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Report presented by the Board of Directors of Banco Bilbao Vizcaya Argentaria, S.A., pursuant to articles 286, 296, 297.1.a) and 303 of the Corporate Enterprises Act, regarding the proposal of resolutions on capital increase to be charged to reserves and conferral of authority to the Board of Directors to set the date for its exercise referred to in agenda item three of the Annual General Shareholders Meeting called for 16 and 17h March 2017 on first and second summons, respectively.

This report is drawn up by the Board of Directors of BANCO BILBAO VIZCAYA ARGENTARIA, S.A. ("**BBVA**", the "**Company**" or the "**Bank**"), pursuant to articles 286, 296, 297.1.a) and 303 of the consolidated text of the Corporate Enterprises Act, approved under Royal Legislative Decree 1/2010, of 2nd July, as amended (the "**Corporate Enterprises Act**") with respect to the proposal of resolutions presented to the Annual General Shareholders' Meeting under agenda item three, on capital increase to be charged to voluntary reserves under article 303 of the Corporate Enterprises Act and conferring authority on the Board of Directors to set the date of its execution under article 297.1.a) of the Corporate Enterprises Act.

1.- Applicable regulations

Article 296 of the Corporate Enterprises Act provides that any resolution to increase share capital must be adopted by the general meeting pursuant to the requirements established for amending the company bylaws.

In turn, article 297.1.a) of the Corporate Enterprises Act allows the general meeting, with the requirements established for amending the company bylaws, to confer authority upon the directors to set the date on which the adopted resolution on share capital increase will be put into effect at the amount resolved and to establish the conditions for the increase insofar as these are not specified in the general meeting resolution. The term during which this delegated authority may be exercise shall not exceed one year.

In this respect, article 286 of the Corporate Enterprises Act requires that the directors draw up a written report explaining the reasons for the proposal in order for the company bylaws to be amended.

Finally, article 303 of the Corporate Enterprises Act establishes that unrestricted reserves, share premium reserves and the part of the legal reserve over and above 10% of the capital already increased may be used when the capital increase is charged to reserves. To such end, a balance sheet approved by the general meeting reflecting a date within the six months immediately prior to the resolution to increase capital, verified by the company auditors, will serve as a basis for the transaction.

2.- Description of the proposal

It is proposed to the Annual General Shareholders' Meeting to resolve a capital increase to be charged to voluntary reserves (the "**Capital Increase**"), conferring authority on the Board of Directors to set the date of its exercise pursuant to article 297.1.a) of the Corporate Enterprises Act (the "**Proposal**"), in order to implement the shareholders' remuneration system called the "**Dividend Option**" during this year, notwithstanding the Board of Directors' power to abstain from implementing the Capital Increase in light of the situation of the Company, the markets, the regulatory framework and possible recommendations on dividend that may be adopted.

As on previous occasions, the "**Dividend Option**" offers BBVA shareholders the possibility of receiving all or part of their remuneration in newly-issued ordinary shares of BBVA, whilst always maintaining the possibility to choose to receive the entire remuneration in cash.

The total number of shares to be issued in the Capital Increase will be such that the sum of the reference market value for these shares at the time of its execution (calculated as the arithmetic mean of the average weighted price of BBVA shares traded on the Spanish SIBE electronic trading platform over five trading days prior to the date on which it is resolved to put the Capital Increase into effect (the "**Reference Price**")) will be a maximum of €900 million.

When the execution of the Capital Increase is resolved:

(a) One right of free allocation for each BBVA share will be assigned to whoever is accredited in accordance with the applicable rules. These rights will be negotiable on the Spanish securities exchanges during a minimum period of 15 calendar days. Once this period has elapsed, the rights will be automatically converted into newly-issued ordinary Bank shares, which will be attributed to their holders. The number of rights necessary for the allocation of a new share, as well as the number of shares to be issued, will depend, among other factors, on the Reference Price and on the reference market value of the Capital Increase, pursuant to the procedure established in the Proposal.

(b) The Bank undertakes an irrevocable commitment to acquire the rights of free allocation that are originally attributed to whoever is accredited, at a guaranteed fixed price, under the terms described in the Proposal (the "**Acquisition Commitment**"). This fixed price will be calculated prior to the commencement of the trading period for the rights of free allocation pursuant to the formula established in the Proposal. This ensures that all shareholders' rights will be liquid, so that they can receive their remuneration in cash.

Only whoever has originally received the rights of free allocation may exercise the Acquisition Commitment and only with respect to the rights that have been initially allocated to them at that time. It is not possible to exercise the Acquisition Commitment with respect to rights of free allocation acquired on the market.

Consequently, on the occasion of the execution of the Capital Increase, BBVA shareholders will have the option, at their own free choice[1]:

(a) Not to transfer their rights of free allocation. In this case, at the end of the trading period, the shareholder will receive the number of newly-issued shares to which they are entitled.

(b) To transfer all or some of their rights of free allocation to BBVA under the Acquisition Commitment. This way, shareholders will receive all or part of their remuneration in cash at the guaranteed fixed price instead of receiving shares.

(c) To transfer all or some of their rights of free allocation on the market. In this case, shareholders may also receive all or part of their remuneration in cash, albeit at

[1] *The options available for Bank shareholders whose holding is in American Depositary Shares (ADSs) may entail specific aspects that differ from the options described here.*

the price at which the rights are trading at that moment and not at the guaranteed fixed price established under the Acquisition Commitment.

BBVA shareholders may combine any of the options mentioned in paragraphs a), b) and c) above.

3.- Grounds for the Proposal

In October 2013, the Bank announced its intention to progressively substitute its shareholders remuneration policy, in which cash payments and Dividend Options were combined, for a shareholders remuneration policy fully in cash and linked to the performance of the Group profits, with the aim of distributing an annual pay-out of between 35% and 40% of the profits obtained in each financial year.

Over the last years, the Bank has maintained a conservative and stable remuneration for its shareholders through the combination of cash payments with the instrumentation of “Dividend Options”, at all times taking into account the shareholders’ interest and the Company’s interest.

It should be noted that the implementation of the “Dividend Option” over these years, alongside other additional management measures, has helped to shore up the Bank’s equity and achieve the sound capital position that BBVA currently maintains with respect to its solvency requirements, while at all times continuing offering an adequate remuneration to its shareholders.

However, as announced in October 2013, the Bank has progressively reduced the number of “Dividend Options” implemented over the last three years, having recently announced its intention to implement just one “Dividend Option” during the current year, which would be instrumented through the Proposal, in order to return to a remuneration policy fully in cash and linked to the performance of the profits.

Consequently, the Proposal allows the Bank to implement one “Dividend Option” this year, which may be combined with the cash payments corresponding to the 2017 dividend that the governing bodies of BBVA may adopt, where appropriate, in light of the situation of the Company, the situation of the markets, the regulatory framework and the recommendations regarding dividends that may be adopted, so that an adequate remuneration for all shareholders taken as a whole could still be offered, and always taking into consideration the corporate interest.

Therefore, the Board of Directors considers it advisable to propose the Capital Increase to the Annual General Shareholders’ Meeting, so that it may, where necessary, implement one “Dividend Option” in 2017.

4.- Tax regulations

Below is a brief description of the tax regime applicable in Spain on a general basis to the different options to be chosen under the “Dividend Option”, according to Spanish legislation currently in force. Notwithstanding the above, shareholders and owners of rights of free allocation should consult their professional advisers on the specific tax impact of the “Dividend Option”, taking into consideration their particular circumstances.

a) Subscription of shares

For tax purposes, the vesting of shares issued in the Capital Increase will be deemed to be the vesting of free-of-charge shares and, consequently, does not comprise income for the purposes of personal income tax ("**IRPF**") or for corporate income tax ("**IS**") or for non-residents' income tax ("**IRNR**"), whether or not acting through a permanent establishment in Spain.

The acquisition value of new shares received as a consequence of the Capital Increase and of the shares from which they originate will be the total cost divided by the corresponding number of shares, including both old and newly-issued shares. The seniority of such free-of-charge shares will be the same as the shares from which they originate.

As they do not constitute income, this option is not subject to withholding tax on account of IRPF, IS or IRNR.

b) Sale of rights of free allocation on the market.

In such case, the amount obtained from the transfer of such rights will, in general, be subject to the following tax:

- In the case of IRPF and IRNR, if the transaction is carried out without the mediation of a permanent establishment, the amount obtained from the transfer of rights of free allocation on the market will receive the same tax treatment as preemptive subscription rights. Consequently, for tax purposes, the amount obtained from the transfer of the rights of free allocation will be considered as capital gain for the taxpayers during the taxable period in which the transfer is made, in application of article 37.1.a) of Act 35/2006, of 28 November, on Personal Income Tax (IRPF) and the consolidated text of the Non-Resident Income Tax Act (IRNR) approved under Royal Legislative Decree 5/2004, of 5th March, without prejudice of the potential application to non-residents of any exemption established in the IRNR regulations and in any international convention which may be applicable.

In terms of payments on account, and as a novelty regarding the IRPF, there is an obligation to withhold against the amount obtained from the transfers carried out by those to whom the rights of free allocation have been originally allocated, in respect of those rights originally allocated. The currently withholding is 19%.

The withholding shall be made by the depositary entity or, otherwise, by the financial intermediary or the notary public who has been involved in the transfer, who shall also comply with the duty of disclosure regarding such withholdings to the tax authorities.

- In the case of IS and IRNR, when the transaction is carried out through a permanent establishment in Spain, insofar as it completes a full trading cycle, tax will be payable in accordance with applicable regulations.

c) Exercise of the Acquisition Commitment

In respect of those who decide to exercise the Acquisition Commitment, the tax regulations applicable to the amount obtained in the transfer to the Bank of the rights of free allocation will be equivalent to the tax regulations applicable to dividends distributed directly in cash and therefore subject to the corresponding withholding tax, which currently stands at 19%.

5.- Conferral of authority and implementation of the Capital Increase

It is proposed to confer authority on the Board of Directors, which is in turn authorised to delegate this authority to the Executive Committee, with express powers to delegate it in turn; to the Chairman of the Board of Directors, to the Chief Executive Officer, to any other Director, and to empower any Company proxy; to establish the date on which the Capital Increase will be put into effect, and to establish its conditions insofar as these are not included in the General Meeting resolution. All this will be done under the terms established in article 297.1a) of the Corporate Enterprises Act, including the power to abstain from implementing the Capital Increase, whenever this is deemed advisable in light of the corporate interest. In this case, the Board of Directors must report on this to the first General Shareholders' Meeting to be held after the term established for its implementation has elapsed.

The definitive terms will be published when it resolves to execute the Capital Increase. In particular, prior to the beginning of the trading period of the rights of free allocation, the Bank will make pertinent documents available to the public, containing the necessary information on the number and nature of the shares and the grounds and details of the Capital Increase, pursuant to article 26.1.e) of Royal Decree 1310/2005, of 4th November, partially developing Act 24/1988, of 28th July, on Securities Exchanges, with respect to the listing of securities for trading on regulated secondary markets, public bids of sale or subscription and the prospectus required for such purposes, or in accordance with the regulations applicable at any given time.

Finally, once the trading period for the rights of free allocation has ended, and based on the rights of free allocation acquired by BBVA under the Acquisition Commitment due record will be made in the financial statements regarding the application of the voluntary reserves in the amount of the Capital Increase, which by this means will become paid-up capital. Likewise, the corresponding formalities will be carried out to amend the Company Bylaws in order to reflect the new figure of share capital resulting from the Capital Increase and to request for listing of the new shares on the securities markets where the BBVA shares are traded at the time of their issue.

6.- Proposed resolutions

The entire text of the proposed resolutions on capital increase to be charged to voluntary reserves and to authorise the Board of Directors to establish the date of its implementation, pursuant to articles 297.1.a) and 303 of the Corporate Enterprises Act, which will be submitted to the Annual General Shareholders' Meeting, is hereby transcribed as follows:

"***1. Increase of share capital to be charged to voluntary reserves.-*** *It is resolved to increase the share capital of Banco Bilbao Vizcaya Argentaria, S.A. ("****BBVA****", the "****Company****" or the "****Bank****"), to be charged to voluntary reserves by an amount calculated by multiplying (a) the number of new shares to be issued as determined by the formula below, by (b) €0.49 (the nominal value of an ordinary*

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BBVA share). The capital increase will be executed by issuing new ordinary shares of the Company of the same class and series and with the same rights as those currently outstanding, each with a nominal value of €0.49, represented by book-entries, to be freely offered to the Bank's shareholders.

The possibility of incomplete subscription of the capital increase is expressly provided for as required by article 311 of the Corporate Enterprises Act. Should the increase be undersubscribed, the share capital will be increased for the amount actually subscribed.

The number of new ordinary shares to be issued will be the result of the following formula, rounding down to the next whole number:

NOS / NAR

where:

***NOS** (number of old shares) is the total number of BBVA shares, in which the share capital is divided on the date of the resolution to implement the capital increase; and*

***NAR** (number of allocation rights) is the number of rights of free allocation necessary to be assigned one new share. This will be determined by the following formula, rounding up to the next whole number:*

NAR = RP x NOS / RMV

where:

RP *(reference price) is the reference trading price of BBVA shares for the purpose of this capital increase. This will be the arithmetic mean of the average weighted price of BBVA shares traded on the Spanish SIBE electronic trading platform over five (5) trading days prior to the date of the resolution implementing the capital increase, rounded off to the nearest one-thousandth of a euro. In the event of a half of one-thousandth of a euro, this will be rounded up to the nearest one-thousandth. In no event can the RP be less than the nominal value of the Company shares. Therefore, if the result of the calculation is less than €0.49, the RP will be €0.49;*

RMV *is the maximum reference market value of the capital increase, which cannot exceed €900,000,000.*

2. Reference balance sheet.- *According to article 303 of the Corporate Enterprises Act, the balance sheet to be used as the basis of the transaction is that of 31 December 2016, duly approved by the Bank's auditor and by this General Shareholders' Meeting under agenda item one.*

3. Reserves used.- *The capital increase will be wholly charged against voluntary reserves, which at 31 December 2016 stood at €8,520,430,040.36.*

4. Right of free allocation.- *Every share will convey one right of free allocation.*

A certain number of rights (NDA) will be necessary to receive one new share. In order to ensure that all free allocation rights can be effectively exercised and the number of new shares is a whole number, BBVA or a Group subsidiary will waive the corresponding number of its free allocation rights to which they would have been entitled.

5. ***Assignment and transferability of rights of free allocation.-*** *Once the Board of Directors resolves to implement the capital increase and the corresponding dates have been set, the rights of free allocation will be assigned to whoever is accredited in the accounting records of IBERCLEAR (Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U.) and its participating entities in accordance with the rules, systems and procedures for clearing and settlement of securities applicable at the time.*

   The rights of free allocation will be transferrable under the same conditions as the shares from which they derive and may be traded on the market during the period determined in accordance with article 503 of the Corporate Enterprises Act.

   At the end of the trading period for the free allocation rights, the new shares that cannot be assigned will be held in deposit and made available to whoever can evidence its lawful ownership. After three years, any new shares that are still pending allocation can be sold on behalf of the interested parties, in accordance with article 117 of the Corporate Enterprises Act. The net amount of such sale shall be held available to the parties concerned in the manner established by applicable legislation.

6. ***Commitment to purchase the rights of free allocation.-*** *BBVA will undertake to purchase the rights of free allocation, complying strictly with any legal limitations, exclusively to whoever has been originally assigned such rights of free allocation and only in connection with the rights which have been initially allocated to them at such time; accordingly, this option will not be available in respect of any rights of free allocation acquired through a market purchase.*

The price, in gross terms, at which BBVA will undertake to acquire each right of free allocation will be calculated by the following formula (rounding off to the closest one-thousandth of a euro and, in the event of a half of a thousandth of a euro, by rounding up to the next whole thousandth):

$$RP / (NAR + 1)$$

BBVA's commitment to acquire rights of free allocation at the price resulting from the aforementioned formula will remain in force and can be exercised by whoever is entitled to do so during a period to be determined, within the trading period for such rights.

For this purpose, it is agreed to authorise the Bank to acquire such rights of free allocation, always complying with the legal applicable limits.

7. Form and rights of the new shares.- *The new shares will be represented by book entries, and the books will be managed by IBERCLEAR, which performs such function along with its participating entities. The new shares will confer on their holders the same rights as the rest of BBVA's ordinary shares.*

8. Listing.- *It is resolved to apply for listing of the new shares on the securities exchanges in Madrid, Barcelona, Bilbao and Valencia via the Spanish SIBE electronic trading platform. This also applies to the arrangements and documents required for listing on the foreign securities exchanges where BBVA shares are traded at the time of issue (currently in the securities markets of London and Mexico, and via ADS's (American Depository Shares) on the securities market of New York). These arrangements also apply to the new shares issued as a consequence of the capital increase and BBVA expressly agrees to be bound by* *present and future rules of these markets, especially regarding contracts, listing and delisting for the official trading system.*

For any legal purposes, it is hereby expressly stated that should a request be made subsequently to delist BBVA shares, the Bank will comply with all the formalities required by applicable legislation.

9. ***Execution of the resolution and conferral of authority.-*** *It is resolved to confer authority on the Board of Directors, pursuant to article 297.1.a) of the Corporate Enterprises Act and article 30.c) of the Company Bylaws, empowering it to delegate this authority on the Executive Committee with express powers to delegate it in turn; on the Group Executive Chairman; on the Chief Executive Officer; on any other Company director; and empower any proxy of the Company, to set the date on which the resolution to increase capital will be carried out, which will be determined in compliance with the provisions of this resolution, within one (1) year from the date of approval of this resolution, and to determine the new wording applicable to the Company Bylaws regarding the total amount of share capital and the number of shares comprising it.*

   Pursuant to article 30.c) of the Company Bylaws, the Board of Directors may refrain from executing the present capital increase in view of market conditions, the circumstances of the Bank or a social or economic fact or event that makes the action unadvisable. In such case, it will report on this to the first General Shareholders' Meeting held following the end of the period established for execution.

   Likewise, it is resolved to confer authority on the Board of Directors, also pursuant to article 297.1.a) of the Corporate Enterprises Act, and also *empowering it to delegate the authority on the Executive Committee, with express faculties to delegate it in turn; on the Group Executive Chairman; on the Chief Executive Officer; on any other Company director; and empower any proxy of the Company, to establish the conditions of the capital increase insofar as these are not covered in the foregoing articles and, in particular, on the following list which does not constitute a limitation or restriction of any kind:*

i) To determine the final amount of the capital increase, the number of new shares, the market reference value (up to a maximum of €900,000,000) and the number of rights of free allocation necessary to receive one new share, all in accordance with the provisions established in previous articles.

ii) To determine the specific voluntary reserve accounts or sub-accounts against which the capital increase will be charged.

iii) To establish the trading period the rights of free allocation in accordance with article 503 of the Corporate Enterprises Act, and to determine any other date, term or period that may be necessary or appropriate in order to implement the capital increase.

iv) To determine the period in which BBVA's commitment to acquire rights of free allocation will remain in force and would be exercised by the shareholders in the terms indicated above, which shall take place within the trading period determined the rights of free allocation.

v) To decline the number of rights of free allocation needed to reconcile the allocation ratio for the new shares, to decline the rights of free allocation that are acquired under the purchase commitment and to decline any rights of free allocation as might be necessary or appropriate.

vi) To declare the capital increase finalised and closed at the end of the above trading period the rights of free allocation, declaring, when applicable, that subscription was incomplete and signing whatever public and private documents might be needed or appropriate for the total or partial execution of the capital increase.

vii) To draw up, sign and present the necessary or appropriate documents for the issue and listing of the new shares and the rights of free allocation with the CNMV (securities exchange authority) or with any other competent Spanish or international authority or organisation, assuming responsibility for the content and to draw up, sign and present any additional information, supplements or complementary documentation as needed or required, being also authorised to request their verification and registration.

viii) To carry out any action, declaration or negotiation with the CNMV (securities exchange authority), with the Bank of Spain, with the European Central Bank, with the governing bodies of the securities exchanges, with Sociedad de Bolsas, S.A., IBERCLEAR, and with any other organisation, entity or register, whether public or private, Spanish or international, to obtain (if necessary or advisable) the authorisation, verification and execution of the issue, as well as the listing of the new shares.

ix) To draw up and publish any announcements that may be necessary or advisable.

x) *To draw up, sign, execute and, if necessary, certify any type of document related to the capital increase, including without limit any public and private documents required.*

xi) *To draw up, sign and present the documentation needed or required, as well as to complete the acts or formalities needed or convenient so that the new shares associated with the capital increase can be entered in the registers of IBERCLEAR, its participating entities and any other entity, whether national or foreign, that may be necessary, and listed on the securities exchanges in Madrid, Barcelona, Bilbao and Valencia via the Spanish SIBE electronic trading platform and on foreign securities exchanges that list BBVA's shares at the time of issue.*

xii) *And to take whatever action might be necessary or appropriate to execute and register the capital increase before whatever entities and organisations, whether public or private, Spanish or foreign, including clarifications, supplements and amendment of defects or omissions that might impede or hinder the full effectiveness of the present resolution.*"

Madrid, 9 February 2017