

# Executive summary

BBVA is a customer-centric global financial services group founded in 1857. BBVA is present in more than 30 countries. It is a solid leader in Spain, and the biggest financial institution in Mexico; it has franchises that are leaders in South America and the Sunbelt region of the United States; and is the largest shareholder in the Turkish bank Garanti.

Its diversified business is focused on high-growth markets, and it views technology as a key sustainable competitive advantage.

## Business strategy and model

BBVA Group made significant progress during 2017 on its transformation process, firmly underpinned by the Group's Purpose and six Strategic Priorities. The Bank's strategy has been strengthened with a particular focus on digitalisation and customer experience under a new tagline, "*Creating Opportunities*", as well as the Values established to steer the behavior of the Organisation as a whole. It is a transformation process that is necessary to adapt to the new environment for the financial industry described above, and preserve its leadership.

## Our vision and aspiration

### a) Technological Developments

The new technological developments (big data, artificial intelligence, blockchain, cloud, data processing, biometrics, etc.) represent a great advance in the improvement of customer experience. They allow automatic analysis of data and algorithms and provide easy access to the best available solutions in the market and more beneficial conditions by default. Technological innovations reduce unit costs thanks to process automation and scalability.

### b) Change in consumer needs

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

The use of mobile devices has led to changes in the distribution model. Consumers are permanently connected, accustomed to digital experiences and use multiple devices and applications. The number of mobile banking users worldwide has grown exponentially in recent years and customers are increasingly interacting through these devices.

### c) New players

It has to be recalled that new players are entering the financial industry, specializing in specific parts of the value chain (payments, financing, asset management, insurance, etc.). These players include FinTech companies and large digital corporations (Google, Amazon, etc.), which are now competing with banks in the new environment, with very attractive value propositions that have a great potential.

### d) The data

Data form the crucial element for helping people take financial decisions, provided customers consent to their data being used.

In this regard, BBVA believes it is essential to foster a climate of mutual trust with customers, given that data is a crucial element for better understanding them. Making intelligent use of data enables BBVA to provide customers with personalised services that offer higher value-added, which in turn will help build trust and cement the relationship.

### e) Regulatory reform

The financial industry is facing an environment that is characterised by huge regulatory reform that has been carried out globally in recent years, which has resulted in regulatory changes in diverse areas ranging from solvency, liquidity, separation of activities, bank resolution, as well as affecting investment banking activities.

In this context, the main objective of BBVA Group's transformation strategy, i.e. its aspiration, is to strengthen its relationship with customers. Customers should be the main beneficiaries of this new environment in which financial services are becoming more democratic.

To achieve this, BBVA is redefining its value proposition, focused on its customers' real needs, helping them make financial decisions through a clear, transparent and integrated solutions that generate trust.

BBVA's value proposition must also be easy and accessible; in other words, a proposition that offers access to services at any time, from any place and by the means chosen by each individual customer, whether on a do-it-yourself basis via digital channels, or through human interaction.

## Highlights

BBVA Group's net attributable profit for 2017 was €3.519 billion. It was affected by the registration of unrealised losses from its stake in Telefónica S.A. as a result of the changes in the latter's share price.

Once more, there was a notably good performance of the more recurring revenue, and control of operating expenses.

The year-on-year comparison of the data on the Group's balance sheet and business activity have been affected by the operations underway (the sale of BBVA Chile and of the real-estate business in Spain), which as of December 31, 2017 were reclassified as non-current assets and liabilities held for sale.

Management of liquidity and funding in BBVA aims to finance the recurring growth of the banking business at suitable maturities and costs, using a wide range of instruments that provide access to a large number of alternative sources

of finance, always in compliance with current regulatory requirements.

The level of the BBVA Group's liquidity coverage ratio (LCR) remained comfortably above 100% throughout 2017, without including liquidity transfers between subsidiaries; in other words, no kind of excess liquidity in the subsidiaries abroad is considered in the calculation of the consolidated ratio. As of December 31, 2017, the LCR stood at 128%. Although this requirement is only established at Group level, the minimum level is easily exceeded in all the subsidiaries.

BBVA Group's risk quality metrics have continued to perform positively throughout the year. Since the end of 2016, non-performing loans continued their declining trend, been reduced 13.2% and the Group's non-performing loan ratio recorded a further improvement strongly influenced by the decline in non-performing loans.

As regards solvency, BBVA Group's fully-loaded CET1 ratio stood at 11.04% at the end of December 2017, in line with the target of 11%. This ratio has increased by 14 basis points since the end of 2016, leveraged on organic earning generation and reduction of risk weighted asset capital consumption.

The following sections present details related to the Group's solvency. The Management Report, which is attached to the BBVA Group Consolidated Financial Statements, presents the main indicators of the Group's activity and profitability.