







Progress in BBVA's transformation journey

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

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

Strategic Priorities

 New standard in customer experience	 Digital sales	 New business models
 Optimize capital allocation	 Unrivaled efficiency	 A first-class workforce

1. A new standard in customer experience

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

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

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

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


- Various projects have been launched as part of the **relationship model**: MIA, a virtual mobile information assistant, and Facebook Messenger BOT (Turkey), live chat (Mexico), the front-office tool (Peru) and fast track in branches (Spain).

- Some of the more prominent **new products and functional features** developed this year include: Beconomy and BBVA Cashup (Spain), Tuyyo and digital loans to non-customers (the United States), BBVA Plan - financial objectives and BBVA financial situation check up (Mexico), iris recognition login and Garanti Pay (Turkey), one-click credit cards (Argentina) and microinsurance against theft from cash withdrawals (Colombia).

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

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

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

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

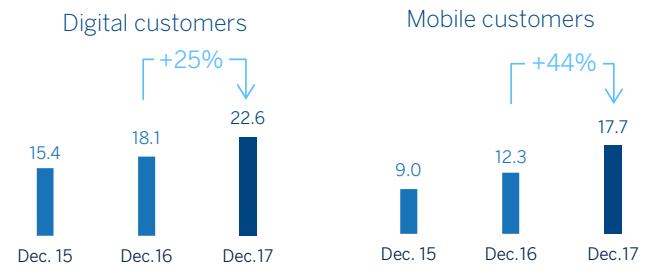
Peer Group: Spain: Santander, CaixaBank, Bankia, Sabadell, Popular // Mexico: Banamex, Santander, Banorte, HSBC // Turkey: Akbank, Isbank, YKB, Deniz, Finanz // Argentina: Galicia, HSBC, Santander Río // Colombia: Davivienda, Bogotá, Bancolombia // Peru: Interbank, BCP, Scotiabank // Paraguay: Continental,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

2. Digital sales

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

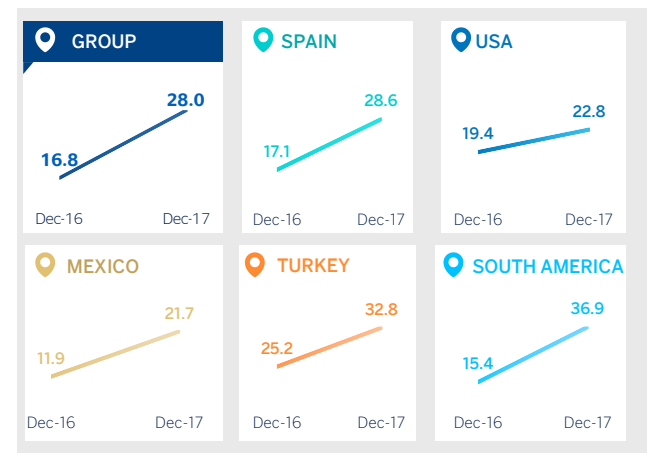
The relationship model of BBVA is evolving to adapt to the multi-channel profile of its customers. The number of **digital and mobile customers** in BBVA Group grew considerably in 2017. The 50% tipping point in digital customers has been reached in most of the countries where BBVA is present (Spain,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

Digital and mobile customers (BBVA Group. Million)



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

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



3. New business models

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

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

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

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

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

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

- ii. Constructing:** BBVA has also decided to commit to creating an internal incubation model that combines internal talent and know-how in partnership with “resident” entrepreneurs. Six companies were launched to market in 2017:
- **Muno:** a new form of offering insurance designed specifically for self-employed workers, which is 100% digital and focused on concepts of community, equitable risk and accessibility. The company was launched in Spain in May and has plans to broaden its portfolio of products and regions.

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

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

iv. Acquiring and investing: thanks to this active role in the fintech ecosystem, BBVA is now considered to be an attractive investor for startups looking not only

for a financial investor, but also a strategic ally. BBVA considers investing in companies of this type a form of accelerating its digital transformation and an excellent way to incorporate new products and markets, not to mention talent and digital and entrepreneurial capabilities. BBVA remained intensely active in this area during 2017, evaluating over 130 companies as potential targets. Two operations have been concluded.

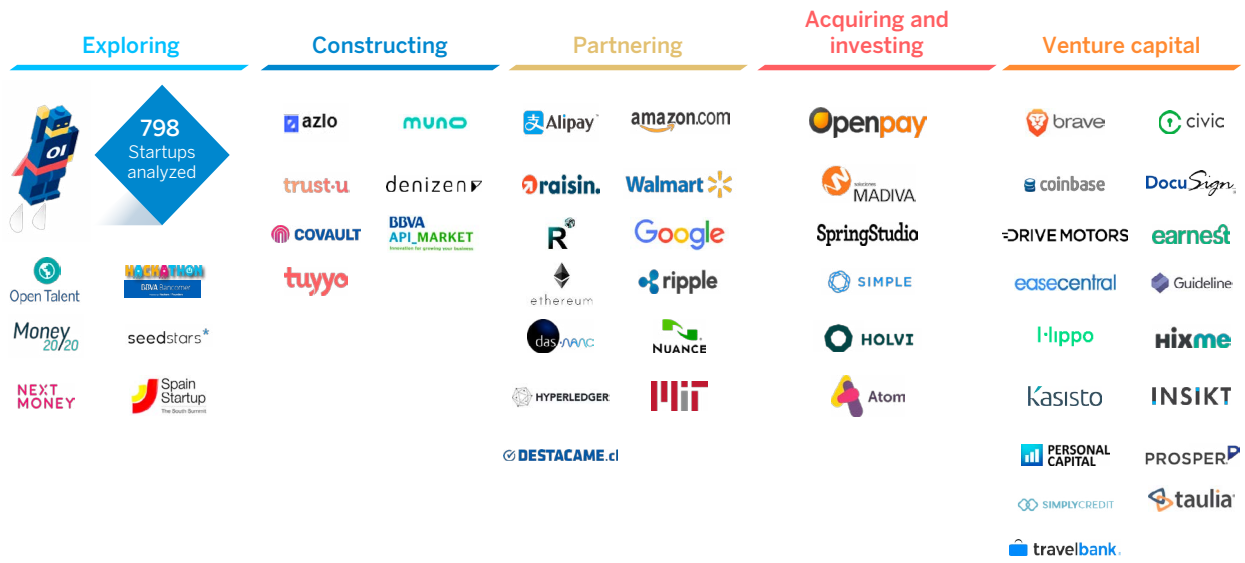
- Participation in the share capital increase in ATOM with the goal of maintaining the 29.5% stake acquired in 2016 in the UK's first licensed digital-only bank.
- Completion of the acquisition of Openpay, a Mexican startup offering online payment solutions.

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

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

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

New business models

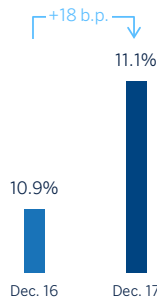


4. Optimize capital allocation

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

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

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



5. Unrivaled efficiency

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

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

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

Efficiency ratio (BBVA Group. Percentage)



6. A first-class workforce

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

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