

## Knowledge, education and culture

Knowledge, education and culture are three areas of activity that are grouped together in a new line of action included in the new Community Investment Plan for 2016-2018. This line includes the activities of the BBVA Foundation and the BBVA Research Department, in addition to local programs and initiatives focusing on education, science and culture.

### BBVA Foundation

In 2017, the BBVA Foundation continued its regular **activity**, consolidating some of its own distinctive initiatives in the Spanish scientific and cultural scene while incorporating other new ones to boost, promote and spread knowledge, as well as recognizing the talent of researchers and creators at different stages of their careers.

Among its **own programs** the support to the scientific research teams and the individual grants provided by the BBVA Foundation highlighted. Now in their fourth year, these grants have been given the name Leonardo Grants. This year a total of 65 grants have been awarded. This means that 241 researchers and creators now form the Leonardo Network, a community of excellence that recognizes and promotes the talent that sustains science and culture in the country. The program of Assistance to Scientific Research Teams invited applications for 26 grants in the areas of Biomedicine, Big Data, Ecology and Conservation Biology, Economics and the Digital Society, and the Digital Humanities.

Both, the Leonardo Grants and the support to the scientific research teams are open and highly competitive, and governed by the principles of transparency and rigor appropriate to the scientific community. A decisive step in this direction is the selection of the winning projects, which is made by fully independent assessment committees of experts in each of the areas for which the awards are made. This criterion of rigor and independence is also applicable to the jurors of the different families of **awards** organized either by the BBVA Foundation itself or in collaboration with other institutions, and that represent another form of recognition of talent and the spread of knowledge. Notable among these families, for their global impact, are the BBVA Foundation Frontiers of Knowledge Awards and the BBVA Foundation Conservation of Biodiversity Awards. In addition, in 2017 the first Spanish Computer Science Society-BBVA Foundation Awards were held, adding to those the Foundation has already been organizing jointly with the Spanish Royal Society for Physics and the Spanish Royal Mathematical Society. BBVA Foundation thus covers a broad range of knowledge, offering

in all cases special care to the segment of young researchers at the start of their careers.

In the line of the impulse to knowledge, is situated the **Cancer Immunotherapy and Immunology Integral Program (CAIMI)**, which the BBVA Foundation and the [Vall d'Hebron Institute of Oncology](#) (VHIO) presented in 2017, it will investigate the natural mechanisms by which the agents that coordinate the immune response respond to cancer, and how to predict and exploit these anti-tumor responses to generate more personalized treatments.

In addition, the Foundation has continued to promote the **spread of high-level scientific knowledge** through the 6th Cycle of Talks on Astrophysics and Cosmology, "The Science of the Cosmos, Science in the Cosmos", which once more has been a great success with the public and has had a great impact in the main media. The BBVA Foundation has also incorporated open and competitive invitations to its support for cultural creation, starting with some of the categories included in the Leonardo Grants, but also dedicated specifically to video art creation, through the Multiverso Grants. In 2017, the BBVA Foundation opened a permanent exhibition space dedicated to video art in its Madrid headquarters, with an annual program that shows works by the winners of the grants. The BBVA Foundation's Sala Multiverso space now appears as a regular venue in leisure guides. A new collaborative effort has also been included to boost and spread video art and digital art with the Fine Arts Museum of Bilbao.

These new initiatives are in addition to the activity already consolidated in the area of **contemporary music**, with the regular cycles organized by the Foundation at its headquarters in Bilbao and Madrid, as well as at the Auditorio Nacional in Madrid, which are proving very popular with the public.

In the area of the **plastic arts**, the BBVA Foundation has been exclusive sponsor of a number of exhibitions in the Prado Museum, Madrid and Guggenheim Museum, Bilbao and in the Fundación Miró, Barcelona.

As well as all the initiatives mentioned above, the BBVA Foundation has **transformed its digital space**. Key areas for the Foundation such as the environment, music, the Frontiers of Knowledge Awards, the grant programs and video art now have their own domains in this new digital space, which continues to adapt with the aim of becoming a reference for the public interested in knowledge and cultural creation.

## BBVA Research

BBVA makes available to shareholders, investors and the public in general a wide range of **reports, analyses and studies** on developments in the economy and the financial sector, both nationally and internationally, particularly across the Group's global footprint. BBVA Research prepares macroeconomic forecasts, studies, economic research and analysis on a variety of subjects: national and regional macroeconomics, central banks, the financial sector and regulations, the digital economy, geostrategy, migration, financial inclusion, financial education and country risk, across various sectors. In 2017, BBVA Research has drafted 1,566 economic publications.

These publications have been published in different **formats** and document types: flashes, computer graphics, presentations, working papers, books, observatories and magazines, each published with varying degrees of frequency. All this published information is available and constantly updated on the website [www.bbvaresearch.com](http://www.bbvaresearch.com) and the social media.

The work of BBVA Research has won increasing prestige, and its forecasts and analyses are regarded as a credible alternative to official statistics, as can be seen by the frequent mentions of its forecasts in the media and among analysts. As a result, it has become a *de facto* **opinion leader**.

Lastly, BBVA Research has a global reach, as reflected in the variety of languages of its publications. Spanish and English account for over 95% of the total, but documents have also been written in Catalan, Basque and Portuguese.

## Local educational and cultural initiatives

In 2017, BBVA continued to focus on **education in values** to promote social integration and training among children and young people in the countries where it operates. A total of 126,488 participants benefited directly from these educational programs.

Social and educational programs (BBVA Group. Direct Beneficiaries)			
	2017	2016	2015
Pre-School and Primary Education	86,054	85,295	83,720
Secondary Education	15,958	17,575	53,451
Trainings for adults	24,476	47,295	152,945
<b>Total</b>	<b>126,488</b>	<b>150,165</b>	<b>290,116</b>

BBVA continues to promote access to quality education for underprivileged children and young people in South America and Mexico through the “**Niños Adelante**” (Forward Children) program. In 2017, more than €14 million were allocated to this program, benefiting 68,094 schoolchildren. The program is adapted to the reality of each country, and thus benefits different groups. In Mexico, it helps children of Mexican parents who emigrate to the United States in search of a better future; in Colombia, children in deprived areas; and in Peru, children with poor reading skills. In 2017, initiatives continued to be developed to increase third-party commitment to the program, with the participation of employees volunteering as sponsors and donations from customers through ATMs, online banking and financial instruments.

### Annex 16 - Main indicators of the “Niños Adelante” program

The Group also runs programs that address other aspects of education, such as **educational quality**, focusing on support for teachers, providing them with ongoing training and tools to improve their educational work. Since 2008, at a global level, BBVA has been a partner in the areas of science and culture with the Organization of Ibero-American States (OIS). BBVA supports the creation and development of the OIS's Ibero-American Institute for Early Childhood and the Becas Paulo Freire (Paulo Freire Scholarships) program aimed at promoting the mobility of undergraduates and university graduates who are taking studies that lead to a teaching profession. It is also working to develop the project “Educational targets for 2021: the education we want for the bicentennial generation”.

Various programs are also being developed locally to improve the quality of education:

- In **Turkey**, Garanti created the Teachers Academy Foundation (ÖRAV) in 2009. Its aim is to contribute to the personal and professional development of teachers, who are the fundamental pillars for the growth of the next generations. ÖRAV and the first and only NGO in Turkey that focuses on this area, has provided support for more than 11,500 teachers.
- In **Spain**, BBVA has since 2012 supported the Acción Magistral project, a joint initiative with the FAD (Foundation for Aid Against Drug Addition), Unesco and BBVA. The Acción Magistral Award, for which 389 projects were presented in 2017, benefiting over 90,000 students, is a way of disseminating teaching work; and the Acción Magistral platform offers online and in-person training to teachers in

a variety of areas to improve their teaching performance. In 2017, 6,592 teachers participated actively in the project.

- BBVA is also a partner of Teach for America in the **United States**, an organization that works to eliminate educational imbalances for students with limited incomes. The organization recruits, trains and supports talented people who agree to give classes in schools with limited resources for two years.

In addition to these projects to promote access to education, educational quality and education in values, BBVA develops other local training programs such as:

- The Children's Knowledge Olympics held in **Mexico**, in collaboration with the Department of Public Education. Each year prizes for academic excellence are awarded to the top students in the sixth year of elementary school.
- The National Teaching Awards in **Colombia** is an initiative that recognizes the effort made every day by thousands of teachers across the country to promote reading and writing among students.

#### Annex 17 - Main educational programs

Additionally, BBVA has continued to support **culture** in a number of countries across its global footprint, highlighting:

- In **Mexico**, the BBVA Bancomer Foundation, through its Fomento Cultural (Cultural Promotion) program, supported art exhibitions, musical festivals, theater workshops and film projects through various grants and schemes.
- In **Peru**, through sponsorship of the Noche de Arte (Night of Art) and the Museum of Pre-Columbian Art.
- In **Turkey**, Garanti has focused on making cultural environments suitable for research and production available to society, and on creating an authentic and independent cultural institution that develops through interaction with its users. This vision led to the reconstruction of the highly successful Platform Garanti Current Art Center, Ottoman Bank Museum and Garanti Gallery, which formed part of the bank, as a single independent institution called SALT in 2011. Since it was created, SALT has hosted 8 exhibitions and attracted more than 185,000 visitors.
- In **Venezuela**, through the Banco Provincial Foundation's exhibition program.

A number of initiatives have also been supported in Argentina, Chile, Colombia, the United States, Paraguay and Uruguay that impact directly the development of the cultural sector in each country.

# Fiscal transparency

## Fiscal strategy

In 2015, the BBVA Board of Directors approved the “[Corporate Principles in BBVA's Tax and Fiscal Strategy](#)”.

This forms part of BBVA's corporate governance system and establishes the policies, principles and values that guide the way the Group behaves with respect to taxes. This strategy has a global scope and affects everyone who is part of the Bank. Compliance with the strategy is very important, given the scale and impact that the tax contributions of large multinationals such as BBVA have on the jurisdictions where they operate.

Effective compliance with the tax strategy is duly monitored and supervised by BBVA's governing bodies.

Accordingly, BBVA's **fiscal strategy** consists of the following basic points:

- BBVA's decisions concerning fiscal-related matters are determined by the payment of taxes, given that they contribute heavily to the economies of all the jurisdictions in which it operates. Tax payments are aligned with effective business practices and the generation of value in the different geographic areas in which BBVA operates.
- Active adaptation to the new digital environment, also in terms of taxation, through the incorporation of virtual presence into the generation of value, and its consequent valuation.
- The establishment of reciprocal cooperative relations with tax authorities that are based on the principles of transparency, mutual trust, good faith and fairness.
- Promotion of a clear, transparent and responsible reporting strategy to stakeholders on its main fiscal-related matters.

Both the strategy and the fiscal policies derived from it are inspired by the reports of the OECD Base Erosion and Profit Shifting (BEPS) Project and respond to a commitment to comply with and respect the letter and spirit of tax regulation in the jurisdictions where the Group operates, in accordance with Chapter XI of the OECD Guidelines for Multinational Enterprises.

## Governance model and fiscal risk management

BBVA has a government model on tax matters and mechanisms to control fiscal risk.

The strategy has been developed through fiscal policies opportunely communicated to all Group employees. Likewise, complaint channels were established for the case of breach of its Code of Conduct and / or its fiscal strategy. There are also established fiscal risk control procedures aimed at verifying the effective compliance of the Group's tax obligations.

The person in charge of the Tax Office appears periodically before the governing bodies with responsibilities in this area (Audit and Compliance Committee and Board), in order to report on the development of the Group's main tax data and the measures adopted for the management of fiscal risk.

## Cooperation with tax administrations

BBVA maintains a cooperative relationship with the tax administrations of the countries in which it is present. In particular, and as regards Spain, it is adhered to the Code of Good Tax Practices (CBPT) approved by the Large Companies Forum on 20 July 2010, as an active member of the Forum.

In 2017, it proceeded to present for the first time on a voluntary basis, the so-called Annual Report on Fiscal Transparency for Companies adhering to the CBPT together with its declaration of the Corporation Tax of the previous year, thus incorporating into its action, the proposals for strengthening the good fiscal transparency practices of companies adhering to the Code, approved in plenary session of the Forum of Large Companies of 20 December 2016.

Likewise, BBVA adopted the Code of Practice on Taxation for Banks, an initiative of the United Kingdom that describes the approach expected by financial institutions in terms of government, tax planning and commitment with the British tax authorities, in order to encourage the adoption of best practices in this area. In 2017, BBVA published its [tax strategy for the United Kingdom](#) on its website.

Finally, as a financial entity, it holds the status of collaborating entity in the collection processes of those countries in which it is present.

## Total tax contribution

BBVA is committed to providing full **transparency** in tax payments, which is why once more this year the Group has voluntarily disclosed all major tax payments in the countries where it has a significant presence, as it has done every year since 2011.

BBVA Group's total tax contribution (**TTC report**), which uses a method created by PwC, includes its own and third-party payments of corporate taxes, VAT, local taxes and fees, income tax withholdings, Social Security payments, and payments made during the year arising from tax litigation in relation to the aforementioned taxes. In other words, it includes both the taxes related to the BBVA Group companies (taxes which represent a cost to them and affect their results) and taxes collected on behalf of third parties. The Total Tax Contribution report gives all the stakeholders an opportunity to understand BBVA's tax payments and represents a forward-looking approach and commitment to corporate social responsibility, by which it assumes a leading position in fiscal transparency.

Global Tax Contribution (BBVA Group. Million euros)			
	2017	2016	2015
Own taxes	4,106	3,762	2,816
Third-party taxes	5,775	5,678	5,341
<b>Total tax contribution</b>	<b>9,881</b>	<b>9,440</b>	<b>8,157</b>

## Offshore financial centers

BBVA maintains a **policy** on activities in entities permanently registered in offshore financial centers, which includes a plan for reducing the number of offshore financial centers.

In this respect, both from the OCDE and the Spanish regulation perspective, as of 31 December **2017**, the BBVA Group's permanent establishments registered in offshore financial centers considered tax havens are as follows:

- Branches of the BBVA Group's banks in the Cayman Islands,
- Issuers of securities in the Cayman Islands: BBVA Global Finance, Ltd., Continental DPR Finance Company, Garanti Diversified Payment Rights Finance Company and RPV Company.

### 1. Banking branch

As of 31 December 2017, the BBVA Group had a banking branch registered in the Cayman Islands engaging in corporate banking activities. The activities and business of this branch, which do not include the provision of private banking services, are pursued under the strictest compliance with the applicable law, both in the jurisdictions in which it is domiciled and in those where its operations are effectively managed, in this case the United States of America. At the end of 2016, the BBVA Compass branch in the Cayman Islands was closed.

#### Branch at offshore entities (BBVA Group. Million euros)

Main figures of the balance sheets	31-12-17	31-12-16	31-12-15
<b>BBVA S.A. branch</b>			
Loans and advances to customers	1,499	805	807
Deposits from customers	1,144	430	432
<b>BBVA Compass branch</b>			
Loans and advances to customers	-	-	-
Deposits from customers	-	-	100

## 2. Issuers of securities

The BBVA Group has four **issuers** registered in Grand Cayman, two of them from the Garanti Group.

#### Issues outstanding at offshore entities (BBVA Group. Million euros)

Issuing entity	31-12-17	31-12-16	31-12-15
<b>Subordinated debts <sup>(1)</sup></b>			
BBVA Global Finance LTD	162	188	347
<b>Other debt securities</b>			
Continental DPR Finance Company <sup>(2)</sup>	59	102	152
Garanti Diversified Payment Rights Finance Company	1,879	1,760	1,617
RPV Company	1,262	1,457	1,496
<b>Total</b>	<b>3,362</b>	<b>3,508</b>	<b>3,612</b>

<sup>(1)</sup> Securities issued before the enactment of Act 19/2003 dated 4 July 2003.

<sup>(2)</sup> Securitization bond issues on flows generated from export bills.

## 3. Supervision and control of the permanent establishments of the BBVA Group in offshore financial centers

The BBVA Group applies risk management **criteria and policies** to all its permanent establishments in offshore financial centers that are identical to those for the rest of the companies making up the Group.

During the reviews carried out annually on each and every one of the BBVA Group's permanent establishments in offshore financial centers, BBVA's **Internal Audit** Department checks the following: i) that their activities match the definition of their corporate purpose, ii) that they comply with corporate policies and procedures in matters relating to knowledge of the customers and prevention of money laundering, iii) that the information submitted to the parent company is true, iv) and that they comply with tax obligations. In addition, every year a specific review of Spanish legislation applicable to the transfer of funds between the Group's banks in Spain and its companies established in offshore centers is performed.

In 2017, BBVA's **Compliance and Internal Audit** departments have supervised the action plans deriving from the audit reports on each one of these centers.

As far as **external audits** are concerned, one of the functions of the Audit and Compliance Committee is to select an external auditor for the Consolidated Group and for all the companies in it. For 2017, all of the BBVA Group's permanent

establishments registered in offshore financial centers have the same external auditor (KPMG), except Continental DPR Finance Company.