

# Interim Report 2018

Condensed Interim Consolidated Financial  
Statements, Interim Consolidated  
Management Report and Auditor´s Report  
as of and for the six-months ended June 30,  
2018



# Banco Bilbao Vizcaya Argentaria, S.A. and Subsidiaries

Condensed Consolidated Interim Financial  
Statements  
June 30, 2018

Interim Directors' Report  
for the period from January 1 to June 30, 2018

(With Independent Auditor's Report Thereon)

(Free translation from the originals in Spanish. In the event  
of discrepancy, the Spanish-language version prevails.)



KPMG Auditores, S.L.  
Paseo de la Castellana, 259C  
28046 Madrid

## **Independent Auditor's Report on the Condensed Consolidated Interim Financial Statements**

(Translation from the originals in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the shareholders of Banco Bilbao Vizcaya Argentaria, S.A.

### **REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

#### **Opinion**

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We have audited the condensed consolidated interim financial statements of Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter the "Bank") and the subsidiaries which, along with the Bank, form the Banco Bilbao Vizcaya Argentaria Group (hereinafter the "Group"), which are comprised of the consolidated balance sheet at June 30, 2018, the consolidated income statement, the consolidated statement of recognized income and expenses, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes thereto for the six-month period then ended.

In our opinion, the accompanying condensed consolidated interim financial statements of the Group for the six-month period ended June 30, 2018, have been prepared, in all material respects, in accordance with International Accounting Standard (IAS) 34, *Intermediate Financial Information*, as adopted by the European Union, for the preparation of condensed interim financial information, pursuant to article 12 of Royal Decree 1362/2007.

#### **Basis for Opinion**

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We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Condensed Consolidated Interim Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the condensed consolidated interim financial statements in Spain pursuant to the legislation regulating the audit of accounts. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the condensed consolidated interim financial statements for the period ended June 30, 2018. These matters were addressed in the context of our audit of the condensed consolidated interim financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Impairment of financial assets carried at amortised cost</b> See notes 2, 6, 13 and 42 to the condensed consolidated interim financial statements	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>As of January 1, 2018, the Group applies International Financial Reporting Standard 9 <i>Financial Instruments</i> (IFRS 9) which includes relevant changes regarding the requirements for estimating impairment of financial assets. Accordingly, the Group estimated the effects of initial application of this standard at that date. The process used to calculate impairment of the portfolio of financial assets at amortized cost due to credit risk (essentially loans) in accordance with IFRS 9 is an expected credit loss model which entails a high level of judgement as this is a significant and complex estimate.</p> <p>For purposes of estimating impairment, financial assets are classified according to whether their credit risk has risen significantly since initial recognition or whether the financial assets show credit deterioration. For the Group, establishing this classification is a significant process as the calculation of credit risk coverage varies according to the category into which the financial asset is placed.</p>	<p>In relation to the Group's implementation of IFRS 9 with regard to impairment of financial assets, we performed procedures, with the involvement of our own credit risk specialists, to assess the concepts, criteria and methodologies defined, and carried out control tests and tests of detail on the analysis conducted by the Group regarding the classification of financial instruments and on the models for estimating impairment provisions for credit risk.</p> <p>Our audit approach regarding the application of IFRS 9 as of January 1, 2018, included assessing the relevant controls linked to the process of estimating impairment due to credit risk of the portfolio of financial assets at amortized cost and performing different tests of detail thereon.</p> <p>Our procedures related to the control environment focused on the following key areas:</p> <ul style="list-style-type: none"> <li>• Governance: identification of the credit risk management framework and relevant controls.</li> <li>• Accounting policies: assessment of their alignment with applicable accounting regulations.</li> </ul>

### Impairment of financial assets carried at amortised cost

See notes 2, 6, 13 and 42 to the condensed consolidated interim financial statements

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group estimates expected losses on both an individual and a collective basis. Individual provisions consider the estimated future performance of the business and the market value of the collateral provided for credit transactions.</p> <p>The collective analysis is based on automated processes that are complex in their design and implementation, that use large databases, models and parameters to estimate provisions, and that require past, current and future information to be considered.</p>	<ul style="list-style-type: none"> <li>• Classification of financial assets according to their credit risk in accordance with Group criteria, particularly the criteria for identifying and classifying refinancing and restructuring transactions.</li> <li>• Testing of the relevant controls relating to the information available for the monitoring of loans outstanding.</li> <li>• Collateral and guarantees: evaluation of the design of the relevant guarantee management and valuation controls.</li> <li>• Evaluation of the process for estimating both individual and collective provisions for expected losses.</li> <li>• Databases: evaluation of the integrity, accuracy, quality and recency of the data and of the control and management process in place.</li> </ul> <p>Our tests of detail on the estimate of expected losses basically comprised the following:</p> <ul style="list-style-type: none"> <li>• With regard to the impairment of individually significant transactions, we selected a sample of the population of significant risks for which there was objective evidence of impairment and assessed the sufficiency of the provisions recorded.</li> <li>• With respect to the impairment provisions estimated collectively, we evaluated the methodology used by the Group, assessing the integrity of the input balances for the process and validating the correct functioning of the calculation engine. We also reviewed the quality of the transactional data used to estimate impairment.</li> </ul>

## Classification and measurement of financial instruments

See notes 2, 7, 9, 10, 11, 12 and 14 to the condensed consolidated interim financial statements

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>As of January 1, 2018, the Group applies International Financial Reporting Standard 9 <i>Financial Instruments</i> (IFRS 9), which includes relevant changes regarding the classification and measurement of financial instruments. Accordingly, the Group estimated the effects of initial application of this standard at that date. The classification and initial measurement of financial instruments (essentially financial assets and derivatives) may require a high level of judgement and complex estimates, and determines the criteria to be applied in their subsequent measurement.</p> <p>In the absence of a quoted price in an active market (level 2 and 3 financial instruments), determining the fair value of financial instruments requires a complex estimate using valuation techniques that may take into consideration market data that are neither directly nor indirectly observable, or complex pricing models which demand a high degree of subjectivity.</p>	<p>In relation to the Group's implementation of IFRS 9 with regard to the classification of financial instruments, we performed procedures, with the involvement of our own market risk specialists, to assess the concepts, criteria and methodologies defined, and carried out control tests and tests of detail on the analysis conducted by the Group.</p> <p>Our audit approach regarding the application of IFRS 9 as of January 1, 2018, included assessing the relevant controls associated with the classification and measurement processes for financial instruments and performing tests of detail thereon.</p> <p>Our procedures related to the control environment focused on the following areas:</p> <ul style="list-style-type: none"> <li>• Understanding of the functioning of the financial markets in which the Group operates.</li> <li>• Governance: identification of the market risk management framework and controls.</li> <li>• Evaluation of trading, confirmation and settlement processes.</li> <li>• Evaluation of Group policies and procedures for the recognition and classification of instruments based on the business model adopted by the Group and the contractual characteristics thereof.</li> <li>• Evaluation of the relevant controls associated with the measurement process for financial instruments;</li> <li>• Databases: evaluation of the integrity, accuracy, quality and recency of the data and of the control and management process in place.</li> </ul> <p>With regard to the tests of detail, we selected a sample of the Group's financial assets and derivatives and assessed the appropriateness of their classification and measurement. We also evaluated the measurement models used for the largest instruments.</p>

**Risks associated with information technology**

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group has a complex IT operating environment. It has large data processing centres in Spain and Mexico which provide support to subsidiaries in different countries, an independent data processing environment in Spain for its insurance activity, and other data processing services in the US, Turkey and Latin America.</p> <p>In light of the Group's heavy reliance on IT systems, it is critical to evaluate the controls over the main technological risks.</p>	<p>In accordance with our audit methodology, our assessment of the information technology systems encompassed two areas: general IT controls and application controls over key processes.</p> <p>Our assessment of general IT controls encompassed the evaluation of general controls in place over technological platforms, notably computer applications. During the audit, we performed control tests on the relevant applications associated with the critical areas of our work.</p> <p>In this phase of our evaluation of the general controls, we assessed, among others, controls related to the following activities: access to programs and data; management of program changes; management of program development; and management of operations in the production environment.</p> <p>With respect to the application controls over key processes, during our audit we determined the main business processes, and for those processes we identified the principal applications and automated controls in place for information flows. For the main information systems, IT platforms, and applications considered key for our audit of the Group, we analysed the threats and vulnerabilities associated with the integrity, accuracy, and availability of information, and identified and tested the operating effectiveness of the controls implemented to mitigate these risks.</p>



## **Emphasis of Matter**

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We draw your attention to the accompanying note 1.2, which states that these condensed consolidated interim financial statements do not include all the information required in complete consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accompanying condensed consolidated interim financial statements should therefore be read in conjunction with the Group's consolidated annual accounts for the year ended December 31, 2017. Our opinion is not modified with respect to this matter.

## **Other Information: Interim Directors' Report**

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Other information solely comprises the interim directors' report for the six-month period ended June 30, 2018, the preparation of which is the responsibility of the Bank's Directors and which does not form an integral part of the condensed consolidated interim financial statements.

Our audit opinion on the condensed consolidated interim financial statements does not encompass the interim directors' report. Our responsibility for the interim directors' report, in accordance with the requirements of prevailing legislation regulating the audit of accounts, consists of assessing and reporting on the consistency of the interim directors' report with the condensed consolidated interim financial statements, based on knowledge of the Group obtained during the audit of the aforementioned condensed consolidated interim financial statements and without including any information other than that obtained as evidence during the audit. It is also our responsibility to assess and report on whether the content and presentation of the interim directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described in the preceding paragraph, the information contained in the interim directors' report is consistent with that disclosed in the condensed consolidated interim financial statements for the six-month period ended June 30, 2018, and the content and presentation of the report are in accordance with applicable legislation.

## **Directors' and Audit and Compliance Committee's Responsibility for the Condensed Consolidated Interim Financial Statements**

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Pursuant to article 12 of Royal Decree 1362/2007, the Directors of the Bank are responsible for the preparation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as adopted by the European Union, and for such internal control as they determine is necessary to enable the preparation of condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.





In preparing the condensed consolidated interim financial statements, the Bank's Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless the Bank's Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Bank's Audit and Compliance Committee is responsible for overseeing the preparation and presentation of the condensed consolidated interim financial statements.

### **Auditor's Responsibilities for the Audit of the Condensed Consolidated Interim Financial Statements**

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Our objectives are to obtain reasonable assurance about whether the condensed consolidated interim financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these condensed consolidated interim financial statements.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the condensed consolidated interim financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's Directors.



- Conclude on the appropriateness of the Bank's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the condensed consolidated interim financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the condensed consolidated interim financial statements, including the disclosures.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the condensed consolidated interim financial statements. We are responsible for the direction, supervision, and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Compliance Committee of the Bank regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Compliance Committee of the Bank with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and have communicated to them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit and Compliance Committee of the Bank, we determine those that were of most significance in the audit of the condensed consolidated interim financial statements for the six-month period ended June 30, 2018, and which are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.



## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Contract Period \_\_\_\_\_

We were appointed as auditor by the shareholders at the ordinary general meeting on March 17, 2017, for a period of three years, beginning on January 1, 2017.

### Services Provided \_\_\_\_\_

Non-audit services rendered for the Group by KPMG Auditores, S.L. during the six-month period ended June 30, 2018, are comprised of a limited review of the interim financial statements and work related to regulatory requirements imposed by the supervisors.

KPMG Auditores, S.L.  
(on the Spanish Official Register of Auditors ("ROAC") with No. S0702)

Luis Martin Riaño  
(on the Spanish Official Register of Auditors ("ROAC") with No. 18,537)

July 27, 2018



KPMG AUDITORES, S.L.

2018 Núm. 01/18/16976

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Informe de auditoría de cuentas sujeto  
a la normativa de auditoría de cuentas  
española o internacional

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## INTERIM CONSOLIDATED MANAGEMENT REPORT

## Consolidated balance sheets as of June 30, 2018 and December 31, 2017

ASSETS (Millions of Euros)			
	Notes	June 2018	December 2017 (*)
<b>CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS</b>	<b>8</b>	<b>37,279</b>	<b>42,680</b>
<b>FINANCIAL ASSETS HELD FOR TRADING</b>	<b>9</b>	<b>91,018</b>	<b>64,695</b>
Derivatives		35,277	35,265
Equity instruments		5,250	6,801
Debt securities		26,953	22,573
Loans and advances to central banks		699	-
Loans and advances to credit institutions		13,588	-
Loans and advances to customers		9,251	56
<b>NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>10</b>	<b>4,377</b>	
Equity instruments		2,758	
Debt securities		290	
Loans and advances to central banks		-	
Loans and advances to credit institutions		-	
Loans and advances to customers		1,329	
<b>FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>11</b>	<b>1,487</b>	<b>2,709</b>
Equity instruments		-	1,888
Debt securities		1,327	174
Loans and advances to central banks		-	-
Loans and advances to credit institutions		160	-
Loans and advances to customers		-	648
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME</b>	<b>12</b>	<b>63,212</b>	<b>69,476</b>
Equity instruments		2,579	3,224
Debt securities		60,600	66,251
Loans and advances to customers		33	-
<b>FINANCIAL ASSETS AT AMORTIZED COST</b>	<b>13</b>	<b>426,349</b>	<b>445,275</b>
Debt securities		32,082	24,093
Loans and advances to central banks		5,309	7,300
Loans and advances to credit institutions		11,783	26,261
Loans and advances to customers		377,175	387,621
<b>HEDGING DERIVATIVES</b>	<b>14</b>	<b>3,035</b>	<b>2,485</b>
<b>FAIR VALUE CHANGES OF THE HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK</b>	<b>14</b>	<b>(39)</b>	<b>(25)</b>
<b>JOINT VENTURES AND ASSOCIATES</b>	<b>15</b>	<b>1,470</b>	<b>1,588</b>
Joint ventures		228	256
Associates		1,242	1,332
<b>INSURANCE AND REINSURANCE ASSETS</b>	<b>22</b>	<b>414</b>	<b>421</b>
<b>TANGIBLE ASSETS</b>	<b>16</b>	<b>6,736</b>	<b>7,191</b>
Property, plants and equipment		6,585	6,996
For own use		6,209	6,581
Other assets leased out under an operating lease		376	415
Investment properties		151	195
<b>INTANGIBLE ASSETS</b>	<b>17</b>	<b>8,373</b>	<b>8,464</b>
Goodwill		6,148	6,062
Other intangible assets		2,225	2,402
<b>TAX ASSETS</b>	<b>18</b>	<b>17,416</b>	<b>16,888</b>
Current		2,195	2,163
Deferred		15,221	14,725
<b>OTHER ASSETS</b>	<b>19</b>	<b>4,901</b>	<b>4,359</b>
Insurance contracts linked to pensions		-	-
Inventories		219	229
Other		4,681	4,130
<b>NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE</b>	<b>20</b>	<b>23,604</b>	<b>23,853</b>
<b>TOTAL ASSETS</b>		<b>689,632</b>	<b>690,059</b>

(\*) Presented for comparison purposes only (Note 1.3).

The accompanying Notes 1 to 49 and Appendices I to VI are an integral part of the condensed consolidated financial statements as of and for the six-months ended June 30, 2018.

## Consolidated balance sheets as of June 30, 2018 and December 31, 2017

<b>LIABILITIES AND EQUITY (Millions of Euros)</b>			
	Notes	June 2018	December 2017 (*)
<b>FINANCIAL LIABILITIES HELD FOR TRADING</b>	<b>9</b>	<b>83,667</b>	<b>46,182</b>
Trading derivatives		36,591	36,169
Short positions		12,240	10,013
Deposits from central banks		2,882	-
Deposits from credit institutions		21,459	-
Customer deposits		10,495	-
Debt certificates		-	-
Other financial liabilities		-	-
<b>FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>11</b>	<b>6,221</b>	<b>2,222</b>
Deposits from central banks		-	-
Deposits from credit institutions		-	-
Customer deposits		997	-
Debt certificates		2,494	-
Other financial liabilities		2,730	2,222
Of which: Subordinated liabilities		-	-
<b>FINANCIAL LIABILITIES AT AMORTIZED COST</b>	<b>21</b>	<b>503,073</b>	<b>543,713</b>
Deposits from central banks		28,734	37,054
Deposits from credit institutions		33,307	54,516
Customer Deposits		367,312	376,379
Debt certificates		62,349	63,915
Other financial liabilities		11,370	11,850
Of which: Subordinated liabilities		16,816	17,316
<b>HEDGING DERIVATIVES</b>	<b>14</b>	<b>2,616</b>	<b>2,880</b>
<b>FAIR VALUE CHANGES OF THE HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK</b>	<b>14</b>	<b>-</b>	<b>(7)</b>
<b>LIABILITIES UNDER INSURANCE AND REINSURANCE CONTRACTS</b>	<b>22</b>	<b>9,500</b>	<b>9,223</b>
<b>PROVISIONS</b>	<b>23</b>	<b>7,045</b>	<b>7,477</b>
Provisions for pensions and similar obligations		5,013	5,407
Other long term employee benefits		61	67
Provisions for taxes and other legal contingencies		750	756
Provisions for contingent risks and commitments		598	578
Other provisions		622	669
<b>TAX LIABILITIES</b>	<b>18</b>	<b>3,614</b>	<b>3,298</b>
Current		1,428	1,114
Deferred		2,186	2,184
<b>OTHER LIABILITIES</b>	<b>19</b>	<b>4,918</b>	<b>4,550</b>
<b>LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE</b>		<b>16,890</b>	<b>17,197</b>
<b>TOTAL LIABILITIES</b>		<b>637,544</b>	<b>636,736</b>

(\*) Presented for comparison purposes only (Note 1.3).

The accompanying Notes 1 to 49 and Appendices I to VI are an integral part of the condensed consolidated financial statements as of and for the six-months ended June 30, 2018.

Translation of the Interim Consolidated Financial Statements originally issued in Spanish and prepared in accordance with IAS 34, as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.

## Consolidated balance sheets as of June 30, 2018 and December 31, 2017

<b>LIABILITIES AND EQUITY (Continued) (Millions of Euros)</b>			
	Notes	June 2018	December 2017 (*)
<b>SHAREHOLDERS' FUNDS</b>		<b>55,619</b>	<b>55,136</b>
<b>Capital</b>	<b>25</b>	<b>3,267</b>	<b>3,267</b>
Paid up capital		3,267	3,267
Unpaid capital which has been called up		-	-
<b>Share premium</b>		<b>23,992</b>	<b>23,992</b>
<b>Equity instruments issued other than capital</b>		<b>-</b>	<b>-</b>
<b>Other equity instruments</b>		<b>47</b>	<b>54</b>
<b>Retained earnings</b>	<b>26</b>	<b>26,075</b>	<b>25,474</b>
<b>Revaluation reserves</b>	<b>26</b>	<b>11</b>	<b>12</b>
<b>Other reserves</b>	<b>26</b>	<b>(48)</b>	<b>(44)</b>
Reserves or accumulated losses of investments in subsidiaries, joint ventures and associates		(48)	(44)
Other		-	-
<b>Less: Treasury shares</b>		<b>(205)</b>	<b>(96)</b>
<b>Profit or loss attributable to owners of the parent</b>		<b>2,649</b>	<b>3,519</b>
<b>Less: Interim dividends</b>		<b>(170)</b>	<b>(1,043)</b>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>27</b>	<b>(9,868)</b>	<b>(8,792)</b>
<b>Items that will not be reclassified to profit or loss</b>		<b>(1,311)</b>	<b>(1,183)</b>
Actuarial gains or losses on defined benefit pension plans		(1,205)	(1,183)
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognized income and expense of investments in subsidiaries, joint ventures and associates		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income		(174)	-
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)		-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		68	-
<b>Items that may be reclassified to profit or loss</b>		<b>(8,557)</b>	<b>(7,609)</b>
Hedge of net investments in foreign operations (effective portion)		(53)	1
Foreign currency translation		(9,607)	(9,159)
Hedging derivatives. Cash flow hedges (effective portion)		(98)	(34)
Fair value changes of debt instruments measured at fair value through other comprehensive income		1,233	1,641
Hedging instruments (non-designated items)		-	-
Non-current assets and disposal groups classified as held for sale		1	(26)
Share of other recognized income and expense of investments in subsidiaries, joint ventures and associates		(35)	(31)
<b>MINORITY INTERESTS (NON-CONTROLLING INTEREST)</b>	<b>28</b>	<b>6,336</b>	<b>6,979</b>
Valuation adjustments		(4,243)	(3,378)
Rest		10,579	10,358
<b>TOTAL EQUITY</b>		<b>52,087</b>	<b>53,323</b>
<b>TOTAL EQUITY AND TOTAL LIABILITIES</b>		<b>689,632</b>	<b>690,059</b>
<b>MEMORANDUM ITEM (OFF-BALANCE SHEET EXPOSURES) (Millions of Euros)</b>			
	Notes	June 2018	December 2017 (*)
Loan commitments given	30	118,387	94,268
Financial guarantees given	30	15,467	16,545
Other commitments given	30	37,638	45,738

(\*) Presented for comparison purposes only (Note 1.3).

The accompanying Notes 1 to 49 and Appendices I to VI are an integral part of the condensed consolidated financial statements as of and for the six-months ended June 30, 2018.



Translation of the Interim Consolidated Financial Statements originally issued in Spanish and prepared in accordance with IAS 34, as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.

## Consolidated income statements for the six months ended June 30, 2018 and 2017

### CONSOLIDATED INCOME STATEMENTS (Millions of Euros)

	Notes	June 2018	June 2017 (*)
Interest income and other incomes	32.1	14,507	14,305
Interest expense	32.1	(5,864)	(5,502)
<b>NET INTEREST INCOME</b>		<b>8,643</b>	<b>8,803</b>
Dividend income	33	84	212
Share of profit or loss of entities accounted for using the equity method	34	14	(8)
Fee and commission income	35	3,585	3,551
Fee and commission expense	35	(1,093)	(1,095)
Gains (losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	36	130	683
Gains (losses) on financial assets and liabilities held for trading, net	36	324	139
Gains (losses) on non-trading financial assets mandatorily at fair value through profit or loss, net	36	5	
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	36	107	(88)
Gains (losses) from hedge accounting, net	36	51	(193)
Exchange differences, net	36	90	528
Other operating income	37	509	562
Other operating expense	37	(893)	(945)
Income from insurance and reinsurance contracts	38	1,609	1,863
Expense from insurance and reinsurance contracts	38	(1,093)	(1,295)
<b>GROSS INCOME</b>		<b>12,074</b>	<b>12,718</b>
Administration costs		(5,336)	(5,599)
Personnel expenses	39.1	(3,125)	(3,324)
Other administrative expenses	39.2	(2,211)	(2,275)
Depreciation and amortization	40	(606)	(712)
Provisions or reversal of provisions	41	(185)	(364)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss or net gains by modification	42	(1,611)	(1,941)
Financial assets measured at amortized cost		(1,623)	(1,949)
Financial assets at fair value through other comprehensive income		12	8
<b>NET OPERATING INCOME</b>		<b>4,335</b>	<b>4,102</b>
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates		-	-
Impairment or reversal of impairment on non-financial assets	43	-	(80)
Tangible assets		(18)	(17)
Intangible assets		(3)	(10)
Other assets		21	(53)
Gains (losses) on derecognition of non financial assets and subsidiaries, net	44	80	30
Negative goodwill recognized in profit or loss		-	-
Profit (loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	45	29	(18)
<b>PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS</b>	48.1	<b>4,443</b>	<b>4,033</b>
Tax expense or income related to profit or loss from continuing operations		(1,213)	(1,120)
<b>PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS</b>		<b>3,230</b>	<b>2,914</b>
Profit or loss after tax from discontinued operations, net		-	-
<b>PROFIT FOR THE PERIOD</b>		<b>3,230</b>	<b>2,914</b>
Attributable to minority interest [non-controlling interest]	28	581	607
Attributable to owners of the parent	48.1	2,649	2,306
		<b>June 2018</b>	<b>June 2017 (*)</b>
<b>EARNINGS PER SHARE (Euros) (**)</b>		<b>0.37</b>	<b>0.33</b>
Basic earnings per share from continued operations		0.37	0.33
Diluted earnings per share from continued operations		0.37	0.33
Basic earnings per share from discontinued operations		-	-
Diluted earnings per share from discontinued operations		-	-

(\*) Presented for comparison purposes only (Note 1.3).

(\*\*) As of June 30, 2018 the weighted average number of shares outstanding was 6,645 million and the adjustment of additional Tier 1 securities amounted to €170 million. As of December 31, 2017 the weighted average number of shares outstanding was 6,642 million and the adjustment of additional Tier 1 securities amounted to €147 million.

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Translation of the Interim Consolidated Financial Statements originally issued in Spanish and prepared in accordance with IAS 34, as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.

## Consolidated statements of recognized income and expenses for the six months ended June 30, 2018 and 2017

### CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSES (MILLIONS OF EUROS)

	June 2018	June 2017 (*)
<b>PROFIT RECOGNIZED IN INCOME STATEMENT</b>	<b>3,230</b>	<b>2,914</b>
<b>OTHER RECOGNIZED INCOME (EXPENSES)</b>	<b>(1,866)</b>	<b>(1,792)</b>
<b>ITEMS NOT SUBJECT TO RECLASSIFICATION TO INCOME STATEMENT</b>	<b>(168)</b>	<b>38</b>
Actuarial gains and losses from defined benefit pension plans	(29)	59
Non-current assets and disposal groups held for sale	-	-
Share of other recognized income and expense of entities accounted for using the equity method	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	(193)	-
Gains or losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	98	-
Income tax related to items not subject to reclassification to income statement	(44)	(20)
<b>ITEMS SUBJECT TO RECLASSIFICATION TO INCOME STATEMENT</b>	<b>(1,698)</b>	<b>(1,831)</b>
<b>Hedge of net investments in foreign operations (effective portion)</b>	<b>(69)</b>	<b>(319)</b>
Valuation gains or losses taken to equity	(121)	(287)
Transferred to profit or loss	-	-
Other reclassifications	52	(32)
<b>Foreign currency translation</b>	<b>(1,256)</b>	<b>(1,586)</b>
Valuation gains or losses taken to equity	(1,169)	(1,586)
Transferred to profit or loss	-	-
Other reclassifications	(86)	-
<b>Cash flow hedges (effective portion)</b>	<b>(60)</b>	<b>(64)</b>
Valuation gains or losses taken to equity	(106)	(75)
Transferred to profit or loss	46	11
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
<b>Hedging instruments (non-designated elements)</b>	<b>-</b>	<b>-</b>
Valuation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
<b>Debt securities at fair value through other comprehensive income</b>	<b>(442)</b>	<b>143</b>
Valuation gains or losses taken to equity	(350)	766
Transferred to profit or loss	(91)	(623)
Other reclassifications	-	-
<b>Non-current assets and disposal groups held for sale</b>	<b>21</b>	<b>-</b>
Valuation gains or losses taken to equity	(14)	-
Transferred to profit or loss	-	-
Other reclassifications	35	-
<b>Entities accounted for using the equity method</b>	<b>(5)</b>	<b>(6)</b>
<b>Income tax relating to items subject to reclassification to income statements</b>	<b>113</b>	<b>1</b>
<b>TOTAL RECOGNIZED INCOME/EXPENSES</b>	<b>1,364</b>	<b>1,121</b>
Attributable to minority interest (non-controlling interests)	(305)	348
Attributable to the parent company	1,670	773

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Translation of the Interim Consolidated Financial Statements originally issued in Spanish and prepared in accordance with IAS 34, as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.

## Consolidated statements of changes in equity for the six months ended June 30, 2018 and 2017

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (MILLIONS OF EUROS)

JUNE 2018	Capital (Note 25)	Share Premium	Equity instruments issued other than capital	Other Equity	Retained earnings (Note 26)	Revaluation reserves (Note 26)	Other reserves (Note 26)	(-) Treasury shares	Profit or loss attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income (Note 27)	Non-controlling interest		Total
												Valuation adjustments (Note 28)	Other (Note 28)	
<b>Balances as of January 1, 2018</b>	<b>3,267</b>	<b>23,992</b>	-	<b>54</b>	<b>25,474</b>	<b>12</b>	<b>(44)</b>	<b>(96)</b>	<b>3,519</b>	<b>(1,043)</b>	<b>(8,792)</b>	<b>(3,378)</b>	<b>10,358</b>	<b>53,323</b>
Effect of changes in accounting policies (IFRS 9)	-	-	-	-	(851)	-	-	-	-	-	(96)	22	6	(919)
<b>Adjusted initial balance</b>	<b>3,267</b>	<b>23,992</b>	-	<b>54</b>	<b>24,623</b>	<b>12</b>	<b>(44)</b>	<b>(96)</b>	<b>3,519</b>	<b>(1,043)</b>	<b>(8,889)</b>	<b>(3,356)</b>	<b>10,364</b>	<b>52,404</b>
<b>Total income/expense recognized</b>	-	-	-	-	-	-	-	-	<b>2,649</b>	-	<b>(980)</b>	<b>(886)</b>	<b>581</b>	<b>1,364</b>
<b>Other changes in equity</b>	-	-	-	<b>(7)</b>	<b>1,452</b>	<b>(1)</b>	<b>(4)</b>	<b>(108)</b>	<b>(3,519)</b>	<b>873</b>	-	-	<b>(366)</b>	<b>(1,681)</b>
Issuances of common shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuances of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Settlement or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt on equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common Stock reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend distribution (or remuneration to shareholders)	-	-	-	-	(992)	-	(4)	-	-	(170)	-	-	(375)	(1,541)
Purchase of treasury shares	-	-	-	-	-	-	-	(887)	-	-	-	-	-	(887)
Sale or cancellation of treasury shares	-	-	-	-	2	-	-	779	-	-	-	-	-	781
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between total equity entries	-	-	-	-	2,477	(1)	-	-	(3,519)	1,043	-	-	-	-
Increase or (-) reduction of equity due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	(18)	-	-	-	-	-	-	-	-	-	(18)
Other increases or (-) decreases in equity	-	-	-	11	(35)	-	-	-	-	-	-	-	8	(16)
<b>Balances as of June 30, 2018</b>	<b>3,267</b>	<b>23,992</b>	-	<b>47</b>	<b>26,075</b>	<b>11</b>	<b>(48)</b>	<b>(205)</b>	<b>2,649</b>	<b>(170)</b>	<b>(9,868)</b>	<b>(4,243)</b>	<b>10,579</b>	<b>52,087</b>

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Translation of the Interim Consolidated Financial Statements originally issued in Spanish and prepared in accordance with IAS 34, as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.

## Consolidated statements of changes in equity for the six months ended June 30, 2018 and 2017

Millions of euros

JUNE 2017 (*)	Capital (Note 25)	Share Premium	Equity instruments issued other than capital	Other Equity	Retained earnings (Note 26)	Revaluation reserves (Note 26)	Other reserves (Note 26)	(-) Treasury shares	Profit or loss attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income (Note 27)	Non-controlling interest		Total
												Valuation adjustments (Note 28)	Other (Note 28)	
<b>Balances as of January 1, 2017</b>	<b>3,218</b>	<b>23,992</b>	-	<b>54</b>	<b>23,688</b>	<b>20</b>	<b>(67)</b>	<b>(48)</b>	<b>3,475</b>	<b>(1,510)</b>	<b>(5,458)</b>	<b>(2,246)</b>	<b>10,310</b>	<b>55,428</b>
<b>Total income/expense recognized</b>	-	-	-	-	-	-	-	-	<b>2,306</b>	-	<b>(1,533)</b>	<b>(259)</b>	<b>607</b>	<b>1,121</b>
<b>Other changes in equity</b>	<b>50</b>	-	-	<b>(11)</b>	<b>1,892</b>	<b>(5)</b>	<b>31</b>	<b>(6)</b>	<b>(3,475)</b>	<b>1,220</b>	-	-	<b>(1,517)</b>	<b>(1,822)</b>
Issuances of common shares	50	-	-	-	(50)	-	-	-	-	-	-	-	-	-
Issuances of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Settlement or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt on equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common Stock reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend distribution (or remuneration to shareholders)	-	-	-	-	9	-	(9)	-	-	(147)	-	-	(292)	(439)
Purchase of treasury shares	-	-	-	-	-	-	-	(1,025)	-	-	-	-	-	(1,025)
Sale or cancellation of treasury shares	-	-	-	-	1	-	-	1,020	-	-	-	-	-	1,021
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between total equity entries	-	-	-	-	1,929	(5)	41	-	(3,475)	1,510	-	-	-	-
Increase or (-) reduction of equity due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	(22)	-	-	-	-	-	-	-	-	-	(22)
Other increases or (-) decreases in equity	-	-	-	11	2	-	(1)	-	-	(144)	-	-	(1,225)	(1,357)
<b>Balances as of June 30, 2017</b>	<b>3,267</b>	<b>23,992</b>	-	<b>43</b>	<b>25,580</b>	<b>15</b>	<b>(37)</b>	<b>(54)</b>	<b>2,306</b>	<b>(291)</b>	<b>(6,991)</b>	<b>(2,505)</b>	<b>9,400</b>	<b>54,727</b>

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## Consolidated statements of cash flows for the six months ended June 30, 2018 and 2017

### CONSOLIDATED FINANCIAL STATEMENTS OF CASH FLOWS (MILLIONS OF EUROS)

	June 2018	June 2017 (*)
<b>A) CASH FLOWS FROM OPERATING ACTIVITIES (1 + 2 + 3 + 4 + 5)</b>	<b>(5,537)</b>	<b>(1,705)</b>
<b>1. Profit for the year</b>	<b>3,230</b>	<b>2,914</b>
<b>2. Adjustments to obtain the cash flow from operating activities:</b>	<b>3,068</b>	<b>3,978</b>
Depreciation and amortization	606	712
Other adjustments	2,462	3,266
<b>3. Net increase/decrease in operating assets</b>	<b>(18,862)</b>	<b>9,090</b>
Financial assets held for trading	1,291	6,440
Non-trading financial assets mandatorily at fair value through profit or loss	42	-
Other financial assets designated at fair value through profit or loss	(350)	(71)
Financial assets at fair value through other comprehensive income	(6,409)	4,032
Loans and receivables	(12,207)	(1,771)
Other operating assets	(1,229)	460
<b>4. Net increase/decrease in operating liabilities</b>	<b>8,037</b>	<b>(16,664)</b>
Financial liabilities held for trading	2,529	(5,130)
Other financial liabilities designated at fair value through profit or loss	754	2
Financial liabilities at amortized cost	4,968	(11,960)
Other operating liabilities	(214)	424
<b>5. Collection/Payments for income tax</b>	<b>(1,010)</b>	<b>(1,023)</b>
<b>B) CASH FLOWS FROM INVESTING ACTIVITIES (1 + 2)</b>	<b>(86)</b>	<b>1,444</b>
<b>1. Investment</b>	<b>(783)</b>	<b>(1,262)</b>
Tangible assets	(244)	(168)
Intangible assets	(407)	(168)
Investments in joint ventures and associates	(112)	(63)
Subsidiaries and other business units	(20)	(863)
Non-current assets held for sale and associated liabilities	-	-
Held-to-maturity investments	-	-
Other settlements related to investing activities	-	-
<b>2. Divestments</b>	<b>697</b>	<b>2,706</b>
Tangible assets	305	-
Intangible assets	-	-
Investments in joint ventures and associates	79	17
Subsidiaries and other business units	85	17
Non-current assets held for sale and associated liabilities	33	224
Held-to-maturity investments	-	2,439
Other collections related to investing activities	195	9
<b>C) CASH FLOWS FROM FINANCING ACTIVITIES (1 + 2)</b>	<b>(1,701)</b>	<b>(1,173)</b>
<b>1. Payments</b>	<b>(3,315)</b>	<b>(4,850)</b>
Dividends	(1,240)	(879)
Subordinated liabilities	(813)	(2,649)
Treasury stock amortization	-	-
Treasury stock acquisition	(887)	(1,025)
Other items relating to financing activities	(375)	(297)
<b>2. Collections</b>	<b>1,614</b>	<b>3,677</b>
Subordinated liabilities	833	2,655
Treasury shares increase	-	-
Treasury shares disposal	781	1,022
Other items relating to financing activities	-	-
<b>D) EFFECT OF EXCHANGE RATE CHANGES</b>	<b>(1,991)</b>	<b>(1,685)</b>
<b>E) NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (A+B+C+D)</b>	<b>(9,311)</b>	<b>(3,118)</b>
<b>F) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>45,549</b>	<b>44,957</b>
<b>G) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (E+F)</b>	<b>36,238</b>	<b>41,838</b>

### COMPONENTS OF CASH AND EQUIVALENT AT END OF THE YEAR (Millions of Euros)

	June 2018	June 2017 (*)
Cash	5,545	5,999
Balance of cash equivalent in central banks	30,693	35,840
Other financial assets	-	-
Less: Bank overdraft refundable on demand	-	-
<b>TOTAL CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>36,238</b>	<b>41,838</b>

(\*) Presented for comparison purposes only (Note 1.3).

The accompanying Notes 1 to 49 and Appendices I to VI are an integral part of the condensed consolidated financial statements as of and for the six-months ended June 30, 2018.



## **Notes to the Condensed Interim Consolidated Financial Statements**

### **1. Introduction, basis for the presentation of the interim Consolidated Financial Statements and other information**

#### **1.1 Introduction**

Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter "the Bank" or "BBVA") is a private-law entity subject to the laws and regulations governing banking entities operating in Spain. It carries out its activity through branches and agencies across the country and abroad.

The Bylaws and other public information are available for inspection at the Bank's registered address (Plaza San Nicolás, 4 Bilbao) as noted on its web site ([www.bbva.com](http://www.bbva.com)).

In addition to the activities it carries out directly, the Bank heads a group of subsidiaries, joint ventures and associates which perform a wide range of activities and which together with the Bank constitute the Banco Bilbao Vizcaya Argentaria Group (hereinafter, "the Group" or "the BBVA Group"). In addition to its own separate financial statements, the Bank is required to prepare Consolidated Financial Statements comprising all consolidated subsidiaries of the Group.

The Consolidated Financial Statements of the BBVA Group for the year ended December 31, 2017 were approved by the shareholders at the Annual General Meeting ("AGM") on March 16, 2018.

#### **1.2 Basis for the presentation of the Condensed Consolidated Financial Statements**

The BBVA Group's condensed interim consolidated financial statements (hereinafter, the "consolidated financial statements") are presented in accordance with the International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") and have been presented to the Board of Directors at its meeting held on July 26, 2018. In accordance with IAS 34, the interim financial information is prepared solely for the purpose of updating the last annual consolidated financial statements, focusing on new activities, events and circumstances that occurred during the period without duplicating the information previously published in those financial statements.

Therefore, the accompanying consolidated financial statements do not include all information required by a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards endorsed by the European Union (hereinafter, "EU-IFRS"). Consequently, for an appropriate understanding of the information included in them, they should be read together with the consolidated financial statements of the Group as of and for the year ended December 31, 2017.

The aforementioned consolidated financial statements were presented in accordance with the EU-IFRS applicable as of December 31 2017 respectively, pursuant to Bank of Spain Circular 4/2004 (and as amended thereafter), and any other legislation governing financial reporting applicable to the Group in Spain.

The accompanying consolidated financial statements were prepared applying principles of consolidation, accounting policies and valuation criteria, which, as described in Note 2, are the same as those applied in the consolidated financial statements of the Group as of and for the year ended December 31, 2017, taking into consideration the new Standards and Interpretations that became effective on January 1, 2018 (see Note 2),

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so that they present fairly the Group's consolidated equity and financial position as of June 30, 2018, together with the consolidated results of its operations and the consolidated cash flows generated by the Group during the six months ended June 30, 2018.

The consolidated financial statements and explanatory notes were prepared on the basis of the accounting records kept by the Bank and each of the other entities in the Group. They include the adjustments and reclassifications required to harmonize the accounting policies and valuation criteria used by the entities in the Group.

All effective accounting standards and valuation criteria with a significant effect in the consolidated financial statements were applied in their preparation.

The amounts reflected in the accompanying consolidated financial statements are presented in millions of euros, unless it is more appropriate to use smaller units. Therefore, some items that appear without a balance in these consolidated financial statements are due to how the units are expressed. Also, in presenting amounts in millions of euros, the accounting balances have been rounded up or down. It is therefore possible that the totals appearing in some tables are not the exact arithmetical sum of their component figures.

When determining the information to disclose about various items of the financial statements, the Group, in accordance with IAS 34, has taken into account their materiality in relation to the consolidated financial statements.

### **1.3 Comparative information**

The information included in the accompanying consolidated financial statements and the explanatory notes relating to December 31, 2017 and June 30, 2017 that was prepared in accordance with the standards for the year 2017 is presented for the purpose of comparison with the information for June 30, 2018.

As of January 1, 2018, IFRS 9 "Financial instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" and includes changes in the requirements for the classification and measurement of financial assets and financial liabilities, the impairment of financial assets and hedge accounting (see Note 2.1). The impact of the first application of IFRS 9 is presented in Appendix VI.

During the first semester of 2018, there were no significant changes to the existing structure of the BBVA Group's operating segments in comparison to 2017 (see Note 5). Certain prior year balances have been reclassified to conform to current period presentation.

### **1.4 Seasonal nature of income and expenses**

The nature of the most significant activities carried out by the BBVA Group's entities is mainly related to typical activities carried out by financial institutions, which are not significantly affected by seasonal factors within the same year.

### **1.5 Responsibility for the information and for the estimates made**

The information contained in the BBVA Group's consolidated financial statements is the responsibility of the Group's Directors.

Estimates have to be made at times when preparing these Consolidated Financial Statements in order to calculate the recorded or disclosed amount of some assets, liabilities, income, expenses and commitments. These estimates relate mainly to the following:

- Impairment losses on certain financial assets (Notes 6, 12, 13, 14 and 15).

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- The assumptions used to quantify certain provisions (Note 23) and for the actuarial calculation of post-employment benefit liabilities and commitments (Note 24).
- The useful life and impairment losses of tangible and intangible assets (Note 16, 17, 19 and 20).
- The valuation of goodwill and price allocation of business combinations (Note 17).
- The fair value of certain unlisted financial assets and liabilities (Note 7).
- The recoverability of deferred tax assets (Note 18).
- The exchange rate and the inflation rate of Venezuela.

Although these estimates were made on the basis of the best information available as of June 30, 2018, future events may make it necessary to modify them (either up or down) over the coming years. This would be done prospectively in accordance with applicable standards, recognizing the effects of changes in the estimates in the corresponding consolidated income statement.

During the first semester of 2018 there were no significant changes to the assumptions made as of December 31, 2017, except as indicated in these consolidated financial statements.

## 1.6 Separate financial statements

The separate financial statements of the parent company of the Group (Banco Bilbao Vizcaya Argentaria, S.A.) are prepared under Spanish regulations (Circular 4/2017 of the Bank of Spain) and following other regulatory requirements of financial information applicable to the Bank.

As of January 1, 2018, Circular 4/2017 issued by the Bank of Spain on public and reserved financial information standards, and financial statement models entered into force for credit institutions. The purpose of this circular is to adapt the Spanish credit institutions accounting system to changes in the European accounting system resulting from the adoption of two new International Financial Reporting Standards (IFRS), specifically "IFRS 15 - Revenue from contracts with customers" and "IFRS 9 - Financial instruments".

Appendix II shows BBVA's financial statements the six-months ended June 30, 2018.

## 2. Principles of consolidation, accounting policies and measurement bases applied and recent IFRS pronouncements

The accounting policies and methods applied for the preparation of the accompanying consolidated financial statements do not differ significantly to those applied in the Consolidated Financial Statements of the Group for the year ended December 31, 2017 (Note 2), except for the application of IFRS 9.

### 2.1 Standards and interpretations that became effective in the first semester of 2018

The following amendments to the IFRS standards or their interpretations (hereinafter "IFRIC") became effective on or after January 1, 2018. They have had an impact on the BBVA Group's consolidated financial statements corresponding to the period ended June 30, 2018.

#### IFRS 9 - "Financial instruments"

IFRS 9 replaced IAS 39 for financial statements from January 1, 2018 onwards and includes new classification and measurement requirements for financial assets and liabilities, impairment requirements for financial assets and hedge accounting policy.



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The application of this standard on January 1, 2018, has had a significant impact on the consolidated financial statements of the Group at that date. The first application is detailed in Annex VI.

The main requirements of IFRS 9 are:

## ■ Classification and measurement of financial instruments

### Financial assets

IFRS 9 has a new approach to classification and measurement of financial assets which is a mirror of the business model used for asset management purposes and its cash flow characteristics.

IFRS 9 contains three main categories for financial assets classification: valued at amortized cost, valued at fair value with changes in other accumulated comprehensive income, and valued at fair value through profit or loss. The standard eliminates the existing IAS 39 categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

The classification of financial instruments measured at amortized cost or fair value must be carried out on the basis of the entity's business model and the assessment of the contractual cash flow, commonly known as the "solely payments of principle and interest" criterion (hereinafter, the SPPI). The purpose of the SPPI test is to determine whether in accordance with the contractual characteristics of the instrument its cash flows only represent the return of the principal and interest, basically understood as consideration for the time value of money and the debtor's credit risk.

A financial instrument will be classified in the amortized cost portfolio when it is managed with a business model whose purpose is to maintain the financial assets to receive contractual cash flows, and passes the SPPI test. They will be classified in the portfolio of financial assets at fair value with changes in other comprehensive income if they are managed with a business model whose purpose combines collection of the contractual cash flows and sale of the assets, and meets the SPPI test. They will be classified at fair value with changes in profit and loss provided that the entity's business model for their management or the contractual characteristics of its cash flows do not require classification into one of the portfolios described above.

The Group has reviewed the existing business models in the geographic areas where it operates to establish classification in accordance with IFRS 9, taking into account the special characteristics of the local structures and organizations, as well as the type of products.

The Group has defined criteria to determine the acceptable frequency and reasons for sales so that the instrument can remain in the category of held to collect contractual cash flows.

Regardless of the frequency and importance of the sales, some types of sales are not incompatible with the category of held to collect contractual flows: sales due to reduction in credit quality; sales close to the maturity of transactions so that variations in market prices will not have a significant effect on the cash flows of the financial asset; sales in response to a change in regulations or in taxation; sales in response to an internal restructuring or significant business combination; sales derived from the execution of a liquidity crisis plan when the crisis event is not reasonably foreseeable.

The Group has segmented the portfolio of instruments for carrying out the SPPI test by differentiating products with standard contracts (all the instruments have identical contractual characteristics and are broadly used), for which the Group has carried out the SPPI test by reviewing the standard framework contract. For those products with similar, but not identical characteristics, compliance has been assessed through a sampling exercise of contracts. All the financial instruments with specific contractual characteristics have been analyzed individually.

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As a result of the analyses carried out on both the business model and the contractual characteristics, certain accounting reclassifications have resulted affecting both financial assets and, as the case may be, financial liabilities related to those assets. In general, there is a greater volume of assets valued at fair value with changes in the income statement and the valuation method of some instruments has also been changed according to the one that best reflects the business model to which they belong. Changes in the valuation model to avoid exceeding the criterion of solely payment of principal and interest are not significant.

As of December 31, 2017, the Group had certain investments in asset instruments classified as available-for-sale which, in accordance with IFRS 9, the Group has designated as financial assets at fair value through changes in accumulated other comprehensive income. As a result, all the gains and losses at fair value of these instruments are now reported in other cumulative comprehensive income. Impairment losses would not be recognized to profit and loss, and gains or losses would not be reclassified to the income statement in the case of divestment. The remaining investments held by the Group as of December 31, 2017 in equity instruments classified as available-for-sale are now accounted for as fair value through changes in profit or loss.

## Financial liabilities

IFRS 9 largely maintains the requirements under IAS 39 for classifying financial liabilities. Thus, save for the above mentioned changes derived from the business model allocation of assets associated with them, the classification of financial liabilities in accordance with IAS 39 has not been changed. However, a new aspect introduced by IFRS 9 is the recognition of changes in the fair value of the financial liabilities to which the fair value option is applied. In this case, the changes in the fair value attributable to the credit risk itself are recognized as other comprehensive income, while the rest of the variation is recognized in the income statement. In any case, the variation of credit risk itself may be recognized in the income statement if the treatment described above generates accounting asymmetry.

## Financial assets impairments

IFRS 9 replaced the "incurred loss" model in IAS 39 with one of "expected credit loss". The IFRS 9 impairment model is applied to financial assets valued at amortized cost and to financial assets valued at fair value with changes in accumulated other comprehensive income, except for investments in equity instruments; and contracts for financial guarantees and loan commitments unilaterally revocable by BBVA. Likewise, all the financial instruments valued at fair value with change through profit and loss are excluded from the impairment model.

The new standard classifies financial instruments into three categories, which depend on the evolution of their credit risk from the moment of initial recognition. The first category includes the transactions when they are initially recognized (Stage 1); the second comprises the operations for which a significant increase in credit risk has been identified since its initial recognition (Stage 2) and the third one, the impaired operations (Stage 3).

The calculation of the provisions for credit risk in each of these three categories must be done differently. In this way, expected loss up to 12 months for the operations classified in the first of the aforementioned categories must be recorded, while expected losses estimated for the remaining life of the operations classified in the other two categories must be recorded. Thus, IFRS 9 differentiates between the following concepts of expected loss:

- Expected loss at 12 months: expected credit loss that arises from possible default events within 12 months following the presentation date of the financial statements; and
- Expected loss during the life of the transaction: this is the expected credit loss that arises from all possible default events over the remaining life of the financial instrument.

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All this requires considerable judgment, both in the modeling for the estimation of the expected losses and in the forecasts, on how the economic factors affect such losses, which must be carried out on a weighted probability basis.

The BBVA Group has applied the following definitions in accordance with IFRS 9:

#### Default

BBVA has applied a definition of default for financial instruments that is consistent with that used in internal credit risk management, as well as the indicators under applicable regulation at the date of entry into force of IFRS 9. Both qualitative and quantitative indicators have been considered.

The Group has considered there is a default when one of the following situations occurs:

- payment past-due for more than 90 days; or
- there are reasonable doubts regarding the full reimbursement of the instrument.

In accordance with IFRS 9, the 90-day past-due stipulation may be waived in cases where the entity considers it appropriate, based on reasonable and documented information that it is appropriate to use a longer term. As of June 30, 2018, the Group has not used terms greater than 90 days for any of the significant portfolios.

#### Credit impaired asset

An asset is credit-impaired according to IFRS 9 if one or more events have occurred and they have a detrimental impact on the estimated future cash flows of the asset. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower,
- a breach of contract (e.g. a default or past due event),
- a lender having granted a concession to the borrower – for economic or contractual reasons relating to the borrower’s financial difficulty – that the lender would not otherwise consider,
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization,
- the disappearance of an active market for that financial asset because of financial difficulties, or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may cause financial assets to become credit-impaired.

The definition of impaired financial assets in the Group is aligned with the definition of default explained in the above paragraphs.

#### Significant increase in credit risk

The objective of the impairment requirements is to recognize lifetime expected credit losses for financial instruments for which there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information, including that which is forward-looking.

The model developed by the Group for assessing the significant increase in credit risk has a two-prong approach that is applied globally, although the specific characteristics of each geographic area are respected:

- Quantitative criterion: the Group uses a quantitative analysis based on comparing the current expected probability of default over the life of the transaction with the original adjusted expected probability of default, so that both values are comparable in terms of expected default probability for their residual life. The thresholds used for considering a significant increase in risk take into account special cases according to geographic areas and portfolios. Depending on how old current operations are, at the time of entry into force of the standard, some simplification has been made to compare the probabilities of default between the current and the original moment, based on the best information available at that moment.
- Qualitative criterion: most indicators for detecting significant risk increase are included in the Group's systems through rating/scoring systems or macroeconomic scenarios, so quantitative analysis covers the majority of circumstances. The Group will use additional qualitative criteria when it considers it necessary to include circumstances that are not reflected in the rating/score systems or macroeconomic scenarios used.

Additionally, instruments under one of the following circumstances are considered Stage 2:

- More than 30 days past due: Default of more than 30 days is a presumption that can be rebutted in those cases in which the entity considers, based on reasonable and documented information, that such non-payment does not represent a significant increase in risk. As of June 30, 2018, the Group has not used a term longer than 30 days for any of the significant portfolios.
- Watch list: They are subject to special watch by the Risks units because they show negative signs in their credit quality, even though there may be no objective evidence of impairment.
- Refinance or restructuring that does not show evidence of impairment.

Although the standard introduces a series of operational simplifications or practical solutions for analyzing the increase in significant risk, the Group does not expect to use them as a general rule. However, for high-quality assets, mainly related to certain government institutions and bodies, the standard allows for considering that their credit risk has not increased significantly because they have a low credit risk at the presentation date.

Thus the classification of financial instruments subject to impairment under the new IFRS 9 is as follows:

- **Stage 1- without significant increase in credit risk**

Financial assets which are not considered to have significantly increased in credit risk have loss allowances measured at an amount equal to 12 months expected credit losses.

- **Stage 2- significant increase in credit risk**

When the credit risk of a financial asset has increased significantly since the initial recognition, the impairment losses of that financial instrument is calculated as the expected credit loss during the entire life of the asset.

- **Stage 3 - Impaired**

When there is objective evidence that the instrument is credit impaired, the financial asset is transferred to this category in which the provision for losses of that financial instrument is calculated as the expected credit loss during the entire life of the asset.

## Method for calculating expected loss

In accordance with IFRS 9, the measurement of expected losses must reflect:

- A considered and unbiased amount, determined by evaluating a range of possible results,
- The time value of money, and
- Reasonable and supportable information that is available without undue cost or effort and that reflects current conditions and forecasts of future economic conditions.

The Group measures the expected losses both individually and collectively. The purpose of the Group's individual measurement is to estimate expected losses for significant impaired instruments, or instruments classified in Stage 2. In these cases, the amount of credit losses is calculated as the difference between expected discounted cash flows at the effective interest rate of the transaction and the carrying amount of the instrument.

For the collective measurement of expected losses, the instruments are grouped into groups of assets based on their risk characteristics. Exposure within each group is segmented according to the common credit risk characteristics, similar characteristics of the credit risk, indicative of the payment capacity of the borrower in accordance with their contractual conditions. These risk characteristics have to be relevant in estimating the future flows of each group. The characteristics of credit risk may consider, among others, the following factors:

- Type of instrument.
- Rating or scoring tools.
- Credit risk scoring or rating.
- Type of collateral.
- Amount of time at default for Stage 3.
- Segment.
- Qualitative criteria which can have a significant increase in risk.
- Collateral value if it has an impact on the probability of a default event.

The estimated losses are derived from the following parameters:

- PD: estimate of the probability of default in each period.
- EAD: estimate of the exposure in case of default at each future period, taking into account the changes in exposure after the presentation date of the financial statements.
- LGD: estimate of the loss in case of default, calculated as the difference between the contractual cash flows and receivables, including guarantees.

In the case of debt securities, the Group supervises the changes in credit risk through monitoring the external published credit ratings.

To determine whether there is a significant increase in credit risk that is not reflected in the published ratings, the Group has also revised the changes in bond yields, and when they are available, the prices of CDS, together with the news and regulatory information available on the issuers.

## Use of present, past and future information

IFRS 9 requires incorporation of present, past and future information to detect any significant increase in risk and measure expected loss.

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The standard does not require identification of all possible scenarios for measuring expected loss. However, the probability of a loss event occurring and the probability it will not occur will also have to be considered, even though the possibility of a loss may be very small. Also, when there is no linear relation between the different future economic scenarios and their associated expected losses, more than one future economic scenario must be used for the measurement.

The approach used by the Group consists of using first the most probable scenario (baseline scenario) consistent with that used in the Group's internal management processes, and then applying an additional adjustment, calculated by considering the weighted average of expected losses in other economic scenarios (one more positive and the other more negative). The main macroeconomic variables that are valued in each of the scenarios for each of the geographies in which the Group operates are Gross Domestic Product (GDP), tax rates, unemployment rate and loan to value (LTV).

## **Hedge accounting**

IFRS 9 also affects hedge accounting, because the focus of the IFRS 9 is different from that of IAS 39, as it tries to align the accounting requirements with economic risk management. IFRS 9 also permit the application of hedge accounting to a wider range of risks and hedging instruments. The Standard does not address the accounting for macro hedging strategies. To avoid any conflict between the macro hedge accounting under IAS 39 and the general hedge accounting requirements, IFRS 9 provides an accounting policy election for entities to continue applying hedge accounting under IAS 39.

Macro-hedges accounting is being developed as a separate project. Entities have the option to continue applying the hedge accounting as established by IAS39 until the project is completed. The Group has elected to continue applying IAS 39 to its hedge accounting.

### **Amended IFRS 9 - Prepayment Features with Negative Compensation**

The amendments to IFRS 9 allow entities to measure particular prepayable financial assets with negative compensation at amortized cost or at fair value through other comprehensive income if a specified condition is met, instead of at fair value through profit or loss. The condition is that the financial asset would otherwise meet the criteria of having contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of that prepayment feature.

The amendments should be applied to the accounting periods beginning on or after January 1, 2019, although early application is permitted. The Group has applied this amendment to the accounting period beginning on January 1, 2018 and it has not had a significant impact on the Group's financial statements.

### **Amended IFRS 7 - "Financial instruments: Disclosures"**

The IASB modified IFRS 7 in December 2011 to include new disclosures on financial instruments that entities will have to provide as soon as they apply IFRS 9 for the first time.

### **IFRS 15 - "Revenue from contracts with customers"**

IFRS 15 contains the principles that an entity shall apply to account for revenue and cash flows arising from a contract with a customer.

The core principle of IFRS 15 is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services, in accordance with contractual agreements (either over time or at a certain time). It is considered that the good or service is transferred when the customer obtains control over it.

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The new Standard replaces IAS 18 – Revenue, IAS 11 - Construction Contracts, IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers and SIC 31 – Revenue-Transactions Involving Advertising Services.

This standard has not had a significant impact on the Group's Consolidated Financial Statements.

#### **IFRS 2 - “Classification and Measurement of Share-based Payment Transactions”**

The amendments made to IFRS 2 provide requirements on three different aspects:

- When measuring the fair value of a cash-settled share-based payment vesting conditions, other than market conditions, the conditions for the irrevocability shall be taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction.
- A transaction in which an entity settles a share-base payment arrangement net by withholding a specified portion of the equity instruments to meet a statutory tax withholding obligation will be classified as equity settled in its entirety if, without the net settlement feature, the entire share-based payment would otherwise be classified as equity-settled.
- In case of modification of a share-based payment from cash-settled to equity-settled, the modification will be accounted for derecognizing the original liability and recognizing in equity the fair value of the equity instruments granted to the extent that services have been rendered up to the modification date; any difference will be recognized immediately in profit or loss.

This standard has not had a significant impact on the Group's Consolidated Financial Statements.

#### **Amended IFRS 4 - “Insurance Contracts”**

The amendments made to IFRS 4 address the temporary accounting consequences of the different effective dates of IFRS 9 and the forthcoming insurance contracts standard, by introducing two optional solutions:

- *The deferral approach or temporary exemption*, that gives entities whose predominant activities are connected with insurance the option to defer the application of IFRS 9 and continue applying IAS 39 until 2021.
- *The overlay approach*, that gives all issuers of insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the additional accounting volatility that may arise from applying IFRS 9 compared to applying IAS 39 before applying the forthcoming insurance contracts standard.

This standard has not had a significant impact on the Group's Consolidated Financial Statements.

#### **Annual improvements cycle to IFRSs 2014-2016 - Minor amendments to IFRS 1 and IAS 28**

The annual improvements cycle to IFRSs 2014-2016 includes minor changes and clarifications to IFRS 1- First-time Adoption of International Financial Reporting Standards and IAS 28 – Investments in Associates and Joint Ventures, which should be applied to the accounting periods beginning on or after January 1, 2018, although early application was permitted for modifications to IAS 28.

This standard has not had a significant impact on the Group's Consolidated Financial Statements.

#### **IFRIC 22- Foreign Currency Transactions and Advance Consideration**

The Interpretation addresses how to determine the date of the transaction, and thus, the exchange rate to use to translate the related asset, expense or income on initial recognition, in circumstances in which a non-monetary prepayment asset or a non-monetary deferred income liability arising from the payment or receipt of advance consideration is recognized in advance of the related asset, income or expense. It requires that

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the date of the transaction will be the date on which an entity initially recognizes the non-monetary asset or non-monetary liability.

If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

This standard has not had a significant impact on the Group's consolidated financial statements.

#### **Amended IAS 40 - Investment Property**

The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property.

This standard has not had a significant impact on the Group's financial statements.

## **2.2 Standards and interpretations issued but not yet effective as of June 30, 2018**

The following new International Financial Reporting Standards together with their interpretations had been published at the date of preparation of the accompanying consolidated financial statements, but are not mandatory as of June 30, 2018. Although in some cases the IASB allows early adoption before their effective date, the BBVA Group has not proceeded with this option for any such new standards.

#### **Amended IFRS 10 - "Consolidated financial statements" and IAS 28 amended**

These changes will be applicable to accounting periods beginning on the effective date, still to be determined, although early adoption is allowed.

#### **IFRS 16 - "Leases"**

The standard will be applied to the accounting years starting on or after January 1, 2019.

#### **IFRS 17 - Insurance Contracts**

This Standard will be applied to the accounting years starting on or after January 1, 2021.

#### **IFRIC 23 - Uncertainty over Income Tax Treatments**

The interpretation will be applied to the accounting periods beginning on or after January 1, 2019.

#### **Amended IAS 28 - Long-term Interests in Associates and Joint Ventures**

The amendments will be applied to the accounting periods beginning on or after January 1, 2019.

#### **Annual improvements cycle to IFRSs 2015-2017**

The amendments will be applied to the accounting periods beginning on or after January 1, 2019.

#### **Amended IAS 19 - Plan Amendment, Curtailment or Settlement**

The amendments will be applied to the accounting periods beginning on or after January 1, 2019.



### 3. BBVA Group

The BBVA Group is an international diversified financial group with a significant presence in retail banking, wholesale banking, asset management and private banking. The Group also operates in other sectors such as insurance, real estate, operational leasing, etc.

The following information is detailed in the Consolidated Financial Statements of the Group for the year ended December 31, 2017:

- Appendix I shows relevant information related to the consolidated subsidiaries and structured entities.
- Appendix II shows relevant information related to investments in subsidiaries, joint ventures and associates accounted for using the equity method.
- Appendix III shows the main changes and notification of investments and divestments in the BBVA Group.
- Appendix IV shows fully consolidated subsidiaries with more than 10% owned by non-Group shareholders.

Appendix I shows the changes of investments and divestments in the BBVA Group during the first six months of the year 2018.

#### [Main transactions in the Group in the first semester of 2018](#)

##### [Divestitures](#)

##### [Sale of BBVA's stake in BBVA Chile](#)

On November 28, 2017, BBVA received a binding offer (the "Offer") from The Bank of Nova Scotia group ("Scotiabank") for the acquisition of BBVA's stake in Banco Bilbao Vizcaya Argentaria Chile, S.A. ("BBVA Chile") as well as in other companies of the Group in Chile with operations that are complementary to the banking business (amongst them, BBVA Seguros Vida, S.A.). BBVA owns approximately, directly and indirectly, 68.19% of BBVA Chile share capital. On December 5, 2017, BBVA accepted the Offer and entered into a sale and purchase agreement. The Offer received does not include BBVA's stake in the automobile financing companies of Forum group and in other Chilean entities from BBVA's Group which are engaged in corporate activities of BBVA Group.

On July 6, 2018, BBVA has completed the sale to Scotiabank of its direct and indirect shareholding stake in BBVA Chile. The consideration received in cash by BBVA as consequence of the referred sale amounts to approximately 2,200 million USD. The transaction results in a capital gain net of taxes of approximately 640 million euros and in a positive impact on BBVA Group's Common Equity Tier 1 (fully loaded) of approximately 50 basis points. These impacts will be recorded in BBVA Group's third quarter consolidated financial statements for 2018 (see Note 49).

##### [Ongoing divestitures](#)

##### [Agreement for the creation of a "joint-venture" and transfer of the real estate business in Spain](#)

On November 29, 2017, BBVA reached an agreement with a subsidiary of Cerberus Capital Management, L.P. ("Cerberus") for the creation of a "joint venture" to which an important part of the real estate business of BBVA in Spain will be transferred (the "Business"). BBVA will contribute the Business to a single company (the "Company") and will sell 80% of the shares of such Company to Cerberus at the closing date of the transaction.

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The Business comprises: (i) foreclosed real estate assets (the “REOs”), with a gross book value of approximately €13,000 million, taking as starting point the situation of the REOs on June 26, 2017; and (ii) the necessary assets and employees to manage the Business in an autonomous manner. For the purpose of the agreement with Cerberus, the whole Business was valued at approximately €5,000 million.

Considering the valuation of the whole Business previously mentioned and assuming that all the Business’ REOs on June 26, 2017 will be contributed to the Company, the sale price for 80% of the shares would amount to approximately €4,000 million. The price finally paid will be determined by the volume of REOs effectively contributed that may vary depending on, among other matters, the sales carried out from the date of reference June 26, 2017 until the date of closing of the transaction and the fulfilment of the usual conditions in this kind of transactions.

The transaction as a whole is subject to obtaining the relevant authorizations from the competent authorities, which are expected to be obtained during the second half of the year 2018.

## 4. Shareholder remuneration system

### Cash Dividends

The Annual General Meeting of BBVA held on March 16, 2018 approved, under item 1 of the Agenda, the payment of a final dividend for 2017, in addition to other dividends previously paid, in cash for an amount equal to €0.15 (€0.1215 net of withholding tax) per BBVA share. Such final dividend was paid on April 10, 2018.

## 5. Operating segment reporting

Operating segment reporting represents a basic tool in the oversight and management of the BBVA Group’s various activities. The BBVA Group compiles reporting information on disaggregated business activities. These business activities are then aggregated in accordance with the organizational structure determined by the BBVA Group and, ultimately, into the reportable operating segments themselves.

As of June 30, 2018, there have not been significant changes in the reporting structure of the operating segments of the BBVA Group compared to the structure existing at the end of 2017. The structure of the operating segment is as follows:

### ■ Banking activity in Spain

As in previous years, includes the Retail Network, 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

Includes specialist management in Spain of loans to developers in difficulties and real-estate assets mainly comprised foreclosed assets, originated from both residential mortgages and loans to developers. New loan production to developers or loans to those that are not in difficulties are managed by Banking activity in Spain.

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#### ■ The United States

Includes the Group's business activity in the country through the BBVA Compass group and the BBVA New York branch.

#### ■ Mexico

Includes all the banking and insurance businesses in the country.

#### ■ Turkey

Includes the activity of the BBVA Group business in Turkey through Garanti Group.

#### ■ South America

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.

Lastly, the Corporate Center is comprised of the rest of the assets and liabilities that have not been allocated to the operating segments, 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 capital instruments to ensure adequate management of the Group's global solvency; portfolios and their corresponding results, whose management is not linked to customer relations, such as industrial holdings; certain tax assets and liabilities; funds due to commitments with employees; goodwill and other intangibles.

The accompanying Interim Consolidated Management Report presents the consolidated income statements and the balance sheets by operating segments.

## 6. Risk management

The principles and risk management policies, as well as tools and procedures established and implemented in the Group as of June 30, 2018 do not differ significantly from those included in the Consolidated Financial Statements of the Group for the year ended December 31, 2017 (see Note 7 of such financial statements).

### 6.1 Risk factors

As mentioned earlier, BBVA has processes in place for identifying risks and analyzing scenarios that enable the Group to manage risks in a dynamic and proactive way.

The risk identification processes are forward looking to ensure the identification of emerging risks and take into account the concerns of both the business areas, which are close to the reality of the different geographical areas, and the corporate areas and senior management.

Risks are captured and measured consistently using the methodologies deemed appropriate in each case. Their measurement includes the design and application of scenario analyses and stress testing and considers the controls to which the risks are subjected.

As part of this process, a forward projection of the risk appetite framework variables in stress scenarios is conducted in order to identify possible deviations from the established thresholds. If any such deviations are detected, appropriate measures are taken to keep the variables within the target risk profile.

To this extent, there are a number of emerging risks that could affect the Group's business trends. These risks are described in the following main blocks:

#### ■ Macroeconomic and geopolitical risks

Global growth has improved during 2017, and is more synchronized across developed and emerging markets, which makes the recovery more sustainable. Healthy global trade growth and calm financial markets, which rely on the support from central banks and the lack of inflation pressure, also contribute to the more upbeat outlook. The performance of the most advanced economies is solid, especially the Eurozone, where global demand adds to domestic factors and reduced political uncertainty. Growth momentum in The United States will be supported in the short term by the recently approved tax reform, although its long-term impact is unlikely to be large. As regards emerging economies, China's growth moderation continues, with a mix of policies oriented to diminish financial imbalances, while economic activity in Latin America recovers against a background of higher commodity prices and favorable global funding conditions.

The uncertainty around these positive economic perspectives has a downward bias but continues to be elevated. First, following a long period of exceptionally loose monetary policies, the main central banks are tapering their support, with uncertainty on their impact on markets and economies given the background of high leverage and signs of overvaluation in some financial assets. A second source of uncertainty is related with the political support to the multilateral global governance of trade. Third, both global geopolitics and domestic politics in some countries are relevant for the economic perspectives within the BBVA's footprint.

In this regard, the Group's geographical diversification remains a key element in achieving a high level of revenue recurrence, despite the background conditions and economic cycles of the economies in which it operates.

#### ■ Regulatory and reputational risks

- Financial institutions are exposed to a complex and ever-changing regulatory environment defined by governments and regulators. This can affect their ability to grow and the capacity of certain businesses to develop, and result in stricter liquidity and capital requirements with lower profitability ratios. The Group constantly monitors changes in the regulatory framework (such as IFRS9, Basel IV, etc.) that allow for anticipation and adaptation to them in a timely manner, adopt industry practices and more efficient and rigorous criteria in its implementation.
- The financial sector is under ever closer scrutiny by regulators, governments and society itself. Negative news or inappropriate behavior can significantly damage the Group's reputation and affect its ability to develop a sustainable business. The attitudes and behaviors of the group and its members are governed by the principles of integrity, honesty, long-term vision and industry practices through, inter alia, internal control Model, the Code of Conduct, tax strategy and Responsible Business Strategy of the Group.

#### ■ Business, operational and legal risks

- New technologies and forms of customer relationships: Developments in the digital world and in information technologies pose significant challenges for financial institutions, entailing threats (new competitors, disintermediation...) but also opportunities (new framework of relations with customers, greater ability to adapt to their needs, new products and distribution channels...). Digital transformation is a priority for the Group as it aims to lead digital banking of the future as one of its objectives.
- Technological risks and security breaches: The Group is exposed to new threats such as cyber-attacks, theft of internal and customer databases, fraud in payment systems, etc. that require

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major investments in security from both the technological and human point of view. The Group gives great importance to the active operational and technological risk management and control. One example was the early adoption of advanced models for management of these risks (*AMA - Advanced Measurement Approach*).

- The financial sector is exposed to increasing litigation, so the financial institutions face a large number of proceedings which economic consequences are difficult to determine. The Group manages and monitors these proceedings to defend its interests, where necessary allocating the corresponding provisions to cover them, following the expert criteria of internal lawyers and external attorneys responsible for the legal handling of the procedures, in accordance with applicable legislation.

## 6.2 Credit risk

### 6.2.1 Credit risk exposure

BBVA Group's maximum credit risk exposure (see definition below) by headings in the balance sheets as of June 30, 2018 and December 31, 2017 is provided below. It does not consider the availability of collateral or other credit enhancements to guarantee compliance with payment obligations. The details are broken down by financial instruments and counterparties.

Maximum Credit Risk Exposure (Millions of euros)

	Notes	June 2018			
<b>Financial assets held for trading</b>		<b>55,741</b>			
Debt securities	9	26,953			
Equity instruments	9	5,250			
Loans and advances to customers	9	23,538			
<b>Non-trading financial assets mandatorily at fair value through profit or loss</b>		<b>4,377</b>			
Loans and advances	10	1,329			
Debt securities	10	290			
Equity instruments	10	2,758			
<b>Financial assets designated at fair value through profit or loss</b>	<b>11</b>	<b>1,487</b>			
<b>Derivatives (trading and hedging)</b>		<b>44,938</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
<b>Financial assets at fair value through other comprehensive income</b>	<b>12.1</b>	<b>63,192</b>	<b>63,190</b>	<b>2</b>	<b>-</b>
Debt securities		60,614	60,612	2	-
Equity instruments	12.1	2,579	2,579	-	-
<b>Financial assets at amortized cost</b>		<b>439,880</b>	<b>388,929</b>	<b>32,276</b>	<b>18,675</b>
Loans and advances to central banks		5,311	5,311	-	-
Loans and advances to credit institutions		11,795	11,785	-	10
Loans and advances to customers		390,661	339,788	32,246	18,627
Debt securities		32,113	32,045	30	37
<b>Total financial assets risk</b>		<b>609,615</b>	<b>452,119</b>	<b>32,278</b>	<b>18,675</b>
<b>Total loan commitments and financial guarantees</b>		<b>171,492</b>	<b>162,320</b>	<b>8,116</b>	<b>1,057</b>
<b>Total maximum credit exposure</b>		<b>781,107</b>	<b>614,439</b>	<b>40,393</b>	<b>19,732</b>

The maximum credit exposure presented in the table above is determined by type of financial asset as explained below:

- In the case of financial assets recognized in the consolidated balance sheets, exposure to credit risk is considered equal to its carrying amount (not including impairment losses), with the sole exception of derivatives and hedging derivatives.
- The maximum credit risk exposure on financial guarantees granted is the maximum that the Group would be liable for if these guarantees were called in, and that is their amount.

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- The calculation of risk exposure for derivatives is based on the sum of two factors: the derivatives fair value and their potential risk (or "add-on").

The first factor, fair value, reflects the difference between original commitments and fair values on the reporting date (mark-to-market).

The second factor, potential risk ('add-on'), is an estimate of the maximum increase to be expected on risk exposure over a derivative fair value (at a given statistical confidence level) as a result of future changes in the fair value over the remaining term of the derivatives.

The consideration of the potential risk ("add-on") relates the risk exposure to the exposure level at the time of a customer's default. The exposure level will depend on the customer's credit quality and the type of transaction with such customer. Given the fact that default is an uncertain event which might occur any time during the life of a contract, the BBVA Group has to consider not only the credit exposure of the derivatives on the reporting date, but also the potential changes in exposure during the life of the contract. This is especially important for derivatives, whose valuation changes substantially throughout their terms, depending on the fluctuation of market prices.

The breakdown by counterparty and product of loans and advances, net of impairment losses, classified in the different headings of the assets, as of June 30, 2018 and December 31, 2017 is shown below:

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June 2018 (Millions of euros)

	Gross carrying amount	Central banks	General governments	Credit institutions	Other financial corporations	Non-financial corporations	Households
By product							
On demand and short notice	4,490	-	37	-	143	3,504	641
Credit card debt	16,057	-	7	1	4	2,320	12,750
Trade receivables	15,167		853	-	257	13,704	96
Finance leases	9,160	-	209	-	3	8,130	396
Reverse repurchase loans	946	-	191	754	-	1	-
Other term loans	351,690	5,271	27,278	4,613	6,239	137,147	159,531
Advances that are not loans	11,781	38	1,515	6,608	1,961	1,043	544
<b>Loans and advances</b>	<b>409,290</b>	<b>5,309</b>	<b>30,090</b>	<b>11,976</b>	<b>8,607</b>	<b>165,849</b>	<b>173,958</b>
By secured loans							
<i>of which: mortgage loans collateralized by immovable property</i>	149,314		1,115	-	256	29,373	113,265
<i>of which: other collateralized loans</i>	41,632		7,948	241	1,024	24,916	6,660
By purpose of the loan							
<i>of which: credit for consumption</i>	42,333						39,863
<i>of which: lending for house purchase</i>	115,930						113,687
By subordination							
<i>of which: project finance loans</i>	17,658					17,027	

December 2017 (Millions of euros)

	Central banks	General governments	Credit institutions	Other financial corporations	Non-financial corporations	Households	Total
On demand and short notice	-	222	-	270	7,663	2,405	10,560
Credit card debt	-	6	-	3	1,862	13,964	15,835
Trade receivables		1,624	-	497	20,385	198	22,705
Finance leases	-	205	-	36	8,040	361	8,642
Reverse repurchase loans	305	1,290	13,793	10,912	-	-	26,300
Other term loans	6,993	26,983	4,463	5,763	125,228	155,418	324,848
Advances that are not loans	2	1,964	8,005	1,044	1,459	522	12,995
<b>Loans and advances</b>	<b>7,301</b>	<b>32,294</b>	<b>26,261</b>	<b>18,525</b>	<b>164,637</b>	<b>172,868</b>	<b>421,886</b>
<i>of which: mortgage loans (Loans collateralized by immovable property)</i>		998	-	308	37,353	116,938	155,597
<i>of which: other collateralized loans</i>		7,167	13,501	12,907	24,100	9,092	66,767
<i>of which: credit for consumption</i>						40,705	40,705
<i>of which: lending for house purchase</i>						114,709	114,709
<i>of which: project finance loans</i>					16,412		16,412

## 6.2.2 Past due but not impaired and impaired secured loans risks

The tables below provides details by counterpart and by product of past due risks but not considered to be impaired, as of June 30, 2018 and December 31, 2017, listed by their first past-due date; as well as the breakdown of the debt securities and loans and advances individually and collectively estimated, and the specific allowances for individually estimated and for collectively estimated:



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June 2018 (Millions of euros)

	Assets without significant increase in credit risk since initial recognition (Stage 1)			Assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)			Credit-impaired assets (Stage 3)		
	≤ 30 days	> 30 days ≤ 90 days	> 90 days	≤ 30 days	> 30 days ≤ 90 days	> 90 days	≤ 30 days	> 30 days ≤ 90 days	> 90 days
<b>Debt securities</b>	-	-	-	2	-	-	-	-	6
<b>Loans and advances</b>	<b>13,347</b>	<b>1,688</b>	-	<b>5,883</b>	<b>2,560</b>	-	<b>991</b>	<b>662</b>	<b>3,886</b>
Central banks	-	-	-	-	-	-	-	-	-
General governments	959	73	-	75	1	-	11	4	95
Credit institutions	18	1	-	-	-	-	-	-	5
Other financial corporations	631	32	-	1	2	-	-	-	6
Non-financial corporations	3,634	633	-	1,844	976	-	481	174	2,180
Households	8,106	948	-	3,964	1,581	-	499	484	1,601
<b>TOTAL</b>	<b>13,347</b>	<b>1,688</b>	-	<b>5,885</b>	<b>2,560</b>	-	<b>991</b>	<b>662</b>	<b>3,892</b>
<b>Loans and advances by product, by collateral and by subordination</b>	-	-	-	-	-	-	-	-	-
On demand (call) and short notice (current account)	227	48	-	46	26	-	2	3	51
Credit card debt	344	20	-	756	104	-	4	15	108
Trade receivables	25	58	-	12	78	-	1	4	36
Finance leases	677	33	-	104	114	-	19	25	113
Reverse repurchase loans	-	-	-	-	-	-	-	-	-
Other term loans	11,752	1,462	-	4,965	2,231	-	964	616	3,574
Advances that are not loans	322	67	-	-	6	-	-	-	5
<i>of which: mortgage loans collateralized by immovable property</i>	5,332	387	-	2,751	1,251	-	866	526	1,902
<i>of which: other collateralized loans</i>	519	71	-	723	111	-	14	21	108
<i>of which: credit for consumption</i>	3,321	487	-	1,549	406	-	32	75	282
<i>of which: lending for house purchase</i>	3,875	338	-	2,118	976	-	416	353	1,006
<i>of which: project finance loans</i>	15	5	-	3	182	-	-	-	670

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December 2017 (Millions of euros) (\*)

	Past due but not impaired					Impaired assets	Carrying amount of the impaired assets	Specific allowances for financial assets, individually and collectively estimated (**)	Collective allowances for incurred but not reported losses	Accumulated write-offs
	30 days	> 30 days	60 days	> 60 days days	90					
<b>Debt securities</b>	-	-	-	-	-	<b>66</b>	<b>38</b>	<b>(28)</b>	<b>(21)</b>	-
<b>Loans and advances</b>	<b>3,432</b>		<b>759</b>		<b>503</b>	<b>19,401</b>	<b>10,726</b>	<b>(8,675)</b>	<b>(4,109)</b>	<b>(29,938)</b>
Central banks	-	-	-	-	-	-	-	-	-	-
General governments	75	-	3	-	13	171	129	(42)	(69)	(27)
Credit institutions	-	-	-	-	-	11	5	(6)	(30)	(5)
Other financial corporations	2	-	-	-	-	12	6	(7)	(19)	(5)
Non-financial corporations	843	-	153	-	170	10,791	5,192	(5,599)	(1,939)	(18,988)
Households	2,512	-	603	-	319	8,417	5,395	(3,022)	(2,052)	(10,913)
<b>TOTAL</b>	<b>3,432</b>		<b>759</b>		<b>503</b>	<b>19,467</b>	<b>10,764</b>	<b>(8,703)</b>	<b>(4,130)</b>	<b>(29,938)</b>
<b>Loans and advances by product, by collateral and by subordination</b>										
On demand (call) and short notice (current account)	77	-	12	-	11	389	151	(238)		
Credit card debt	397	-	66	-	118	629	190	(439)		
Trade receivables	115	-	8	-	9	515	179	(336)		
Finance leases	138	-	66	-	47	431	155	(276)		
Reverse repurchase loans	-	-	-	-	-	-	-	-		
Other term loans	2,705	-	606	-	317	17,417	10,047	(7,370)		
Advances that are not loans	1	-	-	-	1	20	3	(16)		
<i>of which: mortgage loans (Loans collateralized by immovable property)</i>	1,345	-	360	-	164	11,388	7,630	(3,757)		
<i>of which: other collateralized loans</i>	592	-	137	-	43	803	493	(310)		
<i>of which: credit for consumption</i>	1,260	-	248	-	207	1,551	457	(1,093)		
<i>of which: lending for house purchase</i>	1,034	-	307	-	107	5,730	4,444	(1,286)		
<i>of which: project finance loans</i>	13	-	-	-	25	1,165	895	(271)		

(\*) Figures originally reported in the year 2017 in accordance to the applicable regulation, without restatements.

(\*\*) Corresponding to €2,763 million of specific allowances for financial assets, individually estimated and €5,940 million of specific allowances for financial assets collectively estimated.

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The breakdown of loans and advances, within loans and receivables, impaired and accumulated impairment by sectors as of June 30, 2018 and December 31, 2017 is as follows:

June 2018 (Millions of euros)

	Non-performing loans and advances	Accumulated impairment	Non-performing loans and advances as a % of the total
General governments	160	(92)	0.6%
Credit institutions	10	(13)	0.1%
Other financial corporations	12	(18)	0.1%
Non-financial corporations	10,081	(7,457)	5.8%
Households	8,374	(5,920)	4.7%
<b>LOANS AND ADVANCES</b>	<b>18,637</b>	<b>(13,498)</b>	<b>4.6%</b>

December 2017 (Millions of euros)

	Non-performing loans and advances	Accumulated impairment or changes in fair value due to credit risk	Non-performing loans and advances as a % of the total
General governments	171	(111)	0.5%
Credit institutions	11	(36)	0.3%
Other financial corporations	12	(26)	0.1%
Non-financial corporations	10,791	(7,538)	6.3%
Households	8,417	(5,073)	4.7%
<b>LOANS AND ADVANCES</b>	<b>19,401</b>	<b>(12,784)</b>	<b>4.5%</b>

The changes during the six months period ended June 30, 2018 and 2017 of impaired financial assets and contingent risks are as follow:

Changes in Impaired Financial Assets and Contingent Risks (Millions of euros)

	First semester 2018	Year 2017
<b>Balance at the beginning</b>	<b>20,590</b>	<b>23,877</b>
Additions	4,661	10,856
Decreases (*)	(3,453)	(7,771)
<b>Net additions</b>	<b>1,204</b>	<b>3,085</b>
Amounts written-off	(1,739)	(5,758)
Exchange differences and other	(357)	(615)
<b>Balance at the end</b>	<b>19,702</b>	<b>20,590</b>

(\*) Reflects the total amount of impaired loans derecognized from the consolidated balance sheet throughout the period as a result of mortgage foreclosures and real estate assets received in lieu of payment as well as monetary recoveries (see Notes 19 and 20 to the interim Consolidated Financial Statement for additional information).

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### 6.2.3 Impairment losses

Below are the changes in six months period ended June 30, 2018 and the year ended December 31, 2017, in the provisions recognized on the accompanying consolidated balance sheets to cover estimated impairment losses in loans and advances and debt securities, according to the different headings under which they are classified in the accompanying consolidated balance sheet:

First semester 2018 (Millions of euros)	
<b>Balance as of December 31, 2017</b>	<b>12,833</b>
First implementation adjustment of IFRS 9	1,171
<b>Balance as of January 1, 2018</b>	<b>14,004</b>
Acquisition of subsidiaries in the period	-
Increase in impairment losses charged to income	5,022
<i>Stage 1</i>	924
<i>Stage 2</i>	597
<i>Stage 3</i>	3,500
Decrease in impairment losses charged to income	(3,249)
<i>Stage 1</i>	(995)
<i>Stage 2</i>	(561)
<i>Stage 3</i>	(1,693)
Transfer to written-off loans, exchange differences and other	(2,233)
<b>Closing balance</b>	<b>13,544</b>

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June 2017 (Millions of euros) (\*)

	Opening balance	Increases due to amounts set aside for estimated loan losses during the period	Decreases due to amounts reversed for estimated loan losses during the period	Decreases due to amounts taken against allowances	Transfers between allowances	Other adjustments	Closing balance	Recoveries recorded directly to the statement of profit or loss
Specific allowances for financial assets, individually estimated	(3,204)	(1,290)	972	122	244	111	(3,045)	5
Specific allowances for financial assets, collectively estimated	(7,733)	(2,825)	980	1,942	(41)	380	(7,296)	233
Collective allowances for incurred but not reported losses on financial assets	(5,270)	(905)	890	26	(127)	250	(5,136)	-
<b>Total</b>	<b>(16,206)</b>	<b>(5,020)</b>	<b>2,842</b>	<b>2,090</b>	<b>76</b>	<b>741</b>	<b>(15,477)</b>	<b>238</b>

(\*) Figures originally reported in the year 2017 in accordance to the applicable regulation, without restatements.

## 6.3 Liquidity risk

Management of liquidity and structural finance within the BBVA Group is based on the principle of the financial autonomy of the entities that make it up. This approach helps prevent and limit liquidity risk by reducing the Group's vulnerability in periods of high risk. This decentralized management avoids possible contagion due to a crisis that could affect only one or several BBVA Group entities, which must cover their liquidity needs independently in the markets where they operate. Liquidity Management Units (LMUs) have been set up for this reason in the geographical areas where the main foreign subsidiaries operate, and also for the parent BBVA S.A., within the Euro currency scope, which includes BBVA Portugal.

Assets and Liabilities Management unit manages BBVA Group's liquidity and funding. It plans and executes the funding of the long-term structural gap of each LMUs and proposes to Assets and Liabilities Committee ("ALCO") the actions to adopt in this regard in accordance with the policies and limits established by the Standing Committee.

As first core element, the Bank's target in terms of liquidity and funding risk is characterized through the Liquidity Coverage Ratio (LCR) and the Loan-to-Stable-Customer-Deposits (LtSCD) ratio. LCR is a regulatory measurement aimed at ensuring entities' resistance in a scenario of liquidity stress within a time horizon of 30 days. BBVA, within its risk appetite framework and its limits and alerts schemes, has established a level of requirement for compliance with the LCR ratio both for the Group as a whole and for each of the Liquidity Management Units (LMUs) individually. The internal levels required are geared to comply sufficiently and efficiently in advance with the implementation of the regulatory requirement of 2018, at a level above 100%.

LCR ratio in Europe came into force on 1st October 2015. With an initial 60% minimum requirement, progressively increased (phased-in) up to 100% in 2018. Throughout the first semester of the year 2018, LCR level at BBVA Group has been above 100%. As of June 30, 2018, the LCR ratio at Group level is 127%.

Although this regulatory requirement is mandatory at a Group level and Eurozone banks, all subsidiaries are above this minimum. In any case, it should be noted that liquidity excesses in subsidiaries are not deemed transferable when calculating the consolidated ratio. Taking into account the impact of these High Quality Liquid Assets excluded, LCR ratio would be 149%, which is +21% above.

LCR main LMU		June 2018
<b>Group</b>		<b>127%</b>
Eurozone(*)		153%
Bancomer		135%
Compass(**)		142%
Garanti		133%
(*) Perimeter: Spain, Portugal y Rest of Eurasia.		
(**) Compass LCR calculated according to local regulation (Fed Modified LCR).		

The second core element in liquidity and funding risk management is to achieve proper diversification of the funding structure, avoiding excessive reliance on short-term funding and establishing a maximum level of short-term borrowing comprising both wholesale funding as well as funds from non-retail customers. Regarding long-term funding, the maturity profile does not show significant concentrations, which enables adaptation of the anticipated issuance schedule to the best financial conditions of the markets. Finally, concentration risk is monitored at the LMU level, with a view to ensuring the right diversification both per counterparty and per instrument type.

The third element promotes the short-term resilience of the liquidity risk profile, making sure that each LMU has sufficient collateral to address the risk of wholesale markets closing. Basic Capacity is the short-term

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liquidity risk management and control metric that is defined as the relationship between the available explicit assets and the maturities of wholesale liabilities and volatile funds, at different terms, with special relevance being given to 30-day maturities.

Each entity maintains an individual liquidity buffer, both Banco Bilbao Vizcaya Argentaria SA and its subsidiaries, including BBVA Compass, BBVA Bancomer, Garanti Bank and the Latin American subsidiaries. The table below shows the liquidity available by instrument as of December 31, 2017 and June 30, 2018 for the most significant entities based on prudential supervisor's information:

June 2018 (Millions of euros)					
	BBVA Eurozone (1)	BBVA Bancomer	BBVA Compass	Garanti Bank	Others
Cash and withdrawable central bank reserves	12,405	5,725	1,767	6,413	5,922
Level 1 tradable assets	36,683	6,284	9,760	5,910	5,475
Level 2A tradable assets	417	530	643	-	-
Level 2B tradable assets	3,668	181	-	-	-
Other tradable assets	6,397	1,700	1,133	557	796
Non tradable assets eligible for central banks	-	-	3,174	-	-
<b>Cumulated Counterbalancing Capacity</b>	<b>59,570</b>	<b>14,420</b>	<b>16,477</b>	<b>12,880</b>	<b>12,193</b>

(1) It includes Spain, Portugal and Rest of Eurasia.

## 7. Fair value

The criteria and valuation methods used to calculate the fair value of financial assets as of June 30, 2018, do not differ significantly from those included in the Note 8 from the consolidated financial statements for the year ended December 31, 2017.

During the six months ended June 30, 2018, there is no significant transfer of financial instruments between the different levels, and the changes in measurement are due to the variations in the fair value of the financial instruments.

## 8. Cash and cash balances at central banks and other demands deposits

The breakdown of the balance under the heading “Cash and cash balances at central banks and other demands deposits” in the accompanying consolidated balance sheets is as follows:

Cash, cash balances at central banks and other demand deposits (Millions of euros)

	June 2018	December 2017
Cash on hand	5,370	6,220
Cash balances at central banks	25,184	31,718
Other demand deposits	6,725	4,742
<b>Total</b>	<b>37,279</b>	<b>42,680</b>

## 9. Financial assets and liabilities held for trading

The breakdown of the balance under these headings in the accompanying consolidated balance sheets is as follows:

Financial Assets and Liabilities Held-for-Trading (Millions of euros)

	Notes	June 2018	December 2017
<b>ASSETS</b>			
Derivatives		35,277	35,265
Debt securities	6.2.1	26,953	22,573
Issued by Central Banks		1,174	1,371
Issued by public administrations		23,977	19,344
Issued by financial institutions		829	816
Other debt securities		972	1,041
Loans and advances to Central Banks	6.2.1	699	-
Loans and advances to credit institutions	6.2.1	13,588	-
Loans and advances to customers	6.2.1	9,251	56
Equity instruments	6.2.1	5,250	6,801
<b>Total Assets</b>		<b>91,018</b>	<b>64,695</b>
<b>LIABILITIES</b>			
Derivatives		36,591	36,169
Short positions		12,240	10,013
Deposits		34,836	-
<b>Total Liabilities</b>		<b>83,667</b>	<b>46,182</b>



## 10. Non-trading financial assets mandatorily at fair value through profit or loss

The breakdown of the balance under this heading in the accompanying consolidated balance sheets is as follows:

Non-trading financial assets mandatorily at fair value through profit or loss (Millions of Euros)		
	Notes	June 2018
Equity instruments	6.2.1	2,758
Debt securities	6.2.1	290
Loans and advances	6.2.1	1,329
<b>Total Assets</b>		<b>4,377</b>

This heading is included with the entry into force of IFRS 9 on January 1, 2018. There were no balances recorded before (see Note 2.1 and Appendix VI).

## 11. Financial assets and liabilities designated at fair value through profit or loss

The breakdown of the balance under these headings in the accompanying consolidated balance sheets is as follows:

Financial assets and liabilities designated at fair value through profit or loss (Millions of euros)			
	Notes	June 2018	December 2017
<b>ASSETS</b>			
Equity instruments		-	1,888
Unit-linked products		-	1,621
Other securities		-	266
Debt securities		1,327	174
Loans and advances		160	648
<b>Total Assets</b>	<b>6.1.1</b>	<b>1,487</b>	<b>2,709</b>
<b>LIABILITIES</b>			
Deposits		997	-
Debt securities		2,494	-
Other financial liabilities		2,730	2,222
Unit-linked products		2,730	2,222
<b>Total Liabilities</b>		<b>6,221</b>	<b>2,222</b>

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## 12. Financial assets at fair value through other comprehensive income

### 12.1 Balance details

The breakdown of the balance by the main financial instruments in the accompanying consolidated balance sheets is as follows:

Financial assets designated at fair value through other comprehensive income (Millions of euros)			
	Notes	June 2018	December 2017
Debt securities	6.2.1	60,615	66,273
Impairment losses		(15)	(21)
Equity instruments	6.2.1	2,579	4,488
Impairment losses		-	(1,264)
Loans and advances		33	-
<b>Total</b>		<b>63,212</b>	<b>69,476</b>

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## 12.2 Debt securities

The breakdown of the balance under the heading “Debt securities” of the accompanying consolidated financial statements, broken down by the nature of the financial instruments, is as follows:

Financial assets designated at fair value through profit or loss: Debt Securities. June 2018 (Millions of euros)

	Amortized Cost (*)	Unrealized Gains	Unrealized Losses	Book Value
<b>Domestic Debt Securities</b>				
Spanish Government and other government agency debt securities	20,478	869	(2)	21,346
Other debt securities	1,673	105	(2)	1,777
Issued by Central Banks	-	-	-	-
Issued by credit institutions	817	67	-	884
Issued by other issuers	856	38	(2)	893
<b>Subtotal</b>	<b>22,151</b>	<b>975</b>	<b>(3)</b>	<b>23,122</b>
<b>Foreign Debt Securities</b>				
<b>Mexico</b>				
	<b>6,966</b>	<b>17</b>	<b>(126)</b>	<b>6,857</b>
Mexican Government and other government agency debt securities	5,671	11	(111)	5,572
Other debt securities	1,294	6	(15)	1,286
Issued by Central Banks	-	-	-	-
Issued by credit institutions	30	-	(1)	30
Issued by other issuers	1,265	6	(14)	1,256
<b>The United States</b>	<b>14,044</b>	<b>27</b>	<b>(271)</b>	<b>13,799</b>
Government securities	10,296	13	(191)	10,118
US Treasury and other US Government agencies	5,944	6	(89)	5,861
States and political subdivisions	4,351	7	(102)	4,256
Other debt securities	3,748	14	(80)	3,681
Issued by Central Banks	-	-	-	-
Issued by credit institutions	50	1	-	51
Issued by other issuers	3,698	13	(80)	3,630
<b>Turkey</b>	<b>4,582</b>	<b>33</b>	<b>(206)</b>	<b>4,409</b>
Turkey Government and other government agency debt securities	4,211	32	(191)	4,052
Other debt securities	371	1	(15)	357
Issued by Central Banks	-	-	-	-
Issued by credit institutions	349	-	(15)	334
Issued by other issuers	22	1	-	23
<b>Other countries</b>	<b>12,208</b>	<b>331</b>	<b>(126)</b>	<b>12,413</b>
Other foreign governments and other government agency debt securities	6,479	165	(82)	6,562
Other debt securities	5,729	166	(43)	5,852
Issued by Central Banks	947	2	(2)	946
Issued by credit institutions	1,992	120	(23)	2,089
Issued by other issuers	2,790	44	(18)	2,816
<b>Subtotal</b>	<b>37,799</b>	<b>407</b>	<b>(729)</b>	<b>37,478</b>
<b>Total</b>	<b>59,951</b>	<b>1,382</b>	<b>(732)</b>	<b>60,600</b>

(\*) The amortized cost includes portfolio gains/losses linked to insurance contracts in which the policyholder assumes the risk in case of redemption.

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Available-for-sale financial assets: Debt Securities. December 2017 (Millions of euros)

	Amortized Cost (*)	Unrealized Gains	Unrealized Losses	Book Value
<b>Domestic Debt Securities</b>				
Spanish Government and other general governments agencies debt securities	22,765	791	(17)	23,539
Other debt securities	1,951	114	-	2,066
Issued by Central Banks	-	-	-	-
Issued by credit institutions	891	72	-	962
Issued by other issuers	1,061	43	-	1,103
<b>Subtotal</b>	<b>24,716</b>	<b>906</b>	<b>(17)</b>	<b>25,605</b>
<b>Foreign Debt Securities</b>				
<b>Mexico</b>				
	<b>9,755</b>	<b>45</b>	<b>(142)</b>	<b>9,658</b>
Mexican Government and other general governments agencies debt securities	8,101	34	(120)	8,015
Other debt securities	1,654	11	(22)	1,643
Issued by Central Banks	-	-	-	-
Issued by credit institutions	212	1	(3)	209
Issued by other issuers	1,442	10	(19)	1,434
<b>The United States</b>	<b>12,479</b>	<b>36</b>	<b>(198)</b>	<b>12,317</b>
Government securities	8,625	8	(133)	8,500
US Treasury and other US Government agencies	3,052	-	(34)	3,018
States and political subdivisions	5,573	8	(99)	5,482
Other debt securities	3,854	28	(65)	3,817
Issued by Central Banks	-	-	-	-
Issued by credit institutions	56	1	-	57
Issued by other issuers	3,798	26	(65)	3,759
<b>Turkey</b>	<b>5,052</b>	<b>48</b>	<b>(115)</b>	<b>4,985</b>
Turkey Government and other general governments agencies debt securities	5,033	48	(114)	4,967
Other debt securities	19	1	(1)	19
Issued by Central Banks	-	-	-	-
Issued by credit institutions	19	-	(1)	19
Issued by other issuers	-	-	-	-
<b>Other countries</b>	<b>13,271</b>	<b>533</b>	<b>(117)</b>	<b>13,687</b>
Other foreign governments and other general governments agencies debt securities	6,774	325	(77)	7,022
Other debt securities	6,497	208	(40)	6,664
Issued by Central Banks	1,330	2	(1)	1,331
Issued by credit institutions	2,535	139	(19)	2,654
Issued by other issuers	2,632	66	(19)	2,679
<b>Subtotal</b>	<b>40,557</b>	<b>661</b>	<b>(572)</b>	<b>40,647</b>
<b>Total</b>	<b>65,273</b>	<b>1,567</b>	<b>(589)</b>	<b>66,251</b>

(\*) The amortized cost includes portfolio gains/losses linked to insurance contracts in which the policyholder assumes the risk in case of redemption.

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The credit ratings of the issuers of debt securities as of June 30, 2018 and December 31, 2017, are as follows:

Debt Securities by Rating	June 2018		December 2017	
	Fair Value (Millions of Euros)	%	Fair Value (Millions of Euros)	%
AAA	606	1.0%	687	1.0%
AA+	12,331	20.3%	10,738	16.2%
AA	223	0.4%	507	0.8%
AA-	486	0.8%	291	0.4%
A+	777	1.3%	664	1.0%
A	786	1.3%	683	1.0%
A-	22,676	37.4%	1,330	2.0%
BBB+	9,858	16.3%	35,175	53.1%
BBB	6,972	11.5%	7,958	12.0%
BBB-	3,458	5.7%	5,583	8.4%
BB+ or below	836	1.4%	1,564	2.4%
Without rating	1,589	2.6%	1,071	1.6%
<b>Total</b>	<b>60,600</b>	<b>100%</b>	<b>66,251</b>	<b>100%</b>

## 12.3 Equity instruments

The breakdown of the balance under the heading "Equity instruments" of the accompanying consolidated financial statements as of June 30, 2018 and December 31, 2017, is as follows:

Financial assets designated at fair value through profit or loss: Equity Instruments. June 2018 (Millions of euros)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Book Value
<b>Equity instruments listed</b>				
Listed Spanish company shares	2,172	-	(226)	1,947
Credit institutions	-	-	-	-
Other entities	2,172	-	(226)	1,947
Listed foreign company shares	120	66	(10)	176
United States	48	40	-	88
Mexico	1	24	-	25
Turkey	4	-	-	4
Other countries	67	1	(10)	59
<b>Subtotal</b>	<b>2,292</b>	<b>66</b>	<b>(236)</b>	<b>2,123</b>
<b>Unlisted equity instruments</b>				
Unlisted Spanish company shares	6	1	-	6
Credit institutions	-	-	-	-
Other entities	6	1	-	6
Unlisted foreign companies shares	421	31	(1)	450
United States	355	-	-	355
Mexico	-	-	-	-
Turkey	7	5	-	12
Other countries	59	25	(1)	84
<b>Subtotal</b>	<b>426</b>	<b>31</b>	<b>(1)</b>	<b>457</b>
<b>Total</b>	<b>2,718</b>	<b>97</b>	<b>(236)</b>	<b>2,579</b>

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Financial assets designated at fair value through other comprehensive income: Equity Instruments. December 2017 (Millions of euros)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>Equity instruments listed</b>				
Listed Spanish company shares	2,189	-	(1)	2,188
Credit institutions	-	-	-	-
Other entities	2,189	-	(1)	2,188
Listed foreign company shares	215	33	(7)	241
United States	11	-	-	11
Mexico	8	25	-	33
Turkey	4	1	-	5
Other countries	192	7	(7)	192
<b>Subtotal</b>	<b>2,404</b>	<b>33</b>	<b>(8)</b>	<b>2,429</b>
<b>Unlisted equity instruments</b>				
Unlisted Spanish company shares	33	29	-	62
Credit institutions	4	-	-	4
Other entities	29	29	-	58
Unlisted foreign companies shares	665	77	(8)	734
United States	498	40	(6)	532
Mexico	1	-	-	1
Turkey	15	6	(2)	19
Other countries	151	31	-	182
<b>Subtotal</b>	<b>698</b>	<b>106</b>	<b>(8)</b>	<b>796</b>
<b>Total</b>	<b>3,102</b>	<b>139</b>	<b>(16)</b>	<b>3,224</b>

## 12.4 Gains/losses

The changes in the gains/losses, net of taxes, recognized during the first semester of 2018 and in 2017 under the equity heading “Accumulated other comprehensive income – Items that may be reclassified to profit or loss- Available-for-sale financial assets” in the accompanying consolidated balance sheets are as follows:

Accumulated other comprehensive income-Items that may be reclassified to profit or loss - Financial assets at fair value through other comprehensive income (Millions of euros)

	First semester 2018	December 2017
<b>Balance at the beginning</b>	<b>1,641</b>	<b>947</b>
Effect of changes in accounting policies (IFRS 9)	(142)	-
Valuation gains and losses	(271)	321
Amounts transferred to income	(84)	356
Other reclassifications	-	(10)
Income tax	89	27
<b>Balance at the end</b>	<b>1,233</b>	<b>1,641</b>

## 13. Financial assets at amortized cost

The breakdown of the balance under this heading in the accompanying consolidated balance sheets, according to the nature of the financial instrument, is as follows:

Financial assets at amortized cost (Millions of Euros)		
	June 2018	December 2017
<b>Debt securities</b>	<b>32,082</b>	<b>24,093</b>
<i>Of which: Impairment losses</i>	<i>(30)</i>	<i>(15)</i>
<b>Loans and advances to central banks</b>	<b>5,309</b>	<b>7,300</b>
<i>Of which: Impairment losses</i>	<i>(2)</i>	<i>-</i>
<b>Loans and advances to credit institutions</b>	<b>11,783</b>	<b>26,261</b>
<i>Of which: Impairment losses</i>	<i>(13)</i>	<i>(36)</i>
<b>Loans and advances to customers</b>	<b>377,175</b>	<b>387,621</b>
Government	28,785	31,645
Other financial corporations	8,607	18,173
Non-financial corporations	165,828	164,510
Other	173,956	173,293
<i>Of which: Impairment losses</i>	<i>(13,486)</i>	<i>(12,748)</i>
<b>Total</b>	<b>426,349</b>	<b>445,275</b>

## 14. Hedging derivatives and fair value changes of the hedged items in portfolio hedges of interest rate risk

The balance of these headings in the accompanying consolidated balance sheets is as follows:

Derivatives - Hedge accounting and fair value changes of the hedged items in portfolio hedge of interest rate risk (Millions of euros)		
	June 2018	December 2017
<b>ASSETS</b>		
Hedging Derivatives	3,035	2,485
Fair value changes of the hedged items in portfolio hedges of interest rate risk	(39)	(25)
<b>LIABILITIES</b>		
Hedging Derivatives	2,616	2,880
Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	(7)

## 15. Investments in joint ventures and associates

The breakdown of the balance of “Investments in joint ventures and associates” in the accompanying consolidated balance sheets is as follows:

Joint Ventures and Associates Entities. Breakdown by entities (Millions of euros)

	June 2018	December 2017
Joint ventures	228	256
Associates Entities	1,242	1,332
<b>Total</b>	<b>1,470</b>	<b>1,588</b>

## 16. Tangible assets

The breakdown and movement of the balance and changes of this heading in the accompanying consolidated balance sheets, according to the nature of the related items, is as follows:

Tangible Assets. Breakdown by Type of Asset. Cost Value, Depreciation and impairments (Millions of euros)

	June 2018	December 2017
<b>Property plant and equipment</b>		
For own use		
Land and Buildings	5,372	5,490
Work in Progress	214	234
Furniture, Fixtures and Vehicles	6,046	6,628
Accumulated depreciation	(5,126)	(5,456)
Impairment	(296)	(315)
<b>Subtotal</b>	<b>6,209</b>	<b>6,581</b>
Leased out under an operating lease		
Assets leased out under an operating lease	452	492
Accumulated depreciation	(76)	(77)
Impairment	-	-
<b>Subtotal</b>	<b>376</b>	<b>415</b>
<b>Subtotal</b>	<b>6,585</b>	<b>6,996</b>
<b>Investment property</b>		
Building rental	171	224
Other	4	4
Accumulated depreciation	(9)	(13)
Impairment	(15)	(20)
<b>Subtotal</b>	<b>151</b>	<b>195</b>
<b>Total</b>	<b>6,736</b>	<b>7,191</b>



## 17. Intangible assets

### 17.1 Goodwill

The breakdown of the balance under this heading in the accompanying consolidated balance sheets, according to the cash-generating units (CGUs), is as follows:

Breakdown by CGU and Changes during the first semester of 2018 (Millions of euros)

	Balance at the Beginning	Additions	Exchange Differences	Impairment	Other	Balance at the End
The United States	4,837	-	139	-	-	4,976
Turkey	509	-	(76)	-	-	433
Mexico	493	-	17	-	-	510
Colombia	168	-	7	-	-	175
Chile	32	-	(1)	-	-	31
Other	23	-	-	-	-	23
<b>Total</b>	<b>6,062</b>	<b>-</b>	<b>86</b>	<b>-</b>	<b>-</b>	<b>6,148</b>

Breakdown by CGU and Changes during the first semester of 2017 (Millions of euros)

	Balance at the Beginning	Additions	Exchange Differences	Impairment	Other	Balance at the End
The United States	5,503	-	(666)	-	-	4,837
Turkey	624	-	(115)	-	-	509
Mexico	523	24	(44)	-	(10)	493
Colombia	191	-	(22)	-	-	168
Chile	68	-	(3)	-	(33)	32
Rest	28	-	(1)	(4)	-	23
<b>Total</b>	<b>6,937</b>	<b>24</b>	<b>(851)</b>	<b>(4)</b>	<b>(43)</b>	<b>6,062</b>

#### Impairment Test

As mentioned in Note 2.2.8 of the consolidated financial statements for the year 2017, the cash-generating units (CGUs) to which goodwill has been allocated are periodically tested for impairment by including the allocated goodwill in their carrying amount. This analysis is performed at least annually and whenever there is any indication of impairment.

### 17.2 Other intangible assets

The breakdown of the balance and changes of this heading in the accompanying consolidated balance sheets, according to the nature of the related items, is as follows:

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Other intangible assets (Millions of euros)		
	June 2018	December 2017
Computer software acquisition expenses	1,613	1,682
Other intangible assets with an infinite useful life	12	12
Other intangible assets with a definite useful life	600	708
<b>Total</b>	<b>2,225</b>	<b>2,402</b>

## 18. Tax assets and liabilities

### 18.1 Consolidated tax group

Pursuant to current legislation, the BBVA Consolidated Tax Group includes the Bank (as the parent company) and its Spanish subsidiaries that meet the requirements provided for under Spanish legislation regulating the taxation regime for the consolidated profit of corporate groups.

The Group's non-Spanish other banks and subsidiaries file tax returns in accordance with the tax legislation in force in each country.

### 18.2 Current and deferred taxes

The balance under the heading "Tax assets" in the accompanying consolidated balance sheets includes current and deferred tax assets. The balance under the "Tax liabilities" heading includes the Group's various current and deferred tax liabilities. The details of the most important tax assets and liabilities are as follows:

Tax assets and liabilities (Millions of euros)		
	June 2018	December 2017
<b>Tax assets</b>		
Current tax assets	2,195	2,163
Deferred tax assets	15,221	14,725
<b>Total</b>	<b>17,416</b>	<b>16,888</b>
<b>Tax Liabilities</b>		
Current tax liabilities	1,428	1,114
Deferred tax liabilities	2,186	2,184
<b>Total</b>	<b>3,614</b>	<b>3,298</b>

## 19. Other assets and liabilities

The breakdown of the balance under these headings in the accompanying consolidated balance sheets is as follows:

Other assets and liabilities: Breakdown by nature (Millions of euros)		
	June 2018	December 2017
<b>ASSETS</b>		
Inventories	219	229
Real estate	217	226
Others	2	3
Transactions in progress	192	156
Accruals	1,047	768
Prepaid expenses	576	509
Other prepayments and accrued income	470	259
Other items	3,442	3,207
<b>Total Other Assets</b>	<b>4,901</b>	<b>4,359</b>
<b>LIABILITIES</b>		
Transactions in progress	126	165
Accruals	2,544	2,490
Accrued expenses	1,830	1,997
Other accrued expenses and deferred income	714	493
Other items	2,248	1,894
<b>Total Other Liabilities</b>	<b>4,918</b>	<b>4,550</b>

## 20. Non-current assets and disposal groups held for sale

The composition of the balance under the heading “Non-current assets and disposal groups classified as held for sale” in the accompanying consolidated balance sheets, broken down by the origin of the assets, is as follows:

Non-current assets and disposal groups classified as held for sale Breakdown by items (Millions of euros)		
	June 2018	December 2017
Foreclosures and recoveries	6,060	6,207
Foreclosures (*)	5,890	6,047
Recoveries from financial leases	170	160
Other assets from tangible assets	398	447
Property, plant and equipment	398	447
Operating leases	-	-
Business sale - Assets (**)	18,289	18,623
Accrued amortization (***)	(50)	(77)
Impairment losses	(1,093)	(1,348)
<b>Total Non-current assets and disposal groups classified as held for sale</b>	<b>23,604</b>	<b>23,853</b>

(\*) Corresponds to the agreement with Cerberus to transfer the "Real Estate" business in Spain (see Note 3).

(\*\*) Corresponds mainly to the BBVA´s stake in BBVA Chile (see note 3).

(\*\*\*) Amortization accumulated until related asset reclassified as “non-current assets and disposal groups held for sale”

## 21. Financial liabilities at amortized cost

### 21.1 Breakdown of the balance

The breakdown of the balance under these headings in the accompanying consolidated balance sheets is as follows:

Financial liabilities measured at amortized cost (Millions of euros)

	June 2018	December 2017
Deposits		
Deposits from Central Banks (*)	28,734	37,054
Deposits from Credit Institutions	33,307	54,516
Customer deposits	367,312	376,379
Debt securities issued	62,349	63,915
Other financial liabilities	11,370	11,850
<b>Total</b>	<b>503,073</b>	<b>543,713</b>

(\*) Of which: balance relating to repurchase agreement as of June 30, 2018 and December 31, 2017 is €1,849 million and € 6,155 million, respectively.

### 21.2 Deposits from credit institutions

The breakdown of the balance under this heading in the consolidated balance sheets, according to the nature of the financial instruments, is as follows:

Deposits from credit institutions (Millions of euros)

	June 2018	December 2017
Term deposits	18,616	25,941
Demand deposits	9,745	3,731
Repurchase agreements	4,946	24,843
Other deposits	-	-
<b>Total</b>	<b>33,307</b>	<b>54,516</b>

The breakdown by geographical area and the nature of the related instruments of this heading in the accompanying consolidated balance sheets is as follows:

Deposits from Credit Institutions. June 2018 (Millions of euros)

	Demand Deposits & Reciprocal Accounts	Deposits with Agreed Maturity	Repurchase Agreements	Total
Spain	2,303	2,555	1	4,860
The United States	2,881	2,063	-	4,944
Mexico	598	610	582	1,791
Turkey	463	845	4	1,313
South America	372	2,173	104	2,649
Rest of Europe	2,941	7,438	4,254	14,633
Rest of the world	187	2,931	-	3,119
<b>Total</b>	<b>9,745</b>	<b>18,616</b>	<b>4,946</b>	<b>33,307</b>

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Deposits from Credit Institutions. December 2017 (Millions of euros)

	Demand Deposits & Reciprocal Accounts	Deposits with Agreed Maturity	Repurchase Agreements	Total
Spain	762	3,879	878	5,518
The United States	1,563	2,398	-	3,961
Mexico	282	330	1,817	2,429
Turkey	73	836	44	953
South America	448	2,538	13	2,999
Rest of Europe	526	12,592	21,732	34,849
Rest of the world	77	3,369	360	3,806
<b>Total</b>	<b>3,731</b>	<b>25,941</b>	<b>24,843</b>	<b>54,516</b>

## 21.3 Customer deposits

The breakdown of this heading in the accompanying consolidated balance sheets, by type of financial instrument, is as follows:

Customer deposits (Millions of euros)

	June 2018	December 2017
General Governments	25,576	23,210
Current accounts	230,248	223,497
Time deposits	105,839	116,538
Repurchase agreements	1,488	9,076
Subordinated deposits	201	194
Other accounts	3,960	3,864
<b>Total</b>	<b>367,312</b>	<b>376,379</b>
<i>Of which:</i>		
<i>In Euros</i>	<i>179,294</i>	<i>184,150</i>
<i>In foreign currency</i>	<i>188,018</i>	<i>192,229</i>

The breakdown by geographical area of this heading in the accompanying consolidated balance sheets, by type of instrument is as follows:

Customer Deposits. June 2018 (Millions of euros)

	Demand Deposits	Deposits with Agreed Maturity	Repurchase Agreements	Total
Spain	130,240	32,567	16	162,823
The United States	39,436	21,292	-	60,728
Mexico	37,214	11,618	1,356	50,189
Turkey	11,849	22,470	10	34,329
South America	22,954	15,143	2	38,099
Rest of Europe	7,054	11,876	110	19,040
Rest of the world	809	1,295	-	2,104
<b>Total</b>	<b>249,557</b>	<b>116,262</b>	<b>1,494</b>	<b>367,312</b>

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Customer Deposits. December 2017 (Millions of euros)

	Demand Deposits	Deposits with Agreed Maturity	Repurchase Agreements	Total
Spain	123,382	39,513	2,664	165,559
The United States	36,728	21,436	-	58,164
Mexico	36,492	11,622	4,272	52,387
Turkey	12,427	24,237	152	36,815
South America	23,710	15,053	2	38,764
Rest of Europe	6,816	13,372	1,989	22,177
Rest of the world	1,028	1,484	-	2,511
<b>Total</b>	<b>240,583</b>	<b>126,716</b>	<b>9,079</b>	<b>376,379</b>

## 21.4 Debt securities issued

The breakdown of the balance under this heading, by currency, is as follows:

Debt securities issued (Millions of euros)

	June 2018	December 2017
<b>In Euros</b>	<b>38,323</b>	<b>38,735</b>
Promissory bills and notes	549	1,309
Non-convertible bonds and debentures	10,084	9,418
Covered bonds (*)	16,241	16,425
Hybrid financial instruments	1,091	807
Securitization bonds	2,259	2,295
Other securities	-	-
Subordinated liabilities	8,099	8,481
Convertible	4,500	4,500
Convertible perpetual securities	4,500	4,500
Convertible subordinated debt	-	-
Non-convertible	3,599	3,981
Preferred Stock	107	107
Other subordinated liabilities	3,492	3,875
<b>In Foreign Currencies</b>	<b>24,026</b>	<b>25,180</b>
Promissory bills and notes	3,102	3,157
Non-convertible bonds and debentures	10,441	11,109
Covered bonds (*)	596	650
Hybrid financial instruments	1,517	1,809
Securitization bonds	42	47
Other securities	-	-
Subordinated liabilities	8,328	8,407
Convertible	859	2,085
Convertible perpetual securities	859	2,085
Convertible subordinated debt	-	-
Non-convertible	7,469	6,323
Preferred Stock	76	55
Other subordinated liabilities	7,393	6,268
<b>Total</b>	<b>62,349</b>	<b>63,915</b>

(\*) Including mortgage-covered bonds (see Appendix III).

## 21.5 Other financial liabilities

The breakdown of the balance under this heading in the accompanying consolidated balance sheets is as follows:

Other financial liabilities (Millions of euros)		
	June 2018	December 2017
Creditors for other financial liabilities	3,193	2,835
Collection accounts	3,193	3,452
Creditors for other payables	4,984	5,563
Dividend payable but pending payment	-	-
<b>Total</b>	<b>11,370</b>	<b>11,850</b>

## 22. Assets and liabilities under insurance and reinsurance contracts

The breakdown of the balance under the heading “Liabilities under reinsurance and insurance contracts” is as follows:

Technical Reserves by type of insurance product (Millions of euros)		
	June 2018	December 2017
Mathematical reserves	8,134	7,961
Provision for unpaid claims reported	645	631
Provisions for unexpired risks and other provisions	721	631
<b>Total</b>	<b>9,500</b>	<b>9,223</b>

The heading “Assets under reinsurance and insurance contracts” in the accompanying consolidated balance sheets includes the amounts that the consolidated insurance entities are entitled to receive under the reinsurance contracts entered into by them with third parties and, more specifically, the share of the reinsurer in the technical provisions recognized by the consolidated insurance subsidiaries. As of June 30, 2018 and December 31, 2017, the balance under this heading amounted to €414 million and €421 million, respectively.

## 23. Provisions

The breakdown of the balance under this heading in the accompanying consolidated balance sheets, based on type of provisions, is as follows:

Provisions. Breakdown by concepts (Millions of euros)

	June 2018	December 2017
Provisions for pensions and similar obligations	5,013	5,407
Other long term employee benefits	61	67
Provisions for taxes and other legal contingencies	750	756
Provisions for contingent risks and commitments	598	578
Other provisions	622	669
<b>Total</b>	<b>7,045</b>	<b>7,477</b>

### Ongoing legal proceedings and litigation

The financial sector is facing an environment of greater regulatory and litigious pressure. In this environment, BBVA Group entities are frequently party to individual or collective legal actions arising in the ordinary course of business, and to investigations and inspections of supervisors and authorities that may trigger legal proceedings.

Among others, there are procedures initiated by clients in Spain requesting the nullity of certain clauses of the mortgage loan agreements (expenses, early maturity, use of reference interest rates, floor clauses, etc.). Sometimes some of these proceedings, either against BBVA or against other entities, may raise prejudicial questions before the European Union Court of Justice, which considers the adaptation of Spanish legislation to European law and its interpretation by Spanish judicial bodies, and that could lead to future changes in criteria that may give rise to an increase in litigation or its impact.

The Group may incur in significant expenses when defending its interests in legal proceedings. The result of these procedures is difficult to foresee, and if adverse, could cause loss of business, economic damages, fines, loss of customer trust, reputational damage, etc.

According to the procedural status of these proceedings as of June 30, 2018, and to the criteria of the legal counsel, BBVA considers that, none of such actions is material, individually or as a whole, and they are deemed not to cause a significant impact on the operating results, liquidity or financial situation at a Group consolidated or individual level for the Bank. As of June 30, 2018 BBVA Group Management believes that the provisions recorded in respect of such legal proceedings are adequate.

## 24. Post-employment and other employee benefit commitments

Employees are covered by defined contribution for the majority of active employees, with the plans in Spain and Mexico being the most significant. Most of the defined benefit plans are for individuals already retired, and are closed to new employees, the most significant being those in Spain, Mexico, the United States and Turkey. In Mexico, the Group provides post-retirement medical benefits to a closed group of employees and their family members.

The amounts relating to post-employment benefits charged to the profit and loss account and other comprehensive income for the six month periods ended June 30, 2018 and 2017 are as follows:



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#### Consolidated Income Statement Impact (Millions of Euros)

	Notes	June 2018	June 2017
Interest income and expenses		41	41
Personnel expenses		81	84
Defined contribution plan expense	39.1	51	52
Defined benefit plan expense	39.1	30	32
Provisions, net	41	57	212
<b>Total impact on Income Statement: Expense (Income)</b>		<b>179</b>	<b>337</b>

## 25. Common stock

As of June 30, 2018 BBVA's common stock amounted to €3,267,264,424.20 divided into 6,667,886,580 fully subscribed and paid-up registered shares, all of the same class and series, at €0.49 par value each, represented through book-entry accounts. All of the Bank shares carry the same voting and dividend rights, and no single stockholder enjoys special voting rights. Each and every share is part of the Bank's common stock.

BBVA is not aware of any direct or indirect interests through which control of the Bank may be exercised. BBVA has not received any information on stockholder agreements including the regulation of the exercise of voting rights at its annual general meetings or restricting or placing conditions on the free transferability of BBVA shares. No agreement is known that could give rise to changes in the control of the Bank.

## 26. Retained earnings, revaluation reserves and other reserves

The breakdown of the balance under this heading in the accompanying consolidated balance sheet is as follows:

#### Retained earnings, revaluation reserves and other reserves (Millions of Euros)

	June 2018	December 2017
Retained earnings	26,075	25,474
Revaluation reserves	11	12
Other reserves	(48)	(44)
<b>Total</b>	<b>26,038</b>	<b>25,443</b>

The impact of the first application of IFRS 9 is registered in the heading "Accumulated Earnings" of the previous table (see Notes 1 and 2).

## 27. Accumulated other comprehensive income (loss)

The breakdown of the balance under this heading in the accompanying consolidated balance sheets is as follows:

Accumulated other comprehensive income (Millions of euros)		
	June 2018	December 2017
<b>Items that will not be reclassified to profit or loss</b>	<b>(1,311)</b>	<b>(1,183)</b>
Actuarial gains or losses on defined benefit pension plans	(1,205)	(1,183)
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognized income and expense of investments in subsidiaries, joint ventures and associates	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	(174)	-
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	68	-
<b>Items that may be reclassified to profit or loss</b>	<b>(8,557)</b>	<b>(7,609)</b>
Hedge of net investments in foreign operations (effective portion)	(53)	1
Foreign currency translation	(9,607)	(9,159)
Hedging derivatives. Cash flow hedges (effective portion)	(98)	(34)
Fair value changes of debt instruments measured at fair value through other comprehensive income	1,233	1,641
Hedging instruments (non-designated items)	-	-
Non-current assets and disposal groups classified as held for sale	1	(26)
Share of other recognized income and expense of investments in subsidiaries, joint ventures and associates	(35)	(31)
<b>Total</b>	<b>(9,868)</b>	<b>(8,792)</b>

The balances recognized under these headings are presented net of tax.

## 28. Non-controlling interest

The breakdown by groups of consolidated entities of the balance under the heading “Non-controlling interest” of total equity in the accompanying consolidated balance sheets is as follows:

Non-Controlling Interests (Millions of euros)		
	June 2018	December 2017
BBVA Colombia Group	66	65
BBVA Chile Group	400	399
BBVA Banco Continental Group	1,054	1,059
BBVA Banco Provincial Group	59	78
BBVA Banco Francés Group	341	420
Garanti Group	4,363	4,903
Other entities	53	55
<b>Total</b>	<b>6,336</b>	<b>6,979</b>

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These amounts are broken down by groups of consolidated entities under the heading "Profit-Attributable to non-controlling interests (non-controlling interest)" in the accompanying consolidated income statements:

Profit attributable to Non-Controlling Interests (Millions of euros)			
	Notes	June 2018	June 2017
BBVA Colombia Group		5	3
BBVA Chile Group		26	25
BBVA Banco Continental Group		99	98
BBVA Banco Provincial Group		-	(2)
BBVA Banco Francés Group		66	46
Garanti Group		383	436
Other entities		2	1
<b>Total</b>	<b>48.1</b>	<b>581</b>	<b>607</b>

## 29. Capital base and capital management

The Group's bank capital in accordance with the aforementioned applicable regulation, considering entities scope required by the above regulation, as of June 30, 2018 and December 30, 2017 is shown below:

Capital ratios		
	June 2018 (*)	December 2017
Eligible Common Equity Tier 1 capital (million euros) (a)	39,550	42,337
Eligible Additional Tier 1 capital (million euros) (b)	6,167	4,639
Eligible Tier 2 capital (million euros) (c)	9,499	9,137
Risk Weight ed Assest (million euros) (d)	356,985	361,686
Common Equity Tier 1 capital ratio (CET 1) (A)=(a)/(d)	11.08%	0.12
Additional Tier 1 capital ratio (AT 1) (B)=(b)/(d)	1.73%	0.01
Tier 1 capital ratio (Tier 1) (A)+(B)	12.81%	0.13
Tier 2 capital ratio (Tier 2) (C)=(c)/(d)	2.66%	0.03
<b>Total capital ratio (A)+(B)+(C)</b>	<b>15.47%</b>	<b>15.52%</b>

(\*) Provisional data.

Capital Base		
	June 2018 (*)	December 2017
Tier 1 (millions of euros) (a)	45,717	50,083
Exposure (millions of euros) (b)	703,657	747,217
Leverage ratio (a)/(b) (percentage)	6.50%	6.70%

(\*) Provisional data

## 30. Commitments and guarantees given

The breakdown of the balance under these headings in the accompanying consolidated balance sheets is as follows:

Loan commitments, financial guarantees and other commitments (*) (Millions of euros)			
	Notes	June 2018	December 2017
<b>Loan commitments given</b>		<b>118,387</b>	<b>94,268</b>
<i>of which: defaulted</i>		416	537
Central banks		3	1
General governments		2,781	2,198
Credit institutions		6,123	946
Other financial corporations		5,572	3,795
Non-financial corporations		59,649	58,133
Households		44,259	29,195
<b>Financial guarantees given</b>		<b>15,467</b>	<b>16,545</b>
<i>of which: defaulted</i>		246	278
Central banks		1	-
General governments		191	248
Credit institutions		1,131	1,158
Other financial corporations		637	3,105
Non-financial corporations		13,183	11,518
Households		323	516
<b>Other commitments and guarantees given</b>		<b>37,638</b>	<b>45,738</b>
<i>of which: defaulted</i>		395	461
Central banks		75	7
General governments		629	227
Credit institutions		6,947	15,330
Other financial corporations		3,618	3,820
Non-financial corporations		26,132	25,992
Households		237	362
<b>Total Loan commitments and financial guarantees</b>	<b>6.2.1</b>	<b>171,492</b>	<b>156,551</b>

(\*) Non performing financial guarantees given amounted to €641 and €739 million as of June 30, 2018 and December 31, 2017, respectively.

As of June 30, 2018, the provisions of loan commitments given, financial guarantees given and other commitments and guarantees given, disclosed in the consolidated balance sheet amounted €340 million, €214 million and €43 million, respectively.

Since a significant portion of the amounts above will expire without any payment being made by the consolidated entities, the aggregate balance of these commitments cannot be considered the actual future requirement for financing or liquidity to be provided by the BBVA Group to third parties.

## 31. Other contingent assets and liabilities

As of June 30, 2018 and December 31, 2017, there were no material contingent assets or liabilities other than those disclosed in the accompanying notes to the consolidated financial statements.

## 32. Interest income and expense

### 32.1 Interest income

The breakdown of the interest and similar income recognized in the accompanying consolidated income statement is as follows:

#### Interest Income. Breakdown by Origin (Millions of euros)

	Notes	June 2018	June 2017
Central Banks		266	148
Loans and advances to credit institutions		209	151
Loans and advances to customers		11,381	11,135
Debt securities		1,839	1,872
Held for trading		775	627
Other portfolios		1,064	1,245
Adjustments of income as a result of hedging transactions		129	(138)
Cash flow hedges (effective portion)		(3)	-
Fair value hedges		132	(138)
Insurance activity		528	660
Other income		156	477
<b>Total</b>	<b>48.1</b>	<b>14,507</b>	<b>14,305</b>

### 32.2 Interest expense

The breakdown of the balance under this heading in the accompanying consolidated income statements is as follows:

#### Interest Expenses. Breakdown by Origin (Millions of euros)

	June 2018	June 2017
Central banks	44	62
Deposits from credit institutions	1,054	744
Customers deposits	3,049	2,970
Debt securities issued	944	1,102
Adjustments of expenses as a result of hedging transactions	315	(269)
Cash flow hedges (effective portion)	26	19
Fair value hedges	289	(288)
Cost attributable to pension funds	64	68
Insurance activity	254	474
Other expenses	137	350
<b>Total</b>	<b>5,864</b>	<b>5,502</b>

## 32.3 Average return on investments and average borrowing cost

The change in the balance under the headings "Interest and similar income" and "Interest and similar expenses" in the accompanying consolidated income statements is the result of exchange rate effect, changing prices (price effect) and changing volume of activity (volume effect), as can be seen below:

Interest Income and Expenses: Change in the Balance (Millions of euros)						
	June 2018 / June 2017			June 2017 / June 2016		
	Volume Effect (1)	Price Effect (2)	Total Effect	Volume Effect (1)	Price Effect (2)	Total Effect
Cash and balances with central banks and other demand deposits	1	48	49	2	(1)	1
Securities portfolio and derivatives	150	(339)	(189)	(306)	185	(120)
Loans and advances to Central Banks	(68)	41	(27)	(28)	77	50
Loans and advances to credit institutions	(73)	256	183	(11)	(7)	(19)
Loans and advances to customers	(757)	1,054	297	(15)	572	557
Euros	(127)	89	(38)	(64)	(140)	(204)
Foreign currencies	(581)	916	335	263	498	761
Other assets	(23)	(88)	(111)	(6)	140	134
<b>Interest income</b>			<b>202</b>			<b>603</b>
Deposits from central banks and credit institutions	(262)	464	202	(87)	73	(14)
Customer deposits	(188)	693	505	(68)	65	(3)
Euros	(13)	(65)	(78)	(36)	(139)	(175)
Foreign currencies	(199)	782	583	109	63	172
Debt securities issued	(80)	77	(4)	(39)	28	(11)
Other liabilities	217	(559)	(341)	(23)	215	192
<b>Interest expenses</b>			<b>362</b>			<b>164</b>
<b>Net Interest Income</b>			<b>(160)</b>			<b>438</b>

- (1) The volume effect is calculated as the result of the interest rate of the initial period multiplied by the difference between the average balances of both periods.
- (2) The price effect is calculated as the result of the average balance of the last period multiplied by the difference between the interest rates of both periods.

## 33. Dividend income

The balances for this heading in the accompanying consolidated income statements correspond to dividends on shares and equity instruments other than those from shares in entities accounted for using the equity method (see Note 34), as can be seen in the breakdown below:

Dividend Income (Millions of euros)		
	June 2018	June 2017
Dividends from:		
Financial assets held for trading		106
Financial assets at fair value through other comprehensive income	73	106
Other	11	-
<b>Total</b>	<b>84</b>	<b>212</b>

From January 1, 2018, dividends from "Financial assets held for trading" are recognized in the heading "Gains or losses for financial assets and liabilities" (see Note 1.6).

## 34. Share of profit or loss of entities accounted for using the equity method

Net income from “Investments in Entities Accounted for Using the Equity Method” resulted in a positive impact of €14 million for the first semester ended as of June 30, 2018 compared with the negative impact of €8 million recorded for the first semester ended June 30, 2017.

## 35. Fee and commission income and expense

The breakdown of the balance under this heading in the accompanying consolidated income statements is as follows:

Fee and Commission Income (Millions of euros)		
	June 2018	June 2017
Bills receivables	23	24
Demand accounts	225	247
Credit and debit cards	1,399	1,386
Checks	94	104
Transfers and other payment orders	299	296
Insurance product commissions	98	97
Commitment fees	117	122
Contingent risks	196	198
Asset Management	520	444
Securities fees	192	216
Custody securities	63	62
Other fees and commissions	360	355
<b>Total</b>	<b>3,585</b>	<b>3,551</b>

Fee and Commission Expense (Millions of euros)		
	June 2018	June 2017
Credit and debit cards	719	717
Transfers and other payment orders	49	52
Commissions for selling insurance	35	29
Other fees and commissions	290	297
<b>Total</b>	<b>1,093</b>	<b>1,095</b>

## 36. Gains (losses) on financial assets and liabilities, net and Exchange Differences

The breakdown of the balance under this heading, by source of the related items, in the accompanying consolidated income statement is as follows:

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Gains or losses on financial assets and liabilities and exchange differences: Breakdown by Heading of the Consolidated Income Statements (Millions of euros)

	June 2018	June 2017
Gains or (losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	130	683
Financial assets at fair value through other comprehensive income	102	623
Loans and receivables	21	59
Other	7	1
Gains or (losses) on financial assets and liabilities held for trading, net	324	139
Gains (losses) on non-trading financial assets mandatorily at fair value through profit or loss, net	5	
Gains or (losses) on financial assets and liabilities designated at fair value through profit or loss, net	107	(88)
Gains or (losses) from hedge accounting, net	51	(193)
<b>Subtotal Gains or (losses) on financial assets and liabilities</b>	<b>618</b>	<b>541</b>
Exchange Differences	90	528
<b>Total</b>	<b>708</b>	<b>1,069</b>

The breakdown of the balance (excluding exchange rate differences) under this heading in the accompanying income statements by the nature of financial instruments is as follows:

Gains or losses on financial assets and liabilities: Breakdown by nature of the Financial Instrument (Millions of euros)

	June 2018	June 2017
Debt instruments	222	448
Equity instruments	33	546
Loans and advances to customers	(85)	44
Trading derivatives and hedge accounting	186	(410)
Customer deposits	219	(97)
Other	42	10
<b>Total</b>	<b>618</b>	<b>541</b>

## 37. Other operating income and expense

The breakdown of the balance under the heading “Other operating income” in the accompanying consolidated income statements is as follows:

Other operating income (Millions of euros)

	June 2018	June 2017
Gains from sales of non-financial services	246	390
<i>Of which: Real estate</i>	156	251
Rest of other operating income	263	172
<i>Of which: net profit from building leases</i>	19	34
<b>Total</b>	<b>509</b>	<b>562</b>

The breakdown of the balance under the heading “Other operating expense” in the accompanying consolidated income statements is as follows:



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Other operating expense (Millions of euros)		
	June 2018	June 2017
Change in inventories	165	266
<i>Of Which: Real estate</i>	143	218
Rest of other operating expenses	727	679
<b>Total</b>	<b>893</b>	<b>945</b>

## 38. Income and expense from insurance and reinsurance contracts

The breakdown of the balance under the headings “Income and expense from insurance and reinsurance contracts” in the accompanying consolidated income statements is as follows:

Other operating income and expense on insurance and reinsurance contracts (Millions of euros)		
	June 2018	June 2017
Income on insurance and reinsurance contracts	1,609	1,863
Expenses on insurance and reinsurance contracts	(1,093)	(1,295)
<b>Total</b>	<b>516</b>	<b>568</b>

## 39. Administration costs

### 39.1 Personnel expenses

The breakdown of the balance under this heading in the accompanying consolidated income statements is as follows:

Personnel Expenses (Millions of euros)			
	Notes	June 2018	June 2017
Wages and salaries		2,448	2,590
Social security costs		372	394
Defined contribution plan expense	24	51	52
Defined benefit plan expense	24	30	32
Other personnel expenses		224	256
<b>Total</b>		<b>3,125</b>	<b>3,324</b>

The breakdown of the average number of employees in the BBVA Group in the first semester ended June 30, 2018 and 2017 is as follows:

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#### Average Number of Employees

	June 2018	June 2017
<b>BBVA Group</b>		
Men	60,623	60,873
Women	71,258	72,051
<b>BBVA, S.A.</b>		
Men	13,178	13,655
Women	13,178	13,372

## 39.2 Other administrative expenses

The breakdown of the balance under this heading in the accompanying consolidated income statements is as follows:

#### Other Administrative Expenses (Millions of euros)

	June 2018	June 2017
Technology and systems	558	499
Communications	120	149
Advertising	175	186
Property, fixtures and materials	495	528
<i>Of which: Rent expenses (*)</i>	283	299
Taxes other than income tax	220	237
Other expenses	644	676
<b>Total</b>	<b>2,211</b>	<b>2,275</b>

(\*) The consolidated companies do not expect to terminate the lease contracts early.

## 40. Depreciation and Amortization

The breakdown of the balance under this heading in the accompanying consolidated income statements is as follows:

#### Depreciation and amortization (Millions of euros)

	Notes	June 2018	June 2017
Tangible assets	16	297	355
For own use		295	348
Investment properties		2	7
Assets leased out under operating lease		-	-
Other Intangible assets		309	357
<b>Total</b>		<b>606</b>	<b>712</b>

## 41. Provisions or reversal of provisions

In the first semester ended June 30, 2018 and 2017 the net provisions registered in this income statement line item were as follows:

Provisions or reversal of provisions (Millions of euros)			
	Notes	June 2018	June 2017
Pensions and other post employment defined benefit obligations	24	57	212
Other long term employee benefits		-	-
Commitments and guarantees given		(102)	(81)
Pending legal issues and tax litigation		125	131
Other Provisions		105	102
<b>Total</b>		<b>185</b>	<b>364</b>

## 42. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss

The breakdown of Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss by the nature of those assets in the accompanying consolidated income statements is as follows:

Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss (Millions of euros)		
	June 2018	June 2017
Financial assets measured at cost	-	-
Financial assets at fair value through other comprehensive income	(12)	(8)
Debt securities	(12)	(11)
Equity instruments	-	2
Financial assets at amortized cost	1,623	1,950
Of which: Recovery of written-off assets	(317)	(238)
Held to maturity investments		(1)
<b>Total</b>	<b>1,611</b>	<b>1,941</b>

## 43. Impairment or reversal of impairment on non-financial assets

The impairment losses on non-financial assets broken down by the nature of those assets in the accompanying consolidated income statements are as follows:

Impairment or reversal of impairment on non-financial assets (Millions of euros)		
	June 2018	June 2017
Tangible assets	18	17
Intangible assets	3	10
Others	(21)	53
<b>Total</b>	<b>-</b>	<b>80</b>

## 44. Gains (losses) on derecognition of non financial assets and subsidiaries, net

The breakdown of the balance under this heading in the accompanying consolidated income statements is as follows:

Gains or losses on derecognition of non financial assets and subsidiaries, net (Millions of euros)

	June 2018	June 2017
<b>Gains</b>		
Disposal of investments in non-consolidated subsidiaries	52	6
Disposal of tangible assets and other	60	44
<b>Losses:</b>		
Disposal of investments in non-consolidated subsidiaries	-	(2)
Disposal of tangible assets and other	(32)	(19)
<b>Total</b>	<b>80</b>	<b>30</b>

## 45. Profit (loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The main items included in the balance under this heading in the accompanying consolidated income statements are as follows:

Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (Millions of euros)

	June 2018	June 2017
Gains on sale of real estate	70	27
Impairment of non-current assets held for sale	(41)	(52)
Gains on sale of investments classified as non current assets held for sale	-	7
Gains on sale of equity instruments classified as non current assets held for sale	-	-
<b>Total</b>	<b>29</b>	<b>(18)</b>

## 46. Related-party transactions

As financial institutions, BBVA and other entities in the Group engage in transactions with related parties in the normal course of their business. All of these transactions are not material and are carried out under normal market conditions. As of June 30, 2018, the following are the transactions with related parties:

### 46.1 Transactions with significant shareholders

As of June 30, 2018 and December 31, 2017, there were no shareholders considered significant.

### 46.2 Transactions with BBVA Group entities

The balances of the main aggregates in the accompanying consolidated balance sheets arising from the transactions carried out by the BBVA Group with associates and joint venture entities accounted for using the equity method are as follows:

Balances arising from transactions with Entities of the Group (Millions of euros)

	June 2018	December 2017
<b>Assets:</b>		
Loans and advances to credit institutions	67	91
Loans and advances to customers	578	510
<b>Liabilities:</b>		
Deposits from credit institutions	1	5
Customer deposits	334	428
Debt certificates	-	-
<b>Memorandum accounts:</b>		
Financial guarantees given	1,386	1,254
Contingent commitments	104	114

The balances of the main aggregates in the accompanying consolidated income statements resulting from transactions with associates and joint venture entities that are accounted for under the equity method are as follows:

Balances of Income Statement arising from transactions with Entities of the Group (Millions of euros)

	June 2018	June 2017
<b>Income statement:</b>		
Financial incomes	11	12
Financial costs	1	-
Fee and Commission Income	2	2
Fee and Commission Expenses	26	27

There were no other material effects in the consolidated financial statements arising from dealings with these entities, other than the effects from using the equity method (see Note 2 of 2017 consolidated financial statements) and from the insurance policies to cover pension or similar (see Note 25 of 2017 consolidated financial statements) commitments and the futures transactions arranged by BBVA Group with these entities, associates and joint ventures.

In addition, as part of its normal activity, the BBVA Group has entered into agreements and commitments of various types with shareholders of subsidiaries and associates, which have no material effects on the accompanying consolidated financial statements.

## 46.3 Transactions with members of the Board of Directors and Senior Management

The information on the remuneration of the members of the BBVA Board of Directors and Senior Management is included in Note 47.

As of June 30, 2018 and December 31, 2017, there were no loans granted by the Group's entities to the members of the Board of Directors. The amount availed against the loans by the Group's entities to the members of Senior Management on those same dates (excluding the executive directors) amounted to €4,185 and €4,049 thousand, respectively.

As of June 30, 2018 and December 31, 2017, there were no loans granted to parties related to the members of the Board of Directors. As of June 30, 2018 and December 31, 2017 the amount availed against the loans to parties related to members of the Senior Management amounted to €54 and €85 thousand, respectively.

As of June 30, 2018, and December 31, 2017 no guarantees had been granted to any member of the Board of Directors.

As of June 30, 2018 and December 31, 2017, the amount availed against guarantees arranged with members of the Senior Management amounted €28 thousand, respectively.

As of June 30, 2018 and December 31, 2017, the amount availed against commercial loans and guarantees arranged with parties related to the members of the Bank's Board of Directors and the Senior Management amounted €8 thousand respectively.

## 46.4 Transactions with other related parties

As of June 30, 2018 and in 2017, the Group did not conduct any transactions with other related parties that are not in the ordinary course of its business, which were not carried out at arm's-length market conditions and of marginal relevance; whose information is not necessary to give a true picture of the BBVA Group's consolidated net equity, net earnings and financial situation.

## 47. Remuneration and other benefits to the Board of Directors and to the members of the Bank's Senior Management

The notes accompanying the Bank's consolidated Financial Statements, corresponding to the financial year ended December 31, 2017, detail the remuneration and other benefits corresponding to the members of the Board of Directors and of the Senior Management, including the description of the applicable policies and remuneration systems, as well as information regarding the conditions to receive remuneration and other benefits.

On the basis of said policies and remuneration systems, the information regarding the remuneration and other benefits received by the members of the Board of Directors and of the Senior Management corresponding to the period between the start of the financial year and June 30, 2018, is shown below.

### Remuneration received by non-executive directors

The remuneration paid to non-executive directors during the first semester of 2018 is indicated below, individually and itemized:

Remuneration for non-executive directors (Thousands of euros)

	Board of Directors	Executive Committee	Audit & Compliance Committee	Risk Committee	Remunerations Committee	Appointments Committee	Technology and Cybersecurity Committee	Total
Tomás Alfaro Drake	64	-	18	-	21	25	21	150
José Miguel Andrés Torrecillas	64	-	89	53	-	20	-	227
Jaime Félix Caruana Lacorte (1)	11	-	-	-	-	-	-	11
Belén Garijo López	64	-	36	-	54	-	-	154
Sunir Kumar Kapoor	64	-	-	-	-	-	21	86
Carlos Loring Martínez de Irujo	64	83	-	53	21	-	-	223
Lourdes Máiz Carro	64	-	36	-	21	20	-	142
José Maldonado Ramos	64	83	-	53	-	20	-	222
Ana Peralta Moreno (1)	21	-	-	-	-	-	-	21
Juan Pi Llorens	64	-	36	107	-	-	21	228
Susana Rodríguez Vidarte	64	83	-	53	-	20	-	222
Jan Verplancke (1)	43	-	-	-	-	-	-	43
<b>Total (2)</b>	<b>654</b>	<b>250</b>	<b>214</b>	<b>321</b>	<b>118</b>	<b>107</b>	<b>64</b>	<b>1,728</b>

(1) Directors appointed by the General Meeting held on March 16, 2018. Remuneration received in accordance with the date of acceptance of said appointment.

(2) Additionally, José Antonio Fernández Rivero, who ceased as director on March 16, 2018, received a total of €95 thousand as member of the Board of Directors and of the different Board Committees.

Likewise, during the first semester of 2018, €100 thousand has been paid in healthcare and casualty insurance premiums in favor of the non-executive directors.

### Remuneration received by executive directors

The remuneration paid to executive directors during the first semester of 2018 is indicated below, individually and itemized:

Fixed remuneration (Thousands of Euros)

Group Executive Chairman	1,237
Chief Executive Officer ("CEO")	983
Head of Global Economics, Regulation & Public Affairs ("Head of GERPA")	417
<b>Total</b>	<b>2,637</b>

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#### Variable remuneration

	<b>Total cash (1) (Thousands of Euros)</b>	<b>Total shares (1)</b>
Group Executive Chairman	992	128,323
CEO	667	89,259
Head of GERPA	120	15,707
<b>Total</b>	<b>1,779</b>	<b>233,289</b>

(1) Remuneration corresponding to the upfront portion (40%) of the Annual Variable Remuneration ("AVR") for the year 2017 and the last third of the deferred AVR corresponding to the year 2014, along with its update in cash.

Likewise, during the first semester of 2018 remuneration in kind has been paid in favor of executive directors, which includes insurance premiums and others, for a total overall amount of €228 thousand.

#### ■ Remuneration received by members of the Senior Management <sup>(\*)</sup>

The remuneration paid to the Senior Management as a whole during the first semester of 2018 is indicated below, itemized:

#### Fixed remuneration (Thousands of Euros)

Total Senior Management	8,039
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#### Variable remuneration

	<b>In cash (1) (Thousands of Euros)</b>	<b>In shares (1)</b>
Total Senior Management	2,062	269,957

(1) Remuneration corresponding to the upfront portion (40%) of the AVR for the year 2017 and the last third of the deferred AVR corresponding to the year 2014, along with its update in cash.

<sup>(\*)</sup> 15 members held such position as at June 30, 2018, excluding executive directors.

Likewise, during the first semester of 2018 remuneration in kind has been paid in favor of the Senior Management as a whole, excluding executive directors, which includes insurance premiums and others, for a total amount of €587 thousand.

#### ■ Remuneration system with deferred delivery of shares for non-executive directors

During the first semester of 2018, the following "theoretical shares" have been allocated, derived from the remuneration system with deferred delivery of shares for the non-executive directors, equivalent to 20% of the total remuneration in cash received by each director in 2017:



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	Theoretical shares allocated in 2018	Theoretical shares accumulated at June 30 2018
Tomás Alfaro Drake	10,367	83,449
José Miguel Andrés Torrecillas	12,755	36,565
Belén Garijo López	7,865	34,641
Sunir Kumar Kapoor	4,811	8,976
Carlos Loring Martínez de Irujo	11,985	98,876
Lourdes Máiz Carro	7,454	23,160
José Maldonado Ramos	11,176	78,995
Juan Pi Llorens	11,562	54,171
Susana Rodríguez Vidarte	12,425	104,983
<b>Total (1)</b>	<b>90,400</b>	<b>523,816</b>

(1) Additionally, 10,188 "theoretical shares" were allocated to José Antonio Fernández Rivero, who ceased as director on March 16, 2018.

## ■ Pension commitments with executive directors and members of the Senior Management

### Executive Directors (Thousands of Euros)

	Contributions (1)	Accumulated Funds
CEO	969	18,251
Head of GERPA	207	982
<b>Total</b>	<b>1,176</b>	<b>19,233</b>

(1) Contributions registered to attend the pension commitments undertaken with the CEO and Head of GERPA, which correspond to the sum of the annual contribution to cover the retirement benefit (proportional amount of the first semester of 2018), death and disability premiums, as well as the adjustment made to the discretionary pension benefits of the year 2017, which contribution corresponded in 2018 once the AVR for the year 2017 had been determined.

There are no other pension obligations undertaken in favor of other executive directors.

### Senior Management (Thousands of Euros)

	Contributions (1)	Accumulated Funds
Total Senior Management	2,385	56,878

(1) Contributions registered to attend the pension commitments undertaken with the Senior Management as a whole, which correspond to the sum of the annual contributions to cover the retirement benefits (proportional amount of the first semester of 2018), death and disability premiums, as well as the adjustments made to the discretionary pension benefits of the year 2017, which contribution corresponded in 2018 once the AVR for the year 2017 had been determined.

## 48. Other information

### 48.1 Reporting requirements of the Spanish National Securities Market Commission (CNMV)

#### Dividends paid

The table below presents the dividends per share paid in cash as of June 30 2018 and 2017 (cash basis dividend, regardless of the year in which they were accrued), but without including other shareholder remuneration, such as the “Dividend Option”.

Dividends Paid (“Dividend Option” not included)						
	June 2018			June 2017		
	% Over Nominal	Euros per Share	Amount (Millions of Euros)	% Over Nominal	Euros per Share	Amount (Millions of Euros)
Ordinary shares	30.61%	0.15	1,000	16.33%	0.08	525
Rest of shares	-	-	-	-	-	-
<b>Total dividends paid in cash</b>	<b>30.61%</b>	<b>0.15</b>	<b>1,000</b>	<b>16.33%</b>	<b>0.08</b>	<b>525</b>
Dividends with charge to income	30.61%	0.15	1,000	16.33%	0.08	525
Dividends with charge to reserve or share premium	-	-	-	-	-	-
Dividends in kind	-	-	-	-	-	-

#### Ordinary earnings by operating segment

The detail of the consolidated profit for each operating segment is as follows as of June 30 2018 and 2017:

Profit Attributable by Operating Segments			
	Notes	June 2018	June 2017
Banking Activity in Spain		793	665
Non Core Real Estate		(36)	(186)
United States		387	284
Mexico		1,208	1,094
Turkey		373	374
South America		452	404
Rest of Eurasia		58	73
<b>Subtotal operating segments</b>		<b>3,235</b>	<b>2,708</b>
Corporate Center		(586)	(402)
<b>Profit attributable to parent company</b>		<b>2,649</b>	<b>2,306</b>
Non-assigned income		-	-
Elimination of interim income (between segments)		-	-
Other gains (losses) (*)	28	581	607
Income tax and/or profit from discontinued operations		1,213	1,120
<b>Operating profit before tax</b>		<b>4,443</b>	<b>4,033</b>

(\*) Profit attributable to non-controlling interests.

#### Interest income by geographical area

The breakdown of the balance of “Interest Income” in the accompanying consolidated income statements by geographical area is as follows:

Interest Income. Breakdown by geographical area (Millions of euros)

	Notes	June 2018	June 2017
Domestic		2,443	2,575
Foreign		12,064	11,730
European Union		247	251
Other OECD countries		9,619	9,175
Other countries		2,198	2,304
<b>Total</b>	<b>32.1</b>	<b>14,507</b>	<b>14,305</b>
Of which BBVA, S.A.:			
Domestic		2,174	2,238
Foreign		180	182
European Union		66	79
Other OECD countries		63	54
Other countries		51	49
<b>Total</b>		<b>2,354</b>	<b>2,420</b>

## 48.2 Mortgage market policies and procedures

The information on “Mortgage market policies and procedures” (for the granting of mortgage loans and for debt issues secured by such mortgage loans) required by Bank of Spain Circular 5/2011, applying Royal Decree 716/2009, dated April 24 (which developed certain aspects of Act 2/1981, dated March 25, on the regulation of the mortgage market and other mortgage and financial market regulations), can be found in Appendix III.

## 49. Subsequent events

On July 6, 2018, BBVA Group has completed the sale to The Bank of Nova Scotia of its approximately 68.19% shareholding stake in BBVA Chile for a total cash amount of approximately \$2,200 million, a capital gain net of approximately €640 million and a positive impact on Common Equity Tier 1 (fully loaded) of approximately 50 basis points (see Note 3).

From July 1, 2018 to the date of preparation of these consolidated financial statements, no other subsequent events not mentioned above in these consolidated financial statements have taken place that could significantly affect the Group’s earnings or its equity position.

## 50. Explanation added for translation into English

These accompanying consolidated financial statements are presented on the basis of IFRS, as adopted by the European Union. Certain accounting practices applied by the Group that conform to EU-IFRS may not conform to other generally accepted accounting principles.

# **BBVA Group**

## **Appendices**

Translation of the Interim Consolidated Financial Statements originally issued in Spanish and prepared in accordance with IAS 34, as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.

## APPENDIX I Changes and notification of participations in the BBVA Group in the six month ended June 30, 2018

### Acquisitions or increases of interest ownership in consolidated subsidiaries

Company	Type of Transaction	Activity	Millions of Euros		% of Voting Rights			Effective Date for the Transaction (or Notification Date)	Category
			Price Paid in the Transactions + Expenses directly attributable to the Transactions	Fair Value of Equity Instruments issued for the Transactions	% Participation (net) Acquired in the Period	Total Voting Rights Controlled after the Transactions			
BBVA HOLDING CHILE S.A.	FOUNDING	INVESTMENT COMPANY	-	-	100.00%	100.00%	31-Jan-18	SUBSIDIARY	
HOLVI DEUTSCHLAND SERVICE GMBH	FOUNDING	SERVICES	-	-	100.00%	100.00%	28-May-18	SUBSIDIARY	
PERSONAL DATA BANK SLU	FOUNDING	SERVICES	-	-	100.00%	100.00%	11-May-18	SUBSIDIARY	
ENTIDAD DE PROMOCION DE NEGOCIOS, S.A.	SHARE PURCHASE	OTHER HOLDING	-	-	0.02%	99.88%	10-May-18	SUBSIDIARY	

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### Disposals or reduction of interest ownership in consolidated subsidiaries

Company	Type of Transaction	Activity	Millions of Euros		% of Voting Rights		Effective Date for the Transaction (or Notification Date)	Category
			Profit (Loss) in the Transaction	Changes in the Equity due to the transaction	% Participation Sold in the Period	Total Voting Rights Controlled after the Disposal		
BBVA RENTAS E INVERSIONES LIMITADA	MERGER	INVESTMENT COMPANY	-	-	99.99%	-	30-Apr-18	SUBSIDIARY
HABITATGES INVERVIC, S.L.	LIQUIDATION	REAL ESTATE	-	-	35.00%	-	22-Feb-18	SUBSIDIARY
PROCAMVASA, S.A.	LIQUIDATION	REAL ESTATE	-	-	51.00%	-	5-Apr-18	SUBSIDIARY
CATALUNYACAIXA ASSEGURANCES GENERALS, S.A.	MERGER	INSURANCES SERVICES	-	-	100.00%	-	23-Jan-18	SUBSIDIARY
VOLJA LUX, SARL	LIQUIDATION	INVESTMENT COMPANY	-	-	71.78%	-	29-Jan-18	SUBSIDIARY
CX PROPIETAT, FII	LIQUIDATION	REAL ESTATE	-	-	95.28%	-	30-Jun-18	SUBSIDIARY
SCALDIS FINANCE, S.A.	LIQUIDATION	INVESTMENT COMPANY	-	-	100.00%	-	30-Apr-18	SUBSIDIARY

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## Business combinations and other acquisitions or increases of interest ownership in associates and joint-ventures accounted for under the equity method

Company	Type of Transaction	Activity	Millions of Euros		% of Voting Rights		Effective Date for the Transaction (or Notification Date)	Category
			Price Paid in the Transactions + Expenses Directly Attributable to the Transactions	Fair Value of Equity Instruments Issued for the Transactions	% Participation (Net) Acquired in the Period	Total Voting Rights Controlled After the Transactions		
SR2 SOCIEDAD DE MEDIOS DE PAGO, S.A.	CONSTITUTION AND ACQUISITION	PAYMENT ENTITIES	1	-	28.72%	28.72%	01-Jan-18	ASSOCIATED
SOCIEDADE ALTITUDE SOFTWARE -SISTEMA E SERCIÇOS, S.A.	CONSTITUTION AND ACQUISITION	SERVICES	-	-	31.55%	31.55%	02-Apr-18	JOINT VENTURE
SISTEMAS DE TARJETAS Y MEDIOS DE PAGO, S.A.	CONSTITUTION AND ACQUISITION	PAYMENT ENTITIES	-	-	19.07%	19.07%	30-Apr-18	ASSOCIATED
ATOM BANK, PLC	DILUTION EFFECT. INCREASE TO WHICH OTHER MEMBERS DO NOT ASSIST	BANKING	99	-	9.16%	39.06%	01-May-18	ASSOCIATED

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### Disposal or reduction of interest ownership in associates and joint-ventures companies accounted for under the equity method

Company	Type of Transaction	Activity	Millions of Euros			Effective Date for the Transaction (or Notification Date)	Category
			Profit (Loss) in the Transaction	% Participation Sold in the Period	Total Voting Rights Controlled after the Disposal		
FIDEICOMISO F/404180-2 BBVA BANCOMER SERVICIOS GOLF ZIBATA	DISPOSAL	REAL ESTATE	-	30.00%	-	15-Feb-18	JOINT VENTURE
FIDEICOMISO F 403853- 5 BBVA BANCOMER SERVICIOS ZIBATA	DISPOSAL	REAL ESTATE	22	30.00%	-	15-Feb-18	JOINT VENTURE
OPERADORA ZIBATA S. DE R.L. DE C.V.	DISPOSAL	SERVICES	-	30.00%	-	15-Feb-18	ASSOCIATE
FERROMOVIL 3000, S.L.	DISPOSAL	SERVICES	12	20.00%	-	29-May-18	JOINT VENTURE
FERROMOVIL 9000, S.L.	DISPOSAL	SERVICES	8	20.00%	-	29-May-18	JOINT VENTURE
ALTITUDE SOFTWARE SGPS, S.A.	MERGER	SERVICES	-	31.55%	-	30-Apr-18	JOINT VENTURE
PARQUE RIO RESIDENCIAL, S.L.	DISPOSAL	PENSION FUNDS	8	50.00%	-	27-Apr-18	JOINT VENTURE
BATEC ORTO DISTRIBUCION, S.L.	LIQUIDATION	PENSION FUNDS	-	100.00%	-	01-Jun-18	JOINT VENTURE
SR2 SOCIEDAD DE MEDIOS DE PAGO, S.A.	MERGER	PENSION FUNDS	-	28.72%	-	30-Apr-18	ASSOCIATE
HABITATGES CIMIPRO, S.L.	LIQUIDATION	REAL ESTATE	-	50.00%	-	01-Mar-18	JOINT VENTURE
SOLARVOLAR, S.L.	LIQUIDATION	REAL ESTATE	-	45.00%	-	08-Feb-18	JOINT VENTURE
HABITATGES SOCIALS DE CALAF, S.L	DISPOSAL	REAL ESTATE	-	40.00%	-	04-Apr-18	JOINT VENTURE
METROVACESA, S.A.	DISPOSAL	REAL ESTATE REAL ESTATE INVESTMENT	2	7.66%	20.85%	01-Feb-18	ASSOCIATE
TESTA RESIDENCIAL SOCIMI, S.A.U.	DILUTION EFFECT	TRUST	-	1.30%	25.56%	01-Apr-18	ASSOCIATE

This Appendix is an integral part of Note 3 of the Consolidated Financial Statements corresponding to the period between January 1 and June 30, 2018.



## APPENDIX II. Financial Statements of Banco Bilbao Vizcaya Argentaria, S.A.

ASSETS (Millions of euros)

	June 2018	December 2017
<b>CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS</b>	<b>17,339</b>	<b>18,503</b>
<b>FINANCIAL ASSETS HELD FOR TRADING</b>	<b>74,945</b>	<b>50,424</b>
Derivatives	36,890	36,536
Equity instruments	4,642	6,202
Debt securities	10,010	7,686
Loans and advances to central banks	584	-
Loans and advances to credit institutions	13,585	-
Loans and advances to customers	9,232	-
<b>NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>4,457</b>	<b>-</b>
Equity instruments	241	-
Debt securities	163	-
Loans and advances to central banks	-	-
Loans and advances to credit institutions	-	-
Loans and advances to customers	4,053	-
<b>OTHER FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>-</b>	<b>648</b>
Equity instruments	-	-
Debt securities	-	-
Loans and advances to central banks	-	-
Loans and advances to credit institutions	-	-
Loans and advances to customers	-	-
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH COMPREHENSIVE INCOME</b>	<b>24,678</b>	<b>24,205</b>
Equity instruments	1,996	2,378
Debt securities	22,682	21,827
<b>FINANCIAL ASSETS AT AMORTIZED COST</b>	<b>222,713</b>	<b>252,586</b>
Debt securities	20,872	18,856
Loans and advances to central banks	9	28
Loans and advances to credit institutions	7,643	22,105
Loans and advances to customers	194,188	211,597
<b>HEDGING DERIVATIVES</b>	<b>1,313</b>	<b>1,561</b>
<b>FAIR VALUE CHANGES OF THE HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK</b>	<b>(39)</b>	<b>(25)</b>
<b>INVESTMENTS IN JOINT VENTURES AND ASSOCIATES</b>	<b>30,423</b>	<b>30,795</b>
Group entities	29,446	30,304
Joint ventures	58	58
Associates	919	433
<b>TANGIBLE ASSETS</b>	<b>1,464</b>	<b>1,599</b>
Property, plants and equipment	1,462	1,587
For own use	1,462	1,587
Other assets leased out under an operating lease	-	-
Investment properties	2	12
<b>INTANGIBLE ASSETS</b>	<b>854</b>	<b>882</b>
Goodwill	-	-
Other intangible assets	854	882
<b>TAX ASSETS</b>	<b>13,048</b>	<b>12,911</b>
Current	790	1,030
Deferred	12,257	11,881
<b>OTHER ASSETS</b>	<b>4,168</b>	<b>3,768</b>
Insurance contracts linked to pensions	2,089	2,142
Inventories	-	-
Rest	2,079	1,626
<b>NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE</b>	<b>2,658</b>	<b>2,226</b>
<b>TOTAL ASSETS</b>	<b>398,020</b>	<b>400,083</b>

LIABILITIES AND EQUITY (Millions of euros)

	June 2018	December 2017
<b>FINANCIAL LIABILITIES HELD FOR TRADING</b>	<b>73,241</b>	<b>43,703</b>
Trading derivatives	36,240	36,097
Short positions	8,453	7,606
Deposits from central banks	2,553	-
Deposits from credit institutions	18,597	-
Customer deposits	7,398	-
Debt certificates	-	-
Other financial liabilities	-	-
<b>OTHER FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>1,296</b>	<b>-</b>
<b>FINANCIAL LIABILITIES AT AMORTIZED COST</b>	<b>273,673</b>	<b>305,797</b>
Deposits from central banks	26,236	28,132
Deposits from credit institutions	18,955	40,599
Customer deposits	184,646	194,645
Debt certificates	35,646	34,166
Other financial liabilities	8,189	8,255
<i>Of which: Subordinated liabilities</i>	9,523	10,887
<b>HEDGING DERIVATIVES</b>	<b>1,061</b>	<b>1,327</b>
<b>FAIR VALUE CHANGES OF THE HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK</b>	<b>-</b>	<b>(7)</b>
<b>PROVISIONS</b>	<b>7,488</b>	<b>7,605</b>
Provisions for pensions and similar obligations	4,282	4,594
Other long term employee benefits	24	31
Provisions for taxes and other legal contingencies	354	329
Provisions for contingent risks and commitments	240	272
Other provisions	2,588	2,379
<b>TAX LIABILITIES</b>	<b>1,268</b>	<b>1,240</b>
Current	124	124
Deferred	1,144	1,116
<b>OTHER LIABILITIES</b>	<b>2,659</b>	<b>2,207</b>
<b>LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>360,685</b>	<b>361,872</b>

## Balance sheets as of June 30, 2018 and December 31, 2017 of BBVA, S.A.

## LIABILITIES AND EQUITY (Continued) (Millions of euros)

	June 2018	December 2017
<b>SHAREHOLDERS' FUNDS</b>	<b>37,260</b>	<b>37,802</b>
<b>Capital</b>	<b>3,267</b>	<b>3,267</b>
Paid up capital	3,267	3,267
Unpaid capital which has been called up	-	-
<b>Share premium</b>	<b>23,992</b>	<b>23,992</b>
<b>Equity instruments issued other than capital</b>	<b>42</b>	<b>47</b>
Equity component of compound financial instruments	-	-
Other equity instruments issued	42	47
<b>Other equity</b>	<b>-</b>	<b>-</b>
<b>Retained earnings</b>	<b>-</b>	<b>-</b>
<b>Revaluation reserves</b>	<b>11</b>	<b>12</b>
<b>Other reserves</b>	<b>8,823</b>	<b>9,445</b>
<b>Less: Treasury shares</b>	<b>(1)</b>	<b>-</b>
<b>Profit or loss of the period</b>	<b>1,296</b>	<b>2,083</b>
<b>Less: Interim dividends</b>	<b>(170)</b>	<b>(1,044)</b>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>	<b>75</b>	<b>409</b>
<b>Items that will not be reclassified to profit or loss</b>	<b>(178)</b>	<b>(38)</b>
Actuarial gains or (-) losses on defined benefit pension plans	(68)	(38)
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognized income and expense of investments in subsidiaries, joint ventures and associates	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	(208)	-
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	98	-
<b>Items that may be reclassified to profit or loss</b>	<b>253</b>	<b>447</b>
Hedge of net investments in foreign operations (effective portion)	-	-
Foreign currency translation	-	-
Hedging derivatives. Cash flow hedges (effective portion)	(209)	(136)
Fair value changes of debt instruments measured at fair value through other comprehensive income	462	583
Hedging instruments (non-designated items)	-	547
Non-current assets and disposal groups classified as held for sale	-	36
Share of other recognized income and expense of investments in subsidiaries, joint ventures and associates	-	-
<b>TOTAL EQUITY</b>	<b>37,335</b>	<b>38,211</b>
<b>TOTAL EQUITY AND TOTAL LIABILITIES</b>	<b>398,020</b>	<b>400,083</b>

## MEMORANDUM ITEM - OFF BALANCE SHEET EXPOSURES (Millions of euros)

	June 2018	December 2017
Loan commitments given	59,424	54,631
Financial guarantees given	9,950	11,336
Contingent commitments given	27,255	36,503

INCOME STATEMENTS (Millions of euros)

	June 2018	June 2017
Interest income and other incomes	2,354	2,420
Interest expenses	(641)	(707)
<b>NET INTEREST INCOME</b>	<b>1,713</b>	<b>1,713</b>
Dividend income	1,475	1,763
Share of profit or loss of entities accounted for using the equity method	-	-
Fee and commission income	1,013	995
Fee and commission expenses	(177)	(187)
Gains (losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	25	458
Gains or (-) losses on financial assets and liabilities held for trading, net	275	20
Gains (losses) on on-trading financial assets mandatorily at fair value through profit or loss	7	-
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	(45)	-
Gains or (-) losses from hedge accounting, net	14	(198)
Exchange differences, net	(23)	206
Other operating income	55	73
Other operating expenses	(207)	(192)
<b>GROSS INCOME</b>	<b>4,124</b>	<b>4,651</b>
Administration costs	(2,033)	(2,010)
Personnel expenses	(1,154)	(1,188)
General and administrative expenses	(879)	(822)
Depreciation and amortization	(227)	(281)
Provisions or (-) reversal of provisions	(488)	(435)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	(147)	(314)
Financial assets measured at amortized cost	11	(319)
Financial assets at fair value through other comprehensive income	(158)	5
<b>NET OPERATING INCOME</b>	<b>1,230</b>	<b>1,611</b>
Impairment or reversal of impairment of investments in joint ventures and associates	13	5
Impairment or reversal of impairment on non-financial assets	(18)	(4)
Tangible assets	(18)	(4)
Intangible assets	-	-
Other assets	-	-
Gains (losses) on derecognized assets not classified as non-current assets held for sale	(17)	-
Negative goodwill recognized in profit or loss	-	-
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	180	(15)
<b>PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>1,388</b>	<b>1,597</b>
Tax expense or income related to profit or loss from continuing operation	(92)	(139)
<b>PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS</b>	<b>1,296</b>	<b>1,458</b>
Profit or loss after tax from discontinued operations	-	-
<b>PROFIT FOR THE PERIOD</b>	<b>1,296</b>	<b>1,458</b>

## STATEMENTS OF RECOGNIZED INCOME AND EXPENSES (Millions of euros)

	June 2018	June 2017
<b>PROFIT RECOGNIZED IN INCOME STATEMENT</b>	<b>1,296</b>	<b>1,458</b>
<b>OTHER RECOGNIZED INCOME (EXPENSES)</b>	<b>(334)</b>	<b>(104)</b>
<b>ITEMS NOT SUBJECT TO RECLASSIFICATION TO INCOME STATEMENT</b>	<b>(176)</b>	<b>1</b>
Actuarial gains and losses from defined benefit pension plans	-	1
Non-current assets available for sale	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	(242)	-
Gains or losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	98	-
Other valuation adjustments	-	-
Income tax related to items not subject to reclassification to income statement	(31)	-
<b>ITEMS SUBJECT TO RECLASSIFICATION TO INCOME STATEMENT</b>	<b>(158)</b>	<b>(105)</b>
<b>Hedge of net investments in foreign operations [effective portion]</b>	<b>-</b>	<b>-</b>
<b>Foreign currency translation</b>	<b>-</b>	<b>(44)</b>
Translation gains or (-) losses taken to equity	-	(44)
Transferred to profit or loss	-	-
Other reclassifications	-	-
<b>Cash flow hedges [effective portion]</b>	<b>(85)</b>	<b>9</b>
Valuation gains or (-) losses taken to equity	(85)	11
Transferred to profit or loss	-	(2)
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
<b>Hedging instruments [non-designated elements]</b>	<b>-</b>	<b>-</b>
<b>Debt securities at fair value through other comprehensive income</b>	<b>(122)</b>	<b>(104)</b>
Valuation gains/(losses)	(98)	316
Amounts reclassified to income statement	(24)	(421)
Reclassifications (other)	-	-
<b>Non-current assets held for sale and disposal groups held for sale</b>	<b>-</b>	<b>-</b>
<b>Income tax related to items subject to reclassification to income statement</b>	<b>49</b>	<b>34</b>
<b>TOTAL RECOGNIZED INCOME/EXPENSES</b>	<b>962</b>	<b>1,354</b>

Translation of the Interim Consolidated Financial Statements originally issued in Spanish and prepared in accordance with IAS 34, as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.

## Statement of changes in equity for the six month ended June 30, 2018 of BBVA, S.A.

Millions of Euros

June 2018	Capital	Share Premium	Equity instruments issued other than capital	Other Equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss attributable to owners of the parent	Interim dividends	Accumulated other comprehensive income	Total
<b>Balances as of January 1, 2018</b>	<b>3,267</b>	<b>23,992</b>	<b>47</b>	-	-	<b>12</b>	<b>9,445</b>		<b>2,083</b>	<b>(1,045)</b>	<b>409</b>	<b>38,211</b>
Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Effect of correction of errors	-	-	-	-	-	-	(667)	-	-	-	-	(667)
<b>Adjusted initial balance</b>	<b>3,267</b>	<b>23,992</b>	<b>47</b>	-	-	<b>12</b>	<b>8,778</b>	-	<b>2,083</b>	<b>(1,045)</b>	<b>409</b>	<b>37,543</b>
<b>Total income/expense recognized</b>	-	-	-	-	-	-	-	-	<b>1,296</b>	-	<b>(334)</b>	<b>962</b>
<b>Other changes in equity</b>	-	-	<b>(5)</b>	-	-	<b>(1)</b>	<b>45</b>	<b>(1)</b>	<b>(2,083)</b>	<b>875</b>	-	<b>(1,171)</b>
Issuances of common shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuances of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Period or maturity of other issued equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt on equity	-	-	-	-	-	-	-	-	-	-	-	-
Common Stock reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividend distribution	-	-	-	-	-	-	-	-	-	(170)	-	(170)
Purchase of treasury shares	-	-	-	-	-	-	-	(659)	-	-	-	(659)
Sale or cancellation of treasury shares	-	-	-	-	-	-	6	658	-	-	-	664
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between total equity entries	-	-	(1)	-	-	(1)	40		(1,083)	1,045	-	-
Increase/Reduction of equity due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	(5)	-	-	-	(1)		(1,000)	-	-	(1,006)
<b>Balances as of June 30, 2018</b>	<b>3,267</b>	<b>23,992</b>	<b>42</b>	-	-	<b>11</b>	<b>8,823</b>	<b>(1)</b>	<b>1,296</b>	<b>(170)</b>	<b>75</b>	<b>37,335</b>

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## Statement of changes in equity for the six month ended June 30, 2017 of BBVA, S.A.

Millions of Euros

June 2017	Capital	Share Premium	Equity instruments issued other than capital	Other Equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss attributable to owners of the parent	Interim dividends	Accumulated other comprehensive income	Total
<b>Balances as of January 1, 2017</b>	<b>3,218</b>	<b>23,992</b>	<b>46</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>9,346</b>	<b>(23)</b>	<b>1,662</b>	<b>(1,513)</b>	<b>(362)</b>	<b>36,386</b>
<b>Adjusted initial balance</b>	<b>3,218</b>	<b>23,992</b>	<b>46</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>9,346</b>	<b>(23)</b>	<b>1,662</b>	<b>(1,513)</b>	<b>(362)</b>	<b>36,386</b>
<b>Total income/expense recognized</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,458</b>	<b>-</b>	<b>(104)</b>	<b>1,354</b>
<b>Other changes in equity</b>	<b>50</b>	<b>-</b>	<b>(8)</b>	<b>-</b>	<b>-</b>	<b>(5)</b>	<b>97</b>	<b>23</b>	<b>(1,662)</b>	<b>1,222</b>	<b>-</b>	<b>(284)</b>
Issuances of common shares	50	-	-	-	-	-	(50)	-	-	-	-	-
Issuances of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Period or maturity of other issued equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt on equity	-	-	-	-	-	-	-	-	-	-	-	-
Common Stock reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividend distribution	-	-	-	-	-	-	-	-	-	(147)	-	(147)
Purchase of treasury shares	-	-	-	-	-	-	-	(844)	-	-	-	(844)
Sale or cancellation of treasury shares	-	-	-	-	-	-	(6)	866	-	-	-	860
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between total equity entries	-	-	(1)	-	-	(5)	156	-	(1,662)	1,513	-	-
Increase/Reduction of equity due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	(7)	-	-	-	(3)	-	-	(144)	-	(154)
<b>Balances as of June 30, 2017</b>	<b>3,267</b>	<b>23,992</b>	<b>38</b>	<b>-</b>	<b>-</b>	<b>15</b>	<b>9,442</b>	<b>-</b>	<b>1,458</b>	<b>(291)</b>	<b>(466)</b>	<b>37,455</b>

CASH FLOWS STATEMENTS (Millions of euros)

	June 2018	June 2017
<b>CASH FLOW FROM OPERATING ACTIVITIES (1)</b>	<b>1,310</b>	<b>(3,059)</b>
<b>Profit for the period</b>	<b>1,296</b>	<b>1,458</b>
<b>Adjustments to obtain the cash flow from operating activities</b>	<b>265</b>	<b>825</b>
Depreciation and amortization	227	281
Other adjustments	38	544
<b>Net increase/decrease in operating assets</b>	<b>153</b>	<b>18,120</b>
Financial assets held for trading	2,444	6,859
Other financial assets designated at fair value through profit or loss	242	-
Financial assets at fair value through other comprehensive income	(1,909)	4,147
Loans and receivables	(477)	6,973
Other operating assets	(147)	141
<b>Net increase/decrease in operating liabilities</b>	<b>(495)</b>	<b>(23,601)</b>
Financial liabilities held for trading	2,281	(5,229)
Other financial liabilities designated at fair value through profit or loss	303	-
Financial liabilities at amortized cost	(2,684)	(17,471)
Other operating liabilities	(395)	(902)
<b>Collection/Payments for income tax</b>	<b>92</b>	<b>139</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES (2)</b>	<b>147</b>	<b>1,668</b>
<b>Investment</b>	<b>(884)</b>	<b>(1,465)</b>
Tangible assets	(29)	(37)
Intangible assets	(121)	(97)
Investments	(582)	(997)
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	(152)	(335)
Held-to-maturity investments	-	-
Other settlements related to investing activities	-	-
<b>Divestments</b>	<b>1,031</b>	<b>3,133</b>
Tangible assets	59	9
Intangible assets	-	-
Investments	804	404
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	168	404
Held-to-maturity investments	-	2,277
Other collections related to investing activities	-	40



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CASH FLOWS STATEMENTS (Continued) (Millions of euros)

	June 2018	June 2017
<b>CASH FLOWS FROM FINANCING ACTIVITIES (3)</b>	<b>(2,536)</b>	<b>100</b>
<b>Investment</b>	<b>(3,554)</b>	<b>(2,748)</b>
Dividends	(1,170)	(816)
Subordinated liabilities	(1,724)	(919)
Common stock amortization	-	-
Treasury stock acquisition	(659)	(844)
Other items relating to financing activities	-	(169)
<b>Divestments</b>	<b>1,018</b>	<b>2,847</b>
Subordinated liabilities	-	1,992
Common stock increase	-	-
Treasury stock disposal	663	855
Other items relating to financing activities	355	-
<b>EFFECT OF EXCHANGE RATE CHANGES (4)</b>	<b>(85)</b>	<b>162</b>
<b>NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (1+2+3+4)</b>	<b>(1,164)</b>	<b>(1,130)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>18,503</b>	<b>15,855</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>17,339</b>	<b>14,726</b>

COMPONENTS OF CASH AND EQUIVALENTS AT END OF THE YEAR (Millions of euros)

	June 2018	June 2017
Cash	785	798
Balance of cash equivalent in central banks	12,899	13,834
Other financial assets	3,655	95
Less: Bank overdraft refundable on demand	-	-
<b>TOTAL CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>17,339</b>	<b>14,726</b>

This Appendix is an integral part of Note 1.6 of the Consolidated Financial Statements for the first semester ended June 30, 2018.

## APPENDIX III Information on data derived from the special accounting registry

### a) Mortgage market policies and procedures

Information required pursuant to Circular 5/2011 of the Bank of Spain is indicated as follows.

The Bank has express policies and procedures in place regarding its activities in the mortgage market, which provide for full compliance with applicable regulations.

The mortgage origination policy is based in principles focused on assessing the adequate ratio between the amount of the loan, and the payments, and the income of the applicant. Applicants must in all cases prove sufficient repayment ability (present and future) to meet their repayment obligations, for both the mortgage debt and for other debts detected in the financial system. Therefore, the applicant's repayment ability is a key aspect within the credit decision-making tools and retail risk acceptance manuals, and has a high weighting in the final decision.

During the mortgage risk transaction analysis process, documentation supporting the applicant's income (payroll, etc.) is required, and the applicant's position in the financial system is checked through automated database queries (internal and external). This information is used for calculation purposes in order to determine the level of indebtedness/compliance with the remainder of the system. This documentation is kept in the transaction's file.

In addition, the mortgage origination policy assesses the adequate ratio between the amount of the loan and the appraisal value of the mortgaged asset. The policy also establishes that the property to be mortgaged be appraised by an independent appraisal company as established by Circular 3/2010 and Circular 4/2016. BBVA selects those companies whose reputation, standing in the market and independence ensure that their appraisals adapt to the market reality in each region. Each appraisal is reviewed and checked before the loan is granted and, in those cases where the loan is finally granted, it is kept in the transaction's file.

As for issues related to the mortgage market, the Finance area annually defines the strategy for wholesale finance issues, and more specifically mortgage bond issues, such as mortgage covered bonds or mortgage securitization. The Assets and Liabilities Committee tracks the budget monthly. The volume and type of assets in these transactions is determined in accordance with the wholesale finance plan, the trend of the Bank's "Loans and receivables" outstanding balances and the conditions in the market.

The Board of Directors of the Bank authorizes each of the issues of Mortgage Transfer Certificates and/or Mortgage Participations issued by BBVA to securitize the credit rights derived from loans and mortgage loans. Likewise, the Board of Directors authorizes the establishment of a Base Prospectus for the issuance of fixed-income securities through which the mortgage-covered bonds are implemented.

As established in article 24 of Royal Decree 716/2009, of April, 24, by virtue of which certain aspects of Law 2/1981, of 25 March, of regulation of the mortgage market and other rules of the mortgage and financial system are developed, "the volume of outstanding mortgage-covered bonds issued by a bank may not exceed 80% of a calculation base determined by adding the outstanding principal of all the loans and mortgage loans in the bank's portfolio that are eligible" and which are not covered by the issue of Mortgage Bonds, Mortgage Participations or Mortgage Transfer Certificates. For these purposes, in accordance with the aforementioned Royal Decree 716/2009, in order to be eligible, loans and mortgage loans, on a general basis: (i) must be secured by a first mortgage on the freehold; (ii) the loan's amount may not exceed 80% of the appraisal value for residential mortgages, and 60% for other mortgage lending; (iii) must be established on assets exclusively and wholly owned by the mortgagor; (iv) must have been appraised by an independent appraisal company unrelated to the Group and authorized by the Bank of Spain; and (v) the mortgaged property must be covered at least by a current damage insurance policy.

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The Bank has set up a series of controls for mortgage covered bonds, which regularly control the total volume of issued mortgage covered bonds issued and the remaining eligible collateral, to avoid exceeding the maximum limit set by Royal Decree 716/2009, and outlined in the preceding paragraph. In the case of securitizations, the preliminary portfolio of loans and mortgage loans to be securitized is checked according to an agreed procedures engagement, by the Bank's external auditor as required by the Spanish Securities and Exchange Commission. There is also a series of filters through which some mortgage loans and credits are excluded in accordance with legal, commercial and risk concentration criteria.

## b) Quantitative information on activities in the mortgage market

The quantitative information on activities in the mortgage market required by Bank of Spain Circular 5/2011 as of June 30, 2018 and December 31, 2017 is shown below.

### b.1) Ongoing operations

Mortgage loans. Eligibility for the purpose of the mortgage market (Millions of euros)

		June 2018	December 2017
Nominal value of outstanding loans and mortgage loans	(A)	102,175	105,539
<i>Minus: Nominal value of all outstanding loans and mortgage loans that form part of the portfolio, but have been mobilized through mortgage bond holdings or mortgage transfer certificates.</i>	(B)	(31,199)	(32,774)
<b>Nominal value of outstanding loans and mortgage loans, excluding securitized loans</b>	<b>(A)-(B)</b>	<b>70,976</b>	<b>72,765</b>
<i>Of which:</i>			
<i>Loans and mortgage loans which would be eligible if the calculation limits set forth in Article 12 of Spanish Royal Decree 716/2009 were not applied.</i>	(C)	46,663	48,003
<i>Minus: Loans and mortgage loans which would be eligible but, according to the criteria set forth in Article 12 of Spanish Royal Decree 716/2009, cannot be used to collateralize any issuance of mortgage bonds.</i>	(D)	(1,441)	(1,697)
<b>Eligible loans and mortgage loans that, according to the criteria set forth in Article 12 of Spanish Royal Decree 716/2009, can be used as collateral for the issuance of mortgage bonds</b>	<b>(C)-(D)</b>	<b>45,222</b>	<b>46,306</b>
Issuance limit: 80% of eligible loans and mortgage loans that can be used as collateral	(E)	36,178	37,045
<b>Issued Mortgage-covered bonds</b>	<b>(F)</b>	<b>22,872</b>	<b>20,153</b>
<b>Outstanding Mortgage-covered bonds</b>		<b>15,784</b>	<b>16,065</b>
Capacity to issue mortgage-covered bonds	(E)-(F)	13,306	16,892
<i>Memorandum items:</i>			
<i>Percentage of overcollateralization across the portfolio</i>		310%	361%
<i>Percentage of overcollateralization across the eligible used portfolio</i>		198%	230%
Nominal value of available sums (committed and unused) from all loans and mortgage loans.		3,062	3,084
<i>Of which:</i>			
<i>Potentially eligible</i>		2,459	2,471
<i>Ineligible</i>		603	613
Nominal value of all loans and mortgage loans that are not eligible, as they do not meet the thresholds set in Article 5.1 of Spanish Royal Decree 716/2009, but do meet the rest of the eligibility requirements indicated in Article 4 of the Royal Decree.		15,266	16,272
Nominal value of the replacement assets subject to the issue of mortgage-covered bonds.		-	-

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Mortgage loans. Eligibility for the purpose of the mortgage market (Millions of euros)

		June 2018	December 2017
<b>Total loans</b>	<b>(1)</b>	<b>102,175</b>	<b>105,539</b>
<b>Issued mortgage participations</b>	<b>(2)</b>	<b>2,252</b>	<b>1,809</b>
<i>Of which: recognized on the balance sheet</i>		601	-
<b>Issued mortgage transfer certificates</b>	<b>(3)</b>	<b>28,947</b>	<b>30,965</b>
<i>Of which: recognized on the balance sheet</i>		27,090	28,954
<b>Mortgage loans as collateral of mortgages bonds</b>	<b>(4)</b>		
<b>Loans supporting the issuance of mortgage-covered bonds</b>	<b>(1-2-3-4)</b>	<b>70,976</b>	<b>72,765</b>
Non eligible loans		24,313	24,762
Comply requirements to be eligible except the limit provided for under the article 5.1 of the Spanish Royal Decree 716/2009		15,266	16,272
Other		9,047	8,490
Eligible loans		46,663	48,003
That cannot be used as collateral for issuances		1,441	1,697
That can be used as collateral for issuances		45,222	46,306
Loans used to collateralize mortgage bonds		-	-
Loans used to collateralize mortgage-covered bonds		45,222	46,306

Mortgage loans. Classification of the nominal values according to different characteristics (Millions of euros)

	June 2018			December 2017		
	Total mortgage loans	Elegibles (*)	Elegibles that can be used as collateral for issuances (**)	Total mortgage loans	Elegibles (*)	Elegibles that can be used as collateral for issuances (**)
<b>TOTAL</b>	<b>70,976</b>	<b>46,663</b>	<b>45,222</b>	<b>72,765</b>	<b>48,003</b>	<b>46,306</b>
<b>By source of the operations</b>						
Originated by the bank	65,459	42,031	40,662	67,134	43,315	41,694
Subrogated by other institutions	816	690	684	795	692	686
Rest	4,701	3,942	3,876	4,836	3,996	3,926
<b>By Currency</b>						
In euros	70,344	46,307	44,881	72,070	47,623	45,945
In foreign currency	632	356	341	695	380	361
<b>By payment situation</b>						
Normal payment	60,360	42,824	42,397	61,013	43,578	43,187
Other situations	10,616	3,839	2,825	11,752	4,425	3,119
<b>By residual maturity</b>						
Up to 10 years	13,653	9,007	8,547	15,482	10,268	9,659
10 to 20 years	28,384	22,937	22,353	29,131	23,344	22,748
20 to 30 years	18,657	11,877	11,548	18,470	11,565	11,153
Over 30 years	10,282	2,842	2,774	9,682	2,826	2,746
<b>By Interest Rate</b>						
Fixed rate	6,423	3,226	3,151	5,578	2,697	2,614
Floating rate	64,553	43,437	42,071	67,187	45,306	43,692
Mixed rate	-	-	-	-	-	-
<b>By Target of Operations</b>						
For business activity	15,915	7,319	6,271	17,111	7,788	6,569
<i>From which: public housing</i>	4,144	1,597	732	4,520	1,670	726
<i>For households</i>	55,061	39,344	38,951	55,654	40,215	39,737
<b>By type of guarantee</b>						
<b>Secured by completed assets/buildings</b>	<b>69,335</b>	<b>46,191</b>	<b>44,855</b>	<b>70,922</b>	<b>47,619</b>	<b>45,989</b>
Residential use	53,161	38,125	37,681	53,543	39,050	38,499
<i>From which: public housing</i>	4,016	3,048	2,995	4,124	3,029	2,981
Commercial	4,489	2,476	2,386	4,610	2,535	2,414
Other	11,685	5,590	4,788	12,769	6,034	5,076
<b>Secured by assets/buildings under construction</b>	<b>1,286</b>	<b>352</b>	<b>257</b>	<b>1,433</b>	<b>245</b>	<b>191</b>
Residential use	329	60	59	522	61	61
<i>From which: public housing</i>	5	1	1	8	1	1
Commercial	135	49	49	174	48	48
Other	822	243	149	737	136	82
<b>Secured by land</b>	<b>355</b>	<b>120</b>	<b>110</b>	<b>410</b>	<b>139</b>	<b>126</b>
Urban	8	5	2	8	5	2
Non-urban	347	115	108	402	134	124

(\*) Not taking into account the thresholds established by Article 12 of Spanish Royal Decree 716/2009

(\*\*) Taking into account the thresholds established by Article 12 of Spanish Royal Decree 716/2009

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June 2018. Nominal value of the total mortgage loans (Millions of euros)

	Loan to Value (Last available appraisal risk)				Total
	Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60% but less than or equal to 80%	Over 80%	
Home mortgages	14,583	16,619	12,112	-	43,314
Other mortgages	1,697	1,652			3,349
<b>Total</b>	<b>16,280</b>	<b>18,271</b>	<b>12,112</b>	<b>-</b>	<b>46,663</b>

December 2017. Nominal value of the total mortgage loans (Millions of euros)

	Loan to Value (Last available appraisal risk)				Total
	Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60% but less than or equal to 80%	Over 80%	
Home mortgages	14,535	17,225	12,667	-	44,427
Other mortgages	1,827	1,749			3,576
<b>Total</b>	<b>16,362</b>	<b>18,974</b>	<b>12,667</b>	<b>-</b>	<b>48,003</b>

Eligible and non eligible mortgage loans. Changes of the nominal values in the period (Millions of euros)

	June 2018		December 2017	
	Eligibles (*)	Non eligible	Eligibles (*)	Non eligible
<b>Balance at the beginning</b>	<b>48,003</b>	<b>24,762</b>	<b>46,987</b>	<b>33,313</b>
<b>Retirements</b>	<b>4,151</b>	<b>3,376</b>	<b>9,820</b>	<b>15,015</b>
Held-to-maturity cancellations	2,167	824	4,614	2,562
Anticipated cancellations	950	841	2,008	2,582
Subrogations to other institutions	10	5	33	23
Rest	1,024	1,705	3,165	9,848
<b>Additions</b>	<b>2,811</b>	<b>2,926</b>	<b>10,835</b>	<b>6,464</b>
Originated by the bank	1,148	1,820	2,645	3,392
Subrogations to other institutions	5	3	15	5
Rest	1,658	1,104	8,176	3,067
<b>Balance at the end</b>	<b>46,663</b>	<b>24,313</b>	<b>48,003</b>	<b>24,762</b>

(\*) Not taking into account the thresholds established by Article 12 of Spanish Royal Decree 716/2009

Mortgage loans supporting the issuance of mortgage-covered bonds. Nominal value (Millions of euros)

	June 2018	December 2017
Potentially eligible	2,459	2,471
Ineligible	603	613
<b>Total</b>	<b>3,062</b>	<b>3,084</b>

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## b.2) Liabilities operations

Issued Mortgage Bonds (Millions of euros)

	June 2018		December 2017	
	Nominal value	Average residual maturity	Nominal value	Average residual maturity
<b>Mortgage bonds</b>	-		-	
<b>Mortgage-covered bonds</b>	<b>22,872</b>		<b>20,153</b>	
<i>Of which: Not recognized as liabilities on balance</i>	7,088		4,088	
<i>Of Which: Outstanding</i>	15,784		16,065	
Debt securities issued through public offer	12,501		12,501	
Residual maturity up to 1 year	-		-	
Residual maturity over 1 year and less than 2 years	-		-	
Residual maturity over 2 years and less than 3 years	4,801		2,051	
Residual maturity over 3 years and less than 5 years	3,500		4,000	
Residual maturity over 5 years and less than 10 years	4,000		6,250	
Residual maturity over 10 years	200		200	
Debt securities issued without public offer	7,166		4,162	
Residual maturity up to 1 year	-		-	
Residual maturity over 1 year and less than 2 years	-		-	
Residual maturity over 2 years and less than 3 years	1,550		50	
Residual maturity over 3 years and less than 5 years	500		1,500	
Residual maturity over 5 years and less than 10 years	5,116		2,612	
Residual maturity over 10 years	-		-	
Deposits	3,206		3,491	
Residual maturity up to 1 year	666		791	
Residual maturity over 1 year and less than 2 years	526		380	
Residual maturity over 2 years and less than 3 years	400		246	
Residual maturity over 3 years and less than 5 years	393		793	
Residual maturity over 5 years and less than 10 years	571		571	
Residual maturity over 10 years	650		710	
<b>Mortgage participations</b>	-		-	
Issued through public offer	601	274	-	-
Issued without public offer	-	-	-	-
<b>Mortgage transfer certificates</b>	<b>27,090</b>		<b>28,954</b>	
Issued through public offer	27,090	274	28,954	-
Issued without public offer	-	-	-	-

Given the characteristics of the type of covered bonds issued by the Bank, there is no substituting collateral related to these issues.

The Bank does not hold any derivative financial instruments relating to mortgage bond issues, as defined in the aforementioned Royal Decree.

## c) Quantitative information on internationalization covered bonds

Below is the quantitative information of BBVA, S.A. internationalization covered bonds required by Bank of Spain Circular 4/2015 as of December 31, 2017 and June 30, 2018.

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### c.1) Assets operations

Principal outstanding payment of loans (Millions of euros)		
	Nominal value June 2018	Nominal value 2017
Eligible loans according to article 34.6 y 7 of the Law 14/2013	3,141	3,075
Minus: Loans that support the issuance of internationalization bonds	-	-
Minus: NPL to be deducted in the calculation of the issuance limit, according to Article 13 del Royal Decree 579/2014	28	74
<b>Total Loans included in the base of all issuance limit</b>	<b>3,112</b>	<b>3,001</b>

### c.2) Liabilities operations

Internationalization covered bonds (Millions of euros)		
	Nominal value June 2018	Nominal value 2017
<b>(1) Debt securities issued through public offer (a)</b>	<b>1,500</b>	<b>1,500</b>
<i>of which: Treasury shares</i>	1,500	1,500
Residual maturity up to 1 year	-	-
Residual maturity over 1 year and less than 2 years	1,500	1,500
Residual maturity over 2 years and less than 3 years	-	-
Residual maturity over 3 years and less than 5 years	-	-
Residual maturity over 5 years and less than 10 years	-	-
Residual maturity over 10 years	-	-
<b>(2) Debt securities issued without public offer (a)</b>	<b>-</b>	<b>-</b>
<b>(3) Deposits (b)</b>	<b>-</b>	<b>-</b>
<b>TOTAL: (1) + (2) + (3)</b>	<b>1,500</b>	<b>1,500</b>
	<b>Percentage</b>	<b>Percentage</b>
<b>Coverage ratio of internationalization covered bonds on loans (c)</b>	<b>48%</b>	<b>50%</b>

- (a) Balance that includes all internationalization covered bonds issued by the entity pending amortization, although they are not recognized in the liability (because they have not been placed to third parties or have been repurchased).
- (b) Nominative bonds.
- (c) Percentage that results from the value of the quotient between the nominal value of the issued and non-overdue bonds, even if they are not recognized in the liability, and the nominal value balance pending collection of the loans that serve as guarantee

Given the characteristics of the Bank's internationalization covered bonds, there are no substitute assets assigned to these issuances.

The Bank does not hold any derivative financial instruments relating to mortgage bond issues, as defined in the aforementioned Royal Decree.

## d) Territorial bonds

### d.1) Assets operations

June 2018. Loans that serves as collateral for the territorial bonds (Millions of euros)

	Nominal Value(a)		
	Total	Spanish Residents	Residents in other countries of the European Economic Area
Central Governments	557	504	53
Regional Governments	8,788	8,757	31
Local Governments	6,756	6,756	-
<b>Total loans</b>	<b>16,101</b>	<b>16,017</b>	<b>84</b>

(a) Principal pending payment of loans.

December 2017. Loans that serves as collateral for the territorial bonds (Millions of euros)

	Nominal Value		
	Total	Spanish Residents	Residents in other countries of the European Economic Area
Central Governments	473	420	53
Regional Governments	8,882	8,851	31
Local Governments	7,040	7,040	-
<b>Total loans</b>	<b>16,395</b>	<b>16,311</b>	<b>84</b>



## d.2) Liabilities operations

### Territorial bonds (Millions of euros)

	Nominal value June 2018	Nominal value 2017
<b>Territorial bonds issued (a)</b>	<b>9,540</b>	<b>9,690</b>
Issued through a public offering	9,540	9,540
<i>Of which: Treasury stock</i>	<i>9,040</i>	<i>9,040</i>
Residual maturity up to 1 year	-	-
Residual maturity over 1 year and less than 2 years	3,500	-
Residual maturity over 2 years and less than 3 years	3,000	6,500
Residual maturity over 3 years and less than 5 years	2,840	2,840
Residual maturity over 5 years and less than 10 years	200	200
Residual maturity over 10 years	-	-
Other issuances	-	150
<i>Of which: Treasury stock</i>	<i>-</i>	<i>-</i>
Residual maturity over 1 year and less than 2 years	-	150
Residual maturity over 2 years and less than 3 years	-	-
Residual maturity over 3 years and less than 5 years	-	-
Residual maturity over 5 years and less than 10 years	-	-
Residual maturity over 10 years	-	-
	<b>Percentage</b>	<b>Percentage</b>
<b>Coverage ratio of the territorial bonds on loans (b)</b>	<b>59%</b>	<b>59%</b>

(a) Includes the nominal value of all loans that serve as collateral for the territorial bonds, regardless of the item in which they are included in the balance sheet. Principal pending payment of loans. The territorial bonds include all the instruments issued by the entity pending amortization, although they are not recognized in the liability (because they have not been placed to third parties or have been repurchased).

(b) Percentage that results from the value of the quotient between the nominal value of the issued and non-overdue bonds, even if they are not recognized in the liability, and the nominal value balance pending collection of the loans that serve as guarantee

This appendix is an integral part of the Notes 21.4 and 48.2 of the consolidated financial statements for the first semester ended June 30, 2018.

## APPENDIX IV. Quantitative information on refinancing and restructuring operations and other requirement under Bank of Spain Circular 6/2012

### a) Quantitative information on refinancing and restructuring operations

The breakdown of refinancing and restructuring operations as of June 30, 2018 and December 31, 2017 is as follows:

	June 2018 BALANCE OF FORBEARANCE (Millions OF Euros)						
	TOTAL						
	Unsecured loans		Secured loans			Maximum amount of secured loans that can be considered	Accumulated impairment or accumulated losses in fair value due to credit risk
	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Real estate mortgage secured		
Credit institutions	-	-	-	-	-	-	-
General Governments	77	109	124	131	105	-	31
Other financial corporations and individual entrepreneurs (financial business)	315	25	48	5	3	-	7
Non-financial corporations and individual entrepreneurs (corporate non-financial activities)	44,994	4,007	21,956	6,246	2,907	281	3,886
<i>Of which: financing the construction and property (including land)</i>	<i>1,043</i>	<i>168</i>	<i>2,868</i>	<i>2,034</i>	<i>870</i>	<i>18</i>	<i>1,204</i>
Rest homes (*)	165,406	1,242	112,656	8,146	5,947	188	1,856
<b>Total</b>	<b>210,792</b>	<b>5,383</b>	<b>134,784</b>	<b>14,528</b>	<b>8,963</b>	<b>469</b>	<b>5,780</b>

	Of which: IMPAIRED						
	Unsecured loans		Secured loans			Maximum amount of secured loans that can be considered	Accumulated impairment or accumulated losses in fair value due to credit risk
	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Real estate mortgage secured		
	Credit institutions	-	-	-	-	-	-
General Governments	52	70	42	28	14	-	21
Other financial corporations and individual entrepreneurs (financial business)	152	5	22	2	1	-	5
Non-financial corporations and individual entrepreneurs (corporate non-financial activities)	24,563	2,558	11,828	4,036	1,697	93	3,473
<i>Of which: financing the construction and property (including land)</i>	<i>911</i>	<i>146</i>	<i>2,231</i>	<i>1,638</i>	<i>590</i>	<i>4</i>	<i>1,135</i>
Rest homes (*)	101,260	714	46,572	4,135	2,709	20	1,513
<b>Total</b>	<b>126,027</b>	<b>3,348</b>	<b>58,464</b>	<b>8,202</b>	<b>4,422</b>	<b>113</b>	<b>5,011</b>

(\*) Number of operations does not include Garanti Bank.

Includes mortgage-backed real estate operations with loan to value ratio of greater than 1, and secured operations, other than transactions secured by real estate mortgage regardless of their loan to value ratio.

The accumulated impairment or accumulated losses in fair value due to credit risk correspond to €769 million of collective impairment losses and €5,011 million of specific impairment losses.

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**DECEMBER 2017 BALANCE OF FORBEARANCE**  
(Millions of Euros)

	TOTAL						
	Unsecured loans		Secured loans				Accumulated impairment or accumulated losses in fair value due to credit risk
	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Maximum amount of secured loans that can be considered		
				Real estate mortgage secured	Rest of secured loans		
Credit institutions	-	-	-	-	-	-	-
General Governments	69	105	135	430	112	302	18
Other financial corporations and individual entrepreneurs (financial business)	4,727	36	93	8	1	-	21
Non-financial corporations and individual entrepreneurs (corporate non-financial activities)	113,464	4,672	17,890	6,258	3,182	251	3,579
<i>Of which: financing the construction and property (including land)</i>	1,812	398	3,495	2,345	1,995	-	1,327
Rest homes (*)	163,101	1,325	109,776	8,477	6,891	18	1,373
<b>Total</b>	<b>281,361</b>	<b>6,138</b>	<b>127,894</b>	<b>15,173</b>	<b>10,186</b>	<b>571</b>	<b>4,991</b>

Of which: IMPAIRED

	Of which: IMPAIRED						
	Unsecured loans		Secured loans				Accumulated impairment or accumulated losses in fair value due to credit risk
	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Maximum amount of secured loans that can be considered		
				Real estate mortgage secured	Rest of secured loans		
Credit institutions	-	-	-	-	-	-	-
General Governments	50	72	45	29	22	-	16
Other financial corporations and individual entrepreneurs (financial business)	126	5	16	2	-	-	5
Non-financial corporations and individual entrepreneurs (corporate non-financial activities)	95,427	2,791	10,994	4,144	1,983	66	3,361
<i>Of which: financing the construction and property (including land)</i>	1,538	208	2,779	1,961	1,273	-	1,282
Rest homes (*)	105,468	747	47,612	4,330	3,270	6	1,231
<b>Total</b>	<b>201,071</b>	<b>3,615</b>	<b>58,667</b>	<b>8,506</b>	<b>5,275</b>	<b>72</b>	<b>4,612</b>

(\*) Number of operations does not include Garanti Bank.

Includes mortgage-backed real estate operations with loan to value ratio of greater than 1, and secured operations, other than transactions secured by real estate mortgage regardless of their loan to value ratio.

The accumulated impairment or accumulated losses in fair value due to credit risk correspond to €378 million of collective impairment losses and €4,612 million of specific impairment losses.

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In addition to the restructuring and refinancing transactions mentioned in this section, loans that were not considered impaired or renegotiated have been modified based on the criteria set out in paragraph 59 (c) of IAS 39. These loans have not been classified as renegotiated or impaired, since they were modified for commercial or competitive reasons (for instance, to improve relationships with clients) rather than for economic or legal reasons relating to the borrower's financial situation.

The table below provides a roll forward of refinanced assets during the six months period ended June 30, 2018:

Refinanced assets Roll forward. June 2018 (Millions of euros)

	Normal		Impaired		TOTAL	
	Risk	Coverage	Risk	Coverage	Risk	Coverage
<b>Balance at the beginning</b>	<b>9,191</b>	<b>378</b>	<b>12,120</b>	<b>4,612</b>	<b>21,311</b>	<b>4,991</b>
(+) Additions	1,024	320	811	506	1,835	826
(-) Decreases (payments or repayments)	(622)	(90)	(968)	(283)	(1,590)	(373)
(-) Foreclosures	-	-	(159)	(100)	(159)	(100)
(-) Write-offs	(1)	(1)	(287)	(214)	(288)	(215)
(+)/(-) Other	(1,231)	162	33	490	(1,198)	652
<b>Ending Balance</b>	<b>8,361</b>	<b>769</b>	<b>11,550</b>	<b>5,011</b>	<b>19,910</b>	<b>5,780</b>

The table below provides a breakdown by segments of the forbearance operations (net of provisions) as of June 30, 2018 and December 31, 2017:

Forbearance operations. Breakdown by segments (Millions of euros)

	June 2018	December 2017
Credit institutions		
Central governments	209	518
Other financial corporations and individual entrepreneurs (financial activity)	23	24
Non-financial corporations and individual entrepreneurs (non-financial activity)	6,367	7,351
<i>Of which: Financing the construction and property development (including land)</i>	999	1,416
Households	7,532	8,428
<b>Total carrying amount</b>	<b>14,130</b>	<b>16,321</b>

#### NPL ratio by type of renegotiated loan

The non performing ratio of the renegotiated portfolio is defined as the impaired balance of renegotiated loans that shows signs of difficulties as of the closing of the reporting period, divided by the total payment outstanding in that portfolio.

As of June 30, 2018, the non performing ratio for each of the portfolios of renegotiated loans is as follows:

June 2018. NPL ratio renegotiated loan portfolio

	Ratio of Impaired loans - Past due
General governments	41%
Commercial	64%
<i>Of which: Construction and developer</i>	81%
Other consumer	52%

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## b) Qualitative information on the concentration of risk by activity and guarantees

### Loans and advances to customers by activity (carrying amount)

June 2018 (Millions of euros)

	Total (*)	Of which: Mortgage loans	Of which: Secured loans	Collateralized Credit Risk. Loan to value				
				Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60% but less than or equal to 80%	Over 80% but less than or equal to 100%	Over 100%
1 General governments	31,092	1,115	8,948	2,745	1,830	1,385	3,868	235
2 Other financial institutions	16,717	270	8,874	755	261	109	7,869	150
3 Non-financial institutions and individual entrepreneurs	175,647	31,892	25,786	19,164	12,730	10,005	5,048	10,731
3.1 Construction and property development	14,627	6,969	1,494	2,017	2,991	2,157	616	682
3.2 Construction of civil works	7,682	1,137	675	516	351	250	171	524
3.3 Other purposes	153,338	23,786	23,617	16,631	9,388	7,598	4,261	9,525
3.3.1 Large companies	94,279	9,022	15,986	9,441	4,332	3,949	1,855	5,431
3.3.2 SMEs (**) and individual entrepreneurs	59,059	14,764	7,631	7,190	5,056	3,649	2,406	4,094
4 Rest of households and NPISHs (***)	164,301	110,733	5,787	22,954	27,495	32,217	21,838	12,016
4.1 Housing	113,687	108,654	2,111	21,397	26,441	31,373	19,954	11,600
4.2 Consumption	39,863	609	2,766	568	637	505	1,540	125
4.3 Other purposes	10,751	1,470	910	989	417	339	344	291
<b>5 TOTAL</b>	<b>387,757</b>	<b>144,010</b>	<b>49,395</b>	<b>45,618</b>	<b>42,316</b>	<b>43,716</b>	<b>38,623</b>	<b>23,132</b>

#### MEMORANDUM:

Forbearance operations (****)	14,130	10,590	526	1,985	2,174	2,382	1,839	2,736
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(\*) The amounts included in this table are net of impairment losses.

(\*\*) Small and medium enterprises.

(\*\*\*) Nonprofit institutions serving households.

(\*\*\*\*) Net of provisions except valuation adjustments due to impairment of assets not attributable to specific operations.

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December 2017 (Millions of euros)

	TOTAL (*)	Of which: Mortgage loans	Of which: Secured loans	Collateralized Credit Risk. Loan to value				
				Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60% but less than or equal to 80%	Over 80% but less than or equal to 100%	Over 100%
1 General governments	32,294	998	7,167	1,540	179	475	532	5,440
2 Other financial institutions	18,669	319	12,910	314	277	106	11,349	1,183
3 Non-financial institutions and individual entrepreneurs	172,338	39,722	24,793	11,697	5,878	5,183	9,167	32,591
3.1 Construction and property development	14,599	10,664	1,066	1,518	876	1,049	1,313	6,974
3.2 Construction of civil works	7,733	1,404	521	449	358	289	162	667
3.3 Other purposes	150,006	27,654	23,206	9,729	4,644	3,845	7,692	24,950
3.3.1 Large companies	93,604	10,513	16,868	2,769	1,252	1,023	3,631	18,706
3.3.2 SMEs (**) and individual entrepreneurs	56,402	17,142	6,338	6,960	3,392	2,823	4,061	6,244
4 Rest of households and NPISHs (***)	165,024	114,558	8,395	19,762	22,807	25,595	22,122	32,667
4.1 Housing	114,709	111,604	128	18,251	22,222	25,029	21,154	25,076
4.2 Consumption	40,705	670	4,784	1,058	256	192	316	3,632
4.3 Other purposes	9,609	2,284	3,483	452	330	374	652	3,959
<b>5 TOTAL</b>	<b>388,325</b>	<b>155,597</b>	<b>53,266</b>	<b>33,312</b>	<b>29,142</b>	<b>31,359</b>	<b>43,170</b>	<b>71,882</b>

MEMORANDUM:

Forbearance operations (\*\*\*\*) 16,321 6,584 5,117 1,485 1,315 1,871 1,580 5,451

(\*) The amounts included in this table are net of impairment losses.

(\*\*) Small and medium enterprises

(\*\*\*) Nonprofit institutions serving households.

(\*\*\*\*) Net of provisions except valuation adjustments due to impairment of assets not attributable to specific operations.

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### c) Information on the concentration of risk by activity and geographical areas.

June 2018 (Millions of euros)

	<b>TOTAL(*)</b>	<b>Spain</b>	<b>European Union Other</b>	<b>America</b>	<b>Other</b>
Credit institutions	67,071	11,887	31,956	12,321	10,907
General governments	129,407	57,643	12,113	51,022	8,629
Central Administration	92,548	38,689	11,836	33,443	8,580
Other	36,859	18,954	277	17,579	49
Other financial institutions	47,192	16,861	14,792	13,092	2,447
Non-financial institutions and individual entrepreneurs	230,202	67,927	24,260	88,764	49,251
Construction and property development	18,059	4,049	256	9,317	4,437
Construction of civil works	11,313	4,898	2,463	1,896	2,056
Other purposes	200,830	58,980	21,541	77,551	42,758
Large companies	135,542	35,044	20,273	53,158	27,067
SMEs and individual entrepreneurs	65,288	23,936	1,268	24,393	15,691
Other households and NPISHs	164,653	94,092	3,467	54,034	13,060
Housing	113,688	80,145	2,433	26,474	4,636
Consumer	39,864	9,431	717	21,718	7,998
Other purposes	11,101	4,516	317	5,842	426
<b>TOTAL</b>	<b>638,525</b>	<b>248,410</b>	<b>86,588</b>	<b>219,233</b>	<b>84,294</b>

(\*)The definition of risk for the purpose of this statement includes the following items on the public balance sheet: Loans and advances to credit institutions, Loans and advances, Debt securities, Equity instruments, Other equity securities, Derivatives and hedging derivatives, Investments in subsidiaries, joint ventures and associates and guarantees given and Contingent risks. The amounts included in this table are net of impairment losses.

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December 2017 (Millions of euros)

	<b>TOTAL(*)</b>	<b>Spain</b>	<b>European Union Other</b>	<b>America</b>	<b>Other</b>
Credit institutions	70,141	10,606	34,623	13,490	11,422
General governments	121,863	55,391	11,940	44,191	10,341
Central Administration	83,673	35,597	11,625	26,211	10,240
Other	38,190	19,794	316	17,980	101
Other financial institutions	48,000	19,175	14,283	12,469	2,074
Non-financial institutions and individual entrepreneurs	228,227	78,507	20,485	80,777	48,458
Construction and property development	18,619	4,623	339	8,834	4,822
Construction of civil works	12,348	6,936	1,302	2,267	1,843
Other purposes	197,260	66,948	18,843	69,676	41,793
Large companies	134,454	43,286	17,470	48,016	25,681
SMEs and individual entrepreneurs	62,807	23,662	1,373	21,660	16,112
Other households and NPISHs	165,667	93,774	3,609	53,615	14,669
Housing	114,710	81,815	2,720	24,815	5,361
Consumer	40,705	8,711	649	22,759	8,587
Other purposes	10,251	3,248	241	6,041	721
<b>TOTAL</b>	<b>633,899</b>	<b>257,453</b>	<b>84,940</b>	<b>204,542</b>	<b>86,964</b>

(\*) The definition of risk for the purpose of this statement includes the following items on the public balance sheet: Loans and advances to credit institutions, Loans and advances, Debt securities, Equity instruments, Other equity securities, Derivatives and hedging derivatives, Investments in subsidiaries, joint ventures and associates and guarantees given and Contingent risks. The amounts included in this table are net of impairment losses.

This appendix is an integral part of the Note 6.2 of the consolidated financial statements for the first semester ended June 30, 2018.



## APPENDIX V. Concentration of risk on activities in the real-estate market in Spain

### Quantitative information on activities in the real-estate market in Spain

The following quantitative information on real-estate activities in Spain has been prepared using the reporting models required by Bank of Spain Circular 5/2011, of November 30.

Lending for real estate development of the loans as of June 30, 2018 and December 31, 2017, is shown below:

June 2018. Financing Allocated by credit institutions to Construction and Real Estate Development and lending for house purchase (Millions of euros)

	Gross Amount	Drawn Over the Guarantee Value	Accumulated impairment
<b>Financing to construction and real estate development (including land) (Business in Spain)</b>	<b>4,744</b>	<b>1,836</b>	<b>1,461</b>
<i>Of which: Impaired assets</i>	2,234	1,246	1,341
<i>Memorandum item:</i>			
<i>Write-offs</i>	2,367		
<i>Memorandum item:</i>			
<i>Total loans and advances to customers, excluding the General Governments (Business in Spain)</i>	176,511		
<i>Total consolidated assets (total business)</i>	689,632		
<i>Impairment and provisions for normal exposures</i>	(4,928)		

December 2017. Financing Allocated by credit institutions to Construction and Real Estate Development and lending for house purchase (Millions of euros)

	Gross Amount	Drawn Over the Guarantee Value	Accumulated impairment
<b>Financing to construction and real estate development (including land) (Business in Spain)</b>	<b>5,224</b>	<b>2,132</b>	<b>(1,500)</b>
<i>Of which: Impaired assets</i>	2,660	1,529	(1,461)
<i>Memorandum item:</i>			
<i>Write-offs</i>	2,289		
<i>Memorandum item:</i>			
<i>Total loans and advances to customers, excluding the General Governments (Business in Spain)</i>	174,014		
<i>Total consolidated assets (total business)</i>	690,059		
<i>Impairment and provisions for normal exposures</i>	(5,843)		

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The following is a description of the real estate credit risk based on the types of associated guarantees:

Financing Allocated by credit institutions to Construction and Real Estate Development and lending for house purchase (Millions of euros)

	June 2018	December 2017
<b>Without secured loan</b>	<b>463</b>	<b>552</b>
<b>With secured loan</b>	<b>4,281</b>	<b>4,672</b>
Terminated buildings	2,622	2,904
Homes	1,808	2,027
Other	814	877
Buildings under construction	525	462
Homes	475	439
Other	50	23
Land	1,134	1,306
Urbanized land	608	704
Rest of land	526	602
<b>Total</b>	<b>4,744</b>	<b>5,224</b>

The table below provides the breakdown of the financial guarantees given as of June 30, 2018 and December 31, 2017:

Financial guarantees given (Millions of euros)

	June 2018	December 2017
Houses purchase loans	58	64
Without mortgage	18	12

The information on the retail mortgage portfolio risk (housing mortgage) as of June 30, 2018 and December 31, 2017 is as follows:

June 2018. Financing Allocated by credit institutions to Construction and Real Estate Development and lending for house purchase. (Millions of euros)

	Gross amount	<i>Of which: impaired loans</i>
Houses purchase loans	82,136	4,529
Without mortgage	1,585	49
With mortgage	80,551	4,480

December 2017. Financing Allocated by credit institutions to Construction and Real Estate Development and lending for house purchase. (Millions of euros)

	Gross amount	<i>Of which: impaired loans</i>
Houses purchase loans	83,505	4,821
Without mortgage	1,578	51
With mortgage	81,927	4,770

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The loan to value (LTV) ratio of the above portfolio is as follows:

LTV Breakdown of mortgage to households for the purchase of a home (Business in Spain) (Millions of euros)						
	Total risk over the amount of the last valuation available (Loan To Value-LTV)					Total
	Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60% but less than or equal to 80%	Over 80% but less than or equal to 100%	Over 100%	
Gross amount June 2018	14,238	18,611	21,473	13,942	12,287	80,551
<i>of which: Impaired loans</i>	215	380	598	728	2,559	4,480
Gross amount 2017	14,485	18,197	20,778	14,240	14,227	81,927
<i>of which: Impaired loans</i>	293	444	715	897	2,421	4,770

Outstanding home mortgage loans as of June 30, 2018 and December 31, 2017 had an average LTV of 51%.

The breakdown of foreclosed, acquired, purchased or exchanged assets from debt from loans relating to business in Spain, as well as the holdings and financing to non-consolidated entities holding such assets is as follows:

Information about Assets Received in Payment of Debts (Business in Spain) (Millions of euros)				
	June 2018			
	Gross Value	Provisions	Of which: Valuation adjustments on impaired assets, from the time of foreclosure	Carrying Amount
<b>Real estate assets from loans to the construction and real estate development sectors in Spain.</b>	<b>6,270</b>	<b>4,295</b>	<b>2,486</b>	<b>1,975</b>
Terminated buildings	2,198	1,163	588	1,035
Homes	1,353	684	315	669
Other	845	479	273	366
Buildings under construction	506	340	178	166
Homes	475	318	164	157
Other	31	22	14	9
Land	3,566	2,792	1,720	774
Urbanized land	1,785	1,397	976	388
Rest of land	1,781	1,395	744	386
<b>Real estate assets from mortgage financing for households for the purchase of a home</b>	<b>3,569</b>	<b>1,857</b>	<b>699</b>	<b>1,712</b>
<b>Rest of foreclosed real estate assets</b>	<b>1,647</b>	<b>855</b>	<b>203</b>	<b>792</b>
<b>Equity instruments, investments and financing to non-consolidated companies holding said assets</b>	<b>897</b>	<b>299</b>	<b>245</b>	<b>598</b>
<b>Total</b>	<b>12,383</b>	<b>7,306</b>	<b>3,633</b>	<b>5,077</b>

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Information about Assets Received in Payment of Debts (Business in Spain) (Millions of euros)

	December 2017			
	Gross Value	Provisions	Of which: Valuation adjustments on impaired assets, from the time of foreclosure	Carrying Amount
<b>Real estate assets from loans to the construction and real estate development sectors in Spain.</b>	<b>6,429</b>	<b>4,350</b>	<b>2,542</b>	<b>2,079</b>
Terminated buildings	2,191	1,184	606	1,007
Homes	1,368	742	366	626
Other	823	442	240	381
Buildings under construction	541	359	192	182
Homes	521	347	188	174
Other	20	12	4	8
Land	3,697	2,807	1,744	890
Urbanized land	1,932	1,458	1,031	474
Rest of land	1,765	1,349	713	416
<b>Real estate assets from mortgage financing for households for the purchase of a home</b>	<b>3,592</b>	<b>2,104</b>	<b>953</b>	<b>1,488</b>
<b>Rest of foreclosed real estate assets</b>	<b>1,665</b>	<b>905</b>	<b>268</b>	<b>760</b>
<b>Equity instruments, investments and financing to non-consolidated companies holding said assets</b>	<b>1,135</b>	<b>325</b>	<b>273</b>	<b>810</b>
<b>Total</b>	<b>12,821</b>	<b>7,684</b>	<b>4,036</b>	<b>5,137</b>

This Appendix is an integral part of Note 6.1 of the Consolidated Financial Statements for the first semester ended June 30, 2018.

Translation of the Interim Consolidated Financial Statements originally issued in Spanish and prepared in accordance with IAS 34, as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.

## APPENDIX VI Opening balance

### Condensed Consolidated balance sheets (Millions of Euros)

ASSETS	December 2017 IAS 39	Classification and measurement of financial instruments	Impairment	Opening balance sheet 2018
Cash, cash balances at central banks and other demand deposits	42,680	-	-	42,680
Financial assets held for trading	64,695	27,159	-	91,854
<i>Derivatives</i>	35,265	-	-	35,265
<i>Equity instruments</i>	6,801	48	-	6,849
<i>Debt securities</i>	22,573	-	-	22,573
<i>Loans and advances to central banks</i>	-	245	-	245
<i>Loans and advances to credit institutions</i>	-	14,895	-	14,895
<i>Loans and advances to customers</i>	56	11,970	-	12,026
Non-trading financial assets mandatorily at fair value through profit or loss		4,337	-	4,337
Financial assets designated at fair value through profit or loss	2,709	(1,690)	-	1,019
Financial assets at fair value through other comprehensive income		62,194	8	62,202
<i>Equity instruments</i>		2,761	-	2,761
<i>Debt securities</i>		59,293	8	59,301
<i>Loans and advances</i>		140	-	140
Available for sale financial assets	69,476	(69,476)	-	
Financial assets at amortized cost	431,521	(8,651)	(1,158)	421,712
<i>Debt securities</i>	10,339	19,650	(3)	29,986
<i>Loans and advances to central banks</i>	7,300	(246)	-	7,054
<i>Loans and advances to credit institutions</i>	26,261	(15,624)	22	10,659
<i>Loans and advances to customers</i>	387,621	(12,433)	(1,177)	374,011
Held to maturity investments	13,754	(13,754)	-	
Hedging derivatives	2,485	-	-	2,485
Fair value changes of the hedged items in portfolio hedges of interest rate risk	(25)	-	-	(25)
Joint ventures, associates and unconsolidated subsidiaries	1,588	1	-	1,589
Insurance and reinsurance assets	421	-	-	421
Tangible assets	7,191	-	-	7,191
Intangible assets	8,464	-	-	8,464
Tax assets	16,888	8	400	17,296
Other assets	4,359	-	-	4,359
Non-current assets and disposal groups held for sale	23,853	-	(21)	23,832
<b>TOTAL ASSETS</b>	<b>690,059</b>	<b>125</b>	<b>(770)</b>	<b>689,414</b>

The change registered in the heading "Financial assets held for trading" is mainly due to financial assets affected by the activity of Global Markets, which are reclassified from "Financial assets at amortized cost" and "Held to maturity investments".

The change registered in the heading "Available for sale financial assets" are mainly due to the reclassification to the new heading "Financial assets at fair value through other comprehensive income".

The change registered in the heading "Financial assets at amortized cost" is mainly due to the reclassification to the item "Financial assets held for trading".

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LIABILITIES AND EQUITY	December 2017 IAS 39	Classification and measurement of financial instruments	Impairment	Opening balance sheet 2018
Financial liabilities held for trading	46,182	34,601	-	80,783
Financial liabilities designated at fair value through profit or loss	2,222	3,273	-	5,495
Financial liabilities at amortized cost	543,713	(37,595)	-	506,118
<i>Deposits from central banks</i>	-	(3,261)	-	33,793
<i>Deposits from credit institutions</i>	54,516	(19,381)	-	35,135
<i>Customer Deposits</i>	376,379	(12,690)	-	363,689
<i>Debt certificates</i>	63,915	(2,266)	-	61,649
<i>Other financial liabilities</i>	11,850	2	-	11,852
Hedging derivatives	2,880	(112)	-	2,768
Fair value changes of the hedged items in portfolio hedges of interest rate risk	(7)	-	-	(7)
Liabilities under insurance and reinsurance contracts	9,223	-	-	9,223
Provisions	7,477	-	125	7,602
Tax liabilities	3,298	(24)	17	3,291
Share capital repayable on demand	-	-	-	-
Other liabilities	4,550	-	-	4,550
Liabilities included in disposal groups classified as held for sale	17,197	1	(10)	17,188
<b>TOTAL LIABILITIES</b>	<b>636,736</b>	<b>142</b>	<b>132</b>	<b>637,010</b>
SHAREHOLDERS' FUNDS	55,136	71	(923)	54,285
Capital	3,267	-	-	3,267
Share premium	23,992	-	-	23,992
Equity instruments issued other than capital	-	-	-	-
Other equity	54	-	-	54
Retained earnings	25,474	71	(923)	24,623
Revaluation reserves	12	-	-	12
Other reserves	(44)	-	-	(44)
Less: Treasury shares	(96)	-	-	(96)
Profit or loss attributable to owners of the parent	3,519	-	-	3,519
Less: Interim dividends	(1,043)	-	-	(1,043)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	(8,792)	(109)	13	(8,889)
MINORITY INTERESTS (NON-CONTROLLING INTEREST)	6,979	21	8	7,008
<b>TOTAL EQUITY</b>	<b>53,323</b>	<b>(17)</b>	<b>(902)</b>	<b>52,404</b>
<b>TOTAL EQUITY AND TOTAL LIABILITIES</b>	<b>690,059</b>	<b>125</b>	<b>(770)</b>	<b>689,414</b>

The change registered in the heading "Financial liabilities held for trading" is mainly due to financial liabilities affected by the activity of the markets, which are reclassified from "Financial liabilities at amortized cost".

The change registered in the heading "Financial liabilities at amortized cost" is mainly due to the reclassification to "Liabilities held for trading".

This Appendix is an integral part of Note 2.1 of the Consolidated Financial Statements for the first semester ended June 30, 2018.

A photograph of the BBVA building, a modern skyscraper with a distinctive curved, arched glass facade. The building is set against a blue sky with scattered white clouds. The BBVA logo is visible on the upper part of the glass facade. The image is partially overlaid by a dark blue rectangular area containing text.

**BBVA** Creating Opportunities

# Management Report

## 2Q18

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# BBVA Group highlights

BBVA Group highlights (Consolidated figures)

	IFRS 9		IAS 39	
	30-06-18	Δ %	30-06-17	31-12-17
<b>Balance sheet (million euros)</b>				
Total assets	689,632	(1.8)	702,429	690,059
Loans and advances to customers (gross)	390,661	(8.0)	424,405	400,369
Deposits from customers	367,312	(6.9)	394,626	376,379
Other customer funds	132,522	(3.3)	137,043	134,906
Total customer funds	499,834	(6.0)	531,669	511,285
Total equity	52,087	(4.8)	54,727	53,323
<b>Income statement (million euros)</b>				
Net interest income	8,643	(1.8)	8,803	17,758
Gross income	12,074	(5.1)	12,718	25,270
Operating income	6,131	(4.3)	6,407	12,770
Profit/(loss) before tax	4,443	10.2	4,033	6,931
Net attributable profit	2,649	14.9	2,306	3,519
<b>The BBVA share and share performance ratios</b>				
Number of shares (million)	6,668	0.0	6,668	6,668
Share price (euros)	6.07	(16.4)	7.27	7.11
Earning per share (euros) <sup>(1)</sup>	0.37	14.5	0.33	0.48
Book value per share (euros)	6.89	(4.0)	7.18	6.96
Tangible book value per share (euros)	5.63	(3.3)	5.82	5.69
Market capitalization (million euros)	40,501	(16.4)	48,442	47,422
Yield (dividend/price; %)	4.0		5.1	4.2
<b>Significant ratios (%)</b>				
ROE (net attributable profit/average shareholders' funds +/- average accumulated other comprehensive income) <sup>(2)</sup>	11.7		9.7	7.4
ROTE (net attributable profit/average shareholders' funds excluding average intangible assets +/- average accumulated other comprehensive income) <sup>(2)</sup>	14.3		12.1	9.1
ROA (Profit or loss for the year/average total assets)	0.95		0.82	0.68
RORWA (Profit or loss for the year/average risk-weighted assets - RWA)	1.81		1.53	1.27
Efficiency ratio	49.2		49.6	49.5
Cost of risk	0.82		0.93	0.89
NPL ratio	4.4		4.8	4.6
NPL coverage ratio	71		71	65
<b>Capital adequacy ratios (%)</b>				
CET1 fully-loaded	10.8		11.1	11.1
CET1 phased-in <sup>(3)</sup>	11.1		11.8	11.7
Tier 1 phased-in <sup>(3)</sup>	12.8		13.0	13.0
Total ratio phased-in <sup>(3)</sup>	15.5		15.5	15.5
<b>Other information</b>				
Number of shareholders	890,821	(2.1)	910,330	891,453
Number of employees	131,784	(0.4)	132,321	131,856
Number of branches	8,141	(3.3)	8,421	8,271
Number of ATMs	31,530	1.1	31,194	31,688

General note: data as of 30-06-17 and 31-12-17 are presented for comparison purposes only.

(1) Adjusted by additional Tier 1 instrument remuneration.

(2) The ROE and ROTE ratios include, in the denominator, the Group's average shareholders' funds and take into account the item called "Accumulated other comprehensive income", which forms part of the equity. Excluding this item, the ROE would stand at 9.7%, in the first half of 2018; 8.6%, in the first half of 2017; and 6.4%, in 2017; and the ROTE at 11.5%, 10.5% and 7.7%, respectively.

(3) As of June 30, 2018 phased-in ratios include the temporary treatment on the impact of IFRS9, calculated in accordance with Article 473 bis of Capital Requirements Regulation (CRR). For 2017, the capital ratios are calculated under CRD IV from Basel III regulation, in which a phase-in of 80% is applied.

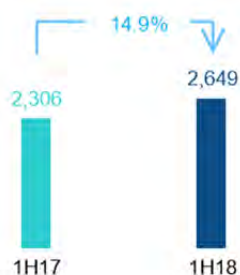
# Group information

## Relevant events

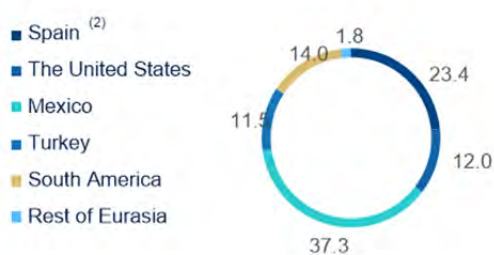
### Results (pages 5-11)

- Generalized growth in **more recurrent revenue** in practically all geographic areas.
- **Operating expenses** remain under control, leading to an improvement in the **efficiency** ratio.
- Lower amount of **impairment on financial assets not measured at fair value through profit or loss** (hereinafter, "impairment losses on financial assets").
- As a result, the net attributable **profit** was €2,649m, 14.9% higher than the first half of 2017.

#### Net attributable profit (Million euros)



#### Net attributable profit breakdown <sup>(1)</sup> (Percentage. 1H 2018)



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

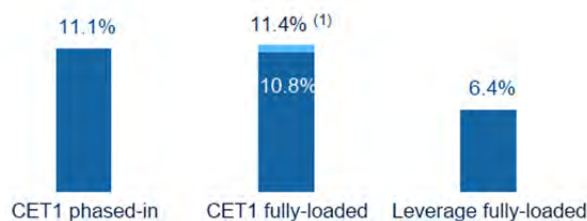
### Balance sheet and business activity (pages 12-13)

- **Loans and advances to customers** (gross) increase in emerging geographies and the United States, but decline in Spain.
- **Non-performing loans** continue to improve.
- Within the **off-balance-sheet funds**, mutual funds continue to perform positively.

### Solvency (pages 14-15)

- The **capital** position is above regulatory requirements.
- BBVA has received a communication from the Bank of Spain regarding its minimum requirement for own funds and eligible liabilities (**MREL** requirement), as determined by the Single Resolution Board (SRB). The Group estimates that it currently meets this MREL requirement.
- Issuance of the so-called **green bonds** for €1 billion (senior non-preferred debt).

#### Capital and leverage ratios (Percentage as of 30-06-18)

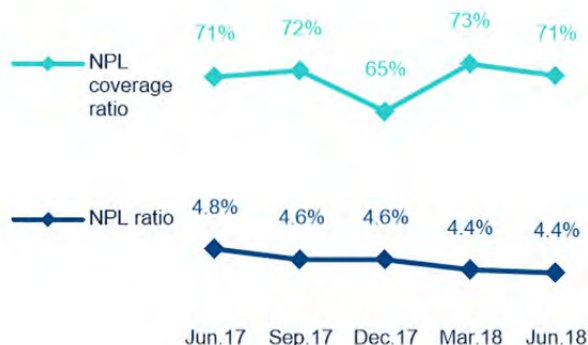


(1) Data pro-forma includes + 55 basis points from announced corporate transactions (sale of real-estate assets to Cerberus and BBVA Chile, closed in July).

### Risk management (pages 16-19)

- Good performance of the main **credit-risk metrics** over the first six months of the year: as of 30-June-2018, the NPL ratio closed at 4.4%, the NPL coverage ratio at 71% and the cumulative cost of risk at 0.82%.

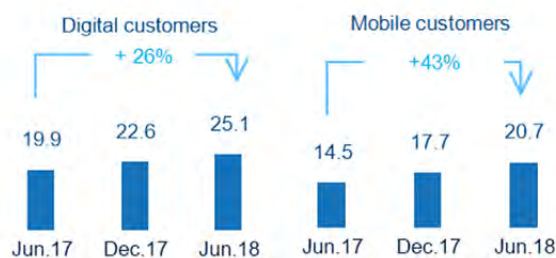
### NPL and NPL coverage ratios (Percentage)



### Transformation

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

### Digital and mobile customers (Million)



### Other matters of interest

- On July 6, BBVA has completed the **sale** of approximately 68.2% of its stake in **BBVA Chile**. The impacts of this transaction will be reflected in the Group's financial statements for the third quarter of 2018.

### Impact of the initial implementation of IFRS 9

- The figures corresponding to the first half of 2018 are prepared under International Financial Reporting Standard 9 (IFRS 9), which entered into force on January 1, 2018. This new accounting standard does not require the comparative information from prior periods, so the comparative figures shown for the year 2017 have been prepared in accordance with the IAS 39 (International Accounting Standard 39) regulation in force at that time.
- The impacts derived from the first application of IFRS 9, as of January 1, 2018, have been registered with a charge to reserves of approximately €900m mainly due to the allocation of provisions based on expected losses, compared to the model of losses incurred under the previous IAS 39.
- In capital, the impact derived from the first application of IFRS 9 has been a reduction of 31 basis points with respect to the fully-loaded CET1 ratio of December 2017.
- With respect to the main risk metrics, the exposure to non-performing loans hardly changed, lending fell due to reclassification of portfolios and the NPL coverage ratio rose as a result of the increase in loan-loss provisions.

# Results

BBVA generated a net attributable **profit** of €2,649m in the first half of 2018, which represents a year-on-year increase of 14.9% (29.5% at constant exchange rates). Once more, it is important to highlight the good performance of recurring revenue, containment of operating expenses and lower loan-loss impairments and provisions, which offset the lower contribution from net trading income (NTI) compared to the same period the previous year.

Consolidated income statement: quarterly evolution (Million euros)

	IFRS 9			IAS 39		
	2018		4Q	2017		1Q
	2Q	1Q		3Q	2Q	
<b>Net interest income</b>	<b>4,355</b>	<b>4,288</b>	<b>4,557</b>	<b>4,399</b>	<b>4,481</b>	<b>4,322</b>
Net fees and commissions	1,256	1,236	1,215	1,249	1,233	1,223
Net trading income	297	410	552	347	378	691
Dividend income	72	12	86	35	169	43
Share of profit or loss of entities accounted for using the equity method	6	8	5	6	(2)	(5)
Other operating income and expenses	(10)	142	(54)	154	77	108
<b>Gross income</b>	<b>5,977</b>	<b>6,096</b>	<b>6,362</b>	<b>6,189</b>	<b>6,336</b>	<b>6,383</b>
Operating expenses	(2,963)	(2,979)	(3,114)	(3,075)	(3,175)	(3,137)
Personnel expenses	(1,560)	(1,566)	(1,640)	(1,607)	(1,677)	(1,647)
Other administrative expenses	(1,105)	(1,106)	(1,143)	(1,123)	(1,139)	(1,136)
Depreciation	(299)	(307)	(331)	(344)	(359)	(354)
<b>Operating income</b>	<b>3,014</b>	<b>3,117</b>	<b>3,248</b>	<b>3,115</b>	<b>3,161</b>	<b>3,246</b>
Impairment on financial assets not measured at fair value through profit or loss	(788)	(823)	(1,885)	(976)	(997)	(945)
Provisions or reversal of provisions	(86)	(99)	(180)	(201)	(193)	(170)
Other gains (losses)	67	41	(267)	44	(3)	(66)
<b>Profit/(loss) before tax</b>	<b>2,207</b>	<b>2,237</b>	<b>916</b>	<b>1,982</b>	<b>1,969</b>	<b>2,065</b>
Income tax	(602)	(611)	(499)	(550)	(546)	(573)
<b>Profit/(loss) for the year</b>	<b>1,604</b>	<b>1,626</b>	<b>417</b>	<b>1,431</b>	<b>1,422</b>	<b>1,492</b>
Non-controlling interests	(295)	(286)	(347)	(288)	(315)	(293)
<b>Net attributable profit</b>	<b>1,309</b>	<b>1,340</b>	<b>70</b>	<b>1,143</b>	<b>1,107</b>	<b>1,199</b>
<b>Net attributable profit excluding results from corporate operations</b>	<b>1,309</b>	<b>1,340</b>	<b>70</b>	<b>1,143</b>	<b>1,107</b>	<b>1,199</b>
<b>Earning per share (euros) <sup>(1)</sup></b>	<b>0.18</b>	<b>0.19</b>	<b>(0.00)</b>	<b>0.16</b>	<b>0.16</b>	<b>0.17</b>

(1) Adjusted by additional Tier 1 instrument remuneration.

## Consolidated income statement (Million euros)

	IFRS 9		IAS 39	
	1H18	Δ %	Δ % at constant exchange rates	1H17
<b>Net interest income</b>	<b>8,643</b>	<b>(1.8)</b>	<b>9.4</b>	<b>8,803</b>
Net fees and commissions	2,492	1.5	11.3	2,456
Net trading income	708	(33.8)	(30.4)	1,069
Dividend income	84	(60.6)	(59.7)	212
Share of profit or loss of entities accounted for using the equity method	14	n.s.	n.s.	(8)
Other operating income and expenses	133	(28.4)	(17.8)	185
<b>Gross income</b>	<b>12,074</b>	<b>(5.1)</b>	<b>4.8</b>	<b>12,718</b>
Operating expenses	(5,942)	(5.8)	2.9	(6,311)
Personnel expenses	(3,125)	(6.0)	2.7	(3,324)
Other administrative expenses	(2,211)	(2.8)	6.8	(2,275)
Depreciation	(606)	(14.9)	(8.4)	(712)
<b>Operating income</b>	<b>6,131</b>	<b>(4.3)</b>	<b>6.8</b>	<b>6,407</b>
Impairment on financial assets not measured at fair value through profit or loss	(1,611)	(17.0)	(9.0)	(1,941)
Provisions or reversal of provisions	(185)	(49.0)	(48.3)	(364)
Other gains (losses)	108	n.s.	n.s.	(69)
<b>Profit/(loss) before tax</b>	<b>4,443</b>	<b>10.2</b>	<b>25.5</b>	<b>4,033</b>
Income tax	(1,213)	8.3	21.5	(1,120)
<b>Profit/(loss) for the year</b>	<b>3,230</b>	<b>10.9</b>	<b>27.0</b>	<b>2,914</b>
Non-controlling interests	(581)	(4.3)	17.0	(607)
<b>Net attributable profit</b>	<b>2,649</b>	<b>14.9</b>	<b>29.5</b>	<b>2,306</b>
<b>Net attributable profit excluding results from corporate operations</b>	<b>2,649</b>	<b>14.9</b>	<b>29.5</b>	<b>2,306</b>
<b>Earning per share (euros) <sup>(1)</sup></b>	<b>0.37</b>			<b>0.33</b>

(1) Adjusted by additional Tier 1 instrument remuneration.

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

## Gross income

**Gross income** in the first half of 2018 grew by 4.8% year-on-year, once more strongly supported by the positive performance of the more recurring items.

Gross income (Million euros)



(1) At constant exchange rates: 4.8%.

**Net interest income** grew by 9.4% year-on-year. There was a general increase in all business areas, mainly in the United States, Mexico, Turkey and South America. This positive trend can once again be explained by growth of activity in

emerging economies and in the United States, and good management of customer spreads. During the quarter, net interest income grew by 3.5%.

Net interest income/ATAs (Percentage)



Cumulative **net fees and commissions** performed very well in all the Group's areas (up 11.3% year-on-year), driven by good diversification. The quarterly figure was also good (up 3.3% in the last three months).

As a result, **more recurring revenue items** (net interest income plus net fees and commissions) increased by 9.8% year-on-year (up 3.5% over the second quarter).

Net interest income plus fees and commissions  
(Million euros)



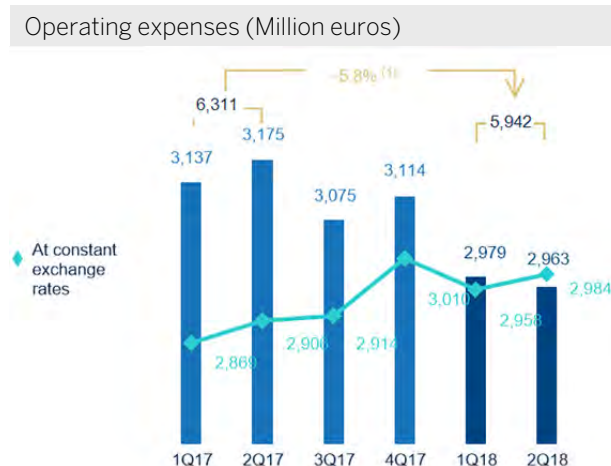
(1) At constant exchange rates: 9.8%.

**NTI** during the first half of 2018 moderated in comparison with the same period of 2017, when it was exceptionally high, largely due to the registration of the 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 2017. There have also been lower sales of ALCO portfolios in Spain in the first half of 2018 compared to the same period of the previous year. By business areas, NTI had a good performance in Mexico and South America.

**Other operating income and expenses** totaled €133m; 17.8% less in year-on-year terms, mainly due to higher contribution to the Single Resolution Fund -SRF- (€124m in Spain, compared to €98m the same period of 2017), and lower insurance income from Mexico.

## Operating income

**Operating expenses** for the first half of 2018 increased 2.9%, year-on-year, affected by the exchange rates (down 5.8% at current exchange rates). Cost discipline has been maintained in all the Group's areas through various efficiency plans. By business area the biggest reductions were in Spain and the Rest of Eurasia. In the other geographies, the growth of expenses was lower than the growth of gross income.

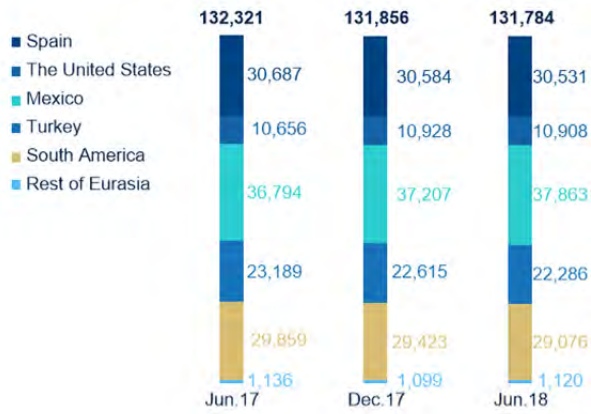


(1) At constant exchange rates: 2.9%.

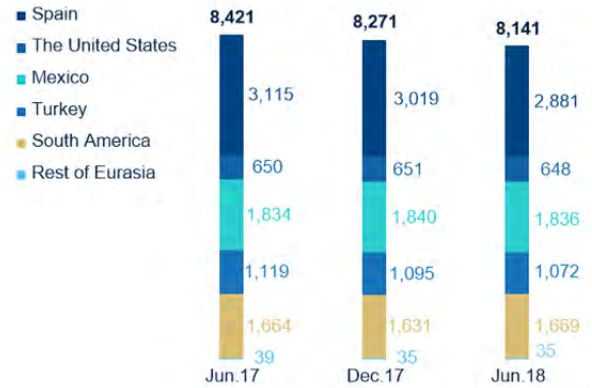
### Breakdown of operating expenses and efficiency calculation (Million euros)

	1H18	Δ %	1H17
<b>Personnel expenses</b>	<b>3,125</b>	<b>(6.0)</b>	<b>3,324</b>
Wages and salaries	2,448	(5.5)	2,590
Employee welfare expenses	453	(5.1)	478
Training expenses and other	224	(12.6)	256
<b>Other administrative expenses</b>	<b>2,211</b>	<b>(2.8)</b>	<b>2,275</b>
Property, fixtures and materials	495	(6.3)	528
IT	558	12.0	499
Communications	120	(19.4)	149
Advertising and publicity	175	(6.2)	186
Corporate expenses	50	(3.4)	51
Other expenses	594	(5.0)	625
Levies and taxes	220	(7.5)	237
<b>Administration costs</b>	<b>5,336</b>	<b>(4.7)</b>	<b>5,599</b>
<b>Depreciation</b>	<b>606</b>	<b>(14.9)</b>	<b>712</b>
<b>Operating expenses</b>	<b>5,942</b>	<b>(5.8)</b>	<b>6,311</b>
<b>Gross income</b>	<b>12,074</b>	<b>(5.1)</b>	<b>12,718</b>
<b>Efficiency ratio (operating expenses/gross income; %)</b>	<b>49.2</b>		<b>49.6</b>

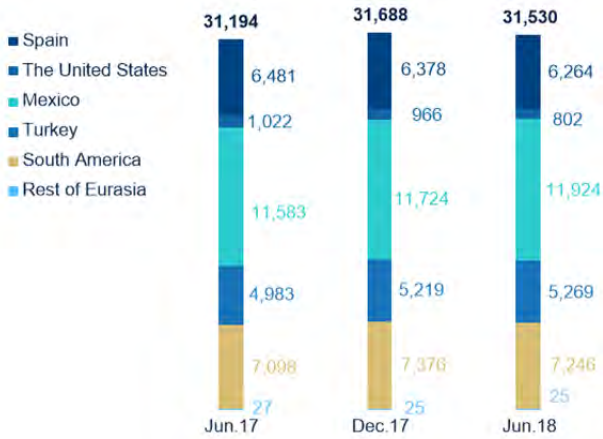
Number of employees



Number of branches

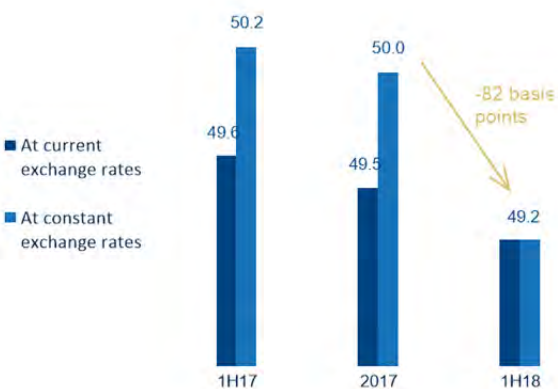


Number of ATMs



The **efficiency ratio** improved to 49.2% in the first half of 2018, compared to 49.6% in the same period the previous year. **Operating income** increased by 6.8% over the last twelve months.

Efficiency ratio (Percentage)



Operating Income (Million euros)



(1) At constant exchange rates: 6.8%.



## Provisions and other

**Impairment losses on financial assets** in the first half of the year were 9.0% below the figure for the same period in 2017. By business area, they continued to fall in Spain, due to lower loan-loss provisioning requirements for large customers. They also fell in the United States, due to the lower provisioning requirements in the portfolios affected by the 2017 hurricanes. They also fell in Mexico and, to a lesser extent, in South America. In contrast, they increased in Turkey, concentrated in wholesale customer portfolios.

Impairment on financial assets (net) (Million euros)



(1) At constant exchange rates: -9.0%.

**Provisions or reversal of provisions** (hereinafter, provisions) fell by 48.3% compared to the figure for the same period of 2017 (which included a charge of €177m for restructuring costs). The line **other gains (losses)** showed a positive balance rather than the negative of the first half of 2017, and incorporated capital gains from the sale of certain portfolios in Mexico, Turkey and Non Core Real Estate. The first half of the previous year presented a negative balance due to certain operations with an unfavorable effect from the Non Core Real Estate area.

## Results

As a result of the above, the Group's **net attributable profit** for the first half of 2018 continued to be very positive (up 29.5% year-on-year at constant exchange rates, up 14.9% at current exchange rates).

By **business area**, Banking activity in Spain generated a profit of €793m, Non Core Real Estate a loss of only €36m, the United States contributed a profit of €387m, Mexico registered €1,208m, Turkey contributed a profit of €373m, South America €452m and the Rest of Eurasia €58m.

Net attributable profit (Million euros)



(1) At constant exchange rates: 29.5%.

Earning per share <sup>(1)</sup> (Euros)



(1) Adjusted by additional Tier 1 instrument remuneration.

ROE and ROTE <sup>(1)</sup> (Percentage)



(1) The ROE and ROTE ratios include, in the denominator, the Group's average shareholders' funds and take into account the item called "Accumulated other comprehensive income", which forms part of the equity. Excluding this item, the ROE would stand at 8.6% in the first half 2017, 6.4% in 2017 and 9.7% in the first half 2018; and the ROTE on 10.5%, 7.7% and 11.5%, respectively.

ROA and RORWA (Percentage)



## Balance sheet and business activity

The Group's balance sheets and activity **data** are presented below, from the opening balance sheet made after the first implementation of IFRS 9 until the end of the first half of 2018. These figures include the new categories included in the aforementioned standard.

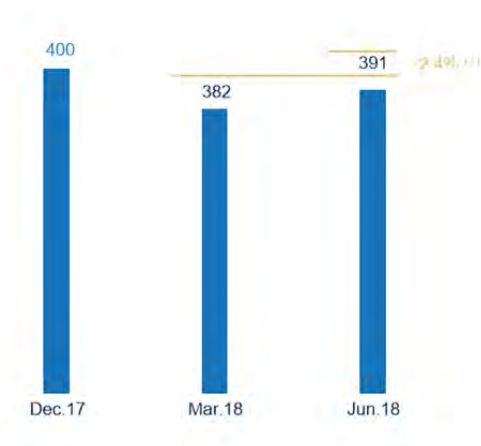
Regarding the Group's activity, the most significant aspects during this period are summarized below:

- **Loans and advances to customers** (gross) increase in emerging geographies and the United States (at constant exchange rates), but decline in Spain.
- **Non-performing loans** fell, above all thanks to an improvement in Spain and Mexico.
- In **deposits** from customers, there was a fall in time deposits but an increase in demand deposits.
- In **off-balance-sheet funds**, mutual funds continued to perform well.

Consolidated balance sheet (Million euros)			
	30-06-18	Δ %	01-01-18
Cash, cash balances at central banks and other demand deposits	37,279	(12.7)	42,680
Financial assets held for trading	91,018	(0.9)	91,854
Non-trading financial assets mandatorily at fair value through profit or loss	4,377	0.9	4,337
Financial assets designated at fair value through profit or loss	1,487	45.9	1,019
Financial assets at fair value through accumulated other comprehensive income	63,212	1.6	62,202
Financial assets at amortized cost	426,349	1.1	421,712
Loans and advances to central banks and credit institutions	17,092	(3.5)	17,713
Loans and advances to customers	377,175	0.8	374,012
Debt securities	32,082	7.0	29,986
Investments in subsidiaries, joint ventures and associates	1,470	(7.5)	1,589
Tangible assets	6,736	(6.3)	7,191
Intangible assets	8,373	(1.1)	8,464
Other assets	49,331	2.0	48,368
<b>Total assets</b>	<b>689,632</b>	<b>0.0</b>	<b>689,414</b>
Financial liabilities held for trading	83,667	3.6	80,783
Other financial liabilities designated at fair value through profit or loss	6,221	13.2	5,495
Financial liabilities at amortized cost	503,073	(0.6)	506,118
Deposits from central banks and credit institutions	62,041	(10.0)	68,928
Deposits from customers	367,312	1.0	363,689
Debt certificates	62,349	1.1	61,649
Other financial liabilities	11,370	(4.1)	11,851
Liabilities under insurance and reinsurance contracts	9,500	3.0	9,223
Other liabilities	35,084	(0.9)	35,392
<b>Total liabilities</b>	<b>637,544</b>	<b>0.1</b>	<b>637,010</b>
Non-controlling interests	6,336	(9.6)	7,008
Accumulated other comprehensive income	(9,868)	11.0	(8,889)
Shareholders' funds	55,619	2.5	54,285
<b>Total equity</b>	<b>52,087</b>	<b>(0.6)</b>	<b>52,404</b>
<b>Total liabilities and equity</b>	<b>689,632</b>	<b>0.0</b>	<b>689,414</b>
<b>Memorandum item:</b>			
Guarantees given	47,573	(0.2)	47,668

## Loans and advances to customers (Million euros)

	IFRS 9	Δ %	IAS 39
	30-06-18		31-12-17
<b>Public sector</b>	<b>28,716</b>	<b>(4.0)</b>	<b>29,921</b>
<b>Individuals</b>	<b>171,500</b>	<b>4.2</b>	<b>164,578</b>
Mortgages	113,854	1.4	112,274
Consumer	26,141	(18.5)	32,092
Credit cards	13,105	(3.9)	13,630
Other loans	18,399	179.6	6,581
<b>Business</b>	<b>171,818</b>	<b>(7.9)</b>	<b>186,479</b>
<b>Non-performing loans</b>	<b>18,627</b>	<b>(3.9)</b>	<b>19,390</b>
<b>Loans and advances to customers (gross)</b>	<b>390,661</b>	<b>(2.4)</b>	<b>400,369</b>
Loan-loss provisions	(13,486)	5.8	(12,748)
<b>Loans and advances to customers</b>	<b>377,175</b>	<b>(2.7)</b>	<b>387,621</b>

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

(1) At constant exchange rates: -0.8%.

Customer funds  
(Billion euros)

(1) At constant exchange rates: -1.3%.

## Customer funds (Million euros)

	IFRS 9	Δ %	IAS 39
	30-06-18		31-12-17
<b>Deposits from customers</b>	<b>367,312</b>	<b>(2.4)</b>	<b>376,379</b>
Of which current accounts	249,572	3.7	240,750
Of which time deposits	110,548	(4.5)	115,761
<b>Other customer funds</b>	<b>132,522</b>	<b>(1.8)</b>	<b>134,906</b>
Mutual funds and investment companies	64,687	6.2	60,939
Pension funds	33,890	(0.3)	33,985
Other off-balance sheet funds	2,922	(5.2)	3,081
Customer portfolios	31,022	(15.9)	36,901
<b>Total customer funds</b>	<b>499,834</b>	<b>(2.2)</b>	<b>511,285</b>

# Solvency

## Capital base

BBVA ended the first half of 2018 with a **fully-loaded CET1** ratio of 10.8%, impacted by the turbulent market situation during the second quarter of 2018. The pro forma fully-loaded CET1 ratio would be 11.4%, taking into account the expected positive impact, of approximately 55 basis points, resulting from the announced corporate operations (sale of BBVA Chile completed in July, and of the real-estate assets to Cerberus, pending closure). Additionally, the Group has reiterated its goal of reaching a fully-loaded CET1 capital ratio of 11%.

Risk-weighted assets (**RWAs**) decreased slightly since the end of 2017, largely explained by the depreciation of currencies against the euro. Regarding securitizations, the Group carried out two in the first half of 2018: a traditional one in June, of an auto loan portfolio of consumer finance for €800m, which has had a positive impact on capital of €324m (due to the release of RWAs); and a synthetic one in March, on which the European Investment Fund (EIF, a subsidiary of the European Investment Bank), issued a financial guarantee on an intermediate tranche of a €1.95 billion portfolio of loans to SMEs. Thanks to this guarantee, BBVA released €443m of RWAs. During the second quarter, BBVA received authorization from the European Central Bank (ECB) to update the calculation of RWAs for structural exchange-rate risk under standard model.

Evolution of fully-loaded capital ratios <sup>(1)</sup> (Percentage)



(1) As of 30-06-18, it includes the Tier 2 private issuance of BBVA S.A. on the second quarter 2018; pending approval by ECB for the purpose of computability in the Group's capital ratios.

Capital base <sup>(1)</sup> (Million euros)

	CRD IV phased-in			CRD IV fully-loaded		
	30-06-18 <sup>(1)</sup>	31-03-18	31-12-17	30-06-18 <sup>(1)</sup>	31-03-18	31-12-17
Common Equity Tier 1 (CET 1)	39,550	39,877	42,341	38,746	38,899	40,061
Tier 1	45,717	46,006	46,980	44,685	44,794	46,316
Tier 2 <sup>(2)</sup>	9,499	9,032	9,134	9,520	9,091	8,891
<b>Total Capital (Tier 1 + Tier 2) <sup>(2)</sup></b>	<b>55,216</b>	<b>55,038</b>	<b>56,114</b>	<b>54,205</b>	<b>53,885</b>	<b>55,207</b>
<b>Risk-weighted assets</b>	<b>356,985</b>	<b>358,386</b>	<b>361,686</b>	<b>357,205</b>	<b>356,847</b>	<b>361,686</b>
CET1 (%)	11.1	11.1	11.7	10.8	10.9	11.1
Tier 1 (%)	12.8	12.8	13.0	12.5	12.6	12.8
Tier 2 (%) <sup>(2)</sup>	2.7	2.5	2.5	2.7	2.5	2.5
<b>Total capital ratio (%) <sup>(2)</sup></b>	<b>15.5</b>	<b>15.4</b>	<b>15.5</b>	<b>15.2</b>	<b>15.1</b>	<b>15.3</b>

General note: as of June 30 and March 31, 2018, the main difference between the phased-in and fully loaded ratios arises from the temporary treatment of the impact of IFRS9, to which the BBVA Group has adhered voluntarily (in accordance with Article 473bis of the CRR).

(1) Preliminary data.

(2) It includes the Tier 2 private issuance of BBVA S.A. on the second quarter 2018; pending approval by ECB for the purpose of computability in the Group's capital ratios.

Regarding the **issuance** of capital, at the Tier 1 level the Group computes its US\$ 1 billion AT1 capital issuance carried out in November 2017. However, the AT1 US\$1.5 billion issuance of May 2013 was cancelled early, as announced to the market. At the Tier 2 level, BBVA S.A. closed a private placement of US\$300m at 5.25% with a 15-year maturity, while BBVA Bancomer issued US\$1 billion. Moreover, the Group completed two public issuances of senior non-preferred debt, for a total of €2.5 billion: one of €1.5 billion at a floating rate (Libor three months plus 60 basis points) and five-year

maturity, which will be used to meet the MREL (minimum required eligible liabilities) requirements, published as a Significant Event by the National Securities Market Commission (CNMV, for its acronym in Spanish) last May, 23.

According to the provisions of the SRB, the **MREL** requirement that BBVA must meet starting on January 1, 2020 will be 15.08% of the total eligible liabilities and shareholders' funds of its resolution group (BBVA S.A. and its subsidiaries, which belong to the same European resolution group), with figures as of December 31, 2016 (28.04% expressed in RWA terms). The Group estimates that it currently meets this MREL requirement.

As regards **shareholder remuneration**, on April, 10 BBVA paid the final cash dividend against 2017 earnings, amounting to €0.15 gross per share.

As of 30-June-2018, the **phased-in CET1** ratio stood at 11.1%, taking into account the impact of the initial implementation of IFRS 9. In this context the European Commission and Parliament have established temporary arrangements that are voluntary for the institutions, adapting the impact of IFRS 9 on capital ratios. BBVA has informed the supervisory body of its adherence to these arrangements. **Tier 1** capital stood at 12.8% and **Tier 2** at 2.7%, including Tier 2 private issuance of US\$300m, resulting in a **total capital ratio** of 15.5%. These levels are above the requirements established by the regulator in its SREP letter and the systemic buffers applicable in 2018 for BBVA Group. Since January 1, 2018, the requirement has been established at 8.438% for the phased-in CET1 ratio and 11.938% for the total capital ratio. The change with respect to 2017 is due to the steady implementation of the capital conservation buffers and the capital buffer applicable to other systemically important banks. The regulatory requirement for 2018 in fully-loaded terms remains unchanged (CET1 of 9.25% and total ratio of 12.75%) compared with the previous year.

Finally, the Group maintained a sound **leverage** ratio: 6.4% under fully-loaded criteria (6.5% phased-in), which continues to be the highest in its peer group.

## Ratings

During the first six months of the year, Moody's, S&P and DBRS upgraded BBVA's rating to A3, A- and A (high), respectively, all with a stable outlook, thus recognizing the strength and robustness of BBVA's business model. Following these upgrades, all the agencies now assign BBVA a rating in the "A" category, something that had not occurred since mid-2012.

### Ratings

Rating agency	Long term	Short term	Outlook
DBRS	A (high)	R-1 (middle)	Stable
Fitch	A-	F-2	Stable
Moody's <sup>(1)</sup>	A3	P-2	Stable
Scope Ratings	A+	S-1+	Stable
Standard & Poor's	A-	A-2	Stable

(1) Additionally, Moody's assigns an A2 rating to BBVA's long term deposits.

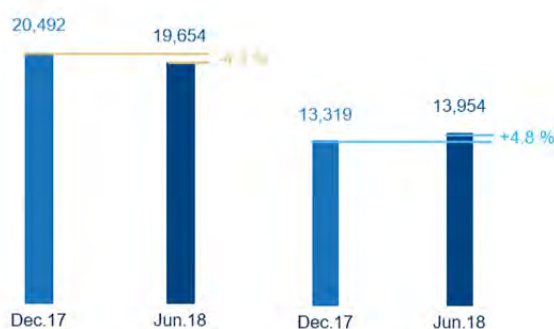
# Risk management

## Credit risk

At the close of the **first half of 2018** BBVA Group's risk metrics continued to perform well:

- Growth of **credit risk** in the quarter (up 2.1% both, at current and constant exchange rates) in all areas, except Non Core Real Estate. Compared to the close of December 2017 the increase in credit risk stood at 0.3% at current exchange rates and 1.2% in constant terms.
- The **balance of non-performing loans** increased slightly in the quarter (up 0.7% at current exchange rates and up 1.3% at constant exchange rates), although over the last six months they fell by 4.1% (down 2.9% in constant terms). Over the first six months of the year, Banking Activity in Spain, Non Core Real Estate and Mexico performed well. South America was negatively impacted by some retail portfolios and specific customers, and Turkey deteriorated to some extent, especially in the wholesale-customers segment. The balance of non-performing loans in the United States remained stable in the first half (up 0.3% at constant exchange rates).
- As a result, the **NPL ratio** stood at 4.4% as of 30-June-2018, a reduction of six basis points with respect to March of 2018.
- **Provisions** decreased by 1.6% over the quarter (down 0.5% at constant exchange rates) and grew by 4.8% over the last six months (up 6.8% at constant exchange rates), so the **NPL coverage ratio** closed at 71%.
- Finally, the cumulative **cost of risk** through June 2018 was 0.82%, seven basis points lower than the figure for 2017.

Non-performing loans and provisions (Million euros)



Credit risk <sup>(1)</sup> (Million euros)

	30-06-18 <sup>(2)</sup>	31-03-18 <sup>(2)</sup>	31-12-17 <sup>(2)</sup>
<b>Credit risk</b>	<b>451,587</b>	<b>442,446</b>	<b>450,045</b>
Non-performing loans	19,654	19,516	20,492
Provisions	13,954	14,180	13,319
<b>NPL ratio (%)</b>	<b>4.4</b>	<b>4.4</b>	<b>4.6</b>
<b>NPL coverage ratio (%)</b>	<b>71</b>	<b>73</b>	<b>65</b>

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

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

## Non-performing loans evolution (Million euros)

	2Q18 <sup>(1-2)</sup>	1Q18 <sup>(2)</sup>	4Q17 <sup>(2)</sup>	3Q17	2Q17
<b>Beginning balance</b>	<b>19,516</b>	<b>20,492</b>	<b>20,932</b>	<b>22,422</b>	<b>23,236</b>
Entries	2,596	2,065	3,757	2,268	2,525
Recoveries	(1,655)	(1,748)	(2,142)	(2,001)	(1,930)
<b>Net variation</b>	<b>942</b>	<b>317</b>	<b>1,616</b>	<b>267</b>	<b>595</b>
Write-offs	(826)	(913)	(1,980)	(1,575)	(1,070)
Exchange rate differences and other	23	(380)	(75)	(181)	(340)
<b>Period-end balance</b>	<b>19,654</b>	<b>19,516</b>	<b>20,492</b>	<b>20,932</b>	<b>22,422</b>
<b>Memorandum item:</b>					
Non-performing loans	18,627	18,569	19,753	20,222	21,730
Non performing guarantees given	1,027	947	739	710	691

(1) Preliminary data.

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

## Structural risks

### Liquidity and funding

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

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

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. During the **first half** of 2018, **liquidity** conditions remained comfortable across BBVA Group's global footprint:

- In the Eurozone, the liquidity situation is still comfortable and the credit gap stable.
- In the United States, the liquidity situation is adequate. The credit gap increased over the first six months of the year due to the cost-containment strategy for deposits, in a context of competition in prices and rising rates.
- In Mexico, the liquidity position is sound, despite the uncertainty derived from the electoral process. The credit gap has widened year-to-date due to deposits growing less than lending.
- The liquidity situation in Turkey is comfortable and commercial dynamics are good. There was a reduction in the credit gap as a result of deposits growing faster than lending.
- In South America, the liquidity situation remains comfortable in all geographies. There has not been any material change in the liquidity situation of Argentina, despite the volatility of the markets.

On the **funding** side, the long-term wholesale funding markets in the geographic areas where the Group operates continued to be stable. The performance of short-term funding remained positive, in a highly liquid environment.

During the first six months of 2018, the companies that form part of BBVA Group carried out the following **operations**:

- BBVA S.A. completed an issuance of senior non-preferred debt for €1.5 billion, with a floating coupon at 3-month Euribor plus 60 basis points and a maturity of five years. It also carried out the largest issuance made by a financial institution in the Eurozone of the so-called "green bonds" (€1 billion). It was a 7-year senior non-preferred debt issuance, which has made BBVA the first Spanish bank to carry out this type of issuance. The high demand allowed the price to be lowered to mid-swap plus 80 basis points. Additionally, it closed a private issuance of Tier 2 subordinated debt for US\$300m, with a maturity of 15 years, with a coupon of 5.25%.
- In the United States, BBVA Compass issued a senior debt bond for US\$1.15 billion in two tranches, both at three years: US\$700m at a fixed rate with a reoffer yield of 3.605%, and US\$450m at a floating rate of 3-month Libor plus 73 basis points.
- In Mexico, BBVA Bancomer completed an international issuance of subordinated Tier 2 debt of US\$1 billion. The instrument was issued at a price equivalent to Treasury bonds plus 265 basis points at a maturity of 15 years, with a ten-year call (BBVA Bancomer 15NC10).



- In Turkey, Garanti issued the first private bond in emerging markets for US\$75m over six years, to support women's entrepreneurship.
- In South America, BBVA Chile issued senior debt on the local market for an equivalent of €288m, in a variety of issuances with maturities ranging from four to six years. Also in Chile, Forum issued an amount equivalent to €108m. And BBVA Peru issued a three-year senior debt in the local market for an aggregate amount of €53m.

The liquidity coverage ratio (**LCR**) in BBVA Group remained comfortably above 100% in the first half of 2018, without including any transfers between subsidiaries; in other words, no kind of excess liquidity levels in the subsidiaries abroad are considered in the calculation of the consolidated ratio. As of June 30, 2018, the LCR stood at 127%. Although this requirement is only established at Group level, the minimum level is easily exceeded in all the subsidiaries (Eurozone, 153%; Mexico, 136%; Turkey, 133%; and the United States, 142%).

### 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 **2018** was notable for the depreciation against the euro of the Turkish lira (down 14.8%) and the Argentine peso (down 30.3%). In contrast, the Mexican peso (up 3.4%) and the U.S. dollar (up 2.9%) appreciated over the first six months of the year. BBVA has maintained its policy of actively hedging its main investments in emerging countries, covering on average between 30% and 50% of the earnings for the year and around 70% of the excess of CET1 capital ratio (which is not naturally covered by the ratio itself). In accordance with this policy, the sensitivity of the CET1 ratio to a depreciation of 10% of the main emerging currencies (Mexican peso or Turkish lira) against the euro remains at around a negative two basis points for each of these currencies. In the case of the dollar, the sensitivity is approximately a positive ten basis points to a depreciation of 10% of the dollar against the euro, as a result of RWAs generated outside the United States. Given the geopolitical context, the coverage level of the expected earnings for 2018 has been maintained at around 70% for Mexico and 50% for 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 capital through the valuation of the portfolio of financial assets at fair value with changes reflected in other accumulated comprehensive income.

The Group's banks have fixed-income portfolios to manage their balance-sheet structure. In the **first half** of 2018, the results of this management were satisfactory, with limited risk strategies in all the Group's banks. Their capacity of resilience to market events has allowed them to face the cases of Italy and Turkey without any relevant impact.

The uncertainty regarding the formation of the government in Italy in May generated tensions in the peripheral debt markets, with the consequent effect on the valuation of sovereign portfolios. As a result of the limited risk management of these positions and subsequent market performance, the effect of this event on the capital ratio has been limited to around a negative 2.9 basis points over the quarter.

In Turkey, the presidential and parliamentary elections, together with a higher than expected inflation, generated some volatility in the markets, leading the Turkish Central Bank (CBRT) to raise interest rates to contain the depreciation of the lira. Risk management, together with a portfolio mix with a high proportion of inflation-linked bonds, have contained the impact on the capital ratio to around a negative 1.9 basis points over the quarter.

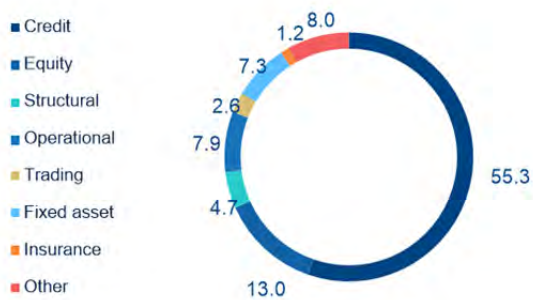
Finally, it is worth noting the following **monetary policies** pursued by the different central banks in the main geographical areas where BBVA operates:

- No relevant changes in the Eurozone, where interest rates remain at 0% and the deposit facility rate at -0.40%.
- In the United States the upward trend in interest rates continues. The increases of 25 basis points each in March and June left the rate at 2.0%.
- In Mexico, Banxico made two interest rate hikes in 2018, leaving the monetary policy level at 7.75%.
- In Turkey, following on from the rises in 2017, there were three further increases in the second quarter of 2018, of a total of five percentage points. As a result, the average funding rate of the CBRT now stands at 17.75%.
- In South America, the monetary authorities continued their expansive policies, lowering rates in Peru (by 50 basis points) and Colombia (by 50 basis points). However, in Argentina, the Central Bank raised rates to curb the volatility of the exchange rate, increasing its reference rate to 40%.

## Economic capital

Consumption of **economic risk capital** (ERC) at the close of May 2018, in consolidated terms, was €32,758m, equivalent to a decline over the last three months of 2.0% (down 0.1% at constant exchange rates) and a decrease of 4.8% year-to-date (down 2.6% at constant exchange rates). The reduction was mainly observed in equity, trading and fixed-income spread risk, and was partially offset by the increase in credit risk due to higher activity levels.

Consolidated economic risk capital breakdown  
(Percentage as of May 2018)



## The BBVA share

**Global economic growth** may have slowed slightly in the second quarter of 2018. Although the pace of expansion remains robust, it is geographically less uniform, with acceleration in the United States contrasting with certain signs of moderation in China, some emerging economies, and even more strongly in Europe. For now, the economic situation remains positive. Despite the fact that both the Federal Reserve (Fed) and the ECB have taken steps toward the normalization of their monetary policy, their policies will continue to support activity. For this reason, the increase in financial tensions in the emerging economies due to the appreciation of the dollar seem to respond more to a revaluation of their vulnerabilities than to a significant risk in the short term. In fact, the main risk now is protectionism, since although the direct effect on global growth of the measures taken could be limited, the indirect impact of lower confidence and higher financial volatility could be felt in the second half of the year and increase uncertainty.

Most **stock-market indices** posted losses in the first half of the year. However, in Europe, the declines of the first quarter have eased: the Stoxx 50 and the Euro Stoxx 50 fell by 4.2% and 3.1%, respectively, year-to-date; while in Spain, the Ibex 35 lost 4.2% over the same period. In contrast, in the United States the S&P 500 index gained 1.7% in the last six months (up 2.9% in the second quarter).

In Europe, the **banking sector** indices were more negative between December 2017 and June 2018 than these general indices. The European Stoxx Banks index, which includes British banks, lost 12.4%, and the Eurozone bank index, the Euro Stoxx Banks, was down 15.4%. In contrast, in the United States the S&P Regional Banks index gained 3.6% on the close of 2017.

The **BBVA share** closed June at €6.07, a fall of 14.6% over the first half of the year.

BBVA share evolution compared with European indices (Base indice 100=30-06-17)



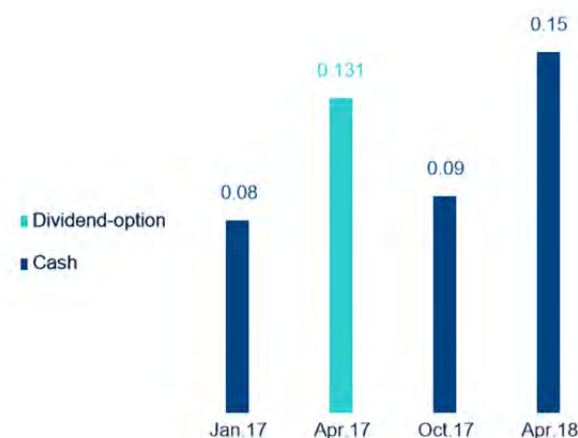
## The BBVA share and share performance ratios

	30-06-18	31-12-17
Number of shareholders	890,821	891,453
Number of shares issued	6,667,886,580	6,667,886,580
Daily average number of shares traded	35,234,367	35,820,623
Daily average trading (million euros)	231	252
Maximum price (euros)	7.73	7.93
Minimum price (euros)	5.78	5.92
Closing price (euros)	6.07	7.11
Book value per share (euros)	6.89	6.96
Tangible book value per share (euros)	5.63	5.69
Market capitalization (million euros)	40,501	47,422
Yield (dividend/price; %) <sup>(1)</sup>	4.0	4.2

(1) Calculated by dividing shareholder remuneration over the last twelve months by the closing price of the period.

**Shareholder remuneration** for 2018 is governed by the shareholder remuneration policy announced by publication of a Significant Event on February 1, 2017. Subject to the approval from the corresponding corporate bodies, BBVA plans to make a cash dividend payment in October 2018 and April 2019.

## Shareholder remuneration (Euros gross/share)



As of June 30, 2018, the number of BBVA **shares** remained at 6,668 million, and the number of **shareholders** was 890,821. By type of investor, residents in Spain held 42.9% of the share capital, while the remaining 57.1% was owned by non-resident shareholders.

## Shareholder structure (30-06-2018)

Number of shares	Shareholders		Shares	
	Number	%	Number	%
Up to 150	181,652	20.4	12,897,780	0.2
151 to 450	180,481	20.3	49,399,626	0.7
451 to 1800	280,481	31.5	273,702,625	4.1
1,801 to 4,500	130,170	14.6	370,781,712	5.6
4,501 to 9,000	60,866	6.8	383,603,067	5.8
9,001 to 45,000	50,737	5.7	882,458,735	13.2
More than 45,001	6,434	0.7	4,695,043,035	70.4
<b>Total</b>	<b>890,821</b>	<b>100.0</b>	<b>6,667,886,580</b>	<b>100.0</b>

BBVA **shares** are included on the main stock-market indices, including the Ibex 35, Euro Stoxx 50 and Stoxx 50, with a weighting of 8.2%, 1.7% and 1.1% respectively. They also form part of several sector indices, including the Euro Stoxx Banks, with a weighting of 8.7%, and the Stoxx Banks, with a weighting of 4.2%.

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 30-06-2018

 <p>(1) 2017 Constituent MSCI ESG Leaders Indexes</p>	Listed on the MSCI ESG Leaders Indexes
 <p>FTSE4Good</p>	Listed on the FTSE4Good Global, FTSE4Good Europe and FTSE4Good IBEX Indexes
 <p>EURONEXT vigeo eiris INDICES</p>	Listed on the Euronext Vigeo Eurozone 120 and Europe 120
 <p>member of the INVESTMENT REGISTER ETHIBEL EXCELLENCE</p>	Listed on the Ethibel Excellence Investment Register
 <p>CDP DRIVING SUSTAINABLE ECONOMIES</p>	In 2017, BBVA obtained a "C" rating

(1) The inclusion of BBVA in any MSCI index, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement or promotion of BBVA by MSCI or any of its affiliates. The MSCI indices are the exclusive property of MSCI. MSCI and the MSCI index names and logos are trademarks or service marks of MSCI or its affiliates.

# Responsible banking

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

In February 2018, BBVA announced its **strategy around climate change and sustainable development**. The strategy will help the bank meet the United Nations Sustainable Development Goals and is in line with the Paris Agreement on Climate Change. The key elements of the strategy are:

- On the financing side, a commitment to mobilize €100 billion in green financing, sustainable infrastructures, social entrepreneurship and financial inclusion.
- In management, BBVA will work to mitigate environmental and social risks and thus minimize potentially negative impacts, both direct and indirect. From the point of view of mitigating direct impacts, BBVA has pledged that by 2025, 70% of energy bought by the Group will be renewable, thus reducing its CO<sub>2</sub> emissions by 68% compared to 2015. The Group will mitigate indirect impacts by applying new industry standards for energy, infrastructure, mining and agribusiness. As part of its commitment to transparency in this area, BBVA is the first bank that has reported its total exposure to fossil fuels, at 3.4% of total assets.
- Lastly, BBVA will involve its stakeholders in pushing for a greater collective contribution from the financial sector to sustainable development.

To foster this contribution, in April, BBVA presented the **SDG-linked bond framework**, under which it may issue what are called green bonds, social bonds or sustainable bonds. The existence of this framework is one of the characteristic elements of sustainable issues. It consists of a document in which the issuer has defined in advance the type of projects that could be financed with this type of instrument and is verified by an independent external advisor, in this case the quality assurance company DNV GL.

In May, BBVA issued a **green bond** for €1 billion, the largest amount ever by a financial institution in the Eurozone, as well as being the first Spanish bank to carry out this type of issue. Also of note is that the magazine *The Banker* granted BBVA the award for best green financing deal of 2018 in the Americas for a project to finance the construction of a power transmission line in Uruguay. In fact, it was the first green loan with a project finance structure in the world.

Other outstanding actions related to **promotion of responsible and sustainable growth** were:

- BBVA's **Annual General Meeting**, held on March 16 in Bilbao was awarded with the Sustainable Event certificate for its clear commitment to environmental, social and economic stability under the UNE-ISO 20121:2013 standard. The certification has been verified by AENOR audit.
- In April, BBVA and some 30 multinational and medium-sized Spanish companies signed the manifesto "**Spanish Companies in Favor of Opportunities for Energy Transition and the Fight Against Climate Change**". This is a pioneering initiative in Spain that highlights the need to address the process of energy transition in the country, and a further example of BBVA's strong commitment to sustainable financing.
- In May the first **BBVA Sustainable Finance Forum** was held in the Entity's headquarters in Madrid. Those attending included investors, businesspeople, institutions in the public and private sectors and the media, who came to promote sustainable development and fight against climate change. BBVA is committed to these goals and has worked for some time to include the environmental factor in the decision-making process, as enshrined in a **climate change and sustainable development strategy for 2025**.
- In 2018 BBVA also participated in the second **SDG Summit** in Brussels, designed to foster the SDGs. BBVA believes that banks should help customers boost sustainable development and transition toward a low-carbon economy.
- Finally, in response to a proposal by the **United Nations Environment Program Financial Initiative (UNEP-FI)**, 16 leading global banks, among them BBVA, published the first joint methodology to make the banking system more transparent and promote understanding of the management of climate-related risks and opportunities.

Regarding the implementation of responsible business policies, a reputational risk model, and a people-centric culture throughout the Organization, it should be noted that at the start of this year, BBVA published its **Human Rights Commitment**, an action plan that covers all the areas of the Group and its ecosystem. For the Bank, respect for the dignity of people and their rights is an essential condition for action and is very closely linked to the challenge that it has assumed of fostering and preserving the well-being of the communities in which it operates. This commitment is based on the UN Guiding Principles on Business and Human Rights.

Additionally, BBVA has been chosen to form part of the **2018 Bloomberg Gender Equality Index**. The index is composed of 104 companies from ten sectors headquartered in 24 countries. It recognizes the achievements of companies with respect to gender-equality policies, both in relation to their employees and their support for social initiatives and products and services that prioritize this commitment. The aim is to provide managers and investors with information on the commitment and performance of companies in the area of gender equality. Garanti Bank, BBVA's

subsidiary in Turkey, was the first Turkish Bank included in the index.

Finally, in terms of investment in the community in 2017, BBVA Group's allocation to **social programs** amounted to €103m, accounting for 2.9% of the its net attributable profit for the year. Of this total, 70% supported initiatives that drive development and create opportunities for people, within the priority framework of knowledge, education and culture included in the Group's Community Investment Plan for the period 2016-2018.

## 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 2018 the **reporting structure** of BBVA Group's business areas remained basically the same as in 2017. It is worth noting that BBVA announced the signing of two agreements, one for the sale of BBVA Chile to The Bank of Nova Scotia (Scotiabank), which was completed on July 6, 2018, although its impact will be reflected in the Group's financial statements for the third quarter 2018; and another for the creation of a joint venture to which BBVA's real-estate business in Spain will be transferred for the subsequent sale of 80% of the company created to a subsidiary of Cerberus Capital Management, L.P. (Cerberus). For the purpose of the explanations given in this report, the figures for Non Core Real Estate and South America are shown on a comparable basis with previous periods, even though within the balance sheet of the consolidated Group, the operations underway that are mentioned above have been reclassified as non-current assets and liabilities held for sale. The Group's business areas are summarized below:

- **Banking activity in Spain** includes 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, funding and structural interest-rate positions of the euro balance sheet.
- **Non Core Real Estate** covers specialist management in Spain of loans to developers in difficulties and real-estate assets mainly coming from foreclosed assets, originated from both, residential mortgages, as well as loans to developers. New loan production to developers or loans that are not in difficulties are managed by Banking activity in Spain.
- **The United States** includes the Group's business activity in the country through the BBVA Compass group and the BBVA New York branch.
- **Mexico** basically includes all the banking and insurance businesses carried out by the Group in the country. Since 2018 it has also included the BBVA Bancomer branch in Houston (in previous years located in the United States). Consequently, the figures from previous years have been reworked to incorporate this change and show comparable series.
- **Turkey** includes the activity of the Garanti group.
- **South America** basically includes BBVA's banking and insurance businesses in the region.
- **The rest of Eurasia** includes the Group's retail and wholesale business activity in the rest of Europe and Asia.

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.

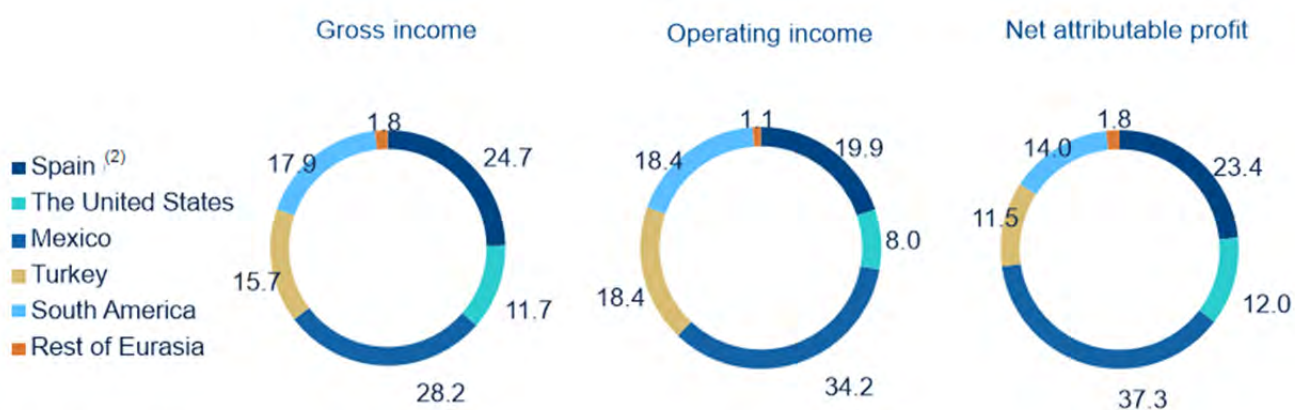
As usual, in the case of the Americas, Turkey and CIB areas, the results of applying constant **exchange rates** are given in addition to the year-on-year variations at current exchange rates.

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 main geographical area in which they carry out their activity.



## Major income statement items by business area (Million euros)

	Business areas									Corporate Center and other
	BBVA Group	Banking activity in Spain	Non Core Real Estate	The United States	Mexico	Turkey	South America	Rest of Eurasia	Σ Business areas	
<b>1H18</b>										
Net interest income	8,643	1,836	20	1,082	2,648	1,510	1,606	82	8,784	(140)
Gross income	12,074	3,050	(19)	1,437	3,465	1,924	2,197	216	12,269	(196)
Operating income	6,131	1,405	(58)	546	2,321	1,247	1,252	74	6,787	(655)
Profit/(loss) before tax	4,443	1,110	(41)	495	1,667	966	891	90	5,177	(734)
Net attributable profit	2,649	793	(36)	387	1,208	373	452	58	3,235	(586)
<b>1H17</b>										
Net interest income	8,803	1,864	31	1,078	2,696	1,611	1,617	95	8,993	(190)
Gross income	12,718	3,200	(6)	1,446	3,530	1,998	2,252	256	12,675	43
Operating income	6,407	1,485	(56)	505	2,328	1,230	1,211	102	6,805	(398)
Profit/(loss) before tax	4,033	936	(233)	386	1,488	1,010	790	104	4,481	(448)
Net attributable profit	2,306	665	(186)	284	1,094	374	404	73	2,708	(402)

Gross income<sup>(1)</sup>, operating income<sup>(1)</sup> and net attributable profit breakdown<sup>(1)</sup> (Percentage. 1<sup>st</sup> Half 2018)

(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									Corporate Center and other	AyPNCV variation <sup>(1)</sup>
	BBVA Group	Banking activity in Spain	Non Core Real Estate	The United States	Mexico	Turkey	South America	Rest of Eurasia	Σ Business areas		
<b>30-06-18</b>											
Loans and advances to customers	377,175	170,055	1,139	56,975	49,498	48,530	48,837	15,287	390,320	-	(13,145)
Deposits from customers	367,312	173,441	42	60,704	49,573	42,309	45,615	5,233	376,916	-	(9,604)
Off-balance sheet funds	101,500	63,874	4	0	20,823	3,440	12,971	388	101,500	-	0
Total assets/liabilities and equity	689,632	325,603	8,041	77,171	94,611	72,818	70,682	18,457	667,383	22,248	-
Risk-weighted assets	356,985	101,633	7,547	61,473	50,630	58,770	55,151	15,002	350,206	6,780	-
<b>31-12-17</b>											
Loans and advances to customers	387,621	183,172	3,521	53,718	45,768	51,378	48,272	14,864	400,693	-	(13,072)
Deposits from customers	376,379	177,763	13	60,806	49,964	44,691	45,666	6,700	385,604	-	(9,225)
Off-balance sheet funds	98,005	62,054	4	0	19,472	3,902	12,197	376	98,005	-	-
Total assets/liabilities and equity	690,059	319,417	9,714	75,775	94,061	78,694	74,636	17,265	669,562	20,497	-
Risk-weighted assets	361,686	108,141	9,692	58,688	44,941	62,768	55,975	15,150	355,354	6,332	-

(1) Includes non-current assets and liabilities held for sale (AyPNCV for its acronym in Spanish) of the BBVA Chile and real estate operations.

## Interest rates (Quarterly averages. Percentage)

	2018		2017			
	2Q	1Q	4Q	3Q	2Q	1Q
Official ECB rate	0.00	0.00	0.00	0.00	0.00	0.00
Euribor 3 months	(0.33)	(0.33)	(0.33)	(0.33)	(0.33)	(0.33)
Euribor 1 year	(0.19)	(0.19)	(0.19)	(0.16)	(0.13)	(0.10)
USA Federal rates	1.81	1.58	1.30	1.25	1.05	0.80
TIIE (Mexico)	7.88	7.84	7.42	7.37	7.04	6.41
CBRT (Turkey)	14.82	12.75	12.17	11.97	11.80	10.10

## Exchange rates (Expressed in currency/euro)

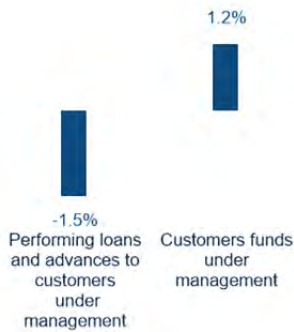
	Year-end exchange rates			Average exchange rates	
	30-06-18	Δ % on	Δ % on	1H18	Δ % on
		30-06-17	31-12-17		1H17
Mexican peso	22.8817	(10.0)	3.4	23.0808	(8.9)
U.S. dollar	1.1658	(2.1)	2.9	1.2105	(10.5)
Argentine peso	32.4233	(42.0)	(30.3)	26.0132	(34.6)
Chilean peso	755.29	0.2	(2.3)	740.19	(3.4)
Colombian peso	3,436.43	1.0	4.3	3,448.28	(8.2)
Peruvian sol	3.8159	(3.1)	1.7	3.9303	(9.8)
Venezuelan bolivar	1,000,000.00	(99.6)	(98.2)	1,000,000.00	(99.6)
Turkish lira	5.3385	(24.8)	(14.8)	4.9561	(20.5)

# Banking activity in Spain

## Highlights

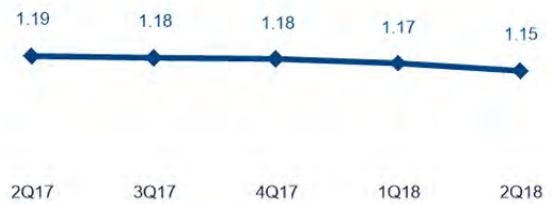
- Positive trend in lending activity over the quarter.
- Favorable performance of more recurrent revenue.
- Improvement of efficiency due to the steady reduction of expenses.
- Lower impairments and provisions, solid asset-quality indicators.

Business activity<sup>(1)</sup> (Year-on-year change. Data as of 30-06-18)



(1) Excluding repos.

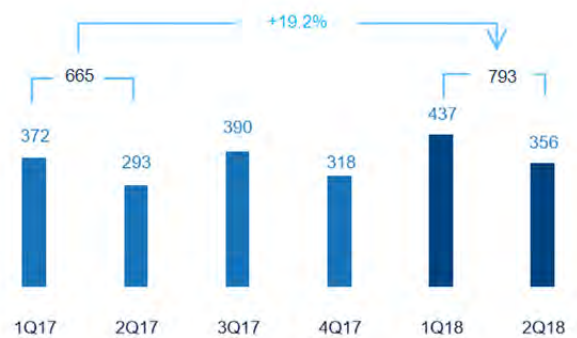
Net interest income/ATAs (Percentage)



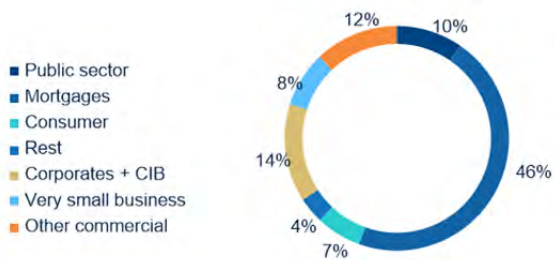
Operating income (Million euros)



Net attributable profit (Million euros)

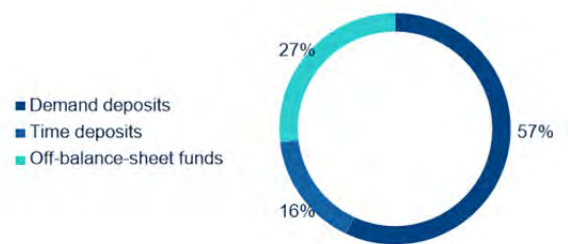


Breakdown of performing loans under management <sup>(1)</sup> (30-06-18)



(1) Excluding repos.

Breakdown of customer funds under management<sup>(1)</sup> (30-06-18)



(1) Excluding repos.

## Macro and industry trends

According to the latest information from the National Institute of Statistics (INE for its acronym in Spanish), the Spanish **economy** grew quarterly by 0.7% in the first quarter of 2018, continuing its relatively stable performance since the middle of last year. The most recent indicators show that this solid advance of the GDP has continued further into this year, despite increased uncertainty, supported by robust domestic factors related to the improvement of the labor market. The financial conditions will continue to be favorable, while the recent depreciation of the euro could give an additional boost to exports.

Regarding the Spanish **banking** system and according to April 2018 data from the Bank of Spain (latest published data), the total volume of lending to the private sector (household and corporate) continued to decline year-on-year (down 3.3%). Non-performing loans in the sector decreased significantly (down 26.0% year-on-year as of April 2018) due to the completion of a major sale of real-estate assets by one of the entities in the system. At the end of April, the sector's NPL ratio was 6.8%, that is 23.5% below the figure registered a year earlier. The system's liquidity level at the end of the first quarter of 2018 continued to be comfortable: the funding gap (difference between the volume of loans and total deposits) fell to €92.96 billion, 3.6% of the total balance sheet of the system.

## Activity

The most relevant aspects related to the area's activity year-to-date as of 30-June-2018 were:

- **Lending** (performing loans under management) was down by 0.8% compared to the figure at the end of December 2017 (down 1.5% year-on-year), mainly due to the reduction in the mortgage portfolio (down 1.6% year-to-date) and in the public sector, corporates and other commercial portfolios (down 5.3% as a whole for the same period). In contrast, consumer financing and credit cards (up 12.6% over the last six months) and very small businesses (up 4.4%) remained strong. This explains the quarter-on-quarter growth rate of the lending balance (up 1.6%), with significant increases in the new-loan production of the aforementioned portfolios. It is worth noting that in the first half of 2018 there was a transfer of the outstanding portfolio of performing loans to developers for an amount exceeding €200m from Non Core Real Estate to Banking Activity in Spain.
- In **asset quality**, there was a further reduction in non-performing loans balances that positively affected the area's NPL ratio, which reduced by 17 basis points over the last three months to 5.2%. The NPL coverage ratio closed at 57%.
- Customer **deposits** under management grew by 2.6% over the last three months and remained flat compared to the close of December 2017 (down 0.5%). By products, there was a further decline in time deposits (down 19.8% year-to-date), which has been practically offset by the increase in demand deposits (up 6.9%).
- There was a positive trend in **off-balance-sheet funds**, despite the unfavorable market performance, with a year-to-date growth of 2.9% (up 8.5% year-on-year). This performance continued to be largely supported by the growth in mutual funds (up 5.5% year-to-date and up 13.5% year-on-year).

## Results

The net attributable **profit** generated by the Banking Activity in Spain in the first half of 2018 reached €793m, which represents a year-on-year increase of 19.2%, strongly supported by the favorable performance of more recurrent revenue, operating expenses and provisions. The year-on-year highlights of the area's income statement are:

- **Net interest income** in the first half declined year-on-year by 1.5% and quarterly by 0.5%. The smaller contribution from targeted longer-term refinancing operations (TLTRO) explains most of this decline.
- Positive performance of **net fees and commissions** (up 8.6%), which offset the decline in net interest income. There was a significant contribution from fees from mutual and pension funds and banking commissions (especially those associated with account maintenance). Over the quarter, the growth of this heading reached 6.5%.
- Lower contribution from **NTI** compared to the same period the previous year (down 11.4%), associated with lower ALCO portfolio sales, but also due to comparison with the exceptionally good first half of last year.
- Reduction in **other income/expenses**. One of the aspects explaining this is the greater contribution made to the SRF compared to the same period of 2017. Also, net earnings from the insurance business showed a growth of 12.7% (up 6.0% over the quarter).
- As a result, there was a decline in **gross income** of 4.7%.
- **Operating expenses** continued the downward trend observed in previous periods (down 4.1% year-on-year). The **efficiency ratio** closed at 53.9%, below the figure registered six months earlier (54.9%), and **operating income** fell by 5.3%.

- Decline in **impairment losses on financial assets** (down 42.2% year-on-year) explained by lower gross additions to NPL and loan-loss provisions for large customers. As a result, the cumulative cost of risk stood at 0.21% as of 30-June-2018.
- Lastly, **provisions (net) and other gains (losses)** were favorable, with a year-on-year decline of 51.1%.

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

Income statement	IFRS 9	Δ %	IAS 39
	1H18		1H17
<b>Net interest income</b>	<b>1,836</b>	<b>(1.5)</b>	<b>1,864</b>
Net fees and commissions	850	8.6	783
Net trading income	282	(11.4)	318
Other operating income and expenses	82	(65.1)	234
of which Insurance activities <sup>(1)</sup>	235	12.7	209
<b>Gross income</b>	<b>3,050</b>	<b>(4.7)</b>	<b>3,200</b>
Operating expenses	(1,644)	(4.1)	(1,715)
Personnel expenses	(935)	(3.0)	(965)
Other administrative expenses	(565)	(3.8)	(587)
Depreciation	(144)	(12.0)	(163)
<b>Operating income</b>	<b>1,405</b>	<b>(5.3)</b>	<b>1,485</b>
Impairment on financial assets not measured at fair value through profit or loss	(175)	(42.2)	(302)
Provisions or reversal of provisions and other results	(121)	(51.1)	(247)
<b>Profit/(loss) before tax</b>	<b>1,110</b>	<b>18.7</b>	<b>936</b>
Income tax	(316)	17.5	(269)
<b>Profit/(loss) for the year</b>	<b>795</b>	<b>19.1</b>	<b>667</b>
Non-controlling interests	(2)	14.7	(1)
<b>Net attributable profit</b>	<b>793</b>	<b>19.2</b>	<b>665</b>

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

Balance sheets	IFRS 9	Δ %	IAS 39
	30-06-18		31-12-17
Cash, cash balances at central banks and other demand deposits	14,565	8.2	13,463
Financial assets designated at fair value	103,641	30.4	79,501
of which loans and advances	23,319	n.s.	1,312
Financial assets at amortized cost	196,145	(11.4)	221,391
of which loans and advances to customers	170,055	(7.2)	183,172
Inter-area positions	5,319	194.6	1,806
Tangible assets	950	8.4	877
Other assets	4,983	109.4	2,380
<b>Total assets/liabilities and equity</b>	<b>325,603</b>	<b>1.9</b>	<b>319,417</b>
Financial liabilities held for trading and designated at fair value through profit or loss	68,867	87.1	36,817
Deposits from central banks and credit institutions	40,751	(34.5)	62,226
Deposits from customers	173,441	(2.4)	177,763
Debt certificates	32,516	(2.4)	33,301
Inter-area positions	-	-	-
Other liabilities	1,985	n.s.	391
Economic capital allocated	8,043	(9.8)	8,920

<b>Relevant business indicators</b>	<b>30-06-18</b>	<b>Δ %</b>	<b>31-12-17</b>
Performing loans and advances to customers under management <sup>(1)</sup>	165,905	(0.8)	167,291
Non-performing loans	10,136	(6.4)	10,833
Customer deposits under management <sup>(1)</sup>	174,003	(0.5)	174,822
Off-balance sheet funds <sup>(2)</sup>	63,874	2.9	62,054
Risk-weighted assets	101,633	(6.0)	108,141
Efficiency ratio (%)	53.9		54.9
NPL ratio (%)	5.2		5.5
NPL coverage ratio (%)	57		50
Cost of risk (%)	0.21		0.32

(1) Excluding repos.

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

# Non Core Real Estate

## Highlights

- Continued positive trend in the Spanish real-estate market, although with a more moderate growth rate.
- Agreement with Cerberus that will eliminate net real-estate exposure almost entirely, with its closure estimated for the second half of 2018.
- Significant reduction in exposure and losses in the area.

## Industry trends

During the **first half of 2018**, the real-estate sector has continued to grow, although at more moderate rates, in most of its headings:

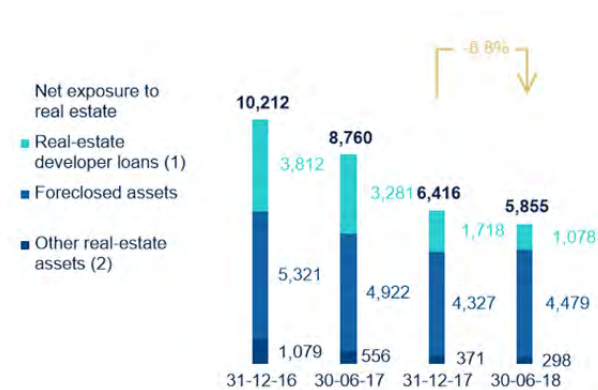
- In the first quarter of the year, **investment in housing** grew by 3.5%, above the previous quarters, according to data from the National Quarterly Accounting office of the INE.
- From January to April, **sales** of homes in Spain totaled 182,450, a rise of 8.0% year-on-year, according to information from the General Council of Spanish Notaries (CIEN). Job creation, low financing costs, household optimism and the buoyant mortgage market have all contributed to this positive performance.
- Housing **prices** increased by 6.2% in year-on-year terms in the first quarter of 2018 (INE data), that is, one percentage point less than in the previous quarter. This is the first slowdown of growth in the last seven quarters.
- The **cost of mortgage financing** remained at relatively low levels and the interest rate applied to new operations remained practically unchanged, at around 2.2%. As a result, new loan production for house purchase grew by 21.5% over the first five months of the year.
- Finally, **construction activity** continued to grow, but at more moderate rates. According to the Ministry of Public Works, almost 30,600 new housing construction permits were approved for housing starts in the first four months of 2018, 22.9% more than in the same period of 2017.

## Activity

BBVA is moving forward with the process of closing the **sale** announced in the fourth quarter of 2017. Under this deal, most of BBVA's real-estate business in Spain will be transferred to a company, 80% of whose shares will then be sold to Cerberus in the second half of 2018. Thus, during this transitional period, BBVA continues to manage real-estate assets subject to the agreement according to normal business and control procedures.

During the first half of 2018, outstanding performing loans to developers for an amount exceeding €200m were transferred from Non Core Real Estate to Banking Activity in Spain. Thus, as of 30-June-2018, the net real-estate **exposure** of €5,855m was down by 8.8% from December 2017 and 4.4% over the quarter.

Evolution of Net exposure to real estate (Million euros)



- (1) Compared to Bank of Spain's Transparency scope (Circular 5/2011 dated November 30), real-estate developer loans do not include €2.3Bn (June 2018) mainly related performing loans to developers transferred to the Banking Activity in Spain area.
- (2) Other real-estate assets not originated from foreclosures.

## Coverage of real-estate exposure (Million euros as of 30-06-18)

	Gross Value	Provisions	Net exposure	% Coverage
<b>Real-estate developer loans <sup>(1)</sup></b>	<b>2,489</b>	<b>1,411</b>	<b>1,078</b>	<b>57</b>
<b>Performing</b>	<b>278</b>	<b>85</b>	<b>193</b>	<b>31</b>
Finished properties	194	64	130	33
Construction in progress	40	5	34	13
Land	40	15	25	38
Without collateral and other	4	1	3	22
<b>NPL</b>	<b>2,211</b>	<b>1,326</b>	<b>885</b>	<b>60</b>
Finished properties	1,001	458	543	46
Construction in progress	107	56	51	52
Land	935	675	260	72
Without collateral and other	169	138	31	81
<b>Foreclosed assets</b>	<b>11,486</b>	<b>7,007</b>	<b>4,479</b>	<b>61</b>
Finished properties	7,066	3,632	3,434	51
Construction in progress	506	340	166	67
Land	3,914	3,035	879	78
<b>Other real-estate assets <sup>(2)</sup></b>	<b>944</b>	<b>646</b>	<b>298</b>	<b>68</b>
<b>Real-estate exposure</b>	<b>14,919</b>	<b>9,065</b>	<b>5,855</b>	<b>61</b>

(1) Compared to Bank of Spain's Transparency scope (Circular 5/2011 dated November 30), real-estate developer loans do not include €2.3 Bn (June 2018) mainly related performing loans to developers transferred to the Banking activity in Spain area.

(2) Other real-estate assets not originated from foreclosures.

Total real-estate exposure, including loans to developers, foreclosures and other assets, had a **coverage** ratio of 61% at the close of June 2018. The coverage ratio of foreclosed assets stood at 61%.

**Non-performing loan** balances fell again, thanks to a decline of new additions to NPL over the quarter. The NPL coverage ratio closed at 64%.

In addition, BBVA's stake in **Metrovacesa** (20.85% from the IPO in the first quarter of 2018) is now registered in the Corporate Center thus reducing the balance sheet of the Non Core Real Estate area.

## Results

This business area posted a cumulative **loss** of €36m, which compares with a loss of €186m in the same period the previous year.



## Financial statements (Million euros)

	IFRS 9		IAS 39
Income statement	1H18	Δ %	1H17
<b>Net interest income</b>	<b>20</b>	<b>(37.7)</b>	<b>31</b>
Net fees and commissions	1	(67.6)	2
Net trading income	1	n.s.	0
Other operating income and expenses	(40)	0.2	(40)
<b>Gross income</b>	<b>(19)</b>	<b>200.8</b>	<b>(6)</b>
Operating expenses	(39)	(20.1)	(49)
Personnel expenses	(25)	(0.7)	(25)
Other administrative expenses	(13)	(9.3)	(15)
Depreciation	(1)	(86.1)	(10)
<b>Operating income</b>	<b>(58)</b>	<b>4.6</b>	<b>(56)</b>
Impairment on financial assets not measured at fair value through profit or loss	(39)	(56.5)	(89)
Provisions or reversal of provisions and other results	56	n.s.	(88)
<b>Profit/(loss) before tax</b>	<b>(41)</b>	<b>(82.3)</b>	<b>(233)</b>
Income tax	6	(88.0)	47
<b>Profit/(loss) for the year</b>	<b>(36)</b>	<b>(80.9)</b>	<b>(186)</b>
Non-controlling interests	(0)	n.s.	1
<b>Net attributable profit</b>	<b>(36)</b>	<b>(80.8)</b>	<b>(186)</b>

	IFRS 9		IAS 39
Balance sheet	30-06-18	Δ %	31-12-17
Cash, cash balances at central banks and other demand deposits	9	(24.1)	12
Financial assets designated at fair value	1,295	n.s.	9
of which loans and advances	1,305	n.s.	-
Financial assets at amortized cost	1,149	(67.4)	3,521
of which loans and advances to customers	1,139	(67.6)	3,521
Inter-area positions	-	-	-
Tangible assets	6	n.s.	0
Other assets	5,582	(9.5)	6,172
<b>Total assets/liabilities and equity</b>	<b>8,041</b>	<b>(17.2)</b>	<b>9,714</b>
Financial liabilities held for trading and designated at fair value through profit or loss	-	-	-
Deposits from central banks and credit institutions	96	n.s.	0
Deposits from customers	42	228.6	13
Debt certificates	501	(36.2)	785
Inter-area positions	5,195	(10.0)	5,775
Other liabilities	203	n.s.	-
Economic capital allocated	2,004	(36.2)	3,141
<b>Memorandum item:</b>			
Risk-weighted assets	7,547	(22.1)	9,692

# The United States

## Highlights

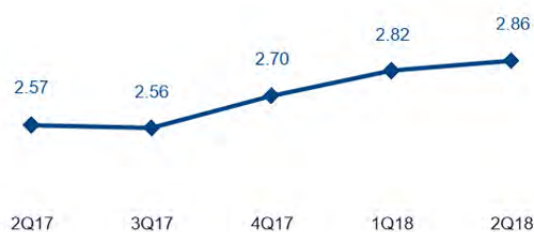
- Lending growth supported by consumer and business financing.
- Positive performance of net interest income and provisions.
- Improvement in efficiency.
- Net attributable profit affected by the tax reform at the end of 2017.

Business activity <sup>(1)</sup> (Year-on-year change at constant exchange rate. Data as of 30-06-18)



(1) Excluding repos.

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

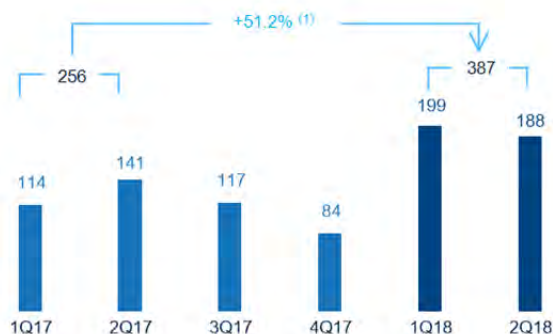


Operating income (Million euros at constant exchange rate)



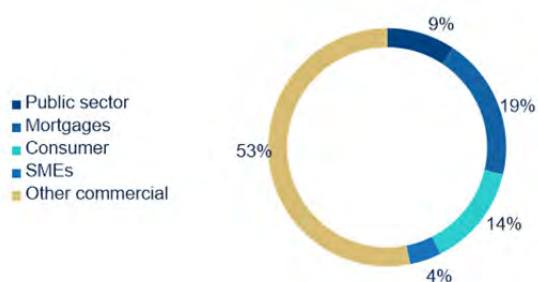
(1) At current exchange rate: 8.1%.

Net attributable profit (Million euros at constant exchange rate)



(1) At current exchange rate: 36.3%.

Breakdown of performing loans under management <sup>(1)</sup> (30-06-18)



(1) Excluding repos.

Breakdown of customer funds under management <sup>(1)</sup> (30-06-18)



(1) Excluding repos.

## Macro and industry trends

According to the latest available information from the Bureau of Economic Analysis (BEA), U.S. **GDP** grew by 2.0% in the first quarter of 2018, showing moderation with respect to the end of last year. Despite this slowdown, both investment and consumption remained robust and continued to contribute positively to growth. Private consumption, both goods and services, continued to be supported by solid fundamentals, such as the dynamism of the labor market and the higher growth of wages, which added to the optimism of households. Given this context, the strength of domestic demand, partly driven by a more expansive fiscal policy, and the rebound in the price of oil, accelerated **inflation** to 2.8% (May data). The Fed continued with its monetary policy normalization, with two increases of official interest rates of 25 basis points each during the first half of 2018 (up to the 1.75-2.0% range). It is expected to continue on this path for the remainder of the year.

The persistence of the expansive U.S. cycle has combined with the resurgence of uncertainty and financial volatility associated with factors that include fear of escalating protectionism and a greater perception of the risk of vulnerability in emerging markets. As a result the U.S. **dollar** experienced a substantial appreciation in the second quarter of 2018, amounting to 2.9% based on data at the end of June.

The general situation of the country's **banking system** continued to be very positive. According to the latest available data from the Fed through May 2018, the total volume of bank credit in the system increased by 3.0% over the last twelve months, with growth in all the main portfolios. At the same time, deposits showed a behavior similar to that of credit, with a year-on-year increase of 3.5%. Lastly, non-performing loans continued their downward trend, with an NPL ratio of 1.7% at the end of the first quarter of 2018.

## Activity

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 most relevant aspects related to the area's activity year-to-date as of 30-June-2018 were:

- **Lending activity** in the area (performing loans under management) showed an increase of 1.9% year-to-date and 4.1% year-on-year.
- By **portfolio**, higher interest rates led to a decline in mortgages and loans to developers (construction real estate). In contrast, consumer and credit card loans, which have higher margins and are therefore more profitable, increased by 12.1% year-to-date. Both loans to SMEs (up 9.1%) and corporates (up 3.8%) also performed well.
- With respect to **asset quality**, risk indicators in the area continued to be solid. The NPL ratio remained at 1.2%. The NPL coverage ratio closed the quarter at 93%.
- Customer **deposits** under management decreased 2.8% year-to-date, but had a year-on-year increase of 6.0%, thanks to deposit-gathering campaigns launched in 2017. It is worth noting that the second quarter of each year are those when bank deposits are most affected by seasonal factors.

Regarding BBVA Compass' **capital plan**, on June, 28 the Fed announced that it had not objected to neither the plan nor the proposed capital actions. This is the fifth consecutive year that BBVA Compass has obtained this result.

## Results

The United States generated a cumulative net attributable **profit** of €387m in the first half of 2018, up 51.2% year-on-year, due mainly to the increase in net interest income, lower provisions and lower tax expenses as a result of a reduction in the effective tax rate following the tax reform approved in the last quarter of 2017. Also worth noting are the following:

- **Net interest income** continued to perform positively, with the cumulative figure up by 12.0% year-on-year and 3.0% over the quarter. This was due partly to the Fed's interest-rate hikes, but also the strategic measures adopted by BBVA Compass to improve loan yields (boosting consumer financing) and reduce the cost of deposits (improved deposit mix and wholesale funding).
- **Net fees and commissions** were flat (down 0.1% year-on-year), due to a lower contribution from markets, investment banking and money transfers. Nevertheless, there was an increase of 0.8% over the quarter.
- **NTI** was down by 3.4% on the figure for the first six months of the previous year, due to lower income from interest-rate derivatives, partly offset by favorable trading gains from bonds and exchange rates.
- **Operating expenses** grew by 5.6% year-on-year, below the growth of gross income (up 10.7%). As a result, there was an improvement in the efficiency ratio.

- **Impairment losses on financial assets** fell by 38.1% in the last twelve months, due to the lower provisioning requirements in those portfolios affected by the 2017 hurricanes. As a result, the cumulative cost of risk through 30-June-2018 declined to 0.23%.

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

	IFRS 9		IAS 39	
	1H18	Δ %	Δ % <sup>(1)</sup>	1H17
<b>Income statement</b>				
<b>Net interest income</b>	<b>1,082</b>	<b>0.3</b>	<b>12.0</b>	<b>1,078</b>
Net fees and commissions	302	(10.2)	(0.1)	336
Net trading income	49	(11.7)	(3.4)	55
Other operating income and expenses	4	n.s.	n.s.	(24)
<b>Gross income</b>	<b>1,437</b>	<b>(0.6)</b>	<b>10.7</b>	<b>1,446</b>
Operating expenses	(891)	(5.3)	5.6	(941)
Personnel expenses	(512)	(6.1)	4.7	(545)
Other administrative expenses	(293)	(1.9)	9.3	(299)
Depreciation	(86)	(11.5)	(1.1)	(97)
<b>Operating income</b>	<b>546</b>	<b>8.1</b>	<b>20.2</b>	<b>505</b>
Impairment on financial assets not measured at fair value through profit or loss	(63)	(44.7)	(38.1)	(113)
Provisions or reversal of provisions and other results	12	n.s.	n.s.	(5)
<b>Profit/(loss) before tax</b>	<b>495</b>	<b>28.0</b>	<b>42.1</b>	<b>386</b>
Income tax	(108)	5.1	16.9	(103)
<b>Profit/(loss) for the year</b>	<b>387</b>	<b>36.3</b>	<b>51.2</b>	<b>284</b>
Non-controlling interests	-	-	-	-
<b>Net attributable profit</b>	<b>387</b>	<b>36.3</b>	<b>51.2</b>	<b>284</b>
	IFRS 9		IAS 39	
	30-06-18	Δ %	Δ % <sup>(1)</sup>	31-12-17
<b>Balance sheets</b>				
Cash, cash balances at central banks and other demand deposits	4,655	(34.8)	(36.6)	7,138
Financial assets designated at fair value	10,633	(3.9)	(6.6)	11,068
of which loans and advances	225	n.s.	290.4	56
Financial assets at amortized cost	58,969	7.8	4.8	54,705
of which loans and advances to customers	56,975	6.1	3.1	53,718
Inter-area positions	-	-	-	-
Tangible assets	661	0.4	(2.4)	658
Other assets	2,252	2.1	(0.8)	2,207
<b>Total assets/liabilities and equity</b>	<b>77,171</b>	<b>1.8</b>	<b>(1.0)</b>	<b>75,775</b>
Financial liabilities held for trading and designated at fair value through profit or loss	389	179.2	171.4	139
Deposits from central banks and credit institutions	3,119	(12.9)	(15.3)	3,580
Deposits from customers	60,704	(0.2)	(3.0)	60,806
Debt certificates	3,227	60.0	55.5	2,017
Inter-area positions	1,870	68.5	63.8	1,110
Other liabilities	4,945	(8.9)	(11.5)	5,431
Economic capital allocated	2,916	8.3	5.3	2,693

<b>Relevant business indicators</b>	<b>30-06-18</b>	<b>Δ %</b>	<b>Δ % <sup>(1)</sup></b>	<b>31-12-17</b>
Performing loans and advances to customers under management <sup>(2)</sup>	56,658	4.9	1.9	54,036
Non-performing loans	718	3.1	0.3	696
Customer deposits under management <sup>(2)</sup>	60,810	0.0	(2.8)	60,806
Off-balance sheet funds <sup>(3)</sup>	-	-	-	-
Risk-weighted assets	61,473	4.7	1.8	58,688
Efficiency ratio (%)	62.0			64.4
NPL ratio (%)	1.2			1.2
NPL coverage ratio (%)	93			104
Cost of risk (%)	0.23			0.43

(1) Figures at constant exchange rate.

(2) Excluding repos.

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

# Mexico

## Highlights

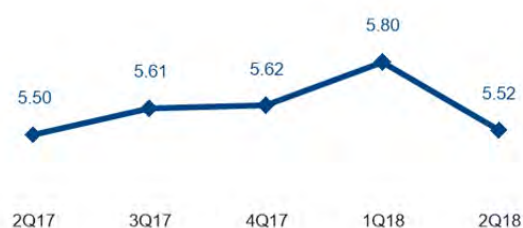
- In activity, solid growth of the wholesale portfolio.
- Expenses continue to grow below the rate of gross income.
- Double-digit year-on-year growth in net attributable profit.
- Good asset quality indicators.

Business activity <sup>(1)</sup> (Year-on-year change at constant exchange rate. Data as of 30-06-18)

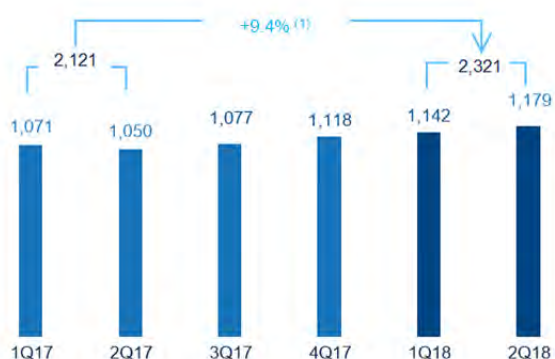


(1) Excluding repos.

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

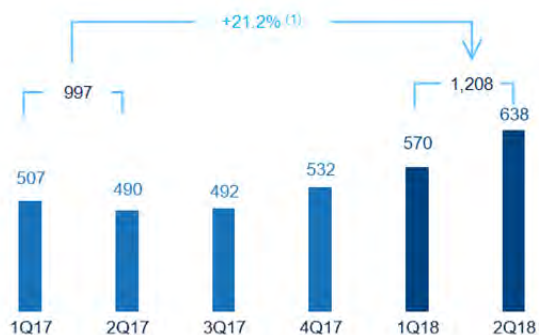


Operating income (Million euros at constant exchange rate)



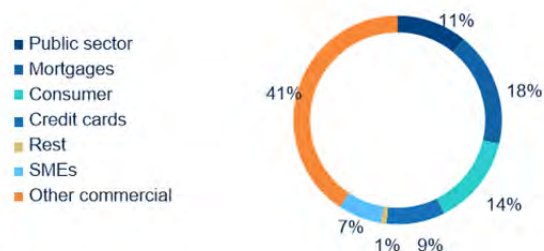
(1) At current exchange rate: -0.3%.

Net attributable profit (Million euros at constant exchange rate)



(1) At current exchange rate: 10.5%.

Breakdown of performing loans under management <sup>(1)</sup> (30-06-18)



(1) Excluding repos.

Breakdown of customer funds under management <sup>(1)</sup> (30-06-18)



(1) Excluding repos.

## Macro and industry trends

Economic **activity** in Mexico surprised positively in the first quarter of 2018, showing a quarter-on-quarter growth of 1.1%. After the negative effect of natural disasters (earthquakes and hurricanes) in the third quarter last year, economic recovery seems to be consolidating. This good performance was mainly due to the boost from the tertiary sector (trade and services). Among the factors that led to this growth are lower inflation rates and a recovery in the income of economic agents. However, uncertainty about the economic future in the coming quarters has increased, mainly due to the fear of escalating protectionism in the United States. Its biggest effects may be on investment in the coming quarters and foreign direct investment in a longer-term time horizon.

**Inflation** pressures have decreased during the first part of the year. These lower inflation expectations suggest that additional interest rate hikes by Banxico might not be necessary.

For yet another quarter, the Mexican **banking system** showed excellent levels of solvency and asset quality. According to the latest available information from the Mexican National Banking and Securities Commission (CNBV) in April 2018, activity remained as strong as in previous quarters, with year-on-year growth in the volume of lending and deposits at 9.4% and 9.3%, respectively. Finally, both the NPL ratio (2.2%) and NPL coverage ratio (151%) were stable.

## Activity

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 most relevant aspects related to the area's activity year-to-date as of 30-June-2018 were:

- Increase in **lending** (performing loans under management) throughout the first half of 2018 (up 6.1%) and in year-on-year terms (up 8.6%). BBVA in Mexico continued to maintain its leading position in the country, with a market share of 22.9% in the outstanding portfolio of performing loans, according to local figures from the CNBV at the end of May 2018.
- By **portfolios**: the wholesale portfolio, which represents 51.5% of total lending, increased by 6.9% year-to-date and 9.5% in year-on-year terms, mainly driven by corporates and medium-sized companies. The government portfolio presented a flat performance since the end of 2017, while it showed a decline of 6.0% in year-on-year terms. The retail portfolio increased by 5.2% during the first half of the year (up 7.7% year-on-year), strongly supported by consumer loans, which rose by 3.9% (5.8% year-on-year). New loan production of credit cards performed excellently. However, the year-to-date figure increased by 0.6%, as more than 95% of the amount invoiced to customers was paid in the same month. In year-on-year terms there was growth of 4.9%.
- Improvement, once again, in **asset quality** indicators over the quarter: NPL and NPL coverage ratios closed the half year at 2.0% and 155%, respectively.
- Total customer **funds** (customer deposits under management, mutual funds and other off-balance sheet funds) posted a year-to-date increase of 3.3% and a year-on-year growth of 10.0%, explained by the performance of demand deposits (up 2.3% year-to-date, and up 8.6% year-on-year) and particularly time deposits, which grew at 6.3% and 15.0%, respectively. Mutual funds increased by 5.5% year-to-date (up 11.6% year-on-year).
- A profitable funding mix: low-cost items account for 77% of total customer deposits under management.

## Results

BBVA in Mexico posted a net attributable **profit** in the first half of 2018 of €1,208m, a year-on-year increase of 21.2%. Main highlights on the year-on-year income statement are:

- Positive performance of **net interest income**, which increased 7.8% year-on-year, driven primarily by greater volumes of activity.
- Good performance of **net fees and commissions**, with growth of 8.2% over the last twelve months. They remained strongly influenced by an increased volume of transactions with credit card customers, cash management and mutual funds.
- **NTI** increased (up 35.4% year-on-year) due to the positive results from the Global Markets Unit.
- In **other income/expenses** the comparison was negative year-on-year (down 23.5%), mainly explained by extraordinary income from insurance activity in the first half of 2017.
- **Operating expenses** continued to grow at a controlled pace (up 4.4% year-on-year) and below the area's **gross income** growth of 7.7%. As a result, the efficiency ratio has continued to improve and stood at 33.0% at the close of the first half of the year.
- Good risk management has been reflected in the 6.5% decline in **impairment losses on financial assets**. This is explained, among other factors, by a lower volume of non-performing assets. As a result, the cumulative cost of risk in the area closed at 2.93% from 3.24% as of December 2017.

- **Other gains (losses)** included the extraordinary income from the sale of BBVA Bancomer's stake in a real-estate development in the first quarter of 2018, and the capital gain from the sale of a building by Bancomer in the second quarter of 2018.

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

Income statement	IFRS 9			IAS 39
	1H18	Δ %	Δ % <sup>(1)</sup>	1H17
<b>Net interest income</b>	<b>2,648</b>	<b>(1.8)</b>	<b>7.8</b>	<b>2,696</b>
Net fees and commissions	589	(1.4)	8.2	597
Net trading income	144	23.4	35.4	117
Other operating income and expenses	84	(30.3)	(23.5)	120
<b>Gross income</b>	<b>3,465</b>	<b>(1.8)</b>	<b>7.7</b>	<b>3,530</b>
Operating expenses	(1,144)	(4.8)	4.4	(1,202)
Personnel expenses	(498)	(4.2)	5.2	(520)
Other administrative expenses	(524)	(5.3)	3.9	(553)
Depreciation	(122)	(5.6)	3.5	(129)
<b>Operating income</b>	<b>2,321</b>	<b>(0.3)</b>	<b>9.4</b>	<b>2,328</b>
Impairment on financial assets not measured at fair value through profit or loss	(708)	(14.8)	(6.5)	(831)
Provisions or reversal of provisions and other results	54	n.s.	n.s.	(8)
<b>Profit/(loss) before tax</b>	<b>1,667</b>	<b>12.0</b>	<b>22.9</b>	<b>1,488</b>
Income tax	(458)	16.1	27.4	(395)
<b>Profit/(loss) for the year</b>	<b>1,208</b>	<b>10.5</b>	<b>21.2</b>	<b>1,094</b>
Non-controlling interests	(0)	10.3	21.0	(0)
<b>Net attributable profit</b>	<b>1,208</b>	<b>10.5</b>	<b>21.2</b>	<b>1,094</b>

Balance sheets	IFRS 9			IAS 39
	30-06-18	Δ %	Δ % <sup>(1)</sup>	31-12-17
Cash, cash balances at central banks and other demand deposits	5,928	(32.9)	(35.1)	8,833
Financial assets designated at fair value	28,293	(1.2)	(4.4)	28,627
of which loans and advances	27	(98.3)	(98.3)	1,558
Financial assets at amortized cost	55,871	17.2	13.3	47,691
of which loans and advances to customers	49,498	8.2	4.6	45,768
Tangible assets	1,734	(0.9)	(4.1)	1,749
Other assets	2,785	(61.1)	(62.4)	7,160
<b>Total assets/liabilities and equity</b>	<b>94,611</b>	<b>0.6</b>	<b>(2.7)</b>	<b>94,061</b>
Financial liabilities held for trading and designated at fair value through profit or loss	17,254	83.5	77.4	9,405
Deposits from central banks and credit institutions	1,987	(66.0)	(67.2)	5,853
Deposits from customers	49,573	(0.8)	(4.1)	49,964
Debt certificates	8,012	9.6	6.0	7,312
Other liabilities	13,773	(21.9)	(24.4)	17,627
Economic capital allocated	4,011	2.8	(0.5)	3,901



<b>Relevant business indicators</b>	<b>30-06-18</b>	<b>Δ %</b>	<b>Δ % <sup>(1)</sup></b>	<b>31-12-17</b>
Performing loans and advances to customers under management <sup>(2)</sup>	49,568	9.7	6.1	45,196
Non-performing loans	1,052	(6.3)	(9.4)	1,124
Customer deposits under management <sup>(2)</sup>	48,142	6.8	3.2	45,093
Off-balance sheet funds <sup>(3)</sup>	20,823	6.9	3.4	19,472
Risk-weighted assets	50,630	12.7	8.9	44,941
Efficiency ratio (%)	33.0			34.4
NPL ratio (%)	2.0			2.3
NPL coverage ratio (%)	155			123
Cost of risk (%)	2.93			3.24

(1) Figures at constant exchange rate.

(2) Excluding repos.

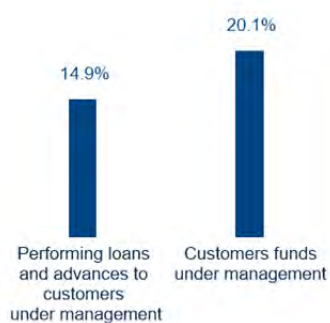
(3) Includes mutual funds, pension funds and other off-balance sheet funds.

# Turkey

## Highlights

- **Dynamic activity.**
  - **Solid growth of recurring revenue items.**
  - **Control of operating expenses, with growth below the level of inflation and the area's gross income.**
- Risk indicators affected by the one-off impairment of the wholesale portfolio and the update of the macroeconomic scenario.**

Business activity <sup>(1)</sup> (Year-on-year change at constant exchange rate. Data as of 30-06-18)



(1) Excluding repos.

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

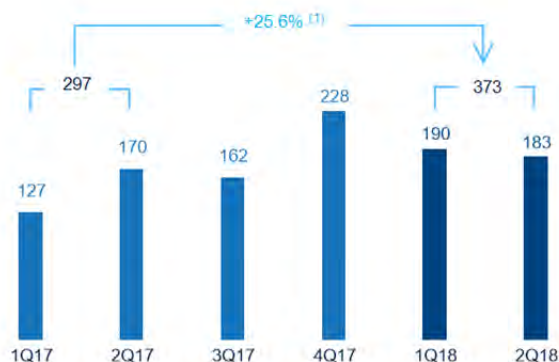


Operating income (Million euros at constant exchange rate)



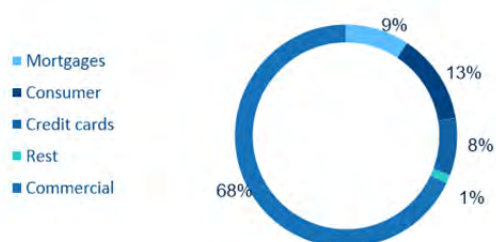
(1) At current exchange rate: 1.3%.

Net attributable profit (Million euros at constant exchange rate)



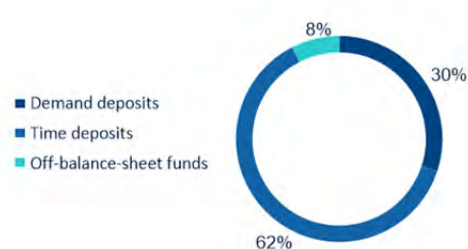
(1) At current exchange rate: -0.2%

Breakdown of performing loans under management <sup>(1)</sup> (30-06-18)



(1) Excluding repos.

Breakdown of customer funds under management <sup>(1)</sup> (30-06-18)



(1) Excluding repos.

## Macro and industry trends

According to the most recent figures from the Turkish Statistical Institute, Turkey's year-on-year **economic growth** was 7.4% in the first quarter of 2018, supported by the continued positive contribution from solid domestic demand. The cool-down in economic activity could become more evident in the second half of this year, as statistical base effects and tighter financial conditions have a negative effect on domestic demand.

Annual **inflation** hit 15.4% year-on-year in June, the highest level since December 2013, due to the broad-based acceleration in core prices and exceptional food inflation because of bad weather conditions. Also, the pass-through effect of accelerated exchange-rate depreciation led core inflation to jump up to 14.6% year-on-year.

The CBRT increased its funding **interest rate** by 500 bps to 17.75%, simplified its monetary policy framework and provided some supporting liquidity measures following its March meeting. The CBRT's goal is to reinforce its stance on inflation worries in the short term and take a solid step to restore credibility in the face of worsening inflation expectations.

In the Turkish **financial sector**, year-on-year credit growth decelerated throughout the first half of 2018, mainly due to business lending. As of the end of June 2018, the year-on-year growth rate in total lending (adjusted for the effect of the depreciation of the lira) stood at 14%. Deposits from customers also showed some slowdown. The year-on-year growth rate in total deposits fell to 8.7% (also adjusted for the effect of the depreciation of the lira). Turkish-lira deposits grew by 13.2% and foreign-currency deposits (in U.S. dollars) contracted by 2.3%. Lastly, the NPL ratio in the sector remained stable and closed the month of June at 2.9%.

## Activity

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 most relevant aspects related to the area's activity year-to-date as of 30-June-2018 were:

- **Lending** activity (performing loans under management) in the area grew by 9.2% in the first six months (up 14.9% in year-on-year terms), mainly driven by moderate growth in Turkish-lira loans, while foreign-currency loans (in U.S. dollars) declined.
- By **segments**, Garanti continued to perform favorably in Turkish-lira business banking loans. Also, Garanti outperformed the sector in consumer general purpose loans and in auto loans. In mortgages, Garanti once more gained market share among Turkish private banks. Finally, there was growth in both consumer and corporate credit card balances, where Garanti strengthened its leading position.
- In terms of **asset quality**, the NPL ratio closed at 4.5% and the NPL coverage ratio stood at 76%.
- Customer **deposits** (58% of total liabilities in the area as of 30-June-2018) remained the main source of funding for the balance sheet in Turkey and grew by 11.5% in the half-year (up 20.3% in year-on-year terms), supported by growth showed by Turkish-lira deposits. Demand deposits performed well, both in Turkish lira and foreign currency, and continued to be the main support for the growth of net interest income (since they have almost zero cost), with a weight of 32% of total customer deposits. Additionally, deposits from retail and SMEs segments continued to be a focus of activity in the first half of 2018, supporting low funding costs.

## Results

Turkey generated a cumulative net attributable **profit** of €373m in the first half of 2018, which represents a 25.6% rise in year-on-year terms. The most significant aspects of the year-on-year changes in the income statement were as follows:

- Positive performance of **net interest income** (up 17.9%). This positive trend is, above all, a result of the increase in activity, good management of customer spreads (despite the funding cost increase) and higher income from inflation-linked bonds.
- **Income from fees and commissions** grew by 32.8%. This significant increase was mainly driven by the good performance in payment systems, cash loan, insurance fees and other diversified fee-and-commission areas.
- Decrease in **NTI** (down 42.7%) due to lower results from the sale of securities and the non-performing-loan portfolio, partially offset by gains in derivatives and in exchange differences.
- Overall, **gross income** was up 21.2% in the first half of 2018 compared to the same period of 2017, thanks to increased core banking activities.
- **Operating expenses** were up by 11.0%, slightly below the average inflation rate (11.5%) and well below the year-on-year growth rate in gross income, thanks to the strict cost-control discipline. As a result, the efficiency ratio declined to 35.2%.

- **Impairment losses on financial assets** rose by 66.3%, due to more demanding IFRS 9 criteria reflected on staging, some negative impacts from wholesale-customer impairment and update of the macroeconomic scenario. As a result, the cumulative cost of risk of the area stood at 1.23%.

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

Income statement	IFRS 9			IAS 39
	1H18	Δ %	Δ % <sup>(1)</sup>	1H17
<b>Net interest income</b>	<b>1,510</b>	<b>(6.3)</b>	<b>17.9</b>	<b>1,611</b>
Net fees and commissions	371	5.5	32.8	352
Net trading income	4	(54.5)	(42.7)	9
Other operating income and expenses	39	48.7	87.1	26
<b>Gross income</b>	<b>1,924</b>	<b>(3.7)</b>	<b>21.2</b>	<b>1,998</b>
Operating expenses	(677)	(11.8)	11.0	(768)
Personnel expenses	(356)	(12.5)	10.1	(407)
Other administrative expenses	(242)	(9.4)	14.0	(267)
Depreciation	(78)	(15.7)	6.1	(93)
<b>Operating income</b>	<b>1,247</b>	<b>1.3</b>	<b>27.5</b>	<b>1,230</b>
Impairment on financial assets not measured at fair value through profit or loss	(315)	32.2	66.3	(239)
Provisions or reversal of provisions and other results	34	91.7	141.2	18
<b>Profit/(loss) before tax</b>	<b>966</b>	<b>(4.3)</b>	<b>20.4</b>	<b>1,010</b>
Income tax	(210)	4.9	32.1	(201)
<b>Profit/(loss) for the year</b>	<b>756</b>	<b>(6.6)</b>	<b>17.5</b>	<b>809</b>
Non-controlling interests	(383)	(12.2)	10.5	(436)
<b>Net attributable profit</b>	<b>373</b>	<b>(0.2)</b>	<b>25.6</b>	<b>374</b>

Balance sheets	IFRS 9			IAS 39
	30-06-18	Δ %	Δ % <sup>(1)</sup>	31-12-17
Cash, cash balances at central banks and other demand deposits	4,171	3.3	21.3	4,036
Financial assets designated at fair value	5,886	(8.3)	7.7	6,419
of which loans and advances	-	-	-	-
Financial assets at amortized cost	59,844	(8.1)	8.0	65,083
of which loans and advances to customers	48,530	(5.5)	10.9	51,378
Tangible assets	1,174	(12.7)	2.6	1,344
Other assets	1,744	(3.7)	13.0	1,811
<b>Total assets/liabilities and equity</b>	<b>72,818</b>	<b>(7.5)</b>	<b>8.7</b>	<b>78,694</b>
Financial liabilities held for trading and designated at fair value through profit or loss	2,027	213.1	267.6	648
Deposits from central banks and credit institutions	9,506	(15.1)	(0.3)	11,195
Deposits from customers	42,309	(5.3)	11.2	44,691
Debt certificates	6,591	(21.0)	(7.3)	8,346
Other liabilities	10,061	(11.1)	4.4	11,321
Economic capital allocated	2,323	(6.8)	9.4	2,493

<b>Relevant business indicators</b>	<b>30-06-18</b>	<b>Δ %</b>	<b>Δ %<sup>(1)</sup></b>	<b>31-12-17</b>
Performing loans and advances to customers under management <sup>(2)</sup>	47,840	(7.0)	9.2	51,438
Non-performing loans	2,811	10.1	29.3	2,553
Customer deposits under management <sup>(2)</sup>	42,299	(5.0)	11.5	44,539
Off-balance sheet funds <sup>(3)</sup>	3,440	(11.8)	3.5	3,902
Risk-weighted assets	58,770	(6.4)	9.9	62,768
Efficiency ratio (%)	35.2			36.5
NPL ratio (%)	4.5			3.9
NPL coverage ratio (%)	76			85
Cost of risk (%)	1.23			0.82

(1) Figures at constant exchange rate.

(2) Excluding repos.

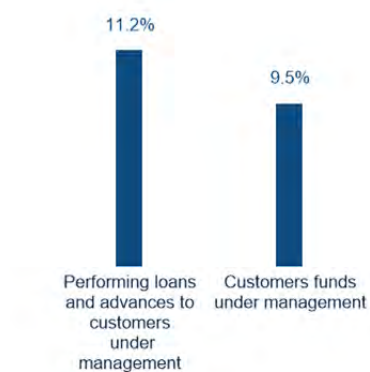
(3) Includes mutual funds, pension funds and other off-balance sheet funds.

# South America

## Highlights

- Activity continues to grow at a good pace.
- Positive performance of all the lines on the income statement.
- Expenses grow at a rate below the increase in gross income.
- Good asset quality indicators.

Business activity <sup>(1)</sup> (Year-on-year change at constant exchange rates. Data as of 30-06-18)

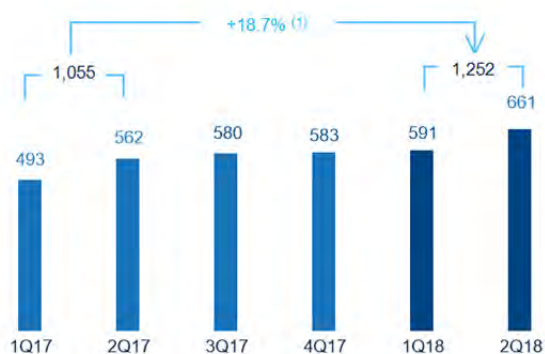


(1) Excluding repos.

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

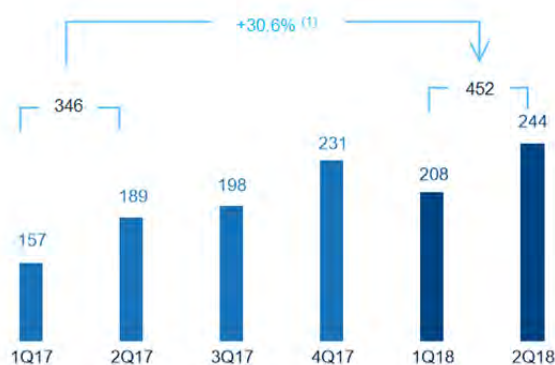


Operating income (Million euros at constant exchange rates)



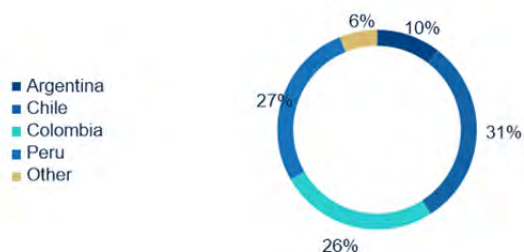
(1) At current exchange rate: 3.4%.

Net attributable profit (Million euros at constant exchange rate)



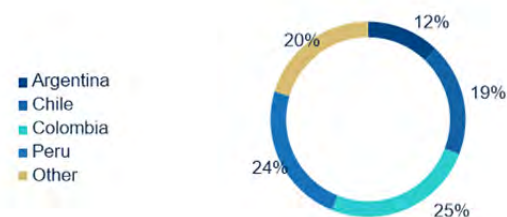
(1) At current exchange rate: 11.8%

Breakdown of performing loans under management <sup>(1)</sup> (30-06-18)



(1) Excluding repos.

Breakdown of customer funds under management <sup>(1)</sup> (30-06-18)



(1) Excluding repos.

## Macro and industry trends

During the first quarter of 2018, the **economies** of South America strengthened the recovery they had begun in 2017. This good performance was due to the favorable behavior of consumption and investment (except in Argentina, as a consequence of the exchange-rate crisis). The main factors explaining this situation are: i) the increase in the price of most commodities exported by the region; and ii) a reduction in political tensions following the elections in Colombia and Peru. Both points contributed to improving the confidence of not only producers, but also consumers, except in Argentina, where market volatility, rising inflation and protests have contributed to a reduction of the confidence indices.

With respect to prices, a downward trend in **inflation** in the region is being observed, which is why convergence to the targets set by central banks is slowly being achieved; with the exception of Argentina and Brazil, where the depreciation of their local currencies in recent months is creating inflationary pressures. Signs of a tightening in the Fed's monetary policy are generating tensions in the financial markets in the countries of the region. Finally, interest rates have remained practically stable in the quarter, with the exception of Colombia, where there was a reduction of 25 basis points, and Argentina, whose Central Bank raised interest rates to curb exchange-rate volatility.

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

## Activity

As of 6-July-2018, after obtaining all required authorizations, BBVA completed the **sale** to The Bank of Nova Scotia of its direct and indirect stake in Banco Bilbao Vizcaya Argentaria, Chile (**BBVA Chile**) as well as in other companies of its group in Chile whose operations are complementary to the banking business (particularly, BBVA Seguros Vida, S.A.). BBVA's stake in BBVA Chile amounted to approximately 68.2% of its share capital. The impacts of this transaction will be reflected in the financial statements of the BBVA Group for the third quarter of 2018.

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

The most relevant aspects related to the area's activity year-to-date as of 30-June-2018 were:

- **Lending** (performing loans under management) in South America grew by 3.8% year-to-date and 11.2% year-on-year. By country, the most significant increase was in Argentina (up 22.4% year-to-date and up 77.5% year-on-year). By portfolios, performance was especially positive in the household segment.
- Regarding **asset quality**, there was a slight increase in the NPL ratio, which closed the first half of 2018 at 3.7%, while the NPL coverage ratio grew at 91%.
- Customer **funds** increased by 3.4% year-to-date (up 9.5% year-on-year), supported by off-balance-sheet funds (up 7.5% year-to-date) time deposits (up 4.3%) and, to a lesser extent, demand deposits (up 0.6). By country there was a positive trend in Argentina (up 27.7%), Colombia (up 4.7%) and Chile (1.7%).

## Results

In the first half of 2018, South America generated a **net attributable profit** of €452m, which represents year-on-year growth of 30.6% (up 11.8% at current exchange rates). The year-on-year highlights of the area's income statement are:

- A year-on-year increase of 14.3% in **gross income**, thanks to the good performance of more recurring revenue items and greater contribution from NTI. Net interest income (up 15.0%) grew faster than the year-on-year increase in lending, thanks to a greater volume and good price management. Net fees and commissions rose 12.7% in the same period.
- Growth of **operating expenses** (up 8.9%) was below the growth of gross income in the area, as a result of the cost control implemented in all the countries. Therefore, there was an improvement in the efficiency ratio.
- Decrease of the **impairment losses on financial assets** (down 4.0%), but well below the increase in lending in the area. As a result, the cumulative cost of risk at the close of March stood at 1.30%.

By country, the trends in the first half of 2018 were as follows:

- In **Argentina**, there was year-on-year growth in gross income of 50.4%. This increase was based both on the performance of recurring revenue (boosted by higher volumes of business) and the positive performance of NTI (mainly due to exchange rates). Operating expenses grew below the rate of gross income, and impairment losses on financial assets also posted a growth. As a result, there was a significant year-on-year increase in net attributable profit (up 62.5%).

- In **Chile**, net attributable profit was 8.9% higher than the same period of the previous year. Net interest income performed well (driven by the positive trend in lending and good management of customer spreads), net fees and commissions were higher and impairment losses on financial assets decreased.
- In **Colombia**, the increase in earnings was based on the good performance of net interest income (due to a positive performance in activity and customer spreads) and higher net fees and commissions, which boosted gross income (up 7.0%) above the rate of growth of operating expenses (up 6.3.%). Together with the reduction of impairment losses on financial assets, this led to a year-on-year increase of 59.6% in the net attributable profit.
- In **Peru**, net attributable profit increased by 10.4% year-on-year, leveraged by the good performance of net interest income (increase in lending), higher net fees and commissions, operating expenses growing at a slightly slower pace than the gross income and a decrease in impairment losses on financial assets.

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

Income statement	IFRS 9			IAS 39
	1H18	Δ %	Δ % <sup>(1)</sup>	1H17
<b>Net interest income</b>	<b>1,606</b>	<b>(0.7)</b>	<b>15.0</b>	<b>1,617</b>
Net fees and commissions	333	(5.5)	12.7	352
Net trading income	231	(6.3)	9.5	247
Other operating income and expenses	27	(25.2)	34.8	36
<b>Gross income</b>	<b>2,197</b>	<b>(2.4)</b>	<b>14.3</b>	<b>2,252</b>
Operating expenses	(945)	(9.2)	8.9	(1,041)
Personnel expenses	(486)	(9.7)	8.8	(538)
Other administrative expenses	(399)	(9.6)	8.3	(442)
Depreciation	(60)	(1.3)	14.6	(60)
<b>Operating income</b>	<b>1,252</b>	<b>3.4</b>	<b>18.7</b>	<b>1,211</b>
Impairment on financial assets not measured at fair value through profit or loss	(326)	(13.2)	(4.0)	(375)
Provisions or reversal of provisions and other results	(35)	(24.0)	(11.2)	(46)
<b>Profit/(loss) before tax</b>	<b>891</b>	<b>12.8</b>	<b>31.8</b>	<b>790</b>
Income tax	(252)	10.0	29.2	(230)
<b>Profit/(loss) for the year</b>	<b>638</b>	<b>14.0</b>	<b>32.8</b>	<b>560</b>
Non-controlling interests	(187)	19.8	38.6	(156)
<b>Net attributable profit</b>	<b>452</b>	<b>11.8</b>	<b>30.6</b>	<b>404</b>

Balance sheets	IFRS 9			IAS 39
	30-06-18	Δ %	Δ % <sup>(1)</sup>	31-12-17
Cash, cash balances at central banks and other demand deposits	7,514	(16.9)	(12.5)	9,039
Financial assets designated at fair value	10,098	(13.1)	(10.7)	11,627
of which loans and advances	184	n.s.	n.s.	3
Financial assets at amortized cost	51,383	0.3	3.5	51,207
of which loans and advances to customers	48,837	1.2	4.2	48,272
Tangible assets	616	(15.0)	(7.1)	725
Other assets	1,071	(47.5)	(46.0)	2,038
<b>Total assets/liabilities and equity</b>	<b>70,682</b>	<b>(5.3)</b>	<b>(2.1)</b>	<b>74,636</b>
Financial liabilities held for trading and designated at fair value through profit or loss	2,657	(5.9)	(4.5)	2,823
Deposits from central banks and credit institutions	5,042	(33.2)	(33.2)	7,552
Deposits from customers	45,615	(0.1)	3.6	45,666
Debt certificates	6,809	(5.6)	(4.6)	7,209
Other liabilities	7,286	(14.3)	(8.4)	8,505
Economic capital allocated	3,274	13.6	18.9	2,881



Relevant business indicators	30-06-18	Δ %	Δ % <sup>(1)</sup>	31-12-17
Performing loans and advances to customers under management <sup>(2)</sup>	48,454	0.8	3.8	48,068
Non-performing loans	2,088	10.8	9.9	1,884
Customer deposits under management <sup>(3)</sup>	45,344	(1.4)	2.3	45,970
Off-balance sheet funds <sup>(4)</sup>	12,970	6.3	7.5	12,197
Risk-weighted assets	55,151	(1.5)	3.5	55,975
Efficiency ratio (%)	43.0			45.1
NPL ratio (%)	3.7			3.4
NPL coverage ratio (%)	91			89
Cost of risk (%)	1.30			1.32

(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.

### South America. Data per country (Million euros)

Country	IFRS 9			IAS 39		IFRS 9			IAS 39
	Operating income			Net attributable profit					
	1H18	Δ %	Δ % <sup>(1)</sup>	1H17	1H18	Δ %	Δ % <sup>(1)</sup>	1H17	
Argentina	289	24.6	90.6	232	113	6.3	62.5	106	
Chile	220	0.5	4.1	219	101	5.2	8.9	96	
Colombia	324	(1.4)	7.4	329	123	46.5	59.6	84	
Peru	347	(4.9)	5.4	365	85	(0.4)	10.4	85	
Other countries <sup>(2)</sup>	72	7.5	17.4	67	31	(8.1)	1.2	33	
<b>Total</b>	<b>1,252</b>	<b>3.4</b>	<b>18.7</b>	<b>1,211</b>	<b>452</b>	<b>11.8</b>	<b>30.6</b>	<b>404</b>	

(1) Figures at constant exchange rates.

(2) Venezuela, Paraguay, Uruguay and Bolivia. Additionally, it includes eliminations and other charges.

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

	Argentina		Chile		Colombia		Peru	
	30-06-18	31-12-17	30-06-18	31-12-17	30-06-18	31-12-17	30-06-18	31-12-17
Performing loans and advances to customers under management <sup>(1-2)</sup>	4,871	3,981	14,665	14,264	12,714	12,408	13,221	13,178
Non-performing loans and guarantees given <sup>(1)</sup>	47	31	437	411	778	701	702	656
Customer deposits under management <sup>(1-3)</sup>	5,934	4,714	9,502	9,453	13,298	12,754	12,065	12,412
Off-balance sheet funds <sup>(1-4)</sup>	1,199	873	1,398	1,265	1,273	1,166	1,692	1,608
Risk-weighted assets	7,914	9,364	14,861	14,431	12,983	12,299	15,360	14,879
Efficiency ratio (%)	49.4	56.1	45.3	45.2	36.2	36.0	36.1	35.6
NPL ratio (%)	0.9	0.8	2.6	2.6	5.7	5.3	4.0	3.8
NPL coverage ratio (%)	182	198	61	60	97	88	99	100
Cost of risk (%)	1.32	0.61	0.71	0.76	1.96	2.59	1.29	1.14

(1) Figures at constant exchange rates.

(2) Excluding repos.

(3) Excluding repos and including specific marketable debt securities.

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

# Rest of Eurasia

## Highlights

- **Positive trend in lending activity.**
- **Performance of deposits strongly influenced by the environment of negative interest rates.**
- **Earnings affected by decrease in revenues.**
- **Good performance of the NPL and NPL coverage ratios.**

## Macro and industry trends

**Growth** in the Eurozone slowed in the first quarter of this year to 0.4% quarter-on-quarter, according to the latest information from Eurostat. This moderation is mainly explained by the worse performance of exports, due to the lagging effects of the appreciation of the euro last year, and the recent increase in oil prices. Nonetheless, domestic demand continues solid. In addition, the labor market is still supporting the growth of private spending. The recent depreciation of the euro during the second quarter of 2018, added to the continued buoyancy in world trade, will continue to support both the competitiveness of exports and the dynamism of investment. In this context, headline inflation rose to 2.0% in June, mainly due to the rise in energy and food prices, while core inflation remained at low levels (1.2%). In this scenario, the ECB will gradually reduce asset purchases over the coming months and end them in December. The ECB has also announced that it will keep interest rates low until, at least, the summer of 2019. The objective is to avoid shocks to the financial markets. This is particularly important due to wage pressures (still limited) and rising political risks in Europe and global risks associated with protectionism.

## Activity and results

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

The key aspects of the activity and results as of 30-June-2018 in this area were:

- **Lending** (performing loans under management) grew by 8.3% year-to-date (down 0.4% year-on-year).
- **Credit risk** indicators improved in the last three months: the NPL ratio closed June at 1.7% (2.1% as of March 2018 and 2.4% as of December 2017) and the NPL coverage ratio closed at 93% (88% as of 31-March-2018 and 74% as of 31-December-2017).
- Customer **deposits** under management were still strongly influenced by the environment of negative interest rates. Data as of June 2018 showed a year-to-date decline of 21.9%. In the last twelve months, there was a fall of 28.4%
- Regarding **earnings**, gross income declined by 15.8% year-on-year: the Rest of Europe fell by 18.1% while Asia grew slightly, by 5.9%. Operating expenses continued to fall (down 7.9% year-on-year), due to tight control of personnel and discretionary costs. This geographic area contributed a cumulative net attributable profit in the first half of 2018 of €58 million, down 20.3% on the same period of 2017.

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

Income statement	IFRS 9	Δ %	IAS 39
	1H18		1H17
<b>Net interest income</b>	<b>82</b>	<b>(13.8)</b>	<b>95</b>
Net fees and commissions	79	(3.4)	82
Net trading income	55	(31.1)	80
Other operating income and expenses	(0)	(91.5)	(0)
<b>Gross income</b>	<b>216</b>	<b>(15.8)</b>	<b>256</b>
Operating expenses	(142)	(7.9)	(154)
Personnel expenses	(67)	(16.9)	(80)
Other administrative expenses	(72)	6.9	(68)
Depreciation	(3)	(52.6)	(6)
<b>Operating income</b>	<b>74</b>	<b>(27.6)</b>	<b>102</b>
Impairment on financial assets not measured at fair value through profit or loss	14	52.5	9
Provisions or reversal of provisions and other results	2	n.s.	(7)
<b>Profit/(loss) before tax</b>	<b>90</b>	<b>(13.4)</b>	<b>104</b>
Income tax	(32)	2.5	(31)
<b>Profit/(loss) for the year</b>	<b>58</b>	<b>(20.3)</b>	<b>73</b>
Non-controlling interests	-	-	-
<b>Net attributable profit</b>	<b>58</b>	<b>(20.3)</b>	<b>73</b>

Balance sheets	IFRS 9	Δ %	IAS 39
	30-06-18		31-12-17
Cash, cash balances at central banks and other demand deposits	884	0.7	877
Financial assets designated at fair value	539	(45.6)	991
of which loans and advances	-	-	-
Financial assets at amortized cost	16,618	10.7	15,009
of which loans and advances to customers	15,287	2.8	14,864
Inter-area positions	-	-	-
Tangible assets	37	3.4	36
Other assets	380	7.9	352
<b>Total assets/liabilities and equity</b>	<b>18,457</b>	<b>6.9</b>	<b>17,265</b>
Financial liabilities held for trading and designated at fair value through profit or loss	41	(8.6)	45
Deposits from central banks and credit institutions	2,624	11.0	2,364
Deposits from customers	5,233	(21.9)	6,700
Debt certificates	290	(18.0)	354
Inter-area positions	8,617	52.7	5,643
Other liabilities	866	(30.5)	1,246
Economic capital allocated	786	(13.9)	913

<b>Relevant business indicators</b>	<b>30-06-18</b>	<b>Δ %</b>	<b>31-12-17</b>
Performing loans and advances to customers under management <sup>(1)</sup>	16,630	8.3	15,362
Non-performing loans	402	(27.8)	556
Customer deposits under management <sup>(1)</sup>	5,233	(21.9)	6,700
Off-balance sheet funds <sup>(2)</sup>	388	3.2	376
Risk-weighted assets	15,002	(1.0)	15,150
Efficiency ratio (%)	65.8		65.9
NPL ratio (%)	1.7		2.4
NPL coverage ratio (%)	93		74
Cost of risk (%)	(0.15)		(0.16)

(1) Excluding repos.

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

## Corporate Center

The Corporate Center basically includes the costs of the head offices that have a corporate function; management of structural exchange-rate positions; certain issuances 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 relationships, such as industrial holdings; certain tax assets and liabilities; funds due to commitments with employees; goodwill and other intangibles.

The Corporate Center had a net attributable **loss** of €586m in the first half of 2018, compared with a loss of €402 m in the same period of 2017. The most relevant aspect of the income statement was the negative contribution from NTI. In the same period of 2017, capital gains were recorded, in the amount of €204m before taxes, from the sale of the 1.7% of the stake in CNCB.

### Financial statements (Million euros and percentage)

Income statement	IFRS 9		IAS 39
	1H18	Δ %	1H17
<b>Net interest income</b>	<b>(140)</b>	<b>(26.2)</b>	<b>(190)</b>
Net fees and commissions	(32)	(31.7)	(47)
Net trading income	(58)	n.s.	244
Other operating income and expenses	35	(5.6)	37
<b>Gross income</b>	<b>(196)</b>	<b>n.s.</b>	<b>43</b>
Operating expenses	(460)	4.1	(441)
Personnel expenses	(245)	1.0	(243)
Other administrative expenses	(102)	127.1	(45)
Depreciation	(112)	(26.8)	(154)
<b>Operating income</b>	<b>(655)</b>	<b>64.5</b>	<b>(398)</b>
Impairment on financial assets not measured at fair value through profit or loss	(0)	(89.9)	(1)
Provisions or reversal of provisions and other results	(79)	62.3	(49)
<b>Profit/(loss) before tax</b>	<b>(734)</b>	<b>64.0</b>	<b>(448)</b>
Income tax	158	160.3	61
<b>Profit/(loss) for the year</b>	<b>(576)</b>	<b>48.9</b>	<b>(387)</b>
Non-controlling interests	(10)	(32.2)	(15)
<b>Net attributable profit</b>	<b>(586)</b>	<b>45.9</b>	<b>(402)</b>

Balance sheets	IFRS 9		IAS 39
	30-06-18	Δ %	31-12-17
Cash, cash balances at central banks and other demand deposits	104	n.s.	5
Financial assets designated at fair value	5,386	114.3	2,514
of which loans and advances	-	-	-
Financial assets at amortized cost	-	-	-
of which loans and advances to customers	-	-	-
Inter-area positions	(5,319)	254.4	(1,501)
Tangible assets	1,645	(13.1)	1,893
Other assets	20,434	16.2	17,585
<b>Total assets/liabilities and equity</b>	<b>22,248</b>	<b>8.5</b>	<b>20,497</b>
Financial liabilities held for trading and designated at fair value through profit or loss	-	-	-
Deposits from central banks and credit institutions	-	-	-
Deposits from customers	-	-	-
Debt certificates	8,086	(7.8)	8,772
Inter-area positions	(15,681)	(4.3)	(16,384)
Other liabilities	109	(75.4)	443
Economic capital allocated	(23,358)	(6.3)	(24,941)
Shareholders' funds	53,093	0.9	52,606

# Alternative Performance Measures (APMs)

BBVA presents its results in accordance with the International Financial Reporting Standards (EU-IFRS). However, it also considers that some **Alternative Performance Measures** (APMs) provide useful additional financial information that should be taken into account when evaluating performance. These APMs are also used when making financial, operational and planning decisions within the Entity. The Group firmly believes that they give a true and fair view of its financial information. These APMs are generally used in the financial sector as indicators for monitoring the assets, liabilities and economic and financial situation of entities.

BBVA Group's APMs are given below. They are presented in accordance with the European Securities and Markets Authority (ESMA) guidelines, published on October 5, 2015 ([ESMA/2015/1415en](#)). These guidelines are aimed at promoting the usefulness and transparency of APMs included in prospectuses or regulated information in order to protect investors in the European Union. In accordance with the indications given in the guidelines, BBVA Group's APMs:

- Include clear and readable definitions of the APMs (paragraphs 21-25).
- Disclose the reconciliations to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period, separately identifying and explaining the material reconciling items (paragraphs 26-32).
- Are standard measures generally used in the financial industry, so their use provides comparability in the analysis of performance between issuers (paragraphs 33-34).
- Do not have greater preponderance than measures directly stemming from financial statements (paragraphs 35-36).
- Are accompanied by comparatives for previous periods (paragraphs 37-40).
- Are consistent over time (paragraphs 41-44).

## Constant exchange rates

When comparing two dates or periods in this management report, the impact of changes in the exchange rates against the euro of the currencies of the countries in which BBVA operates is sometimes excluded, assuming that exchange rates remain constant. This is done for the amounts in the income statement by using the average exchange rate against the euro in the most recent period for each currency of the geographies where the Group operates, and applying it to both periods; for amounts in the balance sheet and activity, the closing exchange rates in the most recent period are used.

## Book value per share

The book value per share determines the value of a company on its books for each share held. It is calculated as follows:

$$\frac{\text{Shareholders' funds} + \text{Accumulated other comprehensive income}}{\text{Number of shares outstanding} - \text{Treasury shares}}$$

**Explanation of the formula:** The figures for both "shareholders' funds" and "accumulated other comprehensive income" are taken from the balance sheet. Shareholders' funds are adjusted to take into account the execution of the "dividend-option" at the closing dates on which it was agreed to deliver this type of dividend prior to the publication of the Group's results. The denominator includes the final number of outstanding shares excluding own shares (treasury shares). The denominator is also adjusted to include the capital increase resulting from the execution of the "dividend options" explained above. Both the numerator and the denominator take into account period-end balances.

**Relevance of its use:** It shows the company's book value for each share issued. It is a generally used ratio, not only in the banking sector but also in others.

## Book value per share

		IFRS 9		IAS 39	
		30-06-18	01-01-18	31-12-17	30-06-17
Numerator (million euros)	+ Shareholders' funds	55,619	54,285	55,136	54,823
	+ Dividend-option adjustment	-	-	-	-
	+ Accumulated other comprehensive income	(9,868)	(8,889)	(8,792)	(6,991)
Denominator (million euros)	+ Number of shares outstanding	6,668	6,668	6,668	6,668
	+ Dividend-option	-	-	-	-
	- Treasury shares	31	13	13	8
=	Book value per share (euros / share)	6.89	6.82	6.96	7.18

## Tangible book value per share

The tangible book value per share determines the value of the company on its books for each share held by shareholders in the event of liquidation. It is calculated as follows:

$$\frac{\text{Shareholders' funds} + \text{Accumulated other comprehensive income} - \text{Intangible assets}}{\text{Number of shares outstanding} - \text{Treasury shares}}$$

**Explanation of the formula:** The figures for "shareholders' funds", "accumulated other comprehensive income" and "intangible assets" are all taken from the balance sheet. Shareholders' funds are adjusted to take into account the execution of the "dividend-option" at the closing dates on which it was agreed to deliver this type of dividend prior to the publication of the Group's results. The denominator includes the final number of shares outstanding excluding own shares (treasury shares). The denominator is also adjusted to include the result of the capital increase resulting from the execution of the "dividend options" explained above. Both the numerator and the denominator take into account period-end balances.

**Relevance of its use:** It shows the company's book value for each share issued, after deducting intangible assets. It is a generally used ratio, not only in the banking sector but also in others.

## Tangible book value per share

		IFRS 9		IAS 39	
		30-06-18	01-01-18	31-12-17	30-06-17
Numerator (million euros)	+ Shareholders' funds	55,619	54,285	55,136	54,823
	+ Dividend-option adjustment	-	-	-	-
	+ Accumulated other comprehensive income	(9,868)	(8,889)	(8,792)	(6,991)
	- Intangible assets	8,373	8,464	8,464	9,047
Denominator (million euros)	+ Number of shares outstanding	6,668	6,668	6,668	6,668
	+ Dividend-option	-	-	-	-
	- Treasury shares	31	13	13	8
=	Tangible book value per share (euros / share)	5.63	5.55	5.69	5.82

## Dividend yield

This is the remuneration given to the shareholders in the last twelve calendar months, divided by the closing price for the period. It is calculated as follows:

$$\frac{\sum \text{Dividend per share over the last twelve months}}{\text{Closing price}}$$

**Explanation of the formula:** The remuneration per share takes into account the gross amounts per share paid out over the last twelve months, both in cash and through the flexible remuneration system called "dividend option".

**Relevance of its use:** This ratio is generally used by analysts, shareholders and investors for companies that are traded on the stock market. It compares the dividend paid out by a company every year with its market price at a specific date.

#### Dividend yield

		30-06-18	31-12-17	30-06-17
Numerator (euros)	∑ Dividends	0.24	0.30	0.37
Denominator (euros)	Closing price	6.07	7.11	7.27
=	Dividend yield	4.0%	4.2%	5.1%

## Non-performing loan (NPL) ratio

This is the ratio between the risks classified for accounting purposes as non-performing loans and the total credit risk balance for customers and contingent risks. It is calculated as follows:

$$\frac{\text{Non – performing loans}}{\text{Total credit risk}}$$

**Explanation of the formula:** "Non-performing loans" include those related to loans and advances to customers (gross) and those related to contingent risk, excluding the non-performing loans of credit institutions and securities. "Total credit risk" includes both pending and contingent risk. Their calculation is based on the headings in the first table on page 13 of this report.

**Relevance of its use:** This is one of the main indicators used in the banking sector to monitor the current situation and changes in credit risk quality, and specifically the relationship between risks classified in the accounts as non-performing loans and the total balance of credit risk, with respect to customers and contingent liabilities.

**Change of criteria,** due to IFRS 9, which entered into force on January 1, 2018, certain wholesale customer repos that until December 31, 2017 were presented in the total credit risk have not been taken into account in the calculation of this metric.

#### Non-Performing Loans (NPLs) ratio

		30-06-18	31-12-17	30-06-17
Numerator (million euros)	NPLs	19,654	20,492	22,422
Denominator (million euros)	Credit Risk	451,587	450,045	464,856
=	Non-Performing Loans (NPLs) ratio	4.4%	4.6%	4.8%

## NPL coverage ratio

This ratio reflects the degree to which the impairment of non-performing loans has been covered in the accounts via loan-loss provisions. It is calculated as follows:.

$$\frac{\text{Provisions}}{\text{Non – performing loans}}$$

**Explanation of the formula:** "Non-performing loans" include those related to lending activity and those related to contingent risk, excluding non-performing loans from credit institutions and securities. "Provisions" are loan-loss



provisions, for both customer loans and contingent risk. Their calculation is based on the headings in the first table on page 30 of this report.

**Relevance of its use:** This is one of the main indicators used in the banking sector to monitor the situation and changes in the quality of credit risk, reflecting the degree to which the impairment of non-performing loans has been covered in the accounts via loan-loss provisions.

#### NPL coverage ratio

		30-06-18	31-12-17	30-06-17
Numerator (million euros)	Provisions	13,954	13,319	15,878
Denominator (million euros)	NPLs	19,654	20,492	22,422
=	NPL coverage ratio	71%	65%	71%

## Cost of risk

This ratio indicates the current situation and changes in credit-risk quality through the annual cost in terms of impairment losses (accounting loan-loss provisions, included in the “impairment on financial assets not measured at fair value through profit or loss” line) of each unit of loans and advances to customers (gross). It is calculated as follows:

$$\frac{\text{Annualized loan – loss provisions}}{\text{Average loans and advances to customers (gross)}}$$

**Explanation of the formula:** “Annualized loan-loss provisions” are calculated by accumulating and annualizing the loan-loss provisions of each month of the period under analysis, to standardize the comparison between different periods. For example, loan-loss provisions for six months (180 days) are divided by 180 to obtain daily loan-loss provisions and multiplied by 365 to obtain the annualized figure. This calculation uses the calendar days of the period under consideration.

“Loans and advances to customers (gross)” refers to the portfolio of financial assets at amortized cost of the Group’s consolidated balance sheet. The average of loans and advances to customers (gross) is calculated by using the average of the period-end balances of each month of the period analyzed plus the previous month.

**Relevance of its use:** This is one of the main indicators used in the banking sector to monitor the situation and changes in the quality of credit risk through the cost over the year.

#### Cost of risk

		30-06-18	31-12-17	30-06-17
Numerator (million euros)	Annualized loan-loss provisions	3,268	3,674	3,932
Denominator (million euros)	Average loans and advances to customers (gross)	398,584	414,448	421,205
=	Cost of risk	0.82%	0.89%	0.93%

## Efficiency ratio

This measures the percentage of gross income consumed by an entity’s operating expenses. It is calculated as follows:

$$\frac{\text{Operating expenses}}{\text{Gross income}}$$

**Explanation of the formula:** Both “operating expenses” and “gross income” are taken from the Group’s consolidated income statement. Operating expenses are the sum of the administration costs (personnel expenses plus other administrative expenses) plus depreciation. Gross income is the sum of net interest income, net fees and commissions,

net trading income dividend income, share of profit or loss of entities accounted for using the equity method, and other operating income and expenses. For a more detailed calculation of this ratio, the table on page 8 of this report should be consulted, whose figures are at current exchange rates, and also the graphs on page 9, one of them with calculations with figures at current exchange rates and another with the data at constant exchange rates.

**Relevance of its use:** This ratio is generally used in the banking sector. It is also a ratio linked to one of the Group's six Strategic Priorities.

Efficiency ratio		Jan.-Jun. 2018	Jan.-Dec. 2017	Jan.-Jun. 2017
Numerator (million euros)	Operating expenses	(5,942)	(12,500)	(6,311)
Denominator (million euros)	Gross income	12,074	25,270	12,718
=	Efficiency ratio	49.2%	49.5%	49.6%

## ROE

The ROE (return on equity) ratio measures the return obtained on an entity's shareholders' funds plus accumulated other comprehensive income. It is calculated as follows:

$$\frac{\text{Annualized net attributable profit}}{\text{Average shareholders' funds} + \text{Average accumulated other comprehensive income}}$$

**Explanation of the formula:** "Annualized net attributable profit" is taken directly from the Group's consolidated income statement. If the metric is presented on a date before the close of the fiscal year, the numerator must be annualized. If extraordinary items (results from corporate operations) are included in the net attributable profit for the months covered, they are eliminated from the figure before it is annualized, and then added to the metric once it has been annualized.

"Average shareholders' funds" are the weighted moving average of the shareholders' funds at the end of each month of the period analyzed, adjusted to take into account the execution of the "dividend-option" at the closing dates on which it was agreed to deliver this type of dividend prior to the publication of the Group's results.

"Average accumulated other comprehensive income" is the moving weighted average of accumulated other comprehensive income, which is part of the equity on the Entity's balance sheet and is calculated in the same way as average shareholders' funds (above).

**Relevance of its use:** This ratio is very commonly used not only in the banking sector but also in other sectors to measure the return obtained on shareholders' funds.

**Change of criteria:** As of 2018, accumulated other comprehensive income has been included in the denominator to align with the usual practice of the sector and to be more consistent with the calculation of the tangible book value per share explained above.

## ROE

		Jan.-Jun. 2018	Jan.-Dec. 2017	Jan.-Jun. 2017
Numerator (million euros)	Annualized net attributable profit	5,342	3,519	4,651
	+ Average shareholder's funds	54,885	54,613	53,876
Denominator (million euros)	+ Average accumulated other comprehensive income	(9,313)	(7,019)	(6,015)
=	ROE	11.7%	7.4%	9.7%

## ROTE

The ROTE (return on tangible equity) ratio measures the return on an entity's shareholders' funds, plus accumulated other comprehensive income, and excluding intangible assets. It is calculated as follows:

$$\frac{\text{Annualized net attributable profit}}{\text{Average shareholders' funds} + \text{Average accumulated other comprehensive income} - \text{Average intangible assets}}$$

**Explanation of the formula:** The numerator (annualized net attributable profit) and the items in the denominator "average intangible assets" and "average accumulated other comprehensive income" are the same items and are calculated in the same way as explained for ROE.

"Average intangible assets" are the intangible assets on the balance sheet, including goodwill and other intangible assets. The average balance is calculated in the same way as explained for shareholders' funds in ROE.

**Relevance of its use:** This metric is generally used not only in the banking sector but also in other sectors to measure the return obtained on shareholders' funds, not including intangible assets.

**Change of criteria:** As of 2018, the accumulated other comprehensive income has been included in the denominator to align it with the usual practice of the sector and with the calculation of the tangible book value per share explained above.

## ROTE

		Jan.-Jun. 2018	Jan.-Dec. 2017	Jan.-Jun. 2017
Numerator (million euros)	Annualized net attributable profit	5,342	3,519	4,651
	+ Average shareholder's funds	54,885	54,613	53,876
Denominator (million euros)	+ Average accumulated other comprehensive income	(9,313)	(7,019)	(6,015)
	- Average intangible assets	8,299	9,073	9,435
=	ROTE	14.3%	9.1%	12.1%

## ROA

The ROA (return on assets) ratio measures the return obtained on an entity's assets. It is calculated as follows:

$$\frac{\text{Annualized profit for the year}}{\text{Average total assets}}$$

**Explanation of the formula:** "Annualized profit for the year" is taken directly from the Group's consolidated income statement. If the metric is presented on a date before the close of the fiscal year, the numerator must be annualized. If extraordinary items (results from corporate operations) are included in the net attributable profit for the months

covered, they are eliminated from the figure before it is annualized and then added to the metric once it has been annualized.

“Average total assets” are taken from the Group’s consolidated balance sheet. The average balance is calculated in the same way as explained for shareholders' funds in ROE.

**Relevance of its use:** This ratio is generally used not only in the banking sector but also in other sectors to measure the return obtained on assets.

ROA		Jan.-Jun. 2018	Jan.-Dec. 2017	Jan.-Jun. 2017
Numerator (million euros)	Annualized profit for the year	6,514	4,762	5,876
Denominator (million euros)	Average total assets	683,613	702,508	713,789
=	ROA	0.95%	0.68%	0.82%

## RORWA

The RORWA (return on risk-weighted assets) ratio measures the accounting return obtained on average risk-weighted assets. It is calculated as follows:

$$\frac{\text{Annualized profit for the year}}{\text{Average risk – weighted assets}}$$

**Explanation of the formula:** “Annualized profit for the year” is the same figure as explained for ROA.

“Average risk-weighted assets”(RWA) is the moving weighted average of the risk-weighted assets at the end of each month of the period under analysis and is calculated in the same way as explained for shareholders' funds in ROE..

**Relevance of its use:** This ratio is generally used in the banking sector to measure the return obtained on RWA.

RORWA		Jan.-Jun. 2018	Jan.-Dec. 2017	Jan.-Jun. 2017
Numerator (million euros)	Annualized profit for the year	6,514	4,762	5,876
Denominator (million euros)	Average RWA	360,075	375,589	384,370
=	RORWA	1.81%	1.27%	1.53%

## Other customer funds

This includes off-balance sheet funds (mutual funds, pension funds and other off-balance sheet funds) and customer portfolios.

**Explanation of the formula:** It is the period-end sum on a given date of the mutual funds, pension funds, other off-balance sheet funds and customer portfolios; as displayed in the table on page 27 of this report.

**Relevance of its use:** This metric is generally used in the banking sector, as apart from on-balance sheet funds, financial institutions manage other types of customer funds, such as mutual funds, pension funds, other off-balance sheet funds, customer portfolios, etc.

## Other customer funds

Million euros		30-06-18	31-12-17	30-06-17
	+ Mutual funds	64,687	60,939	59,904
	+ Pension Funds	33,890	33,985	33,412
	+ Other off-balance sheet funds	2,922	3,081	3,217
	+ Customer portfolios	31,022	36,901	40,510
=	Other customer funds	132,522	134,906	137,043

## Main risks and uncertainties

BBVA Group's risk management system and risk exposure is described in Note 6 "Risk management" of the consolidated financial statements.

## Subsequent events

On July 6, 2018, BBVA Group has completed the sale to The Bank of Nova Scotia of its approximately 68.19% shareholding stake in BBVA Chile for a total cash amount of approximately US\$2.2 billion, a capital gain net of approximately €640 million and a positive impact on fully-loaded CET1 of approximately 50 basis points (see Note 3).

From July 1, 2018 to the date of preparation of these consolidated financial statements, no other subsequent events not mentioned above in these consolidated financial statements have taken place that could significantly affect the Group's earnings or its equity position.