BBVA Creating Opportunities

BBVA in 2017

Contents

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 theTelefónica 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

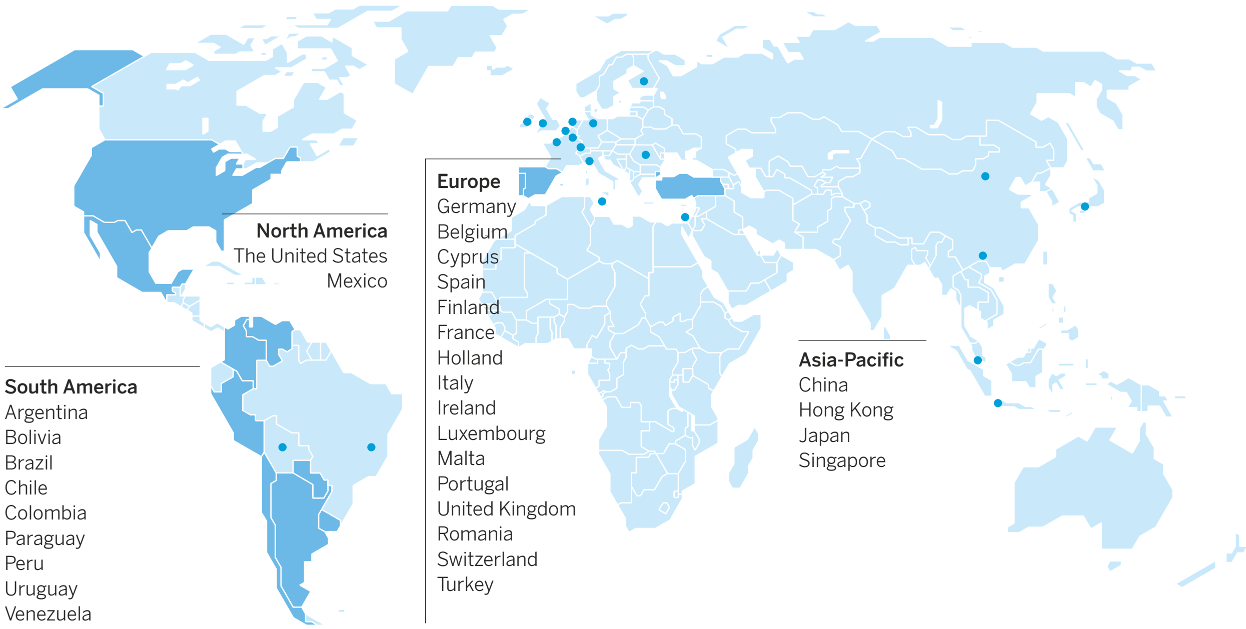
Introduction

About BBVA

BBVA is a customer-centric global financial services group founded in 1857. Its Purpose is to bring the age of opportunity to everyone. This Purpose reflects the Entity's role as enabler, to offer its customers the best banking solutions, helping them make the best financial decisions and making a true difference in their lives. We live in the era of opportunities, where technology offers universal access to education and offers many more people than ever before the possibility of embarking on projects and chasing their dreams. BBVA helps people make their dreams come true.

BBVA operates in more than 30 countries. The Group has a solid position in Spain, it is the largest financial institution in Mexico and has leading franchises in South America and the Sunbelt Region of the United States. It is also Turkish bank Garanti's leading shareholder. Its diversified business is biased to high-growth markets and it relies on technology as a key sustainable competitive advantage.

BBVA has a responsible banking model based on seeking out a return adjusted to ethic principles, legal compliance, best practices and the creation of long-term value for all its stakeholders.



€ 690 billion in total assets

72 million customers

>30 countries

8,271 branches

31,688 ATMs

131,856 employees

Data at the close of 2017. Those countries in which BBVA has no legal entity or the volume of activity is not significant are not included.

Business organizational chart and structure

BBVA Group's organizational structure has remained the same in 2017, with only one change: the creation of the global Data area. This area, which answers directly to the CEO, has been created to boost the strategic use of data in all areas of the Bank. It thus defines and implements the global data strategy, as well as creating and extending a data culture in the Organization, with the aim of speeding up BBVA's transformation to a data-driven organization.

For the rest, BBVA's organizational structure remains divided into four types of areas: Execution & Performance, New Core Competences, Risk & Finance and Strategy & Control. The CEO is responsible for the first three functions and the Group Executive Chairman for Strategy & Control.

GROUP EXECUTIVE CHAIRMAN
Francisco González

CEO
Carlos Torres Vila

EXECUTION & PERFORMANCE
- Corporate & Investment Banking: Juan Asúa
- Country Monitoring[1]: Jorge Sáenz-Azcúnaga
- Spain: Cristina de Parias
- Mexico: Eduardo Osuna
- The United States: Onur Genç
- Turkey: Fuat Erbil

NEW CORE COMPETENCIES
- Customer & Client Solutions[2]: Derek White
- Talent & Culture: Ricardo Forcano
- Engineering: Ricardo Moreno
- Data: David Puente

RISK & FINANCE
- Finance: Jaime Sáenz de Tejada
- Global Risk Management: Rafael Salinas

STRATEGY & CONTROL
- Global Economics, Regulation & Public Affairs: José Manuel González-Páramo
- Legal & Compliance: Eduardo Arbizu
- Strategy & M&A: Javier Rodríguez Soler
- Accounting & Supervisors: Ricardo Gómez Barredo
- Communications: Paul G. Tobin
- General Secretary: Domingo Armengol
- Internal Audit: José Luis de los Santos

(1) Reporting channel to CEO for Argentina, Colombia, Chile, Peru, Venezuela, Uruguay and Paraguay, as well as monitoring of all countries, including Spain, Mexico, the United States and Turkey .

(2) Integrates Global Products & Digital Sales; Design & Marketing; Data & Open Innovation; Business Development in Spain, Mexico, Turkey, the United States and South America; Distribution Model; Asset Management & Global Wealth and New Digital Businesses.

Environment

Macroeconomic environment

Global economic growth held steady at around 1% quarter-on-quarter in the first nine months of 2017 and latest available indicators suggest a continuation of this momentum in the last part of the year. Confidence data continues to improve, accompanied by a recovery in world trade and the industrial sector, while private consumption remains robust in developed countries. This positive trend reflects an improved economic performance across all regions. With respect to advanced economies, US GDP increased slightly more than expected in 2017 (up 2.3%), and the strength of the recovery could be extending in the coming quarters, after the approved fiscal measures. In Europe, the pickup in growth in recent quarters (up 2.5% in 2017) can be explained by a strengthening of domestic demand. Among emerging economies, growth in China is set to remain supportive for the rest of Asia, which, together with the increase in the commodity prices will give increased impetus to Latin American countries. Finally, with their recovery, Russian and Brazilian economies are no longer hampering global growth. Accordingly, and in contrast to other post-financial crisis periods, there has been a global synchronous recovery.

This growth environment has been accompanied by moderate levels of **inflation**, despite ample liquidity in the markets. As a result of the above, central banks have more room for maneuver in emerging economies to continue using monetary policy to support growth, while allowing monetary authorities in advanced economies to maintain a cautious approach to implementing monetary policy normalization.

Other factors which have contributed to the upbeat global picture, such as generally neutral or somewhat expansive **fiscal policy** and still moderate **commodity** prices, look likely to remain in place over the coming quarters. Global growth is therefore forecast to accelerate to around 3.7% in 2017.

Global GDP growth and inflation in 2017
(Real percentage growth)

	GDP	Inflation
Global	3.7	6.2
Eurozone	2.5	1.5
Spain	3.1	2.0
The United States	2.3	2.1
Mexico	2.3	6.0
South America [(1)]	0.8	65.3
Turkey	7.0	11.1
China	6.9	1.5

Source: BBVA Research estimates.

[(1)] It includes Brazil, Argentina, Venezuela, Colombia, Peru and Chile.

Digitalization and changing consumer behavior

Digital activity is outpacing growth in overall economic activity. Society is changing in line with the exponential growth in technology (internet, mobile devices, social networks, cloud, etc.). As a result, **digitalization** is therefore revolutionizing financial services worldwide. Consumers are altering their purchasing habits through use of digital technologies, which increases their ability to access financial products and services at any time and from anywhere. Greater availability of information is creating more demanding customers, who expect swift, easy and immediate responses to their needs. And digitalization is what enables the financial industry to meet these new customer demands.

Technology is the lever for change which allows the value proposition to be redefined to focus on customers' real needs. The use of **mobile devices** as the preferred and often only tool for customers' interactions with their financial institutions has changed the nature of this relationship and the way in which financial decisions are made. It is crucial to offer customers a simple, consistent and user-friendly experience, without jeopardizing security and making the most of technological resources.

Data are the cornerstone of the digital economy. Financial institutions must make the most of the opportunities offered by technology and innovation, analyzing customer behavior, needs and expectations in order to offer them personalized, value-added services. The development of algorithms based on big data can lead to the development of new advisory tools for managing personal finances and access to products which until recently were only available to high-value segments.

The **digital transformation** of the financial industry is boosting efficiency through automation of internal processes, with the use of new technologies to remain relevant in the new environment, such as blockchain and the cloud; data exploitation; and new business models (platforms). Participation in digital ecosystems through alliances and investments provides a way to learn and take advantage of the opportunities emerging in the digital world.

The financial services market is also evolving with the arrival of **new players**: companies offering financial services to a specific segment or focused on a part of the value chain (payment, financing, etc.). These companies are digital natives, rely on data use and offer a good customer experience, sometimes exploiting a laxer regulatory framework than that for the banking sector.

The regulatory environment

1. Completion of Basel III

The main issue in developing the **global regulatory agenda** has continued to be the completion of the pending elements in the global capital framework (Basel III), in particular the comparability of the internal models used by global banks and the variability of risk-weighted assets. The financial industry has referred to this phase as Basel IV, due to the major impact it could have on some jurisdictions. However, the authorities have stressed that it is simply the completion of Basel III, and that they are committed to ensure that in aggregate terms it does not represent a significant impact on the capital requirements of banks.

Discussions in the Basel Committee have been focused on the **calibration of the capital requirements floor** for banks that use internal models for credit-risk assessment. Although the agreement was difficult to reach, it was closed in December 2017, when a floor was agreed for the internal models equivalent to 72.5% of the capital requirements under the standard model.

Some **calibration adjustments** on two global standards were also discussed during the year: i) the capital requirement for market risks (fundamental review of the trading book - FRTB) and ii) the long-term liquidity ratio (net stable funding ratio - NSFR). Discussion on the FRTB focused on the need to establish a longer transition period toward the new standard, as it significantly increases the capital requirements of the trading book. With respect to the NSFR, greater flexibility was granted to the domestic authorities in terms of the stable fund requirements for derivative liability positions.

At **European level**, the regulatory effort in 2017 was focused on the European Council's discussion of the Commission's proposal to review the European banking framework with the aim of incorporating the final elements of Basel III to reduce the risks to the financial system. The discussions are coming to a close.

2. Bank resolution in Europe

In terms of **legislative development**, a new class of bank liabilities were created called senior non-preferred debt, by the transposition of an EU Directive through Royal Decree Law (RDL) 11/2017. A number of banks, including BBVA, have begun to issue this new class of debt, which has had an excellent uptake by institutional investors.

In addition, discussions are continuing between the EU **Council and Parliament** about the Commission's 2016 proposal on a series of banking reforms to mitigate the risk of the banking sector. The most important of these is the implementation of international law on the total loss-absorbing capacity (TLAC) of systemic banks in Europe. The Commission has proposed modifying the minimum requirement for own funds and eligible liabilities now in force (MREL) and align it with the TLAC. The European global systemically important institutions (G-SIIs) will therefore have to comply with a minimum MREL, while the rest of the banks will be dealt with on a case-by-case basis in accordance with certain criteria.

At the same time, the resolution authority of the main banks in the Eurozone, the **Single Resolution Board** (SRB) issued at the end of 2017 the first mandatory MREL requirements and defined a calendar for compliance based on current law.

Finally, it is worth noting the cases of **bank insolvencies** in the summer of 2017, when for the first time the EU's bank resolution framework was put into practice. Specifically, Banco Popular was resolved by the SRB, two Italian banks in the Veneto region (Banco Popolare di Vicenza and Veneto Banca) were liquidated under the Italian insolvency law and Banca Monte dei Paschi was subject to preventive recapitalization.

3. Current situation on the banking union in Europe

Following the consolidation of the economic recovery in Europe, the debate on the future of the euro has resulted in the issue of two important documents by the European Commission. The first is a **White Book** on possible scenarios for the future integration of Europe, with a list of options. The core or most likely framework according to the document is a future two-speed Europe. The second document is a **Reflection Paper** on the future of the Eurozone, which proposes moving forward in two phases (2017-19 and 2019-25) toward a more consolidated union. The first phase will require the completion of banking union, making progress in capital market union to promote investment flows between Eurozone countries and facilitate better risk distribution between private agents. Also included is a reflection on the need to move toward a fiscal union. In the second phase there are proposals of a more institutional nature, including for example the creation of a single European treasury or an European monetary fund.

It is important to note that **banking union** has been a major project, which has settled the following: i) application of a single regulation; ii) the creation of the Single Supervisory Mechanism (SSM); iii) the creation of the Single Resolution Mechanism (SRM) and the Single Resolution Fund (SRF). However, two fundamental elements have yet to be established for full banking union: a common public backstop for the SRF and a common European deposit insurance scheme (EDIS).

4. Focus on reducing non-performing loans

The European authorities have expressed their concern regarding non-performing loans (NPLs) in the EU. In 2017 a number of initiatives were implemented, focused on three areas:

- **Improved supervision**
  The European Council's action plan in July 2017 invited the European Commission to consider the introduction of prudential requirements for new loans in its review of the CRR/CRD capital Directives. The European Central Bank (ECB) also published a consultation document of an annex to its Guidance on NPLs, establishing the minimum coverage required for provisions and allowing banks to decide whether they had to cover the deficit through provisions or a deduction in own funds. More recently, on 10 November 2017, the European Commission published a similar consultation document proposing deductions from own funds or discounts on the value of the collateral. The Council also asked the European Systemic Risk Board (ESRB) to develop macroprudential approaches by the end of 2018.

- **Reform of the insolvency frameworks**
  In 2016 the Commission proposed a Directive on insolvency frameworks. The Council's action plan invited the Commission to publish the results of the comparative carried out among countries. The Commission also published a consultation on the introduction of a faster loan recovery guarantee, which is a swift out-of-court procedure allowing banks to repossess securities offered as loan guarantees and sell them.

- **Development of secondary markets for non-performing loans**
  The Commission launched a consultation (closed on 20 October) that included initiatives aimed at facilitating the sale of NPLs and the activity of servicing companies.

  In addition, in January 2017, the European Banking Authority (EBA) presented its proposal for the creation of an asset management company at European level (the "bad bank"). More recently, the Council's action plan invited the European Commission to issue a guide for countries to create their own bad banks.

  The Council's action plan invited authorities to propose initiatives related to transparency, including the creation of centralized NPL data platforms, to facilitate access to this information.

  The securitization of NPLs could be another tool to withdraw the most granular loans from the balance sheets. The EBA presented a discussion paper on 19 September 2017, "On the Significant Risk Transfer in Securitization", regarding the best way to regulate the securitization of NPLs.

5. Regulation in the field of digital transformation of the financial sector

Digitalization is altering the configuration of the financial sector and relations with customers, giving rise to new opportunities and risks. In this new environment, not only banks must transform themselves, the regulatory and supervisory frameworks must also evolve and adapt. A number of issues marked the regulatory agenda in 2017:

- The **payments industry** is undoubtedly the area where there has been the greatest number of innovations in recent years. In January 2018 the new Payment Services Directive (PSD2) came into force. This new regulatory framework aims to promote competition and strengthen the security of payments in Europe. To do so, it regulates third-party access to customers' payment accounts.

- Digitalization makes possible the storage, processing and exchange of large volumes of **data**. This trend makes it easier to adopt technologies such as big data and artificial intelligence, with an enormous potential for expanding access to financial services; but it also generates concerns on how to ensure privacy and the integrity of customer data. In Europe this has resulted in two regulations: the General Data Protection Regulation (GDPR), with entry into force in 2018, and the proposed e-Privacy Regulation, still at the discussion phase.

  Without doubt, data are a strategic asset in the digital economy, needed to create attractive value propositions and strengthen customer trust. The open banking regulations, as well as the PSD2 and GDPR mentioned above, will have significant results in consumer protection, competition and the structure of the market in financial services.

- In view of the growing importance of data, to guarantee the **integrity** of information is very important. The increased frequency and sophistication of cyberattacks make cybersecurity a priority for the financial sector. A new cybersecurity framework has been created in Europe through the Security Directive for Networks and Information Systems (NIS), GDPR and PSD2. Now there is a need for increased harmonization and international cooperation in all the sectors.

  Finally, in 2017 there were more intense regulatory discussions on the implications of the technological innovation in financial services or **fintech**. Operational, IT and cyber risks are among the greatest concerns for the authorities, together with possible risks for financial stability derived from financial technology (fintech) in the sector. There is a need to assess whether the existing regulatory frameworks are capable of guaranteeing a level playing field and adequate consumer protection. Regulators and supervisors in Europe (the Commission, Parliament and EBA) and at international level (the Basel Committee and the Financial Stability Board) have published consultation papers and reports on the issue that will help define the priorities and lines of work over the coming years.

Economic outlook

The underlying factors which have supported the rebound and stabilization of **global growth** since the end of 2016 will continue into 2018, although some may begin to gradually fade. The most immediate factor will be the gradual normalization of Federal Reserve (Fed) and ECB monetary policy, which will involve a gradual tightening of global liquidity and a reduction in incentives for capital flows toward emerging economies. BBVA Research forecasts global growth to remain relatively stable at around 3.8% in 2018. However, various political risks could affect economic confidence and market performance.

In **Spain**, the recovery is likely to slow in 2018 to around 2.5% following three consecutive years of growth in excess of 3%. The main support factors will be positive momentum in activity and employment data, a favorable global backdrop which should remain propitious for goods exports, and an expansive monetary policy. However, the recent rise in uncertainty which may be sustained for some time represents a risk to certain components of demand, primarily investment and services exports.

In the **rest of Europe**, improving labor markets and increased confidence, alongside favorable financing conditions, will continue to underpin momentum in consumption and investment. However, some external support factors could gradually attenuate over the course of the year 2018 . Euro appreciation, rising commodity prices and stabilization of global growth mean GDP could slip slightly above 2% in 2018 (up 2.5% in 2017). In this context, the ECB intends to rein in its asset purchases, while interest-rate hikes likely to be postponed until mid-2019. Furthermore, domestic risks within the Eurozone, which are primarily political, remain tilted to the downside, though they have moderated to some degree.

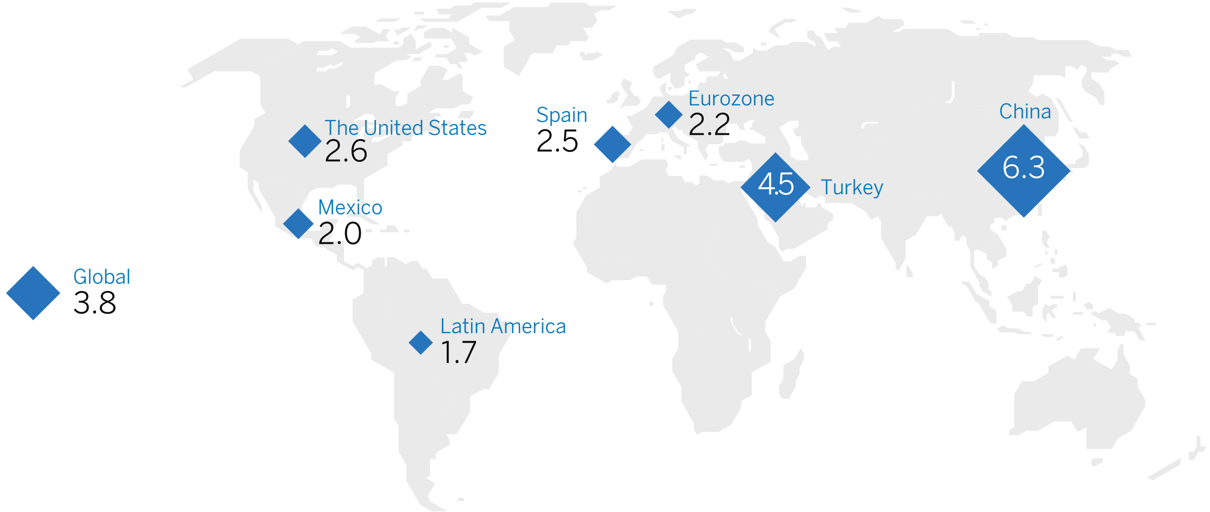
In the **United States**, uncertainty regarding economic policy is likely to reduce over the coming quarters. Economic fundamentals and the effect of the recently adopted measures are consistent with a growth of a shade over 2.5% in 2018. Robust global growth, dollar depreciation, oil price expectations and the moderate improvement in construction should spur an upturn in investment. By contrast, a more gradual improvement in the labor market and stronger inflation could weigh against private consumption. However, contained price growth in recent months and the absence of clear signs of inflationary pressure mean that it is likely that the Fed will proceed slowly in its process of normalizing monetary policy.

Despite the improvement in the **global economy**, some of the remnants of the recession still need to be absorbed and concerns linger regarding the capacity to increase the rate of long-term potential growth. Therefore, how the authorities go about withdrawing the stimuli, particularly on the monetary policy side, continues to be crucial for entrenching the recovery in developed economies and ensuring financial markets remain favorable for emerging countries. By contrast, maintaining low interest rates for a prolonged period of time could contribute to increasing medium-term financial vulnerabilities.

In **emerging economies**, the key challenge is to manage the potential vulnerability to possible abrupt fluctuations in capital flows in a context of greater idiosyncratic uncertainty, whether as a result of geopolitical tensions or due to the elections taking place in 2018, particularly in Latin America. In Turkey, the credit stimulus driven by the authorities is pushing GDP growth above potential. This, alongside the exchange-rate impact, has led to a significant increase in inflation to around 12% in the last quarter of 2017, which has provoked a tightening of monetary policy. To the extent that the effect of the credit stimulus proves temporary, growth is forecast to slow to 4.5% in 2018. The Mexican economy could post growth of around 2% in 2018 (from 2.3% in 2017), with the main risk stemming from a possible deterioration in trade relations with the United States. The recovery is set to gain traction in South America as whole. GDP could grow at around 1.6% in 2018, following on from 0.8% in 2017, on the back of support from the external sector, Brazil's recovery from recession, private and public investment in Argentina and infrastructure investment plans in countries such as Colombia and Peru.

Although short-term risks have receded, especially in **China**, the latter's economic imbalances remain the biggest threat to the global economy over the medium and long-term. Support from the Chinese authorities has helped stabilize growth in 2017 (6.9%). Although concerns of a hard landing in the short term have diminished, growth is nonetheless expected to continue around 6.3% in 2018.

Expected economic growth in 2018 (Percentage of GDP growth)



Source: BBVA Research.
Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

Reputation of the financial sector

In 2017 the reputation of the financial sector continued to recover after reaching a low in 2013 in most developed economies. In the case of Spain, for example, reputation has risen from 42.5 points (on a scale of 0 to 100) in 2013 to 54.1 in 2017, which in reputational terms is very significant. The **Edelman Trust Barometer**, another key index that measures trust in industry, points in the same direction. In this case, the percentage of people around the world who trust banks a great deal or quite a lot bottomed out in 2012 at 43% (16% in Spain). Since that year it has been improving to stand at 54% in 2017 (39% in Spain in 2017).

However, it is important to note that the financial sector is still the worst valued in terms of both trust and reputation; although it is now not far behind other sectors such as telecommunications or utilities.

The management of reputation and trust is becoming an increasingly key issue as a result of digital transformation and the importance of big data. There is growth in the relevance given to cybersecurity (according to a recent report from the World Economic Forum), regulatory and social pressure for the proper use of personal data, and demand for greater transparency and consumer protection. Only banks capable of managing their reputation and responding to these challenges can compete successfully.

Reputation and trust will gain even more weight in 2018 as a result of the PSD2 Directive, as consumers will only be willing to transfer their data to the entities they trust.

Strategy and business model

Vision and aspiration

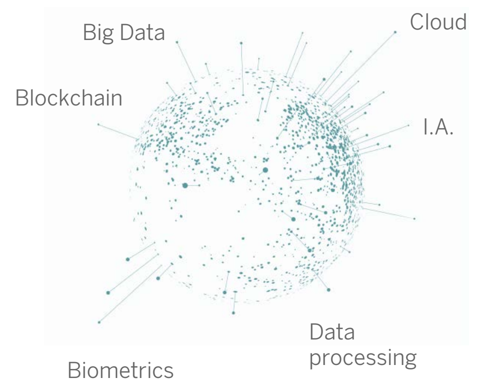
During 2017, the BBVA Group made significant progress on its **transformation** process, firmly underpinned by the Group's Purpose and six Strategic Priorities. The Bank's strategy has been strengthened with a particular focus on digitalization and customer experience under a new tagline: "Creating Opportunities", as well as the Values established to steer the behavior of the Organization as a whole. A necessary transformation process in order to adapt to the new environment in the financial industry described previously and preserve its leadership.

- **Regulatory pressure and impact on bank profitability**
  The financial industry is facing an environment characterized by an onslaught of **regulatory reform** which has been carried out in recent years at a global level, which has resulted in regulatory changes in diverse areas ranging from solvency, liquidity, separation of activities, bank resolution, as well as affecting investment banking activities.

- **Technology**
  New **technological developments** (big data, artificial intelligence, blockchain, the cloud, data processing, biometry, etc.) represent a major step forward in improving the customer experience, enable data and algorithms to be analyzed automatically, as well as providing easy access to the best solutions available on the market and, by default, the most beneficial conditions. Technological innovations reduce unit costs thanks to process automation and scalability.

  Within this context, the pace of **change** in the environment in which BBVA operates is accelerating: exponential growth in new technologies is providing customers with new products and services tailored to their evolving needs, at the same time as significant changes are taking place in the different sectors and companies, which is leading to a weakening of boundaries between sectors.

Environment in which BBVA operates



- **Shifting consumer needs**
  Customers are seeking **a new type of banking relationship** and are demanding greater added-value services based on new needs. Technology is enabling these new demands to be met.

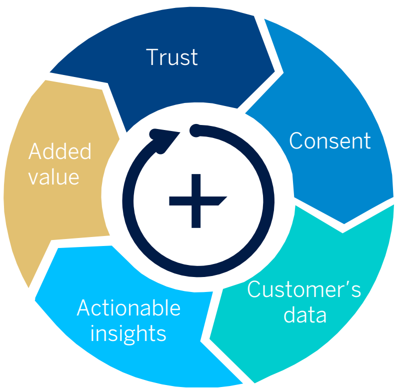
  We are in an environment where the **irruption of mobile devices** has led to changes in the distribution model: consumers are permanently connected (wanting to operate at any time from any place), well accustomed to digital experiences (expecting proactive and personalized assistance in managing their money) and making use of multiple devices and applications (seeking the best experience for each of their financial needs). The fact is that the number of mobile banking users worldwide has grown exponentially in recent years and customers are increasingly interacting through these devices.

  Furthermore, a **socio-demographic** shift is underway which should also be taken into consideration. The millennial generation has a clear digital profile and constitutes a new group of consumers requiring services. Digitization is reaching the adult population (greater number and with more purchasing power in developed markets). Middle classes in emerging countries are also increasing their digital potential.

- **New entrants**
  At the same time, **new players** are entering the financial industry and specializing in specific parts of the value chain (payments, financing, asset management, insurance, etc.). Their disruptive proposals are based, mainly, on a better customer experience and a greater specialization in certain products.These new players include fintech companies as well as digital giants, who are already competing with banks in the new environment, offering very attractive value propositions and with major potential.

- **Data are the key**
  Data form the crucial element for helping people take financial decisions, provided customers consent to their data being used. In this regard, at BBVA we believe it is essential to create a trust circle with customers, given that data are a crucial element for better understanding them. Applying intelligence to these data can provide customers with personalized services that offer higher added-value, which will increase the trust, thus completing this circle.

Trust circle



Within this context, the main objective of the BBVA Group's transformation strategy, its **aspiration**, is to strengthen the relationship with its customers. Customers should be the main beneficiaries of this new environment in which the democratization of financial services is taking place. To do so, BBVA is redefining its value proposition, based on the the real needs of its customers, helping them make better financial decisions through a clear, transparent and honest product and service offer, in order to gain their trust.

Our aspiration

In addition, the **value proposition** of BBVA must also be easy and accessible; in other words, a proposition that offers access to its services at any time, from any place and by the means chosen by each individual customer, whether on a do-it-yourself basis via digital channels, or through human interaction. We have to help our customers take decisions in their best interests, helping them to manage their day-to-day finances, providing products and services in a proactive, innovative and personalized way, as well as making the most suitable recommendations from among all possible financial alternatives.

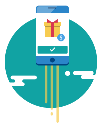
Progress in BBVA's transformation journey

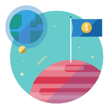
During 2017, BBVA has continued to make progress in achieving its **Purpose** to bring the age of opportunity to everyone, through products and services which help people to make better financial decisions and fulfill their goals in life.

In this regard, and in line with its Purpose, significant steps have been taken in pursuit of the Group's six **Strategic Priorities** so as to make headway in this transformation process.

Strategic Priorities


New standard in customer experience


Digital sales


New business models

Optimize capital allocation


Unrivaled efficiency


A first-class workforce

1. A new standard in customer experience

BBVA Group's main focus is on providing a new standard in customer experience that stands out for its simplicity, transparency and swiftness, further empowering its customers while offering them personalized advice.

BBVA increased its customers' empowerment in **2017** by expanding the number of products available on a do-it-yourself basis, allowing them to interact with BBVA at any time and from any place.

This is reflected in the 2017 Global Mobile Banking Benchmark study by Forrester Research which judged BBVA's application in Spain to be the **best mobile banking application in the world**.

Significant progress has been made in improving the customer experience in terms of the relationship model and products and functionalities.

- Various projects have been launched as part of the **relationship model**: MIA, a virtual mobile information assistant, and Facebook Messenger BOT (Turkey), live chat (Mexico), the front-office tool (Peru) and fast track in branches (Spain).
- Some of the more prominent **new products and functional features** developed this year include: Beconomy and BBVA Cashup (Spain), Tuyyo and digital loans to non-customers (the United States), BBVA Plan - financial objectives and BBVA financial situation check up (Mexico), iris recognition login and Garanti Pay (Turkey), one-click credit cards (Argentina) and microinsurance against theft from cash withdrawals (Colombia).

In essence, BBVA has a customer-oriented business model that offers a differential service with one very ambitious **goal**: to be leaders in customer satisfaction across its global footprint.

In order to know the level of recommendation of BBVA's customers, and therefore, their level of satisfaction, the Group applies the **Net Promoter Score** (NPS) methodology, as explained in the section on Customer relationship. The internalization and application of this methodology has led to a steady increase in the customers' level of trust, as they recognize BBVA to be one of the most secure and recommendable banking institutions in every country where it operates.

Net Promoter Score (NPS) (31-12-2017)

Spain	#1	Colombia	#1
Mexico	#1	Peru	#1
Turkey	#1	Paraguay	#1
Argentina	#1	Venezuela	#1

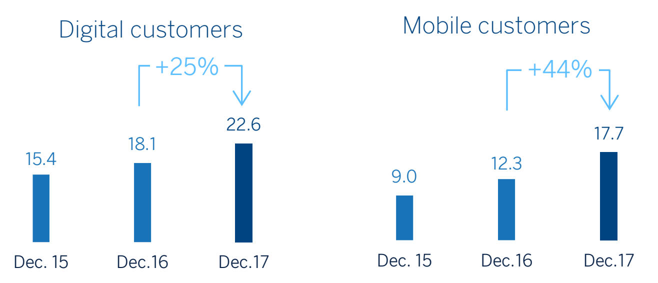
Peer Group: Spain: Santander, CaixaBank, Bankia, Sabadell, Popular // Mexico: Banamex, Santander, Banorte, HSBC // Turkey: AKbank, Isbank , YKB, Deniz, Finanz // Argentina: Galicia, HSBC, Santander Río // Colombia: Davivienda, Bogotá, Bancolombia // Peru: Interbank, BCP, Scotiabank // Paraguay: Continental, Itaú, Regional // Venezuela: Banesco, Mercantil, Banco de Venezuela.

2. Digital sales

At BBVA, it is essential to foster **digitalization** as part of its transformation journey while boosting business on digital channels. In this regard, the Bank is developing a significant digital offering of products and services.

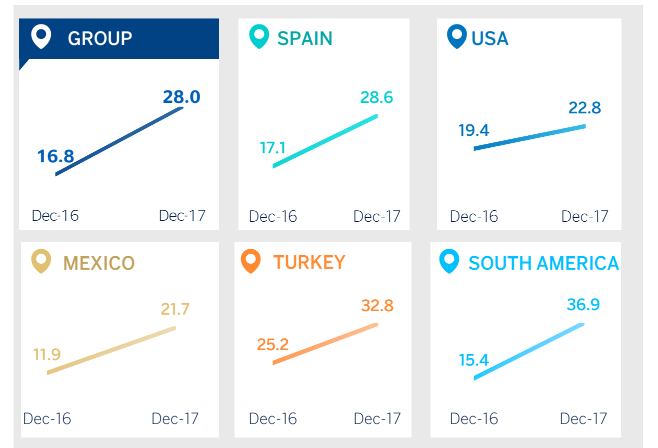
The relationship model of BBVA is evolving to adapt to the multi-channel profile of its customers. The number of **digital and mobile customers** in BBVA Group grew considerably in 2017. The 50% tipping point in digital customers has been reached in most of the countries where BBVA is present (Spain, the United States, Turkey, Argentina, Chile and Venezuela).

Digital and mobile customers (BBVA Group. Million)



Furthermore, a significant boost to **sales through digital channels** is being made, which is having a very positive evolution across the global footprint. In 2017, five million units were sold through the mobile devices.

Digital sales trend (By geography. Year-on-year percentage of digital sales, number of transactions)



3. New business models

Developing new business models is one of the Group's Strategic Priorities. During **2017**, BBVA has continued to consolidate as one of the reference banks in digital transformation and activity in the entrepreneurship ecosystem. New business models have been developed and implemented through five key levers: i) exploring, ii) constructing, iii) partnering, iv) acquiring and investing and v) venture capital.

i. **Exploring:** seeking out new business opportunities arising from companies (startups) and connecting the solutions which have been identified with internal projects with the goal of achieving real impact. Open innovation is a key element for ensuring BBVA can bring the age of opportunity to its customers. BBVA is connecting with the global fintech ecosystem to create collaboration opportunities which are embodied in specific projects and initiatives aimed at having a real impact. This work has three main dimensions:

- Firstly, we identify needs and opportunities within BBVA from our global and local strategies. This work is ongoing in collaboration with all business teams and cross-functional areas.
- Secondly, we attract and contact leading startups worldwide who are working to transform the industry. These companies are then subjected to an assessment process with the goal of understanding their strengths and potential to collaborate with the Group.
- Thirdly, we connect these startups with the appropriate BBVA teams in accordance with their needs. The goal of this process is to generate genuine collaborations with potential to make it all the way to our customers. 22 collaborations were initiated in 2017.

The ninth edition of the **BBVA Open Talent** fintech startups competition is a particularly prominent example of the exploring activity undertaken in 2017. More detail on the latter is provided in the Customer relationship section (New digital ecosystem).

The Group also possesses a network of spaces which serve as a meeting point between BBVA and the ecosystem. The **BBVA Open Space** network currently includes Madrid, Bogota and Mexico. In 2017, more than 30,000 people visited the Madrid space, where they could experience activities such as events, workshops, courses and talks designed to lead the fintech conversation in Spain, generate reputation among the main stakeholders and promote a cultural shift in the BBVA teams. The space was shared with startups, investors and other agents, allowing the exchange of knowledge and experience and demonstrating BBVA's commitment to and support of the growth of the ecosystem. Research activity on the design carried out in the BBVA Open Space Living Lab included 35 field tests associated with improvement projects for the Group. In essence, it is a place for meeting, innovating and learning for startups and BBVA alike.

BBVA has also participated in key events relating to new technologies and developments in the fintech world (Money2020, Next Money, Seedstars, etc.).

ii. **Constructing**: BBVA has also decided to commit to creating an internal incubation model that combines internal talent and know-how in partnership with "resident" entrepreneurs. Six companies were launched to market in 2017:

- **Muno**: a new form of offering insurance designed specifically for self-employed workers, which is 100% digital and focused on concepts of community, equitable risk and accessibility. The company was launched in Spain in May and has plans to broaden its portfolio of products and regions.

- **Trustu**: an online platform which helps facilitate financing for Spanish SMEs. Trustu takes advantages of the opportunities that will be on offer under the Payment Services Directive (PSD2) to improve the supply to the small company segment. It was launched in the summer of 2017 and is currently being tested.
- **Denizen**: created with the idea of becoming a bank for expats, offering a single bank account with local numbers in each of the countries in which they operate. It has begun operating in the corridor between Europe and the United States.
- **Azlo**: a 100% online bank for small companies in the United States. Over 5,000 customers are currently on a waiting list to receive an invitation with 400 accounts already created.
- **Covault**: a high-security biometric solution for protecting and sharing online identities which was launched in December.
- **Tuyyo**: ua secure and rapid application for sending money via cellular devices with the option to collect it from an ATM. This application has been launched in the corridor between the United States and Mexico.

iii. **Partnering through strategic alliances**: BBVA's ranking as a leading bank in many countries and its digital reputation have attracted the interest of a number of fintech and technology companies. The goal is to reach mutually beneficial agreements that also contribute to providing our customers with a better value proposition. BBVA teams played an active role in the ecosystem in **2017** which has given rise to agreements with companies such as Alipay, Raisin, Walmart, Amazon and Ripple.

iv. **Acquiring and investing**: thanks to this active role in the fintech ecosystem, BBVA is now considered to be an attractive investor for startups looking not only for a financial investor, but also a strategic ally. BBVA considers investing in companies of this type a form of accelerating its digital transformation and an excellent way to incorporate new products and markets, not to mention talent and digital and entrepreneurial capabilities. BBVA remained intensely active in this area during 2017, evaluating over 130 companies as potential targets. Two operations have been concluded.

- Participation in the share capital increase in ATOM with the goal of maintaining the 29.5% stake acquired in 2016 in the UK's first licensed digital-only bank.
- Completion of the acquisition of Openpay, a Mexican startup offering online payment solutions.

v. **Venture capital**: complementary to its strategic activities, BBVA invests, through the independent venture capital company, Propel Ventures Partners, in fintechs and startups which are "rethinking" the financial industry. BBVA's goal is not to control these companies but rather to play a role as an ally and/or advisor on all aspects where the company may need support, as such BBVA has taken minority stakes of up to 20%.

Propel continued its activity in **2017** and has acquired significant positions in a range of startups. To date it has invested in 24 different startups, which cover both financial issues related to insurance (Hixme, Hippo), payments, financing (Prosper, Earnest, Insikt), asset management (Personal Capital, Guideline) and blockchain (Coinbase, Civic, Brave), among others.

It is also worth highlighting that a separate international fund - Propel Venture Partner International - has been created with the purpose of investing outside of the United States, which is also managed by the Propel team. This fund will form part of the $250m that BBVA has committed to Propel Venture Partners.

New business models

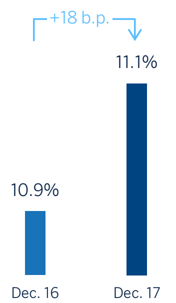
Exploring	Constructing	Partnering	Acquiring and investing	Venture capital
798 Startups analyzed				

4. Optimize capital allocation

The objective of this priority is to improve the profitability and sustainability of the business while simplifying and focusing it on the most relevant activities.

During **2017**, efforts have continued to sensitize the Organization to the importance of the correct allocation of capital. To this end, work has been undertaken to develop new tools to correctly measure the profitability of each activity. These tools are being incorporated in management and corporate processes, enabling the Group to continue making progress in terms of solvency. Accordingly, the fully-loaded CET1 capital ratio stood at 11.1% at the end of 2017, up 18 basis points on the close of the previous year.

CET1 fully-loaded (Year-on-year in basis points)



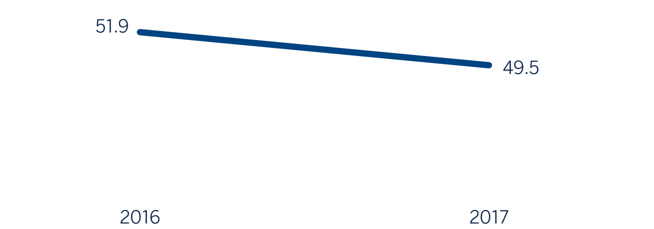
5. Unrivaled efficiency

In an environment of lower profitability for the financial industry, efficiency has become an essential priority in BBVA's transformation plan. This priority is based on building a new organizational model that is as agile, simple and automated as possible.

In this regard, in **2017** BBVA identified the key levers and developed the action plans necessary to make this change a reality. The Bank is thus transforming its distribution model, systems architecture, model of operations, organizational structures and processes. And it is doing so without losing sight of providing a new standard in customer experience.

In 2017, the efficiency ratio closed at 49.5%, below the figure of 51.9% in the previous year.

Efficiency ratio (BBVA Group. Percentage)



6. A first-class workforce

BBVA Group's most important asset is its people, which is why having "a first-class workforce" is one of the six Strategic Priorities. This entails attracting, selecting, training and retaining top-class talent wherever it may be.

BBVA Group has developed new people management models and ways of working which have enabled the Bank to keep transforming its operational model, but have also enhanced its ability to become a purpose-driven company: a company where staff are genuinely inspired and motivated to work for the same Purpose of: bringing the age of opportunity to everyone.

Our Values

BBVA is engaged in an open process to identify the Group's Values, which took on board the opinion of employees from across the global footprint and units of the Group. These Values define our identity and are the pillars for making our Purpose a reality:

1. Customer comes first

BBVA has always been customer-focused, but the customer now comes first before everything else. The Bank aspires to take a holistic customer vision, not just financial. This means working in a way which is empathetic, agile and with integrity, among other things.

- **We are empathetic**: we take the customer's viewpoint into account from the outset, putting ourselves in their shoes to better understand their needs.
- **We have integrity**: everything we do is legal, publishable and morally acceptable to society. We always put customer interests' first.
- **We meet their needs**: We are swift, agile and responsive in resolving the problems and needs of our customers, overcoming any difficulties we encounter.

2. We think big

It is not about innovating for its own sake but instead to have a significant impact on the lives of people, enhancing their opportunities. BBVA Group is ambitious, constantly seeking to improve, not settling for doing things reasonably well, but instead seeking excellence as standard:

- **We are ambitious**: we set ourselves ambitious and aspirational challenges to have a real impact on people's lives.
- **We break the mold**: we question everything we do to discover new ways of doing things, innovating and testing new ideas which enables us to learn.
- **We amaze our customers**: we seek excellence in everything we do in order to amaze our customers, creating unique experiences and solutions which exceed their expectations.

3. We are one team

People are what matters most to the Group. All employees are owners and share responsibility in this endeavor. We tear down silos and trust in others as we do ourselves. We are BBVA.

- **I am committed**: I am committed to my role and my objectives and I feel empowered and fully responsible for delivering them, working with passion and enthusiasm.
- **I trust others**: I trust others from the outset and work generously, collaborating and breaking down silos between areas and hierarchical barriers
- **I am BBVA**: I feel ownership of BBVA. The Bank's objectives are my own and I do everything in my power to achieve them and make our Purpose a reality.

The Values are reflected in the daily life of all BBVA Group employees, influencing every decision.

The implementation and adoption of these Values is supported by the entire Organization, including the Global Leadership, launching local and global initiatives which ensure these Values are adopted uniformly throughout the Group.

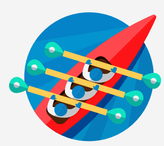
Our Values

Customer **comes first**

- We are empathetic
- We have integrity
- We meet their needs

We think **big**

- We are ambitious
- We break the mold
- We amaze our customers



We are **one team**

- I am committed
- I trust others
- I am BBVA

In conclusion, at BBVA we are accelerating our transformation in order to be the best bank for our customers.

Innovation and technology

BBVA is engaged in a process of digital transformation, the main aim of which is to achieve its aspiration of strengthening relationships with its customers and being the best possible bank for them. **Engineering** is an essential component of this transformation. Its mission has always been to enable a technology strategy that provides the foundation for this transformation, thus becoming more customer-centric and establishing a more global strategy, fast to implement, digital, flexible and leveraged on the Group's data. This must be done while continuing to provide support to the Bank's core business: catering to the demand for traditional business (multi-segment, multi-product, multi-channel, etc.); and b) contributing reliability, with the necessary tools to ensure adequate internal controls, based on consistent information and data. Another Engineering objective is provide the group with all the tools it needs to drive profitability, new productivity paradigms and new business processes.

The area's **responsibilities** continue to be focused on the lines of work that were indicated in 2016:

- A new technology stack to offer customers services that are more suited to their needs, in terms of speed and content.
- Alliances with strategic partners to harness cutting-edge technology, and the necessary collaboration to speed up the transformation process.
- Productivity and reliability, i.e. securing improved performance from technology, and doing so in a manner that is fully reliable and guarantees the highest quality standards.

New technology stack: cloud paradigms

With customers increasingly making use of digital channels, and therefore driving an exponential increase in transaction numbers, the Group is continuing to develop its **IT model** into a more uniform and scalable system, boosting cloud technology.

During **2017**, Engineering continued to construct and deploy the building blocks of the new global technological stack for the whole of BBVA. This stack shares the cloud attributes of flexibility and stability that are demanded by the digital world, while strictly complying with regulatory requirements. The first pilot projects have been executed on the blocks with good results. This new stack will enable real-time access, a new approach to data management and the optimization of processing costs, providing customers with a service that caters directly to their needs.

Strategic alliances

Engineering continues to encourage the creation of a network of strategic alliances, giving traction to BBVA's digital transformation and complement its technology stack. Establishing an **ecosystem of strategic alliances** with some of the leading businesses in the market ensures the adoption of innovative technologies, digitalization of the business, speed in activation, as well as global deployment of solutions. Furthermore, by building a network of technological alliances with strategic partners, BBVA will work in close cooperation with some of the foremost companies in their respective fields.

In **2017** alliances were established with relevant companies that will be responsible, on the one hand, for operating and optimizing BBVA's current technology and, on the other hand, for managing the communications infrastructure in a global manner.

Productivity and reliability

Engineering continues to focus on **productivity** as part of the transformation process. Greater productivity is needed to provide our customers with the best possible service while being profitable. The area is therefore working on the following:

- Technology transformation at two levels:
  - Hardware: creating lower-cost infrastructure components based on the cloud paradigm. There has been very significant progress in the use of this infrastructure in Spain, and Mexico is beginning to use it, resulting in an increase in productivity.
  - Software: multiple global functionalities have been constructed, reused by various of the Group's geographic areas, and construction continues on the technological stack with a high level of automation.
- Transformation of operations: an initial operations optimization exercise has been carried out with good results, and the necessary working methodology has been created to implement it throughout the whole Group. The first robotics activities have also been carried out in Spain.

It is crucial to obtain the best possible performance from infrastructures, architectures, operations and internal processes, and to do so in a way that is fully reliable. **Reliability** remains another key factor for the Engineering function and digital transformation.

In **2017** programs have been executed to improve reliability, resulting in a reduction of the volume of incidents in the Group.

Materiality

BBVA took a great step forward in materiality analysis in 2016, to make it more solid and ensure that the focus is on the most relevant aspects for both the stakeholders and the BBVA business. This involved carrying out a review of the material issues based on the data collected from a variety of sources, providing a broad information base that is auditable and objective, ensuring that the analysis is more robust than in previous years.

During this process, analysis was conducted on the current and emerging issues from the perspective of different stakeholders and BBVA's strategy. The tools used were the E-Revalue data analysis platform Datamaran, as well as other usual sources used in previous years.

Stakeholder input

The **priorities** of stakeholders were obtained by analyzing two information groups. First, the data has been gathered directly from the stakeholders themselves:

- Direct opinions of customers and non-customers from countries where we operate, are collected through surveys. These surveys measure the key factors to ensure that consumers trust banks, in particular BBVA, as well as the relative importance of each of these factors (source: RepTrak).
- Direct opinions of employees are identified through very similar methods to the above, and carried out in the Group's main countries (source: RepTrak).
- Investors and analysts´ opinions are gathered through surveys answered by BBVA's Investor Relations unit. It reflects the issues relevant to this group and distinguishes between institutional investors and other shareholders. In addition, an analysis of sustainability - oriented priorities is being carried out based on specialized sources such as the Principles for Responsible Investment (PRI) and the Sustainable Investment and Finance Association (SIF).
- The main concerns, demands and requirements of the NGOs most active in the financial sector are analyzed through their campaigns, reports, policies and news.

As well as the above, information was gathered from other sources contained in the E-Revalue data analysis platform Datamaran, to complete and consolidate the opinion of stakeholders, such as:

- Regulatory analysis to identify the main laws and directives that impact the financial sector in all the regions where BBVA operates. An inquiry has been carried out of both mandatory regulations and recommendations issued by institutions, as well as emerging issues that have arisen from the regulatory changes that took place in recent years.
- Analysis of the latest news related to issues relevant to the financial sector in the online media and social networks like Twitter.
- Series of benchmarking exercises on the reports published by other banks in 2016, as well as the documents from different companies presented before the Securities & Exchange Commission of the U.S. Government (SEC) for the financial sector in BBVA's key markets, including annual sustainability and integrated reports.
- Trend analysis of the sector based on the reports developed by the financial institutions and expert consultants over the last two years, in relation to the way banks offer services to customers.

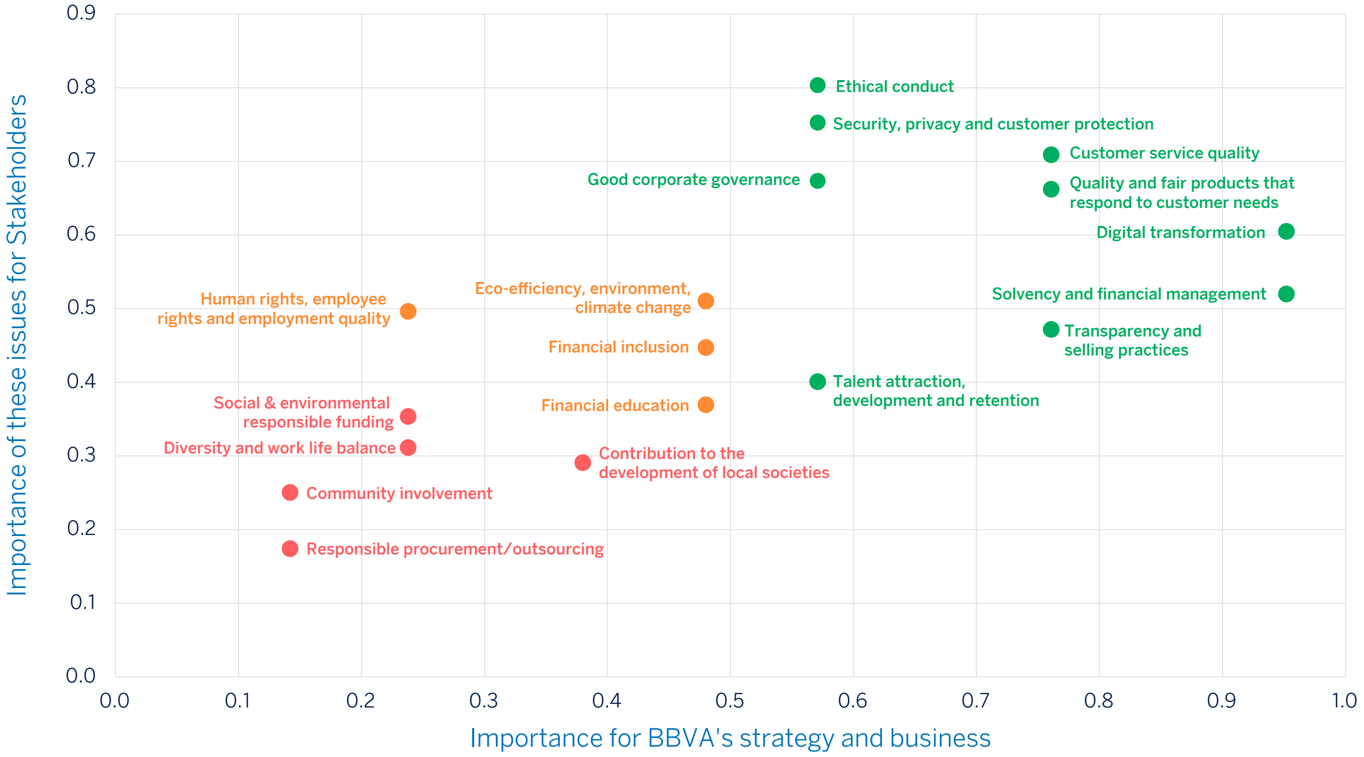
Sources used in the materiality analysis
Source of materiality analysis based on shareholders' surveys and analysis included in Datamaran (the same number of documents in English and Spanish have been analyzed):
Customers/non-customers and employees
RepTrak surveys in the key geographical areas of BBVA:
4,500 customer and non-customer surveys
6,000 employee surveys
Analysts and investors
Departament of Investor Relations surveys for investors and analysts
9 sustainability investment report
NGO
19 NGO documents
Regulator
264 regulatory documents
News feeds and social network
153 news feeds analyzed, considering:
2,300 news feeds written in English and 2,000 news feeds written in Spanish
30,000 tweets written in English and 10,000 tweets written in Spanish
Benchmark
88 competitors' reports coming from 36 banks
Trends
13 industry trend reports

Each of these sources was analyzed based on the different level of importance. Based on the results, a hierarchical list of **relevant issues** was defined for the different stakeholders.

In 2017, the strategy team reviewed the list of issues. As a result, the priority issues remain the same, with the exception of solvency and financial management, which became more important in terms of business Strategy.

These issues are represented in the **materiality matrix** shown below. The vertical axis reflects the importance of the issues for the stakeholders and the horizontal axis the importance for BBVA's strategy and business. The issues colored in green have a first-level relevance and those in orange a second-level.

BBVA materiality matrix



(1) The issues in green represent the highest priority, followed by those in orange and, finally, those in pink.

Therefore, the top three material issues are:

- Customer service quality
- Digital transformation
- Solvency and financial management

Responsible banking model

At BBVA we have a **differential** banking **model** that we refer to as responsible banking, based on seeking out a return adjusted to principles, strict legal compliance, best practices and the creation of long-term value for all stakeholders. It is reflected in the Bank's Corporate Social Responsibility or Responsible Banking Policy (or CSR Policy). The Policy's mission is to manage the responsibility for the Bank's impact on people and society, which is key to the delivery of BBVA's Purpose.

The CSR Policy is approved by the Board of Directors. Likewise, the responsible banking model is supervised by the Board of Directors and the Executive Committee, as well as by the Bank's Global Leadership Team (GLT), chaired by the CEO.

All the business and support areas integrate this policy into their operational models. The Responsible Business Unit coordinates the implementation and basically operates as a second line for defining standards and offering support.

The four **pillars** of BBVA's responsible banking model are as follows:

- Balanced relations with its customers, based on transparency, clarity and responsibility.
- Sustainable finance to combat climate change, respect human rights and achieve the UN Sustainable Development Goals (SDGs).
- Responsible practices with employees, suppliers and other stakeholders.
- Community investment to promote social change and create opportunities for all.

During **2017**, the Group has worked on a climate change and sustainable development strategy which address the management of risks and opportunities deriving from the fight against climate change and the achievement of the SDGs in a comprehensive way. BBVA's approach to these kinds of risks and opportunities are included in the section on Sustainable finance.

Responsible banking strategic initiatives

Strategic initiative	Strategic priority	2018 plans	Deliverables	KPI	2020 goal	Progress in 2017
0. Operating model		CSR Policy update Agile organization within the Responsible Business Department Reporting to the GLT and to the Board of Directors	CSR Policy approval Agile methodology implementation Three reports to the Board of Directors and five to the GLT			Responsible banking model
1. TCR to transform the traditional bank TCR to create the new Bank	New standard in customer experience Digital sales Reputation	TCR in strategic projects (Glomo, public web, Wallet, NetCash, Automik) TCR guidelines and training	80% of features based on TCR principles 12 workshops and 400 people trained Two reports to the Customer Solutions Leadership	Net TCR Score	First in clarity and transparency (except for the United States)	TCR communication
2. Sustainable finance	New standard in customer experience Optimize capital allocation New business models	Strategy on climate change and sustainable development Task Force on Climate-related Financial Disclosures (TCFD) recommendations Commitment to Human Rights and action plans Sector norms SDG bonds framework	Strategy on climate change and sustainable development approval Sustainable Finance forum TCFD recommendations roadmap Commitment to Human Rights and action plans approved Sector norms approval and implementation SDG bonds framework approval and first green bond issue Two reports to the Board of Directors and to the GLT	Responsible banking synthetic index	Top 3	Sustainable finance
3. Reputational risk	Optimize capital allocation Reputation	Local reputational risk specialists Step-in risk assessment	Risk specialist participation in local decision-making bodies Step-in risk assessment execution Annual assessment & due diligences	RepTrak Pulse	Above 60 in all the countries	Reputational risk
4. Community investment	New standard in customer experience Reputation A first-class workforce	BBVA Momentum Center for Financial Education and Capability Donations norm and platform Global volunteering initiative	BBVA Momentum implementation in five countries Financial education annual summit Donations norm approval and platform implementation -Global volunteering initiative launch and 20% increase of volunteers Two reports to the GLT	RepTrak Citizenship	First or second in all the countries	Contribution to society
5. Monitoring, communication and advocacy	Reputation Unrivaled efficiency	Reputation monitoring and materiality analysis Non-financial reporting Analysts & inverstors engagement	Two reports to the GLT Integrated reporting and bbva.com contents Road shows and meetings with investors and shareholders	Responsible banking synthetic index	Top 3 First or second in all the countries	Materiality The BBVA share
6. Talent & Culture	A first-class workforce	Diversity & inclusion plan Work-life balance plan	Launch of various initiatives	RepTrak Employees	Score improvement in related aspects	People management

It is important for BBVA's stakeholders to understand that we are engaged in responsible banking. That is why the Bank measures this perception using a series of **indicators of reputation** among customers, employees and society in general.

Indicators of reputation as aggregate indicators of responsible banking (BBVA Group. 2017)

Reputation among customers

Country	Position relative to peer group
Spain	1st
The United States	2nd
Mexico	2nd (*)
Turkey	n/av
Argentina	2nd (*)
Chile	2nd (*)
Colombia	3rd (*)
Peru	1st (*)
Venezuela	2nd
Paraguay	2nd (*)
Uruguay	n/av

n/av = not available.
Source: RepTrak (Reputation Institute).
(*) tie with other entities.
Peer Group: Spain: Santander, CaixaBank, Bankia; The United States: Regions, Wells Fargo, Chase; Mexico: Banamex, Banorte, Santander, HSBC; Argentina: Galicia, Santander, HSBC; Chile: Banco de Chile, Santander, BCI; Colombia: Bancolombia, Banco de Bogotá, Davivienda; Peru: Banco de Crédito, Interbank, Scotiabank; Venezuela: Banesco, Mercantil, Banco de Venezuela; Paraguay: Continental, Itaú.

Reputation among employees

Country	Year-on-year score variation
Spain	↑
The United States	↑
Mexico	=
Turkey	n/av
Argentina	=
Chile	↑
Colombia	=
Peru	↓
Venezuela	=
Paraguay	↑
Uruguay	=
Group	=

n/av = not available.
Source: 2017 internal reputation study, RepTrak (Reputation Institute).
Note: The up/down arrows indicate positive/negative evolution statistically significant; the equals sign (=) indicates stability.

Reputation in society

Country	Position relative to peer group
Spain	2nd for customers and 1st for non-customers
The United States	1st for customers and 2nd for non-customers
Mexico	3rd(*) for customers and 4th(*) for non-customers
Turkey	n/av
Argentina	2nd(*) for customers and 1st(*) for non-customers
Chile	1st(*) for customers and 3rd for non-customers
Colombia	3rd(*) for customers and 3rd for non-customers
Peru	1st(*) for customers and 1st(*) for non-customers
Venezuela	1st(*) for customers and 1st for non-customers
Paraguay	3rd for customers and 1st for non-customers
Uruguay	n/av

n/av = not available.
Source: RepTrak (Reputation Institute).
(*) tie with other entities.
Peer Group: Spain: Santander, CaixaBank, Bankia; The United States: Regions, Wells Fargo, Chase; Mexico: Banamex, Banorte, Santander, HSBC; Argentina: Galicia, Santander, HSBC; Chile: Banco de Chile, Santander, BCI; Colombia: Bancolombia, Banco de Bogotá, Davivienda; Peru: Banco de Crédito, Interbank, Scotiabank; Venezuela: Banesco, Mercantil, Banco de Venezuela; Paraguay: Continental, Itaú.

The responsible business indicators linked to each strategic line are included subsequently in the corresponding chapter.

Group information

BBVA Group highlights

BBVA Group highlights (Consolidated figures)

	31-12-17	Δ%	31-12-16	31-12-15 [4]
Balance sheet (million euros)				
Total assets	690,059	(5.7)	731,856	749,855
Loans and advances to customers (gross)	400,369	(7.0)	430,474	432,855
Deposits from customers	376,379	(6.2)	401,465	403,362
Other customer funds	134,906	2.1	132,092	131,822
Total customer funds	511,285	(4.2)	533,557	535,184
Total equity	53,323	(3.8)	55,428	55,282
Income statement (million euros)				
Net interest income	17,758	4.1	17,059	16,426
Gross income	25,270	2.5	24,653	23,680
Operating income	12,770	7.7	11,862	11,363
Protit/(loss) before tax	6,931	8.4	6,392	5,879
Net attributable profit	3,519	1.3	3,475	2,642
The BBVA share and share performance ratios				
Number of shares (million)	6,668	1.5	6,567	6,367
Share price (euros)	7.11	10.9	6.41	6.74
Earning per share (euros) [1]	0.48	(0.7)	0.49	0.37
Book value per share (euros)	6.96	(3.6)	7.22	7.47
Tangible book value per share (euros)	5.69	(0.6)	5.73	5.88
Market capitalization (million euros)	47,422	12.6	42,118	42,905
Yield (dividend/price; %)	4.2		5.8	5.5
Significant ratios (%)				
ROE (net attributable profit/average shareholders' funds) [2]	6.4		6.7	5.2
ROTE (net attributable profit/average shareholders' funds excluding intangible assets) [2]	7.7		8.2	6.4
ROA (profit or loss for the year/average total assets)	0.68		0.64	0.46
RORWA (profit or loss for the year/average risk-weighted assets)	1.27		1.19	0.87
Efficiency ratio	49.5		51.9	52.0
Cost of risk	0.87		0.84	1.06
NPL ratio	4.4		4.9	5.4
NPL coverage ratio	65		70	74
Capital adequacy ratios (%)				
CET1 fully-loaded	11.1		10.9	10.3
CET1 phase-in [3]	11.7		12.2	12.1
Tier 1 phase-in [3]	13.0		12.9	12.1
Total ratio phase-in [3]	15.4		15.1	15.0
Other information				
Number of shareholders	891,453	(4.7)	935,284	934,244
Number of employees	131,856	(2.2)	134,792	137,968
Number of branches	8,271	(4.5)	8,660	9,145
Number of ATMs	31,688	1.8	31,120	30,616

[1] Adjusted by additional Tier 1 instrument remuneration.

[2] The ROE and ROTE ratios include in the denominator the Group's average shareholders' funds, but do not take into account the caption within total equity named "Accumulated other comprehensive income" with an average balance of -€1,139m in 2015, -€4,492m in 2016 and -€7,015 in 2017.

[3] The capital ratios are calculated under CRD IV from Basel III regulation, applying a 80% phase-in for 2017 and a 60% for 2016.

[4] Since the third quarter of 2015, the total stake in Garanti is consolidated by the full integration method. For previous periods, the financial information provided in this document is presented integrated in the proportion corresponding to the percentage of the Group's stake then (25.01%).

Relevant events

Results (pages 28-33)

- Generalized sustained growth in **more recurrent sources of revenue** in practically all geographic areas.
- **Operating expenses** remain under control, leading to an improvement in the efficiency ratio in comparison with 2016.
- **Impairment losses on financial assets** has been influenced by the recognition of impairment losses of €1,123m from BBVA's stake in Telefónica, S.A.
- As a result, the **net attributable** profit was €3,519m. Without taking into account the impacts of the impairment losses in Telefónica in 2017 and the so-called "mortgage floor clauses" in 2016, the net attributable profit was up year-on-year by 19.7%.

Balance sheet and business activity (pages 34-35)

- The year-on-year comparison of the Group's balance sheet and business activity has been affected by the **operations** underway (sales of BBVA Chile and the real-estate business in Spain), which as of 31-Dec-2017 were reclassified as non-current assets and liabilities held for sale. Without taking into account the said reclassification (figures in comparable terms with respect to previous periods):
  - **Loans and advances to customers** (gross) continue to increase in emerging geographies but decline in Spain. There has been a slight recovery in the United States since the second half of 2017.
  - **Non-performing loans** continue to improve favorably.
  - **Deposits from customers** have performed particularly well in the more liquid and lower-cost items.
  - There was an increase in **off-balance-sheet funds**, mainly in mutual funds.

Solvency (page 36-37)

- The **capital** position is above regulatory requirements and in line with the target established for the fully-loaded CET1 of 11%. The recognition of the impairment losses from Telefónica mentioned above does not negatively affect the Group's solvency, as they are deducted from both equity and CET1.

Risk management (pages 38-40)

- Good performance of the main **credit risk** metrics: as of 31 December 2017, the NPL ratio closed at 4.4%, the NPL coverage ratio at 65% and the cumulative cost of risk at 0.87%.

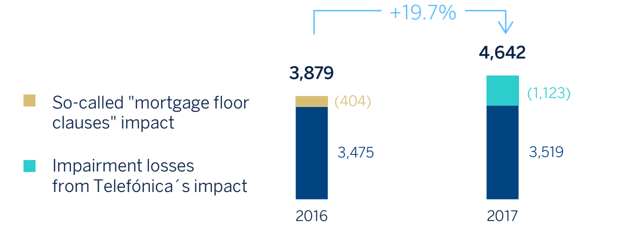
Transformation

- The Group's **digital and mobile** customer base and **digital sales** continue to increase in all the geographic areas where BBVA operates.

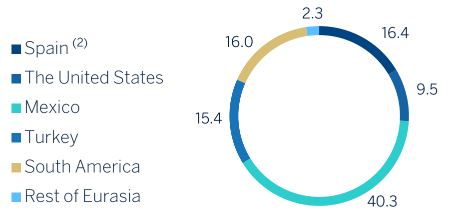
Other matters of interest

- The Board of Directors agreed to propose to the Annual General Meeting, which approved it, a cash payment in a gross amount of 0.15 euros per share to be paid in April as a final **dividend** for the year 2017.

Net attributable profit (Million euros)

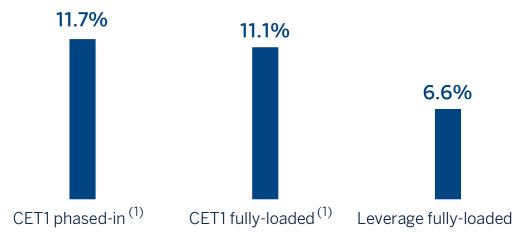


Net attributable profit breakdown (1) (Percentage. 2017)



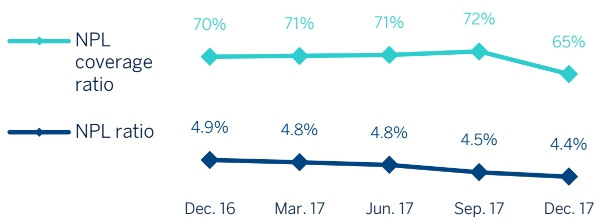
(1) Excludes the Corporate Center.
(2) Includes the areas Banking activity in Spain and Non Core Real Estate.

Capital and leverage ratios (Percentage as of 31-12-2017)

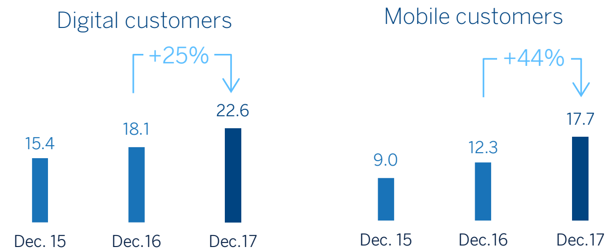


(1) Includes update of the calculation on Structural FX RWA, pending confirmation by ECB.

NPL and NPL coverage ratios (Percentage)



Digital and mobile customers (Million)



Results

BBVA Group's net attributable **profit** for 2017 was €3,519m. It was affected by the negative impact of the recognition of impairment losses from its stake in Telefónica, S.A. as a result of the changes in the share price of the latter.

The Group thus generated a net attributable profit excluding the negative effect of these impairment losses of €4,642m. This represents growth of 33.6% on the net attributable profit in 2016 (up 19.7% excluding the charges for the so-called "mortgage floor clauses" in 2016). Once more, there was a notably good performance of more recurring revenue and containment of operating expenses.

Unless expressly indicated otherwise, to better understand the changes in the main headings of the Group's income statement, the year-on-year percentage changes given below refer to constant exchange rates.

Consolidated income statement: quarterly evolution (Million euros)

	2017				2016			
	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q
Net interest income	**4,557**	**4,399**	**4,481**	**4,322**	**4,385**	**4,310**	**4,213**	**4,152**
Net fees and commissions	1,215	1,249	1,233	1,223	1,161	1,207	1,189	1,161
Net trading income	552	347	378	691	379	577	819	357
Dividend income	86	35	169	43	131	35	257	45
Share of profit loss of entities accounted for using the equity method	5	6	(2)	(5)	7	17	(6)	7
Other operating income and expenses	(54)	154	77	108	159	52	(26)	66
Gross income	**6,362**	**6,189**	**6,336**	**6,383**	**6,222**	**6,198**	**6,445**	**5,788**
Operating expenses	(3,114)	(3,075)	(3,175)	(3,137)	(3,243)	(3,216)	(3,159)	(3,174)
Personnel expenses	(1,640)	(1,607)	(1,677)	(1,647)	(1,698)	(1,700)	(1,655)	(1,669)
Other administrative expenses	(1,143)	(1,123)	(1,139)	(1,136)	(1,180)	(1,144)	(1,158)	(1,161)
Depreciation	(331)	(344)	(359)	(354)	(365)	(372)	(345)	(344)
Operating income	**3,248**	**3,115**	**3,161**	**3,246**	**2,980**	**2,982**	**3,287**	**2,614**
Impairment on financial assets (net)	(1,885)	(976)	(997)	(945)	(687)	(1,004)	(1,077)	(1,033)
Provisions (net)	(180)	(201)	(193)	(170)	(723)	(201)	(81)	(181)
Other gains (losses)	(267)	44	(3)	(66)	(284)	(61)	(75)	(62)
Profit/(loss) before tax	**916**	**1,982**	**1,969**	**2,065**	**1,285**	**1,716**	**2,053**	**1,338**
Income tax	(499)	(550)	(546)	(573)	(314)	(465)	(557)	(362)
Profit/(loss) for the year	**417**	**1,431**	**1,422**	**1,492**	**971**	**1,251**	**1,496**	**976**
Non-controlling interests	(347)	(288)	(315)	(293)	(293)	(286)	(373)	(266)
Net attributable profit	**70**	**1,143**	**1,107**	**1,199**	**678**	**965**	**1,123**	**709**
Net attributable profit excluding results from corporate operations	**70**	**1,143**	**1,107**	**1,199**	**678**	**965**	**1,123**	**709**
Earning per share (euros) [1]	**(0.00)**	**0.16**	**0.16**	**0.17**	**0.09**	**0.13**	**0.16**	**0.10**

[1] Adjusted by additional Tier 1 instrument remuneration.

Consolidated income statement (Million euros)

	2017	Δ%	Δ% at constant exchange rates	2016
Net interest income	**17,758**	**4.1**	**10.6**	**17,059**
Net fees and commissions	4,921	4.3	9.4	4,718
Net trading income	1,968	(7.7)	(6.0)	2,132
Dividend income	334	(28.5)	(28.3)	467
Share of profit loss of entities accounted for using the equity method	4	(86.2)	(86.5)	25
Other operating income and expenses	285	13.4	2.8	252
Gross income	**25,270**	**2.5**	**7.9**	**24,653**
Operating expenses	(12,500)	(2.3)	2.2	(12,791)
Personnel expenses	(6,571)	(2.2)	1.9	(6,722)
Other administrative expenses	(4,541)	(2.2)	2.7	(4,644)
Depreciation	(1,387)	(2.7)	1.8	(1,426)
Operating income	**12,770**	**7.7**	**14.1**	**11,862**
Impairment on financial assets (net)	(4,803)	26.3	32.0	(3,801)
Provisions (net)	(745)	(37.2)	(37.8)	(1,186)
Other gains (losses)	(292)	(39.5)	(40.1)	(482)
Profit/(loss) before tax	**6,931**	**8.4**	**18.1**	**6,392**
Income tax	(2,169)	27.7	39.7	(1,699)
Profit/(loss) for the year	**4,762**	**1.5**	**10.4**	**4,693**
Non-controlling interests	(1,243)	2.0	19.1	(1,218)
Net attributable profit	**3,519**	**1.3**	**7.6**	**3,475**
Net attributable profit excluding results from corporate operations	**3,519**	**1.3**	**7.6**	**3,475**
Earning per share (euros) [(1)]	**0.48**			**0.49**

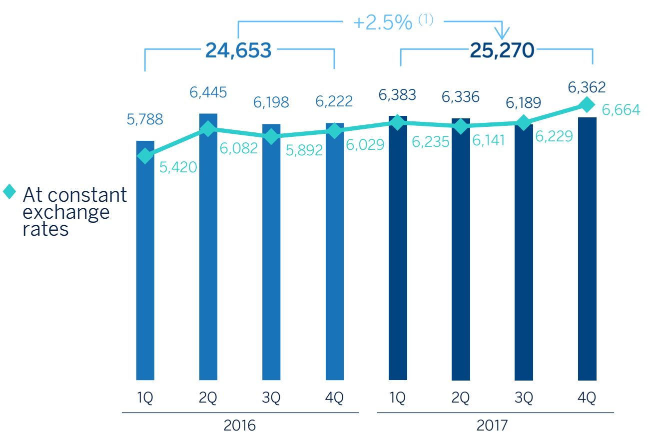
[(1)] Adjusted by additional Tier 1 instrument remuneration.

Gross income

Cumulative **gross income** grew by 7.9% year-on-year, once more strongly supported by the positive performance of the more recurring items.

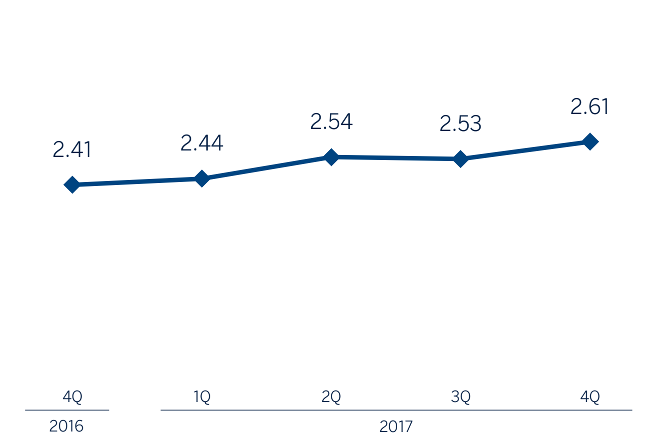
Net interest income continued to grow, rising significantly in the fourth quarter by 8.4% and a cumulative 10.6% year-on-year. This positive trend was once again driven by growth in activity, above all in emerging economies, and good management of customer spreads. By business areas there was a positive performance in Turkey (up 20.6%), South America (up 15.1%), the United States (up 13.0%) and Mexico (up 9.5%). In Spain, although this line item grew in the fourth quarter, there was a slight decline in the figure for the year as a whole as a result of lower loan volumes and sales of wholesale portfolios.

Gross income (Million euros)



(1) At constant exchange rates: +7.9%.

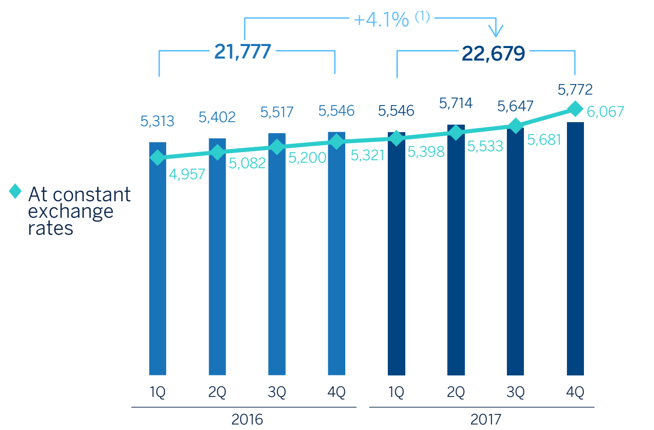
Net interest income/ATAs (Percentage)



Cumulative **net fees and commissions** performed very well in all the Group's areas (up 9.4% year-on-year), strongly reflecting their appropriate diversification. The quarterly figure was also good (up 1.1% in the last three months).

As a result, **more recurring revenue items** (net interest income plus net fees and commissions) increased by 10.3% year-on-year (6.8% over the last three months).

Net interest income plus fees and commissions (Million euros)



(1) At constant exchange rates +10.3%.

Growth in **NTI** slowed in comparison with 2016 figures. This is basically due to lower sales of ALCO portfolios during this year.

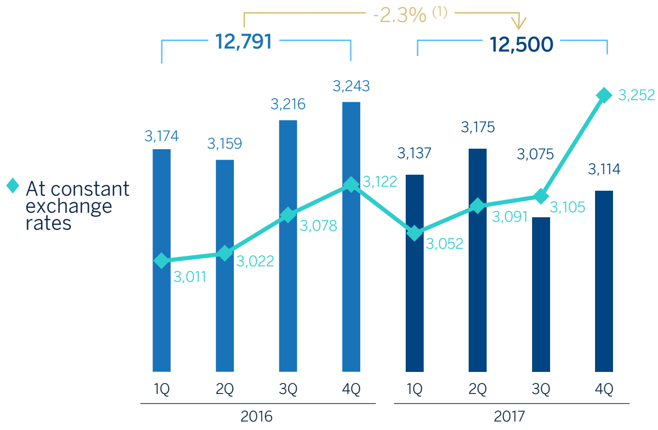
The **dividend income** heading mainly includes income from the Group's stake in the Telefónica group. The year-on-year decline of 28.3% in this figure can be explained by the reduction in the dividend paid by Telefónica, as well as the inclusion of dividends from China Citic Bank (CNCB) in the second quarter of 2016.

Finally, **other operating income and expenses** increased by 2.8% in year-on-year terms. It should be noted that the net contribution of the insurance business remained flat (up 0.1%) due mainly to the high level of claim ratios as a result of the natural disasters occurred in Mexico.

Operating income

Operating expenses were kept in check to a year-on-year increase of 2.2%. The above is due to the cost discipline implemented in all areas of the Group through efficiency plans that are now yielding results, and the materialization of some synergies (mainly resulting from the integration of Catalunya Banc - CX -). By business areas there were notable reductions in Spain and the Rest of Eurasia. In the rest of the geographic areas (Mexico, Turkey, the United States and South America), the year-on-year rise in costs was below or in line with the local average inflation.

Operating expenses (Million euros)



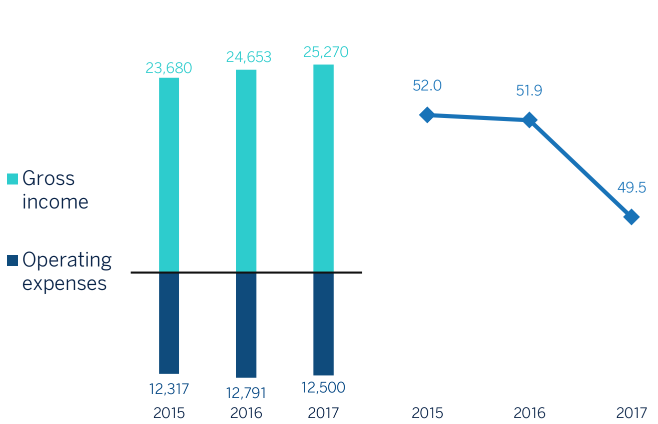
(1) At constant exchange rates: +2.2%.

As a result of the above, the **efficiency** ratio closed at 49.5%, below the figure of 51.9% in the previous year, and cumulative **operating income** rose by 14.1% over the last twelve months.

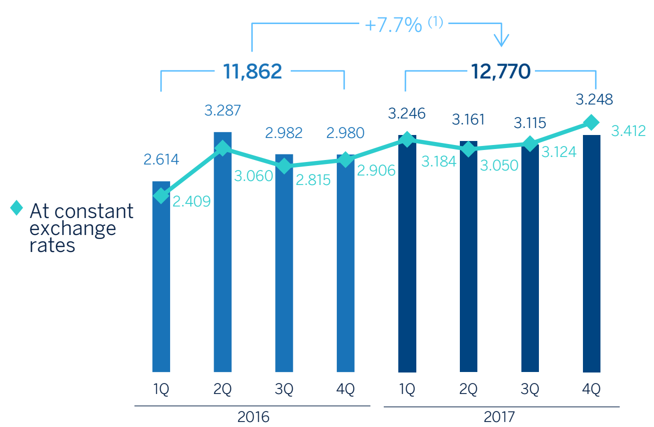
Breakdown of operating expenses and efficiency calculation (Million euros)

	2017	Δ%	2016
Personnel expenses	**6,571**	**(2.2)**	**6,722**
Wages and salaries	5,163	(2.0)	5,267
Employee welfare expenses	911	(2.9)	938
Training expenses and other	497	(3.7)	516
Other administrative expenses	**4,541**	**(2.2)**	**4,644**
Property, fixtures and materials	1,033	(4.3)	1,080
IT	1,018	5.2	968
Communications	269	(8.6)	294
Advertising and publicity	352	(11.4)	398
Corporate expenses	110	5.8	104
Other expenses	1,301	(4.8)	1,367
Levies and taxes	456	5.5	433
Administration costs	**11,112**	**(2.2)**	**11,366**
Depreciation	**1,387**	**(2.7)**	**1,426**
Operating expenses	**12,500**	**(2.3)**	**12,791**
Gross income	**25,270**	**2.5**	**24,653**
Efficiency ratio (operating expenses/gross income; %)	**49.5**		**51.9**

Efficiency (Million euros) and efficiency ratio (Percentage)

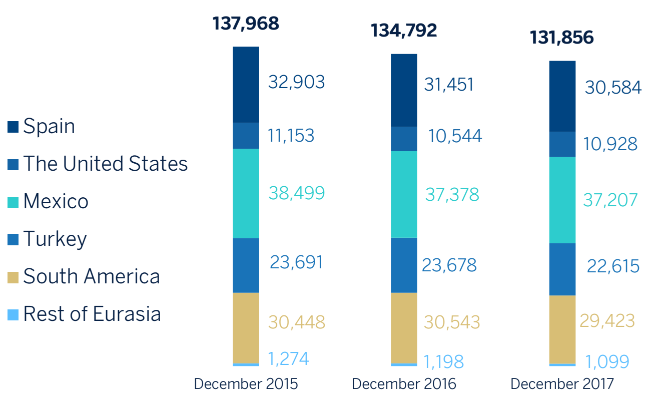


Operating income (Million euros)

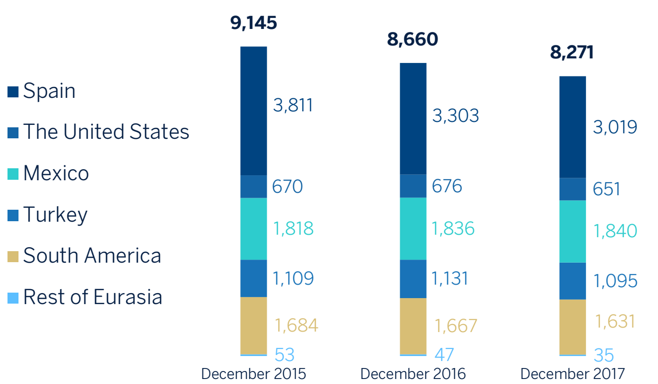


(1) At constant exchange rates: +14.1%.

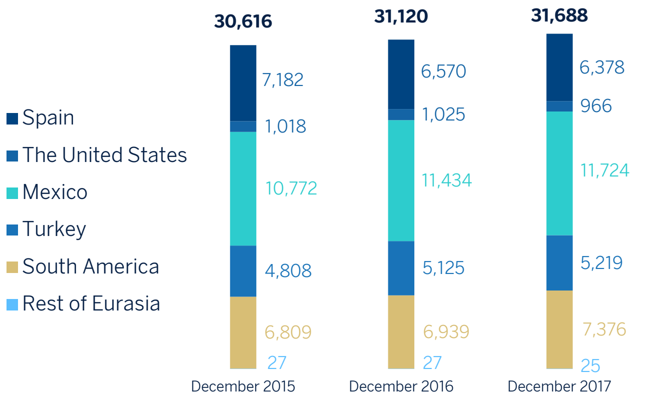
Number of employees



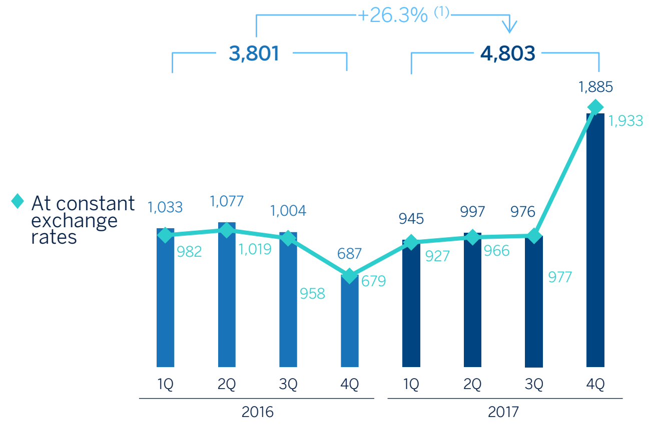
Number of branches



Number of ATMs



Impairment on financial assets (net) (Million euros)



(1) At constant exchange rates: +32.0%.

Provisions and other

Impairment losses on financial assets of the year included the impairment losses of €1,123m from BBVA Group's stake from Telefónica, S.A, as a result of the evolution of the price of the latter and in compliance with the requirements of the accounting standard IAS 39. Excluding this impact, this figure is 1.2% higher than the one for 2016. By business areas, the most significant was a reduction in Banking activity in Spain due to lower loan-loss provisioning needs. In contrast, there was an increase in the United States due to the inclusion of provisions allocated as a result of the estimated negative effect of the natural disasters in the third quarter and higher loan-loss provisioning related to consumer portfolio. Turkey, Mexico and South America also saw an increase, largely linked to the increase in lending activity, and to a lesser extent, the impact of increased needs for insolvency provisions associated with some wholesale customers in the case of South America.

As a result of the above the cumulative **cost of risk** in 2017 (0.87%) was barely three basis points above the figure in 2016 (0.84%).

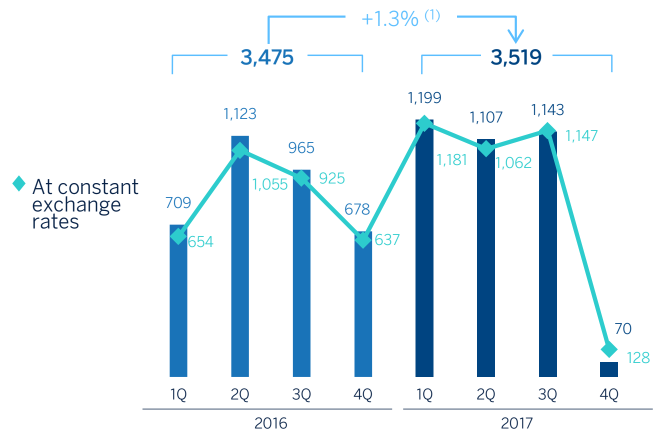
The fall of 38.5% in **provisions (net) and other gains (losses)** can be explained by the inclusion in the fourth quarter of 2016 of a charge of €577m (€404m after tax) to cover the contingency linked to the decision of the Court of Justice of the European Union (CJEU) on "mortgage floor clauses." This item includes items such as provisions for contingent liabilities, contributions to pension funds, the provision needs for property and foreclosed assets and restructuring costs.

Results

As a result, the Group's **net attributable profit** in 2017 was €3,519m, a year-on-year rise of 7.6%; not including the impairment Telefónica losses in 2017 and the aforementioned charge related to the so-called "mortgage floor clauses" in 2016, there was a rise of 26.3%. It is important to note that since March 2017 this figure has included the additional stake of 9.95% in the capital of Garanti, which has led to a positive impact of around €150m due to a reduction in the non-controlling interests heading.

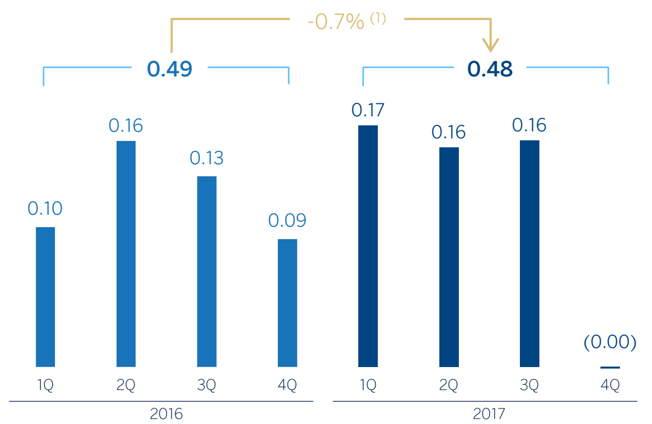
By **business area**, banking activity in Spain generated a profit of €1,381m, Non Core Real Estate generated a loss of €501m, the United States contributed a profit of €511m, Mexico €2,162m, Turkey €826m, South America €861m and the Rest of Eurasia €125m.

Net attributable profit (Million euros)



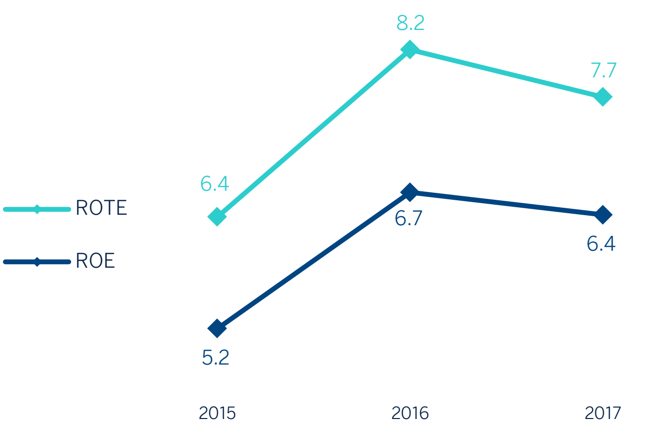
(1) At constant exchange rates: +7.6%.

Earning per share (1) (Euros)



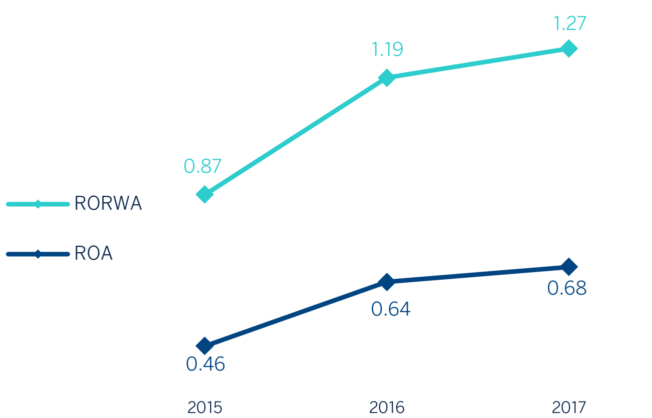
(1) Adjusted by additional Tier 1 instrument remuneration.

ROE and ROTE (1) (Percentage)



(1) The ROE and ROTE ratios include in the denominator the Group's average shareholders' funds, but do not take into account the caption within total equity named "Accumulated other comprehensive income" with an average balance of -€1,139m in 2015, -€4,492m in 2016 and -€7,015 in 2017.

ROA and RORWA (Percentage)



Balance sheet and business activity

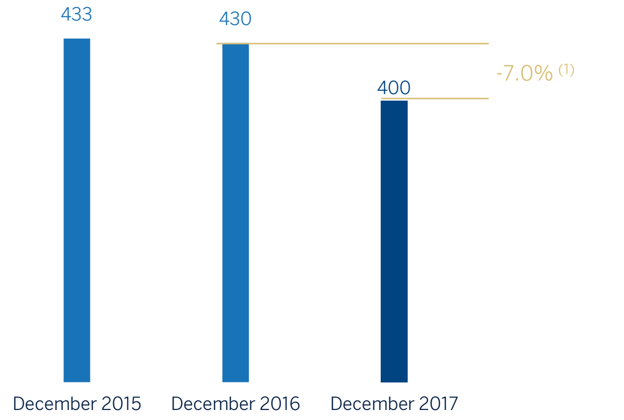
The year-on-year comparison of the Group's balance sheet and business activity have been affected by the operations currently underway (the sales of BBVA Chile and the real-estate business in Spain), which as of **31 December 2017,** were reclassified as non-current assets and liabilities held for sale (in the accompanying balance sheet, under the headings of other assets and other liabilities, respectively). Without taking into account the said reclassification (figures in comparable terms with respect to previous periods), the most significant items are shown below:

- Geographic disparity of **loans and advances to customers** (gross). Lending increased in the emerging economies, while Spain continued to deleverage. The United States registered a slight increase in lending during the second half of the year, resulting in the year-on-year loan balance closing at very similar levels.
- **Non-performing loans** declined again, thanks to an improvement in Spain and the United States.
- In **deposits** from customers, there was another notable increase across the board in lower-cost items such as current and savings accounts, and a decline in time deposits.
- **Off-balance-sheet funds** continued to perform well in all items (mutual funds, pension funds and other customer funds).

Consolidated balance sheet (Million euros)

	31-12-17	Δ%	31-12-16	30-09-17
Cash, cash balances at central banks and other demand deposits	42,680	6.6	40,039	36,023
Financial assets held for trading	64,695	(13.7)	74,950	65,670
Other financial assets designated at fair value through profit or loss	2,709	31.4	2,062	2,848
Available-for-sale financial assets	69,476	(12.3)	79,221	74,599
Loans and receivables	431,521	(7.4)	465,977	449,564
Loans and advances to central banks and credit institutions	33,561	(16.7)	40,268	36,556
Loans and advances to customers	387,621	(6.5)	414,500	401,734
Debt securities	10,339	(7.8)	11,209	11,275
Held-to-maturity investments	13,754	(22.3)	17,696	14,010
Investments in subsidiaries, joint ventures and associates	1,588	107.5	765	1,584
Tangible assets	7,191	(19.6)	8,941	7,963
Intangible assets	8,464	(13.5)	9,786	8,743
Other assets	47,981	48.0	32,418	29,793
Total assets	**690,059**	**(5.7)**	**731,856**	**690,797**
Financial liabilities held for trading	46,182	(15.5)	54,675	45,352
Other financial liabilities designated at fair value through profit or loss	2,222	(5.0)	2,338	2,372
Financial liabilities at amortized cost	543,713	(7.7)	589,210	559,289
Deposits from central banks and credit institutions	91,570	(6.8)	98,241	84,927
Deposits from customers	376,379	(6.2)	401,465	392,865
Debt certificates	63,915	(16.3)	76,375	69,285
Other financial liabilities	11,850	(9.7)	13,129	12,212
Liabilities under insurance contracts	9,223	0.9	9,139	9,665
Other liabilities	35,395	68.0	21,066	19,720
Total liabilities	**636,736**	**(5.9)**	**676,428**	**636,397**
Non-controlling interests	6,979	(13.5)	8,064	7,069
Accumulated other comprehensive income	(8,792)	61.1	(5,458)	(7,956)
Shareholders' funds	55,136	4.4	52,821	55,287
Total equity	**53,323**	**(3.8)**	**55,428**	**54,400**
Total liabilities and equity	**690,059**	**(5.7)**	**731,856**	**690,797**
Memorandum item:				
Collateral given	47,671	(5.7)	50,540	45,489

Loans and advances to customers (gross) (Billion euros)

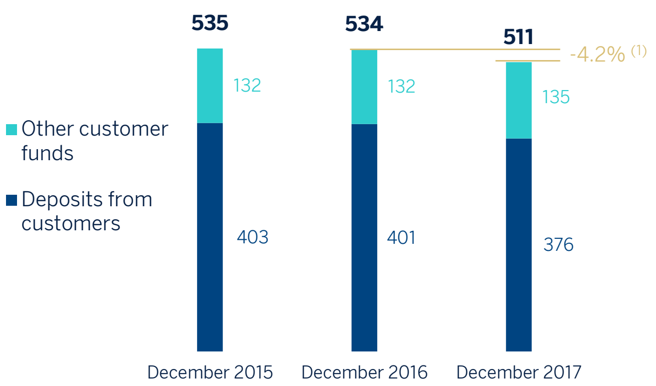


(1) At constant exchange rates: +2.7%.

Loans and advances to customers (Million euros)

	31-12-17	Δ%	31-12-16	30-09-17
Public administration	**25,671**	**(6.7)**	**27,506**	**25,828**
Individuals	**159,781**	**(7.4)**	**172,476**	**169,245**
Residential mortgages	109,563	(10.5)	122,439	117,273
Consumer	36,235	3.0	35,195	37,556
Credit cards	13,982	(5.8)	14,842	14,416
Business	**175,168**	**(7.7)**	**189,733**	**184,199**
Business retail	19,692	(19.1)	24,343	20,185
Other business	155,476	(6.0)	165,391	164,014
Other loans	**20,358**	**14.1**	**17,844**	**16,745**
Non-performing loans	**19,390**	**(15.4)**	**22,915**	**20,222**
Loans and advances to customers (gross)	**400,369**	**(7.0)**	**430,474**	**416,240**
Loan-loss provisions	(12,748)	(20.2)	(15,974)	(14,506)
Loans and advances to customers	**387,621**	**(6.5)**	**414,500**	**401,734**

Customer funds (Billion euros)



(1) At constant exchange rates: +1.9%.

Customer funds (Million euros)

	31-12-17	Δ%	31-12-16	30-09-17
Deposits from customers	**376,379**	**(6.2)**	**401,465**	**392,865**
Current accounts	245,249	5.9	231,638	242,566
Time deposits	110,320	(23.6)	144,407	127,897
Assets sold under repurchase agreement	8,119	(26.6)	11,056	10,442
Other deposits	12,692	(11.6)	14,364	11,959
Other customer funds	**134,906**	**2.1**	**132,092**	**137,724**
Mutual funds and investment companies	60,939	10.7	55,037	60,868
Pension funds	33,985	1.7	33,418	33,615
Other off-balance sheet funds	3,081	8.8	2,831	3,293
Customer portfolios	36,901	(9.6)	40,805	39,948
Total customer funds	**511,285**	**(4.2)**	**533,557**	**530,589**

Solvency

Capital base

The BBVA Group's **fully-loaded CET1** ratio stood at 11.1% at the end of December 2017, in line with the target of 11%. This ratio has increased by 18 basis points since the end of 2016, leveraged on organic earning generation and reduction of RWA capital consumption.

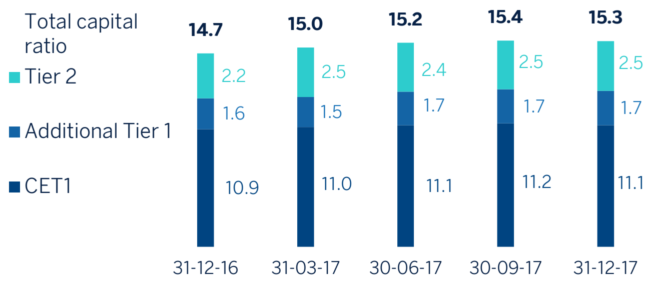
During 2017, the capital ratio was affected by the acquisition of an additional 9.95% stake in Garanti and the sale of CNCB. These transactions have had a combined negative effect on the ratio of 13 basis points. In addition, the Group also recognized losses of €1,123m in 2017 as a result of the impairment losses from its stake in Telefónica. However, this impact does not affect the capital base, as these losses are deducted from the Group's capital.

RWAs declined year-on-year, largely due to the depreciation of currencies against the euro (in particular, the Turkish lira and U.S. dollar).

BBVA S.A. carried out two capital **issuances** classified as additional tier 1 (AT1) capital (contingent convertible), for €500m and USD 1 billion, respectively (the latter in the U.S. market, with a prospectus registered with the SEC and not yet calculated in the Group's Tier 1 as of 31-Dec-2017). As Tier 2 level, BBVA S.A. issued subordinated debt during the year for a total of approximately €1.5 billion; and in Turkey, Garanti issued USD 750m.

Finally, with respect to capital **distribution**, the last "dividend-option" program was completed in April, with holders of 83.28% of rights choosing to receive new shares. On 10 October, an interim dividend for 2017 was distributed at €0.09 per share.

Evolution of fully-loaded capital ratios [1] (Percentage)



[1] As of 31-12-2017 it includes update of the calculation on Structural FX RWA, pending confirmation by ECB. Additionally, it includes the AT2 issuance by Garanti, pending approval by ECB for the purpose of computability in the Group's ratio.

Capital base [1, 2] (Million euros)

	CRD IV phased-in [1]			CRD IV fully-loaded		
	31-12-17 [3]	31-12-16	30-09-17	31-12-17 [3]	31-12-16	30-09-17
Common Equity Tier 1 (CET 1)	42,337	47,370	43,393	40,058	42,398	40,899
Tier 1	46,977	50,083	47,983	46,313	48,459	47,138
Tier 2	8,798	8,810	9,237	8,624	8,739	8,953
Total Capital (Tier 1 + Tier 2)	**55,775**	**58,893**	**57,219**	**54,937**	**57,198**	**56,091**
Risk-weighted assets	**361,686**	**388,951**	**365,314**	**361,686**	**388,951**	**365,314**
CET1 (%)	11.7	12.2	11.9	11.1	10.9	11.2
Tier 1 (%)	13.0	12.9	13.1	12.8	12.5	12.9
Tier 2 (%)	2.5	2.3	2.5	2.5	2.2	2.4
Total capital ratio (%)	**15.5**	**15.1**	**15.7**	**15.3**	**14.7**	**15.4**

[1] The capital ratios are calculated under CRD IV from Basel III regulation, applying a 80% phase-in for 2017 and a 60% for 2016.
[2] As of 31-12-2017 it includes update of the calculation on Structural FX RWA, pending confirmation by ECB. Additionally, it includes the AT2 issuance by Garanti, pending approval by ECB for the purpose of computability in the Group's ratio.
[3] Preliminary data.

As of 31-Dec-2017 the **CET1 phased-in** capital ratio stood at 11.7%, the **Tier 1** ratio at 13.0% (13.3% taking into account the AT1 issuance of USD 1 billion on the U.S. market in the fourth quarter of 2017) and the **Tier 2** ratio of 2.5%, resulting in a **total capital ratio** of 15.5% (15.8% taking into account the AT1 issuance mentioned above). These levels are above the requirements established by the regulator in its SREP letter and the systemic buffers applicable to BBVA Group for 2017 (7.625% for the phased-in CET1 ratio and 11.125% for the total capital ratio). Starting on 1 January 2018, the requirement has been established at 8.438% for the phased-in CET1 ratio and 11.938% for the total capital ratio. The change with respect to 2017 is due to the progressive implementation of the capital conservation buffers and the buffer related to other systemically important banks. The regulatory requirement for 2018 in fully-loaded terms remains unchanged (CET1 of 9.25% and total ratio of 12.75%) compared with the previous year.

Finally, the Group maintains a sound **leverage** ratio: 6.6% under fully-loaded criteria (6.7% phased-in), which continues to be the highest in its peer group.

Ratings

In 2017, Standard & Poor's (S&P) raised its outlook for BBVA to positive from stable as a result of a similar improvement in Spain's sovereign rating outlook, with both ratings being maintained at BBB+. Scope Ratings raised BBVA's long-term rating one notch from A to A+, and the short-term rating from S-1 to S-1+, both with a stable outlook. The rest of the credit rating agencies did not change either BBVA's rating or its outlook in 2017.

Ratings

Rating agency	Long term	Short term	Outlook
DBRS	A	R-1 (low)	Stable
Fitch	A-	F-2	Stable
Moody's [1]	Baa1	P-2	Stable
Scope Ratings	A+	S-1+	Stable
Standard & Poor's	BBB+	A-2	Positive

[1] Additionally, Moody's assigns an A3 rating to BBVA's long-term deposits.

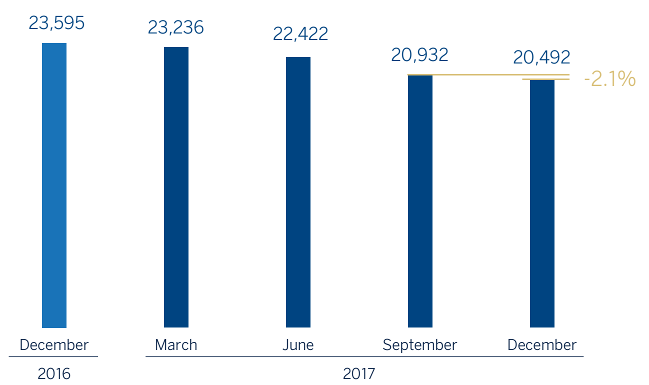
Risk management

Credit risk

BBVA Group's risk metrics have continued to perform positively throughout the year:

- **Credit risk** remained flat in the last quarter, with a cumulative decline of 4.0% since the end of 2016 (up 2.0% both in the quarter and over the year at constant exchange rates). The deleveraging process continued in Spain. At constant exchange rates in year-on-year terms, Turkey and Mexico grew by 4.3% and 6.9% respectively, South America 9.5% (Argentina by 67.9%, Chile and Colombia around 10%) and the United States remained practically stable (up 0.4%).
- **Non-performing loans** maintained their downward trend, falling by 2.1% over the quarter and 13.2% relative to December 2016. At constant exchange rates, the figures were down 0.8% over the quarter and down 10.5% in annual terms. Good performance in Spain and the United States and increases mainly in Turkey and South America, due to the deterioration of some wholesale customers.
- The Group's **NPL ratio** improved again (down 9 basis points over the last three months and 47 basis points compared with the close of 2016) to 4.4% as of 31 December 2017, driven by the decline in non-performing loans.
- **Provisions** also declined, both in the last three months and over the year (down 11.5% and 19.6%, respectively). At constant exchange rates, the rates of variation were down 9.2% and 15.2% since September 2017 and December 2016, respectively.
- As a result, the **NPL coverage ratio** closed at 65%.
- Finally, the cumulative **cost of risk** as of December 2017 was 0.87%, showing stable progress in 2017 and closing three basis points above the cumulative figure for 2016 (0.84%).

Non-performing loans (Million euros)



Credit risks (1) (Million euros)

	31-12-17 (2)	30-09-17	30-06-17	31-03-17	31-12-16
Non-performing loans and contingent liabilities	20,492	20,932	22,422	23,236	23,595
Credit risks	461,303	461,794	471,548	480,517	480,720
Provisions	13,319	15,042	15,878	16,385	16,573
NPL ratio (%)	4.4	4.5	4.8	4.8	4.9
NPL coverage ratio (%)	65	72	71	71	70

(1) Include gross loans and advances to customers plus guarantees given.

(2) Figures without considering the reclassification of non-current assets held for sale.

Non-performing loans evolution (Million euros)

	4Q 17 (1)	3Q 17	2Q 17	1Q 17	4Q 16
Beginning balance	**20,932**	**22,422**	**23,236**	**23,595**	**24,253**
Additions	3,757	2,268	2,525	2,490	3,000
Recoveries	(2,142)	(2,001)	(1,930)	(1,698)	(2,141)
Net variation	**1,616**	**267**	**595**	**792**	**859**
Write-offs	(1,980)	(1,575)	(1,070)	(1,132)	(1,403)
Exchange rate differences and other	(75)	(181)	(340)	(18)	(115)
Period-end balance	**20,492**	**20,932**	**22,422**	**23,236**	**23,595**
Memorandum item:					
Non-performing loans	19,753	20,222	21,730	22,572	22,915
Non-performing contingent liabilities	739	710	691	664	680

(1) Figures without considering the reclassification of non-current assets held for sale. Temporary data.

Structural risks

Liquidity and funding

Management of **liquidity and funding** in BBVA aims to finance the recurring growth of the banking business at suitable maturities and costs, using a wide range of instruments that provide access to a large number of alternative sources of financing, always in compliance with current regulatory requirements.

A core principle in BBVA's management of the Group's liquidity and funding is the financial independence of its banking subsidiaries abroad. This principle prevents the propagation of a liquidity crisis among the Group's different areas and ensures that the cost of liquidity is correctly reflected in the price formation process.

In **2017** liquidity and funding conditions remained comfortable across BBVA Group's global footprint:

- The financial soundness of the Group's banks continues to be based on the funding of lending activity, fundamentally through the use of stable customer funds.
- In the Eurozone, the liquidity situation is comfortable and the credit gap has narrowed on the balance sheet thanks to the positive behavior of customer liabilities.
- In Mexico, the liquidity position is sound, despite market volatility. Deposits have shown a very positive trend over the year, leading to a considerable narrowing of the credit gap.
- In the United States, the credit gap has widened because of the area's deliberate strategy to control the cost of deposits. It is worth noting that in the first quarter of 2017 Standard & Poors (S&P) upgraded its outlook for BBVA Compass' rating (BBB+) from negative to stable.
- The liquidity situation in Turkey is comfortable, boosted by a maintenance of good market conditions, with a slight increase in the credit gap as a result of the growth of lending spurred by the government's Credit Guarantee Fund (CGF) program.
- In South America, the liquidity situation remains comfortable, allowing a reduction of the growth of wholesale deposits to match growth in lending activity.
- In the fourth quarter of 2017, BBVA S.A. carried out an issuance of additional Tier 1 in the American market for USD 1 billion, with the prospectus registered with the SEC.

  In total, BBVA S.A. issued €7.1 billion in 2017, of which €5.8 billion were on the wholesale funding markets, using the formats of senior debt (€2.5 billion), Tier 2 (€1 billion), senior non-preferred (€1.5 billion) and Tier 1 (USD 1 billion). It also closed a number of private issuance transactions of senior non-preferred securities for a total of €290m, Tier 2 securities for about €500m and additional Tier 1 for €500m.
- The long-term wholesale funding markets have remained stable in the other geographical areas where the Group operates.
- In Mexico, BBVA Bancomer has carried out two local senior debt issuances for a total of MXN 7 billion, with maturities of three and five years.
- In the United States, BBVA Compass returned to the markets in the second quarter with a five-year senior debt issue of USD 750m.
- In Turkey, Garanti's securities issuances have continued to strengthen its balance-sheet structure over the whole year. Worth noting are the following issuances: senior debt of USD 500m, subordinated debt of USD 750m, collateralized bonds for a total of 1,680m liras, securitizations for USD 685m, and renewal of syndicated loans with a new two-year tranche.
- In South America, BBVA Chile has also made a number of senior debt issuances with maturities ranging from four to ten years on the local market for an equivalent of €505m. BBVA Continental in Peru has also issued €182m on the local market through a number of issues with a maturity of three years; and in Argentina, BBVA Francés has issued a total of €49m in two-year and three-year bonds, as well as making a capital increase of €400m.
- Short-term funding has continued to perform positively, in a context marked by a high level of liquidity.
- BBVA Group's liquidity coverage ratio (LCR) has remained comfortably above 100% throughout 2017, without including liquidity transfers between subsidiaries; in other words, no kind of excess liquidity levels in the subsidiaries abroad is considered in the calculation of the consolidated ratio. As of 31 December 2017, the LCR stood at 128%. Although this requirement is only established at Group level, the minimum level is easily exceeded in all the subsidiaries (Eurozone, 151%; Mexico, 148%; Turkey, 134%; and the United States, 144% [1]).

1: Compass LCR calculated according to local regulation (Fed Modified LCR).

Foreign exchange

Foreign-exchange risk management of BBVA's long-term investments, basically stemming from its franchises abroad, aims to preserve the Group's capital adequacy ratios and ensure the stability of its income statement.

The year **2017** was notable for the depreciation against the euro of the main currencies in which the Group operates: the U.S. dollar down 12.1%, the Mexican peso down 8.0% and the Turkish lira down 18.5%. In this context, BBVA has maintained its policy of actively hedging its main investments in emerging countries, covering on average between 30% and 50% of earnings expected for the fiscal year and around 70% of the excess CET1 capital ratio (which is not naturally covered by the ratio itself). In accordance with this policy, the sensitivity of the CET1 ratio to a depreciation of 10% of the main emerging currencies (Mexican peso or Turkish lira) against the euro remains at around one negative basis point for each of these currencies, and the coverage level of the expected earnings for 2018 in these two countries is around 50% in Mexico and 40% in Turkey.

Interest rates

The aim of managing **interest-rate risk** is to maintain a sustained growth of net interest income in the short and medium term, irrespective of interest-rate fluctuations, while controlling the impact on the capital adequacy ratio through the valuation of the portfolio of available-for-sale assets.

The Group's banks have fixed-income portfolios to manage the balance-sheet structure. In **2017**, the results of this management have been satisfactory, with limited risk strategies in all the Group's banks.

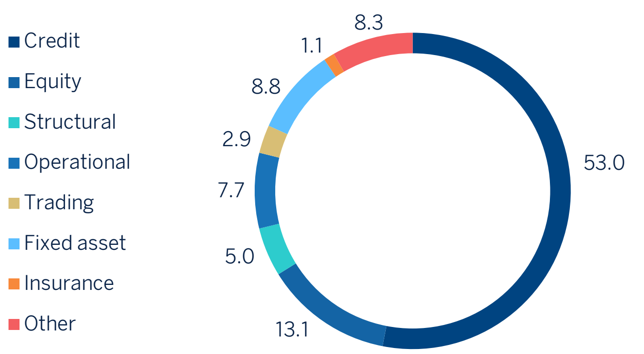
Finally, the following is worth noting with respect to the **monetary policies** pursued by the different central banks of the main geographical areas where BBVA operates:

- No relevant changes in the Eurozone, where rates remain at 0% and the deposit facility rate at -0.40%.
- In the United States the upward trend in interest rates continues, with three hikes in 2017 to 1.50%.
- In Mexico, Banxico made five interest-rate hikes during the year, leaving the monetary policy level at 7.25%.
- In Turkey, the period has been marked by the Central Bank's (CBRT's) interest-rate hikes, which have increased the average funding rate to 12.75%.
- In South America, the monetary authorities have continued their expansive policies, lowering rates in Peru (100 basis points), Colombia (275 basis points) and Chile (100 basis points). In Argentina, where inflation has resisted falling, there has been an increase of 400 basis points in the interest rate.

Economic and regulatory capital

Consumption of **economic risk capital** (ERC) at the close of December 2017 stood at €34,401m in consolidated terms, which is equivalent to a decline of 1.7% with respect to the September figure. At constant exchange rates, the variation was up 1.1%, located in: credit risk, due to an increase in activity (higher activity in Turkey and South America); trading risk; focused in Spain and Mexico; and operational risk, due to the annual update of the model. This was partially offset by a fall in the equity investment valuation, due to the decline in Telefónica's stock price; structural risk, explained by the increased hedges on the Turkish lira and Mexican peso; fixed assets; and rate interest, especially focused in Mexico. In addition to economic capital, the return on **regulatory capital** (RORC) is managed, with a focus on maximizing return on RWAs and the allocation of capital in the most efficient way possible.

Attributable economic risk capital breakdown
(Percentage as of December 2017)



The BBVA share

Global economic growth held steady at around 1% quarter-on-quarter in the first nine months of 2017, and latest available indicators suggest that this momentum continued into the final part of the year. Confidence data continues to improve, accompanied by a recovery in world trade and the industrial sector, while private consumption remains robust in developed countries. This positive trend reflects improved economic performance in all regions: in contrast to other post-financial crisis periods, there has been a global synchronous recovery.

With respect to the main **stock-market indices**, in Europe the Stoxx 50 and Euro Stoxx 50 closed the year with gains of 5.6% and 6.5% respectively. In Spain the Ibex 35 fell back slightly over the last three months by 3.3%, but its cumulative performance for the year has remained positive, recording a gain of 7.4%. In the United States, the S&P 500 index performed very positively during the year, with a gain of 19.4% since December 2016.

The **banking sector** in Europe has also performed positively in 2017. The European bank index Stoxx Banks, which includes British banks, gained 8.1%, while the Eurozone bank index, the Euro Stoxx Banks, was up 10.9% in the same period. In the United States the S&P Regional Banks index gained 6.0% over the year compared to the closing data as of the end of 2016.

The **BBVA share** closed 2017 at €7.11, a cumulative gain of 10.9% since December 2016. This represents a relatively better performance than the European banking sector and the Ibex 35.

BBVA share evolution compared with European indices
(Base indice 100=31-12-2016)

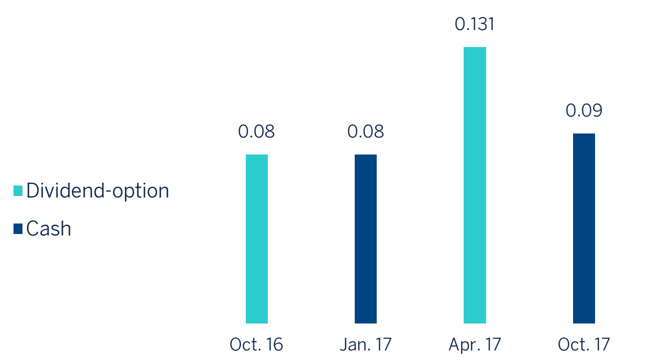
The BBVA share and share performance ratios

	31-12-17	31-12-16
Number of shareholders	891,453	935,284
Number of shares issued	6,667,886,580	6,566,615,242
Daily average number of shares traded	35,820,623	47,180,855
Daily average trading (million euros)	252	272
Maximum price (euros)	7.93	6.88
Minimum price (euros)	5.92	4.50
Closing price (euros)	7.11	6.41
Book value per share (euros)	6.96	7.22
Tangible book value per share (euros)	5.69	5.73
Market capitalization (million euros)	47,422	42,118
Yield (dividend/price; %) [1]	4.2	5.8

[1] Calculated by dividing shareholder remuneration over the last twelve months over the closing price at the end of the period.

In the Significant Event published on 1 February 2017, BBVA announced its intention of modifying its **shareholder remuneration** policy to one of a fully cash payment. This policy will be formed each year of an interim dividend (which is expected to be paid in October) and a final dividend (which will be paid out upon completion of the final year and following approval of the application of the result, foreseeably in April). These payouts will be subject to appropriate approval by the corresponding governing bodies. The Board of Directors agreed to propose to the Annual General Meeting, which approved it, a cash payment in a gross amount of 0.15 euros per share to be paid in April as a final dividend for the year 2017.

Shareholder remuneration
(Euros-gross-/share)



As of 31 December 2017, the number of BBVA **shares** was still 6,668 million and the number of **shareholders** was 891,453. Investors resident in Spain holded 43.44% of share capital, while non-resident shareholders holded the remaining 56.56%.

Shareholder structure (31-12-2017)

Number of shares	Shareholders		Shares	
	Number	%	Number	%
Up to 150	184,797	20.7	13,171,010	0.2
151 to 450	182,854	20.5	49,996,632	0.7
451 to 1800	279,883	31.4	272,309,651	4.1
1,801 to 4,500	128,005	14.4	364,876,715	5.5
4,501 to 9,000	59,585	6.7	375,424,611	5.6
9,001 to 45,000	49,938	5.6	869,649,638	13.0
More than 45,001	6,391	0.7	4,722,458,323	70.8
Total	**891,453**	**100.0**	**6,667,886,580**	**100.0**

BBVA shares are listed on the main stock market indices, such as the Ibex 35, Euro Stoxx 50 and Stoxx 50, with a weighting of 8.9%, 2.0% and 1.3% respectively. They are also listed on several sector indices, including the Euro Stoxx Banks, with a weighting of 8.7%, and the Stoxx Banks, with a weighting of 4.3%.

Finally, BBVA maintains a significant presence on a number of international **sustainability indices** or ESG (environmental, social and governance) indices, which evaluate the performance of companies in this area, as summarized in the table below.

Sustainability indices on which BBVA is listed as of 31-12-2017 [1]

MSCI 2017 Constituent [1] MSCI ESG Leaders Indexes	Listed on the MSCI ESG Leaders Indexes AAA Rating
FTSE4Good	Listed on the FTSE4Good Global, FTSE4Good Europe and FTSE4Good IBEX Indexes
EURONEXT vigeo eiris INDICES	Listed on the Euronext Vigeo Eurozone 120 and Europe 120
member of the INVESTMENT REGISTER ETHIBEL PIONEER & EXCELLENCE	Listed on the Ethibel Excellence Investment Register
CDP DRIVING SUSTAINABLE ECONOMIES	In 2017, BBVA obtained a "C" rating

[1] The inclusion of BBVA in any MSCI index, and the use of MSCI logos, trademarks, service marks or index names herein donot constitute a sponsorship, endorsement or promotion of BBVA by MSCI or any of its affiliates. The MSCI indices are the exclusive property of MSCI. MSCI and MSCI index names and logos are trademarks or service marks of MSCI or its affiliates.

Business areas

This section presents and analyzes the most relevant aspects of the Group's different business areas. Specifically, it shows a summary of the income statement and balance sheet, the business activity figures and the most significant ratios in each of them.

In 2017 the **reporting structure** of BBVA Group's business areas remained basically the same as in 2016. It is worth noting that BBVA announced the signing of two agreements, one for the sale of BBVA Chile to The Bank of Nova Scotia (Scotiabank) and another for the creation of a joint venture to which BBVA's real-estate business in Spain will be transferred for the subsequent sale of 80% of the company created to a subsidiary of Cerberus Capital Management, L.P. (Cerberus). For the purpose of the explanations given in this report, the figures for Non Core Real Estate and South America are shown on a comparable basis with previous periods, even though within the Group the operations underway that are mentioned above have been reclassified as non-current assets and liabilities held for sale. The Group's business areas are summarized below:

- **Banking activity in Spain** includes, as in previous years, the Retail Network in Spain, Corporate and Business Banking (CBB), Corporate & Investment Banking (CIB), BBVA Seguros and Asset Management units in Spain. It also includes the portfolios, financing and structural interest-rate positions of the euro balance sheet.

- **Non Core Real Estate** covers specialist management in Spain of loans to developers in difficulties and real-estate assets mainly coming from foreclosed assets, originated from both, residential mortgages, as well as loans to developers. New loan production to developers or loans that are not in difficulties are managed by Banking activity in Spain.

- **The United States** includes the Group's business activity in the country through the BBVA Compass group and the BBVA New York branch.

- **Mexico** basically includes all the banking and insurance businesses carried out by the Group in the country.

- **Turkey** includes the activity of the Garanti group.

- **South America** basically includes BBVA's banking and insurance businesses in the region.

- **The rest of Eurasia** includes business activity in the rest of Europe and Asia, i.e. the Group's retail and wholesale businesses in the area.

In addition to the above, all the areas include a remainder made up basically of other businesses and a supplement that includes deletions and allocations not assigned to the units making up the above areas.

Lastly, the **Corporate Center** is an aggregate that contains the rest of the items that have not been allocated to the business areas, as it corresponds to the Group's holding function. It includes: the costs of the head offices that have a corporate function; management of structural exchange-rate positions; specific issues of equity instruments to ensure adequate management of the Group's global solvency; portfolios and their corresponding results, whose management is not linked to customer relations, such as industrial holdings; certain tax assets and liabilities; funds due to commitments with employees; goodwill and other intangibles.

In addition to this geographical breakdown, **supplementary information** is provided for all the wholesale businesses carried out by BBVA, i.e. Corporate & Investment Banking (CIB), in the geographical areas where it operates. This aggregate business is considered relevant to better understand the Group because of the characteristics of the customers served, the type of products offered and the risks assumed.

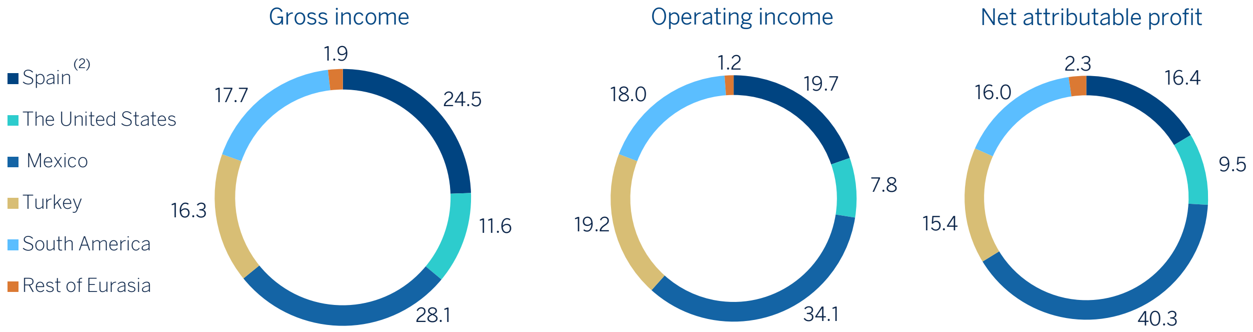
Lastly, as usual, in the case of the Americas, Turkey and CIB areas, the results of applying constant **exchange rates** are given in addition to the year-on-year variations at currentexchange rates.

The **information by areas** is based on units at the lowest level and/or companies making up the Group, which are assigned to the different areas according to the main geographical area in which they carry out their activity.

Major income statement items by business area (Million euros)

		Business areas								
	BBVA Group	Banking activity in Spain	Non Core Real Estate	The United States	Mexico	Turkey	South America	Rest of Eurasia	∑ Business areas	Corporate Center
2017										
Net interest income	17,758	3,738	71	2,158	5,437	3,331	3,200	180	18,115	(357)
Gross income	25,270	6,180	(17)	2,919	7,080	4,115	4,451	468	25,196	73
Operating income	12,770	2,802	(132)	1,061	4,635	2,612	2,444	160	13,580	(811)
Profit/(loss) before tax	6,931	1,866	(673)	784	2,948	2,147	1,691	177	8,940	(2,009)
Net attributable profit	3,519	1,381	(501)	511	2,162	826	861	125	5,363	(1,844)
2016										
Net interest income	17,059	3,877	60	1,953	5,126	3,404	2,930	166	17,514	(455)
Gross income	24,653	6,416	(6)	2,706	6,766	4,257	4,054	491	24,684	(31)
Operating income	11,862	2,837	(130)	863	4,371	2,519	2,160	149	12,769	(907)
Profit/(loss) before tax	6,392	1,268	(743)	612	2,678	1,906	1,552	203	7,475	(1,084)
Net attributable profit	3,475	905	(595)	459	1,980	599	771	151	4,269	(794)

Gross income [(1)], operating income [(1)] and net attributable profit breakdown [(1)] (Percentage. 2017)



(1) Excludes the Corporate Center.
(2) Includes the areas Banking activity in Spain and Non Core Real Estate.

Major balance sheet items and risk-weighted assets by business area (Million euros)

		Business areas									
	BBVA Group	Banking activity in Spain	Non Core Real Estate	The United States	Mexico	Turkey	South America	Rest of Eurasia	∑ Business areas	Corporate Center	NCA&L variation (1)
31-12-17											
Loans and advances to customers	387,621	183,172	3,521	54,406	45,080	51,378	48,272	14,864	400,693	-	(13,072)
Deposits from customers	376,379	177,763	13	61,357	49,414	44,691	45,666	6,700	385,604	-	(9,225)
Off-balance sheet funds	98,005	62,054	4	-	19,472	3,902	12,197	376	98,005	-	
Total assets/liabilities and equity	690,059	319,417	9,714	80,493	89,344	78,694	74,636	17,265	669,562	20,496	
Risk-weighted assets	361,686	111,825	9,691	58,682	43,715	62,768	55,665	12,916	355,260	6,426	
31-12-16											
Loans and advances to customers	414,500	181,137	5,946	61,159	46,474	55,612	48,718	15,325	414,370	130	
Deposits from customers	401,465	180,544	24	65,760	50,571	47,244	47,927	9,396	401,465	-	
Off-balance sheet funds	91,287	56,147	8	-	19,111	3,753	11,902	366	91,287	-	
Total assets/liabilities and equity	731,856	335,847	13,713	88,902	93,318	84,866	77,918	19,106	713,670	18,186	
Risk-weighted assets	388,951	113,194	10,870	65,492	47,863	70,337	57,443	15,637	380,836	8,115	

(1) Non-current assets and liabilities held for sale (NCA&L) from the BBVA Chile and real estate operations.

Once the composition of each business area has been defined, certain **management criteria** are applied, of which the following are particularly important:

- **Risk adjusted return.** Calculation of risk adjusted return per transaction, customer, product, segment, unit and/or business area is sustained on ERC, which is based on the concept of unexpected loss at a specific confidence level, depending on the Group's capital adequacy targets. The calculation of the ERC combines credit risk, market risk, structural balance-sheet risk, equity positions, operational risk, fixed-asset risk and technical risks in the case of insurance companies. These calculations are carried out using internal models that have been defined following the guidelines and requirements established under the Basel III capital accord.
- **Internal transfer prices.** BBVA Group has a transfer prices system whose general principles apply in the Bank's different entities, business areas and units.
- Allocation of **operating expenses.** Both direct and indirect costs are allocated to the business areas, except where there is no clearly defined relationship with the businesses, i.e. when they are of a clearly corporate or institutional nature for the Group as a whole.
- **Cross-selling.** In some cases, adjustments are required to eliminate shadow accounting entries that are registered in the earnings of two or more units as a result of cross-selling incentives.

Interest rates (Quarterly averages. Percentage)

	2017				2016			
	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q
Official ECB rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04
Euribor 3 months	(0.33)	(0.33)	(0.33)	(0.33)	(0.31)	(0.30)	(0.26)	(0.19)
Euribor 1 year	(0.19)	(0.16)	(0.13)	(0.10)	(0.07)	(0.05)	(0.02)	0.01
The United States Federal rates	1.30	1.25	1.05	0.80	0.55	0.50	0.50	0.50
TIIE (Mexico)	7.42	7.37	7.04	6.41	5.45	4.60	4.08	3.80
CBRT (Turkey)	12.17	11.97	11.80	10.10	7.98	7.99	8.50	8.98

Exchange rates (Expressed in currencies/euro)

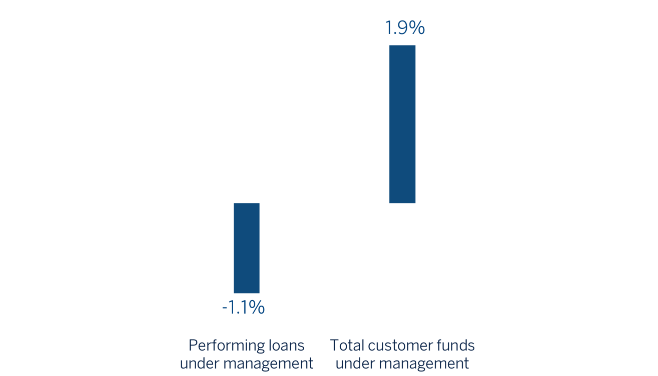
	Year-end exchange rates			Average exchange rates	
	31-12-17	Δ% on 31-12-16	Δ% on 30-09-17	2017	Δ% on 2016
Mexican peso	23.6614	(8.0)	(9.3)	21.3297	(3.1)
U.S. dollar	1.1993	(12.1)	(1.6)	1.1296	(2.0)
Argentine peso	22.5830	(26.6)	(8.2)	18.7375	(12.8)
Chilean peso	738.01	(4.7)	1.9	732.60	2.2
Colombian peso	3,584.23	(11.7)	(3.1)	3,333.33	1.4
Peruvian sol	3.8813	(9.0)	(0.7)	3.6813	1.4
Venezuelan bolivar	18,181.82	(89.6)	(66.7)	18,181.82	(89.6)
Turkish lira	4.5464	(18.5)	(7.6)	4.1213	(18.9)

Banking activity in Spain

Highlights

- **Deleveraging and increase in more liquid resources and off-balance-sheet funds continue.**
- **Good performance of net fees and commissions.**
- **Reduction of operating expenses.**
- **Solid asset-quality indicators.**

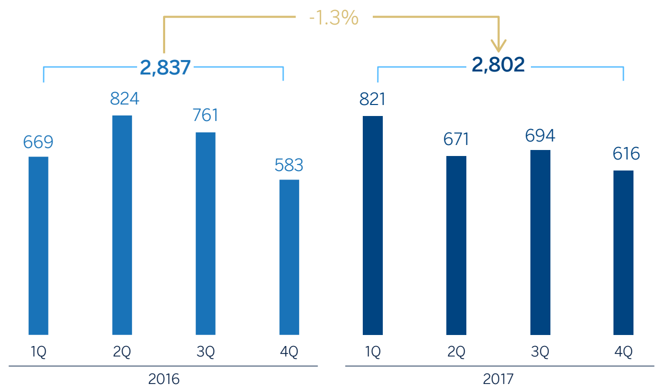
Business activity [(1)]
(Year-on-year change. Data as of 31-12-2017)



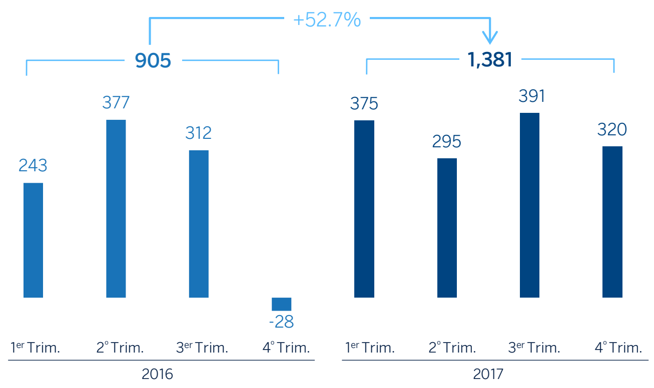
[(1)] Excluding repos.

Net interest income/ATAs
(Percentage)

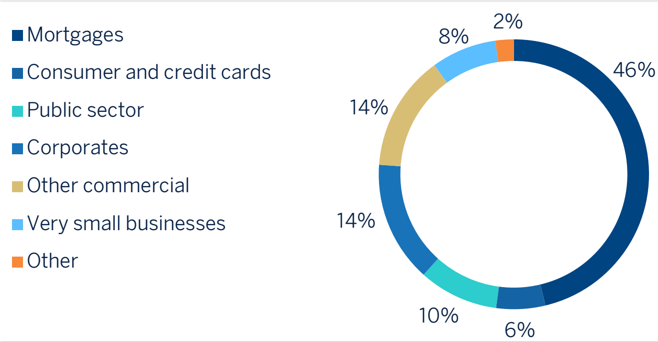
Operating income
(Million euros)



Net attributable profit
(Million euros)

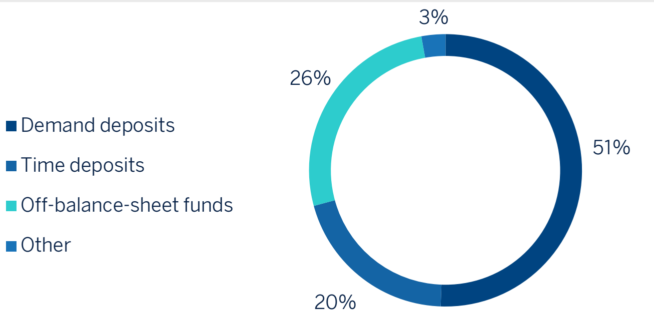


Breakdown of performing loans under management [(1)]
(31-12-2017)



[(1)] Excluding repos.

Breakdown of customer funds under management [(1)]
(31-12-2017)



[(1)] Excluding repos.

Macro and industry trends

According to the latest information from the National Institute of Statistics (INE, according to the acronym in Spanish), the Spanish **economy** once more registered quarterly growth of 0.8% in the third quarter of 2017, maintaining relative stability over the year, thanks to stronger domestic demand. The most recent indicators point to slight moderation in the final part of the year, in a context of greater uncertainty, although the factors underlying growth continue in place and still suggest a solid growth in GDP. There is still a positive inertia in the data on activity and employment, as well as a more favorable global environment, while monetary policy continues expansive. As a result, GDP growth in the Spanish economy could be more than 3% 2017 as a whole.

Regarding the Spanish **banking system**, data from the Bank of Spain show that the total volume of private-sector lending (families and companies) continued its declining trend over the year (down 1.8% in the last twelve months through November 2017). However, since August there have been signs of a slight upturn in the total volume of credit in the economy, although it is still too weak to consider confirm that there has been a turning point. The cumulative volume of new lending through November 2017 showed year-on-year growth of 5.5%, with a rise in all portfolios (up 8.1% in the case of new lending to households and SMEs, which has risen consistently for 47 consecutive months). Non-performing loans in the sector continue to improve. As of November 2017, the NPL ratio was down until 8.1%, more than one percentage point below the previous year's figure, despite the year-on-year fall in the lending volume. This improvement is therefore due to the reduction of the volume of non-performing assets in the system (down 13.9% in the last twelve months to November 2017 and down 48% compared to the the maximum figure reached as of December 2013). The system's liquidity position continues to be comfortable. The funding gap (difference between the volume of loans and total deposits) fell to €129 billion, 5% of the total balance sheet of the system.

Activity

As of 31 December 2017, **lending** (performing loans under management) were down by 1.1% compared to the figure in December 2016 (up 0.6% over the quarter). This was primarily driven by a reduction in the mortgage (down 5.3% over the last twelve months and down 1.2% over the quarter) and the public sector portfolios (down 12.7% and 5.1% respectively). In contrast, commercial loans (up 6.4% since the close of 2016 and up 2.7% in the quarter), small businesses loans (up 2.7% and 2.6%, respectively), and consumer finance (up 46.0% and 13.8% respectively), have performed well, driven by the good performance of new loan

Financial statements and relevant business indicators
(Million euros. Percentage)

Income statement	2017	Δ%	2016
Net interest income	**3,738**	**(3.6)**	**3,877**
Net fees and commissions	1,561	5.7	1,477
Net trading income	555	(29.4)	786
Other income/expenses	327	17.9	277
of which insurance activities [1]	438	9.6	400
Gross income	**6,180**	**(3.7)**	**6,416**
Operating expenses	(3,378)	(5.6)	(3,579)
Personnel expenses	(1,916)	(4.2)	(2,000)
Other administrative expenses	(1,150)	(8.1)	(1,251)
Depreciation	(313)	(4.4)	(327)
Operating income	**2,802**	**(1.3)**	**2,837**
Impairment on financial assets (net)	(567)	(25.7)	(763)
Provisions (net) and other gains (losses)	(369)	(54.3)	(807)
Profit/(loss) before tax	**1,866**	**47.2**	**1,268**
Income tax	(482)	33.9	(360)
Profit/(loss) for the year	**1,384**	**52.5**	**908**
Non-controlling interests	(3)	(3.6)	(3)
Net attributable profit	**1,381**	**52.7**	**905**

[1] Includes premiums received net of estimated technical insurance reserves.

Balance sheets	31-12-17	Δ%	31-12-16
Cash, cash balances at central banks and other demand deposits	13,463	10.1	12,230
Financial assets	88,131	(12.2)	100,394
Loans and receivables	213,037	(0.7)	214,497
of which loans and advances to customers	183,172	1.1	181,137
Inter-area positions	1,501	(67.8)	4,658
Tangible assets	877	(38.9)	1,435
Other assets	2,409	(8.5)	2,632
Total assets/liabilities and equity	**319,417**	**(4.9)**	**335,847**
Financial liabilities held for trading and designated at fair value through profit or loss	36,817	(9.1)	40,490
Deposits from central banks and credit institutions	62,226	(5.8)	66,029
Deposits from customers	177,763	(1.5)	180,544
Debt certificates	33,301	(13.1)	38,322
Inter-area positions	-	-	-
Other liabilities	391	(68.0)	1,220
Economic capital allocated	8,920	(3.5)	9,242

Relevant business indicators	31-12-17	Δ%	31-12-16
Loans and advances to customers (gross) [1]	177,764	(1.6)	180,595
Non-performing loans and contingent liabilities	10,833	(8.3)	11,819
Customer deposits under management [1]	173,283	(0.9)	174,809
Off-balance-sheet funds [2]	62,054	10.5	56,147
Risk-weighted assets	111,825	(1.2)	113,194
Efficiency ratio (%)	54.7		55.8
NPL ratio (%)	5.2		5.8
NPL coverage ratio (%)	50		53
Cost of risk (%)	0.31		0.32

[1] Excluding repos.

[2] Includes mutual funds, pension funds and other off-balance-sheet funds.

production with cumulative year-on-year growth rates of 10.4% for businesses (including small businesses up to large corporations) and of 34.7% in consumer finance. It is worth noting that in 2017 there was a transfer of the outstanding portfolio of performing loans to developers for an amount exceeding €1bn from Non Core Real-Estate to Banking Activity in Spain.

Regarding **asset quality**, there was a further decline in NPLs balance. This decline has had a positive impact on the NPL ratio, which fell by 8 basis points over the last three months to 5.2%. The NPL coverage ratio stood at 50%.

Customer **deposits** under management were slightly reduced (down 0.9%) compared to the figure as of December 2016. By products, there was a further decline in time deposits (down 32.7% year-on-year and down 16.9% in the quarter), once again partially offset by an increase in current and savings accounts (up 20.2% and 6.3% respectively) and **off-balance-sheet funds**. The latter have continued their positive trend, with a year-on-year growth of 10.5% and 3.3% over the quarter. This performance was largely the result of increases in mutual funds (up 16.4% and 4.7%, respectively), and to a lesser extent, an increase in pension funds (up 2.4% and 1.3%, respectively).

Results

The key aspects of the income statement in the area are:

- Fourth quarter **net interest income** was up 2.1% on the figure for the previous quarter. However, the 3.6% year-on-year cumulative decline in this item is the result of lower loan volumes and sales of wholesale portfolios.
- Good performance of **net fees and commissions**, thanks mainly to the positive contribution from wholesale businesses and the increase of those coming from mutual funds. They have increased by 5.7% compared to the figure at the end of 2016.
- Smaller contribution from **NTI** relative to the figure for 2016, strongly affected by capital gains (€138m before tax) from the VISA deal in the second quarter of the previous year.
- Year-on-year increase of 17.9% in **other income/expenses**. Under this category it is worth highlighting the performance of the insurance activity, whose net result (included in this heading) grew by 9.6%, strongly linked to the increase in new policies contracting during the period and the low claims ratio.
- As a result, **gross income** declined by 3.7% year-on-year, mainly due to a smaller volume of lending, sales of wholesale portfolios and the NTI generated in the 2016 VISA deal.
- Very positive trend in **operating expenses**, which declined by 5.6% on the same period of 2016 (down 0.8% in the last quarter). This reduction was again linked to the synergies related to the integration of CX and the ongoing implementation of efficiency plans.
- As a result, the **efficiency ratio** closed the year at 54.7% (55.8% in 2016) and **operating income** was barely 1.3% below the figure registered in the previous year.
- **Impairment losses on financial assets** have declined 25.7% year-on-year as a result of lower loan-loss provisioning needs. The area's cumulative cost of risk continues improving, standing at 0.31% as of 31-Dec-2017.
- Finally, the **provisions (net) and other gains (losses)** heading fell year-on-year by 54.3%, basically because in the fourth quarter of 2016 there was a charge of €577m before taxes (€404m after taxes) to cover the contingency of future claims by customers linked to the decision of the CJEU on "mortgage floor clauses" in consumer mortgage loans. This item also includes the costs resulting from the restructuring process involved.

As a result, the **net attributable profit** generated by Banking Activity in Spain in 2017 stood at €1,381m, a year-on-year increase of 52.7%, strongly influenced by the positive performance in the year of net fees and commissions, operating expenses and loan-loss provisions. Moreover, the figures for 2016 were influenced by the charge to cover the contingency for the aforementioned "mortgage floor clauses". Excluding this charge, the year-on-year profit of the area would grow by 5.5%.

Non Core Real Estate

Highlights

- **Positive trend in Spanish real-estate sector figures continues.**
- **Agreement with Cerberus for the transfer of real-estate assets to a new company and subsequent sale of 80% of this company to Cerberus.**
- **Further decline in net exposure, NPLs and losses.**

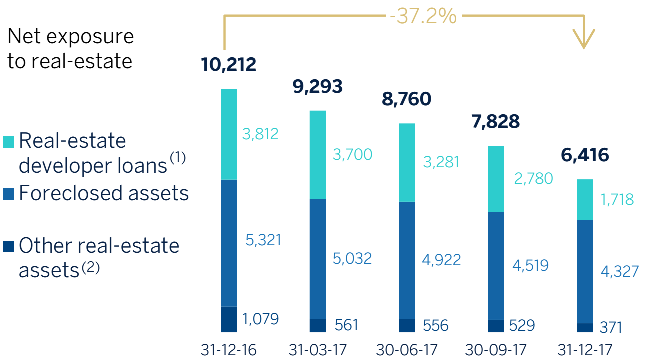
Industry trends

The **real-estate market** remains on an upward path. According to the latest available information from the Quarterly National Accounting for the third quarter of 2017, investment in housing increased by 0.7% over the previous quarter.

The most recent data from the General Council of Spanish Notaries (CIEN) shows that 432,500 **homes** were sold in Spain during the first ten months of 2017, a year-on-year increase of 16.4%. This trend reflects the growth of the economy and its capacity to generate employment, against a backdrop of low interest rates that is boosting new lending for home purchases. In addition, household confidence in the future of the economy has remained relatively high.

Growth of demand in a context of declining housing stock once more resulted in an increase in **prices** in the third quarter of 2017: According to data from the INE for the close of the third quarter, housing prices increased by 6.6% in year-on-year terms, one percentage point more than in the previous quarter. This is also the biggest rate of growth since the series was created in the first quarter of 2007.

Evolution of net exposure to real estate (Million euros)



Monetary policy has continued to maintain the cost of financing at relatively low levels, which has encouraged people to take out **mortgage loans**. The 12-month Euribor hit a new low in December (-0.190%). New residential mortgage lending, without stripping out refinancing, increased by 16.4% year-on-year in the first eleven months of the year, according to data from the Bank of Spain. Taking into account refinancing, new lending increased 1.7% in the same period.

Finally, **construction activity** is still responding to the positive impetus from demand. According to data from the Ministry of Public Works, nearly 68,100 new housing construction permits were approved from January to October 2017, up 28.0% on the figure from the same period in 2016.

Coverage of real-estate exposure (Million euros as of 31-12-2017)

	Gross Value	Provisions	Net exposure	% Coverage
Real-estate developer loans [1]	**3,146**	**1,428**	**1,718**	**45**
Performing	**530**	**15**	**515**	**3**
Finished properties	462	12	449	3
Construction in progress	11	0	11	2
Land	44	2	41	5
Without collateral and other	13	1	13	6
NPL	**2,616**	**1,412**	**1,203**	**54**
Finished properties	1,285	588	697	46
Construction in progress	38	14	23	38
Land	1,056	658	398	62
Without collateral and other	237	152	85	64
Foreclosed assets	**11,686**	**7,359**	**4,327**	**63**
Finished properties	7,100	3,938	3,162	55
Construction in progress	541	359	182	66
Land	4,045	3,062	983	76
Other real-estate assets [2]	**981**	**609**	**371**	**62**
Real-estate exposure	**15,813**	**9,396**	**6,416**	**59**

[1] Compared to Bank of Spain's Transparency scope (Circular 5/2011 dated 30 November), real-estate developer loans do not include €2.1 Bn (December 2017) mainly related to developer performing loans transferred to the Banking activity in Spain area.
[2] Other real-estate assets not originated from foreclosures.

Activity

BBVA has taken another highly significant step forward in its **strategy** of reducing real-estate exposure. In the fourth quarter of 2017, BBVA reached an agreement with a subsidiary of Cerberus to create a joint venture to which part of BBVA's real-estate business in Spain will be transferred. The business includes: (i) foreclosed real-estate assets, as described in the Significant Event published on 29 November 2017, for a gross value of approximately €13 billion (based on their situation as of 26 June 2017); and (ii) the assets and employees needed to manage the activity in an autonomous manner. In executing this agreement, BBVA will transfer the business to a single company, and at the closing date of the transaction, it will sell 80% of the shares in the said company to Cerberus.

For the purpose of this agreement, the business has been valued at approximately €5 billion, so the sale of 80% of the shares would amount to €4 billion. The final price paid will be determined by the volume of assets actually provided, which may vary depending on factors such as sales between the reference date of 26 June 2017, and the closing date of the transaction and compliance with the normal conditions for transactions of this type. At the close of the transaction, which is expected to take place in the second half of 2018, and once the volume of assets actually transferred is known, its final impact will be determined both in the net attributable profit and in the Group's capital ratios.

From the point of view of **loans to developers**, it is worth noting that in 2017, the outstanding performing portfolio was transferred from Non Core Real Estate to Banking Activity in Spain for an amount exceeding €1bn.

Thus, as of 31 December 2017, the net **exposure** to the real-estate sector of €6,416m was down by 37.2% in year-on-year terms, due basically to the wholesale operations carried out over the year. These figures include all the assets in the Cerberus agreement, which will not mean a reduction in exposure until the transaction has been completed.

With respect to **sales**, 25,816 units were sold in 2017 for a total sale price of €2,121m. This represents a significant increase on 2016, both in the number of units and price.

Total real-estate exposure, including loans to developers, foreclosed and other assets, was reflected in a **coverage** ratio of 59% at the end of December 2017. The coverage ratio of foreclosed assets rose to 63%, a relatively high percentage given the proportion of these assets on the balance sheet.

Non-performing loans fell again, thanks to a low volume of net additions to NPL over the period and the sale of a non-performing loan portfolio in the third quarter. The NPL coverage ratio closed 31-Dec-2017 at 56%.

Results

This business area posted a cumulative **loss** of €501m in 2017, compared with the loss of €595m in 2016. This illustrates a decline in losses, together with a very significant reduction in real-estate exposure.

Financial statements (Million euros)

Income statement	2017	Δ%	2016
Net interest income	**71**	**19.5**	**60**
Net fees and commissions	3	(50.7)	6
Net trading income	0	n.s.	(3)
Other income/expenses	(91)	33.2	(68)
Gross income	**(17)**	**157.8**	**(6)**
Operating expenses	(115)	(7.1)	(124)
Personnel expenses	(63)	(4.5)	(66)
Other administrative expenses	(34)	11.3	(31)
Depreciation	(18)	(33.8)	(27)
Operating income	**(132)**	**1.2**	**(130)**
Impairment on financial assets (net)	(138)	0.4	(138)
Provisions (net) and other gains (losses)	(403)	(15.2)	(475)
Profit/(loss) before tax	**(673)**	**(9.4)**	**(743)**
Income tax	170	15.4	148
Profit/(loss) for the year	**(502)**	**(15.6)**	**(595)**
Non-controlling interests	1	n.s.	(0)
Net attributable profit	**(501)**	**(15,8)**	**(595)**

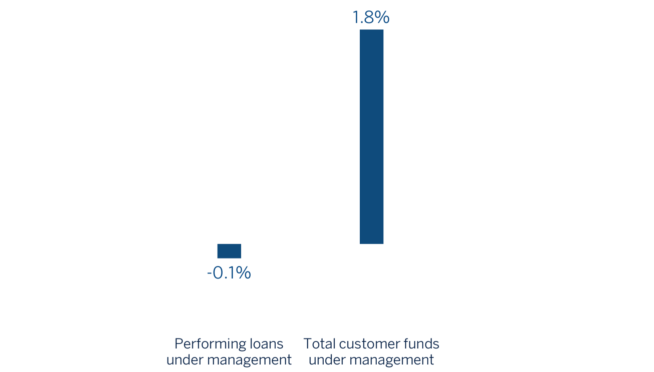
Balance sheet	31-12-17	Δ%	31-12-16
Cash, cash balances at central banks and other demand deposits	12	30.3	9
Financial assets	1,200	108.9	575
Loans and receivables	3,521	(40.8)	5,946
of which loans and advances to customers	3,521	(40.8)	5,946
Inter-area positions	-	-	-
Tangible assets	0	-	464
Other assets	4,981	(25.9)	6,719
Total assets/liabilities and equity	**9,714**	**(29.2)**	**13,713**
Financial liabilities held for trading and designated at fair value through profit or loss	-	-	-
Deposits from central banks and credit institutions	-	-	-
Deposits from customers	13	(47.6)	24
Debt certificates	785	(5.8)	834
Inter-area positions	5,775	(39.3)	9,520
Other liabilities	(0)	(62.7)	(0)
Economic capital allocated	3,141	(5.8)	3,335
Memorandum item:			
Risk-weighted assets	9,691	(10.8)	10,870

The United States

Highlights

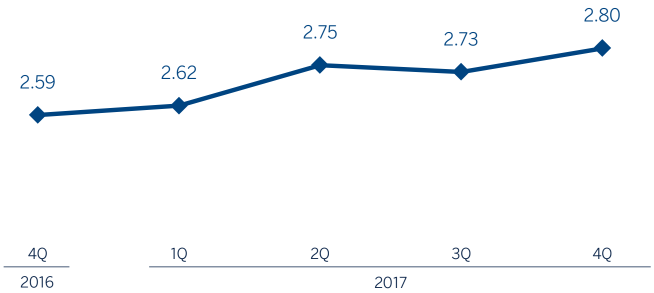
- **Lending remained stable over the year.**
- **Increase in deposits from customers.**
- **Positive performance of net interest income and net fees and commissions.**
- **Solid risk indicators.**
- **Higher income tax charge due to the tax reform approved at the end of 2017.**

Business activity [1]
(Year-on-year change at constant exchange rate. Data as of 31-12-2017)

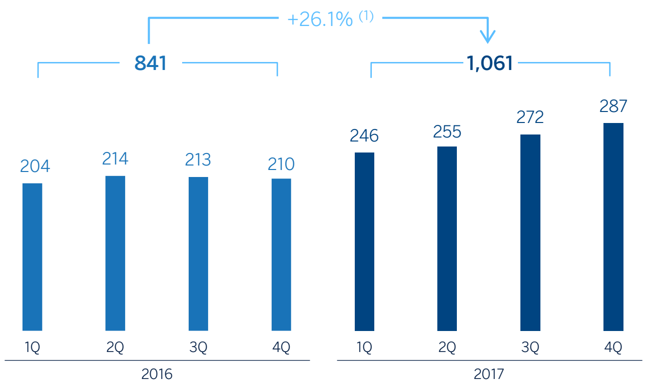


[1] Excluding repos.

Net interest income/ATAs
(Percentage. Constant exchange rate)

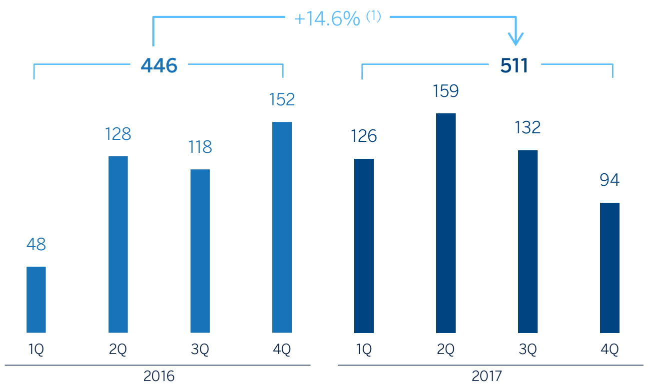


Operating income
(Million euros at constant exchange rate)



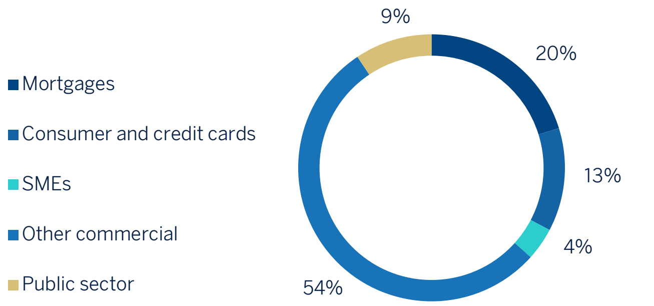
[1] At current exchange rate: +22.9%.

Net attributable profit
(Million euros at constant exchange rate)



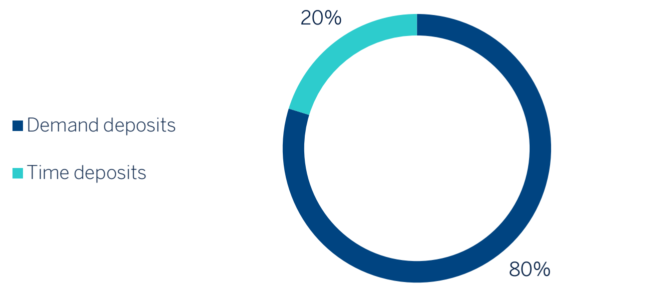
[1] At current exchange rate: +11.3%.

Breakdown of performing loans under management [1]
(31-12-2017)



[1] Excluding repos.

Breakdown of customer funds under management [1]
(31-12-2017)



[1] Excluding repos.

Macro and industry trends

According to the latest information from the Bureau of Economic Analysis (BEA), U.S. **GDP** grew again by over 3% in the third quarter of 2017 in annualized terms, consolidating the recovery after significant moderation at the end of 2016. The strength of the economy has benefited from a number of factors: The increased price of oil and the depreciation of the dollar boosted investment, while rising global demand favored the growth of exports. Consumer spending grew at a relatively stable and robust rate, despite the slowdown in the improvement of the labor market, an increase in inflation and slightly tougher financial conditions. The most recent indicators suggest economic activity slowed in the last quarter of the year, although this is temporary, following the end of the reconstruction work in the wake of the hurricanes. In all, the GDP may have closed the year with an increase of more than 2% in 2017, with a more balanced growth supported by both consumption and investment.

With regard to the **currency** market, the dollar's significant depreciation against the euro since the second quarter of 2017 was consolidated in the second half of the year, which recorded a year-on-year depreciation of 12.1%. This trend reflected on the one hand the progressive manner in which the Fed is carrying out the process of normalizing its monetary policy; and on the other, an economic performance in Europe that was somewhat better than expected, with the ECB announcing a gradual withdrawal of stimuli.

The U.S. **banking system** is in a very strong position. According to the latest available data from the Fed through November 2017, the total volume of bank credit in the system increased by 5.3% over the last twelve months. Growth of 2.6% recorded in the portfolios of lending to the real-estate sector (including residential mortgage loans) and 9.8% in consumer finance offset the 1.9% reduction in commercial lending. Non-performing loans in the system remained under control, with an NPL ratio of 1.82% at the close of 2017. Deposits were stable, with only a slight fall of 0.3% (November data).

Activity

All the comments below on rates of change, for both activity and earnings, will be given at constant exchange rate, unless expressly stated otherwise. These rates, together with changes at current exchange rate, can be seen in the attached tables of financial statements and relevant business indicators.

Following the increase in the third quarter of 2017, **lending activity** (performing loans under management) in the area grew again by 1.0% in the last quarter of the year. As a result, the balance of lending as of 31-Dec-2017 was practically the same as of the close of 2016 (down 0.1%). By portfolio, the

Financial statements and relevant business indicators (Million euros. Percentage)

Income statement	2017	Δ%	Δ% (1)	2016
Net interest income	**2,158**	**10.5**	**13.0**	**1,953**
Net fees and commissions	647	1.5	4.1	638
Net trading income	111	(22.2)	(19.6)	142
Other income/expenses	2	n.s.	n.s.	(27)
Gross income	**2,919**	**7.9**	**10.5**	**2,706**
Operating expenses	(1,858)	0.8	3.2	(1,843)
Personnel expenses	(1,067)	(0.5)	1.8	(1,073)
Other administrative expenses	(604)	4.2	6.7	(580)
Depreciation	(187)	(1.9)	0.2	(190)
Operating income	**1,061**	**22.9**	**26.1**	**863**
Impairment on financial assets (net)	(241)	8.9	10.8	(221)
Provisions (net) and other gains (losses)	(36)	19.2	23.1	(30)
Profit/(loss) before tax	**784**	**28.2**	**31.8**	**612**
Income tax	(273)	78.6	83.0	(153)
Profit/(loss) for the year	**511**	**11.3**	**14.6**	**459**
Non-controlling interests	-	-	-	-
Net attributable profit	**511**	**11.3**	**14.6**	**459**

Balance sheets	31-12-17	Δ%	Δ% (1)	31-12-16
Cash, cash balances at central banks and other demand deposits	11,089	39.3	58.4	7,963
Financial assets	11,154	(23.5)	(13.0)	14,581
Loans and receivables	55,419	(12.0)	0.1	62,962
of which loans and advances to customers	54,406	(11.0)	1.2	61,159
Inter-area positions	-	-	-	-
Tangible assets	658	(16.3)	(4.8)	787
Other assets	2,172	(16.7)	(5.3)	2,609
Total assets/liabilities and equity	**80,493**	**(9.5)**	**3.0**	**88,902**
Financial liabilities held for trading and designated at fair value through profit or loss	139	(95.2)	(94.5)	2,901
Deposits from central banks and credit institutions	3,663	5.5	20.0	3,473
Deposits from customers	61,357	(6.7)	6.2	65,760
Debt certificates	2,017	(17.5)	(6.2)	2,446
Inter-area positions	4,965	1.9	15.9	4,875
Other liabilities	5,560	(8.4)	4.2	6,068
Economic capital allocated	2,791	(17.4)	(6.0)	3,379

Relevant business indicators	31-12-17	Δ%	Δ% (1)	31-12-16
Loans and advances to customers (gross) (2)	55,122	(11.1)	1.2	62,000
Non-performing loans and contingent liabilities	696	(28.6)	(18.8)	976
Customer deposits under management (2)	56,547	(10.5)	1.8	63,195
Off-balance-sheet funds (3)	-	-	-	-
Risk-weighted assets	58,682	(10.4)	1.9	65,492
Efficiency ratio (%)	63.7			68.1
NPL ratio (%)	1.2			1.5
NPL coverage ratio (%)	104			94
Cost of risk (%)	0.42			0.37

(1) Figures at constant exchange rate.

(2) Excluding repos.

(3) Includes mutual funds, pension funds and other off-balance-sheet funds.

growth was mainly focused on consumer finance and credit cards (up 3.5% in the quarter and 5.0% year-on-year), a portfolio with greater spread and thus more profitable; commercial loans (up 3.7% and 1.5% respectively) and the public sector (up 12.6% and 27.1% respectively).

With respect to **asset quality**, risk indicators in the area continued to be sound. The NPL ratio closed the year at 1.2% and the NPL coverage ratio at 104%.

Customer **deposits** under management increased both over the last twelve months (up 1.8%) and in the quarter (up 6.5%), thanks to the good performance of the more liquid lower-cost funds, such as current and savings accounts (up 3.4% year-on-year and 4.4% quarter-on-quarter). Time deposits grew significantly in the quarter (up 13.8%), although in year-on-year terms they fell by 5.6%.

Results

The United States generated a cumulative net attributable **profit** in 2017 of €511m, 14.6% up on the previous year, primarily due to the good performance of the more recurring revenue items. The most relevant aspects of the area's income statement are as follows:

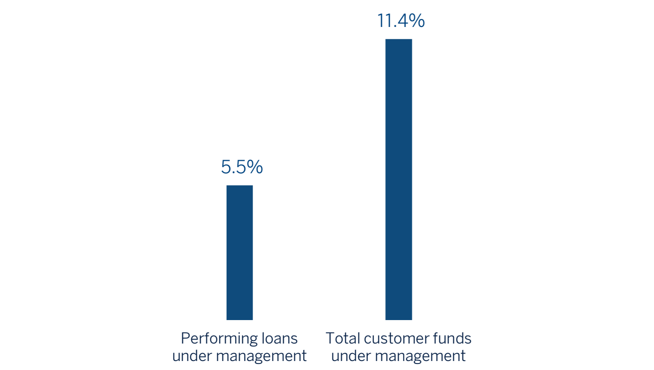
- **Net interest income** continued to perform positively, with a cumulative figure rising by 13.0% in year-on-year terms. This was due to the combined result of the strategic measures adopted by BBVA Compass to improve loan yields and reduce the cost of liabilities (deposits and wholesale funding), as well as the Fed's interest-rate hikes (December 2016, March and June 2017).
- **Income from fees and commissions** increased by 4.1%. There was an outstanding performance in practically all items, notably those from account maintenance, asset management and retail investment banking (securities transactions, annuity sales, structured notes and life insurance).
- Reduction of 19.6% in **NTI** compared with the figure for the previous year. The positive performance of the Global Markets unit, particularly early in the year, has not been sufficient to offset the capital gains from portfolio sales in 2016.
- Increase of 3.2% in **operating expenses**, focused above all on administration costs. Within this item, general expenses showed an increase in costs related to IT, consulting and marketing.
- **Impairment losses on financial assets** increased by 10.8% on the previous year, due partly to the inclusion of provisions allocated as a result of the estimated negative impact of the natural disasters in the third quarter and higher loan-loss provisioning related to consumer portfolio. Despite the above, the cumulative cost of risk as of 31-Dec-2017 was 0.42%, three basis points below the cumulative figure as of 30-Sep-2017 (0.37% in 2016).
- Finally, **income tax** included a charge of €78m in the fourth quarter of 2017 as a result of the tax reform approved at the end of the year, which reduced the corporate tax rate from 35% to 21%, and as a result the value of deferred tax assets. However, the lower tax rate in 2018 should have a positive impact on earnings in the area.

Mexico

Highlights

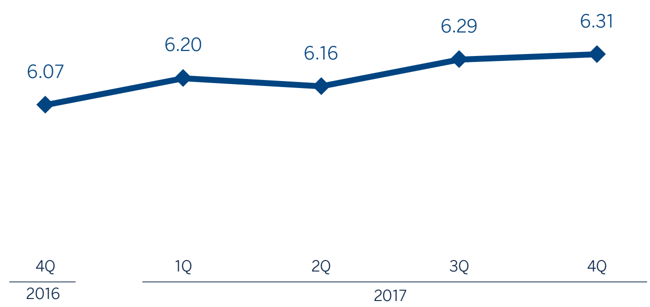
- **Good performance in activity.**
- **Positive trend in gross income.**
- **Costs continue to increase below gross income, and double-digit year-on-year growth in net attributable profit.**
- **Stable asset quality indicators.**

Business activity [(1)]
(Year-on-year change at constant exchange rate. Data as of 31-12-2017)

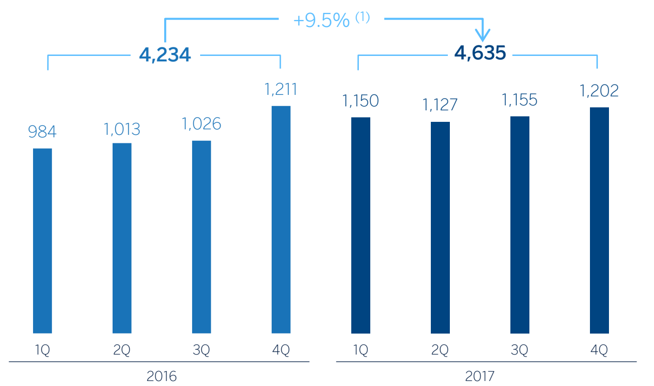


[(1)] Excluding repos.

Net interest income/ATAs
(Percentage. Constant exchange rate)

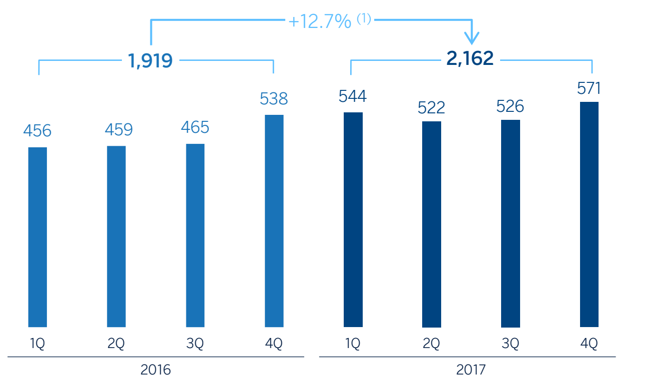


Operating income
(Million euros at constant exchange rate)



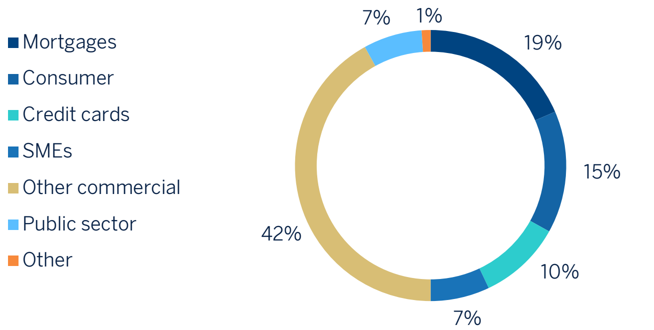
[(1)] At current exchange rate: +6.0%.

Net attributable profit
(Million euros at constant exchange rate)



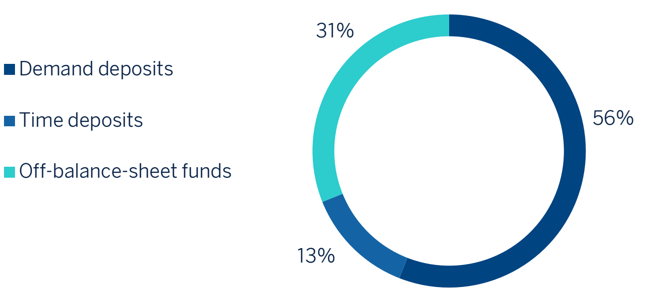
[(1)] At current exchange rate: +9.2%.

Breakdown of performing loans under management [(1)]
(31-12-2017)



[(1)] Excluding repos.

Breakdown of customer funds under management [(1)]
(31-12-2017)



[(1)] Excluding repos.

Macro and industry trends

Following the slowdown of **activity** in Mexico in the first half of 2017, the negative impact of natural phenomena led to a 0.3% quarterly decline in the third quarter. The adverse effect was noted in more sluggish consumption, also affected by increased inflation, and the decline in oil production and construction. However, this fall should be temporary and improve steadily with the boost from consumption of goods and services to help the victims of the disasters. As a result, GDP growth could have moderated to around 2% in 2017 as a whole, mainly supported by private consumption. However, investment was affected by the increased uncertainty linked to the negotiations of the trade agreement with the United States.

The significant depreciation of the peso in the first half of 2017 affected the behavior of **inflation** over the year, which remained high and reached rates of around 6.5% in recent months. In this context, **Banxico** increased interest rates by 150 basis points to 7.25%. Despite the uncertainty and volatility, the depreciation of the peso has been checked, so this effect on inflation began to decline in recent months.

The Mexican **banking system** has sustained excellent capital adequacy and asset quality levels over recent years. According to data released by the National Securities Banking Commission (CNBV, according to its acronym in Spanish), the capital adequacy ratio rose slightly to 15.73% in the third quarter. All the banks in the system registered ratios well above minimum requirements. The data on activity remained as strong as in previous quarters, with year-on-year growth in total lending of 8.9% and the total volume of deposits of 10.0%, as of November 2017. By portfolios, commercial loans grew by 12.2%, consumer finance by 8.5% and residential mortgage loans by 8.7%. Non-performing loans remained under control, with an NPL ratio of 2.2%, slightly below the November 2016 figure. The NPL coverage ratio remained relatively stable over the last twelve months, at 155%. Demand deposits grew by 8.6% to November 2017 in year-on-year terms, while time deposits increased by 19.4%.

Activity

All rates of change given below, for both activity and earnings, will be given at constant exchange rate, unless expressly stated otherwise. These rates, together with changes at current exchange rate, can be seen in the attached tables of financial statements and relevant business indicators.

BBVA's **lending** (performing loans under management) in Mexico increased by 5.5% since December 2016 and 0.9% over the fourth quarter. As a result, BBVA Bancomer has retained its leadership position, with a market share for its performing portfolio of 23.0% (according to the latest local information from the CNBV as of November 2017).

Financial statements and relevant business indicators
(Million euros. Percentage)

Income statement	2017	∆%	∆% (1)	2016
Net interest income	**5,437**	**6.1**	**9.5**	**5,126**
Net fees and commissions	1,217	5.9	9.3	1,149
Net trading income	249	12.3	15.9	222
Other income/expenses	177	(34.4)	(32.2)	270
Gross income	**7,080**	**4.6**	**8.0**	**6,766**
Operating expenses	(2,445)	2.1	5.3	(2,396)
Personnel expenses	(1,051)	0.3	3.5	(1,048)
Other administrative expenses	(1,138)	3.3	6.7	(1,101)
Depreciation	(256)	3.8	7.2	(247)
Operating income	**4,635**	**6.0**	**9.5**	**4,371**
Impairment on financial assets (net)	(1,652)	1.6	4.9	(1,626)
Provisions (net) and other gains (losses)	(35)	(47.8)	(46.2)	(67)
Profit/(loss) before tax	**2,948**	**10.1**	**13.6**	**2,678**
Income tax	(786)	12.8	16.4	(697)
Profit/(loss) for the year	**2,162**	**9.2**	**12.7**	**1,981**
Non-controlling interests	(0)	(42.5)	(40.6)	(1)
Net attributable profit	**2,162**	**9.2**	**12.7**	**1,980**

Balance sheets	31-12-17	∆%	∆% (1)	31-12-16
Cash, cash balances at central banks and other demand deposits	4,882	(6.0)	2.2	5,192
Financial assets	28,541	(8.7)	(0.8)	31,273
Loans and receivables	46,977	(2.1)	6.4	47,997
of which loans and advances to customers	45,080	(3.0)	5.4	46,474
Tangible assets	1,749	(10.6)	(2.8)	1,957
Other assets	7,195	4.3	13.3	6,900
Total assets/liabilities and equity	**89,344**	**(4.3)**	**4.1**	**93,318**
Financial liabilities held for trading and designated at fair value through profit or loss	9,405	(5.6)	2.6	9,961
Deposits from central banks and credit institutions	5,769	(2.6)	5.9	5,923
Deposits from customers	49,414	(2.3)	6.2	50,571
Debt certificates	7,312	(15.1)	(7.7)	8,611
Other liabilities	13,642	(2.1)	6.3	13,941
Economic capital allocated	3,802	(11.8)	(4.2)	4,311

Relevant business indicators	31-12-17	∆%	∆% (1)	31-12-16
Loans and advances to customers (gross) (2)	46,463	(2.9)	5.5	47,865
Non-performing loans and contingent liabilities	1,124	(2.5)	6.0	1,152
Customer deposits under management (2)	43,179	2.8	11.8	41,989
Off-balance-sheet funds (3)	19,472	1.9	10.7	19,111
Risk-weighted assets	43,715	(8.7)	(0.7)	47,863
Efficiency ratio (%)	34.5			35.4
NPL ratio (%)	2.3			2.3
NPL coverage ratio (%)	123			127
Cost of risk (%)	3.30			3.40

(1) Figures at constant exchange rate.
(2) Excluding repos.
(3) Includes mutual funds, pension funds and other off-balance-sheet funds.

The weight of the retail and **wholesale** portfolios was practically equal at the end of December (51% and 49% respectively). Wholesale lending was up 5.0% on December 2016 and 0.8% over the quarter. Within the wholesale portfolio, business loans (including loans to corporate customers and mid-sized companies, not including developer mortgage loans) grew by 8.7% on the close of 2016. Lending to housing developers continued the positive trend that began in the previous quarter, with year-on-year growth of 4.6%.

The **retail** portfolio registered growth of 6.0% over the last twelve months and 1.0% in the last quarter, buoyed by lending to SMEs and auto loans, which rose by 9.0% and 11.4% respectively in year-on-year terms. Meanwhile, credit cards increased by 2.6% over the year, with new production during this period of 8.3%. The mortgage portfolio continued to show the effect of early maturities on the overall amount, which increased year-on-year by 6.4% as of 31-Dec-2017.

This lending growth has been accompanied by stable asset **quality** indicators. The NPL and NPL coverage ratios closed the year at 2.3% and 123% respectively.

Total customer **funds** (customer deposits under management, mutual funds, and other off-balance-sheet funds) posted year-on-year growth of 11.4% (up 1.3% in the fourth quarter). All items continued to perform positively: current and savings accounts rose 11.5% year-on-year (up 1.5% on the previous quarter), and time deposits grew by 13.1% (up 0.4% over the quarter). BBVA in Mexico has a profitable funding mix, with low-cost items continuing to account for over 81% of total customer deposits under management. Finally, there was also an increase in mutual funds of 9.3% year-on-year and 1.0% over the quarter.

Results

The highlights of Mexico's income statement for 2017 are as follows:

- Positive performance of **net interest income**, with a year-on-year increase of 9.5%, driven primarily by greater activity volumes and favorable customer spreads.
- Good performance of **net fees and commissions**, with growth of 9.3% over the last twelve months. They remained strongly influenced by an increased volume of transactions with credit card customers and fees from online and investment banking.
- Strong growth in **NTI** (up 15.9% year-on-year), thanks to a very good performance from the Global Markets unit, basically in the first half of the year.
- In **other income/expenses** the comparison with last year is unfavorable (down 32.2% year-on-year), mainly due to insurance activity, as a result of a higher claims rate derived from the natural disasters that took place during the year.
- **Operating expenses** continued to grow at a controlled pace (up 5.3% year-on-year), below both the area's gross income growth of 8.0% and the country's inflation rate. As a result, the **efficiency** ratio stood at 34.5%.
- Year-on-year growth in **impairment losses on financial assets** (up 4.9%) was below that registered by lending (up 5.5%). As a result, the cumulative cost of risk in the area was 3.30%, six basis points below the cumulative figure through September and ten basis points less than that in 2016.

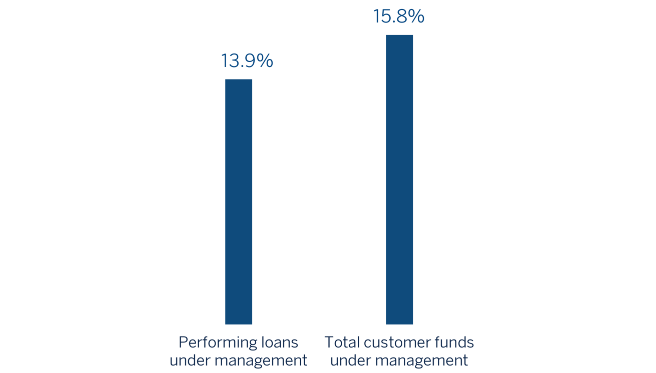
Overall, BBVA in Mexico posted a net attributable **profit** for the year of €2,162m, a year-on-year increase of 12.7%.

Turkey

Highlights

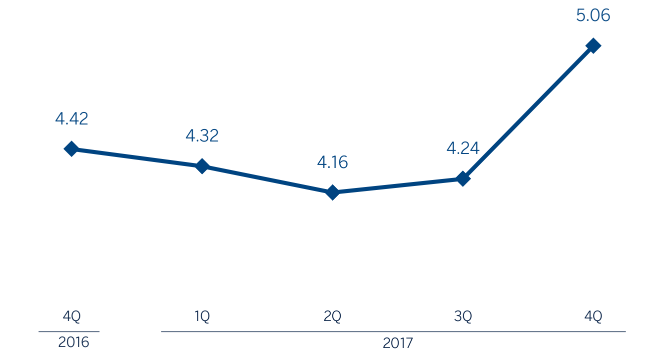
- Solid growth in activity.
- Very positive growth in more recurring revenue items.
- Operating expenses increase below the level of inflation and the rate of increase in gross income.
- Risk indicators affected by more additions to NPL from certain wholesale loans that are practically fully provisioned.

Business activity [(1)]
(Year-on-year change at constant exchange rate. Data as of 31-12-2017)

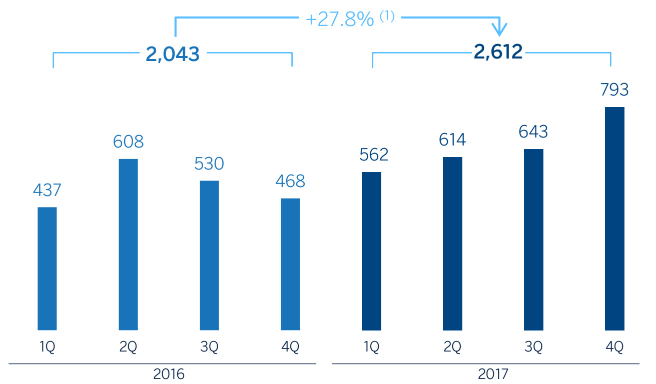


[(1)] Excluding repos.

Net interest income/ATAs
(Percentage. Constant exchange rate)

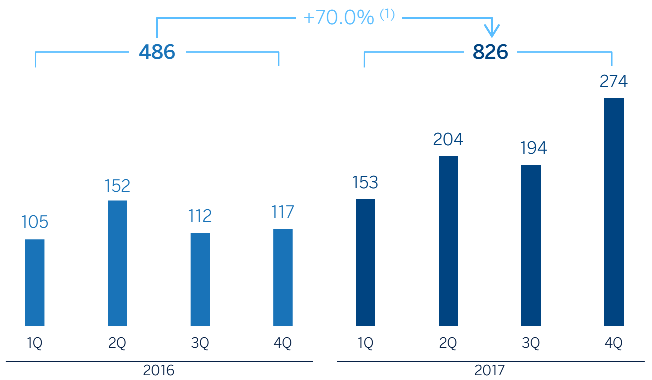


Operating income
(Million euros at constant exchange rate)



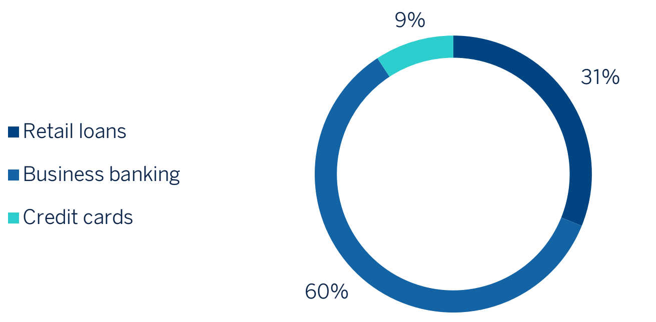
[(1)] At current exchange rate: +3.7%.

Net attributable profit
(Million euros at constant exchange rate)



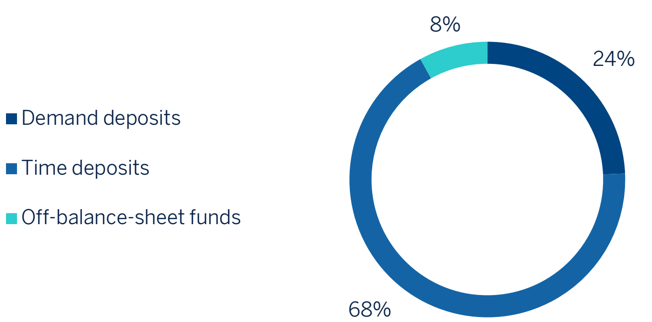
[(1)] At current exchange rate: +37.9%.

Breakdown of performing loans under management [(1)]
(31-12-2017)



[(1)] Excluding repos.

Breakdown of customer funds under management [(1)]
(31-12-2017)



[(1)] Excluding repos.

Macro and industry trends

According to the most recent figures from the Turkish Statistical Institute, year-on year **economic growth** rose to 11.1% in the third quarter of 2017. Government stimuli appear to be leveraging growth via private consumption, which is increasing household confidence, and by encouraging investment through access to credit facilities fostered by the Credit Guarantee Fund (CGF). BBVA Research has therefore revised its economic growth forecast up to 7% in 2017.

Annual inflation remained high, closing December at 11.9%, after reaching 13% in November, thanks to favorable base effects. The reduction was due to a significant upturn a year ago. Solid domestic demand and the exchange-rate effect increased core inflation to 12.3% at the end of 2017.

In this context of high inflation the CBRT kept its **monetary policy** tight. Since the end of last year, there has been an increase of around 450 basis points in the average funding rate, from 8.31% to 12.75%, (just over 75 basis points in the fourth quarter). The risk appetite in global financial markets will continue to have a key effect on the exchange rate.

The Turkish **financial sector** has showed signs of strength in 2017, thanks to access to the credit facilities fostered by the government-sponsored CGF program. Although the year-on-year growth rate in total lending (adjusted for the effect of the depreciation of the lira) stood at 20.5% at the end of December (compared to 20.4% as of September), the rate moderated in the second half of the year. Commercial loans ended the year with a higher growth rate than consumer loans, which is good for financial stability. Deposits from customers also maintained their strength, with year-on-year growth in December (adjusted for the effect of the depreciation of the lira) of 12.0%. Foreign-currency deposits grew by 15.3%, mainly due to the comparison with the very low figure at the same period last year, and Turkish lira deposits increased 12.6%. Lastly, the NPL ratio in the sector improved in 2017, closing the year at 2.9% (3.2% at the close of 2016).

Activity

In March 2017, BBVA completed the acquisition of an additional 9.95% stake in the share capital of Garanti, increasing BBVA's total stake in this entity to 49.85%. Garanti continues to be incorporated into the Group's financial statements by the full integration method.

Unless expressly stated otherwise, all the comments below on rates of change, for both activity and earnings, will be given at constant exchange rate. These rates, together with changes at current exchange rate, can be seen in the attached tables of financial statements and relevant business indicators.

Financial statements and relevant business indicators
(Million euros. Percentage)

Income statement	2017	Δ%	Δ% (1)	2016
Net interest income	**3,331**	**(2.1)**	**20.6**	**3,404**
Net fees and commissions	703	(3.9)	18.5	731
Net trading income	14	(81.2)	(76.8)	77
Other income/expenses	67	46.5	80.6	46
Gross income	**4,115**	**(3.3)**	**19.2**	**4,257**
Operating expenses	(1,503)	(13.5)	6.6	(1,738)
Personnel expenses	(799)	(10.1)	10.8	(889)
Other administrative expenses	(526)	(17.2)	2.1	(635)
Depreciation	(178)	(16.7)	2.7	(214)
Operating income	**2,612**	**3.7**	**27.8**	**2,519**
Impairment on financial assets (net)	(453)	(13.0)	7.3	(520)
Provisions (net) and other gains (losses)	(12)	(87.2)	(84.2)	(93)
Profit/(loss) before tax	**2,147**	**12.7**	**38.9**	**1,906**
Income tax	(426)	9.2	34.7	(390)
Profit/(loss) for the year	**1,720**	**13.5**	**40.0**	**1,515**
Non-controlling interests	(895)	(2.4)	20.4	(917)
Net attributable profit	**826**	**37.9**	**70.0**	**599**

Balance sheets	31-12-17	Δ%	Δ% (1)	31-12-16
Cash, cash balances at central banks and other demand deposits	4,036	48.2	81.7	2,724
Financial assets	11,819	(13.5)	6.0	13,670
Loans and receivables	59,683	(7.9)	12.9	64,814
of which loans and advances to customers	51,378	(7.6)	13.3	55,612
Tangible assets	1,344	(6.0)	15.3	1,430
Other assets	1,812	(18.7)	(0.3)	2,229
Total assets/liabilities and equity	**78,694**	**(7.3)**	**13.7**	**84,866**
Financial liabilities held for trading and designated at fair value through profit or loss	648	(35.8)	(21.3)	1,009
Deposits from central banks and credit institutions	11,195	(17.0)	1.8	13,490
Deposits from customers	44,691	(5.4)	16.0	47,244
Debt certificates	8,346	5.5	29.4	7,907
Other liabilities	11,321	(12.1)	7.7	12,887
Economic capital allocated	2,493	7.0	31.3	2,330

Relevant business indicators	31-12-17	Δ%	Δ% (1)	31-12-16
Loans and advances to customers (gross) (2)	53,445	(7.8)	13.1	57,941
Non-performing loans and contingent liabilities	2,553	28.8	58.0	1,982
Customer deposits under management (2)	44,499	(6.3)	14.9	47,489
Off-balance-sheet funds (3)	3,902	4.0	27.5	3,753
Risk-weighted assets	62,768	(10.8)	9.4	70,337
Efficiency ratio (%)	36.5			40.8
NPL ratio (%)	3.9			2.7
NPL coverage ratio (%)	85			124
Cost of risk (%)	0.82			0.87

(1) Figures at constant exchange rate.
(2) Excluding repos.
(3) Includes mutual funds, pension funds and other off-balance-sheet funds.

The growth of **lending activity** (performing loans under management) in the area rose to 13.9% in year-on-year terms, mainly driven by Turkish lira loans. By segments, business banking loans performed very favorably throughout the year, thanks to the aforementioned CGF program launched at the start of the year. General purpose loans also performed well. In mortgages, Garanti gained market share among private banks thanks to using alternative sale channels effectively and providing flexible payment plan options. Garanti also performed positively, above the average of its private-sector peers, in auto loans, and strengthened its leading position in the credit card segment, thanks to the increase in both commercial and consumer credit cards.

In terms of **asset quality**, the NPL ratio rose to 3.9% as a result of increased additions to NPLs from certain wholesale loans, although they were practically fully provisioned (with hardly any impact on results). The NPL coverage ratio closed at 85%.

Customer **deposits** remained the main source of funding for the balance sheet in the area, and grew by 14.9% in 2017 (up 4.6% in the last quarter). Both, Turkish lira and foreign currency deposits grew in year-on-year terms, with current and savings accounts performing well and continuing to support growth in net interest income growth: they have almost zero cost and represent 26% of total customer deposits in Garanti.

Results

Turkey generated a cumulative net attributable **profit** of €826m in 2017, up 70.0% compared with the figure in 2016. The most significant aspects of the year-on-year changes in the income statement were as follows:

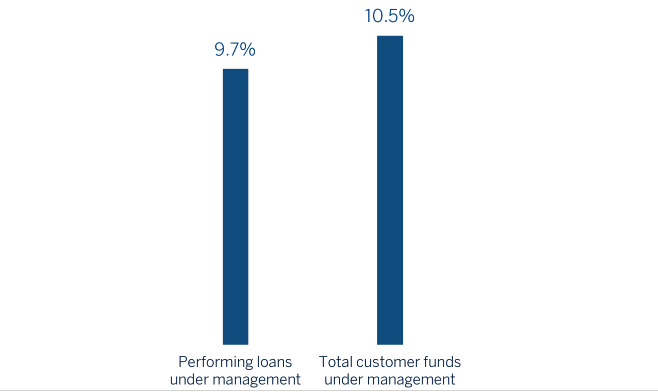
- Positive performance of **net interest income** (up 20.6%). This positive trend is a result of increased in activity, good management of customer spreads (despite the increase in cost of funding) and higher income from inflation-linked bonds (CPI linkers).
- **Income from fees and commissions** increased 18.5% year-on-year, thanks to good diversification (payment systems, money transfers, loans, insurance and brokerage). This positive performance has been achieved despite the lower generation of fees from account maintenance due to the suspension of charges in the retail segment implemented by the Turkish Council of State as of January, 2016, and the high revenues generated in 2016 by the Miles & Smiles program.
- Reduction of **NTI** (down 76.8%), mainly due to the higher base of comparison due to the capital gains generated in the first half of 2016 from the VISA deal.
- Overall, **gross income** was up 19.2% in 2017.
- **Operating expenses** increased by 6.6%, below both the inflation rate and the year-on-year growth rate in gross income, thanks to strict cost discipline. As a result, the efficiency ratio declined to 36.5% (40.8% in 2016).
- **Impairment losses on financial assets** rose by 7.3% year-on-year, less than the rise in lending activity. As a result, the cumulative cost of risk of the area closed 2017 at 0.82%, below the level of 2016 (0.87%).
- Finally, BBVA Group's additional stake of 9.95% in the capital of Garanti had a positive effect on reducing the non-controlling interest heading by approximately €150m.

South America

Highlights

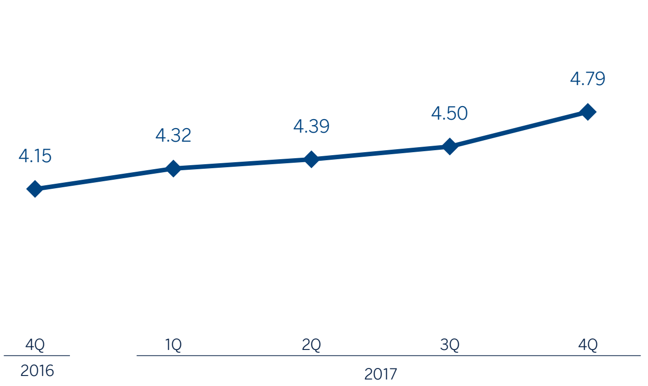
- Activity continues to grow at a good pace.
- More recurring revenue items performing very well.
- Expenses grow below gross income.
- Macroeconomic environment evolution has impacted the performance of risk indicators.
- Agreement to sell the franchise in Chile to Scotiabank.

Business activity [(1)]
(Year-on-year change at constant exchange rates. Data as of 31-12-2017)

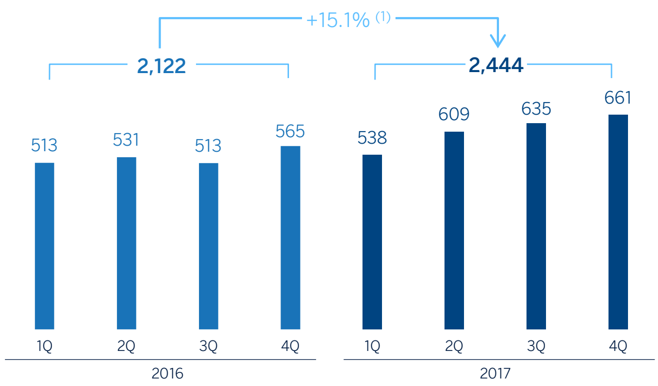


[(1)] Excluding repos.

Net interest income/ATAs
(Percentage. Constant exchange rates)

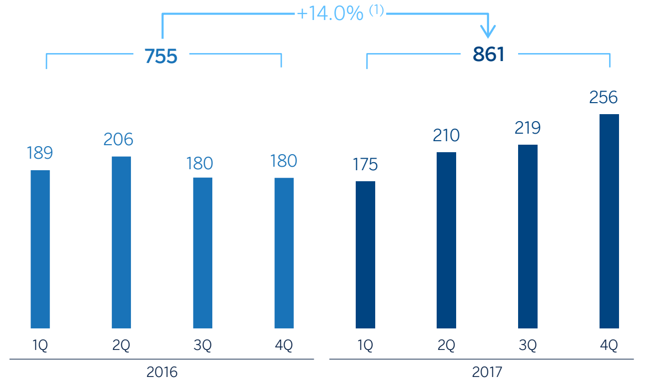


Operating income
(Million euros at constant exchange rates)



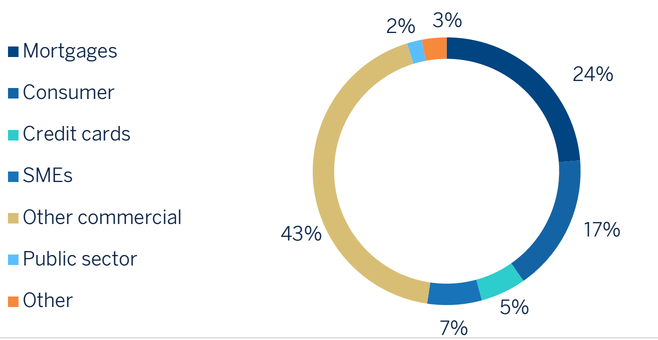
[(1)] At current exchange rates: +13.1%.

Net attributable profit
(Million euros at constant exchange rates)



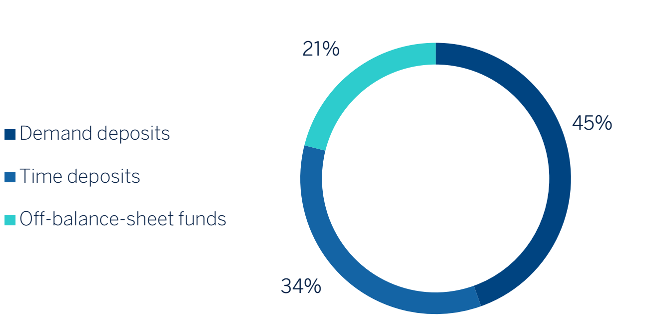
[(1)] At current exchange rates: +11.6%.

Breakdown of performing loans under management [(1)]
(31-12-2017)



[(1)] Excluding repos.

Breakdown of customer funds under management [(1)]
(31-12-2017)



[(1)] Excluding repos.

Macro and industry trends

The **economies** of South America consolidated their recovery in 2017, though the pace of growth was still moderate. The external environment improved due to rising global demand and commodity prices, and this was accompanied by a gradual increase in confidence among agents in the region. At the same time, the buoyant financial markets have stimulated capital flows into the emerging economies. The result has been a strong export sector, growth in investment and early signs of an improvement in consumption.

In most countries in the region, **inflation** moderated in 2017 as a result of relatively stable exchange rates and weak domestic demand. Against this backdrop of low inflationary pressure and very moderate growth, the central banks continued to apply expansive **monetary policies** (except in Argentina).

Regarding the **banking systems** within BBVA's regional footprint, the macroeconomic backdrop and reduced levels of banking penetration in these countries in aggregate terms (obviously with differences between countries) led to strong results in terms of the main indicators of profitability and solvency, while non-performing loans remained under control. In addition, there has been sustained growth in lending and deposits.

Activity

All the comments below on rates of change, for both activity and earnings, will be given at constant exchange rate, unless expressly stated otherwise. These rates, together with changes at the current exchange rate, can be seen in the attached tables of financial statements and relevant business indicators.

Growth in **lending** (performing loans under management) accelerated in the last quarter of the year, and closed 9.7% above the figure at the end of December 2016 and 4.5% up on the close of September. By segments, the strong performance of the individual customer segment (particularly consumer finance, credit cards and, to a lesser extent, mortgages) outpaced growth in the commercial and public sector (wholesale portfolio). By country, the fastest growth continued to be in Argentina (up 65.8% year-on-year), Colombia (up 8.5%) and Chile (up 6.7%).

With respect to **credit quality**, there was a slight improvement in the NPL ratio over the quarter, closing the year at 3.4%. The NPL coverage ratio ended the year at 89%.

Financial statements and relevant business indicators
(Million euros. Percentage)

Income statement	2017	Δ%	Δ% [1]	2016
Net interest income	**3,200**	**9.2**	**15.1**	**2,930**
Net fees and commissions	713	12.4	17.9	634
Net trading income	480	3.4	6.2	464
Other income/expenses	59	135.6	(18.9)	25
Gross income	**4,451**	**9.8**	**13.9**	**4,054**
Operating expenses	(2,008)	6.0	12.4	(1,894)
Personnel expenses	(1,035)	5.4	10.6	(982)
Other administrative expenses	(851)	5.0	12.1	(811)
Depreciation	(121)	20.8	32.8	(100)
Operating income	**2,444**	**13.1**	**15.1**	**2,160**
Impairment on financial assets (net)	(650)	23.6	26.1	(526)
Provisions (net) and other gains (losses)	(103)	26.2	(12.9)	(82)
Profit/(loss) before tax	**1,691**	**8.9**	**13.5**	**1,552**
Income tax	(486)	(0.3)	10.1	(487)
Profit/(loss) for the year	**1,205**	**13.1**	**15.0**	**1,065**
Non-controlling interests	(345)	17.0	17.6	(294)
Net attributable profit	**861**	**11.6**	**14.0**	**771**

Balance sheets	31-12-17	Δ%	Δ% [1]	31-12-16
Cash, cash balances at central banks and other demand deposits	9,039	(14.6)	5.2	10,586
Financial assets	11,742	9.3	20.5	10,739
Loans and receivables	51,207	(5.3)	6.4	54,057
of which loans and advances to customers	48,272	(0.9)	11.2	48,718
Tangible assets	725	(10.1)	13.5	807
Other assets	1,923	11.2	25.1	1,729
Total assets/liabilities and equity	**74,636**	**(4.2)**	**8.7**	**77,918**
Financial liabilities held for trading and designated at fair value through profit or loss	2,823	9.2	16.0	2,585
Deposits from central banks and credit institutions	7,552	13.5	23.7	6,656
Deposits from customers	45,666	(4.7)	10.0	47,927
Debt certificates	7,209	(3.2)	4.0	7,447
Other liabilities	8,505	(19.8)	(9.0)	10,600
Economic capital allocated	2,881	6.6	23.5	2,703

Relevant business indicators	31-12-17	Δ%	Δ% [1]	31-12-16
Loans and advances to customers (gross) [2]	49,845	(0.9)	11.2	50,316
Non-performing loans and contingent liabilities	1,884	15.1	26.8	1,637
Customer deposits under management [3]	45,676	(5.5)	9.0	48,334
Off-balance-sheet funds [3]	12,197	2.5	16.6	11,902
Risk-weighted assets	55,665	(3.1)	11.5	57,443
Efficiency ratio (%)	45.1			46.7
NPL ratio (%)	3.4			2.9
NPL coverage ratio (%)	89			103
Cost of risk (%)	1.32			1.15

(1) Figures at constant exchange rates.
(2) Excluding repos.
(3) Includes mutual funds, pension funds and other off-balance-sheet funds.

Total **customer funds** ended 2017 with quarterly growth of 5.2% and year-on-year growth of 10.5%. The trend over the year is explained by the good performance of transactional funds (up 16.3% since December 2016) and off-balance-sheet funds (up 16.6%). By countries, the trend was particularly positive in Argentina (up 37.3% on December 2016) and Colombia (up 12.9%).

Results

South America posted a cumulative **net attributable profit** of €861m in 2017, a year-on-year increase of 14.0%. The key aspects of the income statement in this area were:

- **Gross income** grew by 13.9%, thanks to the capacity to generate recurring revenues in the area. Net interest income outpaced growth in the loan book (up 15.1%), on the back of greater volumes and effective price management, while income from fees and commissions rose by 17.9%. The contribution from NTI was also positive, favored by improved results from foreign-currency operations.
- **Operating expenses** increased by less than gross income (up 12.4%) due to cost controls implemented in all the countries. In fact, they also increased below or in line with the average inflation in most of the countries.
- **Impairment losses on financial assets** moderated their year-on-year growth with respect to the previous quarter, with a cumulative increase of 26.1%. This heading is affected by the impact of provisions associated with one particular customer. However, the slowdown allowed the cumulative cost of risk to reach 1.32% at the close of December, below the third quarter of 2017 (1.51%).

By country, recurring revenues performed very well in **Argentina**, with notable growth in both net interest income and the excellent performance of net fees and commissions, which contributed to a growth in gross income of 25.0%. However, expenses remained affected by high inflation. In July, BBVA Francés carried out a USD 400m share capital increase to finance the bank's organic growth, given the country's good economic outlook. The transaction has resulted in a higher charge under the non-controlling interests heading. As a result, net attributable profit increased by 19.1% year-on-year. In **Chile**, positive trend in gross income (net interest income up thanks to favorable figures in lending and effective management of customer spreads) and strict control of growth in expenses comfortably offset the rise in loan-loss provisioning and the increase in the nominal tax rate. Accordingly, the country recorded a rise of 27.0% in net attributable profit relative to 2016. In **Colombia**, gross income performed strongly, thanks to positive figures from net interest income (due to both activity and spreads) and net fees and commissions, albeit mitigated by lower NTI (the same period of 2016 included capital gains from the disposal of equity holdings) and an increase in loan-loss provisioning. As a result, net attributable profit was 8.5% lower than in 2016. In **Peru**, net attributable profit grew by 6.0% when compared to the figure for the previous year. The good NTI performance, strict control of expenses and a reduction of loan-loss provisions were partly mitigated by moderate growth in recurring revenues.

South America. Data per country (Million euros)

	Operating income				Net attributable profit			
Country	2017	Δ%	Δ% [1]	2016	2017	Δ%	Δ% [1]	2016
Argentina	522	3.5	18.8	504	219	3.8	19.1	211
Chile	421	19.5	17.0	352	188	29.8	27.0	145
Colombia	644	20.6	19.0	534	206	(7.3)	(8.5)	222
Peru	726	4.1	2.6	698	180	7.5	6.0	167
Other countries [2]	131	82.8	77.0	72	68	161.1	135.1	26
Total	**2,444**	**13.1**	**15.1**	**2,160**	**861**	**11.6**	**14.0**	**771**

[1] Figures at constant exchange rates.

[2] Venezuela, Paraguay, Uruguay and Bolivia. Additionally, it includes eliminations and other charges.

South America. Relevant business indicators per country (Million euros)

	Argentina		Chile		Colombia		Peru	
	31-12-17	31-12-16	31-12-17	31-12-16	31-12-17	31-12-16	31-12-17	31-12-16
Loans and advances to customers (gross) [1,2]	5,856	3,392	15,067	14,028	12,475	11,240	13,309	13,247
Deposits from customers	45	36	420	404	672	455	645	649
Customer deposits under management [1,3]	6,779	5,046	9,687	9,619	12,288	11,222	12,019	12,186
Off-balance sheet funds [1,4]	1,253	805	1,295	1,428	1,118	655	1,581	1,385
Risk-weighted assets	9,364	8,717	14,300	14,300	12,249	12,185	14,750	17,400
Efficiency ratio (%)	56.1	53.8	45.2	49.1	36.0	38.9	35.6	35.8
NPL ratio (%)	0.8	0.8	2.6	2.6	5.3	3.5	3.8	3.4
NPL coverage ratio (%)	198	391	60	66	88	105	100	106
Cost of risk (%)	0.61	1.48	0.76	0.74	2.59	1.34	1.13	1.31

[1] Figures at constant exchange rates.

[2] Excluding repos.

[3] Excluding repos and including specific marketable debt securities.

[4] Includes mutual funds, pension funds and other off-balance-sheet funds.

Rest of Eurasia

Highlights

- **Positive trend in lending in Europe.**
- **Trend in deposits strongly influenced by the negative interest-rate environment.**
- **Earnings down due to lower revenues, despite the good performance of expenses and loan-loss provisions.**
- **Good performance of asset quality indicators.**

Macro and industry trends

The **Eurozone** economy continued to post solid growth in 2017. In accordance with information from Eurostat, GDP in the region grew at a relatively stable rate of around 0.6% in the first three quarters of the year. The most recent indicators suggest that this growth was maintained in the final part of the year. The improving labor market and increased confidence, alongside favorable financing conditions, underpinned momentum in consumption and investment. The latter factors were also boosted by increased global demand and the impact of growth in exports, which were not greatly affected by the appreciation of the euro over the year. As a result, the economy could have grown by around 2.4% overall in 2017. Despite the solid growth of domestic demand, inflation continued to moderate, below the ECB target, and the core component was relatively stable at around 1.1%. In this context, the ECB remains cautious and will continue to apply an accommodative monetary policy, steadily reducing asset purchases starting in January 2018 but extending the program at least until September.

Activity and results

This business area basically includes the Group's retail and wholesale business in Europe (excluding Spain) and Asia.

The **lending activity** (performing loans under management) in the area fell year-on-year by 2.7% at the close of 2017. In the rest of Europe there was growth of 1.6%, which did not offset the reduction in Asia of 19.1%.

Regarding the main credit **risk indicators**, the NPL ratio closed at 2.4% in December (2.6% in September 2017, and 2.7% in December 2016) and the NPL coverage ratio closed at 74% (85% as of 30-Sep-2017 and 84% as of 31-Dec-2016).

Financial statements and relevant business indicators
(Million euros. Percentage)

Income statement	2017	Δ%	2016
Net interest income	**180**	**8.7**	**166**
Net fees and commissions	164	(15.2)	194
Net trading income	123	40.4	87
Other income/expenses	1	(97.3)	45
Gross income	**468**	**(4.8)**	**491**
Operating expenses	(308)	(9.9)	(342)
Personnel expenses	(156)	(13.5)	(181)
Other administrative expenses	(141)	(5.5)	(149)
Depreciation	(11)	(10.4)	(12)
Operating income	**160**	**7.0**	**149**
Impairment on financial assets (net)	23	(24.3)	30
Provisions (net) and other gains (losses)	(6)	n.s.	23
Profit/(loss) before tax	**177**	**(12.9)**	**203**
Income tax	(52)	0.3	(52)
Profit/(loss) for the year	**125**	**(17.4)**	**151**
Non-controlling interests	-	-	-
Net attributable profit	**125**	**(17.4)**	**151**

Balance sheets	31-12-17	Δ%	31-12-16
Cash, cash balances at central banks and other demand deposits	877	(34.4)	1,337
Financial assets	990	(44.6)	1,787
Loans and receivables	15,009	(3.6)	15,574
of which loans and advances to customers	14,864	(3.0)	15,325
Inter-area positions	-	-	-
Tangible assets	36	(6.3)	38
Other assets	352	(4.6)	369
Total assets/liabilities and equity	**17,265**	**(9.6)**	**19,106**
Financial liabilities held for trading and designated at fair value through profit or loss	45	(33.4)	67
Deposits from central banks and credit institutions	2,364	(11.5)	2,670
Deposits from customers	6,700	(28.7)	9,396
Debt certificates	354	12.4	315
Inter-area positions	5,643	17.0	4,822
Other liabilities	1,246	116.0	577
Economic capital allocated	913	(27.5)	1,259

Relevant business indicators	31-12-17	Δ%	31-12-16
Loans and advances to customers (gross) (1)	15,261	(3.6)	15,835
Non-performing loans and contingent liabilities	556	(12.1)	633
Customer deposits under management (1)	6,660	(28.6)	9,322
Off-balance-sheet funds (2)	376	2.7	366
Risk-weighted assets	12,916	(17.4)	15,637
Efficiency ratio (%)	65.9		69.6
NPL ratio (%)	2.4		2.7
NPL coverage ratio (%)	74		84
Cost of risk (%)	(0.16)		(0.22)

(1) Excluding repos.

(2) Includes mutual funds, pension funds and other off-balance-sheet funds.

Customer **deposits** under management were still strongly influenced by the environment of negative interest rates. With data as of December 2017 they fell by 28.6% year-on-year (down 15.6% in Europe and down 79.3% in Asia).

Regarding **earnings**, gross income declined 4.8% year-on-year, with the figures differing from geographic area: Rest of Europe showed growth of 12.1%, while Asia posted a decline of 62.3%, mainly due to the payment of the CNCB dividend in 2016. Operating expenses continue to moderate (down 9.9% year-on-year), mainly due to control of all cost items (personnel, other administrative expenses and depreciation). Finally, there was also a decline in impairment losses on financial assets, as a result of which this geography contributed a cumulative net attributable profit in 2017 of €125m, 17.4% less than in 2016.

Corporate Center

The Corporate Center basically includes the costs of the head offices that have a corporate function; management of structural exchange-rate positions; specific issues of equity instruments to ensure adequate management of the Group's global solvency; portfolios and their corresponding results, whose management is not linked to customer relations, such as industrial holdings; certain tax assets and liabilities; funds due to commitments with employees; goodwill and other intangibles.

The Corporate Center's income statement has been influenced by the recognition of the impairment losses of €1,123m from BBVA's stake from Telefónica, S.A.

- Greater contribution from **NTI** than last year, mainly due to the recording of €228m in pre-tax capital gains from the sale of the stake in CNCB (€204m in the first quarter for the sale of 1.7% and €24m in the third quarter for the disposal of the remaining 0.34%). In 2016 there was also a sale of 0.75% in the third quarter with lower capital gains.
- Reduction in the **other income/expenses** heading (down 54.5% year-on-year), mainly impacted by the cut in the dividend paid by Telefónica.
- Moderation of **operating expenses**, which remained at similar levels to those of 2016 (up 0.9% year-on-year).

As a result, the Corporate Center had a net attributable loss of €1,844m, which compares with a loss of €794m in 2016. Excluding the effect of the impairment losses in Telefónica, the net attributable loss was €722m.

Financial statements (Million euros. Percentage)

Income statement	2017	Δ%	2016
Net interest income	**(357)**	**(21.6)**	**(455)**
Net fees and commissions	(86)	(21.2)	(110)
Net trading income	436	22.2	357
Other income/expenses	80	(54.5)	177
Gross income	**73**	**n.s.**	**(31)**
Operating expenses	(884)	0.9	(876)
Personnel expenses	(484)	0.3	(483)
Other administrative expenses	(97)	12.7	(86)
Depreciation	(303)	(1.3)	(307)
Operating income	**(811)**	**(10.6)**	**(907)**
Impairment on financial assets (net)	(1,125)	n.s.	(37)
Provisions (net) and other gains (losses)	(73)	(47.3)	(139)
Profit/(loss) before tax	**(2,009)**	**85.4**	**(1,084)**
Income tax	166	(43.3)	293
Profit/(loss) for the year	**(1,843)**	**133.1**	**(791)**
Non-controlling interests	(1)	(60.0)	(3)
Net attributable profit	**(1,844)**	**132.3**	**(794)**

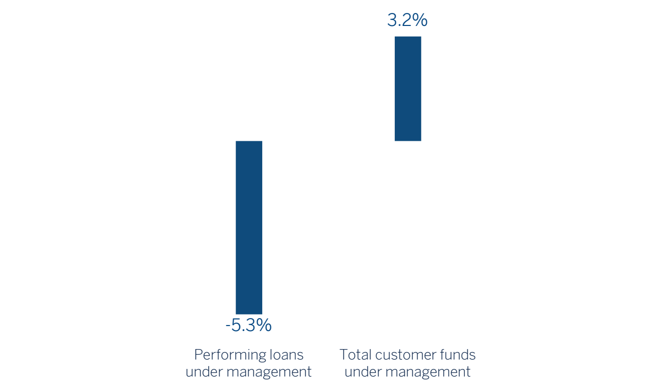
Balance sheets	31-12-17	Δ%	31-12-16
Cash, cash balances at central banks and other demand deposits	5	n.s.	(2)
Financial assets	2,520	50.4	1,675
Loans and receivables	-	-	130
of which loans and advances to customers	-	-	130
Inter-area positions	(1,501)	(67.8)	(4,658)
Tangible assets	1,893	(6.4)	2,023
Other assets	17,579	(7.6)	19,017
Total assets/liabilities and equity	**20,496**	**12.7**	**18,186**
Financial liabilities held for trading and designated at fair value through profit or loss	-	-	-
Deposits from central banks and credit institutions	-	-	-
Deposits from customers	-	-	-
Debt certificates	8,772	(16.4)	10,493
Inter-area positions	(16,384)	(14.7)	(19,217)
Other liabilities	443	(83.4)	2,666
Economic capital allocated	(24,941)	(6.1)	(26,559)
Shareholders' funds	52,606	3.5	50,803

Other information: Corporate & Investment Banking

Highlights

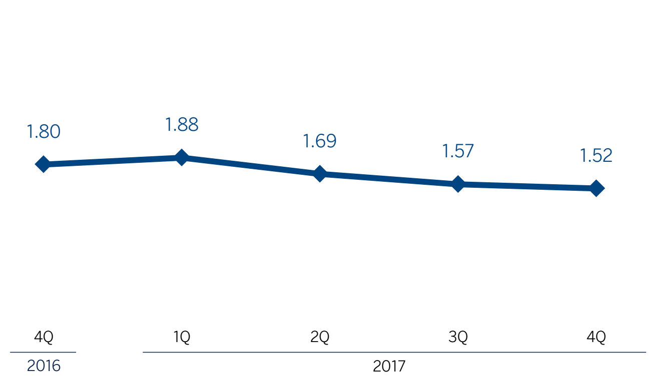
- Decline in lending volume, and slight increase in deposits.
- Positive trend in earnings, strongly supported by stable revenues, cost control and restriction on loan-loss provisions.
- Positive trend in risk indicators.

Business activity [1]
(Year-on-year change at constant exchange rates. Data as of 31-12-2017)

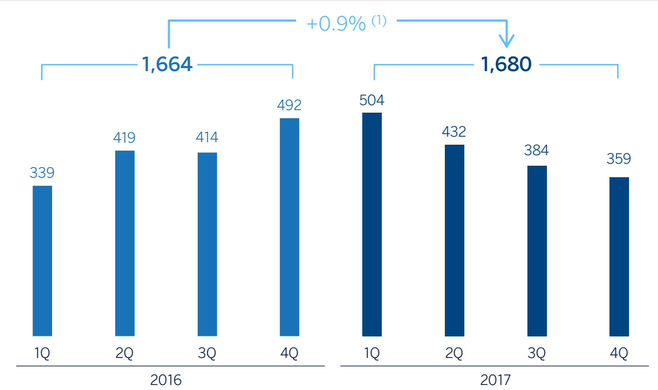


[1] Excluding repos.

Gross income/ATAs
(Percentage. Constant exchange rates)

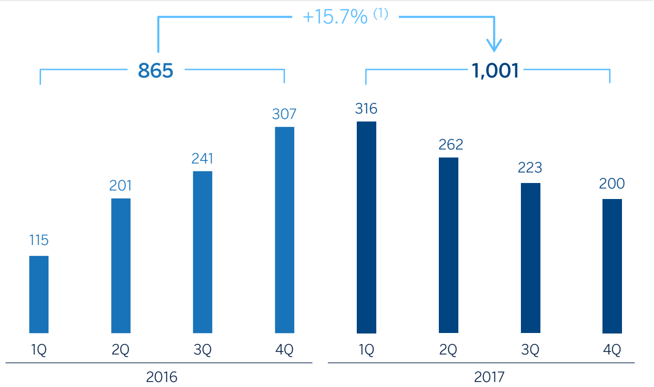


Operating income
(Million euros at constant exchange rates)



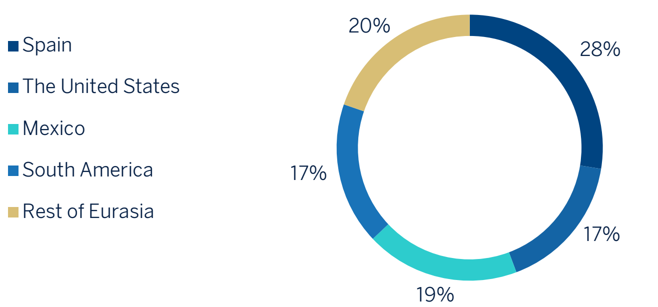
[1] At current exchange rates: -1.2%.

Net attributable profit
(Million euros at constant exchange rates)



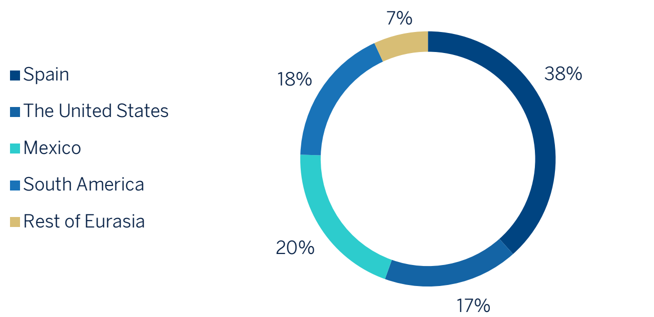
[1] At current exchange rates: +12.8%.

Breakdown of performing loans under management [1]
(31-12-2017)



[1] Excluding repos.

Breakdown of customer funds under management [1]
(31-12-2017)



[1] Excluding repos.

Financial market trends

The last quarter of the year was marked by new steps in the process of normalizing **monetary policies** in the United States and the Eurozone, approval of the tax reform in the United States, and improved global activity figures. The Fed began to reduce its balance sheet in October and resumed interest-rate hikes in December. In Europe, the ECB announced the extension of the asset purchase program until September 2018, but starting in January it will reduce the level of monthly purchases by half (€30 billion). To prevent sharp movements on the financial markets, the central banks have made it clear that the exit will be very gradual. Long-term interest rates have thus remained anchored at low levels for most of the fourth quarter of 2017, above all in Europe. In the United States, the slope of the curve has leveled off significantly, due to the rise in two-year bond yields, which are beginning to adapt to expectations of further rises, while the ten-year yield has barely increased.

The dollar was not able to capitalize fully on the approval of the tax reform in the United States and the rise in short-term rates. In contrast, the euro began to reflect the withdrawal of monetary stimulus. Emerging **currencies** depreciated due to global factors, which combined with idiosyncratic factors in the case of the Mexican peso and the Turkish lira.

The **stock market** in the United States continued to hit new highs, buoyed by the effects of the tax reform and low long-term interest rates. In contrast, the European stock markets closed the quarter with a slight fall, after hitting a new high in October. In the case of Spain, the crisis in Catalonia has had a moderate impact on the markets. Spain's country risk premium has stabilized at around 114 basis points, although it reached a spread of 130 at the time of greatest uncertainty.

Activity

All the comments below on rates of change, for both activity and earnings, will be given at constant exchange rate, unless expressly stated otherwise. These rates, together with changes at the current exchange rate, can be seen in the attached tables of financial statements and relevant business indicators.

The market context remains unchanged, with margins squeezed and surplus liquidity. **Lending** (performing loans under management) fell year-on-year by 5.3%. Performance has varied by geographic area: outstanding growth in the Mexico, Argentina, Chile and Colombia; and a decline in Spain, the Rest of Eurasia, the United States and Peru.

With respect to **asset quality**, the trend in risk indicators was positive. The NPL ratio stood at 0.7% as of December 2017, a decline in comparison to the 1.0% as of December 2016. The NPL coverage ratio improved to 103%, up from the figure recorded at the close of December 2016 (79%).

Financial statements and relevant business indicators
(Million euros. Percentage)

Income statement	2017	Δ%	Δ% (1)	2016
Net interest income	**1,092**	**(17.0)**	**(15.0)**	**1,315**
Net fees and commissions	675	5.5	7.7	640
Net trading income	793	20.2	22.2	660
Other income/expenses	112	(3.8)	(5.3)	117
Gross income	**2,672**	**(2.2)**	**(0.3)**	**2,731**
Operating expenses	(992)	(3.7)	(2.2)	(1,031)
Personnel expenses	(495)	(6.7)	(5.5)	(530)
Other administrative expenses	(390)	(2.7)	(0.6)	(401)
Depreciation	(108)	7.9	8.7	(100)
Operating income	**1,680**	**(1.2)**	**0.9**	**1,701**
Impairment on financial assets (net)	(93)	(59.9)	(59.6)	(231)
Provisions (net) and other gains (losses)	(42)	(35.0)	(34.4)	(65)
Profit/(loss) before tax	**1,545**	**10.0**	**12.8**	**1,405**
Income tax	(424)	4.4	7.0	(406)
Profit/(loss) for the year	**1,121**	**12.2**	**15.1**	**999**
Non-controlling interests	(120)	7.8	10.3	(112)
Net attributable profit	**1,001**	**12.8**	**15.7**	**888**

Balance sheets	31-12-17	Δ%	Δ% (1)	31-12-16
Cash, cash balances at central banks and other demand deposits	4,193	61.3	79.0	2,600
Financial assets	72,804	(11.9)	(10.0)	82,666
Loans and receivables	85,061	(3.3)	0.6	87,988
of which loans and advances to customers	59,376	(1.7)	3.3	60,428
Inter-area positions	-	-	-	-
Tangible assets	26	(26.1)	(20.3)	35
Other assets	2,078	(16.6)	(13.8)	2,492
Total assets/liabilities and equity	**164,161**	**(6.6)**	**(3.6)**	**175,781**
Financial liabilities held for trading and designated at fair value through profit or loss	49,059	(10.5)	(9.4)	54,785
Deposits from central banks and credit institutions	45,400	3.9	6.2	43,705
Deposits from customers	41,989	(6.3)	(2.4)	44,836
Debt certificates	523	(8.9)	(7.6)	574
Inter-area positions	19,687	(17.8)	(10.8)	23,957
Other liabilities	3,743	(2.8)	0.4	3,850
Economic capital allocated	3,760	(7.7)	(3.0)	4,074

Relevant business indicators	31-12-17	Δ%	Δ% (1)	31-12-16
Loans and advances to customers (gross) (2)	49,219	(10.8)	(5.7)	55,160
Non-performing loans and contingent liabilities	582	(27.9)	(23.0)	808
Customer deposits under management (2)	36,729	(2.4)	2.3	37,616
Off-balance-sheet funds (3)	1,357	17.3	34.1	1,157
Efficiency ratio (%)	37.1			37.7
NPL ratio (%)	0.7			1.0
NPL coverage ratio (%)	103			79
Cost of risk (%)	0.16			0.12

(1) Figures at constant exchange rates.
(2) Excluding repos.
(3) Includes mutual funds, pension funds and other off-balance-sheet funds.

Customer **funds** increased by 3.2% since December 2016. The increases in the United States, Mexico, Argentina and Colombia offset the fall in Spain, the Rest of Eurasia and Chile.

Results

CIB registered a net attributable **profit** of €1,001m in 2017, up 15.7% on 2016. This was mainly due to stable revenues, contained expenses and a lower level of loan-loss provisions. The highlights of the income statement are summarized below:

- Slight year-on-year decline of 0.3% in **gross income**. The fall in net interest income (which was due to lower lending volumes than in 2016, as customer spreads performed positively) was offset thanks to the earnings from management of market volatility, above all in the first quarter of 2017, and the good performance of income from fees and commissions (up 7.7%), basically in Spain.

  The **corporate finance** business in 2017 was characterized by a high level of activity and a significant marketing effort, which has resulted in BBVA winning numerous mandates, strengthening its market position in this business.

  The **Equity Capital Markets** (ECM) unit was very active in the primary equity market throughout the year, with numerous market operations such as block trades and major IPOs, in which BBVA played a key role.

  In **mergers and acquisitions** (M&A), the close of the year demonstrated the consolidation of the growth that began in Spain in 2015, driven by an improving economic situation, greater investment by foreign funds and an improved corporate financial situation. The number of operations in 2017 grew significantly (up 6% on 2016), giving rise to a large volume of both domestic and foreign investment. In particular, the market was very active, especially in the infrastructure and energy sector, despite uncertainties in the short and medium term.

  BBVA also continued to demonstrate its leading position in **green finance**, as one of the most active financial institutions in the green bond and green loan markets. BBVA believes and is committed to this growing financing market, so it is opening up the range of "green and sustainable" financing products for its customers (bonds, loans, credit facilities, project finance, etc.).

- Cumulative **operating expenses** declined by 2.2% compared to the same period in 2016. The keys to this figure continued to be a slowdown in the growth of personnel and discretionary expenses, and the increase in costs associated with the investment plan in technology.

- Lastly, it is worth noting the lower **impairment losses on financial assets** with respect to 2016 (when there were increased provisions arising from the downgrades in the ratings of some oil & gas companies in the United States, above all during the first three months of the year).

Customer relationship

Customer experience

BBVA's main focus of attention is to satisfy its customers' needs and connect with them in a more attractive way that combines innovation, technology and experience. That is because a **new standard in customer experience** is one of the Group's Strategic Priorities, as explained in the Strategy and business model section. BBVA has a customer-oriented business model that offers a differential level of service with a very ambitious goal: to be leaders in customer satisfaction across its global footprint.

A customer-centric approach

There has been a change in the way customers interact with banks. "Do it yourself", new technologies and the desire of customers to be connected at any time and from anywhere is booming. In this changing scenario, BBVA has a clear strategy: to put the customer at the center of everything we do.

The objective of BBVA is to move from being infrastructure providers around the money to helping our customers in making financial decisions, providing them with relevant advice and solutions with greater added value. In short: at BBVA we want to have a positive impact on the lives of people and companies.

In addition, BBVA promotes a customer-centered mentality throughout the Organization, because it considers all its employees can have a positive effect on customers, regardless of the department they work in. That is why **new ways of doing things** are being implemented, such as:

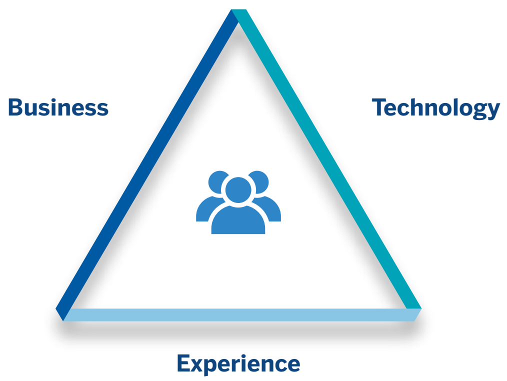
- The **design thinking** method. This method has recently become an extremely useful tool focused on fostering effective and successful innovation in organizations. Design thinking is a methodology for developing customer-centric innovation, offering a lens through which we can observe challenges, detect needs and overcome them. In other words, design thinking is an approach that uses the sensitivity and problem-solving method of designers to satisfy people's needs in a way that is technologically feasible and commercially viable. In short, it allows the design of new customer experiences. It goes far beyond simple visual design: it guarantees the creation of new experiences involving people, focusing attention on helping customers at key moments, such as buying a home, sending children to study abroad or moving to another country. To incorporate design thinking in BBVA hundreds of people around the world have been trained in new tools and techniques that are helping implement this methodology in a number of projects, making change possible from the stage of thinking about the design to creating it.
- **Intrapreneurship** is a management and planning system that stimulates the growth of the entrepreneurial spirit within organizations so that the innovative ideas of individuals and groups with a business vision are generated and used to develop new business opportunities. It consists of working as an entrepreneur within the context of a bigger organization. BBVA wants to break down barriers and silos across the Organization, by bringing together the best ideas with the best talent to deliver to its customers. This has been done by using a new internal methodology that challenges intrapreneurs to identify a new idea, ensure the acceptance of key stakeholders, build a prototype, research it with real customers, build a solution, agree a roadmap and pull together a business case; all in only six weeks. This accelerates the innovation process, combining a customer-centric approach, focused work and responsiveness.
- Active collaboration with external suppliers allows BBVA to search for the best ideas and technologies to offer its customers, because not all good ideas come from inside the Organization. This **external collaboration** can take many forms, such as hiring key skillsets from other industries to incorporate new ideas that come from areas such as travel, retail trade, technology, fashion, etc. In addition, BBVA participates and collaborates with many startups and associated ecosystems through the Innovation Centers in San Francisco and Madrid and programs that it has implemented within the new digital ecosystem: BBVA Open Talent and the Open Market AP.

BBVA is also becoming an increasingly **global** bank through its focus on creating global products and experiences. This allows it to leverage best practices, wherever they come from. This model of creation is present in each global project, and is supported by two key elements: the **triangle** and **3-6-9**.

It aims to offer incredible experiences to customers, while reducing execution time.

The **triangle** is formed by three vertices: business, customer experience and technology. It represents the connection between three disciplines in a single project: those responsible for the business, for user experience (designers and data experts) and for technology (or software engineers).

Relationship model



The aim of the **3-6-9** methodology is to speed up the pace of creation and launch solutions onto the market in record time, starting from when teams are defined until the solution is made available to customers.

New digital ecosystem

Every year BBVA organizes the fintech startups competition **BBVA Open Talent**, a financial technology competition that promotes innovation in the banking and finance ecosystem. Its main aim is to foster BBVA's collaboration with this ecosystem, resulting in specific projects and initiatives designed to create a real impact. In 2017, 798 startups from more than 70 countries competed in the ninth edition of BBVA Open Talent. A total of over €250,000 in prize money was distributed among the different winners of the five categories: Artificial Intelligence, Fintech for Companies, Identity, Regional and Global Trends. Also in 2017, two special prizes were added: Women in Fintech and Financial Inclusion. The winner was the Israeli artificial intelligence startup Change.

In addition the **Open Market API** was launched at the start of 2017, after more than a year of exploration with developers and companies. This is an open banking program that positions BBVA as one of the first major banks to have made many of their APIs (Application Programming Interface) available to businesses. These APIs are the perfect tool for the Bank to develop its vision of how to act in a new financial ecosystem, which will be essentially be formed when in 2018 the European PSD2 Directive is transposed to Spanish legislation. The EU law obliges financial institutions to share their data, thus drastically reducing barriers to market entry for new competitors. With this move, companies, startups and developers will be capable of constructing new products and services by accessing and integrating customers' bank data into their systems and applications (provided that the customers give their consent). This collaborative approach is different from that of the traditional banking business, typically not prepared to share information and open up to outsiders. It is also the logical consequence of a completely new business environment. To achieve this, BBVA has developed nine types of APIs (Customers, Accounts, Cards, Payments, PayStats, Loans, Notifications, Business Accounts and Alipay), which constitute the gateway through which other companies may open up new lines of business and boost their digital transformation.

BBVA is focused on contributing value to customers through APIs based on collaboration with other companies in three vertical lines: i) anonymous aggregate data; ii) personal banking; and iii) business banking. The latest incorporation has been the API Alipay, which allows retailers to connect with the main online means of payment in China. This API offers simple integration with the best possible documentation, making it easier for retailers to accept payments from the Chinese system for their business. The platform opens up the door to a market of nearly half a million Chinese tourists who are estimated to have visited Spain in 2017, who spent a total of €1 billion.

New solutions launched in 2017

BBVA has continued to deploy global solutions for its customers, making progress in the construction of digital and data capacities.

In 2017 the Group launched a number of products onto the market, such as **Tuyyo**, a mobile app that allows customers to make transfers, send money 24 hours a day and receive funds in a question of minutes, once the transaction has been completed, and access them comfortably and simply, via ATMs, their current accounts or at previously approved stores. The first real pilot was also carried out on international wire transfers based on blockchain technology and APIs. It has made clear how the payment processes can improve significantly by using emerging technologies, turning into clear advantages for customer transactions.

In addition, BBVA has continued to develop global products and solutions across the different geographic areas in which the Group operates, such as **BBVA Wallet** in Colombia and in Peru; the **Commerce360** tool for SMEs in Colombia, which uses big data to offer market studies to customers with POS devices; and the development of **BBVA Net Cash**, an online banking application for companies that now provides customers' positions in real time.

Analytical capacities were also implemented to provide an end-to-end vision of the digital sale processes and more in-depth analysis of their operation.

The following are some of the new customer-centric initiatives and solutions launched in 2017, by **business area**:

Spain

- **BBVA Bconomy** is a digital and mobile functionality that gives customers a customized diagnostic tool for the status of their financial health, which for the first time measures changes in customers' income and expenses. BBVA Bconomy also offers a demographic comparison with other people in their environment with similar characteristics.

- **Click and Pay** is a new credit line that allows SMEs and self-employed people who are BBVA customers to request financing online or at the branch at zero interest (an opening fee is charged for each amount) and with a renewable annual limit.

- In addition, customers and non-customers in these groups can download a **digital calendar** free from bbva.es that can send them warnings and notifications, including alerts on the dates of the most frequent payments, such as payroll, social insurance and the main taxes.

- **A new mobile BBVA Spain app**, whose design reflects the BBVA tagline "Creating Opportunities", as it continues to allow any transaction to be made from anywhere, simply and easily, but also takes advantage of all the increasing opportunities offered by new technologies and big data. This new app has been recognized by Forrester Research as the best mobile banking application in the world.

The United States

- **Digital availability of new products**, such as a quick personal loans and credit cards, available to both customers and non-customers.

- **Client Vista**, which reduces the processing time for opening new accounts to 5-7 minutes (before it was 40 minutes). It also makes it easier to add extra products, such as savings accounts and debit cards, and to configure online and mobile banking (all in only a few clicks and not in a separate process). The project was created through the design thinking methodology between employees and technological partners.

- **New functionalities in the mobile app** that allow international wire transfers to be made, increase security and ease of use (facial and fingerprint identification), and most importantly, make it possible to buy new products with only a couple of clicks, which boosts the rate of adoption of the mobile app. This mobile app has also been named the best banking app by its customer base.

Mexico

- **BBVA Plan**, an application for savings that offers customers the possibility of creating short-term targets through rules for intelligent and automated savings, which mean that users can save money while spending it. In 2017, 75,000 targets were achieved with more than MXN 250m saved.

- **Financial check-up**, a new mobile functionality geared to maintaining good financial health for its customers. In 2017, 2.5 million more consultations have been recorded.

- **Digital mortgage**, a product for both customers and non-customers that allows them to check whether they are eligible for a mortgage loan and estimate their repayment capacity using a simulator, thus being able to obtain an approved loan that is ready to be formalized.

- Launch of ***apartados*** (sections) as a financial alternative so that customers can manage the money in their account better and pay all their expenses for the month. A total of 150,000 *apartados* have been generated in the first two months of operation.

Turkey

- **New dashboard in retail banking** that helps reduce the number of clicks needed to get the information required within the mobile app.

- **Monetary deposits and withdrawals using the QR** (Quick Response) code, through the mobile banking platform, including currency withdrawals.

- **Voice authentication biometrics.**

- **Eye scanning.** Recognition of the iris in mobile banking for access processes.

- **Garanti Plus,** a new operational model in offices that makes use of the benefits of the emerging digital world to reduce waiting time, increase the effectiveness of sales and improve customer service.

South America

An servicing efficiency plan has been developed in **Argentina**. Its main milestone was the launch of the express office, which is characterized by being operated exclusively using electronic devices. With respect to SMEs, an online risk simulator entered operation to allow an assessment of some products in real time. The Referidos Nóminas (Salary Referrals) campaign was also launched.

In **Chile** new functionalities were launched to improve customer experience. They include BBVA Pass, which can authorize transactions online or through the mobile app without having to use the code card; and the new version of the BBVA Wallet mobile app. In addition, Consumo Go has been launched as an application that offers pre-approved loans to a large universe of non-customers who receive the offer via smartphone.

In **Colombia** anti-theft security was implemented in ATMs in locations where security is not ideal, or at times when ATM thefts are on the increase; Dinero Móvil (Mobile Money) was developed as an application for sending and receiving money; and salary advances were introduced as a way of awarding small consumer loans aimed at customers who receive their salaries by direct billing. Another functionality worth highlighting are online mortgage loans.

In **Peru** Pockets de Ahorro (Savings Pockets) were created as a new solution for simple saving in a single account: customers set a savings target and automatically program the separation of their money until achieving the target. A one-click account was also introduced, which optimizes the process of opening accounts in branches, with identification and signature by biometric means and the contract being sent to the customer's email. The time needed to open an account has been cut from 20 to 2 minutes.

In **Venezuela** a new mobile app called Dinero Rápido (Quick Money) was launched that allows payments to be made immediately to customers and non-customers via their smartphones, and a new instant credit facility, which is the first product that can be contracted end-to-end via mobile apps.

In **Paraguay**, the search for improvements in the customer digital experience was a priority in 2017, so a means of payment was developed that did not need a card to carry out transactions with customers in ATMs and in retailers, using simply the customer's cell phone, thus guaranteeing security and easy use. Also worth noting is the implementation and generation of digital statements, which not only contribute to the environment, but also make statements easier to access for customers, while generating a positive impact on the Bank's costs and on operating processes.

In **Uruguay** the Banred payment app was launched with the BBVA front office, allowing customers to make their payments securely and comfortably, check various aspects of their accounts and recharge their phone balance.

Net Promoter Score

Agility, simplicity and transparency are key factors that mark the improvement initiatives at BBVA Group to ensure that all customer interactions with the Bank are a positive experience.

The internationally recognized **Net Promoter Score** (NPS or Net Recommendation Index - IReNe) methodology calculates the level of recommendation, and hence, the level of satisfaction of BBVA customers with its different products, channels and services. This index is based on a survey that measures on a scale of 0 to 10 whether a bank's customers are positive (score of 9 or 10), neutral (score of 7 or 8) or negative (score of 0 to 6) when asked if they would recommend their bank, a specific product or a channel to a friend or family member. This is vital information for identifying their needs and drawing up improvement plans, on multidisciplinary teams work to create unique and personal experiences.

The Group's interiorization and application of this methodology over the last six years has led to a steady increase in the customers' level of trust, as they recognize BBVA to be one of the most secure and recommendable banking institutions in every country where it operates.

Improvements implemented in **2017** are described below, as a result of the analysis of the information facilitated by the NPS methodology:

- **Spain**: design and development of the new Siente la Experiencia (Feel the Experience), to be implemented in 2017 and 2018.
- **The United States**: application of transparency, clarity and responsibility (TCR) criteria across all the channels.
- **Mexico**: integration of customer voice recognition within projects, providing a differential customer experience from the start (quality at origin).
- **Turkey**: redesign of the complaints management process and implementation of an analysis tool based on big data to map and monitor the customer journey.
- **Argentina**: integration of the design thinking methodology in strategic projects, with a user-centric design; and transformation of its chat into an information hub that forms a bridge between the different channels.
- **Chile**: implementation of a new model of service in branches, with a clear focus on transparency and improvement of contact with the manager.
- **Colombia**: implementation of improvements in the digital channels.
- **Peru** and **Uruguay**: introduction of online measurements in the digital channels to make speedy improvements in these channels/apps.
- **Paraguay**: diagnosis and improvement actions in issues

related to excellence in face-to-face and phone service, with special emphasis on the training and certification of executives in effective customer service.

- **Venezuela**: implementation of a new customer feedback model (IReNe 2.0).

In **2017**, BBVA ranked first in the NPS indicator in eight countries (seven in 2016): Spain, Mexico, Turkey, Argentina, Colombia, Peru, Venezuela and Paraguay. By channels, there was also an improvement in this indicator in both digital banking and branches, with the improvement experienced among digital customers being greater.

Net Promoter Score (NPS) (31-12-2017)

Spain	#1	Colombia	#1
Mexico	#1	Peru	#1
Turkey	#1	Paraguay	#1
Argentina	#1	Venezuela	#1

Peer Group: Spain: Santander, CaixaBank, Bankia, Sabadell, Popular // Mexico: Banamex, Santander, Banorte, HSBC // Turkey: AKbank, Isbank , YKB, Deniz, Finanz // Argentina: Galicia, HSBC, Santander Río // Colombia: Davivienda, Bogotá, Bancolombia // Peru: Interbank, BCP, Scotiabank // Paraguay: Continental, Itaú, Regional // Venezuela: Banesco, Mercantil, Banco de Venezuela.

TCR Communication

The Transparent, Clear and Responsible (TCR) Communication is a project that promotes transparent, clear and responsible relations between BBVA and its customers.

- T is for transparency: providing customers with all relevant information at the right time, maintaining a balance between benefits and costs.
- C is for clarity, meaning easy to understand. It is achieved by the Group through language, structure and design.
- R is for responsibility, and means looking after the customers' interests in the short, medium and long term.

The **objectives** are to help customers make informed decisions, improve customer relations with the Bank, look out for their interests and make BBVA the most transparent and clearest bank in all the markets where it operates. It also means BBVA can attract new customers and encourage existing customers to recommend it.

The project is **coordinated** by a global team, together with a network of local TCR owners located in the main countries where the Bank operates, while its execution involves the participation of many of the Bank's areas and employees.

The project has two main **lines of work:**

- Implement TCR to transform the traditional bank, through the creation of TCR product leaflets, the adaptation of the contracts to a TCR format, the amendment of the claim response letters and the follow-up of the telephone sales and advertising of the Entity.
- Implement TCR in the new bank and progress in training and change towards a TCR culture .

TCR communication to transform the traditional bank

- **TCR product leaflets**

  TCR product leaflets are short documents used by business managers to describe financial products to customers detailing their benefits, advantages, costs and risks. The objective is the customers have all the information they need to make informed decisions. Currently there are leaflets for 90% of the contracts concluded with individual customers in Spain, Mexico, Argentina, Chile, Peru, Colombia and Venezuela. In the United States, coverage is slightly below this figure; and in Turkey, the project began in 2017. The TCR product leaflets have also been introduced in the SME and commercial segments in Spain, Mexico, Peru, Colombia and Venezuela.

  In **2017**, BBVA introduced more than 90 new TCR leaflets and maintained all those already in place. It also initiated actions to encourage their continued and appropriate use by business managers.

  For **2018**, the objective is to conclude the process of implementation and guarantee the continued use of these leaflets.

- **TCR contracts**

  This initiative involves reworking current customer contracts and structuring them in a more intuitive way with an easy to understand language.

  In **2017**, new TCR contracts were introduced in Spain, Mexico, Argentina, Chile, Peru and Venezuela (a total of 22 new TCR contracts in 2017).

  For **2018**, the aim is to continue with the implementation process, first addressing the contracts for the most common products and those related to the purchase of products via digital channels.

- **Telesales script**

  In **2017**, the work team in Colombia, Peru and Argentina implemented new TCR telesales scripts to ensure that the information provided during each call is complete and clear. A total of 22 sales scripts were introduced, representing 80% of the contracts in these countries.

In **2018**, the aim, as in the case of the TCR product leaflets, is to conclude the process of implementation and guarantee the continued use of these scripts.

- **Claims**

  In **2017** the claims teams from Chile, Peru and Venezuela modified the main letters of response to claims from customers with the aim of making them TCR (41 new letters in 2017).

  The challenge for **2018** is to continue with this process and consolidate it.

- **TCR advertising**

  The BBVA's **TCR Advertising Code** came into force on 1 January 2015. Since then, the TCR team has monitored the TV advertising campaigns to measure their compliance with this Code and, specifically, the extent to which the campaigns were perceived as transparent and clear by their target audience. The results of this study have led to a process of continuous improvement in the different countries.

  The objective for **2018** is to continue with these studies and work to secure BBVA's position as a global leader in clarity and transparency.

TCR Communication in the new bank

- **TCR in new digital solutions**

  In **2017**, BBVA has extended the number of global digital projects (with implementation in a number of countries) for which there are TCR experts. These projects focus on the key experiences of web and mobile customers.

  The plan for **2018** is to continue along the same lines.

TCR training

To ensure the Bank adopts TCR values in all its activities, and specifically, in all new initiatives in the digital transformation process, requires employees to be aware of these principles.

In **2017**, in addition to organizing numerous workshops for workers involved in these initiatives, the Group has developed online training content. The first BBVA Clear Language program has been launched, with a pilot training scheme that will extend to the legal departments of all the countries in 2018 to boost clarity and transparency in interaction with customers.

Also for **2018**, the aim is also to make progress with disseminating TCR among all the Group's partners through a new wave of the training initiatives that have already been created, as well as by launching a new training action that helps apply the TCR principles in day-to-day activity.

TCR indicators

BBVA has an indicator called the Net TCR Score (NTCRS), which measures the degree to which customers perceive BBVA as a transparent and clear bank in comparison with its peers in the main geographic areas where the Group operates.

In **2017**, BBVA was in first place in six countries: Mexico, Turkey, Colombia, Peru, Venezuela and Uruguay.

Customer care

Complaints and claims

The Group has an appropriate claims management and service **model** that positively transforms customer experience. Customer opinions are gathered by digital feedback quickly and efficiently, allowing BBVA to anticipate any problems that they may have in real situations and meet their expectations. In this way, BBVA wants to respond precisely to its customers' demands, avoiding bad experiences that can harm its image and lose trust.

In line with the commitment to **digital transformation**, any type of opinion provided by the customer is examined, whatever its source (NPS, digital feedback, complaints, claims, etc.). In addition, BBVA is active in the social media, which gives it the opportunity to respond and manage negative comments from dissatisfied customers, and offer solutions to problems with simple, friendly, quick and above all personalized responses.

Main indicators of claims (BBVA Group)

	2017	2016	2015
Number of claims before the banking authority (for each 10,000 active customers)	10.02	9.93	8.95
Average time for settling claims (normal days)	7	12	11
Claims settled by First Contact Resolution (FCR) (%)	31	37	30

The various **claims units** in BBVA Group are constantly evolving, optimizing processes and improving and developing new functionalities to which defined protocols are applied. All this will lead to greater efficiency in the service offered to customers.

In addition, work continues on a specific **site** for recording and monitoring the claims metrics. All the information related to complaints and claims is loaded into it, and it generates reports that analyze changes and behavior that is reported to senior management. The site also includes work on a system of alerts on the main claims indicators by country, designed to ensure compliance with the benchmark indicators based on the acceptable number of claims for each country.

The Group's claims units implement periodic **action plans** that prioritize the most important initiatives to be carried out and resolve the problems detected, based on understanding of the root causes identified in the claims analysis.

In short, BBVA's claims management is an opportunity to offer greater value to customers and increase their loyalty to the Group.

Customer claims in **2017** showed a growth trend compared to the previous year in Spain, a very focused increase in clauses related to mortgage loans. Mexico, with the biggest active customer base, is also the country with the biggest number of claims.

Number of claims before the banking authority (For each 10.000 active customers) (1)

	2017	2016	2015
Spain	4.87	0.82	0.66
The United States	4.96	n/av	n/av
Mexico	16.12	19.87	19.12
Turkey	3.21	3.76	4.29
Argentina	2.68	1.90	1.96
Chile	5.55	5.90	7.09
Colombia	21.65	19.69	15.51
Peru	2.21	2.02	1.58
Venezuela	1.04	1.93	2.18
Paraguay	0.79	0.19	0.00
Uruguay	0.41	0.39	0.88
Portugal	34.84	43.66	33.63

n/av = not available.

(1) The banking authority refers to the external body in which the customers can complain against BBVA.

The **average time for settling claims** in the Group has been reduced by nearly half, mainly due to the significant reduction in the average time for resolution in Mexico (from 13 days in 2016 to 4 in 2017).

Average time for settling claims by countries (normal days)

	2017	2016	2015
Spain	25	15	35
The United States	3	n/av	n/av
Mexico	4	13	10
Turkey	2	1	1
Argentina	7	8	6
Chile	5	6	9
Colombia	4	4	4
Peru	12	15	19
Venezuela	13	4	4
Paraguay	6	5	6
Uruguay	8	6	6
Portugal	5	3	4

n/av = not available.

The claims settled by the First Contact Resolution (FCR) model account for 31% of total claims, thanks to the management and attention of these claims are aimed to reduce the time of resolution and increase the quality service, improving so the customer experience.

Claims settled by First Contact Resolution (FCR. Percentage)

	2017	2016	2015
Spain [(1)]	n/a	n/a	n/a
The United States	63	n/av	n/av
Mexico	38	40	18
Turkey [(2)]	44	39	43
Argentina	27	34	42
Chile	6	18	10
Colombia	73	78	63
Peru	4	4	17
Venezuela	1	8	21
Paraguay	28	35	60
Uruguay	12	16	17
Portugal [(3)]	n/a	n/a	n/a

n/av = not available.

n/a = not applicable.

[(1)] In Spain, is applicable a FCR type called IRR (Immediate resolution response) to credit card incidents, but not claims.

[(2)] In Turkey, the weighting is calculated by the total number of customers.

[(3)] This kind of management does not apply in Portugal.

Customer Care Service and Customer Ombudsman

The **activities** of the Customer Care Service and Customer Ombudsman in 2017 were carried out in accordance with the stipulations of Article 17 of the Ministerial Order (OM) ECO/734/2004, dated 11 March, of the Ministry of the Economy, regarding customer care and consumer ombudsman departments at financial institutions, and in line with the new "Regulations for Customer Protection in Spain" of the BBVA Group approved by the Board of Directors of the Bank in 2015, regulating the activities and powers of the Customer Care Service and Customer Ombudsman.

The Customer Care Service processes **claims and complaints** addressed to both the Customer Ombudsman and the Customer Care Service itself in the first instance, except for matters falling within the powers of the Customer Ombudsman as established in the aforementioned regulation.

Activity report on the Customer Care Service in Spain

2017 was marked by a difficult environment, above all relating to the various clauses in mortgage loan agreements (arrangement fees), which have conditioned the figures for claims in the Spanish financial system. In addition, the Customer Care Service Department assumed the claims of all customers from Catalunya Bank, which were integrated into BBVA in September 2016, which resulted in a greater number of claims compared to the previous year.

Customer **claims** admitted by BBVA's Customer Care Service in Spain amounted to 174,249 cases in 2017, of which 171,146 were resolved by the Customer Care Service itself and concluded in the same year, which accounted for 98% of the total. A total of 3,103 cases remained as pending analysis.

On the other hand, 153,061 cases were not admitted to processing as they did not comply with the requirements of OM ECO/734. Practically 90% of the claims received corresponded to mortgage loans, mainly to expenses from the formalization of mortgages.

In 2016, the admitted claims amounted to 23,060 and the cases resolved and concluded amounted to 18,477, an 88% of the issues.

Claims handled by Customer Care Service by complaint type (Percentage)

Type	2017	2016	2015
Resources	9	24	26
Assets products	79	27	20
Insurances	1	7	8
Collection and payment services	2	8	17
Financial counselling and quality service	2	7	9
Credit cards	4	10	9
Securities and equity portfolios	1	5	4
Other	2	12	7
Total	**100**	**100**	**100**

Claims handled by Customer Care Service according to resolution (Number)

	2017	2016	2015
In favor of the person submitting the claim	29,041	7,071	4,750
Partially in favor of the person submitting the claim	90,047	2,830	1,738
In favor of the BBVA Group	52,058	10,378	7,827
Total	**171,146**	**20,279**	**14,315**

The claims management **model** and the principles governing the activity of the Customer Care Service are aimed at achieving recognition and trust on the part of the Group's customers, with the aim of increasing their satisfaction levels. The model operates from the origination stage, as the Customer Care Service sits on the committees presenting new products and services. In this way, possible customer dissatisfaction can be anticipated and avoided.

Additionally, in accordance with the recommendation of the regulatory body, progress continued in 2017 on the ambitious **training plan** that has been created for the whole team making up this Service. The aim is to guarantee the BBVA managers have the knowledge to improve identification of customer needs and contribute high added value solutions.

Report on the activity of the BBVA Group Customer Ombudsman in Spain

In 2017, the Customer Ombudsman maintained the goal common to the BBVA Group as a whole of unifying criteria and fostering the protection and security of customers, making progress in compliance with regulations on transparency and customer protection. With the aim of passing on effectively its reflections and criteria on matters subjected to its consideration, the Ombudsman meets with areas and units in BBVA Group: Insurance, Pension Plan Manager, Business, Legal Services, etc.

The number of customer **claims** managed by the Customer Ombudsman for resolution in 2017 was 1,661. Of these, 121 were finally not processed as they did not meet the requirements set out in OM ECO/734/2004.

Claims handled by the Customer Ombudsman by complaint type (Number)

Type	2017	2016	2015
Insurance and welfare product	600	590	459
Assets operations	367	305	161
Investment services	133	141	59
Liabilities operations	257	175	101
Other banking products (credit card, ATMs, etc.)	140	100	48
Collection and payment services	69	63	37
Other	95	127	100
Total	**1,661**	**1,501**	**965**

The **type** of claims managed in the table above follow the criteria established by the Claims Department of the Bank of Spain in their requests for information.

Claims handled by Customer Ombudsman according to resolution (Number)

	2017	2016	2015
In favor of the person submitting the claim	-	-	2
Partially in favor of the person submitting the claim	797	861	544
In favor of the BBVA Group	622	516	324
Suspended processing	8	-	-
Total	**1,427**	**1,377**	**870**

51.5% of the customers who submitted a claim to the Ombudsman in 2017 reported some level of satisfaction, either because of the decision of the Customer Ombudsman or its role as mediator between BBVA Group entities and customers.

Customers who are not satisfied with the Customer Ombudsman's response may refer the matter to the official **supervisory bodies** (the Bank of Spain, CNMV and the Directorate General of Insurance and Pension Funds). The number of claims submitted by customers to the supervisory bodies in 2017 was 127.

In 2017, BBVA Group continued to make progress in implementing the suggestions of the Customer Ombudsman related to adapting products to the profile of customers and the need for transparent, clear and responsible information. The recommendations and suggestions made by the Customer Ombudsman are focused on increasing the level of **transparency and clarity** of information that BBVA Group provides for its customers, both in its commercial products that it makes available to them, and in compliance with the orders and instructions issued by customers. The aim is to guarantee that customers understand the nature and risks of the financial products that they are offered, that the product is adapted to the customer profile and that the information provided by the Entity is impartial and clear, including the advertising targeted at customers. To do so, the Group is employing the Transparent, Clear and Responsible (TCR) communication initiative for Responsible Business, providing as much data and documentation as necessary.

In addition, with the increasing digitalization of the products offered to customers and their growing complexity, a special sensitivity is required with some groups of customers that due to their profile, age or personal situation present a high level of vulnerability.

Operational risk management and customer protection

Security measures have been strengthened in 2017 as a result of the increase in cyber threats and cyber crime in general. Protection and prevention strategies have been applied to mitigate the risk of attacks and their possible impacts on internal and external resources.

A working **methodology** has been developed to allow the deployment of baselines (resources, capacities, plans and responsibilities) according to the different vectors of attack, based on four key elements: prevention, preparation, response and recovery. This working methodology forms part of a general framework that BBVA defined at the end of 2016 for the Group's organizational resilience, geared to:

- improving the procedures for detection, prioritization and escalation;
- improving the global capacity for reaction and response; and
- strengthening the technical teams in all the countries dedicated to cybersecurity and engineering risk management.

In addition, the capacities created by the Engineering Risk & Corporate Assurance (ERCA) committee have been consolidated in the area of **security** mechanisms, and specifically in the area of identification and authentication, allowing the Group to generate new customer experiences and improve existing ones. As a result of this work with a single team, together with the business areas, and with the precept that the customer is first, a significant increase in new experiences for customers has been noted, which allows BBVA to follow the path of the latest technological innovations offered by the major players.

Examples of this are iris ID access by customers to mobile banking, supported by the technology offered by Samsung devices, access by Face ID, or the possibility of ordering transfers through Siri using the Apple technology. All these make perfectly clear the great responsiveness when it comes to creating new customer opportunities, thinking fast and thinking big, taking into account the available capacities for security, and without reducing the level of protection required by legislators and industry standards.

A number of initiatives have been taken within the area of **business continuity**, in other words, incidents with a low probability of occurrence and very high impact, such as reviewing and updating the corporate regulations; continuing with the implementation of the business impact analysis, with the resulting update of the continuity plans; and reviewing technological dependency on critical processes, informing the corresponding continuity committees of their results so they can be aware and improve response where necessary, in a scenario of unavailability due to failures in the information systems.

During **2017** numerous business continuity strategies have been activated in BBVA Group, among them related to the earthquakes in Chile, and particularly Mexico; those affecting the United States as a result of hurricanes and storms: Harvey in Texas, Irma in Florida and Stella in New York; the problems of social conflict in Venezuela; serious flooding in the north of Peru; and the torrential rains in the area of Mocoa, Colombia.

As regards **personal data protection**, there has been much work done in 2017 to implement the General Data Protection Regulation in BBVA Group, which will enter into force in 2018. Moreover, in compliance with one of the new requirements under the aforementioned Regulation, a Data Protection Officer for the BBVA Group was appointed.

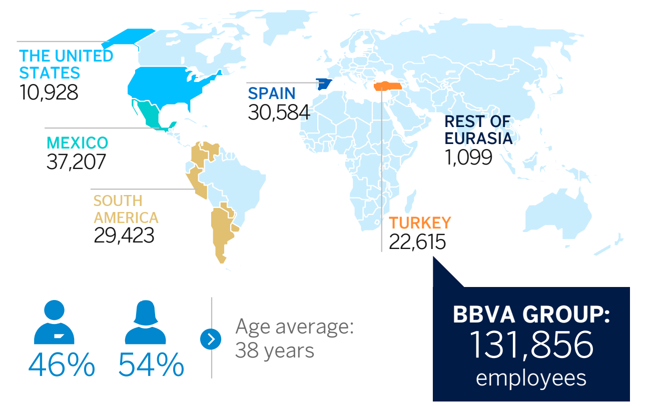
With respect to the personal data **security** measures, and in line with the above, a supplementary organizational project was implemented to review and update all functions, processes, methodologies, classification models, controls, incident management, etc. and ensure they are adapted to the new Regulation.

People management

BBVA's most important asset is its team, the people who make up the Group. That is why one of BBVA's six Strategic Priorities is **a first-class workforce**. This entails attracting, selecting, training and retaining top-class talent wherever it may be, as well as providing the best employee experience. To do so, he Organization is being transformed, fostering a new culture, with new ways of working and flatter structures.

As of 31 December **2017**, BBVA Group had 131,856 employees located in over 30 countries, 54% of them women and 46% men. The average age of the workforce was 37.5 years. The average length of service in the Organization was 10.2 years, with a staff turnover of 7.3% over the year.

BBVA Group (December 2017)



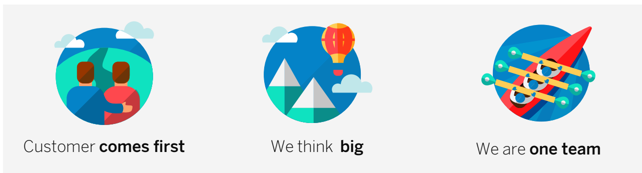
In 2017, the number of the Group employees decreased (down 2,936). This reduction was due, to a large extent, to the transformation plans of the distribution model that are being carried out in countries, such as in Turkey, and to the efficiency plans that are being carried out in South America, within the framework of the current legislation in each country.

Over the last few years, BBVA Group has been incorporating talent from a series of capacities that were not usual in the financial sector, but which are key in the new era in which the Group is operating (specialists in data, customer experience, etc.). In addition, to accompany the transformation process, a new, more transversal, transparent and effective **people management model** is being developed, so that each employee may occupy the role that best suits his or her profile and contribute the greatest value to the Organization, with the greatest commitment, and training and growing professionally.

There has also been a transformation in **ways of working** over the last year, moving toward an agile model of organization, where the teams are responsible end to end for everything they do; constructing everything based on customer feedback and focusing on delivering solutions that best satisfy current and future customer needs. This new people management model and ways of working have enabled the BBVA to keep transforming its operational model; but they have also enhanced its ability to become a purpose-driven company, in other words, a company in which everyone is really inspired and motivated by the same Purpose: to bring the age of opportunity to everyone.

BBVA understands corporate culture as a set of values, beliefs, policies, practices and conducts that are shared by the people in the Organization and that generate characteristics of identity differentiating it from other companies. This has been done by implementing the **Our Values** project.

Our Values



We are empathetic	We are ambitious	I am committed
We have integrity	We break the mold	I trust others
We meet their needs	We amaze our customers	I am BBVA

For further information on the process of identifying and defining the three Values, see the section Our Values in the Strategy and business model section.

Professional development

In the current context of transformation in the financial industry, all the evidence from the market demonstrates that the differential factor for assuming change is the **people** who form part of the organization. It is therefore crucial to have the best professionals available and to be capable of retaining them.

To achieve so, in 2016 a project was launched to create a new **people management model** at BBVA that will ensure the best professionals are available for each role: those capable of generating the greatest value, the most committed, those who can grow and learn; and which, in turn, makes it possible with greater flexibility in managing the professional careers of employees, providing greater transparency, simplicity and consistency. In 2017 the definition of the model was completed, and its implementation began through a number of pilot projects across the whole Group, reaching around 40,000 employees. This has improved the model and prepared its global launch to cover all employees in 2018. The new model puts the BBVA employees at the center of their professional development, so that they have the tools allowing them to measure all their capabilities, detect whether there is an area for improvement and identify their growth opportunities within the Bank. In addition, they are provided with the means that allow them to improve their knowledge and skills through a range of development options that include elements such as training, feedback, mentoring, coaching and special assignments.

Selection and development

Throughout 2017, BBVA worked on transforming the Group's **selection model** with the aim of attracting and selecting the talent needed in the different units to provide the best possible experience to all those involved in the process, without giving up the levers of equal opportunities and objective criteria in processes of assessing what is required in specific job positions.

The transformation of this model means, generating a global framework of reference that provides uniform support to all the geographic areas in which the Group operates, and also enrichment of the teams with the incorporation of new professionals who arrive from talent communities that the Bank wants to attract. The use of **technology** and the implementation of new tools allow to speed up and standardize the selection processes, whose decisions are based on data analysis.

Thanks to the brand positioning actions and the launch onto the market of the professional options available in BBVA, more than 321,000 candidates have been attracted, of whom 57% were women and 43% men; and 75% were young people under the age of 30.

Over the year 19,151 professionals were incorporated into the Group, of whom 51% were young people under the age of 30.

The **internal mobility** model also experience an important evolution aimed at putting the focus on the employees, implementing new policies based on transparency, trust and flexibility that will have to contribute to increase internal mobility, between areas and geographies, of the people who form part of BBVA.

Training

The **strategic training agenda** has put the emphasis on developing innovative initiatives that provide professionals with continuous learning, so that the new capacities and talent needed are developed to meet the challenges posed by the Bank's transformation. In 2017 online has been consolidated as the main channel in this respect, with 65% of the training given through it, making it possible to give an average of 39 hours of training per employee.

A special effort has also been made to structure a digital offering segmented by levels and available for the whole workforce. Around 11,500 employees around the world have taken part in the Design Thinking and Agile programs in their different forms. The course on Security in information teaches employees to detect possible cyber threats when processing information on mobile devices. This course has been taken by over 21,000 professionals, in other words, 16% of the workforce.

Basic training data (BBVA Group)

	2017	2016	2015
Total investment in training (million euros)	52.2	45.5	35.9
Investment in training per employee (euros) (1)	396	337	326
Hours of training per employee (2)	39	39	40
Employees who received training (%)	84	91	93
Satisfaction with the training (rating out of 10)	8.6	8.8	8.6
Subsidies received from FORCEM for training in Spain (million euros)	3.1	2.7	2.7

Note: excluding Turkey (except for Investment in training).

(1) Ratio calculated considering the Group's workforce at closing.

(2) Ratio calculated considering the workforce of BBVA with access to the training.

With respect to the legal requirements of the MiFID II (Markets in Financial Instruments Directive) on the knowledge required by employees who distribute information or advise on financial products and services in European area, it is worth noting that 12,682 professionals are officially certified in Spain in the different forms authorized by the EFPA (DAF/EIP, EFA and EFP).

Self-development, which makes each employee responsible for his or her training experience, has meant the design of technological solutions in mobility that adapt to when, how and where employees can choose to receive training. This has allowed specialized training resources to be made available openly to all, as a result of integration with external digital content platforms, thus accounting for more than 76,000 training hours.

In an environment such as the current one, which represents a challenge for the financial sector, at BBVA we believe in a different way of doing banking. The principles are at the base of our differentiation, which is why actions in the area of **responsible business** acquire particular relevance for the Group, with eLearning programs that cover issues such as the Code of Conduct or the model for the prevention of criminal liability. A significant number of employees are trained at global level in this area (61% of the workforce). The actions aimed at raising employee awareness of the prevention of money laundering and terrorist financing accounted for 396,000 training hours.

Diversity and inclusion

BBVA is committed to **diversity** in its workforce as one of the key elements to attract and retain the brightest talent and offer the best possible service to its customers. This diversity, understood in the broadest sense, includes not only gender diversity but also generational, experiential, racial, ethnic and geographic diversity (among others).

In terms of gender diversity, women account for 54% of the Group's workforce. Women are in 48% of management positions, 31% of technology and engineering and 58% of the business and profit generating jobs.

To give greater external and internal visibility to women who are key in their areas of responsibility, as well as providing incentives and supporting local initiatives in favor of gender equality, the initiative **Women@BBVA** was launched in 2017. It has given the chance to get to know BBVA professionals whose career paths have made them models both inside and outside the Bank. A series of interviews sets out their main professional challenges, their leadership style, what characteristics they value most in their colleagues and why BBVA is an excellent place to develop their professional aspirations.

BBVA is also signatory to the Diversity Charter at European level, and the United Nation Women's Empowerment Principles.

In **Spain**, BBVA has once again renewed its Company Equality Seal, granted by the Ministry of Health, Social Services and Equality to companies that are a model for the incorporation of good gender equality practices in this area. It also has signed a collaboration settlement with the mentioned ministry through the initiative More Women, Better Companies to increase the presence of women in positions of greater responsibility; and it has renewed the Family-Responsible Company Certificate that grants the Mas Familias Foundation

In the **United States**, BBVA Compass received the highest possible score (100%) in the Corporate Equality Index 2018, which measures equality in the company for gay, lesbian, bisexual and transsexual employees, and also serves as a benchmark for the biggest and most influential companies in the country. It has also formed a new group called Female Leaders.

In **Mexico**, BBVA Bancomer has received the Family-Responsible Company certification for its Torre BBVA Bancomer and Parques BBVA Bancomer workplaces in Mexico City (CDMX), granted by the Secretary for Labor and Social Welfare to organizations that establish good practices as part of their employment culture. Good practices that form part of BBVA Bancomer's employment culture include: breastfeeding rooms, a well-being center, canteens, medical service, flexi-time and alternative transport. In addition, to support inclusion and equality, a pilot maternity/paternity program was launched in Mexico.

In **Turkey**, Garanti implemented an online training program in 2017 for employees covering gender equality and how to identify situations of inequality at work. It also has a domestic violence platform to help employees who need it and to train on the effects of domestic violence in the labor environment. This platform includes a 24-hour phone line.

Different capabilities

BBVA continues to demonstrate its commitment to ensure the labor integration of people with different capabilities through the **Plan Integra**, which was conceived with the belief that employment is an essential pillar in achieving equal opportunity for everyone. As part of the Plan, each year since 2009 in Spain, the BBVA Integra Awards have recognized the work of organizations that carry out labor integration projects and promote the development of initiatives and good practices in this field. The organization ASPACE Navarra has been awarded with €150,000 at this 9th edition.

BBVA Compass in the **United States** is actively working to include people with different capabilities into its workforce by working with partners from different communities and organizing its own events to publicize the vacancies that arise in the bank for these people.

In **Mexico**, BBVA Bancomer has 28 people with different capabilities in its workforce. They work both in core areas and in the network of branches across the country. A further 14 people with intellectual disabilities were given work experience of three months.

BBVA **Chile** has launched an initiative to employ people with visual disability in its contact center; while in **Venezuela**, BBVA Provincial has designed a plan to identify the internal staff with possible disabilities to guide them in getting a certification from the National Council for People with Disabilities (CONAPDIS).

As well as this, in collaboration with the Adecco Foundation, BBVA has created the **Familia Plan** for its employees with children with different capabilities. The Plan offers advice and guidance, as well as implementing a Personal Support Plan to improve the children's development, autonomy and social integration, paying particular attention on the medical, family, social, training and labor areas. In addition, BBVA's commercial network in Spain promotes the labor integration of people with Down syndrome, thanks to agreements between the different territorial divisions and associations involved with this group. These collaborative efforts have meant that 80 students have received work experience in BBVA branches in 2017, twice the figure the previous year.

Progress is also being made on making the branches of the different banks making up the Group more accessible. The corporate headquarters of BBVA in Madrid, BBVA Bancomer in Mexico, BBVA Francés in Argentina and BBVA Chile are all accessible.

Annex 1 - Employees by gender

Annex 2 - Promoted employees by gender

Annex 3 - Average employee age and breakdown by age bracket

Annex 4 - Average length of service

Annex 5 - Breakdown of employees job category and gender

Working environment

BBVA conducts a general survey to measure the employees' commitment and to know their opinions. In 2017, the percentage of employees participation that BBVA has throughout the world was 87%, 13 points more than in 2016. One of the highlights of the results is the average of the 12 main questions of the survey, which was 4.02 out of 5, which represents an increase of 0.11 points with respect to 2016. Finally, the level of commitment of BBVA employees increased from 3.7 in 2016 to 4.4 in 2017. This improvement has been possible thanks to the more than 11,000 action plans that were agreed as a result of the previous year's survey.

Freedom of association and representation

In accordance with different regulations in force in countries in which BBVA operates, **employment rights and conditions** are included in the standards, agreements and arrangements subscribed with the corresponding employee representatives.

On matters of freedom of association and labor union representation, BBVA always aims for solutions via consensus. It places a very high value on dialog and negotiation as the best way of resolving any conflict in accordance with the pertinent local regulations in force where BBVA has its global footprint.

In BBVA Spain the **collective agreement** for the banking sector is applicable to 100% of the workforce. There are also company agreements that complement and develop the provisions of the agreement and are signed with the labor unions representatives. Labor union representatives sitting on company committees are elected every four years by personal, free, direct and secret vote and are informed of any relevant changes to the organization of work in the Bank, as provided for by the pertinent legislation currently in force.

In other countries in South America such as Argentina and Colombia, BBVA employees are included in collective agreements. Colombian legislation provides for two forms of representation for employees, as a result of which there are two collective agreements in the bank: the Pacto Colectivo (Collective Pact), which covers 77% of the workforce, with representation exercised directly by employees; and the Convención Colectiva (Collective Convention), which covers 22% of the workforce, and is concluded with the labor unions, which choose the employees' representatives.

Occupational health and safety

BBVA considers the promotion of health and safety as one of its basic principles and fundamental goals, which is served by means of the continuous improvement of working conditions.

The **occupational risk prevention** model in BBVA in Spain is a participative one, based on the right of workers to consult and participate, through their representatives in matters related to health and safety at work. Its application reaches 100% of the workforce in Spain.

The **safety policy** in Spain is carried out through the Occupational Risk Prevention Service, with activities such as the periodic assessment of occupational risks at work, specific assessment of workstations, the implementation of emergency and evacuation plans and coordination of preventive activities. It is also responsible for monitoring the health of workers through medical checkups, protecting vulnerable workers and adapting workstations with specific ergonomic materia. In 2017 activities and campaigns were organized to improve the health of workers.

Occupational health (Spain)

	2017	2016	2015
Technical preventive actions	2,655	2,420	3,033
Preventive actions to improve working conditions	3,429	2,981	3,761
Appointments for health checks	18,471	15,100	17,659
Employees represented in health and safety committees (%)	100	100	100
Absenteeism rate (%) [1]	2.6	2.4	2.5

[1] Excluding Catalunya Banc in 2015.

BBVA Occupational Health received recognition for good business practice in health promotion by the National Institute for Health and Safety at Work (INSHT), which complies with the requirements of the European Network for Workplace Health Promotion.

In **Mexico**, a number of campaigns were run in 2017 to promote awareness and prevention in occupational health and safety.

In **Turkey** a software was developed to manage all the processes related to occupational health and safety (OHS): risk assessment, monitoring of employee health, training programs, OHS unit committees, accidents at work, etc.

Argentina incorporated new workshops to the range of schemes for employees to promote healthy habits. In **Colombia**, promotion and prevention activities were carried out focused on the needs detected in the results of periodic medical examinations and the analysis of absenteeism. And in **Venezuela** the Integrated Health Center remained active, with periodic medical checkups have been given to nearly 1,000 workers.

Annex 6 - Voluntary resignations (turnover) and breakdown by gender

Annex 7 - Recruitment of employees by gender

Annex 8 - Discharge of employees by discharge type and gender

Annex 9 - Breakdown of employees by contract type and gender

Annex 10 - Amount and type of absenteeism of employees

Remuneration

BBVA has an advanced **remuneration policy**, which is based on the recurring generation of long-term value for the Group, while also aiming to align the interests of its employees and shareholders with prudent risk management. This policy is adapted to legal specifications at all times. It also incorporates the standards and principles of the best generally accepted national and international practices.

The model has been designed in accordance with the following **objectives**:

- To offer transparency, internal equity, external competitiveness and consistency.
- To channel the importance of achieving the Strategic Priorities, which include both financial and non-financial goals, based on prudent and responsible assumption of risks.
- To promote responsible business conduct, fair treatment of customers and prevention of conflicts of interest in relations with customers.
- To promote equal treatment for all staff, not establishing differences for reasons of gender, or of any other type.

In addition, the model recognizes that all employees form part of a team, identifying the critical inter-dependencies that requires teamwork to achieve joint success; as well as he importance of maintaining constant dialog on performance between the supervisor and collaborator during the whole year.

Remuneration is made up of two clearly differentiated **parts**:

- A fixed remuneration, which takes into account the level of responsibility, the functions carried out and the professional record of each employee, principles of internal equity and the value of the function in the market. It is a significant part of the total remuneration. The concession and amount of fixed remuneration is based on predetermined objective and non-discretionary criteria.
- Variable remuneration, with a model that is linked to the Group's strategic objectives through both financial and non-financial indicators, taking into account current and future risks. In this model, each employee's variable remuneration is directly linked to the results at Group, area and sub-area/individual level.

Volunteer work

The BBVA **Corporate Volunteering Policy** manifests BBVA's pledge to activities of this type and provides employees with conditions for engaging in corporate volunteer actions that generate a positive social impact. The policy is applied in all countries.

The activities of corporate volunteering enhance the professional development of employees, channeling their spirit of solidarity, and allowing them to make a personal contribution of their time and knowledge to provide help for people who need it most. This improves self-esteem, increases the sense of pride in belonging to the company and thus has an effect on talent attraction and retention. It also generates a positive impact at the level of corporate social responsibility of the company.

In **2017**, nearly 8,000 employees took part in volunteering actions. These corporate volunteering activities are designed to boost initiatives arising from the employees themselves or coordinated by BBVA, in connection with education, primarily to boost financial education and thus support the strategic lines set out in the responsible banking model.

In **Spain**, 332 working employees and 205 on early retirement/retirement have participated in the different volunteering initiatives in collaboration with non-profit organizations, of which 75% were dedicated to issues of education, mainly financial education, and the rest were environmental and social action activities. BBVA's volunteering actions in Spain are channeled through the BBVA Volunteer website and implemented through the Volunteer Office. In addition, 574 employees have collaborated voluntarily in financial education activities promoted by the Social Responsibility Unit of BBVA Spain.

The main **educational projects** in which volunteering is involved in the different business areas are:

- In Spain, the JAES Foundation programs (Las Ventajas de Permanecer en el Colegio (Advantages of staying in school), Habilidades para el Éxito (Skills for success) and Tus Finanzas, Tu Futuro (Your Finances, Your Future).
- In the United States, the BBVA Compassion initiative has helped employees affected by the hurricanes.
- In Mexico, the initiatives related to reforestation, such as Bosque BBVA Bancomer, and the Bosque de Chapultepec day event.
- In Turkey, the Wish Tree program, which has collected the wishes of 2,379 elementary school students from thirteen different cities to make them come true.
- In South America, the financial education workshops and the financial education program Creando Oportunidades (Creating Opportunities) in Argentina; the support programs for care centers and financial education for young people in Venezuela; and the financial education programs and training grants in Uruguay.

Ethical behavior

Compliance system

The Group's **compliance system** constitutes one of the bases upon which BBVA consolidates its institutional pledge to conduct all operations and businesses in accordance with strict codes of ethical conduct.

A basic element in BBVA's compliance system is the Code of Conduct, updated in 2015 and available on BBVA's corporate website (bbva.com).

The Compliance Unit, in line with the principles set forth by the Bank for International Settlements (BIS) and the reference regulations in this area, continues to organize its activity around the development and implementation of policies and procedures; communication and training; and the identification, assessment and mitigation of potential compliance risks, understood as those that affect the following issues:

- Prevention of money laundering and terrorist financing (PML&TF).
- Conduct with customers.
- Conduct on securities markets.
- Dealing with conflicts of interest.
- Prevention of corruption and bribery.

The **model** of compliance risk assessment and management associated with these matters is global in nature. It is not a static concept; it evolves over time, strengthening those elements and pillars on which it is based and anticipating any new developments and initiatives that may arise in this field.

This model is built on the following basic **pillars**:

- A suitable organizational structure with a clear assignment of roles and responsibilities throughout the organization.
- Policies and procedures that clearly define positions and requirements to be applied.
- Mitigation processes and controls applied to enforce these policies and procedures.
- A technology infrastructure focused on monitoring and designed to guarantee the above objective.
- Communication, training systems and policies implemented to raise employee awareness of the applicable requirements.
- Metrics and indicators that allow the supervision of the global model implementation.
- Independent periodic review of effective model implementation.

During **2017** the documentation and management of the model continued to be improved through a set of technological tools and improvements to the internal processes in the different countries. This effort continues to be particularly important in Turkey, following the integration of the Garanti group into BBVA. With respect to the digital transformation activities, it should be noted that during 2017 the supervision and advice governance teams that operate from compliance units were also strengthened. In addition, with the aim of the new European data protection regulations, during 2017 the activities and programs related to personal data protection developed by the Compliance Unit began to be integrated within BBVA's Legal Services Function, in which the position of data protection officer (DPO) was created.

Prevention of money laundering and terrorist activity financing

Prevention of money laundering and terrorist financing (hereinafter PML&TF) constitutes above all an ever-present objective that BBVA Group associates with its pledge to make improvements in the different communities in which it operates.

For BBVA, ensuring that its products and services are not used for illegal purposes likewise constitutes an essential requirement for safeguarding its corporate integrity, and thereby one of its main assets, namely, the trust of the people and institutions it deals with on a day-to-day basis (customers, employees, shareholders, suppliers, etc.) in the different jurisdictions where it operates.

To achieve the above objective, as a global financial group with branches and subsidiaries that operate in numerous countries, BBVA adopted a corporate **model** for managing the risk associated with PML&TF. This model is applicable to all of the entities forming part of BBVA Group within the scope of PML&TF and not only takes into account regulations on prevention of money laundering in the jurisdictions in which BBVA operates, but also incorporates the best practices in the international financial industry in this regard, as well as the recommendations issued by international institutions such as the FATF (Financial Action Task Force). This management model is constantly evolving. In particular, risk analysis ensures that controls can be tightened and any additional mitigating measures that may be required to enhance the model can be implemented.

The risk management model of PML&TF is subject to continuous independent **review**. Pursuant to Spanish regulations, an independent expert annually audits the BBVA Group matrix. This review is complemented by internal and external audits carried out by local supervisory bodies, both in Spain in other jurisdictions.

During 2017, BBVA continued to deploy the new **monitoring tool**, in Spain, Turkey and Mexico. The Group also began to apply new technologies to enhance PML&TF (for example, identification of customers through videoconference using facial recognition techniques). It carries out ongoing analysis of opportunities for applying new technologies (machine learning, artificial intelligence, etc.) to strengthen both the capacities to detect suspicious activities of the different entities making up BBVA and the efficiency of the PML&TF processes.

In addition, the different entities in BBVA Group in various jurisdictions were selected by local authorities to participate in a mutual **review** process carried out by FATF.

Additionally, BBVA Colombia was recognized in 2017, for the second consecutive year, for the training actions in money laundering with second place in the contest organized by United Nations in the framework of the National Day for the Prevention of Money Laundering.

Also worth noting BBVA's collaboration with the different governmental bodies and international organizations in this field.

In the area of **training** related to PML&TF, each of the BBVA Group entities has an annual training plan for all its employees. In this plan, defined according to the training needs identified in each of the entities, training activities of different nature are established: face-to-face courses or via e-learning, videos, brochures, etc. Likewise, the content of each training action is adapted to the group to which it is intended, including general concepts derived from the regulation of PML&TF applicable (both internal and external), as well as specific issues that affect the functions developed by the target group of training .

During **2017**, 81,842 training actions were carried out by employees of the Group in terms of PML&TF. Of these, 16,993 belonged to groups of employees whose role requires more specific training in the field of PML&TF.

Conduct with customers

BBVA's Code of Conduct places the customers at the center of its activities, with the aim of establishing lasting relations based on mutual confidence and value contribution.

To achieve this objective, BBVA has implemented **policies and procedures** to get to know its customers better, with the aim of being able to offer them products and services in line with their financial needs, as well as providing them with clear and accurate information, sufficiently in advance, on the risks of the products in which they invest. BBVA has also implemented processes geared to prevention, or where this is not possible, management of the possible conflicts of interest that may arise in the marketing of its products.

During **2017**, the Compliance Unit focused its activity on adapting its rules and processes for the entry into force, in January 2018, of the new regulations on investor protection in the securities markets, such as the EU Markets in Financial Instruments Directive (MiFID II) and Regulation on Packaged Retail and Insurance-Based Investment Products (PRIIPs). During the year work also began to adapt to the European Union directives on distribution of insurance and real-estate loans.

Also of note is progress in the implementation of a **global model of customer compliance** that aims to establish a minimum framework of rules of conduct to respect in relation to customers, applicable in all jurisdictions and in line with the principles of BBVA Group's Code of Conduct. This model, which responds to an increasingly homogenous regulation of customer protection at the global level, will necessarily contribute to a better customer experience at BBVA.

Other **measures** aimed at protecting the customer during 2017 were:

- The evaluation of the risks associated with the products, services and activities of the Group and the implementation of mitigation measures; guaranteed through the presence of Compliance Unit in the New Products committees. In 2017, 55 new activities, products and operations were reviewed at BBVA S.A. Additionally, the control procedures and routines of the new products continue to be reinforced in order to better adapt to the new requirements derived from the MiFID II regulations.

- The coordination of the action plans to adapt to the new requirements and criteria issued by the National Securities Market Commission (CNMV, by its initials in Spanish) and the Bank of Spain, in terms of investor protection or user banking.
- The close and continuous collaboration with the product and business development units, both retailers and wholesalers, with special focus on digital banking initiatives, to incorporate the vision of customer and investor protection in their projects, from the moment of their creation.
- The updating of the internal regulatory framework for the correct commercialization of products and services.
- Participation in projects to improve and update business processes and the computer systems that support them, in order to ensure their alignment with the best practices of protecting the interests of customers.
- The promotion of communication and training initiatives to the commercial networks and the departments that support them, especially on how to provide advice to customers and how to sell the products in the commercial network.
- The review of information made available to the public and the sales force, as well as promotional campaigns and commercial actions on investment products.
- The reinforcement of the metrics and indicators to monitor compliance risks, to promote a forward-looking vision, with a special focus on customer complaints.
- The evaluation of the internal measures in force, based on the internal and external audit reviews, and the examinations and requirements of the regulators.

In addition, in **2017** the Compliance Unit carried out training courses for employees in its territorial units and its network of agents to achieve a better level of knowledge of the rules of conduct applicable to the customer products with particular focus on retail customers. Within the work for adapting to the new MiFID II Directive on knowledge and competence of the personnel that offers information or advice, BBVA S.A. has established a program of training and accreditation of the knowledge that the personnel must have to inform or advise on financial instruments. In 2017, a total of 13,123 employees obtained this certification. Specific courses on MiFID II, PRIIPs and instruments subject to recapitalization regulations (bail-in) were also designed during the year.

Conduct on securities markets

Integrity in market activity is one of the commitments of BBVA's Code of Conduct to the values making up the corporate culture of BBVA Group. For this purpose it establishes the general guidelines for action designed to preserve the integrity of the markets, which include standards and principles geared to the prevention of market abuse and guaranteeing their transparency and free competition.

The Policy for Conduct in the Securities Markets includes the principles and general criteria for action designed to uphold BBVA's integrity in the markets. Specifically, this Policy contains the minimum procedural guidelines regarding the treatment of privileged information, prevention of price manipulation, management of potential conflicts of interest and own account trading by employees.

It is worth noting in this respect that in 2017 the Policy and the Internal Regulation on Conduct in Securities Markets was updated, incorporating the regulatory changes derived from the Market Abuse Regulation, as well as best practices in the industry. As well as this, during the year the capacities of processes and tools for the detection of suspicious operations initially implemented in 2016 continued to be enhanced. There was also stronger compliance with the U.S. Dodd-Frank Act in terms of BBVA's condition of swap dealer, with the development of a General Swap Dealer Policy that covers all the aspects of the Act.

From the point of view of **prevention of market abuse**, and as an additional measure for strengthening the body of policies and procedures covering this matter, the training of employees continued to be one of the unit's priorities. In 2017 training actions were implemented for the areas and professionals with greatest exposure to market activity, including courses on privileged information for sales and market analysis teams in Corporate & Investment Banking and on market manipulation for trading and sales teams specializing in currency trading. Additionally, the annual Volcker Rule training was developed for a group of 2,348 employees in the Group.

Other standards of conduct

The Code of Conduct, together with other internal policies and rules, develop the aspects related with the prevention of money laundering and terrorist financing, commitments with respect to politically exposed persons and those relating to conduct in business.

One of the main mechanisms for managing conduct risk in the Group is its **whistleblowing channels**. As set out in the Code of Conduct, BBVA employees have the obligation not to tolerate any conduct that is contrary to the Code, or any conduct in the performance of their professional duties that may harm the reputation or good name of BBVA. This whistleblowing channel is a means for enabling employees to report any breaches they observe or are notified by their collaborators, customers, suppliers or colleagues. The channel is available 24/7 and is also open to the Group's suppliers. The reports are processed diligently and promptly. They are checked and measures are taken to resolve any issues. The information is analyzed in an objective, impartial and confidential manner.

The work carried out in **2017** included ongoing advice on applying the Code of Conduct. In particular, 424 individual written and phone queries were responded to in the Group. Basically, they focused on potential conflicts of interest in matters such as managing personal assets or engaging in professional activities. During the year, BBVA continued its work on communication and dissemination of the new Code of Conduct, as well as training related to its contents.

The Code has been disseminated through audiovisual media at the global level, with the direct involvement of members of senior management and the departments involved in the different countries, distributing explanatory videos of the content of the Code, communications that have been complemented with specific initiatives for certain groups or countries.

In relation to the online course on the Code of Conduct, launched globally in 2016, by the end of 2017, a total of 116,211 employees had completed it.

In addition, since the introduction in Spain of the new regulations on the criminal liability of legal entities, BBVA has been operating in accordance with the legislation in force by establishing effective systems of supervision and control geared to preventing employees from committing crimes. This has been done through the establishment of a specific model of criminal prevention implemented in all the companies controlled by BBVA S.A. in Spain.

Among the possible crimes included in the crime prevention model are those related to **corruption and bribery**, as there are a number of risks that could arise in this respect in an entity of the nature of BBVA. Among these risks are those related to the following activities:

- Acceptance or delivery of gifts or personal benefits and invitations to events, or similar.
- Payments for facilitating activity.
- Political contributions.
- Donations.
- Sponsorship activities.
- Handling of corporate and travel expenses.
- Hiring of employees.
- Contracting of suppliers, agents or intermediaries.
- Mergers, acquisitions or joint ventures.
- Accounting and registration of transactions.

To regulate the identification and management of risks, BBVA has a body of internal regulations made up of principles, policies and other internal arrangements, including:

Principles:

- Principles applicable to the disinvestment processes for BBVA Group goods or services in favor of Group employees.
- Principles to be applied to those involved in BBVA's procurement process.

Policies:

- Policy for the prevention and management of conflicts of interest in BBVA.
- Responsible procurement policy.
- Policy of events and acceptance of gifts related to sporting events of relevance.
- Corporate travel policy.

Other internal developments:

- Management model of representation expenses and staff displacement.
- Comprehensive management model of projects, expenses and investments.
- Ethical code for staff pick.
- Ethical code of suppliers.
- Rule relating to the acquisition of goods and contracting of services.
- Rule regarding gifts to employees of persons / entities outside the bank.
- Standard of delivery of gifts and organization of promotional events.
- Authorization rule for contracting consultancies.
- Standard of relationship with persons of public relevance in matters of financing and guarantee.
- Delegation rule for credit risk.
- Requirements for the establishment and maintenance of business relationships with politically exposed persons (PEP).
- Manual of procedures for selling or selling real estate assets to employees of the BBVA Group.
- Manual of management of donations in the Department of Responsible Business Holding.
- Manual of procedures (treatment and record of communications of the denunciation channel).
- Corporate standard for the management of the life cycle of outsourcing.
- Disciplinary system (internal rules of procedure).

The **anti-corruption framework** in BBVA is not only composed of this body of regulations, but also has a program that includes a risk map, as well as i) a set of mitigation measures aimed at reducing this risk; ii) procedures for action in case of situations of risk; iii) training programs and plans; and iv) indicators geared to the knowledge of the risk situation and its mitigation and control framework.

In addition to the above, BBVA has established other specific instruments for **managing core commitments** in each functional area. The most salient of these are:

- The Compliance Statute.
- Basic principles of risk management and the Risk Management Policy Manual.
- Rules on dealing with individuals and entities of public importance in matters of financing and guarantees.

Within the general training program in this area, there is an online course that describes matters such as the basic principles related to the Group's prevention framework on anti-corruption that reminds employees of BBVA's **zero tolerance** commitment with respect to any form of corruption or bribery in its business activities.

It is worth noting that in 2017 BBVA was the first financial institution to obtain an AENOR certificate accrediting that its system for managing criminal compliance is in accordance with UNE 19601:2017 Standard published in May 2017.

Other basic commitments acquired by the Group are:

- Rules of Conduct in Defense.
- Environmental Policy.
- Responsible Procurement Policy.
- Commitment to Human Rights.

Internal control model

Based on best operational risk management practices, BBVA Group has established and maintained an internal control model organized around three **lines of defense** (3LoD), as well as a governance scheme called Corporate Assurance.

The Group's internal control model has two **components**. The first component is the model based on three lines of defense, which ensures compliance with the most advanced internal control standards and is organized as follows:

- The Group's areas and/or business units constitute the first line of defense. They are responsible for managing current and emerging risks, implementing control procedures and reporting to their unit/business or support area.
- The second line of defense consists of the areas/units specializing in control, the main ones being the following: Compliance, Accounting & Supervisors (specifically, Internal Financial Control), Global Risk Management (including, Internal Risk Control) and Engineering (specifically, Internal Operations Control and Internal Technology Control). This line helps identify current and emerging risks, defines the control policies within the scope of its cross-sector aspect, ensures that they are implemented correctly, and provides training and advice to the unit representing the first line. In addition, one of its main functions is to monitor and question the control activity carried out by the first line of defense.

The control activity of the first and second lines of defense will be coordinated by the Global Internal Control Unit within the Global Risk Management area, which will also be responsible for providing these areas/units with a common internal control methodology.

- The third line of defense is made up of the Internal Audit area, for which the Group assumes the guidelines of the Basel Committee on Banking Supervision and of the Institute of Internal Auditors. Its function is designed to provide independent and objective assurance and consulting activity intended to add value and improve the Organization's operations. The duties and lines of work of this area are described below.

Internal control model

The second component is the **Corporate Assurance** scheme, which has the role of providing a comprehensive and standardized approach to the Board of Directors and the management bodies on the Group's internal control situation. This provides timely information on the main control weaknesses that may arise in the different assurance processes and makes it possible to prioritize their solution and monitor the implementation of measures for mitigating them more effectively.

To ensure correct operation, the model includes an orderly mechanism for **reporting** to management. The mechanism is made up of a number of committees that meet every four months, in which members of the senior management of the Group and its subsidiaries take part. The committees seek to discover and make decisions on control issues that may have a significant impact on the objectives of the different areas/units, both at the local level and for the consolidated Group.

During **2017**, Garanti Bank made significant progress in adopting the BBVA Group's internal control model.

Internal Audit

The Internal Audit area depends directly on the Group's Executive Chairman. It is completely independent from the functions being audited and is not part of any other activity that may be subject to an audit.

Its **function** is universal in scope and includes all activities and entities in BBVA Group, with no exceptions and irrespective of geographic location or reporting situation. Its scope also extends to the activities and services the Group has outsourced.

This area has unrestricted access to employees, workplaces, systems, IT and physical records and, in general, any information required to perform its functions effectively. It must maintain such information confidential and comply with data protection laws.

A **three-year plan** was drawn up in 2017 (following on from the one in 2016) in response to the expectations of the main stakeholders. This plan has been based on three core aspects:

- analysis of the inherent risk and level of control of the processes and lines of business;
- coverage of supervisory expectations and compliance with regulatory requirements;
- the Group's Strategic Priorities and emerging risks.

The plan's structure is based on 11 **types of risk**, from which the following main points for action have been derived:

- To cover the main sources of risk in the business model, work has been carried out on defining the indicators linked to the Strategic Priorities, basically non-financial KPIs, as well as monitoring the digital transformation and development strategy of the business in Spain.
- The assessment of internal governance risk includes analysis of the risk appetite framework of the main geographic areas.
- To cover operational risk, the focus has been placed on data governance and information quality, in the operational risk associated with the Group's relevant business processes and analysis of new digital businesses and strategic projects.
- To cover legal risk in the Group the legal risk control framework has been reviewed in a number of geographic areas, as has the management framework for complaints and claims in Spain and Turkey. The main accounting items have also been reviewed (foreclosed assets, deferred tax assets and consolidation adjustments).
- Reviews have been carried out on compliance risk in all functional and geographic areas and the policies for preventing money laundering and terrorist financing have been audited. In addition, work has been done on practices related to sales and commercial incentives in the main areas, as well as market regulation and personal data protection.
- In the area of IT risk, as is the case with previous years, there has been significant work on cybersecurity, as well as the control environment on the cloud platform.
- The outsourcing lifecycle has been reviewed to cover risks associated with the outsourcing processes in the Group, with the focus on cloud computing and technology suppliers.
- With respect to credit risk there has been a significant review of guarantees and refinancing, as well as the admission and quality of the portfolios for consumer finance, mortgages and developer loans in a number of geographic areas. Also of note is the assessment of the implementation of the International Financial Reporting Standard 9 (IFRS 9).
- With respect to financial risks in market activities, annual revisions of the internal models used by the Group have been carried out to determine the capital charges for market risk.
- Asset and liability risks are covered with respect to liquidity by a review of the interest-rate risk governance and management and control framework, as well as through a triennial review of the internal liquidity adequacy assessment process (ILAAP).
- The framework of the three-year audit plan covers all the internal capital adequacy assessment process (ICAAP), as well as compliance in this matter with local capital adequacy requirements to which the Group is subject in each of the geographic areas in which it operates. In 2017 the economic capital models were also reviewed in the Group as a whole and in Turkey, Colombia and Mexico.

Commitment to human rights

BBVA has a Commitment to human rights dating back to 2007, and work was performed to update it throughout 2017. This involved carrying out a due diligence **process** in all BBVA's business and support areas across the Group's whole footprint. This process has been carried out taking as a reference the guidelines on the Guiding Principles on Business and Human Rights, endorsed on 16 June 2011, by the United Nations Human Rights Council. It has also been anchored in the BBVA's Purpose: to bring the age of opportunity to everyone. The materiality analysis carried out by the Group among its stakeholders makes clear that the main issues they are concerned with are related to human rights. Combined with this, BBVA has wanted to mitigate any reputational risk related to human rights, and to respond to demands by consumers, investors, analysts and civil society on the role of companies in this highly significant issue.

The Guiding Principles mentioned above are based on three **pillars**:

- The State duty to protect human rights
- The corporate responsibility to respect human rights;
- The joint duty to find mechanisms that ensure remedy in the case of any abuse of human rights.

To comply with these Principles and with the responsibility to prevent, mitigate and remedy the potential impacts on human rights in all its areas of operation and all its businesses, BBVA has begun a process in which it has:

- identified the potential impacts of its operations on human rights;
- designed mechanisms within the Company to prevent and mitigate them;
- set up adequate channels and procedures to ensure that in the case of human rights violations there are sufficient measures in place to ensure remedy for the people affected.

Based on an analysis of the different areas in the Group and a study of the corporate culture, the Bank's processes, its policies and mechanisms for handling claims and complaints, the **issues** on which BBVA has room for maneuver have been identified. These issues have been prioritized and set out in an action plan.

The main responsibility for applying this Commitment relies with each area and each employee in the Organization. They have the duty to know the issues within their area of responsibility that may imply a violation of human rights and apply the due diligence to avoid them. Employees are also subject to the Bank's Code of Conduct and each country's legislation. The Responsible Banking Area is in charged of the design, implementation and improvement of the commitment, as well as acting as a second line of defense for the rest of the areas; in this it shares duties with Legal Services and Regulatory Compliance.

In addition to this commitment to human rights, the Bank has a number of **policies and regulations** that help strengthen compliance, which include:

- BBVA's Code of Conduct, as mentioned above in the section on Compliance.
- the Housing Policy in Spain;
- the Responsible Procurement Policy;
- the Equator Principles,which is developed in the section of Management of environmental and social impacts.

Additionally, BBVA participates in different working groups related to human rights and is in constant dialogue with its stakeholders. The most outstanding initiative at sector level is the **Thun Group**. BBVA is part of this group of banks around the world that works to understand how to apply the United Nations Guiding Principles on Business and Human Rights in the practices and policies of financial institutions and in different banking businesses.The group shares experiences and concerns and talks with different stakeholders to enrich the exercise, also integrating their concerns and proposals. Periodically, the group publishes documents that include the main conclusions reached. The first document encourages financial institutions to analyze the possible risks they have of impacting on human rights, as well as their associated risks; among them, those of a legal or reputational nature. A second document, which was unveiled in January 2017, explores the meaning and scope of Guiding Principles 13b, in the context of corporate and investment banking, and 17. This second document was discussed during the session Annual Thun Group last June, which was attended by representatives of different institutions, non-governmental organizations (NGOs) and human rights experts, including Professor John Ruggie. After this meeting, in December 2017, a revision of the document was published in which the participants' concerns were incorporated.

BBVA is a signatory (and has an active role in the association of signatory entities) of the **Equator Principles** and actively promotes the inclusion of prior informed consent (FPIC), not only in emerging countries, but also in projects in countries in which It presupposes a robust legislative system that guarantees the protection of the environment and the social rights of its inhabitants.

In addition, BBVA, as a member of the United Nations **Global Compact Network**, maintains a constant contact and exchange of experiences with other companies, SMEs, third sector entities (or non-profit sector), educational institutions and professional associations that form part of the Network.

BBVA also promotes a dialogue with **NGOs** on its fiscal responsibility and participates in different meetings with investors and interest groups in which there is follow-up on issues related to human rights.

Finally, BBVA has open **listening channels** to identify, classify and manage any issue related to human rights that may arise and that is revealed by an association, NGO or customer in any medium outside the official channels of the Bank.

The Housing Policy in Spain

In Spain, the comprehensive plan to provide solutions to families in difficulties implemented by BBVA since the beginning of the crisis has been consolidated under BBVA's Social Housing Policy, whose main **aim** is to help customers keep their homes.

This plan is divided into three **core areas**:

- Offering solutions to all families with difficulties to pay their mortgage loans.
- Ensuring that any family that is a BBVA customer and at risk of exclusion has a home and is not evicted.
- Supporting families through employment programs that enable customers to regain their confidence and self-esteem.

In February 2012, BBVA decided to voluntarily adhere to the Code of Good Practices approved by the Government, which had the objective of granting benefits to families at risk of exclusion who had contracted a mortgage loan. With the approval of Royal Decree-Law (RDL) 27/2012, Law 1/2013 and, finally, the RDL 1/2015 and the Law 9/2015, BBVA decided to proactively inform all its customers, engaged in a foreclosure process, of the existence of the above mentioned regulations and the extent of their effects, so that they could benefit from the advantages set out. A total of 2,676 homes are assigned to public entities.

BBVA is seeking at every refinancing option available in accordance with the customers' ability to pay, in order to allow them to keep their homes. The Group has done this for 60,900 customers so far. Any situation can be referred to the Committee for the Protection of Mortgage Debtors for review. It analyzes every case in which the customers or their families face the risk of exclusion without legal protection, and provides individual solutions in accordance with each family's specific circumstances (refinancing, debt remission, dation in payment, rented social housing in the debtor's own home or the Bank's available homes, etc.).

In this context, since the beginning of the crisis, BBVA has agreed more than 16,500 dations in payment with its customers (including dations involving products such as mortgage loans, consumer finance, etc).

Dakota Access Pipeline

Before deciding to finance any project, BBVA evaluates the financing projects under the strictest social and environmental standards, including the Principles of Ecuador prior to its decision and concession, carefully reviewing the project's compliance with the laws and the World Bank's sustainability standards.

This was the case of the Dakota Access pipeline, co-financed by 17 banks, in which BBVA participates with 5% of the total amount. In the due diligence process, BBVA ensured that the Native American tribes affected had been duly consulted by the project promoter and by the United States government in accordance with local laws. In addition, the government of the United States had issued all the necessary permits, and an independent legal and technical review confirmed that the project complied with all laws and regulations.

However, subsequent to the disbursement of the financing, it was known that these communities considered that their interests and rights had not been duly taken into account. When the Standing Rock Sioux tribe expressed their opposition to the project, the financing banks decided to commission an independent advisor (Foley Hoag), an expert in the management of the social aspects of projects, review issues related to the permitting process and consultations with Native American tribes involved. BBVA held meetings with both the representatives of the tribe and with the company promoting the project, to try to facilitate a solution agreed by all parties, and made public a statement regarding the project.

As a result of the controversy generated, BBVA decided to apply, in future projects with similar characteristics, the requirement of free, prior and informed consent of the affected communities (FPIC) regardless of where the project is located, even if it is in a country whose legal framework and institutional capacity is presumed sufficient to guarantee the rights of these people. In this sense, it has made, together with other banks, a public appeal to all entities signatories of the Equator Principles to support the extension of this requirement.

Sustainable finance

Banks play a crucial role in the **fight against climate change**, thanks to their unique position in mobilizing capital through investment, loans and advisory functions. Although most banks have worked in recent years to mitigate the direct impacts of their activity, there are other very important ways they can contribute to this challenge: first, by providing innovative solutions to their customers to help them move to a low-carbon economy and by promoting sustainable finance; and second, by systematically integrating social and environmental risks into decision-making.

BBVA's commitment to sustainable development is reflected in its Environmental policy, which is global in scope.

During **2017**, BBVA has worked on its strategy on climate change and sustainable development. The strategy covers comprehensive management of the risks and opportunities deriving from the fight against climate change and the resolve to achieve the Sustainable Development Goals (SDGs).

This strategy is based on a threefold **pledge** to 2025:

- First, a pledge to finance, which contributes to the mobilization of the capital needed to halt climate change and achieve the SDGs.
- Second, a pledge to mitigate the social and environmental risks derived from the Bank's activity, to minimize their potential direct and indirect negative impacts.
- And finally, a pledge to engage with all the stakeholders involved in the collective promotion of the role of the financial industry in sustainable development.

Sustainable financing

Sustainable bonds and loans

Sustainable bonds and loans are instruments used for channeling funds to finance our customers' projects in sectors such as renewable energies, energy efficiency, waste management, water treatment and access to essential goods and services such as homes or inclusive finance.

BBVA has the knowledge and experience to provide its customers with comprehensive advice on sustainable financing solutions through both bonds and loans, and it is also playing a relevant role in the development of this market. Since 2014, BBVA is signatory of the **Green Bond Principles**, a series of voluntary guidelines that establish the issuance transparency requirements and promote integrity in the development of the green bond market. In addition, since 2017, it has also formed part of the working group that is developing the Green Lending Principles, an initiative of the Loan Market Association adapted to the needs in the case of loans.

In **bonds**, the Bank has been very active in the green bond market in the Iberian Peninsula in 2017. It is a globally recognized institution, having advised, placed and structured green bonds for customers in a variety of sectors in Mexico, the United States and Europe not only in local currency, but also in euros and U.S. dollars.

In this way, in 2017, BBVA consolidated its leadership in the **green and social bond** market and participated as a bookrunner in a total of 11 green, social and sustainable bond issues, which involved the placement of 10,646 million euros (BBVA's share was 1,897 million euros). The most outstanding operations were the following:

- First emission of green hybrid bonds of Iberdrola, worth €1,000 million.
- Inaugural green bond of SSE PLC (Scottish and Southern Energy), worth 600 million euros. It is the largest green bond of an UK energy company and aims to refinance its portfolio of onshore wind farms. BBVA also acted as a green structuring bank.
- Inaugural green issue of Avangrid Inc., worth $600 million. Significant issuance in the US market that not only followed the guidelines of the Green Bond Principles, but also had the second opinion of the environmental agency Vigeo Eiris, this being a milestone in a market that usually does not solicit opinions from third parties for the issuance of this type of assets. BBVA also acted as a green structuring bank.
- Acciona green bond in the form of private placement, worth €65 million and maturity in 2030.
- Adif AV inaugural green bond, worth €600 million. It is the first green bond of a Spanish public company and the transport sector in Spain, aimed at investments related to railway lines and the maintenance, updating and improvement of the railway system's energy efficiency. BBVA also acted as a green structuring bank.
- Repsol inaugural green bond of €500 million. It is the first green public bond of a company in the oil and gas sector worldwide and aims to finance projects to reduce emissions and efficiency in refineries in Spain and Portugal, which will reduce 1.2 million tons of CO_2 per year. BBVA also acted as a green structuring bank.
- Second issue of the Engie green bond, worth €700 million, for renewable energy projects, energy efficiency and conservation of natural resources.
- Inaugural social bond of the Community of Madrid of €700 million. It is the first public issue of a social bond carried out by an administration in Spain, whose objective is to finance social sectors, health, employment, education, social inclusion, SMEs, climate change and the environment. BBVA also acted as a sustainable structuring bank.

Additionally, **green loans** are beginning to take off in the market and BBVA expects them to grow at a pace comparable to that of green bonds. In 2017, the Bank has led this sector globally, being the most active bank, with a total of ten operations, and expects to continue leading this market in its different modalities. In 2017, BBVA has granted green loans for a volume of more than €1,000 million. The main operations include:

- First green loan in the energy sector worldwide in favor of Iberdrola, for an amount of €500 million. The purpose of this green loan is to finance several projects related, mainly, to energy efficiency and renewable energies.
- Green loan in favor of Acciona, worth €100 million.
- First green loan with project finance structure worldwide with the Italian energy company Terna. The financing will be used for the construction of a transmission line between two cities in Uruguay that will connect renewable energy generation projects to the country's electric distribution system.

- First green syndicated financing in a global loan format with the Tradebe Environment Group, for an amount of €265 million. The loan finances the company's recycling and toxic waste management activities.

- First sustainable financing for a public administration in Spain, in favor of the Community of Madrid, for an amount of €240 million.

- First revolving sustainable credit line for an amount of €800 million, in favor of Red Eléctrica España. It is the first syndicated operation whose price is linked to the company's ESG (environmental, social and government) score.

- First green loan with project finance structure in Spain, in which BBVA acted as green coordinator. This is a green financing of just over €176 million to Sociedade Concesionaria Novo Hospital of Vigo S.A., the concessionaire that exploits the non-hospital services of the Álvaro Cunqueiro de Vigo Hospital. Novo Hospital de Vigo is part of several sustainable sectors, such as renewable energy, energy efficiency, sustainable management of waste and water, clean transport and green buildings.

- Green loan for the project Installation 3, a waste treatment and recycling plant in Spain.

Financing sustainable projects

BBVA has been supporting the **renewable energy** sector for years. Thus, in 2017, the Group financed projects of this type with an installed capacity of more than 700 MW, for a total volume of €218m.

Among the highlighted operations of **2017** are the financing of seven wind farms in Portugal, two in Italy and Spain and one photovoltaic plant in Mexico. Moreover, in 2017 the Bank also financed social infrastructure projects for an amount of €333m.

Activities with multilateral institutions

BBVA maintains extensive institutional and business **relations** with multilateral institutions worldwide, such as the European Investment Bank (EIB), the Spanish Instituto de Crédito Oficial (ICO), the World Bank Group, the Inter-American Development Bank (IDB), Corporación Andina de Fomento (CAF) and other agencies including the German Investment and Development Corporation (DEG), the Netherlands Development Finance Company (FMO) and Société de Promotion et de Participation pour le Développement (Proparco).

This activity covers a broad **range** of products and geographical areas, including international trade financing, project co-financing, financial brokerage transactions, debt issuance on local capital markets, and transactional and treasury operations.

A significant part of the activity is focused on support for **sustainable development** in these regions, through a number of core areas of activity:

- Financial **intermediation** operations for multilateral institutions in Europe and Latin America to channel financing to sustainable sectors (e.g., green energy, urban development, SMEs, export sector, etc.) for transactions that meet the required eligibility criteria. There was a particularly high level of financial intermediation in Spain, where lines granted by the EIB and ICO were intermediated. Specifically, 8,448 operations were arranged through ICO for a total of €180.8m. The figures for the EIB were 659 operations arranged for a total of €88.3m. Elsewhere, IFC, IDB, DEG, FMO and Proparco are key financial intermediation institutions for the Group's subsidiaries in Latin America.

- Project **co-financing**. A key product offered by multilateral institutions is the financing of the private sector projects that contribute to sustainable development. In these cases the Group always has the support of multilateral organizations to co-finance or guarantee projects in which BBVA has an interest.

- **Foreign trade** financing. They are programs developed by supranational organizations to promote foreign trade activities in the countries where they operate. These programs offer partial or full guarantees to confirming banks to cover political and commercial risks in operations with local financial institutions. Their aim is to promote inter-regional "South to South" trade for local SMEs in Latin America. With eight subsidiary banks in the zone, BBVA's role is crucial.

- Development of local **capital markets**, with the support provided for multilateral institutions, giving them access to local currency and allowing them to participate in projects in the region.

- **Internationalization** of SMEs. BBVA participates in the IDB's Connect Americas platform, the first social network for internationalizing SMEs, which is based on three basic pillars: (i) education, (ii) connectivity and (iii) financing. They are currently incorporated within the financing modules of all BBVA banks in the region.

Socially responsible investment

BBVA assumed its **commitment** to socially responsible investment (SRI) in 2008 when it joined the United Nations Principles for Responsible Investment (PRI) through the employee pension plan and one of the Group's major asset managers, Gestión de Previsión y Pensiones.

The **goal** at the time was to start building BBVA's own SRI model from the ground, with the initial implementation focused on employment pension funds. Nine years later, the Group continues to work on improving its model, making it more complete and sound every day.

In **2017**, BBVA Asset Management (BBVA AM) has continued to adapt to the market and changes in it, working to extend and improve the SRI solutions offered. Among them are the training solutions in place, such as events streamed and, the regular newsletters addressing SRI matters, which are posted on the BBVA AM website; and in particular through personal meetings with our customers to address their specific concerns in this field.

BBVA AM's SRI model has implemented the following **strategies**:

- Integration of ESG criteria in the investment process

  The inclusion of **ESG criteria** was carried out by developing a proprietary model that incorporates extra-financial criteria into a model portfolio, constructed according to fundamental analysis. The model was initially implemented in equity and later in fixed income.

  Likewise, an internal **ESG rating** has also been developed that directly affects the specific management decision-making process, which is communicated periodically to customers in the fund management reports.

  The analysis and inclusion of these criteria within the management models enhances the information that BBVA managers compile about the pool of investable companies and countries, enabling them to evaluate more accurately any possible risks for portfolios.

  Lastly, and with a view to having more reliable and specialized information to hand, the Bank commissions the services of an independent external agent that regularly provides BBVA with information on each company and the country in its investible pool.

- Exclusion: Rules of Conduct in Defense

  The Rules of Conduct in Defense apply to all BBVA Group units and subsidiaries, including the asset managers of employment pension funds.

  To apply them, BBVA uses **exclusion lists** of companies and countries, which are drawn up and updated on a regular basis with the help of an independent expert adviser. These lists include companies and countries related to defense materiel, military, police and security armaments, ammunition, explosives, etc., which are automatically excluded from the list of companies in which BBVA can invest. This exclusion also applies to all vehicles managed by BBVA AM.

- ESG analysis of third-party funds

  Gradually, and by extending the model, third-party investment funds in the portfolio for certain assets and geographical areas and their respective asset managers are subject to an in-depth **due diligence** conducted by the team of analysts on the Quality Funds internal platform. This analysis includes questions regarding their SRI engagements and status as signatories to the United Nations PRI.

  As the proportion of these vehicles has been growing in employment pension fund portfolios, a highly relevant change was made in 2015 regarding the selection of vehicles to incorporate into these portfolios to ensure BBVA's SRI policy is consistent with the one implemented by the funds.

  Thus, after verifying compliance by the asset managers with the United Nations PRI, the study has focused on the exclusions applied by the managers and the voting policies in place, both of which are mandatory elements to be eligible for incorporation in the managed employment pension fund portfolios. We have thus extended SRI-related coverage for portfolios by including the percentage managed by third parties.

  In addition to the foregoing, since 2016, 100% of the vehicle managing entities incorporated in pension funds were signatories to the United Nations PRI initiative.

- Engagement and exercise of voting rights

  BBVA AM's responsibility as a management entity is not limited to the management function itself. It also exercises the **right to vote** in all the annual general meetings of shareholders of European and Spanish companies, when the portfolio positions make it possible.

  This engagement is not restricted to employment pension funds that have delegated this responsibility to the asset manager; it applies equally to all individual pension funds, mutual funds and SICAVs managed by BBVA AM. The services of an independent external supplier are used for this purpose, whose opinion completes that of BBVA AM's own analysts.

During the year **2017**, professionals from the management company attended a total of 175 annual general meetings (of Spanish and European companies) whose securities are in the portfolios of various investment vehicles managed by BBVA AM, and voted against some items on the agendas.

Lastly, it is worth noting that **Garanti Asset Management** is also a signatory to the United Nations PRI since 2011, and since then has been working within the framework of this initiative, in line with BBVA Group's commitment.

Thus, BBVA AM continues to make progress in developing its **SRI model**, strengthening standards and studying additional methods applicable to the new asset classes that allow their customers to be offered a robust and responsible management.

Assets managed under SRI criteria, per investment vehicle (BBVA Asset Management. 31-12-2017)

	Mutual funds	Individual pension plans and EPSVs	Employment pension plans and EPSVs
Total assets under management (million euros)	37,639	14,930	8,011
SRI strategy			
Integration (%)	0.14 (1)	6.41	28
Exclusion (%)	100	100	100
Exclusion (%)	100	100	100 (2)

Note: EPSVs refer to Voluntary Social Welfare Entities.

(1) It refers to BBVA Desarrollo Sostenible fund, which is totally managed under the integration strategy.

(2) It refers to the 100% of the funds that have delegated the vote to the asset manager.

Solidarity and SRI funds

BBVA currently manages the following solidarity and SRI funds:

- **BBVA Solidaridad** is a mixed fixed-income solidarity fund that invests at least 30% of the portfolio in equity assets. At the time of subscription, the investor can choose one or more NGOs to which the asset manager will donate a percentage of 0.55% of the fund's total assets under management every six months, from the fund's income.

- **BBVA Bolsa Desarrollo Sostenible** is an equity SRI fund that invests in the shares of companies considered a sustainable investment. The fund also makes an annual donation of €15,000 to the Foundation for Applied Medical Research (FIMA), which is intended to fund research projects.

- **B+EDUCA** is a fixed-income fund that allocates 25% of the monthly returns directly to the "Por los que se quedan" (For those left behind) integration grant program in Mexico. BBVA Bancomer also charges a lower fee for funds of this kind, and makes direct contributions to this scholarship program.

- **BBVA Leer es Estar Adelante (Reading Means Keeping Ahead)** fwas the first mutual fund in Peru to support a social cause. It is a fixed-income fund through which investors donate one tenth of the share value (fund price) to the BBVA Continental Foundation program "Leer es Estar Adelante". BBVA Asset Management Continental undertakes to contribute the equivalent in dollars for each tenth of the share value, in addition to the participants' donation.

Amount donated, volume and participants of solidarity funds (BBVA Asset Management. 31-12-2017)

	Amount donated from solidarity funds (euros)	Volume (million euros)	Participants
BBVA Solidaridad	20,080	17	553
BBVA Desarrollo sostenible	15,000	52	4,990
B+Educa	10,436,350	638	36,679
Leer es Estar Adelante	3,044	12	132
Total	**10,474,474**	**719**	**42,354**

Financial inclusion

BBVA is aware that greater financial inclusion has a favorable impact on the welfare and sustained economic growth of countries. The fight against financial exclusion is therefore consistent with its ethical and social commitment, as well as its medium-term and long-term business objectives. For this purpose, the Group has developed a financial inclusion (FI) business **model** to cover the low-income population in emerging countries within its global footprint. This model is based on the development of a responsible business model that is sustainable in the long term, shifting from a model that is intensive in human capital and of limited scalability to a scalable strategy that is intensive in alternative and digital channels with a multi-product focus. In short, this model is based on:

- the use of new digital technologies,
- an increase in products and services offered through non-branch platforms,
- innovative low-cost financial solutions designed for this segment.

At the close of **2017**, BBVA had more than eight million active customers in this segment.

Customers of the financial inclusion segment (Number)

	2017	2016	2015
Mexico	5,577,083	5,546,218	6,682,025
Argentina	525,572	534,640	556,345
Chile	58,663	66,209	24,847
Colombia	378,052	397,544	292,875
Peru	909,251	880,477	1,394,243
Venezuela	648,618	884,634	872,871
Paraguay	26,433	24,096	23,752
Uruguay	42,159	64,310	61,733
Total	**8,165,831**	**8,398,128**	**9,908,691**

During 2017, the main **initiatives** launched were:

Mexico

- Advances on wages, short-term micro-loans, arranged through ATMs and text messages. An average of 22,000 loans per month have been granted in this way.
- Micro-life insurance arranged through ATMs. In 2017 an average of 7,000 policies were signed per month.
- Tandapp, an application for administering saving pools.
- SMS Banking, basic banking services such as balances, transfers between individuals and the purchase of air time through text messages. In 2017, 5.6 million users registered with the service.
- BBVA Plan, an application that makes goal-oriented saving easier. In 2017 this app was downloaded 140,000 times.

Colombia

- Launch of the salary advance scheme via mobile app and the web in May 2017.
- Improved usability of the simplified savings account.

Peru

- BIM Electronic wallet (professional platform).
- Membership of correspondent agents (own correspondent network).

Other initiatives worth highlighting are the Tuyyo (app for sending remittances between Mexico and the United States) and Bancomer apartados (a functionality of the mobile Bancomer application to create and administer savings plans within the deposit account itself).

Management of environmental and social impacts

Environmental, social and reputational risks

As a financial institution, BBVA has an **impact** on the environment and society; directly, through the consumption of natural resources and its relationship with stakeholders; and indirectly, through its credit activity and the projects it finances. These impacts result in direct, indirect and reputational risks.

These **non-financial risks** may affect the credit profile of borrowers or the projects financed by the Bank. To manage such risks, BBVA takes into account environmental, social and reputational aspects in its risk management, alongside traditional financial variables.

BBVA's strategy regarding environmental and social risks aims to gradually integrate its management into the Group's Risk Management Framework, in order to achieve mitigation based on the principle of prudence. For this, BBVA is developing different initiatives that reinforce its capacity to identify and evaluate this type of risk.

In **2017**, BBVA worked with a number of areas involved in the development of new standards for the mining, energy, infrastructure and agricultural business sectors, and a new improved process of due diligence that can assess new operations, customers or products with criteria that are aligned with BBVA's strategy of climate change and sustainable development.

1. Equator Principles

The energy, transport and social services infrastructures that boost economic development and create jobs can have an impact on the environment and society. BBVA is **committed** to managing the financing of these projects in order to avoid and reduce their negative impacts and boost their economic, social and environmental value.

All the decisions on project financing are based on the criterion of **return adjusted to ethical principles**. Placing people at the core of the business implies dealing with stakeholder expectations and the social demand to fight against climate change and respect human rights.

In line with this commitment, BBVA adhered to the **Equator Principles** (EPs) in 2004. Based on the International Finance Corporation's (IFC) Policy and Performance Standards on Social and Environmental Sustainability and the World Bank's Environmental, Health and Safety Guidelines, the Equator Principles are a set of standards for managing environmental and social risks in project financing. These principles have set the benchmark for responsible financing.

During **2017**, the Group contributed to their development and dissemination as a member of the working groups in which it participates and has been one of the eleven signatories to the letter sent to the Equator Principles Association, in which it urged measures to be taken to tighten the environmental and social due diligence requirements for project financing. Thus, during the annual meeting of the EPs, the decision has been taken to start preparing the fourth version of the Principles to align them with the Paris Agreement, face the complications in implementing informed consultation and participation processes and remedy the inconsistencies in the standards used to assess environmental and social risks in projects.

The Sustainable Finance and Reputational Risk team from Corporate & Investment Banking is responsible for analysis of the projects, representation of the Bank before its stakeholders, accountability to senior management, and the design and implementation of the management system, proposing the adoption of best practices and contributing toward training and communication on matters related to the EPs.

In the processes of risk analysis and decision making, BBVA evaluates and takes into consideration not only financial aspects but also social, environmental and reputational ones. The analysis of the projects consists of submitting each transaction to an environmental and social due diligence process, which begins with the assignment of a category (A, B or C) that reflects the level of risk of the project.

The review of the documentation provided by the customer and the independent advisors allows assessing compliance with the requirements established in the EPs according to the category of the project. The financing contracts incorporate the customer's environmental and social obligations that a specialized team of CIB is responsible for monitoring.

Review of the documentation provided by the customer

01 Initial review

- Selection of independent advisor
- Project classification

02 Due diligence

- Review of the Environmental and Social Impact Assessment
- Environmental and Social Due Diligence Report

03 Approval

- Sanction by the CIB Reputational Risk Department
- Inclusion of conditions in the approval of the Risks Commitee

04 Financial close

- Preparation of an Action Plan
- Environmental and social clauses in the financing contract

05 Monitoring

- Monitoring reports by the independent advisor
- Report on the environmental and social impact of the project

The application of the EPs in BBVA is integrated into the internal processes for structuring, admission and monitoring of transactions, and is subject to regular controls by the Internal Audit Department.

In 2017, BBVA took the decision to enhance its **due diligence procedures** associated with the projects financing whose development affects indigenous communities. When this occurs, the free, prior and informed consent (FPIC) by these communities must be taken into consideration, regardless of the geographic location of the project. This means extending the current demands of the EPs, which limits this requirement to countries classified as "non-designated", leaving out the "designated" countries (those that are considered to have a robust legal system and an institutional capacity that provides sufficient guarantees of environmental protection and their people's social rights). BBVA is one of the ten banks that in 2017 called on the rest of the banks adhering to the Equator Principles to support the adoption of amendments in this respect.

For BBVA, the EPs are the starting point to apply the best practices and the framework of dialogue with customers and groups interested in the projects it finances.

The Group offers public information on the environmental and social project management financed and advised by BBVA.

Operations data analyzed under Equator Principles' criteria (BBVA Group)

	2017	2016	2015
Number of operations [1]	22	32	26
Total amount (millon euros)	7,069	6,863	24,557
Amount financed by BBVA (million euros)	1,054	1,451	1,933

[1] 9 out 22 of the operations are under Equator Principles scope, while the remaining 13 are voluntarily analyzed by BBVA under the same criteria.

2. Eco-rating

The Eco-rating tool is used to rate the risk portfolio of SMEs from an environmental point of view. This is done by assigning a level of credit risk to each customer in accordance with a combination of several factors such as location, polluting emissions, consumption of resources, potential to affect the environment and applicable legislation. During 2017 the environmental risk of 236,273 customers in Spain was rated, with a total exposure volume of €87,875m.

Eco-rating data (Spain. 2017)

Environmental risk level	Volume (million euros)	Customers
Low	75,677	196,338
Medium	11,953	39,417
High	245	518
Total	**87,875**	**236,273**

3. Reputational risk management

Since 2006, BBVA has had a **methodology** in place for identifying, evaluating and managing reputational risk. Through this methodology, the Bank regularly defines and reviews a map in which it prioritizes the reputational risks it faces, together with a set of action plans to mitigate them.

This prioritization is carried out according to two **variables**: the impact on stakeholder perceptions and the strength of BBVA's resilience to risk.

This reputational exercise is carried out in each country, and the integration of all of them provides a consolidated view of the Group. In addition, since 2017, a specific exercise has been carried out for the CIB EMEA area.

This exercise has been performed since 2015 using a computer **tool** that allows risks to be assessed by the competent areas.

The main milestones related to reputational risk management in **2017** were:

- Strengthening of the reputational risk model with the establishment of the position of corporate reputation specialist, integrated into BBVA's model of three lines of defense.
- Participation of the Reputational Risk Department in the 2017 corporate Risk Assessment processes and in estimating the impacts of the scenarios in the recovery plan.
- Global Risk Management calculated reputational risk capital for the first time.
- Integration of key risk indicators into the reputational risk management tool with the aim of improving risk monitoring.
- Integration of CIB into the reputational risk management model.

Eco-efficiency

BBVA also assumes its commitment to mitigate the direct impacts of its activity. These impacts are fundamentally those derived from the use of its buildings and offices around the world.

In 2017, BBVA continued to work on its third **Global Eco-efficiency Plan** (GEP), focused on positioning the Group among the leading entities at global level in terms of eco-efficiency. The GEP establishes the following strategic areas and global targets for the period 2016-2020, continuing on from the two previous plans that were begun in 2008 and 2012, respectively, and setting the following targets:

Global Eco-efficiency Plan

Vectors	Strategic guidelines	Global target
Environmental management and sustainable construction	% occupants in certified buildings	42%
Energy and climate change	Consumption per occupant (kWh/occup)	-5%
	% of clean energy	48%
	$CO_{2\,eq}$ emissions per occupant ($tCO_{2\,eq}$/occp)	-8%
Water	Consumption per occupant (m^3/occup)	-5%
	% occupants in buildings with alternative water sources	9%
Paper and waste	Paper consumption per occupant (kg/occup)	-5%
	% occupants in occupants in buildings with separate waste collection	30%
Extension of the commitment	Awareness campaigns for employees and supplier	

Goals per person.

During 2017 a number of the **goals** set have been achieved, such as the percentage of people in certified buildings, in buildings with alternative water sources and with selective waste collection, which increased in 42%, 11% and 41% , respectively.

In addition, during the PGE period (base year 2015), electricity consumption per person was reduced by 6.9% and CO2 emissions per person in the Group by 2.5%.

The evolution of the PGE indicators is reflected in the table below:

Evolution of the GEP indicators (BBVA Group)

	2017	2016	2015
People working in certified buildings (%) [1]	42	40	43
Electricity usage per person (MWh)	5.9	5.8	6.3
Energy coming from renewable sources (%)	27	25	30
CO2 emissions per person (T)	2.2	2.1[2]	2.2
Water consumption per person (m^3)	23.0	21.1	20.7
People working in buildings with alternative sources of water supply (%)	11	10	14
Paper consumption per person (T)	0.1	0.1	0.1
People working in buildings with separate waste collection certificate (%)	41	32	33

[1] Including ISO 14001 and LEED certifications.

[2] This figure has been adjusted according to update of the emissions factor applied.

Note: indicators calculated based on employees and external staff.

To achieve these targets, BBVA continued its efforts to minimize its **environmental footprint** through initiatives in all the countries where the Group is present, most notably:

- Projects carried out to improve efficiency in the air conditioning and lighting systems of buildings and branches in countries such as Mexico, the United States, Chile, Paraguay and Peru, which will lead to significant savings with respect to current consumption.
- Remodeling of some headquarters, such as Argentina and Peru.
- Establishment and monitoring of the implementation of energy-saving measures in buildings in Spain, which has led to savings of 6,618.33 MWh in the first eight months of 2017, 2.9% less than in 2016.
- Adaptation to ISO 14001:2015 of the Environmental Management System certifications under ISO 14001 in Argentina, Colombia, Spain, Mexico, Peru, Uruguay, Mexico and Turkey. In total, 1,034 branches and 79 of the Group's buildings around the world possess this certification. Likewise, Environmental Management System certifications under ISO 50001 Standard have been renewed for buildings on the La Moraleja Campus and Ciudad BBVA in Madrid, as well as the services building La Isla in Spain and twelve branches in Lima, Peru.
- Achievement of LEED Platinum certification for sustainable design and construction in the Kizilay Office Building of Turkey and the LEED Gold for the Operational Center in Mexico City. The Torre Reforma building in Mexico is also in the process of achieving this certification. These certifications are in addition to the 19 BBVA buildings that have already received this prestigious environmental certification.
- Participation in the Earth Hour campaign, during which 117 buildings and 330 branches in 177 cities throughout Spain, Portugal, Mexico, Colombia, Argentina, Turkey Peru, Paraguay, Uruguay, Chile and the United States turned off their lights.
- Adhesion to numerous international initiatives such as Environment Day, when some of the most important buildings were illuminated in green, such as the Ciudad BBVA headquarters in Madrid, the BBVA headquarters in Lima, Peru, and the most recent headquarters in Buenos Aires, Argentina. A number of initiatives have also been organized to raise awareness among employees on the occasion of the International Earth Day and International Recycling Day.

Annex 11 - Environmental footprint

Engagement

BBVA is participating in major international sustainable development initiatives (the United Nations Global Compact, Equator Principles, Principles for Responsible Investment, United Nations Environment Programme Finance Initiative, Thun Group of Banks and Human Rights, Green Bond Principles and Social Bond Principles), and has been committed, since 2017, to achieve the United Nations Sustainable Development Goals (SDGs). BBVA is also part of the pilot group of banks that have committed to implement financing and climate change recommendations that were published in July by the Financial Stability Board in the framework of the G20.

Sustainable Development Goals

On 25 September 2015, the world leaders adopted 17 **SDGs** to protect the planet, fight poverty and try to eradicate it and to achieve a prosperous world for future generations. These goals are part of the 2030 Sustainable Development Agenda. The aim is to involve everyone: governments, companies, civil society and individuals. Each goal, set out with a specific purpose, has in turn a number of targets to be achieved; and each target has its own indicators that serve to determine the level of achievement of each goal.

Companies play a key role in achieving these goals. They are expected to act on those where they have the greatest capacity to influence. They must therefore choose where their contribution can have the biggest impact and implement mechanisms to help comply with these goals.

Given its broad spectrum of business, **BBVA** contributes to a number of SDGs, together with the BBVA Microfinance Foundation and the different geographic areas in which it operates. To respond to the obligations it has imposed on itself as a bank, BBVA has defined its strategy for climate change and sustainable development that orders its different commitments and relates them directly to the SDGs. In this way, BBVA aims to respond to the commitments of the 2030 Agenda, but at the same time to take advantage of the business opportunities derived from compliance.

The table below shows details of the different initiatives carried out by BBVA and its foundations.

Sustainable Development Goals

Goals	BBVA Initiatives	Description	Associated metrics
Goal 1: End poverty in all its forms everywhere	BBVA Microfinance Foundation (BBVAMF)	Promote the sustainable and inclusive economic and social development of disadvantaged people in Latin America, supporting their growth through empowerment	- Number of customers - People impacted by the BBVAMF - % of customers of the BBVAMF at risk of exclusion - % of customers who have emerged from the situation of poverty through the BBVAMF
	Financial inclusion (FI)	In this segment the aim is to meet the needs of the population with low incomes in the emerging countries where BBVA operates. It is an initiative to provide customers with access to financial services through solutions rich in human capital that offer an alternative to the traditional model by developing channels and digital products that are low-cost, easy to open and simple to work with. These solutions allow customers consult balances and make transactions and transfers quickly and securely, while also extending availability and proximity	- Number of customers in the segment - Points of attention of financial inclusion
	Collaboration with social institutions	Collaboration with institutions through donations or by boosting local actions	- Amount donated to entities - Beneficiaries
Goal 3: Guarantee a healthy life and promote well-being for everyone of all ages	BBVA Foundation	Promote research in fields such as biomedicine and health	- BBVA Foundation budget
Goal 4: Ensure inclusive and equitable quality education for all and promote lifelong learning opportunities for all	Educational programs	- "Niños Adelante" (Forward, Children). Program that aims to promote access to and quality of primary and secondary education of children and young people in the most disadvantaged areas of South America and Mexico - Other educational programs developed at local level in the different countries in which BBVA operates - Financial education. Programs that promote the development of the financial skills and allow society to make informed decisions that improve its financial well-being	- Investment in the different programs - Beneficiaries
Goal 5: Achieve gender equality and empower all women and girls	Signatory to the UN Women's Empowerment Principles		
	BBVA Diversity Plan		
	Garanti Bank Women Entrepreneur Executive School Program	Program that builds the skills of women entrepreneurs through training on subjects such as business creation, innovation and sustainable management	- Women benefiting
	BBVA Microfinance Foundation	Of the entrepreneurs covered by the Microfinance Foundation, 61% who access the financial system are women, thus directly helping to reduce gender inequality. The Foundation has also formalized a partnership agreement with UN Women, the United Nations entity for gender equality and the empowerment of women, with the aim of promoting the huge entrepreneurship potential of women and their ability to have an impact on reducing poverty and become a driving force for prosperity and welfare for their families and communities	- % of female customers of the BBVAMF
Goal 6: Ensure access to and sustainable management of water and sanitation for all	Eco-efficiency Plan	BBVA has an Eco-efficiency Plan in place that aims to improve the energy efficiency and use of renewable energy within the Organization. The use of recycled water and water saving are key parts of this Plan	- % reduction in water consumption per employee - % of employees in buildings with alternative water supply sources
	Strategy on climate change and sustainable development	Strategy that includes the Group's various initiatives addressing social and environmental challenges. This strategy addresses the risks that may arise by the creation of specific policies and management of crisis situations. It also takes advantage of the business opportunities arising from the commitments acquired, such as the SDGs. Specifically, in the case of SDG 6 there is the opportunity to finance the infrastructures needed to guarantee access to water and the companies involved in this task	- Financing of water treatment projects - Projects to which financing has been refused because they do not comply with required standards - Financing for projects or companies whose aim is to guarantee access to water in developing companies (also through Momentum) - Bond issuance to finance companies, etc.
Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all	Strategy on climate change and sustainable development	Strategy that includes the Group's various initiatives addressing social and environmental challenges. This strategy addresses the risks that may arise by the creation of specific policies and management of crisis situations. It also takes advantage of the business opportunities arising from the commitments acquired, such as the SDGs. The opportunities associated with SDG 7 are those related to financing renewable energies, energy efficiency, issuance of green bonds, etc.	- Financing of renewable energy projects: - Installed power of financed projects - Loans for increasing energy efficiency in homes - Mortgages granted for the purchase of energy-efficient homes - Volume of bonds issued associated with energy efficiency projects -V olume of business with green customers
Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	BBVA Microfinance Foundation	The BBVAMF promotes the sustainable and inclusive economic and social development of disadvantaged people in Latin America, supporting their growth through empowerment	- Volume of loans granted - Entrepreneurs benefiting from the creation of the BBVAMF - Jobs generated by the BBVAMF
	Financial education and business training programs	Our overall objective is to boost a concept of financial education based on the acquisition of knowledge, skills and attitudes, with the goal of changing the way customers make financial decisions and thus improving their experience	- SMEs benefiting from the program - Investment in the program
	Momentum	Social entrepreneurship support program aimed at promoting the growth and consolidation of innovative social enterprises. The program is carried out in coordination with top business schools and with the participation of BBVA executives, who provide a strategic mentoring service. Created in 2011 and developed in three countries (Spain, Mexico and Peru), it was reorganized in 2016 and became BBVA Momentum. This updated version of the Program was launched simultaneously in five countries in February 2017	- Number of businesses benefiting
	Remittances	Tuyyo. The most convenient way of sending remittances between The United States and Mexico	
	Women Entrepreneur executive School		Beneficiaries
	Met Colombia Entrepreneurship		Beneficiaries
	BBVA Open talent		Beneficiaries
	Financial inclusion (FI)	In this segment the aim is to meet the needs of the population with low incomes in the emerging countries where it operates. It is an initiative to provide customers with access to financial services through solutions rich in human capital that offer an alternative to the traditional model by developing channels and digital products that are low-cost, easy to open and simple to work with. These solutions allow customers consult balances and make transactions and transfers quickly and securely, while also extending availability and proximity	- Number of customers in the segment - Points of attention of financial inclusion
	Strategy on climate change and sustainable development	BBVA's commitment to facilitate access to credit under sustainability criteria, particularly in emerging economies	- Volume of loans to the agribusiness sector under sustainable criteria

Sustainable Development Goals

Goals	BBVA Initiatives	Description	Associated metrics
8 DECENT WORK AND ECONOMIC GROWTH Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Responsible Procurement	Control of the supply chain to prevent abusive conditions in suppliers. This control is levered on the Responsible Procurement Policy, the principles applicable to those involved in the procurement processes (IPAs) and BBVA's own Code of Conduct. These documents aim to ensure that BBVA's suppliers are governed by the same principles as the Group, guaranteeing their employees and subcontractors are treated well	- Number of audits of suppliers to assess their employment quality - Number of approved suppliers
	Diversity policy	Promotion and hiring of people with disabilities in both BBVA and its suppliers	- Volume of hires from special employment centers - % of approved suppliers - BBVA's wage gap
	BBVA Foundation	The BBVA Foundation has strengthened its commitment to drive and disseminate knowledge by supporting the community of researchers and creators in Spain, recognizing and raising the profile of the best representatives of these communities and providing objective information in relation to some of the main topics of public debate. In addition to maintaining its close collaboration with leading institutions in all areas, the BBVA Foundation has reinforced its own activities and has become a benchmark in sectors such as the environment and contemporary music, as well as the publication of socioeconomic research	- Beneficiaries of educational programs - Contribution to educational programs
	Occupational safety	With respect to occupational health and safety, BBVA honors its commitment to guarantee healthy working environments and improve the quality of life of people through health promotion and prevention campaigns, we well as training, information and awareness-raising activities	- Technical and preventive procedures - Preventive actions to improve working conditions - Appointments for health check-ups - % of employees represented on health and safety committees - Absenteeism rate
	Freedom of association	The rights and working conditions of Group personnel are included in the rules, conventions and agreements concluded in each entity with the corresponding workers' representatives, in accordance with local legislation	- % of the workforce subject to a collective agreement
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE Goal 9: Build resilient infrastructure, promote sustainable industrialization and foster innovation	Strategy on climate change and sustainable development	Through this pledge, BBVA is developing a series of initiatives to address this SDG, specifically by its commitment to mitigate impacts. The aim is to detect non-financial risks and include them within the Bank's risk model through the construction of a variety of scenarios. Sector policies in sensitive sectors will also be developed to reduce polluting emissions	- Investment in sustainable infrastructures
	BBVA Transformation Plan		- Investment in innovation and technology
10 REDUCED INEQUALITIES Goal 10: Reduce inequality within and among countries	BBVA's tax Policy	Be transparent in our tax contribution, paying taxes where business is generated	- Total tax contribution report.
11 SUSTAINABLE CITIES AND COMMUNITIES Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable	Access to housing	Giving access to credit for the acquisition of homes, above all in developing countries, helps guarantee access to decent housing	- Volume of mortgage loans - Number of loans for home improvements
	Social housing	Provide social housing in the geographic areas where it is needed, avoiding evictions and ejections of people at risk of exclusion	- Number of evictions (negative trend) - Number of social homes made available directly for public entities or customers
	Strategy on climate change and sustainable development	The financing of infrastructure projects and transportation companies that helps the development of these sectors with environmental and social criteria	- Volume of loans for infrastructure construction - Volume of loans to transportation companies
	BBVA Foundation	The activity of the BBVA Foundation guarantees the maintenance of culture and art in a number of geographic areas, as well as guaranteeing access to it by part of the population	- Investment in the BBVA Foundation
	Eco-efficiency	BBVA's Eco-efficiency Plan includes the Group's recycling targets and other targets set by the Organization	- Tons of waste generated - Tons of paper recycled
12 RESPONSIBLE CONSUMPTION AND PRODUCTION Goal 12: Ensure sustainable consumption and production patterns	Responsible Procurement	As a purchasing entity, BBVA can favor contracts with local suppliers in the geographic areas where it operates	- % of local suppliers
13 CLIMATE ACTION Goal 13: Take urgent action to combat climate change and its impacts	Strategy on climate change and sustainable development	Manage environmental risks by applying rules and policies governing financing for projects and customers that can affect climate change	- Number of transactions under the Equator Principles - BBVA policies in controversial sectors
	Strategy on climate change and sustainable development	Promotion of green financing through the marketing and issue of products with a "sustainable" rating	- Investment in renewable energies - Volume of green and social bonds
	Eco-efficiency	BBVA's Eco-efficiency Plan includes the Group's recycling targets and the targets set by the Organization	- Reduction in CO2 emissions
	Task Force on Climate-related Financial Disclosures (TCFD)	Participation in the TCFD as one of the 16 banks in the pilot group	
16 PEACE, JUSTICE AND STRONG INSTITUTIONS Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable and inclusive institutions at all levels	Development of a responsible banking model	Create a model based on the search for return adjusted to principles: integrity, prudence and transparency Foster clear and responsible communication and financial education to help our customers make informed decisions	- % of products with TCR leaflets - % of TCR contracts - No. of TCR sales scripts
	Fight against corruption and bribery at all levels	Guarantee that neither BBVA employees or customers encourage corruption or are participants in any bribery or illicit activity	- Claims filed related to corruption or bribery - Number of internal audits carried out to prevent corruption and bribery
	Avoid controversial financing weapons	Avoid financing weapons considered controversial	- Rules conduct in defense
	Commitment to human rights	BBVA is committed to human rights policy and has carried out a due diligence process in this respect	
	Fiscal transparency	Be transparent in our tax contribution, paying taxes where business is generated	- Total tax contribution report
17 PARTNERSHIPS FOR THE GOALS Goal 17: Revitalize the global partnership for sustainable development and mobilize resources for its implementation	Extensive relation with multilateral financial institutions that can provide financing to sectors and projects contributing to the development of societies		
	Participation in working groups and associations	Take part in associations and groups that promote engagement and forge alliances	TCFD, Global Compact Network, Thun Group of Banks

Task Force on Climate-related Financial Disclosures (TCFD)

As part of its **commitment** to mitigate the impacts derived from climate change and to integrate these risks into its risk management model, BBVA has joined the pilot group of banks that, supervised by UNEP FI (United Nations Environment Program - Finance Initiative), works for the implementation of the recommendations of the Task Force on Climate-related Disclosures, created by the Financial Stability Board.

This pilot group of 16 banks aims to analyze how **climate change** affects the banking industry in its governance model, strategy and risk model.

Over the next two years, a number of possible climate change scenarios will be used to determine how global warming will affect the banking business. The basic aim of the working group will be focused on analyzing **risks**, whether physical (associated mainly with the direct effects of climate change) or transitional (regulatory, technological or social changes), and how these form part of each entity's risk model.

Currently, the group is working to determine the **sectors** on which the analysis will focus, together with the geographic areas of analysis on which the pilot program will be run.

BBVA's **action plan** and the commitments acquired to align both risk management and the rest of the requirements of the recommendations, are as follows:

Thematic area	Recommendations	What we have	Phase 1 (S2/2017)	Phase 2 (2018)
Governance	Describe the board's oversight of climate-related risks and opportunities	Included in CSR Policy supervised by the Board		
	Describe management's role assessing and managing climate-related risks and opportunities	Included in CEO's Decision-Making	Action plan from Decision-Making project Formalize working groups	
Strategy	Describe the climate-related risks and opportunities the organization has identified over the short, medium and long term		Identify risks and opportunities that are material for BBVA Describe credit exposure to carbon-related assets (1)	
	Describe the impact of climate-related risks and opportunities on the organization´s businesses, strategy and financial planning		Sustainable finance business plan (wholesale banking)	To be done in phase 2
	Describe the resilience of the organization's strategy, taking into consideration different scenarios, including a 2°C or lower scenario			To be done in phase 2
Risk Management	Describe the organization's processes for identifying and assessing climate-related risks		Define and formalize processes	
	Describe the organization's processes for managing climate-related risks	Equator Principles & defense policy Specific local regulations	Additional industry policies & customer assessment on CIB Study feasibility of assessment on SMEs	
	Describe how processes for identifying, assessing and managing these risks are integrated into the organization's overall risk management			Pendiente fase 2
Metrics and Targets	Disclose the metrics used to assess climate-related risks and opportunities in line with its strategy and risk management process		Disclose in annual report 2017 credit exposure by industry, geography Disclose credit carbon-related assets	
	Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions	Disclosed Scope 1 and Scope 2	Study feasibility Scope 3	
	Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets		Define KPIs	Set targets & performance

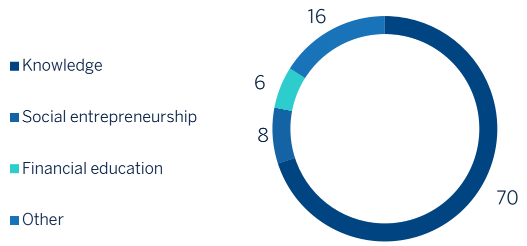
(1) TCFD defines carbon-related assets as those assets tied to the energy and utilities sectors under the Global Industry Classification Standard, excluding water utilities and independent power and renewable electricity producer industries.

Contribution to society

Investment in social programs

In **2017**, BBVA allocated €103m to social projects. This figure accounts for 2,9% of the Group's net attributable profit.

Investment data by focused action (Percentage)



In 2017, BBVA has continued to push forward the main **areas** of action of the Community Investment Plan for the period 2016-2018, which include:

1. Financial education, aimed at promoting the acquisition of financial skills and competencies to enable people to make informed financial decisions.
2. Social entrepreneurship, designed to support the most vulnerable entrepreneurs and those whose companies have a positive social impact.
3. Knowledge, through support for initiatives that drive development and create opportunities for people.

Geographical areas and Foundations (Thousand euros)

	2017	%	2016	%	2015	%
Spain and corporative areas	24,728	24	16,923	16	22,230	21
The United States	9,042	9	8,732	8	7,609	7
Mexico	26,847	26	24,612	24	28,068	27
Turkey	5,184	5	6,193	6	8518	8
South America	5,971	6	6,380	6	7,586	7
BBVA Foundation	25,930	25	25,598	25	24,288	23
BBVA Microfinance Foundation	5,372	5	4,827	5	5,307	5
Total	**103,075**	**100**	**93,265**	**100**	**103,606**	**100**

Education for society was one of the core areas of the previous Plan until 2016. It is now framed within the strategic line of knowledge. Nonetheless, it retains a significant weight in BBVA's social investment, which continues to support access to education, educational quality and education in values as sources of opportunity. However, it also shares this space with other Group initiatives such as the BBVA Foundation activities and research work by the BBVA Research Department.

BBVA **community support activity** since 2016 has been focusing on these three strategic lines, although at the local level the Group's banks will maintain their commitment to investment in the community to address local social problems. In this regard, the Support to Social Organizations program backs educational and community development projects carried out by non-governmental organizations, and other non-profit associations and institutions.

Financial education

Financial education is one of the three lines of action established in the 2016-2018 Community Investment Plan.

Financial education for society

Through its financial education **programs**, BBVA fosters the acquisition of financial knowledge, skills and abilities that allow people to make better financial decisions and thus access new opportunities.

Since 2008, BBVA has run its own financial education programs and worked together with other actors on more projects. These programs are designed for a diverse target audience, including children, young people and adults, and also entrepreneurs and managers of small businesses. They cover a broad range of subjects, from financial planning to savings and investment. BBVA also adapts its programs at a local level to provide financial education adapted to the environment and economic reality across its global footprint.

In these ten years, BBVA has invested over €73m, benefiting over 11 million people.

Beneficiaries of the financial education programs (Number)

	2017	2016	2015
Children and young people	2,125,817	2,143,161	1,108,755
Adults	148,537	396,988	368,055
SMEs	16,315	34,305	59,398
Total beneficiaries of financial education (1)	**2,290,669**	**2,574,454**	**1,536,208**
Total investment in financial education (euros)	6,284,943	10,166,675	12,448,665

(1) Beneficiaries may not be unique.

Integration of financial education in customer solutions

As well as providing financial education for society, in **2017** BBVA worked to integrate financial education into customer solutions, transferring experience in the area of practical financial education courses to customer experience. BBVA wants to help customers improve their personal finances through tips, communications and reminders, optimizing their financial abilities and supporting them throughout their financial lives, allowing them to access new opportunities and achieve their goals. In 2017, BBVA launched functionalities onto the market for this purpose, including Financial Check-up and Bconomy.

Promotion of financial education

BBVA works with a variety of national and multinational organizations to promote the importance of financial knowledge and skills as critical matters that have a direct impact on people's well-being.

One of the key milestones in this respect in **2017** was the launch of the Center for Education and Financial Abilities, a virtual platform to promote the importance of financial knowledge and abilities through research, dissemination and learning geared to action. The center receives advice from a team of experts in financial education, including representatives from prestigious organizations such as the IDB, the World Bank, the CAF, the European Banking Federation, the Organization for Economic Cooperation and Development (OECD) or the Ibero-American General Secretariat, among other .

In 2017, the Center held its first annual event, the **Edufin Summit** 2017 in Mexico City. The conference dealt with relevant issues such as measurement of financial education, behavioral economics, national strategies, and financial education in the digital environment. A total of 30 experts from the world of education and financial inclusion took part, and it was attended by 242 people from 18 countries.

In addition, in 2017 BBVA continued with the support it has been giving since 2010 to the OECD in drawing up its **PISA report** on financial competence. The collaboration of BBVA makes possible to carry out an assessment on the financial knowledge and skills of 15-year-olds. This assesmenthas been conducted every three years since 2012 and its results have shed light on a vast field for possible improvement in the majority of the participating countries. The results of the assessment conducted in 2015 were published in May 2017 and presented at an event held at the OECD headquarters in Paris, attended by Her Highness Queen Máxima of the Netherlands, the Secretary-General of the OECD, Ángel Gurría, and the Group Executive Chairman of BBVA, Francisco González. Through this collaboration with the OECD and other contributions, BBVA maintains its commitment to advocate and promote financial education, on which until 2017 it has invested €2.3m.

In 2017, BBVA continued to promote **financial education in the digital media**. The website www.bbva.com shares information and extends understanding of the financial knowledge and skills that can make society more aware of financial risks and opportunities, and enable people to make informed and effective decisions to improve their personal financial well-being. These contents received over 300,000 visits in 2017.

Annex 12 - Financial education. Data by country

Financial education programs for society detail

At local level, BBVA continued to develop financial education programs for children, young people, adults and SMEs.

The **programs for children and young people**, which are designed to increase their financial culture and promote values related to the use of money, include the following:

- "Valores de Futuro" (Future Values): a program that has been developed in Spain and Mexico. It is offered mainly at schools and consists of 60 workshops to encourage reflection and active participation, with the support of teachers. In some cases they are assisted by volunteers from BBVA. Since its launch in 2009, Valores de Futuro has already provided courses for more than 7.3 million children aged between 6 and 14.

- "Tus Finanzas Tu Futuro" (Your Finances, Your Future): a pioneering program promoted by the Spanish Banking Association (AEB, by its initials in Spanish) and run by the Junior Achievement Foundation. This is a unique initiative in which 24 private financial institutions participate, by making resources and volunteers available for financial education. In 2017, the AEB also developed two interactive programs for young people, with the participation of BBVA and other financial institutions: Me Suena un Poco (It Sounds to me a little) and Tu Dinero y Tú (Your Money and You). These programs use more innovative formats and are published on the social media.

- BBVA Entrepreneurship School in Colombia: a program aimed at promoting financial skills and knowledge among young entrepreneurs from more than 12 Colombian regions.

- Online Financial Education Course in Venezuela: aimed at young people who want to improve their financial skills. 3,458 young people have been benefited of this course during 2017.

- Banco Francés Financial Education Program: aimed at helping 1,099 young people aged between 12 and 19 to have financial and finance management knowledge and skills.

Annex 13 - Financial education programs for children and young people

The **financial education initiatives for adults** were created to provide knowledge to assist in the decision-making needed to improve people's financial well-being and create better opportunities. Among them are:

- "Adelante con tu Futuro" (Forward with Your Future): the financial education program with the biggest infrastructure in Latin America. It was launched in Mexico in 2008 and has now extended to Chile, Colombia, Paraguay, Uruguay and Venezuela. It supports people through their different stages of life with a variety of channels (fixed classrooms, mobile classrooms and teams, online courses), instructors, volunteers and content aligned with the financial life cycle (savings, credit health, loans, investment, online banking, saving for retirement, etc.) and provides them with the tools they need to administer their finances better. Since its launch in 2008, Adelante con tu Futuro has run over 4.2 million on-site and online workshops, benefiting more than 1.7 million people.

- Financial Education for employees: in Chile, Colombia and Mexico, financial inclusion initiatives were consolidated to promote financial knowledge and skills in the work centers of companies and institutions that are customers of BBVA. 12,000 customers have been benefited from this workshops.

- Financial Opportunity Month: the BBVA Compass Foundation in the United States offers financial education courses organized by themes. Each month a theme is developed in workshops offered by BBVA Compass volunteers in all the states in which the bank is present.

- "Mi Jubilación" (My Retirement): an initiative launched in 2013 in Spain that since then has become a benchmark for information related to retirement and pensions. Mi Jubilación also promotes economic research into the reform of pension systems, through the BBVA Pensions Institute. The web received more than 700,000 visits in 2017 and 237,719 simulations have been performed.

Finally, BBVA promotes **training in financial skills for the financial management of small and medium-sized businesses** through educational workshops on subjects related to financial decision-making in SMEs. The main initiatives are:

- "Finanzas para Emprender y Crecer" (Finance for Entrepreneurship and Growth): support for entrepreneurs and micro-businesses, whether customers or non-customers, with classroom and online workshops, interactive videos and practical exercises.

- SME skills training programs in Spain and Mexico to support small and medium-sized enterprises with major growth potential through cognitive tools and management and administrative skills, that allow them to consolidate and grow their projects.

- “Camino al Éxito” (Path to Success): a training program for SMEs offered in Chile, Uruguay and Venezuela.

Annex 14 - Financial education programs for SMEs

Financial education and the promotion of formal savings among people with limited resources in rural areas represent an opportunity for the development of families and communities. One example is the activity carried out by BBVA Microfinance Foundation, which promotes education and the development of financial skills, providing ethical and responsible advice on financial decisions related to access to appropriate financial services and the creation of productive activities by customers.

- In Chile, the Entrepreneurship School has been created for all the Bank’s customers through Fondo Esperanza, which integrates financial education as one of the objectives of its investment strategy.
- In Colombia, Bancamía launches personalized advice and financial education workshops for customers and communities.
- In Peru, the BBVA Microfinance Foundation, through Financiera Confianza, implements financial education and savings promotion initiatives for entrepreneur groups and vulnerable groups of the population with projects such as “Ahorro para Todos” (Savings for Everyone).

Entrepreneurship

In the 2016-2018 Community Investment Plan the entrepreneurship support programs are organized into a single line of action that thus becomes particularly important. Through this line of action, BBVA supports two types of entrepreneurs:

- Vulnerable entrepreneurs, who are supported through the BBVA Microfinance Foundation.
- Entrepreneurs who create high social impact through their enterprises, who are supported by the BBVA Momentum program.

BBVA Microfinance Foundation

As part of its commitment to **financial inclusion**, in 2007 the BBVA Microfinance Foundation (BBVAMF) was set up as a non-profit institution whose mission is to promote sustainable and inclusive economic and social development for the most underprivileged people in society through responsible productive finance. This model seeks to foster the development of its customers and offers vulnerable entrepreneurs a customized service by bringing not only a full range of financial products and services to their homes or companies, but also advice and training related to the financial administration and management of their small businesses.

Every year, the Foundation publishes its **Social Performance Report**, entitled "Midiendo lo que Realmente Importa" (Measuring What Really Matters). It offers economic and social information that provides more detailed information on certain characteristics and dynamics of the customers it serves, with the goal of offering a better financial and supportive service.

Since the Foundation was set up, it has disbursed an aggregate volume of US$10,795m to low-income entrepreneurs in Latin America for the development of their productive activities. It is now one of the largest private philanthropic initiatives in the region.

BBVA Microfinance Foundation basic data

	2017	2016	2015
Number of Customers	1,941,232	1,826,607	1,712,801
Social Impact (millons of people) (1)	6.8	7.3	6.9
Number of Employees	8,051	8,038	7,910
Number of Offices	514	507	509
Volume of credit protfolio (millon euros) (2)	951	1009	936
Average amount for microcredits (euros) (3)	1,090	1,161	1,046
Number of countries footprint	5	5	7

(1) It is calculated by multiplying the number of customers by the average family unit ratio.
(2) Composed of current portfolio, portfolio in default and interest.
(3) Weighted by cumulative number of operations.

In **2017**, the Foundation, which has more than 8,000 employees, have continued to focus on the most disadvantaged areas, providing support for 1.9 million customers. Moreover, 57% of its customers are women, which contributes directly to reduce gender inequality.

Data from a gender perspective of the BBVA Microfinance Foundation

	2017		2016		2015	
	Number of Women Customerss	Women/ Total Customers (%) (1)	Number of Women Customers	Women/ Total Customers (%) (1)	Number of Women Customers	Women/ Total Customers (%) (1)
Emprende Microfinanzas (Chile)	5,549	57	6,469	58	6,386	60
Fondo Esperanza (Chile)	96,300	82	91,793	83	85,549	84
Bancamía (Colombia)	505,310	55	463,663	56	443,239	56
Financiera Confianza (Perú)	237,672	48	228,393	49	213,740	49
Microserfín (Panamá)	7,470	43	7,198	42	6,754	43
ADOPEM (Rep. Dominicana)	256,818	66	259,996	67	244,577	68
Total	**1,109,119**	**57**	**1,057,512**	**58**	**1,000,858**	**58**

(1) For the percentage of women, both the assets and liabilities are informed (in net terms).

The Foundation's mission and methodology have been acknowledged by the United Nations on various occasions for their contribution to the SDGs of the 2030 Agenda for ending all forms of poverty, fighting gender inequality, supporting inclusive, sustainable economic growth and decent work, among other.

In 2016, the United Nations Economic and Social Council (ECOSOC) granted the Foundation consultative status, as an acknowledgment of its work within its area of action: microfinance for development. The United Nations may consult the Foundation to provide guidance and recommend actions conducive to sustainable development. In 2017, the Foundation has actively participated in the Commission on the

Status of Women (CSW61) at the United Nations Headquarters in New York.

On the other hand, since 2015, the Foundation has also formed part as founding member of the Private Sector Advisory Group for the UN Sustainable Development Goals Fund (SDG Fund), in which 13 institutions and global corporations provide strategic support to the UN to achieve the best results possible in sustainable development, in coordination with the private sector.

In addition, since 2016, the Foundation has also participated in the UN Secretary-General's High-Level Panel on Women's Economic Empowerment, which has selected the Foundation as a case study.

In **2017**, to celebrate its 10th anniversary, the Foundation organized the Forum for the Development of Financial Inclusion, which dealt with the issue of financial inclusion, technological challenges and the role of women in the economy. Her Majesty Queen Letizia presided at the forum.

Disaggregated data by microfinance institution of the BBVA Microfinance Foundation

	2017			2016			2015		
	Customers	Employees	Offices	Customers	Employees	Offices	Customers	Employees	Offices
Emprende Microfinanzas (Chile)	9,796	148	20	11,106	163	21	10,568	159	21
Fondo Esperanza (Chile)	117,331	608	54	110,817	560	53	102,141	514	52
Bancamía (Colombia)	913,977	3485	200	828,499	3,542	199	785,535	3,583	200
Financiera Confianza (Perú)	493,164	2127	153	468,902	2,137	149	435,879	2,168	153
Microserfín (Panamá)	17,528	265	13	17,084	243	11	15,674	224	11
ADOPEM (Rep. Dominicana)	389,436	1,418	74	390,199	1,393	74	361,722	1,238	70
Total	**1,941,232**	**8,051**	**514**	**1,826,607**	**8,038**	**507**	**1,712,801**	**7,910**	**509**

In **2018**, the Foundation will continue working to develop its scale and scope, with an extended value proposition that allows its entrepreneurs to develop and progress through technology-based solutions, as well as to improve efficiency and processes.

Credit portfolio data by microfinance institution of the BBVA Microfinance Foundation

	2017			2016			2015		
	Average Loan Amount (euros)[1]	Default Rate (%)	Volume of Credit Portfolio (thousand euros)	Average Loan Amount (euros)[1]	Default Rate (%)	Volume of Credit Portfolio (thousand euros)	Average Loan Amount (euros)[1]	Default Rate (%)	Volume of Credit Portfolio (thousand euros)
Emprende Microfinanzas (Chile)	1,344	7.8	13,520	1262	6.4	13,861	909	4.9	10,473
Fondo Esperanza (Chile)	726	0.5	66,330	691	0.6	61,308	566	0.7	46,895
Bancamía (Colombia)	1,089	5.4	336,070	1205	5.3	354,004	999	5.1	329,843
Financiera Confianza (Perú)	1,723	2.9	403,716	1,871	2.9	434,566	1,820	2.2	419,894
Microserfín (Panamá)	1,309	3.5	23,960	1,397	4.4	25,888	1,278	4.3	22,167
ADOPEM (Rep. Dominicana)	609	4.0	107,699	669	3.7	119,571	584	3.5	104,809

[1] Calculation. Microcredit average amount: amount disbursed accumulated in the current year, divided by the number of accumulated operations of the same period.
Volume of credit portfolio: Profitable Portfolio + Past-due Portfolio (Change of appraoch, excluding accrued interests as of 2Q16).

BBVA Momentum

BBVA Momentum is a social entrepreneurship support **program** aimed at promoting the growth and consolidation of innovative social enterprises that are at the growth stage. The program provides entrepreneurs who are starting out with training in business management, strategic mentoring, visibility, networking and access to financing and the markets.

The program is carried out in coordination with top **business schools** and with the participation of BBVA executives, who provide a strategic mentoring service.

Created in 2011 and initially developed in only three countries (Spain, Mexico and Peru) it was transformed in 2017, when the program was given greater scope, efficiency and impact. In February it was launched simultaneously in five countries: Spain, the United States, Colombia, Mexico and Turkey. A total of 87 entrepreneurs participated in the program, completing the training period satisfactorily and submitted their growth plans to access financing. Since its launch, 199 companies have participated in the program.

Annex 15 - Main indicators of BBVA Momentum

Other initiatives supporting entrepreneurship

Together with the initiatives within the 2016-2018 Community Investment Plan, there are other programs in BBVA supporting entrepreneurship, such as **BBVA Open Talent**, which has been mentioned in the chapters on Strategy and business model and Customer relationship in this report.

It is also important to note initiatives adapted to the local environment, such as the Women **Entrepreneur Executive School** program, implemented in 2012 by Garanti Bank in Turkey for training women entrepreneurs through the Boğaziçi University Lifelong Learning Center. As part of the program, women entrepreneurs receive 100 hours of training on subjects such as business creation, innovation and sustainable management.

In Colombia, the **Emprendimiento Met Colombia** (Colombia Met Entrepreneurship) program promotes sustainable, responsible and innovative female entrepreneurship through training, support, networking and communication. It fosters the intensive use of technology and is particularly focused on social innovation. This initiative has been developed in partnership with the Met Community organization and has benefited 550 women entrepreneurs since it was launched.

Finally, the **Blue BBVA Challenge** has been held in Spain since 2012. It is a program that offers training in entrepreneurial techniques for young people, including ideation, prototyping, strategic vision and communication techniques. The methodology follows the "learning by doing" model, and includes: online training; an inspiration day, during which 250 young people work in teams to solve the challenges of their community; and a challenge experience, in which participants whose ideas receive most votes from a jury of experts work together for a weekend to improve their projects and compete in the Blue BBVA Challenge final.

Knowledge, education and culture

Knowledge, education and culture are three areas of activity that are grouped together in a new line of action included in the new Community Investment Plan for 2016-2018. This line includes the activities of the BBVA Foundation and the BBVA Research Department, in addition to local programs and initiatives focusing on education, science and culture.

BBVA Foundation

In 2017, the BBVA Foundation continued its regular **activity**, consolidating some of its own distinctive initiatives in the Spanish scientific and cultural scene while incorporating other new ones to boost, promote and spread knowledge, as well as recognizing the talent of researchers and creators at different stages of their careers.

Among its **own programs** the support to the scientific research teams and the individual grants provided by the BBVA Foundation highlighted. Now in their fourth year, these grants have been given the name Leonardo Grants. This year a total of 65 grants have been awarded. This means that 241 researchers and creators now form the Leonardo Network, a community of excellence that recognizes and promotes the talent that sustains science and culture in the country. The program of Assistance to Scientific Research Teams invited applications for 26 grants in the areas of Biomedicine, Big Data, Ecology and Conservation Biology, Economics and the Digital Society, and the Digital Humanities.

Both, the Leonardo Grants and the support to the scientific research teams are open and highly competitive, and governed by the principles of transparency and rigor appropriate to the scientific community. A decisive step in this direction is the selection of the winning projects, which is made by fully independent assessment committees of experts in each of the areas for which the awards are made. This criterion of rigor and independence is also applicable to the jurors of the different families of **awards** organized either by the BBVA Foundation itself or in collaboration with other institutions, and that represent another form of recognition of talent and the spread of knowledge. Notable among these families, for their global impact, are the BBVA Foundation Frontiers of Knowledge Awards and the BBVA Foundation Conservation of Biodiversity Awards. In addition, in 2017 the first Spanish Computer Science Society-BBVA Foundation Awards were held, adding to those the Foundation has already been organizing jointly with the Spanish Royal Society for Physics and the Spanish Royal Mathematical Society. BBVA Foundation thus covers a broad range of knowledge, offering in all cases special care to the segment of young researchers at the start of their careers.

In the line of the impulse to knowledge, is situated the **Cancer Immunotherapy and Immunology Integral Program (CAIMI)**, which the BBVA Foundation and the Vall d'Hebron Institute of Oncology (VHIO) presented in 2017, it will investigate the natural mechanisms by which the agents that coordinate the immune response respond to cancer, and how to predict and exploit these anti-tumor responses to generate more personalized treatments.

In addition, the Foundation has continued to promote the **spread of high-level scientific knowledge** through the 6th Cycle of Talks on Astrophysics and Cosmology, "The Science of the Cosmos, Science in the Cosmos", which once more has been a great success with the public and has had a great impact in the main media. The BBVA Foundation has also incorporated open and competitive invitations to its support for cultural creation, starting with some of the categories included in the Leonardo Grants, but also dedicated specifically to video art creation, through the Multiverso Grants. In 2017, the BBVA Foundation opened a permanent exhibition space dedicated to video art in its Madrid headquarters, with an annual program that shows works by the winners of the grants. The BBVA Foundation's Sala Multiverso space now appears as a regular venue in leisure guides. A new collaborative effort has also been included to boost and spread video art and digital art with the Fine Arts Museum of Bilbao.

These new initiatives are in addition to the activity already consolidated in the area of **contemporary music**, with the regular cycles organized by the Foundation at its headquarters in Bilbao and Madrid, as well as at the Auditorio Nacional in Madrid, which are proving very popular with the public.

In the area of the **plastic arts**, the BBVA Foundation has been exclusive sponsor of a number of exhibitions in the Prado Museum, Madrid and Guggenheim Museum, Bilbao and in the Fundación Miró, Barcelona.

As well as all the initiatives mentioned above, the BBVA Foundation has **transformed its digital space**. Key areas for the Foundation such as the environment, music, the Frontiers of Knowledge Awards, the grant programs and video art now have their own domains in this new digital space, which continues to adapt with the aim of becoming a reference for the public interested in knowledge and cultural creation.

BBVA Research

BBVA makes available to shareholders, investors and the public in general a wide range of **reports, analyses and studies** on developments in the economy and the financial sector, both nationally and internationally, particularly across the Group's global footprint. BBVA Research prepares macroeconomic forecasts, studies, economic research and analysis on a variety of subjects: national and regional macroeconomics, central banks, the financial sector and regulations, the digital economy, geostrategy, migration, financial inclusion, financial education and country risk, across various sectors. In 2017, BBVA Research has drafted 1,566 economic publications.

These publications have been published in different **formats** and document types: flashes, computer graphics, presentations, working papers, books, observatories and magazines, each published with varying degrees of frequency. All this published information is available and constantly updated on the website www.bbvaresearch.com and the social media.

The work of BBVA Research has won increasing prestige, and its forecasts and analyses are regarded as a credible alternative to official statistics, as can be seen by the frequent mentions of its forecasts in the media and among analysts. As a result, it has become a *de facto* **opinion leader**.

Lastly, BBVA Research has a global reach, as reflected in the variety of languages of its publications. Spanish and English account for over 95% of the total, but documents have also been written in Catalan, Basque and Portuguese.

Local educational and cultural initiatives

In 2017, BBVA continued to focus on **education in values** to promote social integration and training among children and young people in the countries where it operates. A total of 126,488 participants benefited directly from these educational programs.

Social and educational programs (BBVA Group. Direct Beneficiaries)

	2017	2016	2015
Pre-School and Primary Education	86,054	85,295	83,720
Secondary Education	15,958	17,575	53451
Trainings for adults	24,476	47,295	152,945
Total	**126,488**	**150,165**	**290,116**

BBVA continues to promote access to quality education for underprivileged children and young people in South America and Mexico through the "**Niños Adelante**" (Forward Children) program. In 2017, more than €14 million were allocated to this program, benefiting 68,094 schoolchildren. The program is adapted to the reality of each country, and thus benefits different groups. In Mexico, it helps children of Mexican parents who emigrate to the United States in search of a better future; in Colombia, children in deprived areas; and in Peru, children with poor reading skills. In 2017, initiatives continued to be developed to increase third-party commitment to the program, with the participation of employees volunteering as sponsors and donations from customers through ATMs, online banking and financial instruments.

Annex 16 - Main indicators of the "Niños Adelante" program

The Group also runs programs that address other aspects of education, such as **educational quality**, focusing on support for teachers, providing them with ongoing training and tools to improve their educational work. Since 2008, at a global level, BBVA has been a partner in the areas of science and culture with the Organization of Ibero-American States (OIS). BBVA supports the creation and development of the OIS's Ibero-American Institute for Early Childhood and the Becas Paulo Freire (Paulo Freire Scholarships) program aimed at promoting the mobility of undergraduates and university graduates who are taking studies that lead to a teaching profession. It is also working to develop the project "Educational targets for 2021: the education we want for the bicentennial generation".

Various programs are also being developed locally to improve the quality of education:

- In **Turkey**, Garanti created the Teachers Academy Foundation (ÖRAV) in 2009. Its aim is to contribute to the personal and professional development of teachers, who are the fundamental pillars for the growth of the next generations. ÖRAV and the first and only NGO in Turkey that focuses on this area, has provided support for more than 11,500 teachers.
- In **Spain**, BBVA has since 2012 supported the Acción Magistral project, a joint initiative with the FAD (Foundation for Aid Against Drug Addition), Unesco and BBVA. The Acción Magistral Award, for which 389 projects were presented in 2017, benefiting over 90,000 students, is a way of disseminating teaching work; and the Acción Magistral platform offers online and in-person training to teachers in

a variety of areas to improve their teaching performance. In 2017, 6,592 teachers participated actively in the project.

- BBVA is also a partner of Teach for America in the **United States**, an organization that works to eliminate educational imbalances for students with limited incomes. The organization recruits, trains and supports talented people who agree to give classes in schools with limited resources for two years.

In addition to these projects to promote access to education, educational quality and education in values, BBVA develops other local training programs such as:

- The Children's Knowledge Olympics held in **Mexico**, in collaboration with the Department of Public Education. Each year prizes for academic excellence are awarded to the top students in the sixth year of elementary school.
- The National Teaching Awards in **Colombia** is an initiative that recognizes the effort made every day by thousands of teachers across the country to promote reading and writing among students.

Annex 17 - Main educational programs

Additionally, BBVA has continued to support **culture** in a number of countries across its global footprint, highlighting:

- In **Mexico**, the BBVA Bancomer Foundation, through its Fomento Cultural (Cultural Promotion) program, supported art exhibitions, musical festivals, theater workshops and film projects through various grants and schemes.
- In **Peru**, through sponsorship of the Noche de Arte (Night of Art) and the Museum of Pre-Columbian Art.
- In **Turkey**, Garanti has focused on making cultural environments suitable for research and production available to society, and on creating an authentic and independent cultural institution that develops through interaction with its users. This vision led to the reconstruction of the highly successful Platform Garanti Current Art Center, Ottoman Bank Museum and Garanti Gallery, which formed part of the bank, as a single independent institution called SALT in 2011. Since it was created, SALT has hosted 8 exhibitions and attracted more than 185,000 visitors.
- In **Venezuela**, through the Banco Provincial Foundation's exhibition program.

A number of initiatives have also been supported in Argentina, Chile, Colombia, the United States, Paraguay and Uruguay that impact directly the development of the cultural sector in each country.

Fiscal transparency

Fiscal strategy

In 2015, the BBVA Board of Directors approved the "Corporate Principles in BBVA's Tax and Fiscal Strategy".

This forms part of BBVA's corporate governance system and establishes the policies, principles and values that guide the way the Group behaves with respect to taxes. This strategy has a global scope and affects everyone who is part of the Bank. Compliance with the strategy is very important, given the scale and impact that the tax contributions of large multinationals such as BBVA have on the jurisdictions where they operate.

Effective compliance with the tax strategy is duly monitored and supervised by BBVA's governing bodies.

Accordingly, BBVA's **fiscal strategy** consists of the following basic points:

- BBVA´s decisions concerning fiscal-related matters are determined by the payment of taxes, given that they contribute heavily to the economies of all the jurisdictions in which it operates. Tax payments are aligned with effective business practices and the generation of value in the different geographic areas in which BBVA operates.
- Active adaptation to the new digital environment, also in terms of taxation, through the incorporation of virtual presence into the generation of value, and its consequent valuation.
- The establishment of reciprocal cooperative relations with tax authorities that are based on the principles of transparency, mutual trust, good faith and fairness.
- Promotion of a clear, transparent and responsible reporting strategy to stakeholders on its main fiscal-related matters.

Both the strategy and the fiscal policies derived from it are inspired by the reports of the OECD Base Erosion and Profit Shifting (BEPS) Project and respond to a commitment to comply with and respect the letter and spirit of tax regulation in the jurisdictions where the Group operates, in accordance with Chapter XI of the OECD Guidelines for Multinational Enterprises.

Governance model and fiscal risk management

BBVA has a government model on tax matters and mechanisms to control fiscal risk.

The strategy has been developed through fiscal policies opportunely communicated to all Group employees. Likewise, complaint channels were established for the case of breach of its Code of Conduct and / or its fiscal strategy. There are also established fiscal risk control procedures aimed at verifying the effective compliance of the Group's tax obligations.

The person in charge of the Tax Office appears periodically before the governing bodies with responsibilities in this area (Audit and Compliance Committee and Board), in order to report on the development of the Group's main tax data and the measures adopted for the management of fiscal risk.

Cooperation with tax administrations

BBVA maintains a cooperative relationship with the tax administrations of the countries in which it is present. In particular, and as regards Spain, it is adhered to the Code of Good Tax Practices (CBPT) approved by the Large Companies Forum on 20 July 2010, as an active member of the Forum.

In 2017, it proceeded to present for the first time on a voluntary basis, the so-called Annual Report on Fiscal Transparency for Companies adhering to the CBPT together with its declaration of the Corporation Tax of the previous year, thus incorporating into its action, the proposals for strengthening the good fiscal transparency practices of companies adhering to the Code, approved in plenary session of the Forum of Large Companies of 20 December 2016.

Likewise, BBVA adopted the Code of Practice on Taxation for Banks, an initiative of the United Kingdom that describes the approach expected by financial institutions in terms of government, tax planning and commitment with the British tax authorities, in order to encourage the adoption of best practices in this area. In 2017, BBVA published its tax strategy for the United Kingdom on its website.

Finally, as a financial entity, it holds the status of collaborating entity in the collection processes of those countries in which it is present.

Total tax contribution

BBVA is committed to providing full **transparency** in tax payments, which is why once more this year the Group has voluntarily disclosed all major tax payments in the countries where it has a significant presence, as it has done every year since 2011.

BBVA Group's total tax contribution (TTC report), which uses a method created by PwC, includes its own and third-party payments of corporate taxes, VAT, local taxes and fees, income tax withholdings, Social Security payments, and payments made during the year arising from tax litigation in relation to the aforementioned taxes. In other words, it includes both the taxes related to the BBVA Group companies (taxes which represent a cost to them and affect their results) and taxes collected on behalf of third parties. The Total Tax Contribution report gives all the stakeholders an opportunity to understand BBVA's tax payments and represents a forward-looking approach and commitment to corporate social responsibility, by which it assumes a leading position in fiscal transparency.

Global Tax Contribution (BBVA Group. Millon euros)

	2017	2016	2015
Own taxes	4,106	3,762	2,816
Third-party taxes	5,775	5,678	5,341
Total tax contribution	**9,881**	**9,440**	**8,157**

Offshore financial centers

BBVA maintains a **policy** on activities in entities permanently registered in offshore financial centers, which includes a plan for reducing the number of offshore financial centers.

In this respect, both from the OCDE and the Spanish regulation perspective, as of 31 December **2017**, the BBVA Group's permanent establishments registered in offshore financial centers considered tax havens are as follows:

- Branches of the BBVA Group's banks in the Cayman Islands,
- Issuers of securities in the Cayman Islands: BBVA Global Finance, Ltd., Continental DPR Finance Company, Garanti Diversified Payment Rights Finance Company and RPV Company.

1. Banking branch

As of 31 December 2017, the BBVA Group had a banking branch registered in the Cayman Islands engaging in corporate banking activities.The activities and business of this branch, which do not include the provision of private banking services, are pursued under the strictest compliance with the applicable law, both in the jurisdictions in which it is domiciled and in those where its operations are effectively managed, in this case the United States of America. At the end of 2016, the BBVA Compass branch in the Cayman Islands was closed.

Branch at offshore entities (BBVA Group. Million euros)

Main figures of the balance sheets	31-12-17	31-12-16	31-12-15
BBVA S.A. branch			
Loans and advances to customers	1,499	805	807
Deposits from customers	1,144	430	432
BBVA Compass branch			
Loans and advances to customers	-	-	-
Deposits from customers	-	-	100

2. Issuers of securities

The BBVA Group has four **issuers** registered in Grand Cayman, two of them from the Garanti Group.

Issues outstanding at offshore entities (BBVA Group. Million euros)

Issuing entity	31-12-17	31-12-16	31-12-15
Subordinated debts (1)			
BBVA Global Finance LTD	162	188	347
Other debt securities			
Continental DPR Finance Company (2)	59	102	152
Garanti Diversified Payment Rights Finance Company	1,879	1,760	1,617
RPV Company	1,262	1,457	1,496
Total	**3,362**	**3,508**	**3,612**

(1) Securities issued before the enactment of Act 19/2003 dated 4 July 2003.

(2) Securitization bond issues on flows generated from export bills.

3. Supervision and control of the permanent establishments of the BBVA Group in offshore financial centers

The BBVA Group applies risk management **criteria and policies** to all its permanent establishments in offshore financial centers that are identical to those for the rest of the companies making up the Group.

During the reviews carried out annually on each and every one of the BBVA Group's permanent establishments in offshore financial centers, BBVA's **Internal Audit** Department checks the following: i) that their activities match the definition of their corporate purpose, ii) that they comply with corporate policies and procedures in matters relating to knowledge of the customers and prevention of money laundering, iii) that the information submitted to the parent company is true, iv) and that they comply with tax obligations. In addition, every year a specific review of Spanish legislation applicable to the transfer of funds between the Group's banks in Spain and its companies established in offshore centers is performed.

In 2017, BBVA's **Compliance and Internal Audit** departments have supervised the action plans deriving from the audit reports on each one of these centers.

As far as **external audits** are concerned, one of the functions of the Audit and Compliance Committee is to select an external auditor for the Consolidated Group and for all the companies in it. For 2017, all of the BBVA Group's permanent establishments registered in offshore financial centers have the same external auditor (KPMG), except Continental DPR Finance Company.

Responsible procurement

In 2017, BBVA Group carried out an in-depth transformation of the procurement function, based on three basic pillars of development for the **Procurement Model**:

- Focus on service: maximizing quality and experience for the internal customer.
- Limitation of reputational risk for BBVA Group in contracts with suppliers.
- Contribution to the Group's efficiency through active management of costs and suppliers.

This transformation has given rise to important changes in the area's **functions**. Of note in this respect are:

- A move toward a more flexible structure that generates opportunities for efficiency and improves the control environment.
- Progress toward management by projects, creating a pool of profiles for executing contracting projects.
- Creation of the procurement partners function to guarantee the end-to-end quality of service and internal customer care. Organized by customer area, and with the support of a procurement analytics pool, they are also responsible for identifying opportunities for optimizing expenses, following service level agreements and measuring customer satisfaction.
- Change in the purchasing manager role to a more strategic focused on value creation. Structure geared to service, agility and flexibility in contracting through specialization and differential purchasing management. They are organized around teams of experts, together with a pool of buyers, to execute Purchasing projects.
- Creation of the Lean Purchasing Unit, focused on dealing with purchases in which time to market is a critical factor.
- Creation of the Operational Procurement Unit to focus and optimize operational and/or administrative activities and thus ensure transactional specialization and improved service levels.

Suppliers main figures

	2017	2016	2015
Number of suppliers	4,563	4,240	4,598
Supplier turnover (million euros) [1]	7,077	7,751	8,443
Supplier satisfaction index [2]	82	n/a	82
Number of approved suppliers	4,895	4,698	n/av

n/av= not available.
n/a= not applicable.
[1] Payments made to third parties. Does not include suppliers with amounts below €100,000.
[2] Biennial survey.

Responsible Procurement Policy

BBVA wants to contribute positively to the development of the societies where it operates. The Group aims to integrate ethical, social and environmental factors in the supply chain for which it is responsible. That is why in 2017 it has drafted an Ethical Code for Suppliers, which defines the minimum standards of behavior in ethical, social and environmental conduct that suppliers are expected to comply with when they provide products and services.

Supply chain

BBVA has a **global technological platform** that supports every stage of the procurement process in the Group (budgeting, purchasing and finance): the Global Procurement System (GPS). The platform is operational in Spain, Mexico, Peru, Colombia, Chile, Argentina, Venezuela and the regional procurement organization of South America (hub in Chile), which provides the procurement services for the rest of the countries in the region. GPS is integrated into the Adquira marketplace technology platform. The platform allows online interaction between the Group's companies and their suppliers in a collaborative environment through the electronic exchange of documents.

Every year new companies and/or countries join the GPS technological platform. This increases the scope of its use and achieves greater consolidation of the standard and global purchasing processes through the tool, as well as an improvement in the quality of the Group's information on procurement data. In **2017** the main progress made was the incorporation of five new insurance companies in Mexico.

It thus covers the main stages of the **procurement process**, from the issue of orders to the registration of invoices, including electronic invoicing, and is legally valid in Spain and Mexico. In addition, Adquira allows suppliers to manage online the exchange of documents and information supporting the supplier approval process, as well as storing their data with BBVA.

Within the GPS, BBVA has an **electronic catalog procurement tool (SRM)** accessible via the intranet, which is designed to issue decentralized procurement requests; i.e., directly from the user area. SRM is available in Spain, Mexico, Chile and, since the first quarter of 2017, in Peru.

Supplier portal

BBVA has a **supplier portal** that facilitates the Group's online relationship with its suppliers. It is a collaborative environment that targets companies and self-employed workers or people interested in working with BBVA Group, allowing them to interact with the Bank electronically during the whole procurement cycle.

The supplier portal consists of two **environments**:

- A public environment, accessible from the website (https://suppliers.bbva.com), which provides general information on the procurement process in BBVA, as well as relevant aspects of its purchasing model. Second, companies and self-employed workers who want to offer their products and services to the Bank can register on the portal and keep their data updated.
- A private environment, that allows suppliers who are already working with BBVA to operate fully online, from the tender process (online auctions) and approval, to payment (e-invoice) through the Adquira platform.

In addition to the portal, a **supplier directory** has also been created. This is a new internal tool that can be accessed via the intranet, allowing users to consult contact data and general information about the Bank's suppliers.

Supplier management

1. Approval process

BBVA carries out an **approval process** in place for its recurrent suppliers with significant procurement volumes. This approval process assesses the financial, legal, labor and reputational position of the suppliers, gives information on their basic technical capacities and verifies that they share the same values as the Group with respect to social responsibility. It also determines whether suppliers are complying with their legal responsibilities (employment or environmental regulations, among other) and whether they promote civic responsibilities, through compliance with the following aspects:

- Compliance with UN social and environmental principles.
- Adoption of internal measures to guarantee diversity and equal opportunities in human resources management.
- Adoption of measures to promote occupational health and safety, preventing accidents and incidents at work.
- Support for freedom of association and collective bargaining of workers in all the countries in which they operate.
- Existence of a code of conduct or policy to prevent forced labor, child labor, and other human rights violations, by the company itself and by its subcontractors.
- Existence of a code of conduct or policy to avoid bribery and corruption.
- Involvement in activities through direct actions or donations or in collaboration with other organizations and institutions to promote culture, scientific knowledge, sport, the environment or marginalized sectors.
- Hiring people with disabilities.
- Existence of an corporate social responsibility policy in the company.

The approval is reviewed periodically and is subject to continuous monitoring. As part of the constant improvement in this process, in **2017** changes have been introduced at global level in the approval processes designed to mitigate reputational risk. The alert system for approved suppliers has continued to develop, to ensure that updated information is available on certain events which could affect their solvency or risk.

The percentage of approved active suppliers is 27%, which accounts for 73% of the total awarded [(1)].

2. Percentage of local suppliers

BBVA has a firm **commitment** to contribute to economic and social growth in countries where it operates. Thus 97% of the suppliers are local, accounting for 94% [(2)] of the total orders. For this purpose, local suppliers are considered those whose tax identification code coincides with the country of the company that receives the goods or services.

3. Impact management

A proper management of the real and potential impacts a company such as BBVA can cause is needed within the procurement process. BBVA has a series of **mechanisms and rules** in place to manage these impacts: Procurement Policy, Approval Process and Corporate Standard for Procurement of Goods and Contracting Services.

(1) Active suppliers into the GPS platform (excluding the United States, Paraguay, Uruguay and Portugal).
(2) Excluding Uruguay.

These **impacts** may be:

- environmental impacts,
- impacts created by unethical employment practices within the suppliers' companies,
- impacts derived from the lack of freedom of association,
- impacts on human rights,
- positive or negative impacts on society.

The **Responsible Procurement Policy** establishes, among other aspects, that during the procurement process, special attention should be paid to comply with the legal requirements applicable with respect to human rights, employment rights, rights of association and environmental rights by all those involved in the process, and to involve them in the Group's efforts aimed at preventing corruption. Likewise, the aim is to ensure that the choice of suppliers is adapted to the internal rules in place at any time, and in particular aligned to the values of the Group's Code of Conduct, based on respect for the law, commitment to integrity, competition, objectivity, transparency, value creation and confidentiality. The clauses included in the specifications and the contractual models include the following:

- Compliance with the law in each geographical area, and in particular with the obligations it imposes with respect to personnel, Social Security or the systems of alternative social insurance, recruitment of foreign workers, the Tax Authority, public records, etc.
- Compliance with current legislation on the social integration of people with different capabilities.
- Clauses that ensure policies are in place to avoid gender discrimination, as well as measures to reconcile work and family life;
- Equality clause.
- Compliance with labor, security and occupational health legislation.
- Anti-corruption declaration.
- Adhesion to the United Nations Global Compact.

The Responsible Procurement Policy also establishes as one of its principles to "raise awareness in social accountability of staff and other stakeholders involved in the Group's procurement process."

With respect to **security firms**, which are particularly critical on these matters, the specifications and contracts establish compliance with current law, with particular stress on labor law and law specific to these kinds of companies, as well as compliance with human rights, non-discrimination policies, equality, etc.

In order to promote inclusion and diversity, BBVA in Spain has continued its contact with various **special employment centers** (CEE) to examine in depth areas for potential collaboration. The result has been firm contracts for a significant volume of awards. The total volume of purchases in 2017 from these CEE is estimated at over €3.2m.

BBVA maintains its commitment to the **environment**, and has decided to use green energy for its buildings and branches in Spain. Green energy certifies a 100% renewable energy production and source, avoiding emissions of CO2 and other polluting gases. This commitment has been applied to Mexico, creating a renewable energy integration plan for its buildings and branches. LEED and ISO 14001 energy certifications are further proof of this commitment.

Annex 18 - Suppliers and annual turnover

Annex 19 - Average payment period to suppliers

Annex 20 - Customer satisfaction index

Annex 21 - Supplier approval

Corporate Governance

BBVA Corporate Governance System

Banco Bilbao Vizcaya Argentaria S.A. ("BBVA", the "Company" or the "Bank") has a **corporate governance system** composed of a set of principles, rules and elements which govern the relationships between the Bank, its management, its shareholders and other stakeholders, allowing for the proper management and oversight of the Company (the "Corporate Governance System").

BBVA Corporate Governance System has been designed taking into consideration the reality of the Bank, its circumstances and its needs, including the strategy and corporate culture; the different points of view arising from the contact and dialogue with shareholders, investors, supervisors and proxy advisors; as well as best practices and recommendations on corporate governance and applicable regulations.

Thus, BBVA Corporate Governance System has been shaped over time based on the following **principles**:

1. An appropriate **composition of its corporate bodies**.
2. A clear **distribution of functions** between the Board of Directors and its Committees, and between these and the Senior Management.
3. A sound **decision-making process** and a robust **informational model**.
4. A complete **monitoring, oversight and control system** of the management of the Company.

BBVA Corporate Governance System is also expressed in different documents, internal regulations and procedures, such as the Bylaws, the Regulations of the General Shareholders' Meeting, the Regulations of the Board of Directors; and, for certain Board Committees, in their own regulations. All of these documents are available on the Bank's corporate website (www.bbva.com).

BBVA Corporate Governance System has the following organizational **structure**:

BBVA Corporate Governance System

Shareholders	Obersight of the Board and final say on matters of most relevance	
Board of Directors	Unitary Board with management and oversight roles	
Board Committees	Specialized Board Committees to assist the Board in the performance of its duties	Executive; Audit and Compliance; Risk; Remuneration; Appointments; Technology and Cibersecurity

Senior Management

Shareholders

Considering BBVA's shareholding structure, which has an important presence of retail and institutional shareholders, both national and international, the relationship model between BBVA and its shareholders is based on the following pillars:

01	**General Meeting**	• Has the power to decide on matters of utmost relevance for the Company
02	**"One share, one vote" principle**	• There are no limitations on the exercise of shareholders' rights or on the acquisition or transfer of shares • Equal treatment and same rights for all shareholders in the same position
03	**Policy on shareholders and investors' communication and contact**	• Based on the principles of transparency, veracity, immediacy and consistency in disclosure of information • Encourages participation and exercise of the right to vote in General Shareholders' Meetings • Transparency and disclosure of information for the appropriate exercise of shareholders' rights • Development of an active engagement policy with both institutional and retail shareholders This Policy, approved by the Board of Directors and which specifies the channels and means of communication and contacts with the Bank, is published on the BBVA corporate website.

Board of Directors

In line with Spanish regulations and market practice, BBVA has a "one-tier" board system, which entails the existence of a unique collegiate body, the Board of Directors, which is collectively responsible for the highest functions of **management** of the Company (definition and approval of decisions) and of **oversight and control** of the management (monitoring and review of proper implementation), all with the purpose of promoting the corporate interest.

Functions

The most relevant **functions** of the Board of Directors are related to the following matters:

- Strategy and general policies
- Control and risk management (RAF)
- Annual budgets
- Capital and liquidity
- Strategic transactions
- Remuneration policy
- Financial and accounting information
- Appointment and removal of Senior Management
- Oversight of Senior Management
- Internal organization and annual self-assessment

The fact that these powers are reserved to the Board, without the possibility of delegating them, is a key element of **balance and control of management**, ensuring that the most relevant matters affecting the Company are analyzed and decided by the Board of Directors, which also carries out general oversight functions over the Bank and its Group.

The approval of the Group's overall strategy is one of the functions assigned to the Board of Directors. Thus, the Board of Directors defines and approves **the Strategic Plan** of BBVA Group, which includes the strategy to be followed by the Company in the medium- and long-term, defining the guidelines through which the Group aims to reach its goals. The Board also defines and approves core strategic-prospective decisions, which also allows it to define the guidelines for behavior, values and principles that govern the Company, setting the tone at the top and promoting the Group's corporate culture from the highest level. This ensures that these guidelines are transmitted through the entire organization and promotes conduct based on the principles of transparency and business ethics.

Composition

The composition of the Board of Directors is one of the key elements of BBVA Corporate Governance System and, as such, must allow corporate bodies to carry out their management and oversight functions with different perspectives and opinions, ensuring the debate, analysis and critical revision of the proposals submitted for their consideration, along with the necessary consensus in the decision-making.

- **Policy on the selection, appointment, rotation and diversity of the members of the Board of Directors**

  BBVA has a Policy on the selection, appointment, rotation and diversity of the Board of Directors, available on the corporate website, which outlines the principles and procedures for the selection, appointment and rotation of the Bank's directors, as well as the necessary requirements to be fulfilled in order to hold the position of director at BBVA.

Principles of the Policy on the selection, appointment, rotation and diversity
• Suitable composition of corporate bodies to ensure their adequate performance in the best corporate interest
• Promotion of diversity of experience, knowledge, skills and gender
• Absence of biases that may entail discrimination in the composition, with a target of 30% female directors for 2020
• Balance between categories of directors, with at least 50% of independent directors
• Progressive and continuous refreshment of the Board
• Directors' suitability, dedication and absence of incompatibilities
• Key role of the Appointments Committee in the selection, appointment and rotation process of the Board

Board's refreshment process

To ensure the appropriate composition of the Board at all times, the Bank undertakes a **well-ordered refreshment process** of its corporate bodies, based on an adequate rotation planning for their members. This process is aimed at achieving the objectives established in the aforementioned Policy and involves identifying the needs of the corporate bodies and thus, the most suitable candidates to be appointed at any given time.

This process begins with BBVA's Appointments Committee periodically analyzing: (i) the structure, size and composition of the Board; (ii) its adequacy to the needs of the corporate bodies; and (iii) the existing knowledge, skills and experience. This allows identifying and assessing potential changes, whether necessary or advisable, in the composition of the corporate bodies, and initiating, where the Committee deems it appropriate, the candidate identification and selection processes to be proposed to the General Meeting as new members of the Board of Directors.

This allows the Board of Directors and its Committees to have an appropriate composition that is always adapted to their needs, and can thus perform their functions effectively. The composition of the Board and the refreshment process are likewise aligned with the Bank's **strategy**, enabling the progress towards the Group's current **digital transformation** process.

Independence

During **2017**, the Appointments Committee, in exercise of its functions and within the Board's refreshment process, has initiated several selection processes to increase the level of independence of the Board, aiming at reaching a number of independent directors that represents at least half of the total, as set out in the proposals submitted to the next General Shareholders' Meeting of the Bank under item 2 of the agenda. As a result, should these proposals be approved, the Board of Directors will comprise fifteen directors and over 50% of independent directors.

Diversity

The Board of Directors has a diverse composition, combining directors with extensive experience and knowledge in finance-related matters, with profiles that have experience and knowledge in various areas of interest to the Bank and its Group, such as auditing, legal and academic fields, multinational business, digital businesses and technology, both national and internationally. This enables the Board, as a whole, to have an appropriate balance in its composition and suitable knowledge of the Bank and the Group's environment, activities, strategy and risks, contributing to a better performance of its functions.

During the Board's refreshment process, the Appointments Committee also ensures the promotion of **diversity**, both in gender (with the target of reaching 30% female directors in 2020) and **experience, knowledge and skills**, in line with the Policy on the selection, appointment, rotation and diversity of the Board of Directors.

Suitability and dedication

The members of the Board of Directors have the necessary suitability, repute, skills, experience and necessary training to hold their directorships, as well as availability and dedication required to perform their functions. BBVA directors are also subject to a strict system of incompatibilities and limitations established by the applicable regulation, which includes, among other aspects, that they may only hold up to four non-executive directorships or one executive and two non-executive directorships.

All directors are highly dedicated and they participate in the deliberations, discussions and debates on matters submitted for their consideration. In **2017**, the level of attendance in Board meetings was 99%.

Within the framework of the Board's **refreshment process**, in 2017 the Appointments Committee initiated different selection processes for directors aimed at reinforcing the level of diversity and independence in the Board, which has led to proposals for re-elections and appointments of directors to be submitted at the next General Shareholders' Meeting under item 2 of the agenda.

These selection processes have also been directed at selecting candidates who (i) complete the current knowledge and experience of the corporate bodies, especially in the areas of finance and technology, as well as (ii) increase diversity in terms of gender and international experience; taking into consideration in each process the time dedication considered necessary for the adequate performance of their functions as well as compliance with the incompatibilities requirements and conflicts of interest established in the Board's Regulations and in applicable law.

- **Training**

  Given the complexity and diversity of BBVA's businesses, and in order to assist directors in acquiring, updating, and reinforcing their knowledge and skills for the better performance of their duties, the Board of Directors has various initiatives in place for the training of its members. These are aimed at offering sufficient and relevant information on various matters, ensuring a proper understanding of all the issues submitted for consideration of the Bank's corporate bodies. This training plan is completed with the extensive information provided to BBVA directors at the ordinary meetings of the different corporate bodies.

- **Checks and balances**

  The Board's **composition** allows for the implementation of a system for the distribution of powers among its members, to ensure an appropriate balance of powers at all times and, accordingly, prevent the concentration of powers in one person or body.

  In this regard, BBVA Board of Directors has an Executive Chairman and a Chief Executive Officer. Each role has specific functions assigned in the Bylaws and Regulations of the Board of Directors, ensuring the appropriate oversight and control of management by the corporate bodies, as well as driving the Bank's strategy from the executive level throughout the entire Company. Moreover, to strengthen the checks and balances, the Board of Directors has designated, among the independent directors, a Lead Director, who has all the functions conferred both by law and by good governance recommendations.

Board Committees

For a better performance of the management and oversight functions through a suitable decision-making process and to promote the checks and balances, BBVA Board of Directors has established **specific Committees** that assist it in matters falling within their remit, with a coordinated working system among them.

Thus, the Board of Directors has set up six specific Committees with broad and significant functions: the Executive Committee, the Audit and Compliance Committee, the Risk Committee, the Remuneration Committee, the Appointments Committee and the Technology and Cybersecurity Committee, which was created in 2016 and whose functions were strengthened in 2017.

The Board Committees have a clear allocation of functions, both in the Regulations of the Board of Directors and, where applicable, in their specific Regulations, and have the necessary resources for their operation, free access to the Group's Senior Management, and the ability to engage external advisors when deemed necessary.

The **Executive Committee** performs both management functions and oversight and control functions. It is a delegated body of the Board of Directors aimed at assisting the Board in its general oversight role, specifically overseeing the running of the day-to-day business and monitoring the risks to which the Bank is or may be exposed. It also assists the Board in the adoption of decisions regarding those matters falling within the remit of the Board of Directors, provided that they do not constitute non-delegable powers under law.

The **Audit and Compliance Committee, the Risk Committee, the Remuneration Committee, the Appointments Committee and the Technology and Cybersecurity Committee** assist the Board in the performance of control and oversight functions, as well as the analysis of the decisions that correspond to them under the applicable regulations. In particular, the Technology and Cybersecurity Committee is a necessary support for the Board in the understanding and acknowledgment of the risks associated to technology and information systems related to the Group's activity, as well as the oversight and control of infrastructures and the technology and cybersecurity strategy.

These Committees help ensure that the oversight and control functions, as well as the day-to-day management of the Bank, are carried out thoroughly. The Committees also contribute to a suitable decision-making process, analyzing in detail the proposals submitted for consideration and challenging the approaches of the Senior Management through the direct interaction with them.

Decision-making process of the corporate bodies and informational model

One of the principles of BBVA Corporate Governance System is to have a **suitable decision-making process**, which requires, *inter alia*, the **interaction among the corporate bodies**, and between corporate bodies with the Bank's Senior Management, integrating the work carried out in the Committees and the Board of Directors.

Key features of the decision-making process of corporate bodies

- In general, the Board Committees analyze in detail matters that fall within their remit and perform a critical and in-depth review of the issues submitted by Senior Management, for the adoption of the corresponding decisions prior to submission to the Board of Directors. This ensures that proposals to be submitted to the Board for consideration include the opinions, indications and requirements that arise from this analysis and discussion process and are in line with the strategies and policies approved by the Board of Directors.

- Following approval of the proposals by the various Committees, they are submitted to the Board for final approval and decision.

- Once the corresponding resolution has been adopted by the relevant corporate body, it delegates the implementation and development of the decisions, at both the Bank and Group level, to the Senior Management in charge of the relevant areas, which have the appropriate oversight and control systems by corporate bodies.

The joint work carried out by the Board of Directors and its Committees, in interaction with the Bank's Senior Management, safeguards an adequate analysis of the matters submitted for their consideration, through the analysis and critical review of the approaches and proposals submitted. It also strengthens the existing control environment at BBVA, through the monitoring and control of the adopted management decisions, which are implemented by the Senior Management.

Likewise, as a key element of the decision-making process, BBVA also has an **informational model** for the corporate bodies that allows decisions to be made based on sufficient, complete and comprehensive information that is available in advance.

In **2017**, the decision-making process regarding the Bank's strategic-prospective decisions has been strengthened, improving its coordination and coherence. In this regard, the Group's Strategic Plan integrates all core decisions for the Group's management and control, such as the definition of the risk appetite framework, the budget, the capital and liquidity self-assessment exercises and the Group's recovery plan.

Example of the decision-making process in BBVA

Oversight, control and monitoring system

BBVA Corporate Governance System incorporates an **oversight and monitoring system** of the decisions adopted by the corporate bodies in the performance of their functions.

As a result, once the corresponding decisions have been adopted, the Board of Directors assigns the responsibility for their execution and implementation to the competent senior managers and performs general oversight and control functions over the Company and of the development and implementation by the Senior Management of the Board's decisions, for which it relies on its various Committees.

To perform this oversight functions, the **Senior Management**, which is comprised of the heads of the Group's corresponding business, control and support areas, may attend, on a regular basis, meetings of the corporate bodies. This allows not only the oversight and control of their actions, but also the dissemination of the corporate culture and strategy from the corporate bodies to the rest of the Company.

These monitoring, oversight and control functions performed directly by the Board of Directors and, in a more specific and detailed way, by its various Committees, combined with their management functions, provide the Board with a comprehensive view of the Bank's position and businesses and of the work carried out by the Senior Management, adopting the decisions deemed appropriate at any given time.

Self-assessment of performance of corporate bodies

The **quality and efficiency** of the performance of the Board of Directors and its Committees is evaluated annually by the Board through a process directed and coordinated by the Chairman of the Board and the chairs of the Committees, based on the reports submitted by the respective chairs of the Committees, which include a description of the work performed throughout the year in the performance of the functions assigned.

In order to **assess** the Board's performance, the Appointments Committee may engage, when necessary, renowned independent experts, which is generally carried out every three years. In this regard, international consultancy firms have assisted the Board in past self-assessments.

This annual self-assessment process is a core element in the analysis of the efficiency of BBVA Corporate Governance System. It is conducted by the Board of Directors on an ongoing basis throughout the year in the discharge of its duties and ensures the Board's proper performance. Accordingly, it allows for a continuous evolution of the system to adapt it to the needs of the corporate bodies at any time, in accordance with the circumstances that may affect the Company and its environment.

For further information in this regard, please see the document **BBVA Corporate Governance Overview 2017**, which is available at the Bank's website.

Report preparation guidelines

Criteria and standards

The BBVA in 2017 report has been prepared in accordance with the latest reporting trends. This involves following various internationally recognized standards, such as the Conceptual Framework of the IIRC (hereinafter the <IR> Framework), the GRI Standards (comprehensive option) and the AA1000 standard.

The <IR> Framework has been developed by the International Integrated Reporting Council (IIRC), the global coalition of regulators, investors, companies, regulators of standards, issuers of regulations, accounting professionals and non-governmental organizations (NGOs). This <IR> Framework sets out the principles and contents that govern an integrated report.

In accordance with the <IR> Framework, the BBVA in 2017 report contains relevant and concise financial and non-financial information about the strategy, corporate governance and performance of BBVA Group in the year ending 31 December 2017. This effort focuses not only on financial results but also on the progress, achievements and impacts achieved in our relationships with stakeholders.

The report includes a materiality analysis, which identifies the relevant issues for stakeholders. Different approaches to deal with these issues are used throughout the report. The scope of the materiality analysis extends to the BBVA Group and is conducted every two years.

In addition, it includes information on the social impacts generated from the Bank´s activity, based on the recommendations for reporting on the creation of value and social impact, which are proposed in the application Guide of the concept of capitals of the <IR> Banking Network. BBVA has been a member of this group since 2011, as a pioneer in Spain.

This report has also been drafted in accordance with the GRI Standards, at a comprehensive level, including relative information about basic, general and specific content and the financial supplement for which information has been available for publication. It also follows the AA1000 APS standard.

In addition, this information reflects the 2017 Progress Report on the United Nations Global Compact and includes BBVA actions related to the United Nations Millennium Development Goals.

Principles to guarantee information quality

The principles for preparing the non-financial information of the BBVA in 2017 report are in line with the GRI Standards guidelines in terms of definition of content and information quality:

- Stakeholder engagement: BBVA specifies its stakeholders and explains how it has responded to their reasonable expectations and interests.
- Sustainability context: The non-financial information in the BBVA in 2017 report presents the organization's performance in the broadest context of sustainability, considering the information available.
- Materiality: The non-financial information in the BBVA in 2017 report covers aspects that show the organization's significant economic, environmental and social impact, or that considerably influence stakeholder evaluations and decisions.
- Exhaustiveness: The non-financial information in the BBVA in 2017 report deals with material aspects and their coverage, reflecting their significant economic, environmental and social impacts. The stakeholders can also analyze the organization's performance during the period under analysis.
- Equilibrium: The non-financial information in the BBVA in 2017 report reflects both the positive and negative aspects of its performance in order to provide an informed evaluation of its overall performance.
- Comparability: BBVA presents the information consistently so that stakeholders can analyze the changes in BBVA's performance.

- Accuracy: The information is accurate and detailed enough for stakeholders to analyze the organization's performance.
- Punctuality: BBVA presents its reports in accordance with a regular calendar, so that stakeholders can access the information when required and make informed decisions.
- Clarity: The information is presented in such a way that the stakeholders at which it is targeted can easily access and understand it.
- Reliability: The information has been compiled, registered, analyzed and presented so that it can be evaluated by an external auditor. The scope and methodology of the external review conducted can be viewed in the "Independent Review Report of the non-financial information in the BBVA Group's BBVA in 2017 report". An action plan is then drawn up to ensure that the recommendations arising from review processes are implemented.

GRI indicators

General standard disclosures GRI STANDARDS

Indicator		Chapter	External Verification
Organizational Profile			
GRI 102	**General Content**		
102-1	Name of the Organization	About BBVA	✓
102-2	Activities, brands, products, and services	About BBVA	✓
102-3	Location of headquarters	About BBVA	✓
102-4	Location of operations	About BBVA	✓
102-5	Ownership and legal form	Group information Annual Accounts (Note 1) Annual Corporate Governance Report (Section A)	✓
102-6	Markets served	Environment	✓
102-7	Scale of the Organization	Group information Business areas	✓
102-8	Information on employees and other workers	People management	✓
102-9	Supply chain	Responsible procurement	✓
102-10	Significant changes to the Organization and its supply chain	Business areas Annual Accounts (Note 3)	✓
102-11	Precautionary Principle or approach	Responsible banking model Ethical behavior	✓
102-12	External initiatives	Responsible banking model Ethical behavior Management of environmental and social impacts	✓
102-13	Membership of associations	Responsible banking model Ethical behavior Management of environmental and social impacts	✓
Strategy			
102-14	Statement from senior decision-maker	Letter from the Group Executive Chairman	✓
102-15	Key impacts, risks, and opportunities	Letter from the Group Executive Chairman	✓
Ethics and Integrity			
102-16	Values, principles, standards, and norms of behavior	Responsible banking model Ethical behavior	✓
102-17	Mechanisms for advice and concerns about ethics	Ethical behavior	✓
Governance			
102-18	Governance structure	Corporate Governance Annual Repport (Section C)	✓
102-19	Delegating authority	Responsible banking model Corporate Governance Annual Repport (Section C)	✓
102-20	Executive-level responsibility for economic, environmental, and social topics	Responsible banking model Annual Corporate Governance Report	✓
102-21	Consulting stakeholders on economic, environmental, and social topics	Corporate Governance Annual Repport Ethical behavior	✓
102-22	Composition of the highest governance body and its committees	Corporate Governance Annual Repport (Section C)	✓
102-23	Chair of the highest governance body	Corporate Governance Annual Repport (Section C)	✓
102-24	Nominating and selecting the highest governance body	Corporate Governance Annual Repport (Section C)	✓
102-25	Conflicts of interest	Corporate Governance Annual Repport (Section C)	✓
102-26	Role of highest governance body in setting purpose, values, and strategy	Corporate Governance Annual Repport (Section C)	✓
102-27	Collective knowledge of highest governance body	Corporate Governance Annual Repport Ethical behavior	✓
102-28	Evaluating the highest governance body's performance	Corporate Governance Annual Repport (Section C)	✓

Indicator		Chapter	External Verification
102-29	Identifying and managing economic, environmental, and social impacts	Corporate Governance Annual Repport (Sections C,E)	✓
102-30	Effectiveness of risk management processes	Corporate Governance Annual Repport (Sections C,E)	✓
102-31	Review of economic, environmental, and social topics	Corporate Governance Annual Repport (Sections C,E)	✓
102-32	Highest governance body's role in sustainability reporting	Responsible banking model	✓
102-33	Communicating critical concerns	Strategy and business model Corporate Governance Annual Repport (Section C)	✓
102-34	Nature and total number of critical concerns	Strategy and business model	✓
102-35	Remuneration policies	Remuneration Remuneration Committee Activity Reports	✓
102-36	Process for determining remuneration	Remuneration Remuneration Committee Activity Report	✓ (1)
102-37	Stakeholders' involvement in remuneration	Strategy and business model Corporate Governance Remuneration Committee Activity Report	✓
102-38	Annual total compensation ratio	Confidential information	✗
102-39	Percentage increase in annual total compensation ratio	Confidential information	✗
Stakeholder Engagement			
102-40	List of stakeholder groups	Materiality	✓
102-41	Collective bargaining agreements	Working enviroment	✓ (2)
102-42	Identifying and selecting stakeholders	Materiality	✓
102-43	Approach to stakeholder engagement	Materiality	✓
102-44	Key topics and concerns raised	Materiality	✓
Report elaboration practices			
102-45	Entities included in the consolidated financial statements	Group information Annual Accounts (Note 3)	✓
102-46	Defining report content and topic Boundaries	Materiality Criteria and standards	✓
102-47	List of material topics	Materiality	✓
102-48	Restatements of information	Criteria and standards	✓
102-49	Changes in reporting	Criteria and standards	✓
102-50	Reporting period	Criteria and standards	✓
102-51	Date of most recent report	Criteria and standards	✓
102-52	Reporting cycle	Criteria and standards	✓
102-53	Contact point for questions regarding the report	Criteria and standards	✓
102-54	Claims of reporting in accordance with the GRI Standards	Optional comprehensive conformity Criteria and standards	✓
102-55	GRI content index	Criteria and standards	✓
102-56	External assurance	Criteria and standards	✓

Basic specific disclosures GRI STANDARDS

Economic category

Indicator		Chapter	Scope	External verification	Material aspects identified and coverage of the material aspect
GRI 201	**Economic Performance**				
201-1	Direct economic value generated and distributed	€25,343 million direct economic value generated and €14,519 million direct economic value distributed	Global	✓	Solvency and financial management (Internal) Contribution to the development of local societies (internal)
201-2	Financial implications and other risks and opportunities due to climate change	Environmental, social and reputational risks CDP 2017 Climate Change (CC0.1 and CC0.2) Sustainable finance Engagement (TCFD)	Global	✓	Eco-efficiency, environment, climate change (internal)
201-3	Defined benefit plan obligations and other retirement plans	Annual Accounts (Note 2.2.12) Annual Accounts (25. Post-employment retributions and other commitments to employees)	Global	✓	Talent attraction, development and retention
201-4	Financial assistance received from government	BBVA Group has not received public aid for the financial sector which has the aim of promoting the carrying out of banking activities and which is significant. This statement is made for the purposes of article 89 of Directive 2013/36/UE of the European Parliament and of the Council of 26 June (on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms) and its transposition to Spanish legislation by means of Law 10/2014 on Monitoring, Supervision and Solvency of Credit Institutions of 26 June	Spain	✓	Solvency and financial management (internal)
GRI 202	**Market Presence**				
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Confidential information		X	Talent attraction, development and retention (internal) Human rights, employee rights and employment quality (internal) Diversity and work life balance (internal)
202-2	Proportion of senior management hired from the local community	The percentage of Management team working in their country of birth is 87.64%	Global	✓(3)	Talent attraction, development and retention (internal) Human rights, employee rights and employment quality (internal) Diversity and work life balance (internal)
GRI 203	**Indirect Economic Impacts**				
203-1	Infrastructure investments and services supported	Contribution to society Sustainable finance	Global	✓	Contribution to the development of local societies (external)
203-2	Significant indirect economic impacts	Contribution to society	Global	✓	Contribution to the development of local societies (external)
GRI 204	**Procurement Practices**				
204-1	Proportion of spending on local suppliers	Responsible procurement	Global	✓ (3)	Responsible procurement (external)
GRI 205	**Anti-corruption**				
205-1	Operations assessed for risks related to corruption	Ethical behavior	Global	✓	Good corporate governance (mixed) Ethical conduct (mixed)
205-2	Communication and training about anti-corruption policies and procedures	Ethical behavior	Global	✓	Good corporate governance (mixed) Ethical conduct (mixed)
205-3	Confirmed incidents of corruption and actions taken	Confidential information		×	Ethical conduct (mixed)
GRI 206	**Anti-competitive Behavior**				
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	BBVA has not identified any significant lawsuit in which a final ruling against this concept has been issued	Global	✓	Good corporate governance (mixed) Ethical conduct (mixed)

Environmental category

Indicator		Chapter	Scope	External verification	Material aspects identified and coverage of the material aspect
GRI 301	**Materials**				
301-1	Materials used by weight or volume	Eco-efficiency	Global	✓ (4)	Eco-efficiency, environment, climate change (external)
301-2	Recycled input materials used	All paper consumed in Spain is environmental respectfull and 100% certified	Spain	✓ (4)	Climate change, Eco-efficiency (external)
301-3	Reclaimed products and their packaging materials	Given the activities of BBVA Group, this indicator is not considered material		×	
GRI 302	**Energy**				
302-1	Energy consumption within the Organization	Eco-efficiency	Global	✓ (4)	Climate change, Eco-efficiency (external)
302-2	Energy consumption outside of the Organization	Given the activities of BBVA Group, this indicator is not considered material		×	
302-3	Energy intensity	Eco-efficiency	Global	✓(4)	Climate change, Eco-efficiency (external)
302-4	Reduction of energy consumption	Eco-efficiency	Global	✓(4)	Climate change, Eco-efficiency (external)
302-5	Reductions in energy requirements of products and services	Given the activities of BBVA Group, this indicator is not considered material		×	
GRI 303	**Water**				
303-1	Water withdrawal by source	Eco-efficiency	Global	✓ (4)(5)	Climate change, Eco-efficiency (external)
303-2	Water sources significantly affected by withdrawal of water	Given the activities of BBVA Group, this indicator is not considered material		×	
303-3	Water recycled and reused	Given the activities of BBVA Group, this indicator is not considered material		×	
GRI 304	**Biodiversity**				
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	The BBVA offices are in urban settings, which therefore have no impact on protected natural areas and/or biodiversity		×	
304-2	Significant impacts of activities, products, and services on biodiversity	The BBVA offices are in urban settings, which therefore have no impact on protected natural areas and/or biodiversity		×	
304-3	Habitats protected or restored	The BBVA offices are in urban settings, which therefore have no impact on protected natural areas and/or biodiversity		×	
304-4E	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	The BBVA offices are in urban settings, which therefore have no impact on protected natural areas and/or biodiversity		×	
GRI 305	**Emissions**				
305-1	Direct (Scope 1) GHG emissions	Eco-efficiency	Global	✓(4)	Climate change, Eco-efficiency (external)
305-2	Energy indirect (Scope 2) GHG emissions	Eco-efficiency	Global	✓(4)	Climate change, Eco-efficiency (external)
305-3	Other indirect (Scope 3) GHG emissions	Eco-efficiency	Global	✓(4)(6)	Climate change, Eco-efficiency (external)
305-4	GHG emissions intensity	Eco-efficiency	Global	✓(4)	Climate change, Eco-efficiency (external)
305-5	Reduction of GHG emissions	Eco-efficiency	Global	✓(4)	Climate change, Eco-efficiency (external)
305-6	Emissions of ozone-depleting substances (ODS)	Given the activities of BBVA Group, this indicator is not considered material		×	
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	Given the activities of BBVA Group, this indicator is not considered material		×	

Indicator		Chapter	Scope	External verification	Material aspects identified and coverage of the material aspect
GRI 306	**Effluents and Waste**				
306-1	Water discharge by quality and destination	Given the activities of BBVA Group, this indicator is not considered material		×	
306-2	Waste by type and disposal method	Eco-efficiency	Global	✓(4)	Climate change, Eco-efficiency (external)
306-3	Significant spills	Given the activities of BBVA Group, this indicator is not considered material		×	
306-4	Transport of hazardous waste	Given the activities of BBVA Group, this indicator is not considered material		×	
306-5	Water bodies affected by water discharges and/or runoff	Given the activities of BBVA Group, this indicator is not considered material		×	
GRI 307	**Environmental Compliance**				
307-1	Non-compliance with environmental laws and regulations	BBVA Group has no fines or penalties for non-compliance with regulations related to significant environmental aspects	Global	✓	Ethical conduct (external) Human rights, employee rights and employment quality (internal)
GRI 308	**Supplier Environmental Assessment**				
308-1	New suppliers that were screened using environmental criteria	BBVA has not screened suppliers using environmental criteria given that the perceived impact on the Group is not significant		×	
308-2	Negative environmental impacts in the supply chain and actions taken	BBVA has not analyzed the impacts in this aspect because the level of risks for the Group is not significant given the nature of its suppliers		×	

Social Dimension

Labor practices and decent work

GRI 401	**Employment**				
401-1	New employee hires and employee turnover	People management	Global	✓	Talent attraction, development and retention (internal) Human rights, employee rights and employment quality (internal) Diversity and work life balance (internal)
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Not available The proportion of temporary employees in BBVA is not significant (5.5%)		×	Talent attraction, development and retention (internal) Human rights, employee rights and employment quality (internal) Diversity and work life balance (internal)
401-3	Parental leave	Not reported. There is no homogeneous criterion of this indicator at the Group level		×	Talent attraction, development and retention (internal) Human rights, employee rights and employment quality (internal) Diversity and work life balance (internal)
GRI 402	**Labor/Management Relations**				
402-1	Minimum notice periods regarding operational changes	There is no established minimum notice period. In any event, the organizational changes in BBVA Group are analyzed on a case-by-case basis, so the negative impact on employees can be avoided or mitigated, and always within the legal provisions of each country	Global	✓	Talent attraction, development and retention (internal) Human rights, employee rights and employment quality (internal) Diversity and work life balance (internal)

Indicator		Chapter	Scope	External verification	Material aspects identified and coverage of the material aspect
GRI 403	**Occupational Health and Safety**				
403-1	Workers representation in formal joint management–worker health and safety committees	100% of the workers are represented by a State Health and Safety Committee that channels and assumes the consultation and the participation of workers in all matters related to the prevention of occupational hazards in the company. It is composed of eleven prevention delegates and 11 members of the business representation. Likewise, there are Health and Safety Committees in the large centers and in the territorial ones	Spain	✓	Human rights, employee rights and employment quality (internal)
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	People management	Spain	✓(2)(4)	Human rights, employee rights and employment quality (internal)
403-3	Workers with high incidence or high risk of diseases related to their occupation	Given the nature of BBVA's activity, no high risk of serious diseases related to the workers' occupation has been identified		×	
403-4	Health and safety topics covered in formal agreements with trade unions	Confidential information		×	Human rights, employee rights and employment quality (internal)
GRI 404	**Training and Education**				
404-1	Average hours of training per year per employee	People management	Global	✓(4)(7)	Talent attraction, development and retention (internal) Human rights, employee rights and employment quality (internal)
404-2	Programs for upgrading employee skills and transition assistance programs	People management	Global	✓	Talent attraction, development and retention (internal) Human rights, employee rights and employment quality (internal)
404-3	Percentage of employees receiving regular performance and career development reviews	People management	Global	✓	Talent attraction, development and retention (internal) Human rights, employee rights and employment quality (internal) Diversity and work life balance (internal)
GRI 405	**Diversity and Equal Opportunity**				
405-1	Diversity of governance bodies and employees	People management Anual Corporate Governance Repport (Section C)	Global	✓	Talent attraction, development and retention (internal) Human rights, employee rights and employment quality (internal) Diversity and work life balance (internal)
405-2	Ratio of basic salary and remuneration of women to men	Confidential information		×	Talent attraction, development and retention (internal) Human rights, employee rights and employment quality (internal) Diversity and work life balance (internal)
Human Rights					
GRI 406	**No discriminación**				
406-1	Incidents of discrimination and corrective actions taken	Ethical behaviour	Global	✓(13)	Incidents of discrimination and corrective actions taken Ethical behaviour
GRI 407	**Freedom of Association and Collective Bargaining**				
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	BBVA has not identified any operations or suppliers as having significant risk related to freedom of association and collective bargaining	Spain	✓	Responsible procurement (mixed) Human rights, employee rights and employment quality (mixed)
GRI 408	**Child Labor**				
408-1	Operations and suppliers at significant risk for incidents of child labor	BBVA has not identified any operations or suppliers as having significant risk for incidents of child labor	Spain	✓	Responsible procurement (mixed) Human rights, employee rights and employment quality (mixed)

Indicator		Chapter	Scope	External verification	Material aspects identified and coverage of the material aspect
GRI 409	**Forced or Compulsory Labor**				
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	BBVA has not identified any operations or suppliers as having significant risk for incidents of forced or compulsory labor	Spain	✓	Responsible procurement (mixed) Human rights, employee rights and employment quality (mixed)
GRI 410	**Security Practices**				
410-1	Security personnel trained in human rights policies or procedures	Not reported. The security personnel belong to external companies. Although these companies are committed to assume BBVA's human rights standards, there is no specific commitment on training in this area		×	Human rights, employee rights and employment quality (mixed)
GRI 411	**Rights of Indigenous Peoples**				
411-1	Incidents of violations involving rights of indigenous peoples	Commitment to human rights	Global	✓	Ethical conduct (mixed) Human rights, employee rights and employment quality (mixed)
GRI 412	**Human Rights Assessment**				
412-1	Operations that have been subject to human rights reviews or impact assessments	BBVA has not identified any significant impacts with respect to human rights in its workplaces	Global	✓	Human rights, employee rights and employment quality (mixed)
412-2	Employee training on human rights policies or procedures	Ethical behavior	Global	✓(10)	Ethical conduct (mixed) Human rights, employee rights and employment quality (mixed)
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	Ethical behavior Environmental, social and reputational risks Responsible procurement	Global	✓(9)	"Financiación social y medioambientalmente responsable (mixta) Human rights, employee rights and employment quality (mixed)"
103-2.	The management approach and its components	Ethical behavior	Global	✓	Ethical conduct (mixed) Human rights, employee rights and employment quality (mixed)
GRI 414	**Supplier Social Assessment**				
414-1	New suppliers that were screened using social criteria	BBVA has not screened suppliers using human rights criteria given that the perceived impact on the Group is not significant except in aspects of legal compliance		×	
414-2	Negative social impacts in the supply chain and actions taken	BBVA has not screened suppliers using human rights criteria given that the perceived impact on the Group is not significant except in aspects of legal compliance		×	
Society					
GRI 413	**Local Communities**				
413-1	Operations with local community engagement, impact assessments, and development programs	Financial education Knowledge, education and culture	Global	✓	Contribution to the development of local societies (external) Social action (external)
413-2	Operations with significant actual and potential negative impacts on local communities	Ethical behavior Customer relationship	Global	✓(13)	Contribution to the development of local societies (external) Human rights, employee rights and employment quality (mixed)
FS13	Access points in low-populated or economically disadvantaged areas by type	Sustainable finance Knowledge, education and culture	Global	✓	Customer service quality (external) Quality and fair products that respond to customer needs (external) Contribution to the development of local societies (external) Financial inclusion (external)
FS14	Initiatives to improve access to financial services for disadvantaged people	Sustainable finance Knowledge, education and culture	Global	✓	Quality and fair products that respond to customer needs (external) Contribution to the development of local societies (external) Financial inclusion (external)

Indicator		Chapter	Scope	External verification	Material aspects identified and coverage of the material aspect
GRI 415	**Public Policy**				
415-1	Total value of political contributions by country and recipient/beneficiary	BBVA's policy in countries does not allow contributions of this type	Global	✓(12)	Good corporate governance (mixed)
GRI 419	**Regylatory compliance**				
419-1	Incumplimiento de las leyes y normativas en los ámbitos social y económico	Compliance system The obligations arising from administrative and judicial proceedings are registered in the Annual Accounts (more information in Note 24)	Global	✓	Good corporate governance (mixed) Ethical conduct (mixed)
Product responsibility					
GRI 416	**Customer Health and Safety**				
416-1	Assessment of the health and safety impacts of product and service categories	Operational risk management and customer protection	Global	✓(13)	Customer service quality (external) Commercialization practices (external) Ethical conduct (external)
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Ethical behavior Customer relationship	Global	✓(11)	Customer service quality (external) Commercialization practices (external) Ethical conduct (external)
GRI 417	**Marketing and Labeling**				
417-1	Requirements for product and service information and labeling	TCR comunication	Global	✓	Customer service quality (external) Commercialization practices (external) Ethical conduct (external)
417-2	Incidents of non-compliance concerning product and service information and labeling	Compliance system Complaints and claims The obligations arising from administrative and judicial proceedings are registered in the Annual Accounts (more information in Note 24)		✓	Customer service quality (external) Commercialization practices (external) Ethical conduct (external)
417-3	Incidents of non-compliance concerning marketing communications	The obligations arising from administrative and judicial proceedings are registered in the Annual Accounts (more information in Note 24) TCR comunication	Global	✓(11)(14)	Customer service quality (external) Commercialization practices (external) Ethical conduct (external) Security, privacy and customer protection (external)
FS15	Policies for the fair design and sale of financial products and services	Ethical behavior TCR comunication	Global	✓	Customer service quality (external) Commercialization practices (external) Ethical conduct (external)
FS16	Initiatives to enhance financial literacy by type of beneficiary	Financial education	Global	✓	Financial Education (external) Customer service quality (external) Commercialization practices (external)
GRI 418	**Customer privacy**				
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Customer protection	Global	✓(15)	Customer service quality (external) Commercialization practices (external) Ethical conduct (external) Security, privacy and customer protection (external)

Indicator		Chapter	Scope	External verification	Material aspects identified and coverage of the material aspect
Product portfolio					
FS1	Policies with specific environmental and social components applied to business lines	Sustainable finance Environmental, social and reputational risks Responsible procurement	Global	✓	Quality and fair products that respond to customer needs (external) Commercialization practices (external) Ethical conduct (external) Eco-efficiency, environment, climate change (external)
FS2	Procedures for assessing and screening environmental and social risks in business lines	Environmental, social and reputational risks	Global	✓	Quality and fair products that respond to customer needs (external) Commercialization practices (external) Ethical conduct (external) Eco-efficiency, environment, climate change (external)
FS3	Processes for monitoring customers implementation of and compliance with environmental and social requirements included in agreements or transactions	Environmental, social and reputational risks	Global	✓	Quality and fair products that respond to customer needs (external) Commercialization practices (external) Ethical conduct (external) Eco-efficiency, environment, climate change (external)
FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines	Environmental, social and reputational risks People management	Global	✓	Quality and fair products that respond to customer needs (external) Commercialization practices (external) Ethical conduct (external) Eco-efficiency, environment, climate change (external)
FS5	Interactions with customers/ investors/business partners regarding environmental and social risks and opportunities	Materiality Sustainable finance Environmental, social and reputational risks	Global	✓	Social and environmentally responsible finance (external)
FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/ SME/large) and by sector	Sustainable finance Annual Accounts (Note 7.3)	Global	✓	Contribution to the development of local societies (external)
FS7	Monetary value of products and service designed to deliver a specific social benefit for each business line broken down by purpose	Sustainable finance	Global	✓	Contribution to the development of local societies (external)
FS8	Monetary value of products and service designed to deliver a specific environmental benefit for each business line broken down by purpose	Sustainable finance	Global	✓	Contribution to the development of local societies (external) Eco-efficiency, environment, climate change
Audit					
FS9	Coverage and frequency of audits to assess the implementation of environmental and social policies and risk assessment procedures	Internal control model Environmental, social and reputational risks	Global	✓(13)	Good corporate governance (internal) Solvency and financial management (internal) Human rights, employee rights and employment quality (internal)

Indicator		Chapter	Scope	External verification	Material aspects identified and coverage of the material aspect
Active ownership					
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting Organization has interacted on environmental or social issues	Sustainable finance	Global	✓(13)	Social and environmentally responsible finance (external)
FS11	Percentage of assets subject to positive and negative environmental or social screening	Environmental, social and reputational risks	Global	✓(13)	Social and environmentally responsible finance (external)
FS12	Voting polic(ies) applied to environmental or social issues for shares over which the reporting Organization holds the right to vote shares or advises on voting	Sustainable finance	Global	✓(13)	Social and environmentally responsible finance (external)

✓ Content revised according to the scope described and through procedures indicated in the Independent Review Report of the BBVA in 2017 report.

(1) Percentage not reported.

(2) The processes are only reported to determine the remuneration.

(3) No breakdown by geographical area.

(4) The limitations on the scope of the indicator, the perimeter and the criteria followed in the estimates are detailed in the table referenced. The intensity indicators have been calculated according to the number of occupants of the buildings, understanding as such the sum of the average workforce and the estimation of the third parties that work in the Bank's facilities. The verification of the number of occupants has been made exclusively for Spain.

(5) The consumption of the branches network has been estimated from a limited sample of offices.

(6) In relation to business trips, only the emissions derived from the plane trips of Group employees are reported.

(7) It is not disaggregated by sex or by job category.

(8) The results of the Net Promoter Score depend on the Comparative Group (peer) used, a change in that group could change the results of the NPS.

(9) It is only reported on operations analyzed in relation to compliance with the Equator Principles.

(10) The information regards employees trained in the code of conduct.

(11) Number of indicents or issues are not informed.

(12) The information regards BBVA corporate policy.

(13) Qualitative information.

(14) The information regards BBVA product communication policy.

(15) The information regards Audits on the security measures in the processing of personal data implemented in the BBVA Group companies.

Independent assurance report

KPMG Asesores, S.L.
Pº. de la Castellana, 259 C
28046 Madrid

Independent Assurance Report
to the Management of Banco Bilbao Vizcaya Argentaria, S.A.

(Free translation from the original in Spanish.
In case of discrepancy, the Spanish language version prevails.)

To the management of Banco Bilbao Vizcaya Argentaria, S.A.

KPMG has been engaged by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter BBVA) in order to perform an independent assurance review on the non-financial information contained in the BBVA 2017 Report for the year ended 31 December 2017 (hereinafter the Report), in the form of an independent limited assurance conclusion indicating that, based on the work performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that GRI indicators identified with the symbol "✓"have not in all material respects, been prepared and presented in accordance with the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards), including the reliability of data and the absence of significant deviations and omissions.

Management responsibilities

BBVA management is responsible for the preparation and presentation of the Report in accordance with the Sustainability Reporting Standards of Global Reporting Initiative (GRI Standards) with comprehensive option, and the Financial Sector Disclosures, according to the point 102-54 of the GRI Content Index. Management is also responsible for the information and assertions contained within the Report; for determining BBVA´s objectives in respect of the selection and presentation of sustainable development performance, including the identification of stakeholders and material issues; and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

These responsibilities include the establishment of appropriate controls that BBVA management consider necessary to enable that the preparation of indicators with a limited assurance review would be free of material errors due to fraud or errors.

Our responsibility

Our responsibility is to carry out a limited assurance review and to express a conclusion based on the work performed, referring exclusively to the information corresponding to the year 2017. We conducted our engagement in accordance with International Standard on Assurance Engagements ISAE 3000 (reviewed), "Assurance Engagements other than Audits or Reviews of Historical Financial Information" and the Standard ISAE 3410 "Assurance Engagements on Greenhouse Gas Statements", issued by the International Auditing and Assurance Standards Board (IAASB) and with the Performance Guide on the revision of Corporate Responsibility Reports of the Instituto de Censores Jurados de Cuentas de España (ICJCE). These standards require that we plan and perform the engagement to obtain limited assurance about whether the Report is free from material misstatement.

KPMG applies International Standard on Quality Control 1 (ISQC1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

KPMG Asesores S.L., a limited liability Spanish company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

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We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Internal Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Limited assurance over limited assurance indicators

Our limited assurance engagement consisted of making enquiries of management and persons responsible for the preparation of information presented in the Report, and applying analytical and other evidence gathering procedures. These procedures included:

— Verification of BBVA´s processes for determining the material issues, and the participation of stakeholder groups therein.

— Interviews with management and relevant staff at group level and selected business unit level concerning sustainability strategy and policies and corporate responsibility for material issues, and the implementation of these across the business of BBVA.

— Evaluation concerning the consistency of the description of the application of BBVA´s policies and strategy on sustainability, governance, ethics and integrity.

— Risk analysis, including searching the media to identify material issues during the year covered by the Report.

— Review of the consistency of information comparing Universal Standards with internal systems and documentation.

— Analysis of the processes of compiling and internal control over quantitative data reflected in the Report, regarding the reliability of the information, by using analytical procedures and review testing based on sampling including the information related to BBVA Group in Spain, Argentina, Chile, Colombia, Mexico, Peru, Venezuela, USA and Turkey.

— Review of the application of the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards) requirements for the preparation of reports in accordance with comprehensive option.

— Reading the information presented in the Report to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of BBVA.

— Comparison between the financial information reflected in the Report and the included in the financial statements, audited by independent third parties.

Our multidisciplinary team included specialists in social, environmental and economic business performance.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is lower than that of a reasonable assurance engagement. This report may not be taken as an auditor's report.

Conclusions

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this Independent Review Report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Based on the limited assurance procedures performed and the evidence obtained, as described above, nothing has come to our attention that causes us to believe that GRI indicators identified with the symbol "✓" have not in all material respects, been prepared and presented in accordance with the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards), as described in point 102-54 of the GRI Content Index, including the reliability of data, adequacy of the information presented and the absence of significant deviations and omissions.

Under separate cover, we will provide BBVA management with an internal report outlining our complete findings and areas for improvement.

Purpose of our report

In accordance with the terms of our engagement, this Independent Assurance Report has been prepared for BBVA in relation to its BBVA in 2017 Report and for no other purpose or in any other context.

KPMG Asesores, S.L.

(Signed)

José Luis Blasco Vázquez

15 March 2018

Annex

Annex 1 - Employees by gender (BBVA Group)

	2017			2016			2015		
	Number of Employees	Men	Women	Number of Employees	Men	Women	Number of Employees	Men	Women
Spain	30,584	15,097	15,487	31,451	15,699	15,752	32,903	16,656	16,247
The United States	10,928	4,470	6,458	10,544	4,187	6,357	11,153	4,446	6,707
Mexico	37,207	17,271	19,936	37,378	17,335	20,043	38,499	17,907	20,592
Turkey	22,615	9,719	12,896	23,678	10,087	13,591	23,691	10,106	13,585
South America	29,423	13,385	16,038	30,543	13,921	16,622	30,448	13,713	16,735
Rest of Eurasia	1,099	611	488	1,198	682	516	1,274	723	551
Total	**131,856**	**60,553**	**71,303**	**134,792**	**61,911**	**72,881**	**137,968**	**63,551**	**74,417**

Annex 2- Promoted employees by gender (BBVA Group)

	2017			2016			2015		
	Number of promoted employees	Men	Women	Number of promoted employees	Men	Women	Number of promoted employees	Men	Women
Spain	3,878	2,066	1,812	3,694	1,906	1,788	3,016	1,490	1,526
The United States	450	292	158	793	257	536	3,515	1,332	2,183
Mexico	8,928	4,391	4,537	7,301	3,469	3,832	7,622	3,907	3,715
Turkey	4,082	1,822	2,260	736	325	411	1,039	438	601
South America	3,131	1,318	1,813	3,610	1,312	2,298	3,205	1,453	1,752
Rest of Eurasia	290	186	104	124	74	50	124	71	53
Total	**20,759**	**10,075**	**10,684**	**16,258**	**7,343**	**8,915**	**18,521**	**8,691**	**9,830**

Annex 3 - Average employee age and breakdown by age bracket (BBVA Group. Years and percentage)

	2017				2016				2015			
	Average age	<25	25-45	>45	Average age	<25	25-45	>45	Average age	<25	25-45	>45
Spain	42.5	0.8	65.6	33.6	42.2	1.0	66.2	32.8	42.0	1.5	65.0	33.5
The United States	40.9	6.4	58.8	34.8	40.9	5.8	59.4	34.8	40.0	7.9	58.9	32.8
Mexico	34.2	10.3	74.6	15.1	34.2	10.8	74.0	15.2	34.2	11.3	73.6	15.1
Turkey	33.7	5.3	88.7	6.0	32.9	6.6	88.6	4.8	32.4	8.2	87.6	4.2
South America	37.8	6.7	68.7	24.6	37.6	7.4	68.9	23.7	37.3	8.4	68.6	23.1
Rest of Eurasia	43.1	0.5	57.7	41.8	42.6	0.7	59.3	40.0	42.2	0.5	61.2	38.3
Total	**37.5**	**6.0**	**72.2**	**21.8**	**37.2**	**6.5**	**72.3**	**21.2**	**37.0**	**7.4**	**71.5**	**21.1**

Annex 4 - Average length of service by gender (BBVA Group. Years)

	2017			2016			2015		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Spain	16.1	17.1	15.1	16.0	17.5	14.6	16.4	18.3	14.4
The United States	7.2	5.8	8.1	7.3	5.9	8.2	6.7	5.3	7.6
Mexico	7.9	8.0	7.9	8.2	8.4	8.0	8.1	8.5	7.8
Turkey	7.6	7.7	7.4	6.9	7.0	6.8	6.4	6.6	6.3
South America	10.1	10.9	9.4	9.9	10.8	9.2	9.7	10.7	8.9
Rest of Eurasia	12.2	11.5	13.1	11.5	10.8	12.4	11.1	10.6	11.8
Total	**10.2**	**10.7**	**9.7**	**10.1**	**10.9**	**9.5**	**10.1**	**11.0**	**9.2**

Annex 5 - Breakdown of employees job category and gender (BBVA Group. Percentage)

	2017			2016			2015		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Spain									
Management team	3.4	77.1	22.9	3.3	77.5	22.5	3.1	78.1	21.9
Middle management	6.3	64.1	35.9	5.9	64.5	35.5	5.1	65.0	35.0
Specialists	24.5	54.1	45.9	25.0	54.0	46.0	21.7	53.9	46.1
Sales force	45.8	44.7	55.3	45.5	45.4	54.6	53.0	47.0	53.0
Rank and file	19.9	44.8	55.2	20.3	46.2	53.8	17.1	48.3	51.7
The United States									
Management team	0.3	85.7	14.3	0.3	79.4	20.6	1.3	81.8	18.2
Middle management	19.0	59.8	40.2	18.4	59.1	40.9	16.3	59.1	40.9
Specialists	18.2	42.2	57.8	17.9	41.4	58.6	13.8	41.3	58.7
Sales force	32.7	50.8	49.2	32.5	49.2	50.8	33.1	48.6	51.4
Rank and file	29.9	16.9	83.1	30.9	16.9	83.1	35.6	20.9	79.1
Mexico									
Management team	0.6	84.0	16.0	0.7	86.2	13.8	0.8	87.7	12.3
Middle management	1.8	68.9	31.1	1.7	70.3	29.7	1.5	70.3	29.7
Specialists	35.6	50.6	49.4	34.2	50.2	49.8	34.3	49.9	50.1
Sales force	29.9	52.6	47.4	31.1	52.2	47.8	33.6	51.4	48.6
Rank and file	32.0	34.0	66.0	32.3	34.7	65.3	29.9	34.9	65.1
Turkey									
Management team	0.0	90.0	10.0	0.1	91.7	8.3	0.1	91.7	8.3
Middle management	23.5	41.8	58.2	20.6	41.7	58.3	18.8	43.0	57.0
Specialists	33.5	36.0	64.0	34.6	35.8	64.2	37.8	34.7	65.3
Sales force	35.3	39.2	60.8	37.0	38.8	61.2	35.5	39.7	60.3
Rank and file	7.6	94.7	5.3	7.8	93.4	6.6	7.8	93.1	6.9
South America									
Management team	0.8	75.2	24.8	0.8	74.9	25.1	0.9	76.4	23.6
Middle management	7.6	57.2	42.8	7.5	56.3	43.7	9.7	53.0	47.0
Specialists	38.2	50.5	49.5	36.9	50.6	49.4	33.0	50.2	49.8
Sales force	39.6	38.8	61.2	40.7	38.9	61.1	38.8	39.0	61.0
Rank and file	13.8	43.0	57.0	14.1	44.2	55.8	17.6	42.7	57.3
Rest of Eurasia									
Management team	5.6	86.9	13.1	6.2	89.2	10.8	6.3	91.3	8.8
Middle management	9.6	67.9	32.1	10.4	66.4	33.6	10.7	63.2	36.8
Specialists	43.0	52.4	47.6	41.1	51.8	48.2	40.3	51.1	48.9
Sales force	35.2	56.3	43.7	36.1	58.4	41.6	36.0	57.5	42.5
Rank and file	6.6	27.8	72.2	6.2	33.8	66.2	6.8	44.2	55.8
Group average									
Management team	1.2	78.4	21.6	1.2	79.2	20.8	1.3	80.4	19.6
Middle management	9.4	52.8	47.2	8.7	52.9	47.1	8.4	52.8	47.2
Specialists	31.9	48.2	51.8	31.5	47.8	52.2	30.0	47.1	52.9
Sales force	37.0	44.7	55.3	37.8	44.6	55.4	39.7	45.4	54.6
Rank and file	20.6	39.6	60.4	20.7	40.6	59.4	20.6	40.9	59.1

Annex 6 - Voluntary resignations (turn-over) [1] and breakdown by gender (BBVA Group. Percentage)

	2017			2016			2015		
	Total workforce turnover	Men	Women	Total workforce turnover	Men	Women	Total workforce turnover	Men	Women
Spain	1.0	66.3	33.7	0.9	55.9	44.1	0.9	45.8	54.2
The United States	14.0	39.1	60.9	17.7	38.7	61.3	18.2	44.0	56.0
Mexico	12.9	51.3	48.7	13.5	50.1	49.9	11.5	48.4	51.6
Turkey	3.4	36.8	63.2	8.2	40.3	59.7	2.2	44.4	55.6
South America	7.6	45.6	54.4	6.1	43.9	56.1	6.6	45.4	54.6
Rest of Eurasia	5.4	63.1	36.9	4.2	61.1	38.9	4.2	54.7	45.3
Total	**7.3**	**47.5**	**52.5**	**8.2**	**45.6**	**54.4**	**8.5**	**45.4**	**54.6**

[1] Turnover = [Resignations (excluding early retirement)/Number of employees at start of period] x 100.

Annex 7 - Recruitment of employees by gender (BBVA Group. Number)

	2017			2016			2015		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Spain	2,714	1,175	1,539	3,515	1,450	2,065	7,929	3,629	4,300
The United States	2,987	1,373	1,614	2,244	949	1,295	2,910	1,279	1,631
Mexico	7,664	4,024	3,640	8,084	4,056	4,028	7,743	3,751	3,992
Turkey	1,931	827	1,104	3,058	1,225	1,833	25,158	11,176	13,982
South America	3,787	1,708	2,079	4,220	2,016	2,204	4,549	2,066	2,483
Rest of Eurasia	68	36	32	111	70	41	95	52	43
Total	**19,151**	**9,143**	**10,008**	**21,232**	**9,766**	**11,466**	**48,384**	**21,953**	**26,431**
Of which new hires are [1]:									
Spain	1,237	827	410	1,038	632	406	692	431	261
The United States	2,951	1,350	1,601	2,219	932	1,287	2,885	1,263	1,622
Mexico	6,468	3,314	3,154	6,016	2,930	3,086	5,063	2,585	2,478
Turkey	1,823	795	1,028	2,879	1,164	1,715	1,803	789	1,014
South America	2,765	1,427	1,338	3,045	1,519	1,526	3,309	1,512	1,797
Rest of Eurasia	55	30	25	46	27	19	159	61	98
Total	**15,299**	**7,743**	**7,556**	**15,243**	**7,204**	**8,039**	**13,911**	**6,641**	**7,270**

[1] Including hires through consolidations.

Annex 8 - Discharge of employees by discharge type and gender (BBVA Group. Number)

	2017			2016			2015		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Spain									
Retirement and early retirement	839	621	218	1,384	1,128	256	1,395	1,021	374
Voluntary redundancies	130	84	46	110	71	39	40	27	13
Resignations	323	214	109	281	157	124	271	161	110
Others [1]	2,289	854	1,435	3,192	1,075	2,117	1,947	725	1,222
The United States									
Retirement and early retirement	51	11	40	57	8	49	50	8	42
Voluntary redundancies	1	1	0	25	23	2	7	3	4
Resignations	1,479	578	901	1,977	765	1,212	1,988	778	1,210
Others [1]	1,072	500	572	794	386	408	656	275	381
Mexico									
Retirement and early retirement	362	207	155	423	269	154	197	122	75
Voluntary redundancies	47	28	19	78	46	32	99	57	42
Resignations	4,814	2,469	2,345	5,184	2,596	2,588	4,387	2,235	2,152
Others [1]	2,612	1,385	1,227	3,520	1,716	1,804	2,668	1,290	1,378
Turkey									
Retirement and early retirement	101	46	55	85	46	39	31	23	8
Voluntary redundancies	46	28	18	65	30	35	35	20	15
Resignations	810	298	512	1,944	783	1,161	528	197	331
Others [1]	2,037	781	1,256	977	393	584	887	452	435
South America									
Retirement and early retirement	32	22	10	20	9	11	1	1	0
Voluntary redundancies	1,373	614	759	940	423	517	671	328	343
Resignations	2,335	1,064	1,271	1,856	814	1,042	1,961	876	1,085
Others [1]	1,167	550	617	1,309	562	747	1,108	544	564
Rest of Eurasia									
Retirement and early retirement	12	7	5	6	2	4	1	1	0
Voluntary redundancies	59	40	19	52	28	24	12	10	2
Resignations	65	41	24	54	33	21	61	27	34
Others [1]	31	19	12	75	49	26	185	97	88
Total									
Retirement and early retirement	1,397	914	483	1,975	1,462	513	1,675	1,176	499
Voluntary redundancies	1,656	795	861	1,270	621	649	864	445	419
Resignations	9,826	4,664	5,162	11,296	5,148	6,148	9,196	4,274	4,922
Others [1]	9,208	4,089	5,119	9,867	4,181	5,686	7,451	3,383	4,068

[1] Others include termination of contract, expatriation, permanent termination and death.

Annex 9 - Breakdown of employees by contract type and gender (BBVA Group. Percentage)

	2017			2016			2015		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Spain									
Full-time permanent or indefinite-term	93.1	51.3	48.7	92.2	51.9	48.1	93.6	52.2	47.8
Part-time permanent or indefinite-term	2.6	4.6	95.4	2.7	6.1	93.9	1.9	5.1	94.9
Temporary	4.3	34.8	65.2	5.1	37.6	62.4	4.6	37.5	62.5
The United States									
Full-time permanent or indefinite-term	97.1	41.5	58.5	97.5	40.3	59.7	95.6	40.7	59.3
Part-time permanent or indefinite-term	2.9	21.7	78.3	2.5	17.9	82.1	4.3	21.5	78.5
Temporary	0.1	62.5	37.5	0.0	0.0	100.0	0.1	37.5	62.5
Mexico									
Full-time permanent or indefinite-term	89.7	46.1	53.9	89.6	46.4	53.6	89.4	46.9	53.1
Part-time permanent or indefinite-term	0.7	24.0	76.0	0.7	23.5	76.5	0.9	26.3	73.7
Temporary	9.5	51.0	49.0	9.7	47.7	52.3	9.7	45.0	55.0
Turkey									
Full-time permanent or indefinite-term	99.4	43.0	57.0	99.3	42.6	57.4	99.0	42.6	57.4
Part-time permanent or indefinite-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Temporary	0.6	47.3	52.7	0.7	50.0	50.0	1.0	51.9	48.1
South America									
Full-time permanent or indefinite-term	89.6	46.4	53.6	89.4	46.3	53.7	89.8	45.8	54.2
Part-time permanent or indefinite-term	2.7	34.1	65.9	3.0	34.6	65.4	2.8	31.7	68.3
Temporary	7.7	38.7	61.3	7.6	41.2	58.8	7.3	41.1	58.9
Rest of Eurasia									
Full-time permanent or indefinite-term	98.5	55.8	44.2	98.7	57.1	42.9	99.0	56.9	43.1
Part-time permanent or indefinite-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Temporary	1.5	43.8	56.3	1.3	40.0	60.0	1.0	46.2	53.8
Group average									
Full-time permanent or indefinite-term	92.8	46.5	53.5	92.6	46.5	53.5	92.7	46.7	53.3
Part-time permanent or indefinite-term	1.7	20.2	79.8	1.7	20.9	79.1	1.7	21.7	78.3
Temporary	5.5	44.2	55.8	5.7	43.6	56.4	5.6	42.6	57.4

Annex 10 - Amount and type of absenteeism of employees (BBVA Group [1])

	2017			2016		
	Number of Employees	Men	Women	Number of Employees	Men	Women
Total leave	28,786	10,230	18,556	58,247	21,425	36,822
New leave	27,046	9,648	17,398	56,100	20,718	35,382
Additions	29,655	10,374	19,281	50,262	19,219	31,043
Number of days of sick leave or total accident in the year	542,541	180,652	361,889	606,711	201,988	404,723
Absenteeism rate (%)	1.5	1.1	1.9	1.6	1.1	2.1

[1] Excluding BBVA Compass and Garanti.

Annex 11 - Environmental footprint (BBVA Group)

	2017	2016	2015
Consumptions			
Public water (cubic meter)	3,670,810	3,280,665	3,085,283
Paper (tons)	9,396	9,485	7,292
Energy (Megawatt hour)(1)	941,826	957,215	993,838
CO_2 emissions			
Scope 1 emissions (tons CO_2eq)(2)	12,124	13,061	14,524
Scope 2 emissions (tons CO_2eq) market-based method(3)	275,098	266,222	271,003
Scope 2 emissions (tons CO_2eq) location-based method(4)	347,449	266,222 (6)	271,003 (6)
Scope 3 emissions (tons CO_2eq) (5)	110,792	46,511	46,374 (6)
Waste			
Hazardous waste (tons)	164	398	125
Non-hazardous waste (tons)	4,872	878	990

(1) The consumption of electricity and fossil fuels (gasoil, natural gas and LP gas) are included, except for the fleet vehicles fuel consumption.

(2) These emissions include those arising from the direct energy consumption (fossil fuels) and have calculated according to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories. IPCC Fifth Assessment Report and the IEA sources have been used for the CO_2 equivalent conversion.

(3) These emissions include those arising from the electricity consumption and calculated according to the latest IEA available factors for each country.

(4) These emissions include those arising from the electricity consumption and calculated according to the contractual data and, failing that, the latest IEA available factors for each country.

(5) These emissions include those arising from the airplane business trips and from the central services employees' commuting, according to the 2017 DEFRA factors. Employee commuting emissions have been calculated in 2017 for the first time and extrapolated for the total central services employees from survey results. These emissions are not considered for the Global Eco-efficiency Plan purposes.

(6) These figures have been updated according to adjustments made after the publication of the BBVA in 2016 report.

Annexo 12 - Financial education. Data by country (Number of beneficiaries. 2017)

	Children	Adults	SMEs [2]	Total beneficiaries	Total workshops
Spain	1,140,972	17,513	1,000	1,159,485	50,653
The United States	35,487	766	1,266	37,519	260
Mexico	891,965	95,366	13,647	1,000,978	1,532,603
South America	57,393	34,892	402	92,687	32,472
Argentina	6,408	377	-	6,785	31
Chile	-	1,023	114	1,137	9
Colombia	47,048	27,986	-	75,034	28,095
Peru	-	467	-	467	13
Venezuela	3,458	1,750	228	5,436	3,516
Paraguay	-	2,689	30	2,719	294
Uruguay	479	600	30	1,109	514
Total Group [1]	**2,125,817**	**148,537**	**16,315**	**2,290,669**	**1,615,988**

[1] Turkey did not develop financial education programs.

[2] Number of beneficiary SMEs does not include beneficiaries of online courses of the Camino al Éxito program in South America.

Annex 13 - Financial education programs for children and young people (Number of beneficiaries)

Spain	**1,141,477**
Future Values	1,125,026
Your Finances, Your Future (collaborative porgram)	505
EFEC	15,946
The United States	**31,084**
EVERFI	23,239
Junior Achievement	7,103
Money Smart	742
Mexico	**891,965**
Future Values	1,296
Kidzania	846,135
Sala Valores de Futuro MIDE	35,795
Sub 13 League	1,200
Ambassadors "For those who remain"	6,300
SNEF	1,239
South America	**57,446**
Argentina	**6,408**
BBVA France Financial Education Program	1,099
BBVA France Financial Education "Go for your dreams""	4,309
My First Company	1,000
Colombia	**44,152**
BBVA Entrepreneurship School	44,152
Venezuela	**3,458**
Online Financial Education Course for Young People	3,458
Paraguay	**3,428**
Alda Foundation	3,378
Joven Adelante	50
Total Group	**2,121,972**

Annex 14 - Financial education programs for SMEs [1] (Number of beneficiaries)

	2017	2016	2015
Spain			
Training for SMEs	1,000	615	589
The United States			
EVERFI United States	829	n/av	n/av
Money Smart for SMEs	437	n/av	n/av
Mexico			
Forward with your Future	13,647	317	734
South America			
Camino al Éxito (Road to success) [2]	342	548	704
Total	**16,255**	**1,480**	**2,027**

n/av = not available.

(1) The main target for this initiatives are SMEs, though acces is not restricted that is why some beneficiaries could be individual customers.

(2) Camino al Éxito 2015 only includes SMEs benefiting from face-to-face training for growth. It doesn´t include SMEs benefiting from online courses.

Annex 15 - Main indicators of BBVA Momentum (Number)

	2017					
	Candidates Presented	Speciaist candidates	Specialists	Mentors candidates	Mentors candidates	Participants
Spain	371	62	13	178	20	20
The United States	46	8	4	20	20	20
Mexico	162	23	10	53	19	20
Turkey	10	1	0	6	6	6
Colombia	132	12	1	28	7	21
Other countries	n/a	4	2	n/a	n/a	n/a
Total	**721**	**110**	**30**	**285**	**72**	**87**

n/a = not applicable.

Annex 16 - Niños Adelante program (Forward Children) (Number)

	Internships			Indirect beneficiaries [1]		
	2017	2016	2015	2017	2016	2015
Mexico	16,756	17,393	18,000	67,024	69,572	72,000
Colombia	29,900	29,904	18,963	119,600	119,616	75,852
Peru	14,474	21,303	23,012	57,896	85,212	92,408
Venezuela	4,500	4,500	4,500	22,500	22,500	26,295
Paraguay	2,439	38	192	3,140	n/av	7,585
Uruguay	25	135	140	100	n/av	100
Total	**68,094**	**73,273**	**64,807**	**270,260**	**296,900**	**274,240**

n/av = not available.

[1] In order to calculate indirect beneficiares average family size data has been taken into account (4 members).

Annexo 17 - Main educational programs (Number of direct beneficiaries)

	2017
NBA Cares (The United States)	556
Olimpiada del Conocimiento (Mexico)	3,063
Niños Adelante Grants (South America and Mexico)	53,620
Leer es Estar Adelante (Peru)	14,474
Papagayo program (Venezuela)	14,341
Total child and primary education	**86,054**
Socios por un día (Spain)	7
Adelante Grants (Mexico)	9,921
Robotic Workshops (Mexico)	30
Other Initiatives (The United States)	6,000
Total secondary education	**15,958**
Acción Magistral (Spain)	11,487
Alares (Spain)	366
Teach for America (The United States)	70
Teachers Academy Foundation (Turkey) [(1)]	11,576
Talks "Pensemos Bien" (Peru)	869
Patronato Universidad del Pacífico (Peru)	108
Total education for adults	**24,476**
Total	**126,488**

[(1)] Garanti data is not verified.

Acción Magistral program (Beneficiaries. Spain)

	2017	2016	2015
Trained Teachers	236	265	237
Teachers using the platform	7,188	6,052	4,327
Acción Magistral meeting	236	222	355
Prize Magistral Action (Winning centers and mentions to students and teachers)	3,827	106	1,286
Total	**11,487**	**6,645**	**6,189**

Annex 18 - Number of suppliers and turnover by country

Suppliers [1] and annual turnover [2]	2017 Number of suppliers	2017 Annual tunover (million euros)	2016 Number of suppliers	2016 Annual tunover (million euros)	2015 Number of suppliers	2015 Annual tunover (million euros)
Spain	1,377	2,381	1,240	2,457	1,277	2,660
The United States	576	443	489	704	524	484
Mexico	1,182	2,957	1,142	3,381	1,238	3,974
Turkey	n/av	n/av	n/av	n/av	n/av	n/av
Argentina	520	569	408	458	559	576
Chile	224	178	242	171	250	197
Colombia	208	190	180	198	216	198
Peru	272	232	285	246	290	257
Venezuela	60	59	81	61	59	20
Paraguay	44	15	49	16	51	20
Uruguay	55	27	54	27	24	7
Portugal	45	25	70	31	110	48
Total	**4,563**	**7,077**	**4,240**	**7,751**	**4,598**	**8,441**
Total suppliers [3]						
Spain	29,395	2,553	14,020	2,588	14,785	2,796
The United States	2,603	476	2,073	731	2,241	678
Mexico	6,962	3,067	5,988	3,486	5,674	4,081
Turkey	n/av	n/av	n/av	n/av	n/av	n/av
Argentina	2,448	608	2,262	491	2,701	618
Chile	1,357	196	1,462	190	1,995	216
Colombia	2,683	215	2,827	223	4,146	224
Peru	3,231	261	2,972	274	4,421	287
Venezuela	696	64	869	68	856	41
Paraguay	984	22	1,119	23	1,141	27
Uruguay	523	33	567	33	475	11
Portugal	803	61	844	38	1,015	57
Total	**51,685**	**7,555**	**35,003**	**8,144**	**39,450**	**9,036**

n/av = not available.

[1] Including suppliers and creditors.

[2] Payments made to third parties (not including suppliers with amounts less than €100,000). Cash flow criterion.

[3] Including all suppliers, creditors and third parties invoicing to BBVA without a limit to the amount.

Annex 19 - Average payment period to suppliers [1] (Days)

	2017	2016	2015
Spain	50	47	47
The United States	4	4	7
Mexico	16	21	17
Argentina	34	34	34
Chile	29	26	27
Colombia	19	13	16
Peru	11	26	31
Venezuela	28	26	19
Paraguay	30	30	30
Uruguay	4	5	5
Group average [2]	**23**	**23**	**23**

[1] Average pyment period calculated as an average resulting from the difference between the payment date and the base date. With no weighing by amount.

[2] Total average payment period is calculated based ina a ponderation between the different geographies as is not possible to be done taking the whole invoice data.

Information from Turkey and Portugal is not available.

Annex 20 - Customer satisfaction index (% satisfied over 100)

	2017	2016 [1]	2015
Spain	80	n/av	78
The United States	76	n/av	74
Mexico	81	n/av	82
Argentina	85	n/av	83
Chile	84	n/av	78
Colombia	86	n/av	86
Perú	82	n/av	82
Venezuela	79	n/av	86
Uruguay	89	n/av	87
Paraguay	95	n/av	80
Group	**82**		**82**

n/av= not available.

[1] Biennial survey, not carried out in 2016.

Information from Turkey and Portugal is not available.

Annex 21 - Supplier approval (Number)

	Suppliers who have passed the approval process			Purchases from suppliers who have taken part in the approval process (%) [1]			Suppliers that have failed the approval process		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Spain	1,112	1,148	1,037	88	84	85	26	12	10
The United States	434	579	n/av	59	72	n/av	158	154	n/av
Mexico	531	340	n/av	90	74	n/av	205	108	n/av
Argentina	362	356	n/av	64	69	n/av	0	0	n/av
Chile	803	783	n/av	85	89	n/av	16	24	n/av
Colombia	900	776	n/av	92	92	n/av	20	16	n/av
Peru	516	463	n/av	77	77	n/av	6	3	n/av
Venezuela	237	253	n/av	59	57	n/av	0	0	n/av
Total	**4,895**	**4,698**	**1,037**	**81**	**81**	**85**	**431**	**317**	**10**

n/av= not available.

[1] Other purchases are from suppliers who do not meet the internal criteria that require them to take part in the approval process.

Information from Turkey, Uruguay, Paraguay and Portugal is not available.