

Letter from the Group Executive Chairman

Dear Shareholder,

In 2017, the global economy grew by 3.7%, slightly more than in 2016, and above market forecasts, thanks to the United States, China and Europe. Europe's economic performance was a positive surprise, but uncertainty remained regarding the Brexit negotiations, which are moving forward slowly. In the United States, the risk of an impact of the new tax and trade policies on Mexico remains, although the Mexican economy continues to demonstrate a great resilience. Emerging markets, particularly in Asia, continue to grow more than developed ones. The global economic map is changing, with economic power shifting from west to east. Over the coming years, this trend will continue, boosted by the reduction of the technological gap and by demographic factors.

For the first time in BBVA's history, gross income exceeded €25 billion, demonstrating the soundness of our business

BBVA's net attributable profit in 2017 amounted to €3,519m, slightly higher than in 2016, although it was affected by the negative accounting impact of our stake in Telefónica. The impact does not represent any cash outflow, and does not affect the Bank's equity. **Not including the effect of the Telefónica stake, the net attributable profit would have amounted to €4,642m**, 19.7% more than in 2016 in current euros and 26.3% more in constant euros, i.e. not taking into account the exchange-rate impact.

For the first time in BBVA's history, gross income exceeded €25 billion, demonstrating the soundness of our business. Operating expenses declined by 2.3% and the efficiency ratio improved by 276 basis points in constant euros to reach 49.5% at the close of 2017. This figure is far below the average of our peers, and keeps us in the leading group of European banks in terms of efficiency.

The NPL ratio declined to 4.4%, 47 basis points down from the previous year. The cost of risk stood at 0.87%, similar to the figure for 2016. The CET1 fully-loaded capital ratio closed at 11.1%, above our target of 11% and also at the head of our European peer group.

The year 2017 was also one of major corporate transactions, such as the increase of our stake in Garanti to 49.85%, and the agreements to sell both our franchise in Chile to Scotiabank and much of our real-estate portfolio (to take place in 2018). We also increased our stake in the UK company Atom Bank, and remain its principal shareholder.

In six of the eleven countries where we operate, we reached a turning point in 2017, with over 50% of our customers now being digital

BBVA's transformation strategy took some major steps forward in 2017, as recognized by the markets. The consultancy firm Forrester Research named BBVA's app in Spain as the best mobile banking app in the world, and BBVA's website in Spain received the highest score in the online banking ranking at European level.

In 2017, we reached a total of 22.6 million digital customers and 17.7 million mobile customers, an increase of 25% and 44%, respectively. In six of the eleven countries where we operate we reached a turning point, with over 50% of our customers now being digital. What is even more important, in eight of our markets we head our peers in the NPS (Net Promoter Score) ranking, which measures our customers' satisfaction.

The future of the financial industry is closely related to the management of our customers' information and data. That is why in 2017 we created a new division at the highest organizational level focused on the definition and implementation of BBVA's global data strategy.

Thanks precisely to the use of data and artificial intelligence, we have continued to improve our digital offering, launching new products onto the market and adding new functionalities that provide our users with a more complete experience. Examples of this are the new services, such as BBVA Plan, launched in Mexico, which helps customers set up and achieve savings targets; Bconomy, launched in Spain, which provides users with information on their financial health and helps them control their personal finances; and MIA (Mobile

Interactive Assistant) in Turkey, which allows customers to operate via a mobile app using natural language.

We want our customers to benefit from the technological revolution we are experiencing, so last year we continued to invest in areas such as machine learning, biometrics and blockchain, which are some of the cornerstones for the transformation of the industry.

BBVA stood out among leading entities in promoting a model of sustainable finance

BBVA has also made significant progress over the year in responsible banking. A number of the geographic areas where we operate have been affected by natural disasters. Following the earthquake that hit Mexico and the hurricanes that lashed the southern United States, we quickly deployed a battery of measures to ensure that our employees and the community as a whole could return to normal as soon as possible. Our collaborators played an active role in the rescue work and collection of funds.

BBVA stood out in 2017 among leading entities in promoting a model of sustainable finance. It granted the first green loan to a global company in the energy sector, as well as the first green loan with a project finance structure, also at global level.

At the same time, the BBVA Foundation continued to develop economic, cultural and scientific programs, and the BBVA Microfinance Foundation celebrated its tenth anniversary of promoting the development of vulnerable sectors in Latin America. Also in 2017, BBVA reaffirmed its commitment to the principles of the United Nations Global Compact.

Thanks to the efforts of all the people who work at BBVA, we are turning into reality one of the most ambitious business projects in global banking

2017 has been a good year for BBVA. The Group's revenues have reached a historic level, our capital strength has been reinforced, and our transformation strategy has gathered pace as it enters the execution stage.

This has all been possible thanks to the Group's nearly 132,000 collaborators, whom I would like to congratulate on their great work. Thanks to the efforts of all the people who work at BBVA, we are turning into reality one of the most ambitious business projects in global banking.

Finally, thank you to you, our shareholders. Your constant support is what drives us to continue working to offer our customers the best service possible, and to achieve our Purpose of bringing the age of opportunity to everyone.



1 March 2018

Francisco González Rodríguez