Responsible Banking

A different way of banking

November 2016
1. Financial industry is still suffering a reputational crisis
2. More regulation & soft regulation in customer protection, responsible practices & non-financial disclosure
3. Competition landscape: digital disruption & new players in financial industry mean a world of opportunities but also new material issues as privacy & security
4. Key improvement areas for banks according customer surveys: transparency & clarity
5. A growing demand of ESG performance (Environmental, Social & Governance) among investors community
6. Employees value more highly the ethical behavior of the companies they work for
7. Society & Governments expect a higher commitment to development & climate change management from companies

At BBVA, we have a different way of doing banking
Summary

1. What do we mean by Responsible Banking?
2. How do we do Responsible Banking?
3. BBVA’s impact on society
1 What do we mean by Responsible Banking at BBVA?
A unique banking model based on 4 pillars

1. Diversification and leadership
2. Prudent management
3. Return adjusted to principles
4. Customer-centric approach
BBVA

A new competitive landscape: **strategy** focused on **transformation** from and to the **customer**

Be the best bank for our customers

1. Offering the **best banking solutions** to our customers

2. Helping customers make **better financial decisions**

Six strategic priorities

1. New standard in customer experience
2. Digital sales
3. New business models
4. Optimal capital allocation
5. Unrivaled efficiency
6. A first class workforce
BBVA offers a different way of banking

**Return adjusted to Principles**
- Integrity
- Prudence
- Transparency

**Compliance**

**Risks**

**Responsible Business**

*With management systems...*

*... and an internal control model with three lines of defense*

**1st line: business units & support areas**
- Takes risks and owns them.
- Includes a team that puts controls into operation

**2nd line: control experts**
- Define policies, challenge and advise 1st line

**3rd line: internal audit**
- Independent monitoring

**Role of Responsible Business:** 2nd line of defense to ensure that people are systematically placed at the decision-making processes
Governance and Accountability

Responsible business function reports directly to the Board of Directors

- Approval and monitoring the CSR policy and responsible business plan
- Report to plenary & to different committees
- Interventions at Strategy & Planning Group Meeting
- Interventions at Local Management Meetings
- RB Co-dependency: Customer Solutions & Communications
- New Strategic Plan 2016-2018

(*) Responsible business is embedded on the SDA (Single Development Agenda)
BBVA

International standards with BBVA’s active participation
How do we do Responsible Banking?
Reputational Risk Management Model

Outcomes
(Global & local)

Impact vs Strength Matrix

Mitigation actions

Process

Risk identification % impact assessment ➔ Assurance Providers identification ➔ Strength assessment & mitigation proposals ➔ Local/Global review (6 months) ➔ Implementation & follow up

Governance & Accountability

Reputational Risk Working Group
(integrated in Corporate Assurance Framework)

Operational Risk, Responsible Business, Compliance & Comms

Reput. risk appetite + ICAAP
(integrated in Global Risk Management)
TCR relationships with our customers (transparent, clear & responsible)

Systematically ensure that BBVA’s interactions with customers are transparent, clear and responsible to help them to make better financial decisions.

**Transparent**
Include all relevant information for the customer in balanced way

**Clear**
Make it easy to understand (it has to do with language and structure)

**Responsible**
Take into account customer interests in the S/M/L term

Our aspiration 2018

1st clearest and most transparent bank in major markets
What are we doing?

TCR to transform the traditional bank

- TCR advertising code
- TCR summary pages & commercial protocols
- TCR external sales & call centers
- TCR contracts
- TCR complaints management

TCR to create the new bank

- TCR in SDA* customer solutions
- TCR in agile methodology
- TCR training & UX system

(*) SDA: Single Development Agenda
Growth:

- Higher customer recommendation (NPS)
- Higher non-customer consideration
- More digital sales

Return on Capital:

- Reduce complaints
- More efficient commercial dialog
- Higher employee pride of belonging and motivation

Risk Management:

- Lower risk of fines
- Lower reputational risk
- Lower operational costs for unfair commercial practices
- Anticipating regulation
Financial Education & Capability Building

Financial education for society

More than 6.7 million participants
€56 million invested between 2008-2015

Financial capabilities into customer solutions

Advocacy & knowledge generation

Data verified by Deloitte
Promoting banking solutions for Financial Inclusion, specially in emerging markets

**BBVA Microfinance Foundation**

- **7 Countries**
- **+1.7 million customers**
- **509 branches**
- **7,910 employees**

**United Nations Award for Best Social Business in 2012**

**United Nations UN grants consultative status to BBVA Microfinance Foundation**

**FI Segment**

- **+10 million customers** in Mexico, South America, Spain & Portugal

**Low-cost digital** channels and **easy-to-use** products

- **Cuenta Express**: +3.5 million active accounts
- **+46,000 banking correspondants**
- **Remittances**: +10 million transactions/year

Data verified by Deloitte
Customer Privacy & Data Security

**Operational and Technological Risk Management**

- New Engineering Risk & Corporate Assurance unit
- Focus on adapting the levels of information protection to the new challenges arising from the Group's digital strategy
- BBVA CERT: new center of BBVA Group's cybersecurity and fraud strategy.
- Cyber Trust Program: continuous cybersecurity monitoring and improvement plan

**Data Protection Risk Management**

- Risks identification and assessment
- Consistent set of policies and procedures
- Definition of a whole range of mitigation measures/actions focused on mitigating identified risks
- Definition and tracking of indicators such as consumers claims/complaints, security incidents/breaches or independent review processes, including a causal analysis
- Reputational risk assessment

Specific Technology & Cybersecurity Board Committee
Climate strategy

Reduction of direct impacts

- **Global Eco-efficiency Plan 2013-2015** *(figures per person)*:
  - 16% CO2 emissions
  - 43% paper consumption
  - 23% water consumption
  - 14% electricity consumption
  - 33% people working in certified buildings (ISO, LEED)

- **New Global Eco-efficiency Plan 2016-2020**

Providing climate finance solutions

- **Leading in renewable energy funding**: 1,221 MW financed in 2015 (+17% than 2014)
- **Leading Spanish institution in green bonds underwriting**
- **Green lines financing**: IFC, EIB, IADB...
- **Support to main industry initiatives**: EMF-ECB Energy Efficiency Mortgage Initiative; EBRD-UNEP FI Statement by Financial Institutions on Energy Efficiency; European Financial Services Roundtable

Integration of environmental factors into risk management*

(*) See next slide
## Integration of environmental & social factors in risk management

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<th><strong>Environmental Policy</strong></th>
<th>Continually improve the identification and management of environmental risks in the Group’s operations.</th>
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| **Equator Principles**   | • Reviewing all operations under the EP, regardless of the amount.  
                             • Application beyond their mandatory scope. |
| **Rules of Conduct in Defense** | • Applied in all countries.  
                                 • Exclusion lists of companies and countries updated quarterly. |
| **Social Housing Policy** | • Analysis of every case by the Committee for the Protection of Mortgage Debtors.  
                              • Providing individual solutions in accordance with each family's specific situation. |
| **Ecorating tool**        | • Risk portfolio rating of SMEs from an environmental perspective.  
                              • Applied in Spain and Mexico. |
| **Responsible lending**   | • Corporate Retail Credit Risk Policy and Specific Rules on responsible granting of loans and consumer credit. |
| **Human Rights**          | • Specific commitment and global due diligence in process perspective. |

**New environmental & social risk framework**  
*(to be approved in 2017)*
Development of high social impact customers solutions

Comprehensive Plan to help families in difficult situations in Spain

- +67,000 clients refinanced in light of payment difficulties
- +7,000 houses for social rent
- Over 1,500 families benefited by the integration program

BBVA commitment in US on CRA

5 year commitment of $11,000 million in loans, investments and services pledge for low income communities

SMEs integral support in all markets

- Yo Soy Pyme (Mexico)
- Crédito flexible (Chile)
- Líneas ICO & Yo Soy Empleo Academy (Spain)
- Women entrepreneurs (Turkey)
Promotion of a culture of social commitment and shared values among employees

**Global Corporate Volunteering Plan**
- **8,148** BBVA volunteers
- Devoted **135,000** hours

**Training**
- **€34,3** million investment
- **49,4 hours** of training per employee
- **93%** employees trained

**Territorios Solidarios**
- **€7,4** million in grants
- **786** charitable projects approved and
  +4 million people benefited since its launch

**Global Diversity Plan**
- **20%** women in the management team
- Employee ratio **54% women / 46% men**
- **Diversity Charter** and **UN Women’s Empowerment Principles** signatory

Data verified by Deloitte
Other Social programs: education, entrepreneurship, science & culture

**Education**
- Mexico
  - Fundación BBVA Bancomer
- Spain
  - ACCIÓN MAGISTRAL
- Turkey
  - The Teachers Academy Foundation

**Entrepreneurship**
- Integral program to support social enterprises in their growth
- Program to identify, award & support fintech start-ups

**Science & culture**
- Support for advanced research in biomedicine, basic science, environment and socio-economics
- Promotion of cultural activities: music and visual arts
- “BBVA Foundation Frontiers of Knowledge Awards”
BBVA’s impact on society
BBVA’s impact on society

Contribution to development - customer support

- 1.7 million people live in homes financed
- 1,720,968 SMEs, micro-enterprises and self-employed workers supported
- €23,552M of finance granted to SMEs, micro-enterprises and self-employed workers

Creating wealth

- €8,157M contribution through paid and accrued taxes
- €5.047M paid in salaries and wages
- €1,013.7M of remuneration in cash to shareholders

Contributions to society

- €103.6 M investment in social programs
- 64,807 children and young people with integration grants
- 6.9 million beneficiaries from BBVA Microfinance Foundation activity

2015 Data verified by Deloitte
For further information

www.bbvaresponsiblebanking.com
Responsible Banking

A different way of banking

November 2016