

**BBVA** Creating  
Opportunities

# Responsible Banking

A different way of banking

March 2018



## Summary

**01** What do we mean by Responsible Banking?

**02** How do we do Responsible Banking?

**03** BBVA's impact on society

## Annexes

Sector norms: main exclusions

TCFD recommendations road map



# 01

**What do we mean  
by Responsible Banking at BBVA?**

# Responsible banking policy, a driver to deliver our purpose every day

## Our purpose

To bring the age of opportunity to everyone

Aligned with our vision of the future

Helping customers to achieve their life goals

Be more than a bank, be an engine of opportunities


Having a true impact on people's lives and business


## Our six strategic priorities


New standard in customer experience 

Drive digital sales 

New business models 

Unrivaled efficiency 

Optimal capital allocation 

A first class workforce 

## Mission of our responsible banking policy

To manage the responsibility that comes from the impact of BBVA's activities on people & society

# Holistic approach to responsible banking

## Return adjusted to principles

Integrity

Prudence

Transparency

## With a multistakeholder approach



## And with the whole bank involved

- Business Units & Support Areas are integrating it in their operational models
- Responsible Business function working mainly as a second line to challenge and give support to all areas




Role of Responsible Business: 2<sup>nd</sup> line to ensure that people are systematically placed at the decision-making processes

# Our four pillars on responsible banking

**Balanced relationships** with our customers based on transparency, clarity & responsibility

New standard in customer experience  Drive digital sales 

**Sustainable finance** to halt global climate change & attain the UN Sustainable Development Goals

New business models  New standard in customer experience  Optimal capital allocation 

**Responsible practices** with employees, suppliers and other stakeholders

Optimal capital allocation  Unrivaled efficiency  A first class workforce 

**Community investment** to promote social change and create opportunities for all

New standard in customer experience 

# Governance and Accountability

## Responsible business function reports directly to the Board of Directors



Approval and monitoring of the CSR policy and responsible business plan

Report to plenary & to the Executive Committee



Integrated in CEO decision-making

Global Leadership Team oversight

Local Leadership



Responsible Business co-dependency: Customer Solutions & Communications

Global & local teams (140 people)

# International standards with BBVA's active participation



United Nations Global Compact







# 02

**How do we do Responsible Banking?**

# TCR relationships with our customers (transparent, clear & responsible)

## TCR relationships

Systematically ensure that BBVA's interactions with customers are transparent, clear and responsible to help them to **make better financial decisions** and **build trust**

### Transparent

Include all relevant information for the customer in a balanced way

### Clear

Make it easy to understand (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 summary pages & commercial protocols

1000 SP covering 90% of sales in 8 countries

### TCR contracts

75 contracts in 9 countries

### TCR external sales & call centers

42 scripts in 5 countries accounting for 80% of the sales in this channel

### TCR complaints management

112 letters of response to claims in 4 countries

### TCR advertising code

Applied to all main campaigns

## TCR to create the new bank

### TCR in SDA\* customer solutions

TCR specialists in global SDA  
TCR guardians in local SDA

### TCR in agile methodology

TCR specialists in global SDA  
TCR guardians in local SDA

### TCR training & UX system

1260 people trained

(\*) SDA: Single Development Agenda

# ROI for TCR relationships

## Growth

- Higher customer recommendation (NPS, Net TCR Score)
- Higher non-customer consideration
- More digital sales

## Return on Capital

- Less 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

## NET TCR SCORE

### BBVA position vs main peers:

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

# Financial Education & Capability Building

Financial education for society

More than 2.3 million participants in 2017

€6.3 million invested in 2017

Financial capabilities into customer solutions

## Economy Spain



- Cuánto ahorras al mes 550€
- Tu libertad financiera 12 meses
- Tu gasto en vivienda 550€
- Tu gasto en deuda 240€

## Check Up Mexico



¡Bien hecho! Alcanzaste a cubrir tus gastos y te quedaron \$4,445.63. Cada mes puedes ahorrar o invertir el dinero disponible para alcanzar tus metas.

Advocacy & knowledge generation



[www.bbvaedufin.com](http://www.bbvaedufin.com)

# Customer relationships KPIs

## Net Promoting Score (NPS) 2017

### NPS

#### BBVA position vs main peers:

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

## External Reputation Pulse RepTrak 2017

### Reputation among customers

Country	Position relative to peer group
Spain	1 <sup>st</sup>
The United States	2 <sup>nd</sup>
Mexico	2 <sup>nd</sup> (*)
Turkey	n/av
Argentina	2 <sup>nd</sup> (*)
Chile	2 <sup>nd</sup> (*)
Colombia	3 <sup>rd</sup> (*)
Peru	1 <sup>st</sup> (*)
Venezuela	2 <sup>nd</sup>
Paraguay	2 <sup>nd</sup> (*)
Uruguay	n/av

Source: RepTrak (Reputation Institute).

(\*) tie with other entities.

Peer Group: Spain: Santander, CaixaBank, Bankia; The United States: Regions, Wells Fargo, Chase; Mexico: Banamex, Banorte, Santander, HSBC; Argentina: Galicia, Santander, HSBC; Chile: Banco de Chile, Santander, BCI; Colombia: Bancolombia, Banco de Bogotá, Davivienda; Peru: Banco de Crédito, Interbank, Scotiabank; Venezuela: Banesco, Mercantil, Banco de Venezuela; Paraguay: Continental, Itaú.

# The context: we are at a sustainability inflection point

## Global agenda

### UN Sustainable Development Goals 2030



### Paris Agreement G20



### Human Rights

UNITED NATIONS  
GUIDING PRINCIPLES  
ON BUSINESS  
& HUMAN RIGHTS

## Market

### USD12 Trillion

Market size linked to SDGs in 2030 <sup>1</sup>

### USD5-7 Trillion

Expected annual investment till 2030, 70% in emerging markets <sup>2</sup>

### Customers

Growing sustainability consciousness

### Competitors

Starting to develop advanced strategies

(1) Business & Sustainable Development Commission  
(2) The Brookings Institution

## Investors



### 1,750

Institutional investors signatories

### USD70 Trillion

Assets under management

## Regulators

### Mandatory disclosure

EU Directive for non-financial information disclosure

### Climate change

FSB initiative (soft-regulation)



### Sustainable finance strategy in EU

Action Plan launched

# Pledge 2025

## BBVA strategy on climate change and sustainable development



### To finance

We will help to create the **scale of capital mobilization** to halt global climate change & attain the UN Sustainable Development Goals

**€100  
Billion  
MOBILIZED**

- Green finance
- Sustainable infrastructure and agribusiness
- Financial inclusion & entrepreneurship



### To manage

We will manage our environmental & social risks to **minimize potential negative direct & indirect impacts**

**70%  
RENEWABLE  
ENERGY**

**68% CO<sub>2</sub>  
EMISSIONS  
REDUCTION**

- Transparency in carbon-related exposure
- Alignment with 2°C scenario
- Sector norms in mining, energy, agribusiness & infrastructure



### To engage

We will engage with all our stakeholders **to collectively promote the contribution** of financial industry to sustainable development

**ACTIVE  
COLLABORATION**

- TCFD recommendations implementation on 2020
- Financial education
- Promotion of Responsible Banking standards within the industry

**Our purpose: to bring the age of opportunity to everyone**

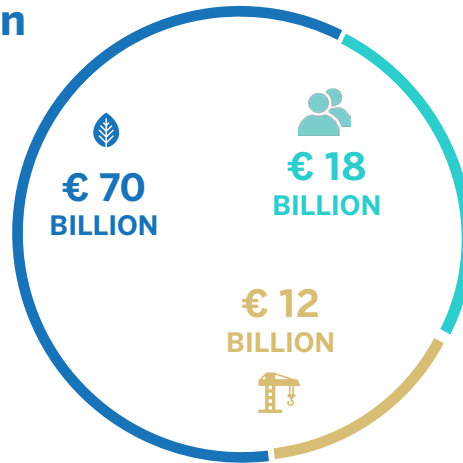


# A €100 Billion mobilization between 2018-2025



## Transition to a low carbon economy

- Green lending to companies & institutions
- Green bonds intermediated as bookrunner
- Energy efficiency, water & waste management & solutions for SMEs & individuals
- Green investment funds & equity



## Financial inclusion & entrepreneurship

- Lending to underserved
- Lending to vulnerable microentrepreneurs
- Lending to women entrepreneurs
- New digital business
- Impact investment



## Infrastructures & agribusiness

- Project & corporate lending in education, health & affordable housing
- Social bonds intermediated as bookrunner
- Social investment funds & equity
- Agribusiness lending under sustainability criteria





To finance



To manage

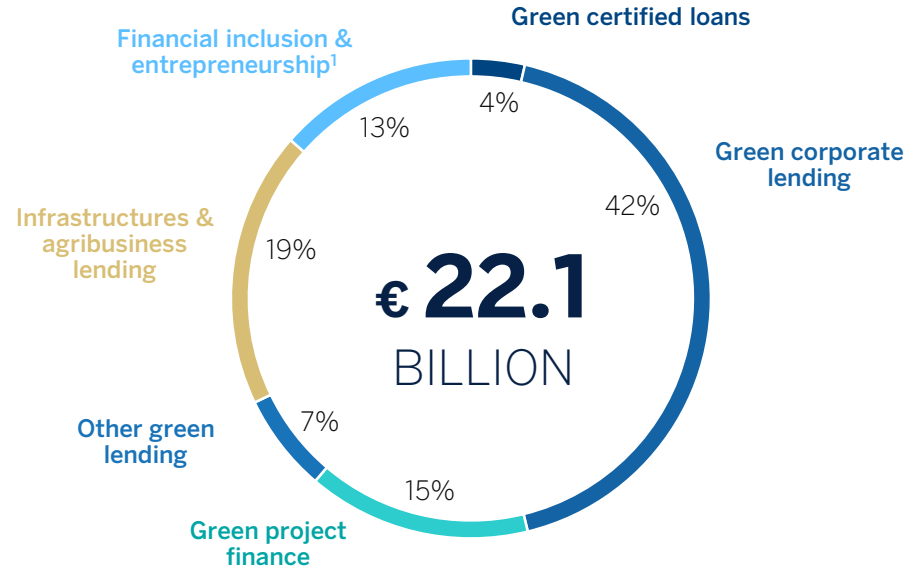


To engage

# Current exposure on sustainable finance

## Credit exposure

December 2017



## Sustainable bonds

2017

### Sustainable bonds intermediated

€ 10.6  
BILLION

€1.5 BILLION  
as bookrunner

(1) Including BBVA Microfinance Foundation

(2) Green criteria aligned with Green Bond Principles. Social criteria aligned with Social Bond Principles

# We are already providing innovative finance solutions to promote sustainable finance



## Transition to low carbon economy

Most active bank in green loans market >€1,000 M  
1<sup>st</sup> green loan in the energy sector in favor of Iberdrola (€500M)  
1<sup>st</sup> syndicated green loan  
1<sup>st</sup> green project finance

Financing sustainable projects €218M financing in renewable energy projects

Green lines financing with multilaterals Energy efficiency IFC line €150M for green mortgages in Turkey

## Infrastructure & agribusiness

Lending in infrastructures: €333M financing in social infrastructure projects

Sustainable Bonds Community of Madrid €240M

Affordable housing:
 

- 60,900 clients refinanced in light of payment difficulties
- 2,676 houses for social rent

## Financial inclusion & entrepreneurship

### Financial inclusion segment

- ▀ >8 million customers in Mexico, South America
- ▀ Low-cost digital channels and easy-to-use products
- ▀ 6 year commitment of \$11,000 million for low income communities in US

**Fundación BBVA MicroFinanzas**

5 Countries 1.9 million customers

514 branches >8,000 employees

United Nations grants consultative status



# BBVA SDGs Bonds Framework

## Background

- There is a **growing market on green & social bonds** (USD131bn issued in 2017, USD180bn forecast for 2018)
- **Financial institutions are starting to play a relevant role as issuers**
- **Main advantages for BBVA: increase and diversify its investors' base and a clear positive impact on reputation**
- BBVA has a strong positioning on green bonds and green loan. There is an **opportunity to be perceived as first mover**

## Our solution

BBVA's SDGs Bond Framework follows the ICMA<sup>1</sup> **Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainable Bond Guidelines** which have four requirements:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

### Environmental

7 AFFORDABLE AND CLEAN ENERGY

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

6 CLEAN WATER AND SANITATION

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

### Social

4 QUALITY EDUCATION

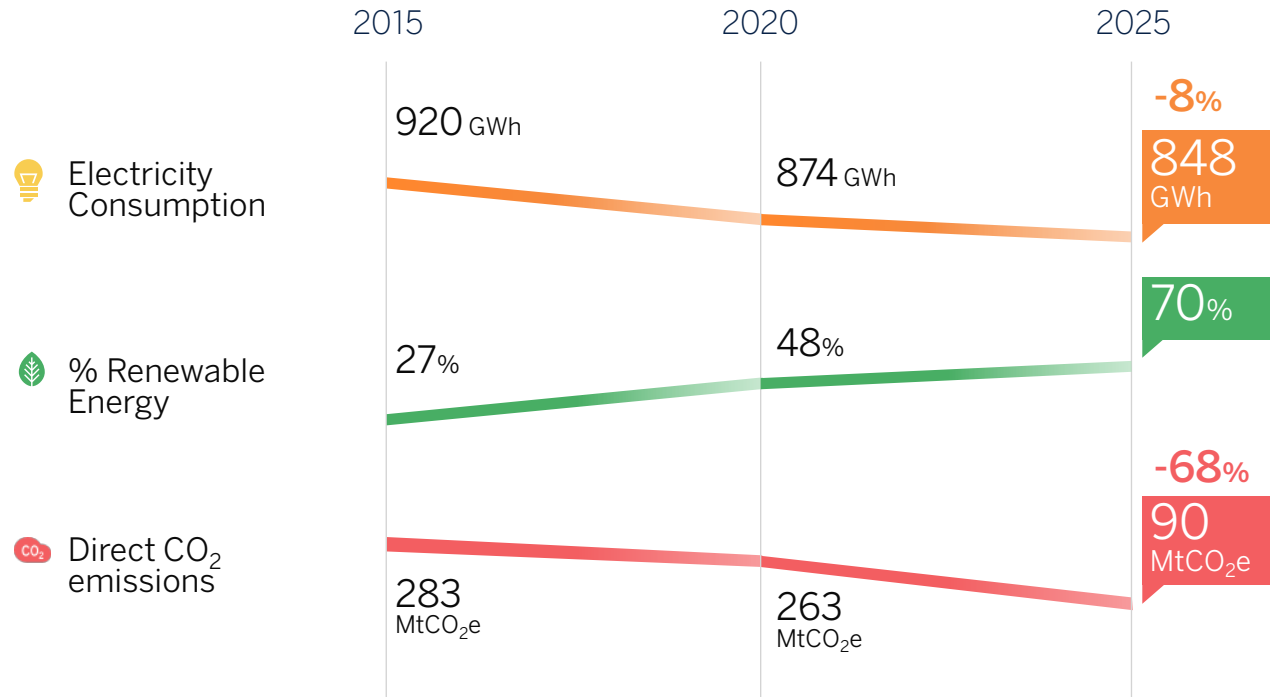
11 SUSTAINABLE CITIES AND COMMUNITIES

3 GOOD HEALTH AND WELL-BEING

8 DECENT WORK AND ECONOMIC GROWTH

(1) International Capital Market Association (ICMA)

# Environmental direct impacts targets 2025



**70%**  
renewable energy

**68%**  
CO<sub>2</sub> emissions  
reduction (2015)

Committed with Science Based Targets Initiative & RE 100 Initiative  
to achieve 100% renewable energy in 2030



# Transparency in carbon-related assets

## Carbon-related assets exposure<sup>1</sup>

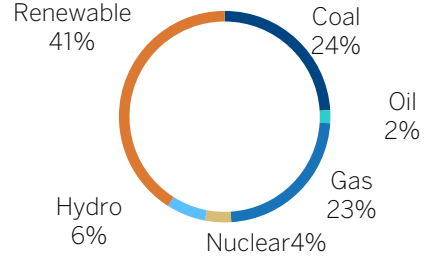
December 2017

**€23.370** Million  
**3,4 %** of total assets

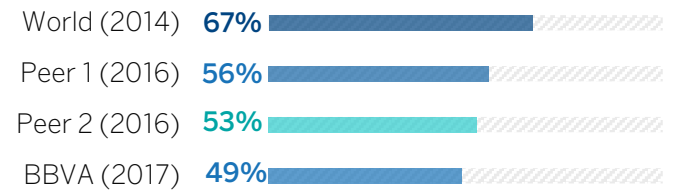
	Utilities	Oil & Gas	Coal Mining	Total
Corporate lending	8.187	12.050	133	<b>20.370</b>
Project finance	416	767	0	<b>1.183</b>
Structured Trade Finance	319	1.473	0	<b>1.792</b>
Equity	0	25	0	<b>25</b>
<b>Total exposure to carbon-related assets</b>	<b>8.922</b>	<b>14.315</b>	<b>133</b>	<b>23.370</b>

## Mix in power generation for clients in utilities

December 2017



### % carbon-related<sup>2</sup>



1) Includes assets linked to utilities and energy generation based on fossil fuels (coal, oil & gas)  
 2) Peers BNP Paribas, Societ  Generale. Source data World 2014: International Energy Agency



# Sector norms

## Purpose

To address industry-specific sustainable issues and provide clear guidance on the procedures that must be followed during customer management and transactions in these sectors

Integrating new Human Rights  
commitment

Integrating new environmental  
commitment

## Scope

Corporate & Investment Banking activities carried out by all BBVA Group institutions, businesses lines, branches, subsidiaries and geographies



Energy



Mining



Infrastructure



Agribusiness

## Due diligence processes

Transactions + Clients + Products

## How we did it?



Based on international standards



Benchmark analysis



Economic assessment

## Escalation & exceptions

Exemptions will only take place exceptionally and shall only be approved by the CIB Leadership Committee.

Exemption requests must be clearly justified and supported by all decision-making tiers

**A set of norms that are best practices within the industry that will be annually updated**

# Engagement with all stakeholders and commitment with the main global initiatives

Balanced relationships	<b>Sustainable finance</b>
Responsible practices	Community investment



Representing European banking at the Global Steering Committee of United Nations forum for financial institutions. Chair of the Sustainable Finance Working Group at the European Banking Federation



# Progressive implementation of TCFD recommendations on climate change



## Focus on financial impact



## BBVA member of pilot group promoted by United Nations (UNEP FI)

### 16 banks

ANZ, Barclays, BBVA, BNP Paribas, Bradesco, Citi, DNB, Itaú, National Australia Bank, Royal Bank of Canada, Rabobank, Santander, Soci t  G n rale, Standard Chartered, TD Bank Group and UBS

## Areas of recommendations

Governance

Risk management

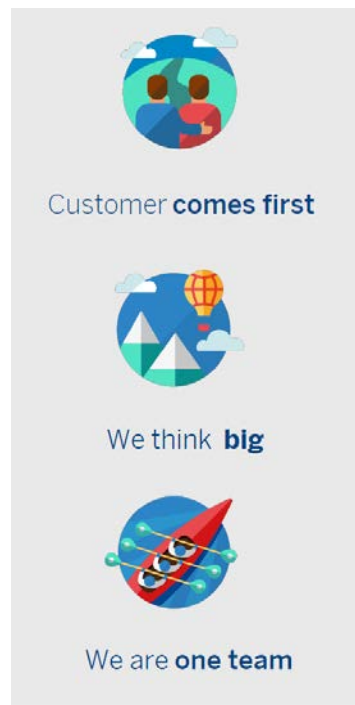
Strategy

Metrics & targets



# Our people, a first-class workforce

## Our values



## Transformation journey

- **Zero tolerance against low quality**
- **New ways of working:**  
Agile, collaborative tools
- **New headquarters**
- **Collaborative culture, entrepreneurship**  
(‘trial - error’)
- **Leaner structures**

## Ethical conduct

Code of Conduct updated and approved by the Board on 2015

Includes commitments to the prevention of corruption in the Group in its relations with suppliers, anti bribery policies, acceptance of gifts, events management, prevention of money laundering and commitments regarding politically exposed persons

Audiovisual distribution with the involvement of senior management. 116,211 employees trained online in 2017

# Main responsible practices related to people management



## Compensation

Variable remuneration linked to the Group's strategic objectives through indicators formed by both financial and non-financial

## Global Diversity Plan

21.6% women in the management team

Employee ratio  
54% women / 46% men

Diversity Charter and UN Women's Empowerment Principles signatory

## Training

€52million investment

39 hours of training per employee

84% employees trained

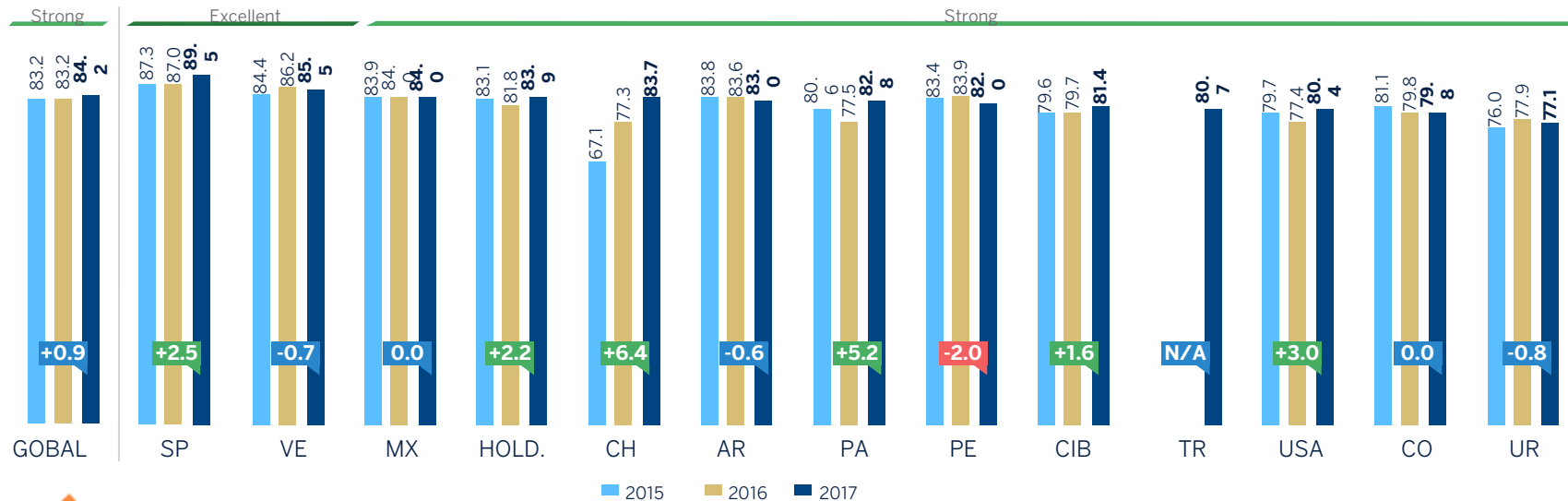
## Global Corporate Volunteering Plan

>8,000 BBVA volunteers

# Internal reputation KPIs

## BBVA Internal Emotional Reputation (Pulse) 2015-2017

Status and evolution vs 2016. Scale 0-100



**+ 6.7 Global Internal Reputation**  
From 2012 to 2017

□ Evolution 2017-2016. Numbers in green-significant increase; numbers in blue stability

Note: Statistically significant differences since +/-1,5

NA- Not available: The survey for these countries begins in 2017

Source: Internal Reputation Survey May-July 2017, Reputation Institute. 8.105 respondents

# Community investment, €103M in 2017

## Education



Mexico



Turkey



Spain



## Entrepreneurship

Integral program to support social enterprises in their growth



Program to identify, award & support fintech start-ups



Program to support women entrepreneurs in Turkey



## Science & culture

### Fundación BBVA

Support for advanced research in biomedicine, basic science, environment and socio-economics

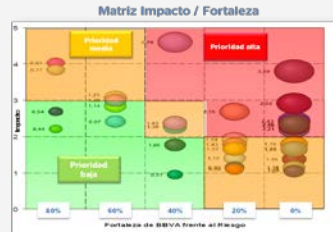
Promotion of cultural activities: music and visual arts

“BBVA Foundation Frontiers of Knowledge Awards”

# Other relevant issues: Reputational Risk Management Model

## Outcomes

(Global & local)



Impact vs Strength Matrix



Mitigation actions

## Process



## Governance & Accountability

- Reputational risk appetite + ICAAP (integrated in Global Risk Management)
- Reputational Risk Working Group (integrated in Corporate Assurance Framework) Operational Risk, Responsible Business, Compliance & Comms
- Reputational risk specialist Responsible business function

# Other relevant issues: 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



# 03

## **BBVA's impact on society**



# BBVA's impact on society

## Contribution to development - customer support

€115,021M

in homes financed

3,5 million

SMEs, micro-enterprises and self-employed workers supported

€19,692M

of finance granted to SMEs, micro-enterprises and self-employed workers

## Creating wealth

€9,881M

contribution through paid and accrued taxes

€5,163M

paid in salaries and wages

€1,135M

of remuneration in cash to shareholders

## Contributions to society

€103 M

investment in social programs

126,488

children and young people with integration grants

1,9 million

beneficiaries from BBVA Microfinance Foundation activity



For further information:

<https://shareholdersandinvestors.bbva.com/>



# ANNEXES

Sector norms: main exclusions

TCFD recommendations road map

# Sector norms: general exclusions

BBVA will not provide financial services to projects or clients whose core business is linked to any of the following activities or environmental and social impacts:

- Companies that have shown credible and clear evidence (based on court rulings or relevant controversies), of material breaches regarding applicable laws and regulations, or taking part in human rights abuses regardless of the country.
- Activities that involve child or forced labor as defined in ILO conventions.
- Projects that entail the resettlement or violation of rights of indigenous peoples, without their free, prior and informed consent (FPIC)
- Projects located or in the vicinity of UNESCO World Heritage sites, List of Ramsar wetlands, Alliance for Zero Extinction sites and Category I-IV areas of the International Union for the Conservation of Nature.
- Businesses with headquarters based in countries subject to EU, US or UN sanctions

# Sector norms: main exclusions



## Mining

- New coal mines and coal mine expansions.
- New projects on Mountaintop Removal (MTR) extraction methods
- Asbestos extraction projects
- Major coal producers using MTR mining in more than 10% of their activity
- Clients with a significant portion of their activity consisting in the extraction of coal (more than 40%) used to generate electricity that lack a diversification strategy



## Energy

- New nuclear power plants
- Construction of new and expansion of existing coal power plants
- Exploration and production of oil and gas in the Arctic
- Tar sand exploration and production
- Simple hull oil tankers
- Significant coal-based power generation (more than 40%) without a diversification strategy

Exceptions may be made for new nuclear power plants, construction of new and expansion of existing coal power plants, and coal-based power generating clients, in countries with high energy dependency and without viable alternatives. BBVA will report on such projects/clients financed

# Sector norms: main exclusions



## Agribusiness

- Illegal logging
- The burning of natural ecosystems to clear land for the development of agricultural projects
- Projects for production of first-generation biofuel
- Use of substances prohibited by the Stockholm Convention
- Non-certified Palm oil operations or not in the process of obtaining certification by the Roundtable on Sustainable Palm Oil (RSPO)
- Clients engaging in blast and cyanide fishing
- Clients using driftnets in excess of 2.5km
- Clients trading and manufacturing angora wool
- Clients with animal testing not related to health research
- Clients with direct participation in the trade of shark fins, commercial whale hunting, illegal, undeclared and unregulated fishing



## Infrastructure

- Dams failing to comply with WCD Framework
- Facilities failing to comply with the Hong Kong Ship Recycling Convention
- Clients that cannot furnish the health and safety records of their workers and/or areas of influence
- Clients that cannot disclose or provide information about their performance in connection with the use of water, waste and greenhouse gas emissions

# Implementation road map of the TCFD recommendations on climate change 1/2

Area	Recommendations	Done	Plan 2018
<b>GOVERNANCE</b>	Describe the <b>board's oversight</b> of climate-related risks and opportunities	<ul style="list-style-type: none"> <li>■ Included in the CSR Policy approved by the Board of Directors</li> <li>■ Board of Directors' oversight (3 times in last 12 months)</li> </ul>	<ul style="list-style-type: none"> <li>■ Reporting to the Board of Directors and to the Board Executive Committee</li> </ul>
	Describe <b>management's role</b> assessing and managing climate-related risks and opportunities	<ul style="list-style-type: none"> <li>■ Plans &amp; norms approved and oversighted by the CEO</li> <li>■ Global Leadership Team &amp; Sustainable Finance Working Group as forums to help decision-making</li> <li>■ Responsible Business as specialist function coordinating implementation &amp; monitoring</li> </ul>	<ul style="list-style-type: none"> <li>■ Reporting to the Global Leadership Team meeting</li> </ul>
<b>STRATEGY</b>	Describe the <b>climate-related risks and opportunities</b> the organization has <b>identified</b> over the short, medium and long term	<ul style="list-style-type: none"> <li>■ Quantify credit exposure to carbon-related assets &amp; mix energy generation in utilities</li> </ul>	<ul style="list-style-type: none"> <li>■ Update risks and opportunities definition that are material for BBVA</li> </ul>
	Describe the <b>impact</b> of climate-related risks and opportunities on the organization's businesses, strategy and financial planning	<ul style="list-style-type: none"> <li>■ Pledge 2025. Strategy on climate change and sustainable development</li> <li>■ Product portfolio defined at CIB</li> </ul>	<ul style="list-style-type: none"> <li>■ Strategy implications assessment</li> <li>■ Retail business opportunities</li> </ul>
	Describe the <b>resilience</b> of the organization's strategy, taking into consideration <b>different scenarios</b> , including a 2°C or lower scenario		<ul style="list-style-type: none"> <li>■ Participation in pilot group with UNEP FI</li> <li>■ First impact assessment on credit portfolios</li> </ul>

# Implementation road map of the TCFD recommendations on climate change 2/2

Area	Recommendations	Done	Plan 2018
<b>RISK MANAGEMENT</b>	Describe the organization's <b>processes for identifying</b> and assessing climate-related risks		<ul style="list-style-type: none"> <li>Formalize process</li> </ul>
	Describe the organization's <b>processes for managing</b> climate-related risks	<ul style="list-style-type: none"> <li>New sector norms approved by the CEO</li> <li>Equator Principles implemented</li> <li>Due diligence processes in clients, transactions &amp; products defined</li> </ul>	<ul style="list-style-type: none"> <li>Sector norms &amp; due diligence processes implementation</li> </ul>
	Describe how processes for identifying, assessing & managing these risks are <b>integrated</b> into the organization's <b>overall risk management</b>		<ul style="list-style-type: none"> <li>Integration as emerging risk</li> </ul>
<b>METRICS &amp; TARGETS</b>	Disclose the <b>metrics</b> used to assess climate-related risks and opportunities in line with its strategy and risk management process	<ul style="list-style-type: none"> <li>Quantify credit exposure to carbon-related assets &amp; mix energy generation in utilities</li> <li>Renewable energy</li> </ul>	
	Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 <b>greenhouse gas (GHG) emissions</b>	<ul style="list-style-type: none"> <li>Emissions reported Scope 1, Scope 2</li> <li>Committed with Science Based Targets Initiative</li> </ul>	<ul style="list-style-type: none"> <li>Wider disclosure on Scope 3 for carbon-related clients</li> </ul>
	Describe the targets used by the organization to manage climate-related risks and opportunities and <b>performance against targets</b>	<ul style="list-style-type: none"> <li>Mobilize €100 Billion 2018-2025. Renewable energy 70% and 68% reduction in direct GHG emissions. 100% renewable energy<sup>7</sup> in 2030</li> <li>Current exposure in sustainable finance</li> </ul>	<ul style="list-style-type: none"> <li>Annual report verified by third party about Pledge 2025 performance</li> </ul>



**BBVA** Creating  
Opportunities

# Responsible Banking

A different way of banking

March 2018

