BBVA Creating Opportunities

January-June 2017

2Q17

Contents

BBVA Group highlights

BBVA Group highlights (Consolidated figures)

	30-06-17	Δ%	30-06-16	31-12-16
Balance sheet (million euros)				
Total assets	702,429	(5.8)	746,040	731,856
Loans and advances to customers (gross)	424,405	(2.0)	433,268	430,474
Deposits from customers	394,626	(2.9)	406,284	401,465
Other customer funds	137,044	5.3	130,177	132,092
Total customer funds	531,670	(0.9)	536,460	533,557
Total equity	54,727	(2.2)	55,962	55,428
Income statement (million euros)				
Net interest income	8,803	5.2	8,365	17,059
Gross income	12,718	4.0	12,233	24,653
Operating income	6,407	8.6	5,901	11,862
Profit/(loss) before tax	4,033	18.9	3,391	6,392
Net attributable profit	2,306	25.9	1,832	3,475
The BBVA share and share performance ratios				
Number of shares (millions)	6,668	2.9	6,480	6,567
Share price (euros)	7.27	43.5	5.06	6.41
Earning per share (euros) (1)	0.33	25.7	0.26	0.49
Book value per share (euros)	7.18	(2.3)	7.35	7.22
Tangible book value per share (euros)	5.82	0.2	5.81	5.73
Market capitalization (million euros)	48,442	47.6	32,817	42,118
Yield (dividend/price; %)	5.1		7.3	5.8
Significant ratios (%)				
ROE (net attributable profit/average shareholders' funds) (2)	8.6		7.2	6.7
ROTE (net attributable profit/average shareholders' funds excluding intangible assets) (2)	10.5		8.9	8.2
ROA (profit or loss for the year/average total assets)	0.82		0.67	0.64
RORWA (profit or loss for the year/average risk-weighted assets)	1.53		1.25	1.19
Efficiency ratio	49.6		51.8	51.9
Cost of risk	0.92		0.92	0.84
NPL ratio	4.8		5.1	4.9
NPL coverage ratio	71		74	70
Capital adequacy ratios (%)				
CET1 fully-loaded	11.1		10.7	10.9
CET1 phased-in (3)	11.8		12.0	12.2
Tier 1 phased-in (3)	13.0		12.7	12.9
Total ratio phased-in (3)	15.5		15.7	15.1
Other information				
Number of shareholders	910,330	(3.1)	939,683	935,284
Number of employees	132,321	(3.6)	137,310	134,792
Number of branches	8,421	(8.0)	9,153	8,660
Number of ATMs	31,194	0.8	30,958	31,120

(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 -€4,218m in 1H16, –€4,492m in 2016 and -€6,015m in 1H17.

(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.

Group information

Relevant events

Results (pages 4-9)

- General growth of **more recurring revenues** in practically all geographic areas.
- Lower contribution from net trading income (**NTI**).
- **Operating expenses** under control and improvement in the **efficiency** ratio in comparison with the same period the previous year.
- **Impairment losses on financial assets** below the figure for the first half of 2016.
- **Provisions (net) and Other gains (losses)** higher than in the same period last year due to allocation for restructuring costs.
- As a result, the net attributable **profit** in the first half of 2017 is €2,306m, 25.9% up on the first six months of 2016.

Balance sheet and business activity (pages 10-11)

- **Loans and advances to customers** (gross) continue to increase in emerging economies but decline in Spain (albeit less than in previous periods) and the United States.
- **Non-performing loans** continue to improve, particularly in Spain, the United States and Turkey.
- **Deposits** from customers have again performed well in the more liquid and lower-cost items.
- In **off-balance sheet customer funds**, the trend in mutual funds continues to be positive.

Solvency (page 12-13)

- The **capital** position is above regulatory requirements, with a fully-loaded CET1 ratio of 11.1% as of 30-Jun-2017 above the established target of 11%. Year-to-date, this ratio has increased by 20 basis points primarily due to organic generation of earnings and a reduction of risk-weighted assets (RWAs).
- One **issue** of instruments that are eligible as additional Tier 1 for €500m with a coupon of 5.875%, and a number of issues that are eligible as Tier 2.

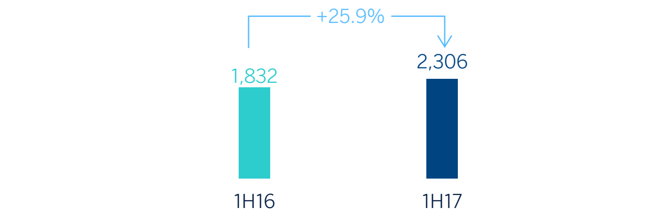
Risk management (pages 14-16)

- Positive trend in the metrics related to the **credit risk** management in the first six months of the year (stability in the second quarter): as of 30-Jun-2017, the NPL ratio closed at 4.8%, the NPL coverage ratio at 71% and the cumulative cost of risk at 0.92%.

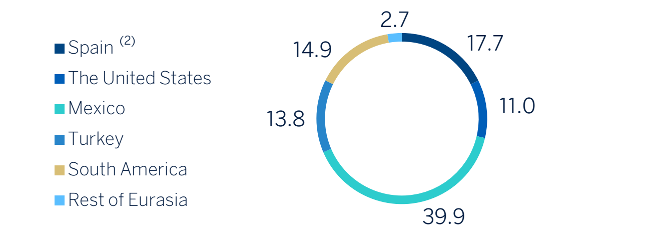
Transformation

- The Group's **digital and mobile customer base** (up 22% and 42% year-on-year, respectively, according to latest available data) continues to increase, as do **digital sales** in all the geographic areas where BBVA operates.

Net attributable profit (Million euros)

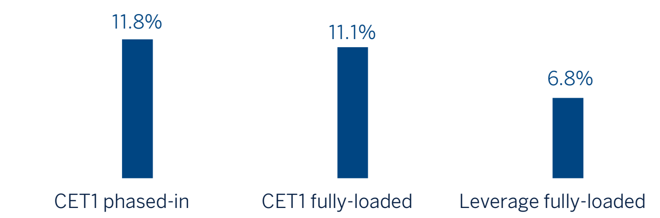


Net attributable profit breakdown [1] (Percentage. 1H 2017)

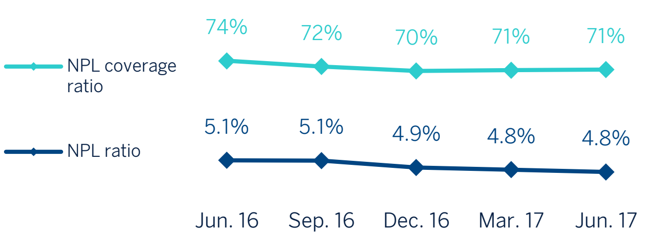


[1] Excludes the Corporate Center.
[2] Includes the areas Banking activity in Spain and Non Core Real Estate.

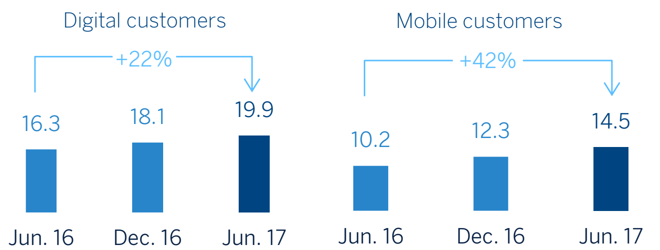
Capital and leverage ratios (Percentage as of 30-06-2017)



Risk management (Percentage)



Digital and mobile costumers [1] (Millions)



[1] Figures in Spain and the United States have been restated.

Results

In the first half of 2017, BBVA has generated a net attributable **profit** of €2,306m, a year-on-year increase of 25.9%. This positive trend is explained by the good performance of more recurring revenues and the heading of other operating income and expenses, together with the control of operating expenses and a reduction in impairment losses on financial assets.

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

Consolidated income statement: quarterly evolution (Million euros)

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

	1H17	Δ%	Δ% at constant exchange rates	1H16
Net interest income	**8,803**	**5.2**	**9.6**	**8,365**
Net fees and commissions	2,456	4.5	8.0	2,350
Net trading income	1,069	(9.1)	(2.4)	1,176
Dividend income	212	(29.6)	(29.5)	301
Share of profit or loss of entities accounted for using the equity method	(8)	n.s.	n.s.	1
Other operating income and expenses	185	n.s.	97.7	40
Gross income	**12,718**	**4.0**	**7.8**	**12,233**
Operating expenses	(6,311)	(0.3)	2.2	(6,332)
Personnel expenses	(3,324)	(0.0)	2.2	(3,324)
Other administrative expenses	(2,275)	(1.9)	1.0	(2,319)
Depreciation	(712)	3.4	6.3	(689)
Operating income	**6,407**	**8.6**	**13.9**	**5,901**
Impairment on financial assets (net)	(1,941)	(8.0)	(4.9)	(2,110)
Provisions (net)	(364)	38.6	32.1	(262)
Other gains (losses)	(69)	(50.0)	(51.1)	(137)
Profit/(loss) before tax	**4,033**	**18.9**	**27.2**	**3,391**
Income tax	(1,120)	21.8	32.9	(920)
Profit/(loss) for the year	**2,914**	**17.9**	**25.2**	**2,471**
Non-controlling interests	(607)	(5.0)	7.7	(639)
Net attributable profit	**2,306**	**25.9**	**30.8**	**1,832**
Earning per share (euros) [(1)]	0.33			0.26

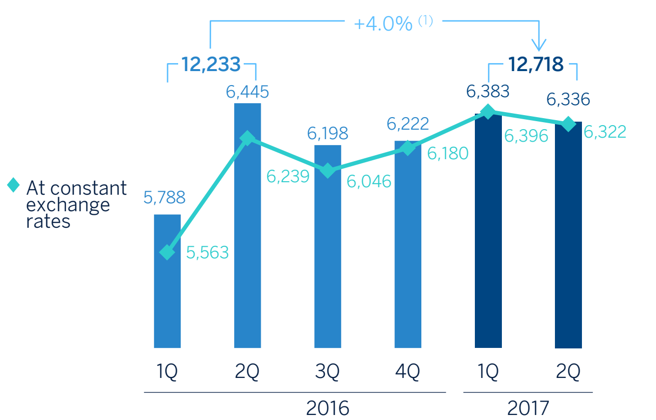
(1) Adjusted by additional Tier 1 instrument remuneration.

Gross income

Cumulative **gross income** grew 7.8% year-on-year, again strongly supported by the positive performance of the more recurring items.

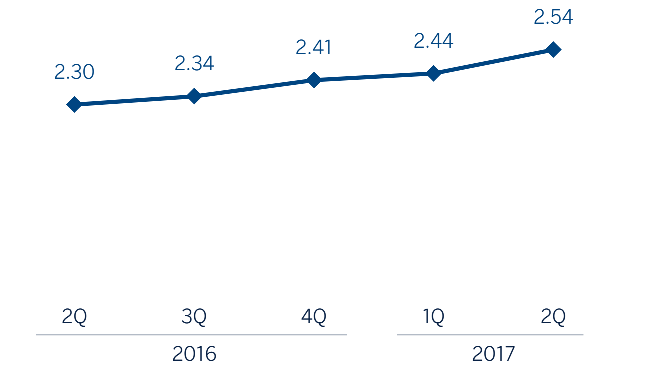
Net interest income grew 9.6% year-on-year and 3.3% over the quarter. Once more, the trend can be explained by the growth in activity in emerging economies and good management of customer spreads. Performance was positive in all the business areas except for Banking activity in Spain, where the current environment of very low interest rates, lower volumes of activity and sales in the wholesale portfolios have had a negative impact on performance.

Gross income (Million euros)



(1) At constant exchange rates: +7.8%.

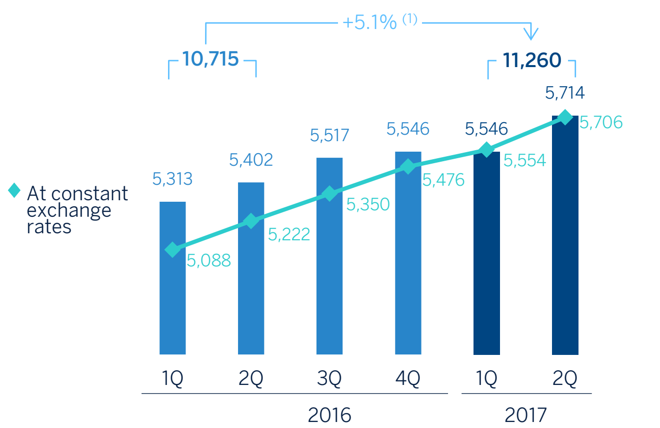
Net interest income/ATA (Percentage)



First-half **net fees and commissions** have also performed well year-on-year in all the Group's areas, strongly influenced by good diversification, the recovery of activity in the wholesale businesses and fees from asset management, credit cards and online banking.

As a result, **more recurring revenues** (net interest income plus fees and commissions) have increased 9.2% year-on-year (2.7% over the last three months).

Net interest income plus fees and commissions (Million euros)



(1) At constant exchange rates: +9.2%.

The positive contribution of **NTI** has moderated in the half-year compared with the same period in 2016. This is mainly because capital gains of €204m before tax from the sale on the market of 1.7% of China Citic Bank (CNCB) in the first quarter of the year are lower than those from the VISA transaction booked in the same period last year (€225m).

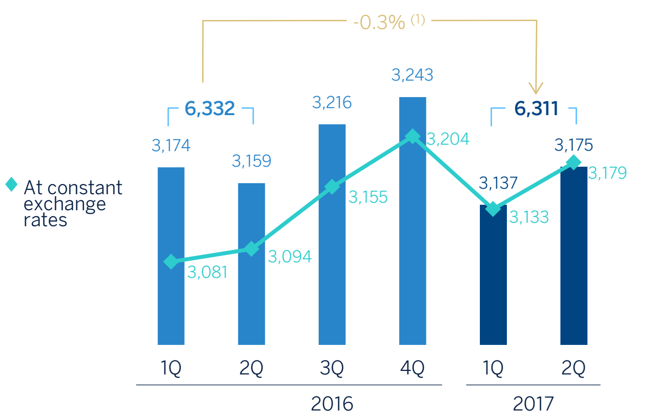
The **dividend income** heading mainly includes dividends from the Group's stake in the Telefónica Group (€53m). The amount is lower than that paid in the second quarter of 2016 as a result of the reduction of the dividend paid by the entity (from €0.4 to €0.2 per share). In 2016 it also included those from CNCB.

Finally, other **operating income and expenses** have grown 97.7% year-on-year as a result of the positive contribution of the insurance business (up 14.4% in the last twelve months) due to the improvement in both written premiums and claims on the same period in 2016. In addition, this line includes the annual contribution of €100m in the second quarter to the Single Resolution Fund (SRF) (€122m in the same period of 2016).

Operating income

The year-on-year increase in **operating expenses** continues limited, and stands at 2.2%. The above is due to the cost discipline implemented in all the areas of the Group through efficiency plans that are beginning to deliver results, and the materialization of some synergies (mainly those resulting from the integration of Catalunya Banc –CX-). By business area there has been a reduction in Spain (where in May 59 branches were closed in addition to the 129 in February), the Rest of Eurasia and the Corporate Center, and an increase close to inflation levels in the rest of the geographic areas.

Operating expenses (Million euros)

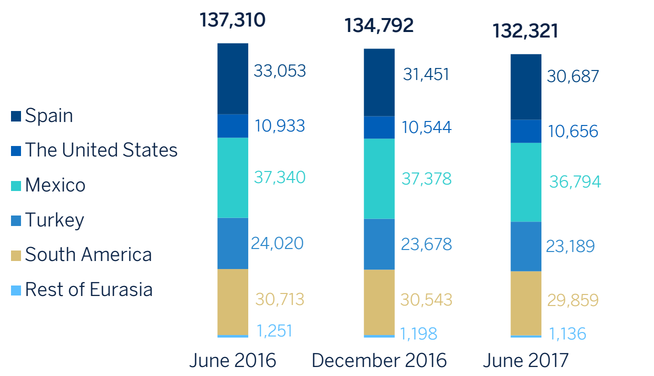


(1) At constant exchange rates: +2.2%.

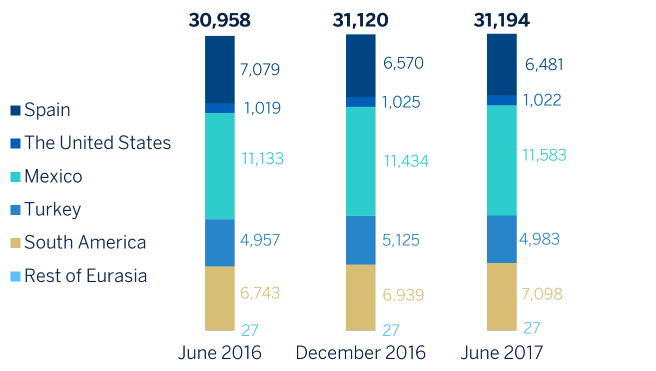
Breakdown of operating expenses and efficiency calculation (Million euros)

	1H17	Δ%	1H16
Personnel expenses	**3,324**	**(0.0)**	**3,324**
Wages and salaries	2,590	0.1	2,587
Employee welfare expenses	478	(1.0)	482
Training expenses and other	256	0.5	255
Other administrative expenses	**2,275**	**(1.9)**	**2,319**
Property, fixtures and materials	528	(3.4)	547
IT	499	4.6	477
Communications	149	(1.4)	151
Advertising and publicity	186	(9.3)	205
Corporate expenses	51	(1.9)	52
Other expenses	625	(5.2)	659
Levies and taxes	237	4.0	228
Administration costs	**5,599**	**(0.8)**	**5,644**
Depreciation	**712**	**3.4**	**689**
Operating expenses	**6,311**	**(0.3)**	**6,332**
Gross income	**12,718**	**4.0**	**12,233**
Efficiency ratio (operating expenses/gross income; %)	**49.6**		**51.8**

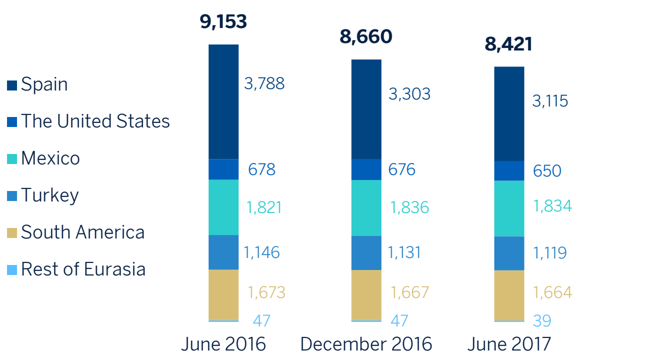
Number of employees



Number of ATMs

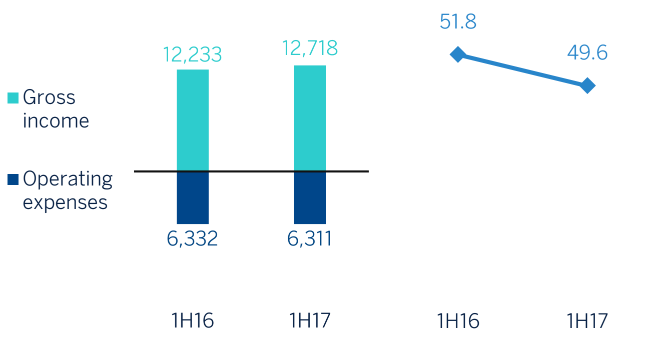


Number of branches

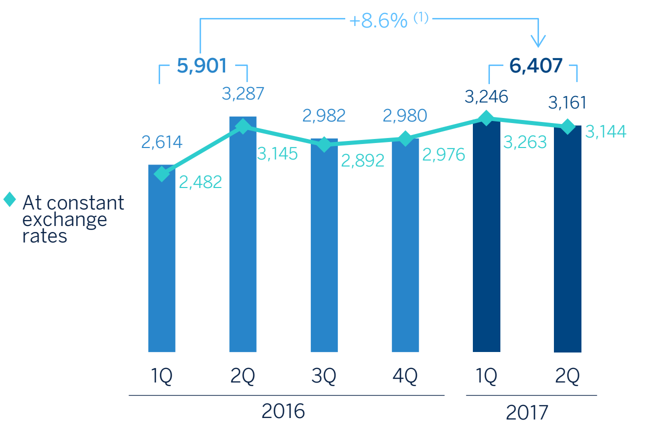


As a result of the above, the **efficiency** ratio stands at 49.6% (51.8% in the first half of 2016 and 51.9% for the whole of 2016), and the **operating income** has risen 13.9% in the last twelve months.

Efficiency (Million euros) and efficiency ratio (Percentage)

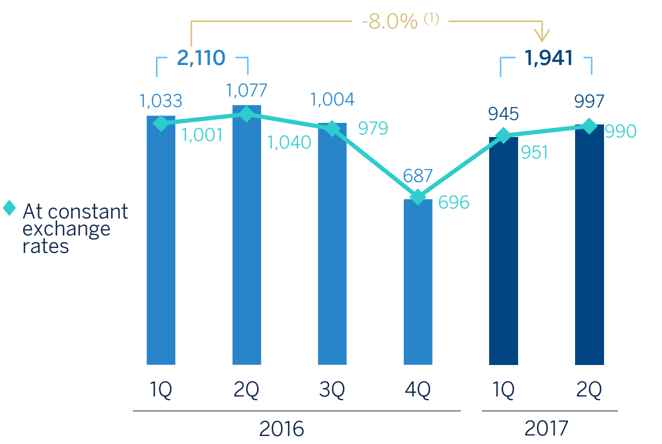


Operating income (Million euros)



(1) At constant exchange rates: +13.9%.

Impairment on financial assests (net) (Million euros)



(1) At constant exchange rates: -4.9%.

Provisions and other

Impairment losses on financial assets totaled €1,941m in the first half of the year, below the amount for the first six months of last year. By areas there was a year-on-year reduction in Spain, where the loan-loss provisioning requirements were lower; the United States, as in the first quarter of the previous year provisions were included following the rating downgrades of some companies belonging to the energy and metal & mining sectors; and, to a lesser extent, Turkey. In contrast, Mexico and South America have reported increases over the last twelve months, largely related to the increase in lending activity, and to a lesser extent, to the impact of increased requirements for insolvency provisions associated with some wholesale customers customers in the case of South America.

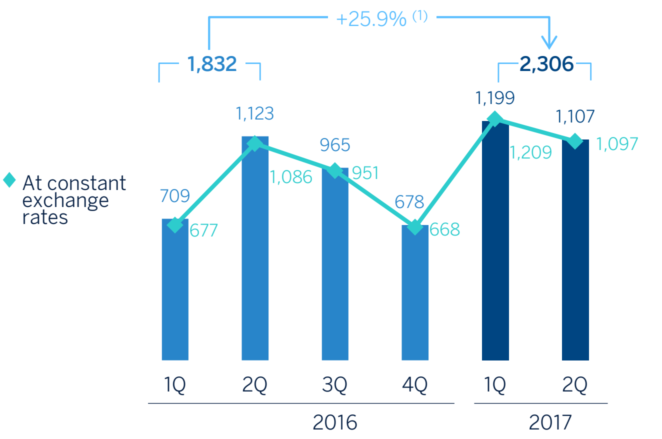
Finally, there was also a slight increase in the allocation to **provisions (net) and other gains (losses)** (up 4.0% year-on-year), which include the provisions for contingent liabilities, contributions to pension funds and provisions for buildings and foreclosed assets, among others. This increase is mainly explained by higher restructuring costs, basically affecting Banking activity in Spain, the area where increasing efficiency is a priority focus.

Results

As a result of the above, the Group's **net attributable profit** has been very positive (up 30.8% year-on-year). 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 made a positive impact of around €54m of less non-controlling interests.

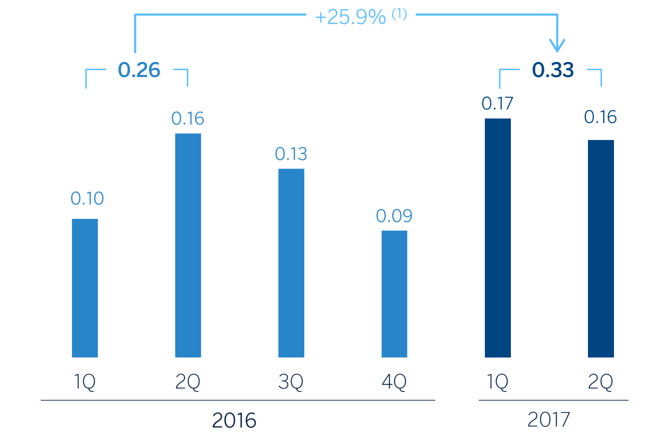
By **business area**, Banking activity in Spain has generated a profit of €670m, Non Core Real Estate generated a loss of €191m, the United States contributed €297m, Mexico €1,080m, Turkey €374m, South America €404m and the Rest of Eurasia €73m.

Net attributable profit (Million euros)



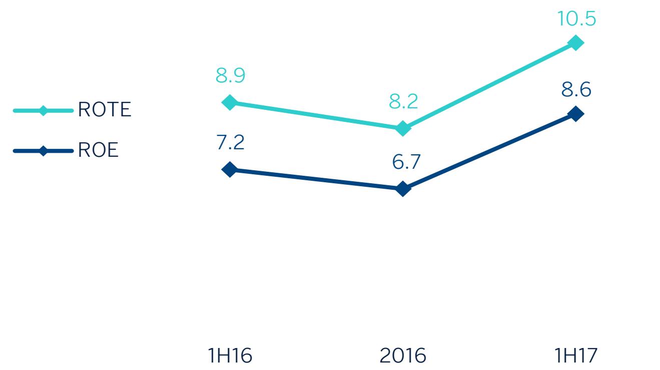
(1) At constant exchange rates: +30,8%.

Earnings per share (1) (Euros)



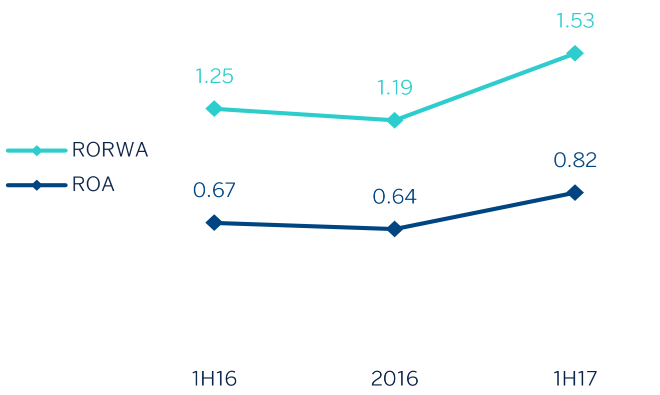
(1) Adjusted by additional Tier 1 instrument remuneration.

ROE y 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 -€4,218m in 1H 2016, -€4,492m in 2016 and -€6,015 in 1H 2017.

ROA y RORWA (Percentage)



Balance sheet and business activity

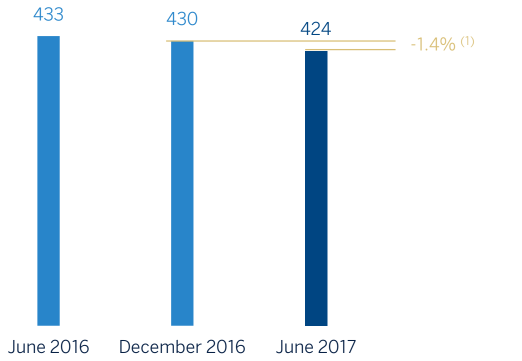
BBVA Group's activity is continuing the trend of previous periods. The key factors behind the balance sheet and activity figures in the **first half of 2017** are summarized below:

- Geographic disparity of **loans and advances to customers** (gross). At the same time as an increase in volumes in emerging geographic areas, there has been deleveraging in Spain, although the rate of decline is steadily falling, largely due to the good performance of new production. In the United States there has been a decline in lending activity this year, following the area's strategy for selective growth in the more profitable portfolios.
- **Non-performing loans** have again declined, mainly due to decreases in Spain, the United States and Turkey.
- In **customer deposits**, increase across the board in the lower-cost items such as current and savings accounts, and a decline in time deposits.
- **Off-balance-sheet funds** have continued to increase, and are still strongly focused on mutual funds and investment companies.

Consolidated balance sheet (Million euros)

	30-06-17	Δ%	31-12-16	30-06-16
Cash, cash balances at central banks and other demand deposits	34,720	(13.3)	40,039	25,127
Financial assets held for trading	68,885	(8.1)	74,950	84,532
Other financial assets designated at fair value through profit or loss	2,230	8.2	2,062	2,148
Available-for-sale financial assets	74,666	(5.8)	79,221	90,638
Loans and receivables	458,494	(1.6)	465,977	470,543
Loans and advances to central banks and credit institutions	38,079	(5.4)	40,268	43,603
Loans and advances to customers	409,087	(1.3)	414,500	415,872
Debt securities	11,328	1.1	11,209	11,068
Held-to-maturity investments	14,531	(17.9)	17,696	19,295
Investments in subsidiaries, joint ventures and associates	1,142	49.3	765	1,131
Tangible assets	8,211	(8.2)	8,941	9,617
Intangible assets	9,047	(7.6)	9,786	9,936
Other assets	30,504	(5.9)	32,418	33,072
Total assets	**702,429**	**(4.0)**	**731,856**	**746,040**
Financial liabilities held for trading	49,532	(9.4)	54,675	58,753
Other financial liabilities designated at fair value through profit or loss	2,437	4.2	2,338	2,501
Financial liabilities at amortized cost	566,021	(3.9)	589,210	597,745
Deposits from central banks and credit institutions	89,002	(9.4)	98,241	101,827
Deposits from customers	394,626	(1.7)	401,465	406,284
Debt certificates	69,513	(9.0)	76,375	75,498
Other financial liabilities	12,880	(1.9)	13,129	14,137
Liabilities under insurance contracts	9,846	7.7	9,139	9,335
Other liabilities	19,866	(5.7)	21,066	21,744
Total liabilities	**647,702**	**(4.2)**	**676,428**	**690,078**
Non-controlling interests	6,895	(14.5)	8,064	8,527
Accumulated other comprehensive income	(6,991)	28.1	(5,458)	(4,327)
Shareholders' funds	54,823	3.8	52,821	51,761
Total equity	**54,727**	**(1.3)**	**55,428**	**55,962**
Total equity and liabilities	**702,429**	**(4.0)**	**731,856**	**746,040**
Memorandum item:				
Guarantees given	47,060	(6.9)	50,540	50,127

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

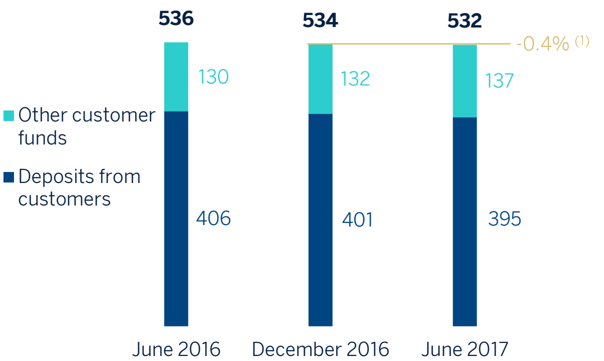


(1) At constant exchange rates: +1.0%.

Loans and advances to customers (Million euros)

	30-06-17	Δ%	31-12-16	30-06-16
Public sector	**27,135**	**(1.3)**	**27,506**	**30,523**
Individuals	**169,948**	**(1.5)**	**172,476**	**173,240**
Mortgages	118,589	(3.1)	122,439	123,831
Consumer	36,570	3.9	35,195	34,593
Credit cards	14,789	(0.4)	14,842	14,816
Business	**186,203**	**(1.9)**	**189,733**	**186,743**
Business retail	20,146	(17.2)	24,343	24,059
Other business	166,057	0.4	165,391	162,684
Other loans	**19,388**	**8.7**	**17,844**	**18,550**
Non-performing loans	**21,730**	**(5.2)**	**22,915**	**24,212**
Loans and advances to customers (gross)	**424,405**	**(1.4)**	**430,474**	**433,268**
Loan-loss provisions	(15,318)	(4.1)	(15,974)	(17,396)
Loans and advances to customers	**409,087**	**(1.3)**	**414,500**	**415,872**
Memorandum item:				
Secured loans	197,795	(2.0)	201,772	202,778

Customer funds (Billion euros)



(1) At constant exchange rates: +1.8%.

Customer funds (Million euros)

	30-06-17	Δ%	31-12-16	30-06-16
Deposits from customers	**394,626**	**(1.7)**	**401,465**	**406,284**
Demand deposits	239,561	3.4	231,638	219,675
Time deposits	130,752	(9.5)	144,407	154,886
Assets sold under repurchase agreement	11,858	7.3	11,056	16,701
Other deposits	12,455	(13.3)	14,364	15,021
Other customer funds	**137,044**	**3.7**	**132,092**	**130,177**
Mutual funds and investment companies	59,905	8.8	55,037	53,487
Pension funds	33,412	(0.0)	33,418	32,033
Other off-balance sheet funds	3,217	13.6	2,831	3,370
Customer portfolios	40,510	(0.7)	40,805	41,287
Total customer funds	**531,670**	**(0.4)**	**533,557**	**536,460**

Solvency

Capital base

BBVA Group's **fully-loaded CET1** ratio stood at 11.1% at the end of June 2017, above the target of 11%. This ratio has increased by 20 basis points so far this year, primarily due to organic earnings generation and a reduction in RWAs.

This ratio was affected by **transactions** carried out during the first quarter of 2017, in particular the acquisition of an additional 9.95% stake in Garanti and the sale of 1.7% in CNCB. Both transactions had a combined negative impact on the ratio of 13 basis points.

RWAs declined to June 30, 2017 relative to December 2016, largely explained by depreciation of currencies against the euro (especially the Turkish lira and the U.S. dollar) and an improvement in the risk profile of the Group's portfolio, particularly the Spanish portfolio. Worth of note in this regard was the €3,000m synthetic securitization agreed on June 2, which covers potential losses on a portfolio of around 15,000 loans to Spanish SMEs. This was arranged through a mezzanine guarantee facility provided by the European Investment Fund (EIF, a subsidiary of the supranational European Investment Bank). This operation enabled the Group to free up €683m in RWAs with a corresponding positive impact on the capital base.

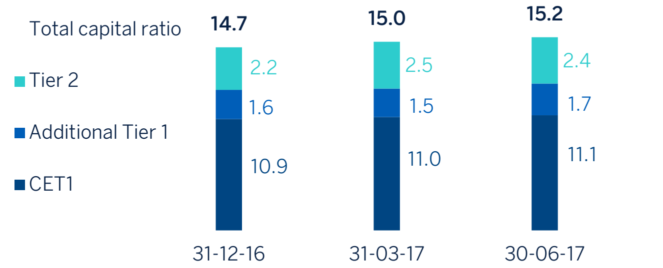
During the first half of 2017, BBVA S.A. **issued** €500m in preferred securities at a coupon of 5.875%. This is classified as additional Tier 1 capital (contingent convertible) under solvency regulation, capable of converting into ordinary BBVA shares, and contributed 13 basis points to the total capital ratio. In addition, BBVA S.A. has undertaken various subordinate capital issues worth a nominal amount of close to €1,500m (of which €168m were issued in the second quarter). Meanwhile, Garanti in Turkey issued $750m in the second quarter. These issues compute as tier 2 capital, having a 50 basis point impact on the total capital ratio during the first half of the year on a phased-in basis (similar in fully-loaded terms).

Finally, the last "**dividend-option**" program was completed in April, with holders of 83.28% of free allocation rights choosing to receive new BBVA shares. 101,271,338 shares were ultimately issued.

The **phased-in CET1** ratio stood at 11.8% at the end of June 2017, with the **Tier 1** ratio reaching 13.0% and the **Tier 2** ratio at 2.5%, resulting in a **total capital ratio** of 15.5%. These levels are above the requirements established by the ECB 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).

Finally, the Group maintains a sound **leverage** ratio: 6.8% under fully-loaded criteria (6.9% phased-in), which compares very favorably with the rest of its peer group.

Evolution of fully-loaded capital ratios (Percentage)



Ratings

On April 3, 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 (on March 31), with both ratings being maintained at BBB+. Furthermore, on July 25, Scope Ratings raised its rating for BBVA by one notch from A to A+, with a stable outlook. So far this year the remaining credit rating agencies have not changed either their rating or outlook for BBVA.

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.

Capital base [1] (Million euros)

	CRD IV phased-in [1]			CRD IV fully-loaded		
	30-06-2017 [2]	31-12-16	30-06-16	30-06-2017 [2]	31-12-16	30-06-16
Common Equity Tier 1 (CET 1)	43,888	47,370	47,559	41,425	42,398	42,227
Tier 1	48,484	50,083	50,364	47,733	48,459	48,264
Tier 2	9,351	8,810	11,742	9,123	8,739	11,922
Total Capital (Tier 1 + Tier 2)	57,835	58,893	62,106	56,855	57,198	60,186
Risk-weighted assets	373,075	388,951	395,085	373,075	388,951	394,063
CET1 (%)	11.8	12.2	12.0	11.1	10.9	10.7
Tier 1 (%)	13.0	12.9	12.7	12.8	12.5	12.2
Tier 2 (%)	2.5	2.3	3.0	2.4	2.2	3.0
Total capital ratio (%)	15.5	15.1	15.7	15.2	14.7	15.3

[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] Preliminary data.

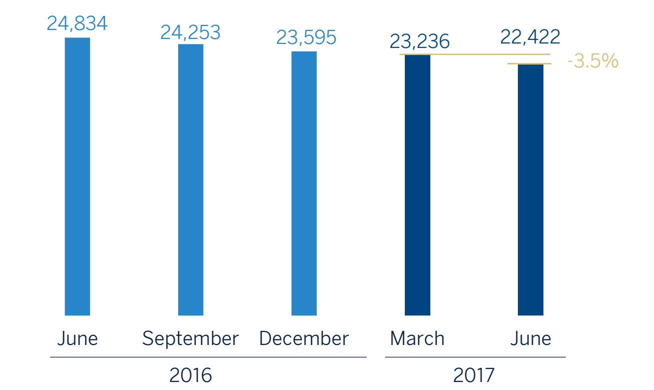
Risk management

Credit risk

BBVA Group has maintained the positive trend in the metrics related to credit risk management in the **semester** (stability in the second quarter):

- **Credit risk** has fallen by around 2%, both over the last six months and in the quarter. At constant exchange rates, the rate of change is up 0.6% year-to-date, and up 0.7% since the close of March 2017. The key factors are: deleveraging in Spain (although the rate of decline has eased steadily); the United States; and, due to the exchange rate effect, South America and Turkey. As for Mexico, the area reported growth.
- **Non-performing loans** continue to decline with respect to the first quarter of the year (down 3.5%) and the close of last year (down 5.0%), due to the positive trend particularly in Spain, the United States and Turkey.
- The Group's **NPL ratio** continues to improve (down 8 basis points over the last three months and down 15 basis points compared with the close of 2016), to finish at 4.8% at the close of June 2017.
- **Loan-loss provisions** have fallen slightly by 3.1% on the figure at the close of March this year (down 1.1% excluding the exchange-rate effect), and 4.2% since December 2016, due to the general declines in all the geographic areas.
- As a result, the NPL **coverage ratio** has closed the half-year at 71%, an improvement of 30 basis points over the last three months and 57 basis points since December 2016.
- Finally, the cumulative **cost of risk** through June stands at 0.92%, practically the same as in the first quarter (0.90%) and 8 points higher than in the previous year.

Non-performing loans (Million euros)



Credit risks [1] (Million euros)

	30-06-17	31-03-17	31-12-16	30-09-16	30-06-16
Non-performing loans and guarantees given	22,422	23,236	23,595	24,253	24,834
Credit risks	471,548	480,517	480,720	472,521	483,169
Provisions	15,878	16,385	16,573	17,397	18,264
NPL ratio (%)	4.8	4.8	4.9	5.1	5.1
NPL coverage ratio (%)	71	71	70	72	74

[1] Include gross loans and advances to customers plus guarantees given.

Non-performing loans evolution (Million euros)

	2Q 17 [1]	1Q 17	4Q 16	3Q 16	2Q 16
Beginning balance	**23,236**	**23,595**	**24,253**	**24,834**	**25,473**
Entries	2,525	2,490	3,000	2,588	2,947
Recoveries	(1,930)	(1,698)	(2,141)	(1,784)	(2,189)
Net variation	**595**	**792**	**859**	**804**	**758**
Write-offs	(1,084)	(1,132)	(1,403)	(1,220)	(1,537)
Exchange rate differences and other	(326)	(18)	(115)	(165)	140
Period-end balance	**22,422**	**23,236**	**23,595**	**24,253**	**24,834**
Memorandum item:					
Non-performing loans	21,730	22,572	22,915	23,589	24,212
Non-performing guarantees given	691	664	680	665	622

[1] Preliminary 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 finance, 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 the **first half of 2017**, liquidity and funding conditions have 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.
- Activity both on the euro balance sheet and in Mexico has continued to generate liquidity, as deposits have shown a positive trend that has led to a narrowing of the credit gap.
- In the United States, the control of the cost of deposits has led to an increase in the credit gap.
- Comfortable liquidity situation in Turkey. Slight increase in the credit gap due to higher lending activity.
- In South America, the liquidity situation remains comfortable, allowing a reduction of the growth of wholesale deposits to match lending activity.
- In addition, BBVA S.A. has accessed the wholesale funding markets for a total of €3.5 billion, using senior debt (€1 billion in the first quarter and €1.5 billion in the second, this last one with a floating coupon) and Tier 2 debt (€1 billion in the first quarter). A number of private issuance transactions of Tier 2 securities have also been closed for around €500m (of which €168m were in the second quarter) and one additional Tier 1 issue for €500m in the second quarter.
- The long-term wholesale funding markets have remained stable in the other geographical areas where the Group operates. It is worth highlighting Garanti's securities issues in Turkey: senior debt for USD 500m in the first quarter; subordinate debt for USD 750m in the second quarter; and guaranteed Turkish lira bonds for an equivalent of €131m, also in the second quarter; as well as the renewal of the syndicated loan (second quarter). In the United States, BBVA Compass has returned to the markets after two years, with a senior debt issue of USD 750m. In Mexico, BBVA Bancomer has carried out two local senior debt issues for a total of €338m at 3 and 5 years. In South America, BBVA Chile has also made two senior issues at 4 and 10 years on the local market for an equivalent of €173m.
- Short-term funding has continued to perform positively, in a context marked by a high level of liquidity.
- As regards the LCR liquidity coverage ratio, BBVA continues at levels of over 100%, clearly higher than demanded by regulations (over 80% in 2017), both at Group level and in all its banking subsidiaries.

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 **first half of 2017** has been marked by:

- Uncertainty with respect to the fiscal and commercial policies of the U.S. administration, which generated a high level of volatility in the case of the Mexican peso, above all in the first three months of 2017.
- The debate on the elimination of negative rates by the European Central Bank (ECB), in view of the improvement in macroeconomic data.
- Activation of the process for the United Kingdom's exit from the European Union (Brexit).
- The results of the French elections.
- The Federal Reserve's (FED) interest rate hike.
- The result of the constitutional referendum in Turkey and the action by the Turkish Central Bank (CBRT).
- The rise in interest rates by the Central Bank of Mexico (Banxico) and the more constructive discussions in relation to the North American Free Trade Agreement (NAFTA).

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 2017 and around 70% of the excess CET1 capital ratio (which is not naturally covered by the ratio itself). In accordance with this policy, at the close of June 2017, 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 limited to less than 2 basis points, and the coverage level of the expected earnings for 2017 in these two countries would be around 60% in Mexico and 50% 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 the **first half of 2017**, the results of this management have been satisfactory, with limited risk strategies aimed at improving profitability.

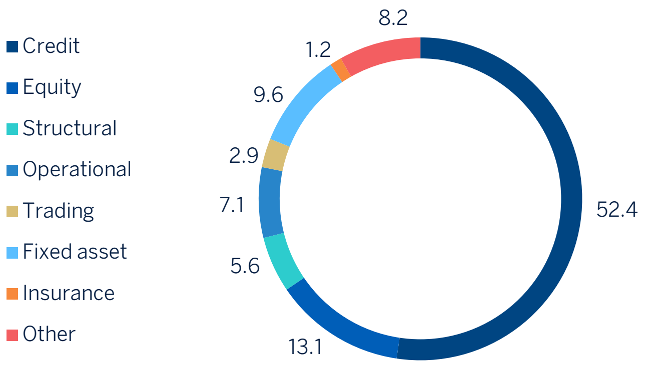
Finally the following is worth noting with respect to the **monetary policies** pursued by the different central banks of the main geographic areas where BBVA operates between January and June 2017:

- No relevant changes in the Eurozone, where rates remain at 0%.
- In the United States the upward trend in interest rates continues, with a rise in March and another in June, to 1.25%.
- In Mexico, Banxico has made a number of interest-rate hikes so far this year, so the monetary policy level at the close of June is 7%.
- In Turkey, the half-year has been marked the CBRT's interest-rate hikes, which have increased the average cost of funding to 11.98%.
- In South America, the monetary authority has lowered rates in Peru (25 basis points), Colombia (125 basis points) and Chile (50 basis points).

Economic capital

Consumption of **economic risk capital** (ERC) at the close of May 2017 stood at €36,066m in consolidated terms, a decline of 2.9% with respect to the figure for February this year (down 0.9% at constant exchange rates). This fall is due to credit risk (mainly in Spain) and equity risk due to goodwill (as a result of the depreciation of the dollar against the euro over the quarter), offset partly by an increase in structural exchange-rate risk (due to currency fluctuations), interest-rate risk and investment risk (the latter mainly the result of the increase in the stake in Testa Residencial).

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



The BBVA share

Global growth has continued to give signs of improvement in the first half of 2017. The most recent figures also suggest some stabilization looking forward. The general improvement in confidence and global trade are underpinning the economic acceleration. In addition, central banks are continuing their support and there is relative calm in the financial markets. Performance in the developed economies continues to be positive, above all in Europe. In contrast, in Latin America recent trends suggest moderate growth, although with differences between the countries. In China, growth is expected to slow in the coming months. As a result of the above, global growth could be around 3.3% in 2017, according to BBVA Research estimates.

Against this backdrop, the main **stock market indices** delivered positive results in the first half of the year. This was the result of a strong boost from general rises in the first quarter, and a second quarter in which performance was mixed (slight losses in Europe, stability in Spain and gains in the United States). In this respect, in Europe, the Stoxx 50 has gained 3.7% since December 2016, while the Euro Stoxx 50 gained 4.6%; and in Spain, the Ibex 35 also increased by 11.7%. The S&P 500, which tracks the share prices of U.S. companies, also performed positively, registering a 8.2% rise.

The **banking sector**, in Europe in particular, has outperformed the general market indices in the first six months of the year. The European Stoxx Banks index, which includes British banks, gained 7.1%, while the Eurozone bank index, the Euro Stoxx Banks, gained 11.5%. In contrast, in the United States, the S&P Regional Banks sector index performed worse than the market with a downturn of 1%.

The **BBVA share** remained stable in the last quarter, closing June at €7.27, with a gain of 13.3% since December 2016, representing a relatively better performance than the European banking sector and the Ibex 35.

BBVA share evolution compared with European indices
(Base indice 100=30-06-2016)

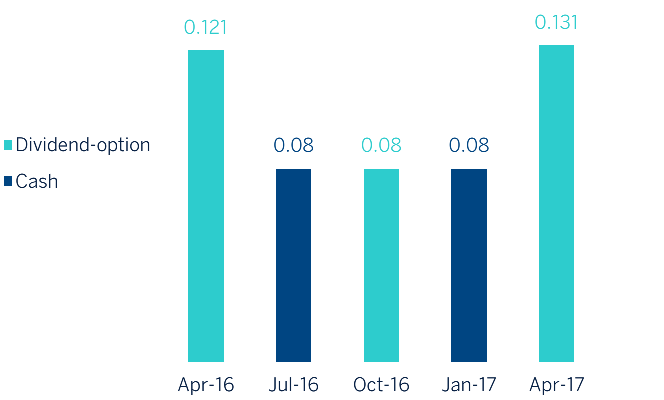
The BBVA share and share performance ratios

	30-06-17	31-12-16
Number of shareholders	910,330	935,284
Number of shares issued	6,667,886,580	6,566,615,242
Daily average number of shares traded	42,015,051	47,180,855
Daily average trading (million euros)	286	272
Maximum price (euros)	7.89	6.88
Minimum price (euros)	5.92	4.50
Closing price (euros)	7.27	6.41
Book value per share (euros)	7.18	7.22
Tangible book value per share (euros)	5.82	5.73
Market capitalization (million euros)	48,442	42,118
Yield (dividend/price; %) [1]	5.1	5.8

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

As regards **shareholder remuneration**, the last "dividend-option" was paid in April 2017, with 83.28% of the holders of free assignment rights choosing to receive new shares. Looking forward, in line with the significant event published on February 1, 2017, BBVA intends to distribute between 35% and 40% of profits obtained each year fully in cash. This shareholder remuneration 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.

Shareholder remuneration
(Euros-gross-/share)



As of June 30, 2017, the number of BBVA **shares** amounted to 6,678 million, and the number of **shareholders** was 910,330. Residents in Spain hold 43.57% of the share capital, while the percentage owned by non-resident shareholders stands at 56.43%.

Shareholder structure (30-06-2017)

	Shareholders		Shares	
Number of shares	Number	%	Number	%
Up to 150	190,209	20.9	13,500,956	0.2
151 to 450	187,471	20.6	51,197,762	0.8
451 to 1,800	285,001	31.3	276,805,556	4.2
1,801 to 4,500	129,868	14.3	370,167,831	5.6
4,501 to 9,000	60,339	6.6	380,397,359	5.7
9,001 to 45,000	50,891	5.6	886,690,865	13.3
More than 45,001	6,551	0.7	4,689,126,251	70.3
Total	**910,330**	**100.0**	**6,667,886,580**	**100.0**

BBVA **shares** are traded on the Continuous Market of the Spanish Stock Exchanges and also on the stock exchanges in London and Mexico. BBVA American depositary shares (ADS) are traded on the New York Stock Exchange and on the Lima Stock Exchange (Peru), under an exchange agreement between these two markets. Among the main stock market indices, BBVA shares are included on the Ibex 35, Euro Stoxx 50 and Stoxx 50, with a weighting of 8.88%, 2.08% and 1.34% respectively. They are also listed on several sector indices, including the Euro Stoxx Banks, with a weighting of 9.08%, and the Stoxx Banks, with a weighting of 4.54%.

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 30-06-2017 [1]

	Listed on the MSCI Global Sustainability indices AAA rating
	Listed on the FTSE4Good Global, FTSE4Good Europe and FTSE4Good IBEX indices
	Listed on the Euronext Vigeo Eurozone 120 and Europe 120 indices
[1]	Included on the Ethibel Excellence Investment Register
	In 2016, BBVA obtained a "B" 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 romotion 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.

Responsible banking

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.

The main **strategic initiatives** related to responsible banking which we are working on are:

- The creation of **lasting and more balanced relationships with our customers** through transparent, clear and responsible communication and financial education included in the solutions that we offer.
- The **full integration of how we do business** through responsible business policies, a reputational risk model, and a people-centric culture throughout the Organization.
- **Promotion of responsible and sustainable growth** through financial inclusion, sustainable finance, support for SMEs and responsible investment.
- **Investment in the community**, with priority for financial education initiatives for society, entrepreneurship, knowledge and other social causes that are relevant from a local point of view.

As regards **financial education**, the 2015 PISA (Program for International Student Assessment) Report on Financial Literacy, drafted by the Organization for Economic Cooperation and Development (OECD) and sponsored by BBVA was presented in Paris. The aim is to determine the level of knowledge and skills of young people for making financial decisions.

In Spain BBVA organizes the program Valores de Futuro (Future Values) to improve the financial literacy of young people and promote the values associated with the good use of money. In its 8th edition, which ended in the second quarter of 2017, a total of 79,356 children aged 6 to 15 took part.

In June, the **2017 EduFin Summit** was held in Mexico City. This is the first annual summit of the Center for Financial Education and Skills that BBVA has launched with the aim of fostering financial knowledge.

In 2017, to celebrate the 10th anniversary of the **BBVA Microfinance Foundation** it 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. Over these ten years, the Microfinance Foundation granted more than USD 8.2 billion in loans to vulnerable entrepreneurs. It has become one of the philanthropic initiatives with the biggest social impact in Latin America, with 1.8 million customers and an estimated indirect impact on the lives of 7.3 million people. Around 60% of recipients of the Foundation's loans are women. Women have a long way to go in Latin America to end inequality. This has been the main conclusion of the Foundation during its presentation at the biggest intergovernmental meeting of the United Nations (UN) on gender equality and women's empowerment: the 61st session of the Commission on the Status of Women (CSW61).

As part of its promotion of responsible and sustainable growth, BBVA has extended its offer of sustainable finance tools and continues to demonstrate its leadership within the scope of **green finance**. In fact, BBVA has led the first global green syndicated loan arranged in June 2017, in term loan format, for €265m. The deal was underwritten by 11 national and foreign financial institutions and was heavily oversubscribed. This and other formats (green loans, green bonds, etc.) reflect BBVA's commitment to sustainability and green principles.

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 remains basically the same as in 2016:

- **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, finance 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 to those 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. On March 22nd 2017 BBVA completed the acquisition of a 9.95% additional stake in Garanti. Thus, BBVA's total stake in the said entity at present amounts to 49.85%.
- **South America** basically includes BBVA's banking and insurance businesses in the region.
- **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 all 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.

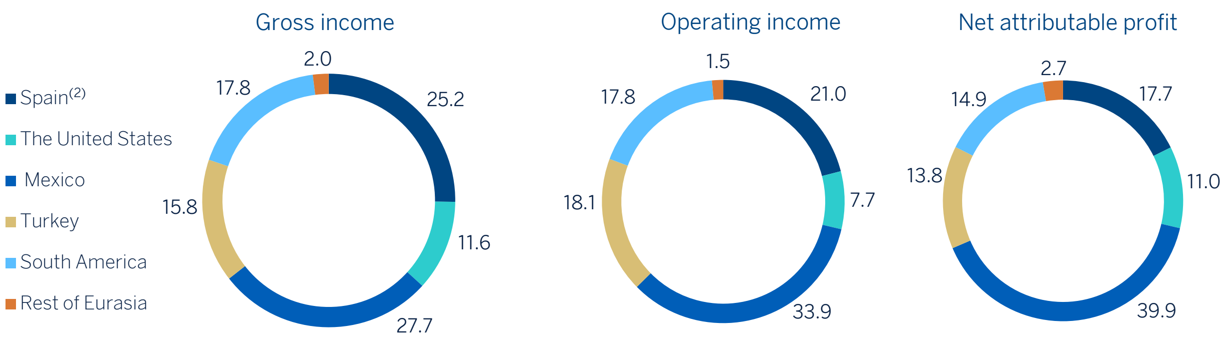
Lastly, as usual, in the case of the Americas, Turkey and CIB areas, the results of applying constant **exchange rates** are given in addition to the year-on-year variations at current exchange rates.

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 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
1H17										
Net interest income	8,803	1,865	31	1,098	2,676	1,611	1,617	95	8,993	(190)
Gross income	12,718	3,201	(6)	1,468	3,507	1,998	2,252	256	12,676	42
Operating income	6,407	1,492	(64)	523	2,309	1,230	1,211	102	6,804	(397)
Profit/(loss) before tax	4,033	943	(241)	405	1,469	1,010	790	104	4,480	(447)
Net attributable profit	2,306	670	(191)	297	1,080	374	404	73	2,707	(401)
1H16										
Net interest income	8,365	1,941	42	938	2,556	1,606	1,441	86	8,610	(245)
Gross income	12,233	3,282	11	1,330	3,309	2,154	1,999	278	12,363	(130)
Operating income	5,901	1,493	(56)	425	2,112	1,321	1,078	110	6,482	(582)
Profit/(loss) before tax	3,391	898	(287)	240	1,300	1,022	804	103	4,079	(688)
Net attributable profit	1,832	621	(207)	178	968	324	394	75	2,352	(520)

Gross income[(1)], operating income[(1)] and net attributable profit breakdown[(1)] (Percentage. 1st Sem. 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
30-06-17										
Loans and advances to customers	409,087	179,920	5,412	55,993	50,425	55,248	45,791	16,298	409,087	-
Deposits from customers	394,626	181,812	47	59,145	54,826	46,780	44,713	7,304	394,626	-
Off-balance sheet funds	96,535	58,891	5	-	21,040	3,913	12,323	363	96,535	-
Total assets/liabilities and equity	702,429	316,003	12,491	80,015	99,233	83,895	73,323	18,807	683,768	18,662
Risk-weighted assets	373,075	107,754	10,298	60,653	48,547	67,270	53,755	14,144	362,420	10,655
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

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			
	2Q	1Q	4Q	3Q	2Q	1Q
Official ECB rate	0.00	0.00	0.00	0.00	0.00	0.04
Euribor 3 months	(0.33)	(0.33)	(0.31)	(0.30)	(0.26)	(0.19)
Euribor 1 year	(0.13)	(0.10)	(0.07)	(0.05)	(0.02)	0.01
USA Federal rates	1.05	0.80	0.55	0.50	0.50	0.50
TIIE (Mexico)	7.06	6.41	5.45	4.60	4.08	3.80
CBRT (Turkey)	11.80	10.10	7.98	7.99	8.50	8.98

Exchange rates (Expressed in currency/euro)

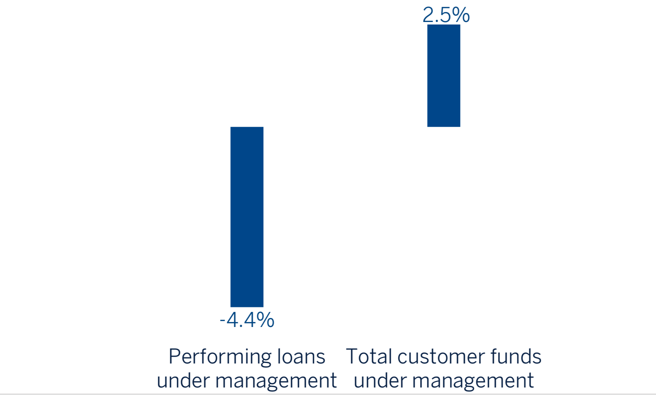
	Year-end exchange rates			Average exchange rates	
	30-06-17	Δ% on 30-06-16	Δ% on 31-12-16	1H17	Δ% on 1H16
Mexican peso	20.5838	0.2	5.8	21.0340	(4.1)
U.S. dollar	1.1412	(2.7)	(7.6)	1.0829	3.1
Argentine peso	18.8080	(12.0)	(11.8)	17.0082	(6.0)
Chilean peso	757.00	(3.0)	(7.1)	714.80	7.6
Colombian peso	3,472.22	(6.8)	(8.9)	3,164.56	10.1
Peruvian sol	3.6974	(1.3)	(4.5)	3.5447	6.4
Venezuelan bolivar	4,310.34	(72.8)	(56.1)	4,310.34	(72.8)
Turkish lira	4.0134	(20.1)	(7.6)	3.9388	(17.3)

Banking activity in Spain

Highlights

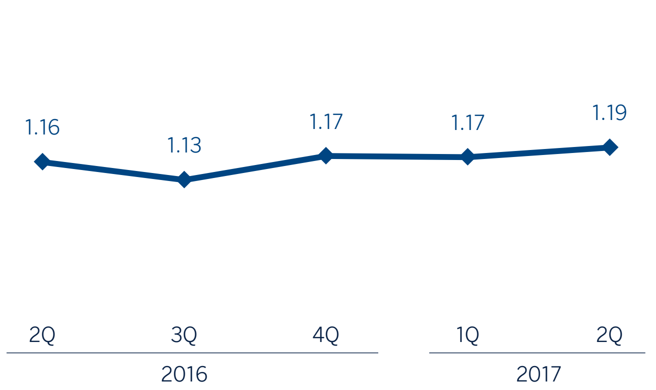
- Less deleveraging affecting lending, decline in time deposits and increase in more liquid customer deposits and mutual funds.
- Good performance of fees and commissions.
- Positive trend in operating expenses.
- Restructuring costs booked to improve efficiency.
- Stability of risk indicators.

Business activity (1)
(Year-on-year change. Data as of 30-06-2017)

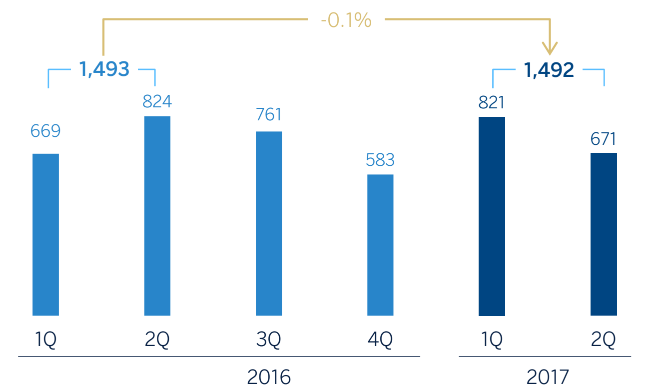


(1) Excluding repos.

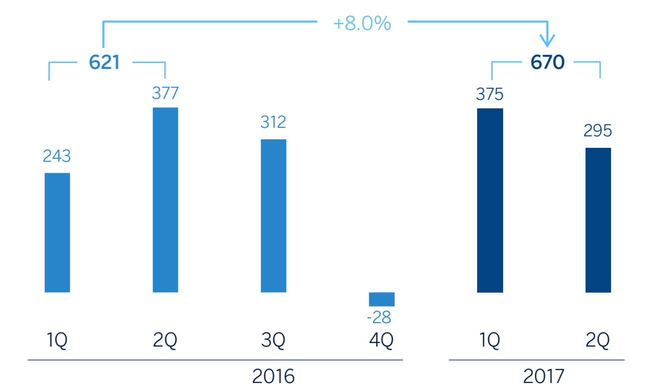
Net interest income/ATA
(Percentage)



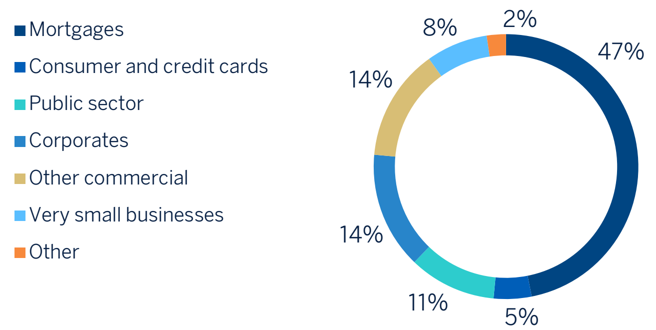
Operating income
(Million euros)



Net attributable profit
(Million euros)

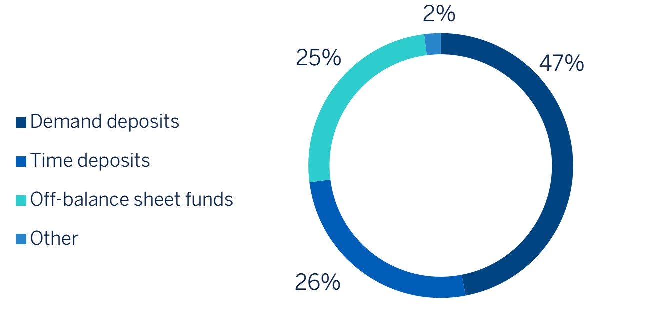


Breakdown of performing loans under management (1)
(30-06-2017)



(1) Excluding repos.

Breakdown of customer funds under management (1)
(30-06-2017)



(1) Excluding repos.

Macro and industry trends

According to the latest data from the National Institute for Statistics (INE), the Spanish **economy** picked up again in the first quarter of 2017, with quarterly GDP growth of 0.8%. In addition, the data available to date suggest that it could have continued to gain some traction in the second quarter. This performance is supported by the improvement in investment and exports, despite the uncertainty generated by Brexit, while a lower contribution is expected from household consumption and tighter control of spending by public administrations. As a result, GDP growth could be more than 3% in 2017, according to estimates by BBVA Research.

In the Spanish **financial system**, the private residential sector continues its deleveraging, but the rate is slowing. Total domestic private-sector lending fell by 2.1% in year-on-year terms according to Bank of Spain data through March 2017, even though new lending to households and SMEs, has risen for 41 consecutive months (from January 2014 to May 2017). New lending to the retail sector increased by 3.5% in year-on-year terms, with cumulative figures through May 2017. Total new lending has grown by 1.3% in the same period, despite the decline in new lending to large companies (down 2.4%) and the fall in mortgage loans (down 9.4%). Asset quality indicators in the system continue to improve. The sector NPL ratio stood at 8.8% in March, 116 basis points below the previous year, on the back of a significant reduction in non-performing loans (down 13.5% year-on-year and 43% down on the high of December 2013). The system's profitability began to recover to more positive levels in the first quarter of 2017, after the decline in the last quarter of last year, due partly to the increase in provisions linked to the Court of Justice of the European Union ruling on floor clauses. As a result, the sector ROE closed March 2017 at 6.2%. The liquidity position of Spanish institutions is good. The funding gap (difference between loans and deposits) is currently at an all-time low, at under 4.5% of the total balance. Finally, May 2017 data show that banks increased their recourse to ECB liquidity by 36% over the last twelve months, taking advantage of the final TLTRO (targeted longer-term refinancing operations) auctions.

Financial statements and relevant business indicators
(Million euros and percentage)

Income statement	1H17	Δ%	1H16
Net interest income	**1,865**	**(3.9)**	**1,941**
Net fees and commissions	783	3.0	760
Net trading income	318	(18.5)	390
Other income/expenses	235	23.3	191
of which insurance activities [(1)]	227	8.5	209
Gross income	**3,201**	**(2.5)**	**3,282**
Operating expenses	(1,709)	(4.4)	(1,789)
Personnel expenses	(964)	(3.9)	(1,003)
Other administrative expenses	(585)	(6.4)	(625)
Depreciation	(161)	(0.3)	(161)
Operating income	**1,492**	**(0.1)**	**1,493**
Impairment on financial assets (net)	(302)	(40.6)	(509)
Provisions (net) and other gains (losses)	(247)	185.5	(86)
Profit/(loss) before tax	**943**	**5.0**	**898**
Income tax	(271)	(1.7)	(276)
Profit/(loss) for the year	**672**	**7.9**	**622**
Non-controlling interests	(1)	(28.1)	(2)
Net attributable profit	**670**	**8.0**	**621**

(1) Includes premiums received net of estimated technical insurance reserves.

Balance sheets	30-06-17	Δ%	31-12-16
Cash, cash balances at central banks and other demand deposits	11,315	(7.5)	12,230
Financial assets	88,223	(12.1)	100,394
Loans and receivables	208,151	(3.0)	214,497
of which loans and advances to customers	179,920	(0.7)	181,137
Inter-area positions	5,025	7.9	4,658
Tangible assets	1,007	(29.9)	1,435
Other assets	2,283	(13.3)	2,632
Total assets/liabilities and equity	**316,003**	**(5.9)**	**335,847**
Financial liabilities held for trading and designated at fair value through profit or loss	36,244	(10.5)	40,490
Deposits from central banks and credit institutions	55,919	(15.3)	66,029
Deposits from customers	181,812	0.7	180,544
Debt certificates	32,437	(15.4)	38,322
Inter-area positions	-	-	-
Other liabilities	580	(52.5)	1,220
Economic capital allocated	9,013	(2.5)	9,242

Relevant business indicators	30-06-17	Δ%	31-12-16
Loans and advances to customers (gross) [(1)]	179,649	(0.5)	180,595
Non-performing loans and guarantees given	11,536	(2.4)	11,819
Customer deposits under management [(2)]	174,782	(0.0)	174,809
Off-balance sheet funds [(3)]	58,891	4.9	56,147
Risk-weighted assets	107,754	(4.8)	113,194
Efficiency ratio (%)	53.4		55.8
NPL ratio (%)	5.7		5.8
NPL coverage ratio (%)	53		53
Cost of risk (%)	0.34		0.32

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

Activity

Lending (performing loans under management) closed the first half year at €168,450m. This represents an increase of 0.7% on the figure for the close of March 2017, although it is a fall of 0.4% on the close of 2016. There has been a notable performance of commercial loans and consumer finance (up 2.7% and 12.9%, respectively over the last six months), which continue to perform well in terms of new production, with year-on-year growth of 12.8% in commercial and 24.0% in consumer finance. This contrasts with a decline in the residential mortgage and public-sector portfolios (down 3.3% and 1.6%, respectively during this period).

As regards **asset quality**, there has been another decline in net additions to NPL, and together with the trend in lending mentioned above, has left the NPL ratio as of 30-Jun-2017 at 5.7%. The NPL coverage ratio remains at 53%.

Customer **deposits** under management have performed favorably in the last three months (up 1.4%). In the first half, they have maintained similar levels to the close of December 2016. By product, there has been a decrease of 14.7% in time deposits and an increase of 10.5% in current and savings accounts.

Finally, **off-balance-sheet funds** have performed well, with growth of 4.9% over the half-year and 2.4% over the quarter. This performance is largely driven by the progress made by mutual funds (up 8.2% over the half-year and 3.8% over the quarter).

Results

The key highlights of the income statement in the area in the first half of 2017 are as follows:

- 3.9% year-on-year decline in cumulative **net interest income** through June of 2017 as a result of a lower loan volumes and sales of wholesale portfolios, and despite the good management of customer spread.
- Positive performance of **net fees and commissions**, thanks to the positive contribution from the wholesale businesses. They have increased by 3.0% compared with the same period of 2016.
- Contribution from **NTI** is lower than in the first half of the previous year, strongly influenced by the gains from the VISA deal in the second quarter of 2016.
- The **other income/expenses** heading registered an increase of 23.3% year-on-year. A highlight in this category is insurance activity, which has grown by 8.5% thanks to the good performance of earnings from the insurance underwriting margins, strongly linked to the increase in new policies in the period and the low claims ratio. This line also includes the annual contribution of €98m in the second quarter to the Single Resolution Fund (€117m in the same period in 2016).
- Thus the area's **gross income** has declined (down 2.5%), affected mainly by sales of portfolios and the NTI generated in the VISA deal in 2016.
- **Operating expenses** continue to perform well, with a decline of 4.4% compared with the first half of 2016. This reduction is still linked to the synergies related to the integration of Catalunya Banc and the continued implementation of efficiency plans (in May 59 branches were closed in addition to the 129 closed in February).
- As a result, the **efficiency ratio** closed the half year at 53.4% and **operating income** stands at very similar levels to the first six months of 2016.
- **Impairment losses on financial assets** declined by 40.6% year-on-year as a result of reduced provisioning requirements. The cost of risk closed the half-year at 0.34%.
- Finally, the **provisions (net) and other gains (losses)** heading increased significantly, mainly due to higher restructuring costs.

As a result, the **net attributable profit** generated by Banking activity in Spain in the first half of 2017 stands at €670m, a year-on-year increase of 8.0%, strongly influenced by the positive performance of operating expenses and loan-loss provisions.

Non Core Real Estate

Highlights

- **Data related to the Spanish real-estate sector continues its positive trend.**
- **Impulse to the area's strategy, focused on growing sales and reducing stock, while aiming to preserve the economic value of the assets.**
- **Reduction in net exposure and non-performing loans.**
- **Sale of portfolios through the wholesale channel, contribution of land to Testa Residencial and disposal of a significant office building.**

Industry trends

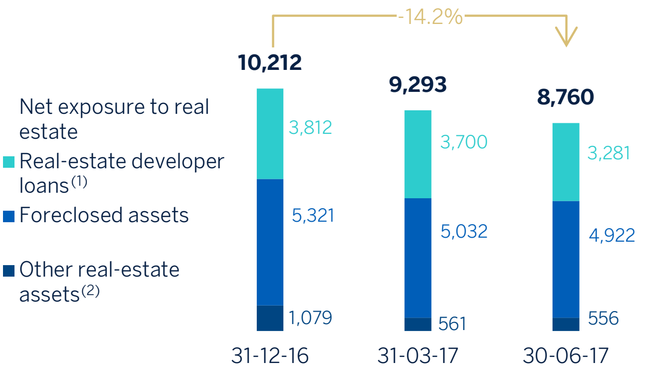
The buoyancy with which the **real-estate sector** in Spain closed 2016 continued into the first half of 2017. Sales continue to increase, which is still being reflected in the price of housing and new starts.

According to the latest available information from the **General Council of Spanish Notaries**, over 212,000 homes were sold in Spain in the first five months of 2017, a year-on-year increase of 14.5%. The rise is based on the positive trend that continues in the determinants of demand, including: growth in employment, increased consumer confidence, low interest rates and expectations of a revaluation of housing in the coming years among other.

Thus the **price** of homes at the close of the first quarter of the year has risen at a year-on-year rate of 5.3%, in accordance with the latest figures from the National Institute for Statistics (INE). This rate of growth is slightly higher than that at the close of the previous quarter (up 4.5%), and maintains the positive trend.

The **mortgage market** retains its momentum. New residential mortgage loans, not including refinancing, have increased year-on-year by 16.8%, according to data from the Bank of Spain corresponding to the first five months of the year. If refinancing is taken into consideration, the new loans have fallen 9.4% year-on-year in the same period.

Net exposure to real-estate (Million euros)



The figures for **construction activity** indicate that new home starts continue to rise, according to data on new approved housing construction permits, which rose at a year-on-year rate of 15.1% in the first four months of 2017, with permits for nearly 25,000 units approved.

Overall, the real-estate market in Spain continues to grow, following the trend begun in 2014. If this trend is maintained, 2017 will be the fourth consecutive year of growth in both sales and home starts and the third in which home prices have risen.

Coverage of real-estate exposure (Million of euros as of 30-06-17)

	Gross Value	Provisions	Net exposure	% Coverage
Real-estate developer loans [1]	**5,872**	**2,590**	**3,281**	**44**
Performing	1,482	34	1,449	2
Finished properties	1,084	23	1,061	2
Construction in progress	236	3	233	1
Land	135	6	129	5
Without collateral and other	27	1	26	4
NPL	4,389	2,557	1,833	58
Finished properties	1,806	880	926	49
Construction in progress	274	156	118	57
Land	1,877	1,202	674	64
Without collateral and other	433	319	114	74
Foreclosed assets	**13,183**	**8,261**	**4,922**	**63**
Finished properties	7,493	4,147	3,346	55
Construction in progress	685	442	243	65
Land	5,005	3,672	1,333	73
Other real-estate assets [2]	**1,135**	**579**	**556**	**51**
Real-estate exposure	**20,190**	**11,431**	**8,760**	**57**

[1] Compared to Bank of Spain's Transparency scope (Circular 5/2011 dated November 30), real-estate developer loans do not include €1.2 Bn (June 2017) mainly related to developer performing loans transferred to the Banking activity in Spain unit.
[2] Other real-estate assets not originated from foreclosures.

Activity

BBVA continues with its strategy of reducing its **exposure** to the real-estate sector in Spain, both in the developer segment (lending to real-estate developers plus foreclosed assets derived from those loans) and in other real-estate assets. As of 30-Jun-2017, the net exposure stood at €8,760m, a fall of 14.2% since December 2016, driven primarily by wholesale transactions during the half year. In addition, it should be mentioned that in the second quarter of 2017 there was a further transfer of the outstanding portfolio of €220m to Banking activity in Spain.

During the first six months of 2017, on top of steady growth in standard retail **sales** there were three notable sales of wholesale real-estate assets portfolios: one of the rental buildings in the service sector for a gross value of close to €300m; another for around 3,400 residential dwellings with a gross value of €357m; and a third that corresponds to the contribution of assets to the subsidiary Testa Residencial of around 1,500 rental units for residential and service-sector use, and for a gross value of €485m. An office building has also been sold for a gross value of €56m. Overall, 14,563 units were sold during the half year at a total sale price of €1,169m. This represents a significant increase on the same period last year, both in the number of units and sales price. The policies and commercial plans established for each asset type will continue in place in 2017 with the aim of accelerating sales and reducing the stock, with specific actions targeted at the product which has spent the longest time on the balance sheet. In addition, work will also be carried out to increase the pace of reducing stock through the sale or contribution of packages of assets to participated real-estate companies or through commercial agreements with developers. The different initiatives under consideration are analyzed on a case-by-case basis, with the goal of preserving the economic value of the assets.

In terms of total real-estate exposure, including outstanding loans to developers, foreclosed assets and other assets, the **coverage** ratio was 57% at the close of the first half of 2017, an improvement of one percentage point on 31-Mar-2017.

Non-performing loans have fallen again, with limited net additions to NPLs over the period and a coverage ratio of 60% as of 30-Jun-2017.

Results

This business area posted a cumulative loss in the first half of 2017 of €191m, compared with a loss of €207m in the same period last year. The highlights of the income statement in this respect are: earnings from sales higher than the first six months of 2016, boosted by the sale of an office building, and the generation of lower net interest income as a result of lower exposure, partly due to the different transfers made of the outstanding portfolio to Banking activity in Spain.

Financial statements (Million euros)

Income statement	1er Sem. 17	Δ%	1er Sem. 16
Net interest income	**31**	**(24.7)**	**42**
Net fees and commissions	2	(1.1)	2
Net trading income	0	n.s.	(0)
Other income/expenses	(40)	21.1	(33)
Gross income	**(6)**	**n.s.**	**11**
Operating expenses	(57)	(13.8)	(67)
Personnel expenses	(31)	(3.3)	(32)
Other administrative expenses	(17)	(20.1)	(21)
Depreciation	(10)	(28.9)	(14)
Operating income	**(64)**	**13.9**	**(56)**
Impairment on financial assets (net)	(89)	5.3	(85)
Provisions (net) and other gains (losses)	(88)	(39.5)	(146)
Profit/(loss) before tax	**(241)**	**(15.8)**	**(287)**
Income tax	49	(38.2)	80
Profit/(loss) for the year	**(192)**	**(7.3)**	**(207)**
Non-controlling interests	1	n.s.	0
Net attributable profit	**(191)**	**(7.6)**	**(207)**

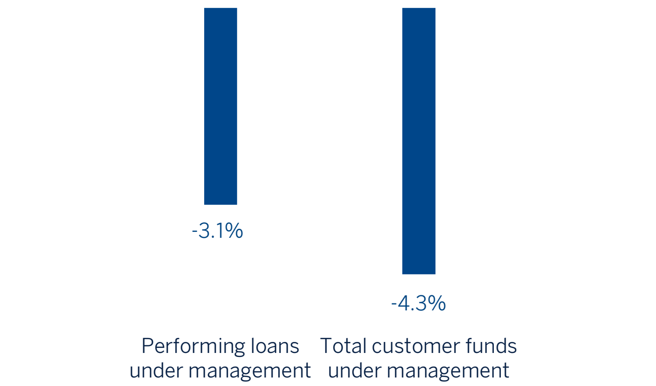
Balance sheet	30-06-17	Δ%	31-12-16
Cash, cash balances at central banks and other demand deposits	12	32.5	9
Financial assets	766	33.3	575
Loans and receivables	5,412	(9.0)	5,946
of which loans and advances to customers	5,412	(9.0)	5,946
Inter-area positions	-	-	-
Tangible assets	350	(24.7)	464
Other assets	5,952	(11.4)	6,719
Total assets/liabilities and equity	**12,491**	**(8.9)**	**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	47	93.5	24
Debt certificates	792	(5.0)	834
Inter-area positions	8,486	(10.9)	9,520
Other liabilities	0	n.s.	(0)
Economic capital allocated	3,167	(5.0)	3,335
Memorandum item:			
Risk-weighted assets	10,298	(5.3)	10,870

The United States

Highlights

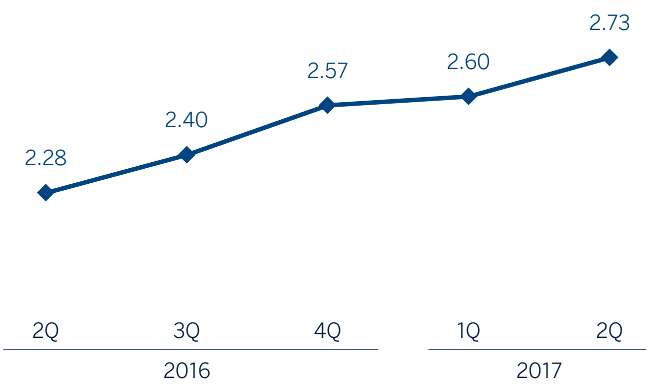
- **Lending continues to focus on selective and profitable growth.**
- **Decline in customer deposits due to good cost management and increased profitability.**
- **Positive performance of more recurring revenues.**
- **Moderation of operating expenses and reduction in the impairment of financial assets.**
- **Stability of risk indicators.**

Business activity (1)
(Year-on-year change at constant exchange rate. Data as of 30-06-2017)

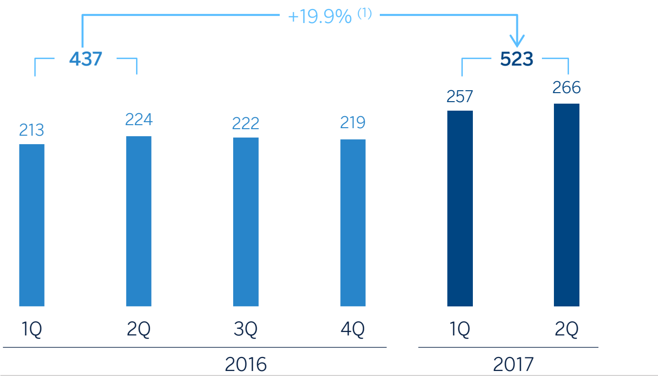


(1) Excluding repos.

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

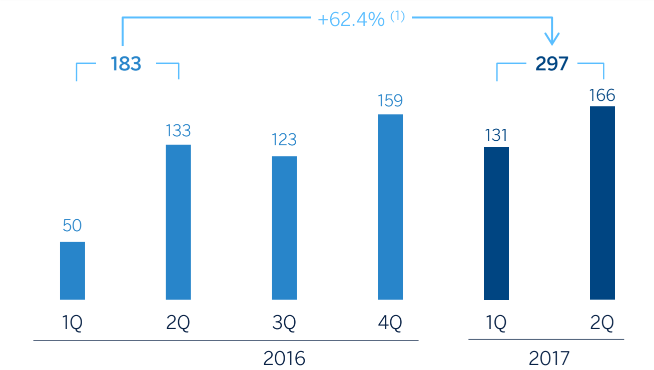


Operating income
(Million euros at constant exchange rate)



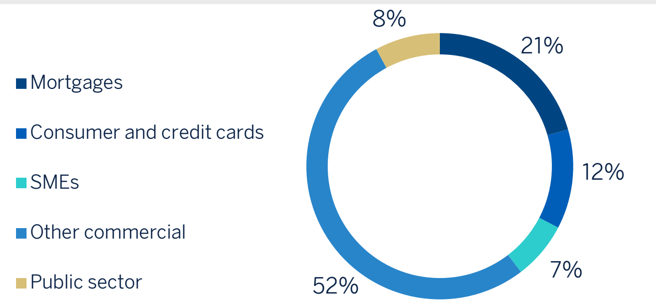
(1) At current exchange rate: +23.3%.

Net attributable profit
(Million euros at constant exchange rate)



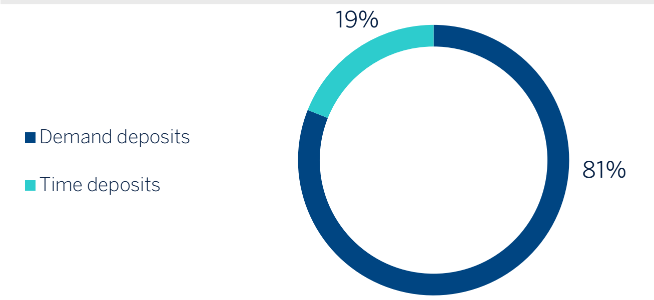
(1) At current exchange rate: +66.4%

Breakdown of performing loans under management (1)
(30-06-2017)



(1) Excluding repos.

Breakdown of customer funds under management (1)
(30-06-2017)



(1) Excluding repos.

Macro and industry trends

According to the latest information from the Bureau of Economic Analysis (BEA), U.S. **GDP** slowed in the first quarter of 2017 to 1.4% in annualized terms. The most recent figures suggest there will be a moderate upturn in the second quarter. Although the sluggish start to the year could raise concerns about the chances of achieving 2% growth for the whole year, there seems to be sufficient capacity for investment, following the slowdown in 2016. The growth forecast by BBVA Research is still above 2% for 2017, supported by a pick-up in investment (the energy sector and residential construction), which should offset the moderation expected in consumption as a result of higher inflation and more gradual improvement in the labor market than expected.

With regard to the **currency** markets in the first half of 2017, the dollar's depreciating trend against the euro heightened in the second quarter of the year. This is primarily a reflection of two factors: the FED's restatement of the gradual normalization of its monetary policy and the lower probability of a fiscal stimulus in the short term in the United States; and also, a stronger than expected economy in Europe so far this year.

The **financial system** continues in good shape overall. According to the FED's latest available data, the system's overall NPL ratio has been on the decline since the first quarter of 2010. At the close of March 2017 it posted a significant fall, dropping below 2% for the first time since 2007. In terms of the total volume of credit, the latest available information as of May 2017 gives moderate year-on-year rates of growth of around 5%. Commercial loans have grown by 0.9%, residential mortgage loans increased by 3.7% and consumer finance by 1.4%. The trend for total deposits in the system continues upward, and as of May 2017 the year-on-year growth was 8.1%.

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.

Financial statements and relevant business indicators
(Million euros and percentage)

Income statement	1H17	Δ%	Δ%[1]	1H16
Net interest income	**1,098**	**17.0**	**13.6**	**938**
Net fees and commissions	338	10.7	7.6	306
Net trading income	55	(40.7)	(42.1)	93
Other income/expenses	(24)	206.0	191.6	(8)
Gross income	**1,468**	**10.4**	**7.3**	**1,330**
Operating expenses	(945)	4.4	1.4	(905)
Personnel expenses	(545)	2.3	(0.6)	(533)
Other administrative expenses	(302)	8.9	5.8	(278)
Depreciation	(97)	3.0	(0.0)	(94)
Operating income	**523**	**23.2**	**19.9**	**425**
Impairment on financial assets (net)	(113)	(23.8)	(26.2)	(149)
Provisions (net) and other gains (losses)	(5)	(86.5)	(86.8)	(36)
Profit/(loss) before tax	**405**	**68.8**	**64.4**	**240**
Income tax	(108)	75.5	70.3	(62)
Profit/(loss) for the year	**297**	**66.4**	**62.4**	**178**
Non-controlling interests	-	-	-	-
Net attributable profit	**297**	**66.4**	**62.4**	**178**

Balance sheets	30-06-17	Δ%	Δ%[1]	31-12-16
Cash, cash balances at central banks and other demand deposits	5,955	(25.2)	(19.0)	7,963
Financial assets	13,374	(8.3)	(0.7)	14,581
Loans and receivables	57,550	(8.6)	(1.0)	62,962
of which loans and advances to customers	55,993	(8.4)	(0.9)	61,159
Inter-area positions	-	-	-	-
Tangible assets	706	(10.2)	(2.8)	787
Other assets	2,430	(6.9)	0.8	2,609
Total assets/liabilities and equity	**80,015**	**(10.0)**	**(2.6)**	**88,902**
Financial liabilities held for trading and designated at fair value through profit or loss	2,296	(20.8)	(14.3)	2,901
Deposits from central banks and credit institutions	4,415	27.1	37.6	3,473
Deposits from customers	59,145	(10.1)	(2.6)	65,760
Debt certificates	2,896	18.4	28.2	2,446
Inter-area positions	2,343	(51.9)	(48.0)	4,875
Other liabilities	5,927	(2.3)	5.8	6,068
Economic capital allocated	2,993	(11.4)	(4.1)	3,379

Relevant business indicators	30-06-17	Δ%	Δ%[1]	31-12-16
Loans and advances to customers (gross) [2]	56,739	(8.5)	(0.9)	62,000
Non-performing loans and guarantees given	776	(20.4)	(13.8)	976
Customer deposits under management [2]	55,529	(12.1)	(4.9)	63,195
Off-balance sheet funds [3]	-	-	-	-
Risk-weighted assets	60,653	(7.4)	0.3	65,492
Efficiency ratio (%)	64.4			68.1
NPL ratio (%)	1.3			1.5
NPL coverage ratio (%)	105			94
Cost of risk (%)	0.38			0.37

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

Lending activity (performing loans under management) continues the trend to moderation which began in the second half of 2015. This trend is based on the area's selective growth strategy in the most profitable portfolios and segments that represent more efficient capital consumption. As a result, there has been a decrease overall in this heading, over the semester (down 1.7%). At the close of June 2017, total balance is similar to the close of March (down 0.3%). By portfolios, growth is still primarily focused on consumer loans (up 0.4% over the first-half and 1.2% in the quarter), and in some categories of commercial loans (commercial real-estate, mortgage-backed loans and above all credit cards).

The main **asset quality** indicators have been stable over the quarter and significantly improved in the first half. The NPL ratio closed at 1.3%, and the NPL coverage ratio at 105%.

Customer **deposits** under management declined (down 4.9% year-on-year and 4.2% in the quarter), strongly influenced by the strategic measures implemented by the area to manage the cost of liabilities and increase profitability.

In terms of **capital**, for the fourth consecutive year that BBVA Compass has been subject to the Comprehensive Capital Analysis Review, the FED did not raise any objections to the capital plan presented by BBVA Compass. BBVA Compass has also passed the stress test carried out under the provisions of the Dodd-Frank Act, with regulatory capital ratios exceeding the required minimums.

Results

The United States has generated a cumulative net attributable **profit** through June 2017 of €297m, far higher than the same period the previous year. The most relevant aspects of the area's income statement are as follows:

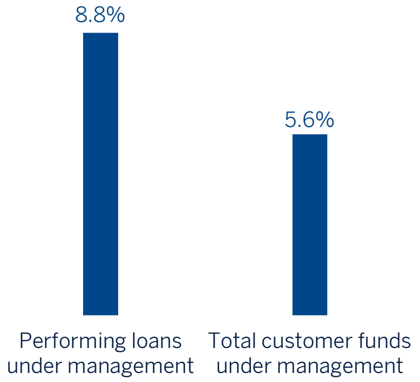
- **Net interest income** continues to perform positively, with a cumulative figure rising by 13.6% year-on-year. This is due to the combined result of the strategic measures adopted by BBVA Compass to improve loan yields and reduce the cost of deposits, as well as the FED's interest-rate hikes.
- Cumulative **Income from fees and commissions** up to June reported an increase of 7.6% due to the good performance of virtually all items.
- Reduction of 42.1% in **NTI** compared with the figure for the same period the previous year. The positive performance of the Global Markets unit, particularly in the first part of the semester, has not been sufficient to offset the capital gains from portfolio sales in the first half of 2016.
- **Operating expenses** reported a slight increase of 1.4% concentrated on administrative expenses, as personnel costs and amortization of intangible assets declined.
- Lastly, **impairment losses on financial assets** were significantly down on the first half of 2016 (down 26.2%), when (above all in the first quarter) provisions were allocated in response to the rating downgrade of some companies operating in the energy (exploration & production) and metal & mining (basic materials) sectors. As a result, the cumulative cost of risk as of 30-Jun-2017 was 0.38%, a clear fall compared with the figure in the same period of 2016 and the first quarter of 2017.

Mexico

Highlights

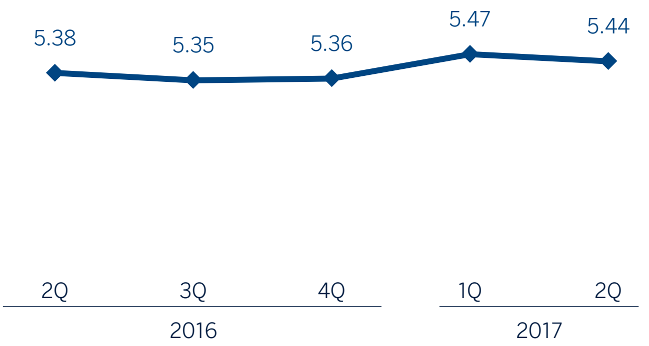
- Growth of lending.
- Good performance of customer funds.
- Costs continue to increase below gross income, and double-digit year-on-year growth in net attributable profit.
- Stable asset quality indicators.

Business activity [(1)]
(Year-on-year change at constant exchange rate. Data as of 30-06-2017)

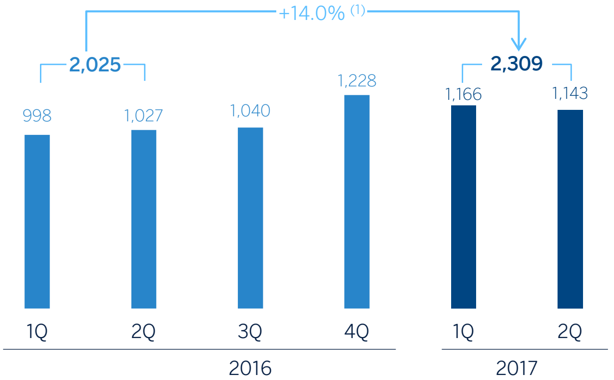


[(1)] Excluding repos.

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

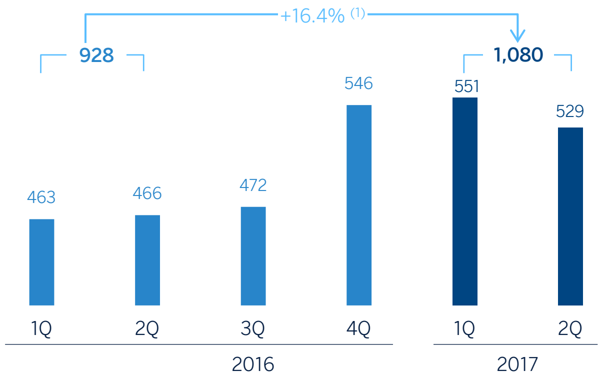


Operating income
(Million euros at constant exchange rate)



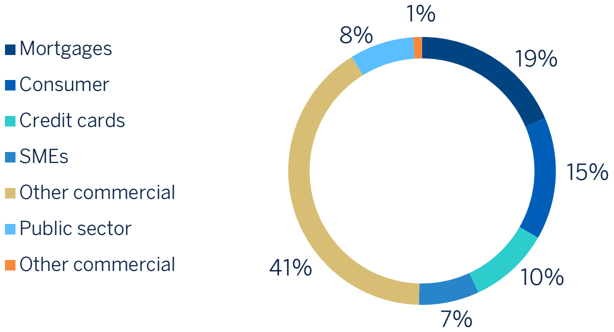
[(1)] At current exchange rate: +9.3%.

Net attributable profit
(Million euros at constant exchange rate)



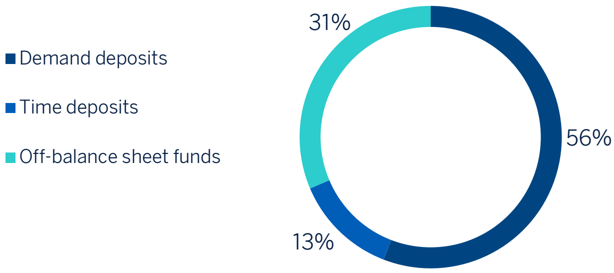
[(1)] At current exchange rate: +11.6%.

Breakdown of performing loans under management [(1)]
(30-06-2017)



[(1)] Excluding repos.

Breakdown of customer funds under management [(1)]
(30-06-2017)



[(1)] Excluding repos.

Macro and industry trends

According to the latest information available from the National Institute of Statistics and Geography, year-on-year **GDP** growth in Mexico was 2.8% in the first quarter of 2017, driven by internal consumption, which could reflect purchase decisions being brought forward in the face of a pick-up in inflation expectations, and more dynamic export growth. On the basis of these results, Banxico has slightly revised up (by 0.2 percentage points) its forecast for growth in 2017, to a range of between 1.5% and 2.5%.

As regards **inflation**, following the increase registered in the first quarter of the year, there are now signs emerging to suggest that it may be leveling out. This is partly due to the **exchange rate** gains in recent months (mainly supported by the perception that any renegotiation of NAFTA will maintain the core elements of the existing trade relationship with the United States). Given this situation, Banxico could be nearing the end of its cycle of interest rate hikes. The main **monetary policy** rate looks set to remain around current levels of 7% until the end of the year.

As has been the case in previous years, the Mexican **financial system** retains very comfortable levels of capital adequacy and asset quality. According to the latest data released by the National Securities Banking Commission (CNBV), the capital ratio stood at 15.3% at the end of April, while the NPL ratio closed May at 2.19% with the NPL coverage ratio exceeding 154%. Nominal year-on-year growth in the loan portfolio in May was similar to growth rates registered during the previous year (up 11.6%). All portfolios contributed to this good performance. Traditional bank deposits (demand and time) rose 11.3% year-on-year in nominal terms, with both categories performing similarly.

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 **loan book** in Mexico (performing loans under management) increased by 2.4% relative to December 2016 and 2.1% in the second quarter of the year, which is an improvement over the behavior observed during the first three months of the year. As a result, BBVA Bancomer maintains its leadership position, with a market share for its performing portfolio of 23.4% (according to the latest local information from the CNBV to the close of May 2017).

Financial statements and relevant business indicators
(Million euros and percentage)

Income statement	1H17	Δ%	Δ% (1)	1H16
Net interest income	**2,676**	**4.7**	**9.2**	**2,556**
Net fees and commissions	595	7.1	11.7	556
Net trading income	117	20.1	25.3	97
Other income/expenses	120	19.2	24.3	101
Gross income	**3,507**	**6.0**	**10.5**	**3,309**
Operating expenses	(1,198)	0.1	4.3	(1,198)
Personnel expenses	(520)	0.2	4.5	(519)
Other administrative expenses	(549)	(1.5)	2.7	(558)
Depreciation	(129)	6.7	11.2	(121)
Operating income	**2,309**	**9.3**	**14.0**	**2,112**
Impairment on financial assets (net)	(831)	5.5	10.0	(788)
Provisions (net) and other gains (losses)	(8)	(65.4)	(63.9)	(24)
Profit/(loss) before tax	**1,469**	**13.1**	**17.9**	**1,300**
Income tax	(389)	17.4	22.5	(331)
Profit/(loss) for the year	**1,081**	**11.6**	**16.4**	**968**
Non-controlling interests	(0)	(58.6)	(56.8)	(0)
Net attributable profit	**1,080**	**11.6**	**16.4**	**968**

Balance sheets	30-06-17	Δ%	Δ% (1)	31-12-16
Cash, cash balances at central banks and other demand deposits	6,406	23.4	16.7	5,192
Financial assets	31,958	2.2	(3.4)	31,273
Loans and receivables	53,904	12.3	6.2	47,997
of which loans and advances to customers	50,425	8.5	2.6	46,474
Tangible assets	2,017	3.1	(2.6)	1,957
Other assets	4,948	(28.3)	(32.2)	6,900
Total assets/liabilities and equity	**99,233**	**6.3**	**0.5**	**93,318**
Financial liabilities held for trading and designated at fair value through profit or loss	10,390	4.3	(1.4)	9,961
Deposits from central banks and credit institutions	6,628	11.9	5.8	5,923
Deposits from customers	54,826	8.4	2.5	50,571
Debt certificates	8,183	(5.0)	(10.2)	8,611
Other liabilities	15,261	9.5	3.5	13,941
Economic capital allocated	3,945	(8.5)	(13.5)	4,311

Relevant business indicators	30-06-17	Δ%	Δ% (1)	31-12-16
Loans and advances to customers (gross) (2)	51,949	8.5	2.6	47,865
Non-performing loans and guarantees given	1,270	10.2	4.2	1,152
Customer deposits under management (2)	45,980	9.5	3.5	41,989
Off-balance sheet funds (3)	21,040	10.1	4.1	19,111
Risk-weighted assets	48,547	1.4	(4.1)	47,863
Efficiency ratio (%)	34.2			35.4
NPL ratio (%)	2.3			2.3
NPL coverage ratio (%)	126			127
Cost of risk (%)	3.35			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 retail and **wholesale** portfolios remained practically unchanged at the end of June relative to published data through March 31 (51% and 49% respectively). Wholesale lending was up 1.1% on December and 2.4% over the quarter. Business loans continue to perform particularly well, including loans to corporate clients and mid-sized companies, which have risen by 2.6% so far this year, excluding developer loans. Meanwhile lending to housing developers remains on a positive trend since last year, with an increase of 1.8% in the first six months of the year.

The **retail portfolio** has registered growth of 3.6% in the first half of the year and 1.7% over the second quarter. This portfolio continues to be buoyed mainly by lending to SMEs and for auto finance, which rose 9.3% and 7.8% respectively over the last six months. Meanwhile, credit cards declined by 1.5% over the same period, though new production during the first six months of the year rose by 9.8% year-on-year. The mortgage portfolio continues to show the effect of maturities on the overall amount, which increased by 3.6% over the last six months.

These developments in lending have been accompanied by **asset quality** indicators which remained stable relative March 31, 2017 and December 31, 2016. Accordingly, the NPL and NPL coverage ratios stood at 2.3% and 126% respectively at the end of June.

Total **customer funds** (customer deposits under management, mutual funds and other off-balance sheet funds) posted half-year growth of 3.7% (up 2.8% in the second quarter of the year). All products continued to perform positively: current and savings accounts rose 3.6% year-on-year (up 1.7% on the previous quarter), and time deposits grew by 3.4% (up 3.7% 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. Mutual funds registered growth of 3.5% over the half-year and 3.1% over the quarter.

Results

The highlights of the income statement for Mexico for the first half of 2017 are summarized below:

- Positive performance of **net interest income**, with a year-on-year increase of 9.2%, driven primarily by greater activity volumes and the favorable development of customer spreads.
- Good performance of **net fees and commissions**, with growth of 11.7% over the last twelve months. These remain strongly influenced by an increased volume of transactions with credit card customers and fees from online and investment banking.
- Strong growth in **NTI** (up 25.3% year-on-year) thanks to a very good performance from the Global Markets unit in the first part of the year.
- In the **other income/expenses** line (up 24.3% year-on-year), earnings from insurance activity performed strongly, partly due to the change introduced at the end of 2016 relating to the method for calculating mathematical reserves.
- **Operating expenses** continued to grow at a controlled pace (up 4.3% year-on-year) and below the area's gross income growth of 10.5%. As a result, the **efficiency** ratio stood at 34.2% in the first half of 2017.
- **Impairment losses on financial assets** grew by 10.0% year-on-year, slightly more than the increase in the loan-book over the same period (up 8.8%). The above puts the area's cumulative cost of risk at 3.35%.

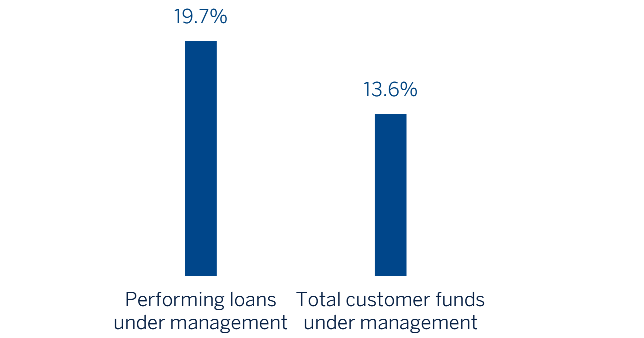
Overall, BBVA in Mexico posted a **net attributable profit** for the first six months of the year of €1,080m, a year-on-year increase of 16.4%.

Turkey

Highlights

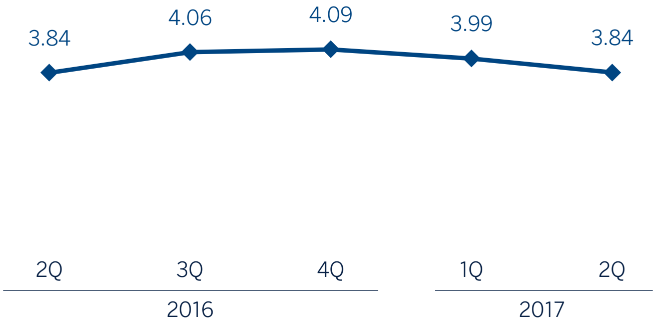
- Solid growth in lending.
- Good performance of deposits, both in Turkish lira and foreign currency, strongly focused on current and savings accounts.
- Very good performance of more recurring revenues, cost discipline and reduction of loan-loss provisions.
- Improvement of the asset quality indicators, which have performed better than in the rest of the sector.

Business activity [(1)]
(Year-on-year change at constant exchange rate. Data as of 30-06-2017)

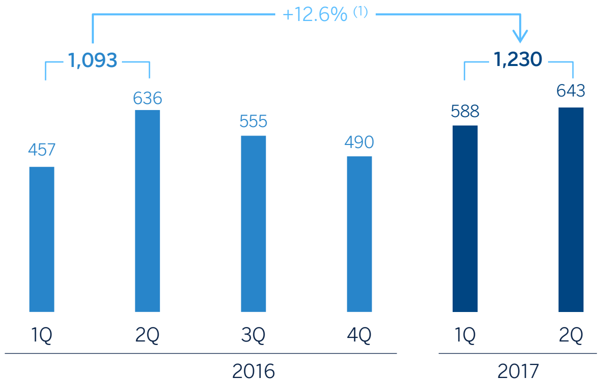


[(1)] Excluding repos.

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

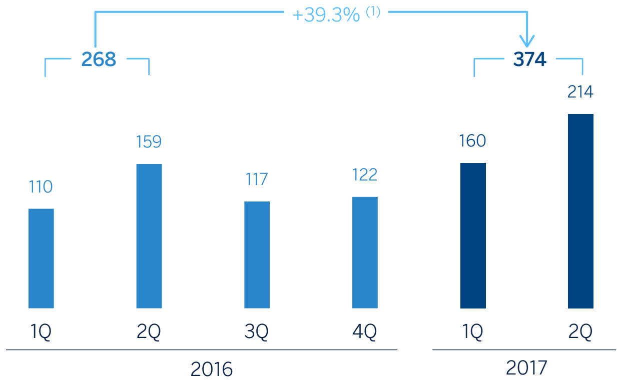


Operating income
(Million euros at constant exchange rate)



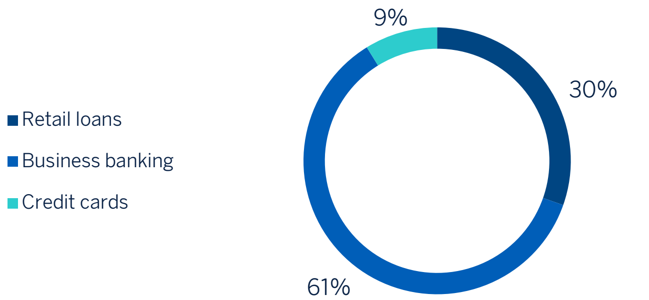
[(1)] At current exchange rate: -6.9%.

Net attributable profit
(Million euros at constant exchange rate)



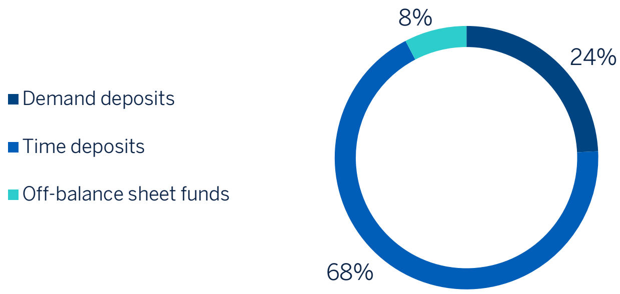
[(1)] At current exchange rate: +15.3%.

Breakdown of performing loans under management [(1)]
(30-06-2017)



[(1)] Excluding repos.

Breakdown of customer funds under management [(1)]
(30-06-2017)



[(1)] Excluding repos.

Macro and industry trends

According to the most recent figures from the Turkish Statistical Institute, Turkey's **economic growth** is accelerating significantly, now standing at 5% in year-on-year terms in the first quarter of 2017, strongly influenced by the fiscal stimulus and solid growth of exports. This acceleration could continue into the second quarter, supported by increased orders, imports of intermediate goods, robust exports, the delayed effects of the significant increase in credit thanks to the Credit Guarantee Fund (CGF), the extension of tax cuts on durable goods, and fiscal expansion. Higher than expected growth in the first quarter, together with signs of stronger private demand, could lead to overall economic growth for 2017 of around 5%, according to BBVA Research estimates.

Despite being still high, **inflation** has fallen to 10.9% (June 2017 data) as a result of movements in food and energy prices. Core inflation has moderated slightly, but given inflationary pressure and possible second-round effects, headline inflation is likely to remain in double-digits until the end of the year.

Against this backdrop, the Central Bank of Turkey (CBRT) has been tightening **monetary policy** since the end of last year, with an increase of around 367 basis points in the average funding rate (from 8.31% to 11.98%) year-to-date. Moreover, the CBRT has declared that this restrictive stance would be maintained until the prospects for inflation show a significant improvement.

The Turkish **financial sector** has again increased the trend in year-on-year credit growth at the end of the first half of 2017, according to CBRT data. Adjusted for the effect of the depreciation of the lira, this rise is 17.6% to June 30, due basically to commercial lending fostered by the Government's CGF. Deposit gathering has been fairly strong (also according to CBRT information), with a year-on-year growth of 12.1%, according to data at the close of June, and also adjusted for the exchange-rate effect. Turkish-lira deposits grew by 5% and foreign-currency deposits by 16%. As a result of the rapid expansion of credit, interest rates on deposits have grown by around 180 basis points in the second quarter. Finally, the NPL ratio in the system remains at 3.05%, according to the latest available information from the CBRT as of June 30.

Financial statements and relevant business indicators
(Million euros and percentage)

Income statement	1H17	Δ%	Δ% (1)	1H16
Net interest income	**1,611**	**0.3**	**21.3**	**1,606**
Net fees and commissions	352	(10.3)	8.4	392
Net trading income	9	(93.0)	(91.6)	128
Other income/expenses	26	(7.0)	12.3	28
Gross income	**1,998**	**(7.2)**	**12.1**	**2,154**
Operating expenses	(768)	(7.8)	11.4	(833)
Personnel expenses	(407)	(7.0)	12.4	(438)
Other administrative expenses	(267)	(12.8)	5.4	(307)
Depreciation	(93)	5.5	27.5	(88)
Operating income	**1,230**	**(6.9)**	**12.6**	**1,321**
Impairment on financial assets (net)	(239)	(20.7)	(4.2)	(301)
Provisions (net) and other gains (losses)	18	n.s.	n.s.	1
Profit/(loss) before tax	**1,010**	**(1.1)**	**19.5**	**1,022**
Income tax	(201)	(1.0)	19.7	(203)
Profit/(loss) for the year	**809**	**(1.2)**	**19.4**	**819**
Non-controlling interests	(436)	(11.9)	6.4	(495)
Net attributable profit	**374**	**15.3**	**39.3**	**324**

Balance sheets	30-06-17	Δ%	Δ% (1)	31-12-16
Cash, cash balances at central banks and other demand deposits	1,917	(29.6)	(23.8)	2,724
Financial assets	12,264	(10.3)	(2.9)	13,670
Loans and receivables	66,420	2.5	10.9	64,814
of which loans and advances to customers	55,248	(0.7)	7.6	55,612
Tangible assets	1,385	(3.1)	4.9	1,430
Other assets	1,909	(14.3)	(7.3)	2,229
Total assets/liabilities and equity	**83,895**	**(1.1)**	**7.0**	**84,866**
Financial liabilities held for trading and designated at fair value through profit or loss	615	(39.0)	(33.9)	1,009
Deposits from central banks and credit institutions	13,210	(2.1)	6.0	13,490
Deposits from customers	46,780	(1.0)	7.2	47,244
Debt certificates	8,649	9.4	18.4	7,907
Other liabilities	11,896	(7.7)	(0.1)	12,887
Economic capital allocated	2,745	17.8	27.6	2,330

Relevant business indicators	30-06-17	Δ%	Δ% (1)	31-12-16
Loans and advances to customers (gross) (2)	57,527	(0.7)	7.5	57,941
Non-performing loans and guarantees given	1,766	(10.9)	(3.6)	1,982
Customer deposits under management (2)	47,196	(0.6)	7.6	47,489
Off-balance sheet funds (3)	3,913	4.3	12.9	3,753
Risk-weighted assets	67,270	(4.4)	3.5	70,337
Efficiency ratio (%)	38.4			40.8
NPL ratio (%)	2.5			2.7
NPL coverage ratio (%)	135			124
Cost of risk (%)	0.84			0.87

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

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%, which 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.

The solid growth of **lending activity** (performing loans under management) in the area in the first quarter of 2017 has continued into the second quarter. The total portfolio has accelerated its growth rate so far this year to 8.0%, boosted once more by the Turkish lira loans. The trend in foreign-currency loans continues to be muted. By segments, business banking loans and consumer loans continue to perform favorably. The CGF program, backed by the Turkish Treasury to boost business loans, continues to contribute positively to the increase in lending, above all in Turkish lira. In addition, favorable trend in mortgage loans and general purpose loan portfolios cotinues but with price discipline at the same time. It is worth noting that Garanti is strengthening its market position in the credit card segment, mainly due to the increase in commercial credit cards. Overall, the bank is maintaining its leading position in consumer lending, mortgages, auto loans and company credit cards.

In **asset quality**, the NPL ratio fell to 2.5%, well below the sector average, and the NPL coverage ratio climbs to 135%.

Customer **deposits** remain the main source of funding for the balance sheet in the area, with their proportion growing to 56% of total liabilities and growth of 7.6% in the last six months. Deposits in both Turkish lira and foreign currency are growing. There was a good performance of current and savings accounts, which grew by 9.5% over the first-half. In this regard, it is worth of note that the average balance of low cost deposits (current and savings accounts) in the area as of 30-Jun-2017 represents 26.2% of total balance-sheet deposits (current and savings accounts plus time deposits), well above the sector average (around 21%). The above has a bigger positive effect in Garanti's cost of financing than the sector.

Results

Turkey has generated a cumulative net attributable **profit** through June 2017 of €374m, up 39.3% on the figure in the same period in 2016. The most significant aspects of the year-on-year changes of the income statement are as follows:

- Positive performance of **net interest income** (up 21.3%) due to an increase in activity and good management of customer spreads against a backdrop of high interest rates (adequate liability mix with higher weighting of low cost products and rising of loan yields). In addition, the upward revision of inflation expectations from 7% to 9% used for the valuation of CPI linker bonds has had a positive contribution of €24m in this line.

- **Income from fees and commissions** continues to perform well (up 8.4%), thanks to good diversification (payment systems, money transfers, loans, insurance, etc.). This positive performance is achieved despite the lower generation of fees for account maintenance due to the suspension of charges in the retail segment implemented by the Turkish Council of State in January 2016, and the high revenues generated in the same period of 2016 by the Miles & Smiles program.

- Reduction of **NTI** (down 91.6%) due mainly to the capital gains generated in the first half of 2016 derived from the VISA deal.

- Overall, **gross income** was 12.1% higher than in the first six months of 2016.

- **Operating expenses** continue under control, which have reduced the efficiency ratio to 38.4% (39.8% in the first quarter of 2017 and 40.8% in 2016). Over the quarter this heading fell by 2.4%. However, in the cumulative figure for the half-year there was a year-on-year increase of 11.4%, basically due to the high level of inflation and the impact of the depreciation of the Turkish lira on the cost items denominated in foreign currency.

- A decrease in **impairment losses on financial assets** (down 4.2% year-on-year). As a result, the cost of risk in the area closed the half-year at 0.84%.

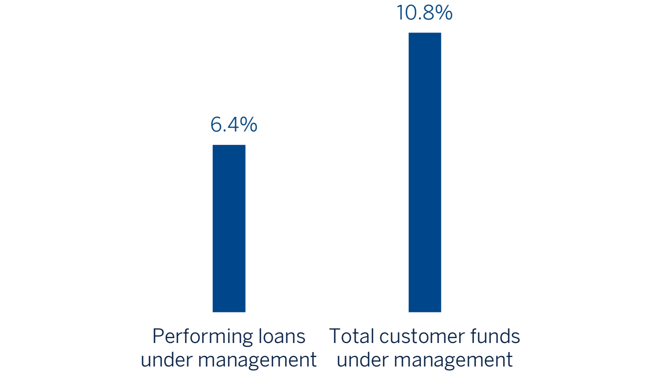
- Finally, BBVA Group's additional stake of 9.95% in Garanti's capital has had a positive effect of approximately €54m of less non-controlling interests heading.

South America

Highlights

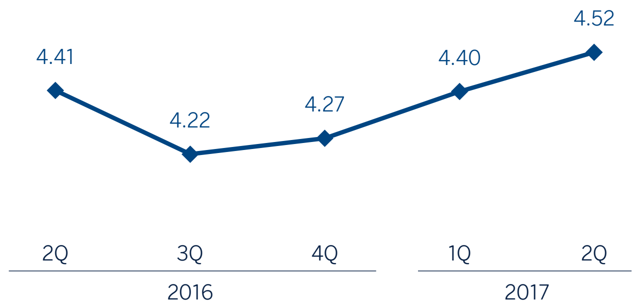
- **Growth of activity in the region continues to moderate, in line with the current macro economic situation.**
- **Customer funds are increasing at a good pace.**
- **Positive trend of more recurring revenues.**
- **Expenses conditioned by the high level of inflation in some countries.**
- **The macroeconomic environment continues to influence the behavior of the risk indicators.**

Business activity [1]
(Year-on-year change at constant exchange rate. Data as of 30-06-2017)

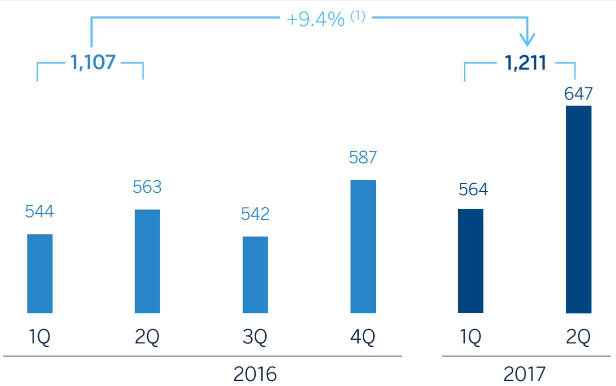


[1] Excluding repos.

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

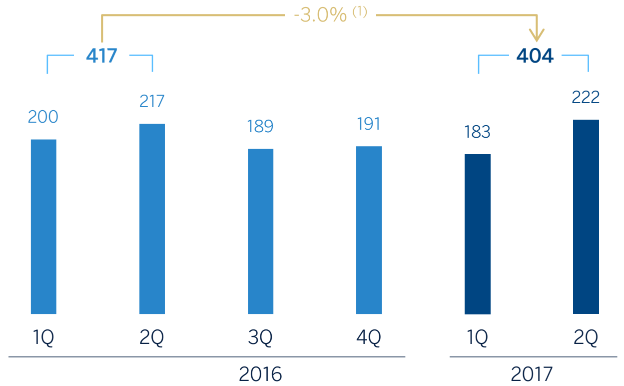


Operating income
(Million euros at constant exchange rate)



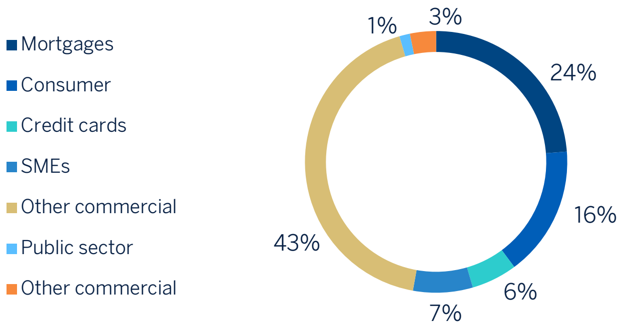
[1] At current exchange rate: +12.4%.

Net attributable profit
(Million euros at constant exchange rate)



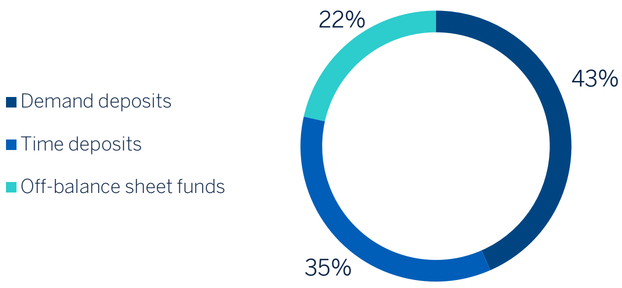
[1] At current exchange rate: +2.7%.

Breakdown of performing loans under management [1]
(30-06-2017)



[1] Excluding repos.

Breakdown of customer funds under management [1]
(30-06-2017)



[1] Excluding repos.

Macro and industry trends

South America is emerging from a weak cyclical position. In recent years, the region has seen a contraction in **activity** caused mainly by declining external demand and commodity prices (the latter has a significant impact on performance) and, more recently, by factors related to political issues. There are currently some signs of a change in trend enabling the region to post modest growth this year, which should consolidate over the coming years. This recovery will be led, above all, by Argentina.

Inflation is slowing in most countries, given the modest depreciation of South American currencies against the dollar and the spare capacity built up following the decline in economic activity in recent years. Accordingly, **monetary policy** is shifting toward a more relaxed stance (except in Argentina), as central banks put greater emphasis on supporting the recovery, in the absence of a clear threat from inflationary pressures.

As regards the **financial systems** within BBVA's regional footprint, the macroeconomic backdrop and reduced levels of banking penetration in these countries in aggregate terms (with obvious differences between countries), is enabling the main indicators of profitability and solvency to remain elevated while limiting non-performing loans. 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 rates, unless expressly stated otherwise. These rates, together with changes at the current exchange rates, can be seen in the attached tables of financial statements and relevant business indicators.

Lending (performing loans under management) increased slightly on the close of December 2016 (up 1.2%), still hampered by weak economic growth in the region, and changes in the portfolios denominated in U.S. dollars (impacted by the depreciation of the dollar against some local currencies). By segments, the strong performance of the individual customer segment (particularly consumer finance and mortgages) offset the moderation in the commercial and public sectors. By country, the fastest growth was in Argentina (up 15.2%), Chile (up 3.8%) and Colombia (up 2.2%). In summary, the loan book grew by 6.4% in the region in year-on-year terms, slowing relative to the end of 2016, but slightly better than growth at March 30, 2017, supported by the credit card and consumer finance portfolios, which both saw double-digit growth in year-on-year terms.

Financial statements and relevant business indicators
(Million euros and percentage)

Income statement	1H17	Δ%	Δ% (1)	1H16
Net interest income	**1,617**	**12.3**	**10.3**	**1,441**
Net fees and commissions	352	17.6	15.3	299
Net trading income	247	(22.7)	(6.0)	319
Other income/expenses	36	n.s.	n.s.	(59)
Gross income	**2,252**	**12.6**	**10.3**	**1,999**
Operating expenses	(1,041)	12.9	11.4	(921)
Personnel expenses	(538)	12.5	10.4	(479)
Other administrative expenses	(442)	11.6	10.6	(396)
Depreciation	(60)	28.6	29.8	(47)
Operating income	**1,211**	**12.4**	**9.4**	**1,078**
Impairment on financial assets (net)	(375)	53.0	46.6	(245)
Provisions (net) and other gains (losses)	(46)	61.2	3.7	(29)
Profit/(loss) before tax	**790**	**(1.8)**	**(2.1)**	**804**
Income tax	(229)	(15.3)	(4.5)	(271)
Profit/(loss) for the year	**560**	**5.1**	**(1.1)**	**533**
Non-controlling interests	(156)	11.9	4.3	(139)
Net attributable profit	**404**	**2.7**	**(3.0)**	**394**

Balance sheets	30-06-17	Δ%	Δ% (1)	31-12-16
Cash, cash balances at central banks and other demand deposits	8,320	(21.4)	(12.2)	10,586
Financial assets	11,953	11.3	20.1	10,739
Loans and receivables	50,533	(6.5)	1.1	54,057
of which loans and advances to customers	45,791	(6.0)	1.7	48,718
Tangible assets	749	(7.2)	5.4	807
Other assets	1,768	2.2	10.9	1,729
Total assets/liabilities and equity	**73,323**	**(5.9)**	**2.2**	**77,918**
Financial liabilities held for trading and designated at fair value through profit or loss	2,372	(8.3)	(1.3)	2,585
Deposits from central banks and credit institutions	6,385	(4.1)	1.8	6,656
Deposits from customers	44,713	(6.7)	1.9	47,927
Debt certificates	7,069	(5.1)	1.7	7,447
Other liabilities	9,876	(6.8)	1.2	10,600
Economic capital allocated	2,909	7.6	18.0	2,703

Relevant business indicators	30-06-17	Δ%	Δ% (1)	31-12-16
Loans and advances to customers (gross) (2)	47,434	(5.7)	2.0	50,316
Non-performing loans and guarantees given	1,834	12.0	19.9	1,637
Customer deposits under management (3)	44,991	(6.9)	1.7	48,334
Off-balance sheet funds (4)	12,323	3.5	12.1	11,902
Risk-weighted assets	53,755	(6.4)	2.2	57,443
Efficiency ratio (%)	46.2			46.7
NPL ratio (%)	3.5			2.9
NPL coverage ratio (%)	94			103
Cost of risk (%)	1.52			1.15

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

In terms of **asset quality**, the macroeconomic situation continues to shape the NPL and NPL coverage ratios, which closed the first half of the year at 3.5% and 94% respectively.

On the liabilities side, **customer funds** have continued to grow at a healthy pace, registering an increase over the first six months of 3.7% (up 10.8% in year-on-year terms). This trend in customer funds is explained by the good performance of transactional funds and off-balance sheet funds, with particularly positive trends in Argentina (up 14.4% in the half-year) and Colombia (up 6.9% over the same period).

Results

In the first half of the year, South America posted a **net attributable profit** of €404m, down 3.0% year-on-year on the same period in 2016 (up 2.7% at current exchange rates). The key aspects of the year-on-year changes in the income statement in the area are:

- **Gross income** has grown by 10.3%, thanks to the strong capacity to generate recurring revenues in the area. In this regard, net interest income is up 10.3% and net fees and commissions have grown by 15.3%. There was a lower contribution from NTI, basically due to Argentina (lower revenues from securities trading) and Colombia (in 2016 capital gains were registered from the sale of holdings).

- **Operating expenses** have increased by 11.4% year-on-year. However, this heading increased by less than the area's gross income, if Argentina is excluded (with its high inflation).

- **Impairment losses on financial assets** increased by 46.6%, reflecting the still weak economic growth in the region. Furthermore, this line item is affected by the impact of provisions associated with one particular customer. As a result, the cumulative cost of risk stood at 1.52% for the first half of the year (1.15% in 2016 and 1.49% in the first quarter of 2017).

By country, recurring revenues performed well in **Argentina**; net interest income grew more rapidly in the second quarter of 2017, and the figures for cumulative fees have been excellent. However, expenses continue to be affected by high inflation, which is why the country's earnings have declined by 8.2% relative to the same period of 2016. In **Chile**, positive developments in gross income (net interest income is growing thanks to growth in lending and effective management of spreads) and the decline in expenses comfortably offset the rise in loan-loss provisioning and the increase in the nominal tax rate. Accordingly, the country recorded a net attributable profit 63.2% up on the first half of 2016. In **Colombia**, gross income performed strongly, thanks to positive developments in net interest income and fees, albeit mitigated by lower NTI (the same period of 2016 included capital gains from the sale of holdings) and an increase in loan-loss provisioning. As a result, net attributable profit was 40.3% lower than the same period of 2016. In **Peru**, earnings are 1.1% above the figure for the first half of last year, since the good performance of NTI and the reduction in expenses have largely been mitigated by limited growth in recurring revenues and greater loan-loss provisions.

South America. Data per country (Million euros)

	Operating income				Net attributable profit			
Country	1H17	Δ%	Δ%[1]	1H16	1H17	Δ%	Δ%[1]	1H16
Argentina	232	(15.2)	(9.8)	273	106	(13.7)	(8.2)	123
Chile	219	42.6	32.5	153	96	75.6	63.2	54
Colombia	329	25.4	13.9	262	84	(34.2)	(40.3)	128
Peru	365	11.8	5.1	326	85	7.6	1.1	79
Other countries [2]	67	7.0	36.4	62	33	253.1	87.5	9
Total	**1,211**	**12.4**	**9.4**	**1,078**	**404**	**2.7**	**(3.0)**	**394**

[1] Figures at constant exchange rate.
[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	
	30-06-17	31-12-16	30-06-17	31-12-16	30-06-17	31-12-16	30-06-17	31-12-16
Loans and advances to customers (gross) [1,2]	4,729	4,073	14,240	13,676	12,027	11,603	13,172	13,906
Deposits from customers	45	36	373	404	634	455	686	649
Customer deposits under management [1,3]	6,646	6,059	9,011	9,377	12,123	11,584	12,217	12,792
Off-balance sheet funds [1,4]	1,392	967	1,554	1,392	982	676	1,546	1,454
Risk-weighted assets	8,785	8,717	13,417	14,300	11,805	12,185	15,536	17,400
Efficiency ratio (%)	60.1	53.8	44.9	49.1	36.5	38.9	36.3	35.8
NPL ratio (%)	0.9	0.8	2.4	2.6	5.1	3.5	4.1	3.4
NPL coverage ratio (%)	294	391	69	66	86	105	101	106
Cost of risk (%)	1.13	1.48	0.84	0.74	2.83	1.34	1.43	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

- **The loan book continues its upward path begun in the fourth quarter of 2016.**
- **Reduction in the balance of deposits.**
- **Slight decline in earnings, which compare with an excellent performance during the first half of 2016.**
- **Improvement in the asset quality indicators.**

Macro and industry trends

Economic recovery in the **Eurozone** has gained traction since the close of last year, according to figures from Eurostat, with a quarterly rise of 0.5% in the fourth quarter of 2016 and 0.6% in the first quarter of 2017, supported by the growth of global demand in a context of generally improved confidence. However, uncertainty remains high. Some stimuli that are supporting the recovery could fade out over the coming quarters, making it difficult to imagine a much greater acceleration moving forward in an economy that has already been growing above its potential since 2015. Overall, BBVA Research expects growth of around 2% in 2017, with greater support from the foreign sector and investment offsetting some moderation in private consumption. Fiscal policy will remain expansive in the area as a whole. The ECB remains cautious with respect to the future of inflation and is still committed to an accommodative monetary policy, despite the greater optimism with respect to growth.

Activity and results

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

The area's **loan book** (performing loans under management) increased 5.4% in the first half of 2017 on the figure at the close of 2016, with growth in the branches in both Europe (up 5.9%) and Asia (up 3.6%).

With respect to the main **credit risk indicators**, since March 2017 there has been a slight improvement in the NPL ratio, which closed June at 2.6% (compared with 2.8% at the close of March 2017, and 2.7% in December), while the NPL coverage ratio has increased to 82% (75% as of 31-Mar-2017 and 84% as of 31-Dec-2016).

Customer **deposits** under management have fallen by 22.4% in the half-year, due to the reduction in branches in Europe (down 15.5%) and those in Asia (down 49.2%) and influenced by the negative interest-rate environment.

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

Income statement	1H17	Δ%	1H16
Net interest income	**95**	**10.8**	**86**
Net fees and commissions	82	(9.2)	90
Net trading income	80	34.0	59
Other income/expenses	(0)	n.s.	42
Gross income	**256**	**(7.8)**	**278**
Operating expenses	(154)	(8.4)	(168)
Personnel expenses	(80)	(10.1)	(89)
Other administrative expenses	(68)	(7.3)	(73)
Depreciation	(6)	4.3	(6)
Operating income	**102**	**(6.8)**	**110**
Impairment on financial assets (net)	9	n.s.	(9)
Provisions (net) and other gains (losses)	(7)	n.s.	2
Profit/(loss) before tax	**104**	**1.8**	**103**
Income tax	(31)	12.1	(28)
Profit/(loss) for the year	**73**	**(2.1)**	**75**
Non-controlling interests	0	-	0
Net attributable profit	**73**	**(2,1)**	**75**

Balance sheets	30-06-17	Δ%	31-12-16
Cash, cash balances at central banks and other demand deposits	792	(40.8)	1,337
Financial assets	1,131	(36.7)	1,787
Loans and receivables	16,525	6.1	15,574
of which loans and advances to customers	16,298	6.3	15,325
Inter-area positions	-	-	-
Tangible assets	37	(2.7)	38
Other assets	322	(12.8)	369
Total assets/liabilities and equity	**18,807**	**(1.6)**	**19.106**
Financial liabilities held for trading and designated at fair value through profit or loss	52	(23.4)	67
Deposits from central banks and credit institutions	2,435	(8.8)	2,670
Deposits from customers	7,304	(22.3)	9,396
Debt certificates	242	(23.2)	315
Inter-area positions	7,442	54.3	4,822
Other liabilities	365	(36.8)	577
Economic capital allocated	968	(23.1)	1,259

Relevant business indicators	30-06-17	Δ%	31-12-16
Loans and advances to customers (gross) (1)	16,816	6.2	15,835
Non-performing loans and guarantees given	652	3.0	633
Customer deposits under management (2)	7,237	(22.4)	9,322
Off-balance sheet funds (3)	363	(1.0)	366
Risk-weighted assets	14,144	(9.5)	15,637
Efficiency ratio (%)	60.2		69.6
NPL ratio (%)	2.6		2.7
NPL coverage ratio (%)	82		84
Cost of risk (%)	(0.14)		(0.22)

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

With respect to **earnings**, gross income has fallen by 7.8% on the same period last year, mainly due to the payment, in 2016, of the CNCB dividend. In addition, operating expenses continue to moderate (down 8.4% year-on-year), due mainly to personnel expenses and general expenses being kept in check. Finally, it was a period with no relevant changes over the period in impairment losses on financial assets. As a result, this geographic area has contributed a net attributable profit in the first half of 2017 of €73m, 2.1% less than in the same period 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 earnings, 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 mainly by:

- Greater contribution from **NTI** than in the same period last year, mainly due to the booking in the first quarter of 2017 of €204m before tax (€174m after tax) in capital gains from the sale on the market of 1.7% of CNCB.
- Payment of the Telefónica **dividend** in the second quarter (€53m). The amount is lower than that paid in the second quarter of 2016 as a result of the reduction of the dividend paid by the entity (from €0.4 to €0.2 per share).
- Containment of **operating expenses**, which declined 2.7% year-on-year.

Overall, the Corporate Center posted a cumulative negative **result** of €401m, compared with a bigger loss of €520m in the first half of 2016.

Financial statements
(Million euros. Percentage)

Income statement	1H17	Δ%	1H16
Net interest income	**(190)**	**(22.3)**	**(245)**
Net fees and commissions	(47)	(14.2)	(55)
Net trading income	244	172.7	89
Other income/expenses	36	(55.4)	80
Gross income	**42**	**n.s.**	**(130)**
Operating expenses	(439)	(2.7)	(451)
Personnel expenses	(238)	3.0	(231)
Other administrative expenses	(45)	(27.9)	(63)
Depreciation	(156)	(1.0)	(158)
Operating income	**(397)**	**(31.7)**	**(582)**
Impairment on financial assets (net)	(1)	(97.5)	(26)
Provisions (net) and other gains (losses)	(49)	(40.0)	(81)
Profit/(loss) before tax	**(447)**	**(35.1)**	**(688)**
Income tax	61	(64.4)	171
Profit/(loss) for the year	**(386)**	**(25.4)**	**(517)**
Non-controlling interests	(15)	n.s.	(3)
Net attributable profit	**(401)**	**(22.9)**	**(520)**

Balance sheets	30-06-17	Δ%	31-12-16
Cash, cash balances at central banks and other demand deposits	2	n.s.	(2)
Financial assets	1,784	6.5	1,675
Loans and receivables	-	-	130
of which loans and advances to customers	-	-	130
Inter-area positions	(5,025)	7.9	(4,658)
Tangible assets	1,961	(3.1)	2,023
Other assets	19,939	4.8	19,017
Total assets/liabilities and equity	**18,662**	**2.6**	**18,186**
Financial liabilities held for trading and designated at fair value through profit or loss	-	-	-
Deposits from central banks and credit institutions	11	n.s.	-
Deposits from customers	-	-	-
Debt certificates	9,245	(11.9)	10,493
Inter-area positions	(18,270)	(4.9)	(19,217)
Other liabilities	651	(75.6)	2,666
Economic capital allocated	(25,739)	(3.1)	(26,559)
Shareholders' funds	52,764	3.9	50,803

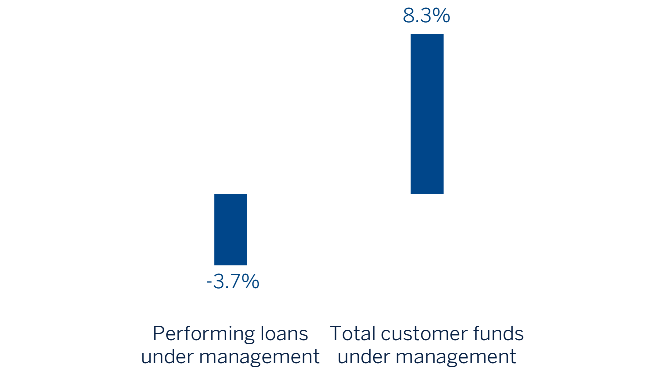
Annex

Other information: Corporate & Investment Banking

Highlights

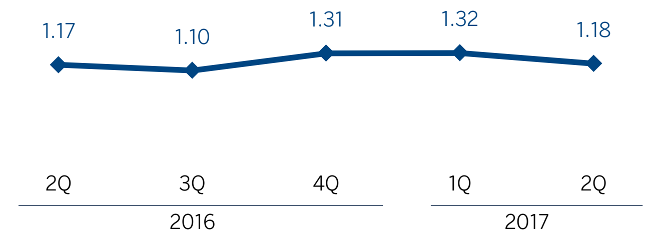
- Continued pressure on margins and excess liquidity.
- Lending has remained flat since March 2017.
- Increase of deposits year-to-date.
- Positive trend in earnings, strongly supported by good performance of revenues, cost restraint and lower provisions.
- Stable risk indicators.

Business activity [(1)]
(Year-on-year change at constant exchange rate. Data as of 30-06-2017)

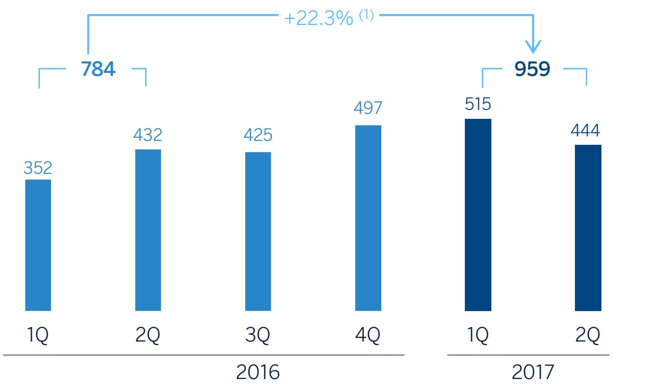


(1) Excluding repos.

Gross income/ATA
(Percentage. Constant exchange rate)

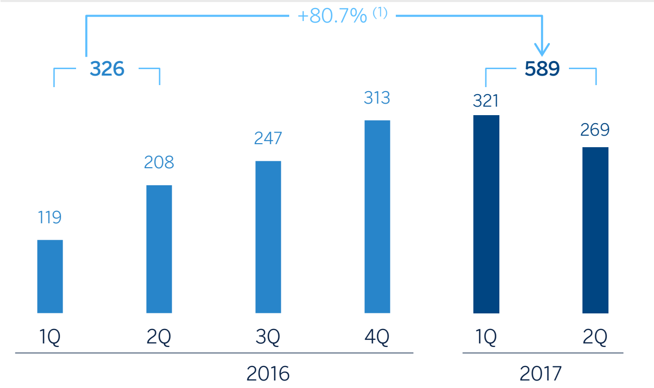


Operating income
(Million euros at constant exchange rate)



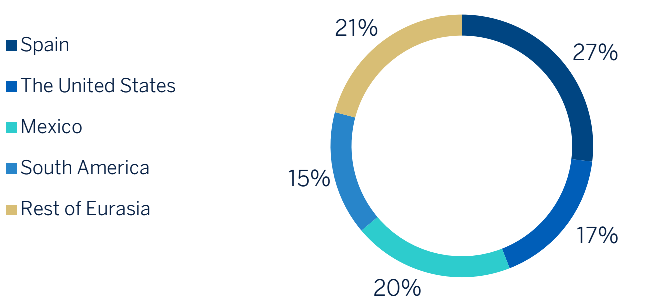
(1) At current exchange rate: +19.8%.

Net attributable profit
(Million euros at constant exchange rate)



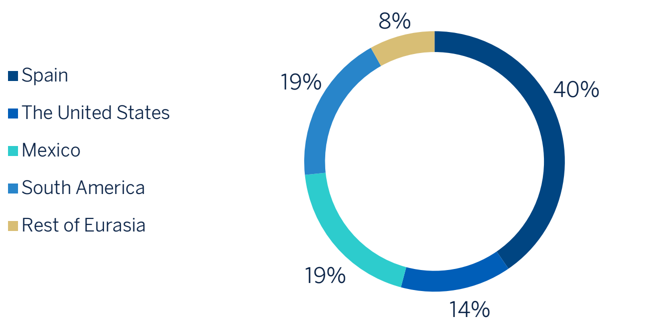
(1) At current exchange rate: +75.4%.

Breakdown of performing loans under management [(1)]
(30-06-2017)



(1) Excluding repos.

Breakdown of customer funds under management [(1)]
(30-06-2017)



(1) Excluding repos.

Macro and industry trends

In the first half of 2017, and specifically in the second quarter of the year, the financial markets experienced a low level of volatility and lack of financial tension, despite some political uncertainty in developed countries and the expected progress in the normalization of monetary policy by the central banks.

Against this backdrop, in the **United States** equity market has continued its upward trend, boosted by the still low interest rates and limited volatility.

In **Europe**, the victory of Macron in France, the lack of an agreement in Italy on electoral reform and the agreement on Greece have given a positive tone to the markets, boosting the equity markets and moderating the country risk premium in the peripherals and in France. Against this backdrop, everything suggests that the ECB is prepared to start a normalization process, given the improvement in the cyclical situation and the disappearance of the risk of deflation. This imminent turning point has had an impact on the market: specifically, long-term interest rates have picked up and the euro has gained against the dollar.

In summary, the environment of low volatility, U.S. rates anchored at moderate levels and the current stability of Chinese growth, have been favorable for emerging assets in general, including currency, equity and fixed-income. However, some specific countries linked to commodities have experienced some tension, slowed down by a change in the trend in the oil price.

In the coming months an increase in volatility cannot be ruled out in the face of expectations that abundant liquidity in the markets will be moderated as central banks make progress in the strategy of switching to a less expansive policy.

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) has remained flat since March 2017 (up 0.1%). However, there has been a decrease of 2.2% year-to-date. Performance has varied by geographic area: outstanding growth in the Rest of Europe, Asia, Mexico, Argentina and Chile, and a decline in Spain, the United States, Colombia and Peru.

Financial statements and relevant business indicators
(Million euros and percentage)

Income statement	1H17	Δ%	Δ%[1]	1H16
Net interest income	**545**	**(19.0)**	**(18.5)**	**673**
Net fees and commissions	359	17.7	17.4	305
Net trading income	463	92.5	103.9	241
Other income/expenses	94	5.4	4.7	89
Gross income	**1,461**	**11.7**	**13.1**	**1,307**
Operating expenses	(502)	(0.9)	(1.0)	(507)
Personnel expenses	(248)	(5.0)	(5.1)	(262)
Other administrative expenses	(200)	1.6	1.4	(197)
Depreciation	(53)	11.0	11.5	(48)
Operating income	**959**	**19.8**	**22.3**	**800**
Impairment on financial assets (net)	(24)	(87.6)	(87.8)	(194)
Provisions (net) and other gains (losses)	(24)	(48.8)	(51.2)	(47)
Profit/(loss) before tax	**911**	**62.7**	**69.1**	**560**
Income tax	(255)	53.0	60.4	(167)
Profit/(loss) for the year	**655**	**66.8**	**72.7**	**393**
Non-controlling interests	(66)	16.1	23.8	(57)
Net attributable profit	**589**	**75.4**	**80.7**	**336**

Balance sheets	30-06-17	Δ%	Δ%[1]	31-12-16
Cash, cash balances at central banks and other demand deposits	2,337	(10.1)	(4.3)	2,600
Financial assets	75,554	(8.6)	(8.8)	82,666
Loans and receivables	82,259	(6.5)	(5.4)	87,988
of which loans and advances to customers	58,622	(3.0)	(1.6)	60,428
Inter-area positions	-	-	-	-
Tangible assets	32	(9.0)	(10.4)	35
Other assets	2,730	9.5	13.1	2,492
Total assets/liabilities and equity	**162,911**	**(7.3)**	**(6.7)**	**175,781**
Financial liabilities held for trading and designated at fair value through profit or loss	51,506	(6.0)	(5.5)	54,785
Deposits from central banks and credit institutions	38,832	(11.1)	(11.9)	43,705
Deposits from customers	45,312	1.1	2.1	44,836
Debt certificates	481	(16.2)	(15.4)	574
Inter-area positions	19,373	(19.1)	(16.8)	23,957
Other liabilities	3,642	(5.4)	(5.3)	3,850
Economic capital allocated	3,765	(7.6)	(6.7)	4,074

Relevant business indicators	30-06-17	Δ%	Δ%[1]	31-12-16
Loans and advances to customers (gross)[2]	52,991	(3.9)	(2.4)	55,160
Non-performing loans and guarantees given	678	(16.1)	(12.8)	808
Customer deposits under management[2]	37,419	(0.5)	0.8	37,616
Off-balance sheet funds[3]	1,367	18.1	27.0	1,157
Efficiency ratio (%)	34.4			37.7
NPL ratio (%)	0.8			1.0
NPL coverage ratio (%)	89			79
Cost of risk (%)	0.10			0.12

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

As regards **asset quality** indicators, the NPL ratio has improved on December 2016 and remains stable with respect to March 2017 (0.8% as of 30-Jun-2017, 0.8% as of 31-Mar-2017 and 1.0% as of 31-Dec-2016), and the NPL coverage ratio closed at 89% (93% as of the close of the first quarter of 2017 and 79% as of the close of 2016).

There has been a fall of 2.6% in total **customer funds** over the last three months, strongly focused in Spain (down 2.9%) and the Rest of Eurasia (down 41.5%). The rest of geographical areas have reported significant growth. However, there was an increase of 1.5% year-to-date thanks to their favorable performance in Mexico and South America.

Results

CIB posted a net attributable **profit** of €589m in the first half of 2017, 80.7% up on the same period of 2016. This is mainly due to good revenue figures, contained expenses and a lower level of loan-loss provisions. The highlights of the income statement are summarized below:

- Year-on-year increase in **gross income** of 13.1%, thanks to the results of managing market volatility, above all during the early part of the half-year, and the positive performance of activity with customers. The good performance of this item is bolstered strongly by the Deep Blue commercial initiative, whose aim is to proactively and selectively promote potential covered operations in a context of acquisitions.

  The **corporate finance** business in the first half of the year was characterized by a high level of activity and significant marketing effort, thanks to which BBVA has won numerous mandates, some of which will be completed in the coming months.

  The **Equity Capital Markets** (ECM) unit has continued very active in the primary equity market. In addition to the transactions completed in the first quarter, it has participated in the biggest IPO so far this year in Spain (Gestamp); while in Europe BBVA has been present in the most significant transactions in the market, such as the IPO of ALD Automotive in France and the capital increases of Deutsche Bank in Germany and Credit Suisse in Switzerland.

  From the point of view of **mergers & acquisitions** (M&A), the second quarter continued in line with the good outlook of the previous quarter, thus closing a good half year, both in terms number of deals and their volume. There is still a great deal of liquidity and interest on the part of international investors in investing in Spain and Portugal. The M&A market continues to take advantage of low interest rates and the good performance of the Spanish economy.

  In addition, BBVA has demonstrated its leading position in **green finance** with the start-up of the green loans plan, following the success achieved in recent years with the green bonds format. Interest in the green bond market is expected to grow among issuers and financial institutions, which will have increasingly major quantitative and qualitative goals in terms of sustainability. BBVA believes in and is committed to this growing financial market.

- Cumulative **operating expenses** have declined by 1.0% on the same period in 2016. The keys to this figure continue to be a slowdown in the growth of personnel and discretionary expenses, and the increase in costs associated with technology investment plan.

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