necessary or advisable in the best interest of the Issuance."

* * *

Madrid, twenty-six February, two thousand twenty

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

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