

2. 2. Business areas

2. 2. 1. Banking activity in Spain



- Decline in lending, but good performance of the more liquid deposits and off-balance sheet funds.
- Weaker revenues due to environment.
- Good evolution in costs and impairments.
- Impact of mortgage floor clauses.
- Risk indicators continue to improve.

Definition of the area

This business area includes the Commercial Banking, Consumer Finance, Corporate and Business Banking (CBB), Corporate & Investment Banking (CIB), BBVA Seguros and Asset Management units. It also includes the portfolios, finance and structural interest-rate positions of the euro balance sheet. In addition, in September 2016 the merger of Catalunya Bank (CX) was successfully completed with the integration of the CX business in the BBVA systems.

Management priorities

Development of the strategic roadmap for the area

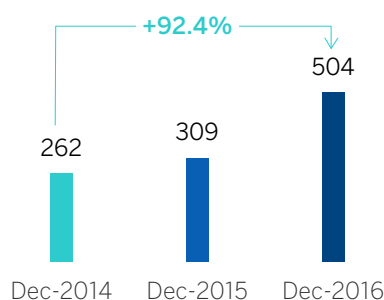
In line with the six Strategic Priorities defined by the Group, this area established a **Growth Plan** a year ago, whose priority objectives are to improve customer experience, boost digital sales, optimize capital consumption and increase efficiency continuously as key levers to drive business profitability.

In line with this Plan, the area has advanced along its strategic roadmap based on four core **elements**: transformation and development of the distribution model, development of a new value proposition for customers, adaptation of the ways of acting and working to the new environment, and leadership in customer experience.

A. Transformation and development of the distribution model

For **individual customers**, the new distribution model is focused on Retail Banking Hubs (CBC); in other words, centers offering specialized advice, with the capacity for remote management (the *BBVA Contigo* manager) as a core element of the model. These centers have managers specializing in segmented customer service and advice, boosting customer relations with the Bank through the channel that is most suitable and convenient for them. In this model, the CBC manager is responsible for the overall management of the customers in the Bank, regardless of the relationship channel.

Active remote clients ⁽¹⁾ (Banking activity in Spain. Thousands)



Retail Banking

Experts in managing customers across all channels: face-to-face, remote and digital



Boosting each sale through the most suitable channel for the customer

Digital ambassador specializing in digital culture

¹ Attended through remote advisors.

In the world of **small companies** work is being done on the development of a distribution model based on high-value advice and extreme specialization, which is levered on the new "1+9" model: a relationship manager, responsible for the overall customer relations with the Bank, supported by a team of nine product specialists (insurance, renting, foreign trade -Comex-, payment channels, investment banking, etc.) based on improvements in customer service. It is particularly focused on the flexibility and speed of response, thanks to the new tools boosting manager mobility, the redesign of processes and improvement of response times by support areas.

B. New value proposition for customers

Digital disruption and easy access to information has generated changes in our customers' needs and behavior. Customers' demands for more immediacy and customization have led us to drive **digital sales** through a new value offering with three key lines:

New value proposition

✓ Convenience

Mobile as the key relationship device

✓ Simplicity

Transparent and reliable

Simple products

Very simple buying processes

✓ Advice

Advice supported by the innovative tools (Commerce 360. BBVA Valora...)

- a. A more comfortable and appropriate, in other words, convenient **channel**, through the development of multiple new mobile applications already in the hands of our customers, under the umbrella of the well-known "Revolution of small things" campaign. By way of example: Immediate registration (allows people to open an account and become customers 100% online by mobile phone), remote signature, my conversations, push notifications, ability to request appointments by mobile phone, reservation of turn at

teller and consultation of waiting times in branches, etc.

Convenience: the revolution of small things

✓ Website and smart phone registration "Alta inmediata"

Become a customer is very simple

✓ Advanced digital servicing (Bizum, on-off, notifications)

All servicing in my app

✓ Call logged and contextualized

My remote manager on my smartphone

✓ My conversations

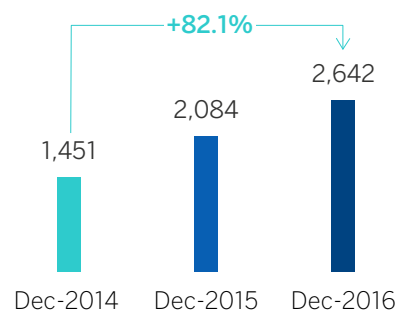
✓ Prior appointment

✓ Turn at teller and query: saturation of branch teller

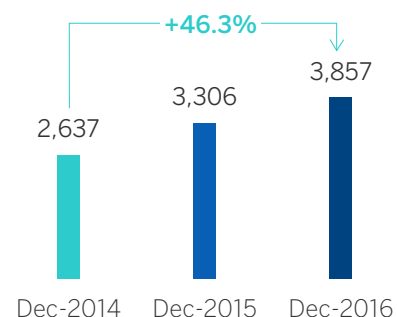
No waiting in the branch

✓ Prioritization

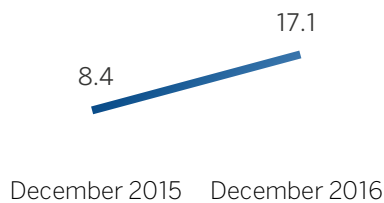
Customers through mobile (Banking activity in Spain. Thousands)



Digital customers (Banking activity in Spain. Thousands)



Digital sales (Banking activity in Spain. Percentage of total sales YTD, number of transactions)



- b. Simple, transparent and straightforward **offering**; in other words, make simple and transparent products and services available for customers in person, online and via mobile devices and simplifying the digital application process and timing as much as possible.

Simple & transparent

- ✓ **Transparent, Clear & Responsible communication**
- ✓ **Things to stop doing (10 out of 12 measures implemented)**
- ✓ **73% of products contracted via web and 53% of products via smartphone (October)**

Transparent

Very simple paperwork

- c. **Advice**, a key that clearly differentiates BBVA in quality and immediacy in comparison with its peers. By way of example: *Mi día a día* is an application to control the household economy that categorizes and predicts income and expenses, creates budgets or helps users save, by setting "savings targets" with notifications and intermediate objectives; and *BBVA Valora*, a website and pioneering application in the sector, which in six months has achieved a million searches and that advises on the buying and selling of properties, gives information and allows exploration of the chosen neighborhood, values the home and offers advice and a prior simulation of finance.

Advisory

- ✓ **Personal Financial Management**
- ✓ **Budgets**
- ✓ **Accounts goals (October)**
- ✓ **BBVA Valora**
- ✓ **360 Commerce**

Control my day-to-day-life

Helps me to save

Helps me with important decisions

C. Adaptation of the ways of acting and working to the new environment

The process of digital transformation underway in the area involves undertaking changes in our productive model, processes and ways of acting to achieve progress in efficiency and productivity that are compatible with operational excellence and improvement of customer experience.

- a. **Ways of working**: the teams that head up digital transformation work with the agile methodology, by which multidisciplinary teams are organized in scrums to achieve a clear objective that in turn is divided into quarterly deliverables.

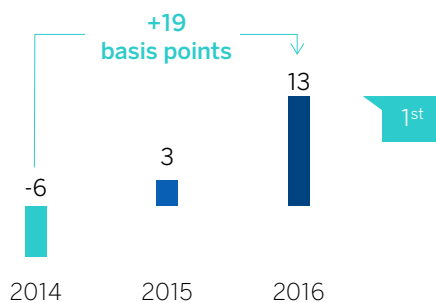
At the same time the area has a new organizational model, with flatter and more flexible structures.

- b. **The Process Plan and new IT model** represents the redesign of the main operations and processes with the aim of optimizing response times and reducing the number of incidents to zero.

D. Leadership in customer experience

In 2016 the area has consolidated its leading position among traditional banking institutions² in terms of recommendations by individual customers (**Net Promoter Score** index). This leading position is based on the strategy developed over recent years, which puts the customer at the heart of the business and which is focused on minimizing the aspects that generate customer complaints and on improving on-site and remote attention and the quality of service offered. All this has also allowed a very significant reduction in the customer attrition rate.

² Santander, Caixabank, Bankia, Sabadell and Popular.

Net Promoter Score (NPS) ⁽¹⁾ ([Banking activity in Spain. Percentage](#))

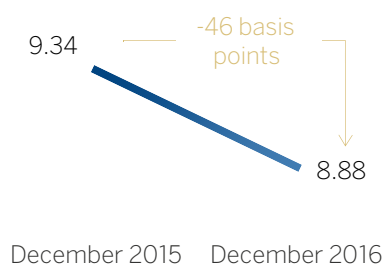
⁽¹⁾ Entities: Santander, Caixabank, Bankia, Sabadell and Popular.

Digital customer rating (Play Store Android) ([Spain](#))

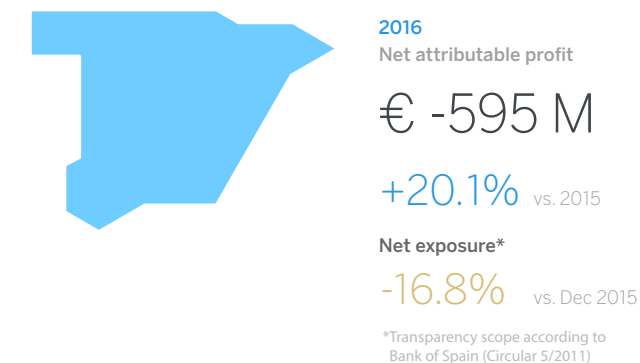
In the coming years, as part of the area's Transformation Plan, the aim will be to achieve a new standard of customer experience for both individuals and companies.

Overall, Banking Activity in Spain, through its strategic roadmap and the four core elements that sustain it, represents a firm commitment to the construction of a long-term competitive advantage: a new standard of customer experience as a lever for **growth, retention and the increased loyalty** of our customer base on which to create lasting relations of trust with them, which is a fundamental pillar of the future profitability of our business.

The [Management Report](#) provides more details on the macro and industry trends, activity and earnings of this business area.

Attrition Rate (Retail customers) ([Spain. Percentage](#))

2. 2. 2. Real-estate activity in Spain



- Better market dynamics.
- Further reduction in net exposure and NPLs.
- Increased coverage for real-estate assets.

Definition of the area

This area provides specialized management of the Group's real-estate assets, including foreclosed real-estate assets from both residential and developer mortgages, the developer loan business and other related assets. Management of properties for BBVA's own use is excluded from its scope.

Management priorities

Real-estate activity in Spain has as its main **objective** to steer and accelerate the reduction of the BBVA Group's real-estate

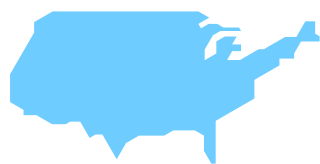
exposure, preserving the economic value of its assets. To that end, its management aims to:

- a. Boost the sale of retail and wholesale assets.
- b. Make progress in management based on economic rather than accounting values or criteria.
- c. Continuously adapt the structures, procedures and management schemes to achieve set targets, paying particular attention to setting up controls and maintaining high internal governance standards.

In **2016** various initiatives were launched aimed at expediting this process, most notably the Metrovacesa restructuring plan, which included splitting off the real-estate promotion business as the company Metrovacesa Suelo y Promoción, while keeping equity-related assets within Metrovacesa (with additional asset contributions from partners). In October 2016, the tertiary equity business was merged with Merlin Properties, SOCIMI, S.A. Land development agreements were also reached with significant developers through their allocation to joint ventures and other partnership formulas for short and medium-term land sale.

The [Management Report](#) provides more details on the macro and industry trends, activity and earnings of this business area.

2.2.3. The United States



2016
Constant €

Net attributable profit

€ 459 M

-11.5% vs. 2015

Definition of the area

This area incorporates business conducted by the Group in the United States through BBVA Compass Group and the BBVA New York branch.

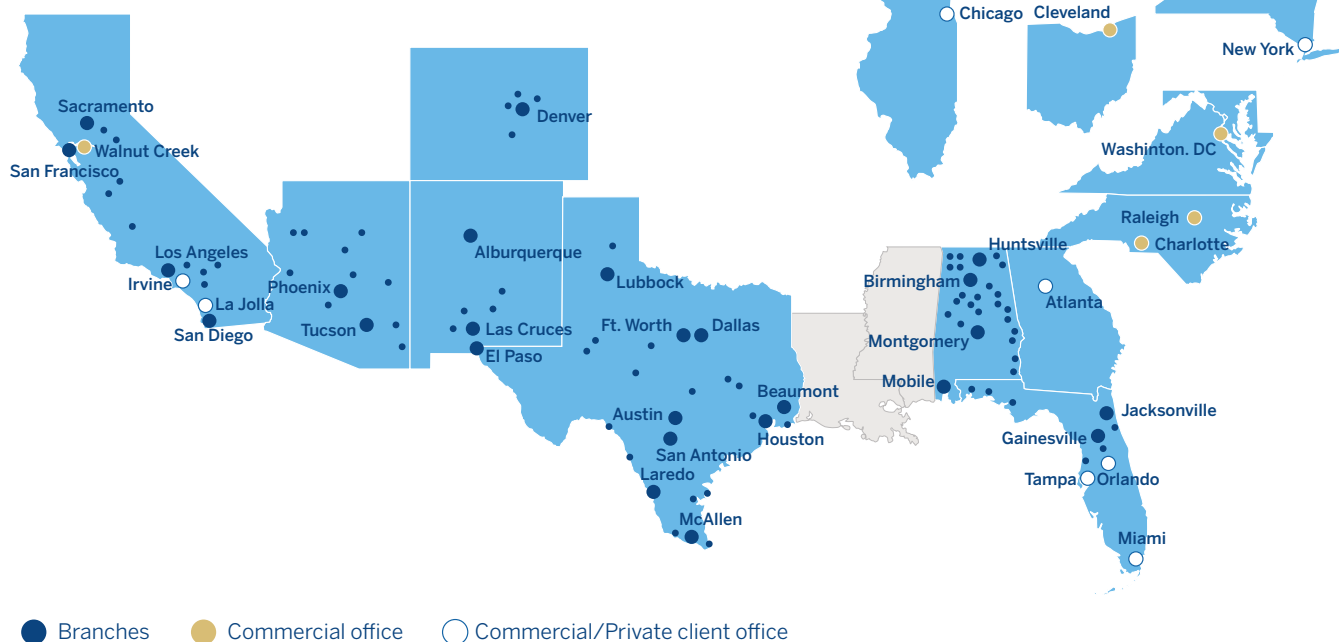
BBVA Compass is a bank with 672 branches throughout the United States. It is the 22nd largest bank in the United States in terms of deposit market share.

- Focus on profitable and selective growth.
- Good performance of deposits.
- Improved tendency throughout the year.
- Improved risk indicators throughout the year.

BBVA Compass footprint

BRANCHES BY STATE

Alabama	89	Florida	45
Arizona	75	New Mexico	19
California	62	Texas	344
Colorado	38		



Management priorities

Development of the strategic roadmap for the area

In **2016**, BBVA Compass continued making headway on its strategic roadmap, enhancing a differentiated value

proposition aligned with the six Strategic Priorities defined by the Group and focused on profitable growth. In this sense, the area has a different approach model for each segment and product / service offered, as well as handling

the business mix appropriately to achieve profitable growth.

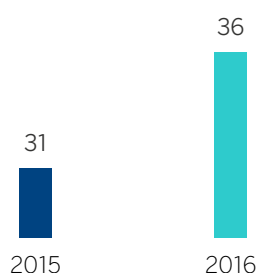
In particular, the BBVA Group subsidiary in the United States has continued to work according to the following **Strategic Priorities**:

A. To **provide a new standard in customer experience**, BBVA Compass has focused its efforts on improving processes and creating do-it-yourself solutions. The main initiatives carried out in 2016 were therefore primarily aimed at improving end-to-end processes related to:

- Opening accounts and incorporating new customers to the entity.
- Contact center.
- Credit and debit card application and maintenance.
- Granting mortgage loans.
- Other services / complaints.
- Treasury management.

As a result of these initiatives and many others, the results of BBVA Compass in terms of customer satisfaction, as measured by Net Promoter Score (NPS), have improved.

Net Promoter Score (NPS). (BBVA Compass. Percentage)

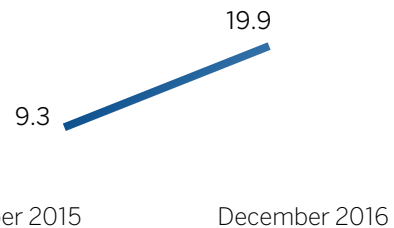


The area's objectives set for **2017** focus on increasing retention, and growing the target customer base, particularly in private and retail banking.

B. To **drive digital sales**, the area has been working on a number of key initiatives throughout 2016 to foster the transition of customers toward digital channels through "do-it-yourself" solutions, the development of new, cutting-edge functionalities and projects in partnership with the branches; all without losing sight of the initiatives for preventing fraud and improving cybersecurity. One

example of success is the online release in October 2016 of Signature Express Loan, a consumer loan that is arranged entirely online.

Digital sales (Percentage of total sales YTD, number of transactions)



In **2017**, BBVA Compass will continue to drive digital sales through a proper pricing strategy, an attractive value proposition driven by digital marketing and by leveraging technology and big data. BBVA Compass will also continue to make progress in online launching new products, such as the signing up for credit cards, etc.

C. Turning to developments in **new business models**, BBVA Compass has opted to open its technology platform to third parties so that others can create business on these supports. This is known as the Open APIs (open application program interface). In this area, the startup Dwolla, connected to the BBVA Compass API, is making its real-time payment systems available to bank customers. Customers using Simple can also enjoy the benefits of being connected to the BBVA Compass platform, as their accounts have been migrated to that platform.

The platform will represent a competitive advantage capable of achieving outstanding earnings and positioning for the bank.

Looking forward to **2017**, work will continue to develop the following products and services on the open platform:

- Corporate accounts.
- Issue of debit cards.
- Know your customer (KYC), i.e. processes for identifying and checking customer identity.
- Payment means.
- Loans.
- Operational processes.

- D. To **optimize capital allocation**, the area is focusing its efforts on generating growth organically by diversifying the loan portfolio, with a particular focus on the most profitable segments and an appropriate risk-adjusted return. In addition, there is the challenge of generating new sources of income from fees and commissions while containing expenses in an environment where interest rates are still low and with the income statement for 2016 affected by the impairment in the oil & gas sector, particularly during the first quarter of the year.
- E. In order to achieve an **unrivalled efficiency**, BBVA Compass is carrying out strict cost control and working on a continuous review of its operating methods, to adapt to a sector that is in constant change. This entails adapting:
- The model, defining new branch prototypes leveraged on new technologies.
 - The processes, with new management practices for daily branch operations.
 - The structures, i.e. adjusting the size of the network to the new customer behavior in order to optimize profitability.
- F. Lastly, to **attract, develop, motivate and retain a first-class workforce**, the area is implementing a variety of initiatives, focused on:
- Establishing a sense among the workforce of belonging to a “team of teams”.
 - A new mindset.
 - Effective employee communications.
 - Boosting the diversity and inclusion.
 - Creation of online communities that foster best practices.
 - Establishing a new leadership and development model.
- The [Management Report](#) provides more details on the macro and industry trends, activity and earnings of this business area.

2.2.4. Turkey



2016
Constant €

Net attributable profit

€ 599 M

+40.5% vs. 2015

- Focus on profitable growth, driven mainly by business banking loans.
- Net interest income growth driven by price management and activity.
- 2016 costs evolution in line with inflation.
- Risk metrics reflect good management in a complex environment.

Definition of the area

This area includes BBVA's stake in Garanti, which has been 39.9% since the third quarter of 2015, when Garanti was incorporated into the Group's financial statements by the full integration method. Consequently, the year-on-year rates of change of the earnings in the area have been affected by the change in the scope of consolidation. In order to make the comparison against 2015 easier, some rates of change are shown considering the stake in Garanti in comparable terms, i.e., including the stake in Garanti as if it had been incorporated by the full integration method since January 1, 2015 (Turkey in comparable terms).

Garanti is a banking group with 23,678 employees that provides a wide range of financial products and services to its 14.6 million customers through an extensive distribution network, with 959 branches in Turkey, 7 in Cyprus, 1 in Luxembourg and 1 in Malta. It has 3 representative offices in London, Dusseldorf and Shanghai, in addition to a presence in other countries, with 85 offices in Romania, 1 in Holland and 74 offices in Turkey dedicated to other activities such as leasing, factoring, and securities trading.

Garanti Bank footprint in Turkey



Number of
branches
tripled
since 2002



100%
geographical coverage
in 2016 vs. 49% in 2002

Management priorities

Garanti has continued to work on a series of initiatives in line with the Group's six Strategic Priorities. The following is a summary of the most relevant initiatives undertaken in 2016.

- A. Improving **customer experience** is a key aspect for Garanti. The goal is always to provide a service above and beyond the customer's expectations, seeking to offer an excellent customer experience through all the channels. To do so, Garanti is putting special emphasis on being a more transparent bank with clearer processes, and one that behaves responsibly to its customers.

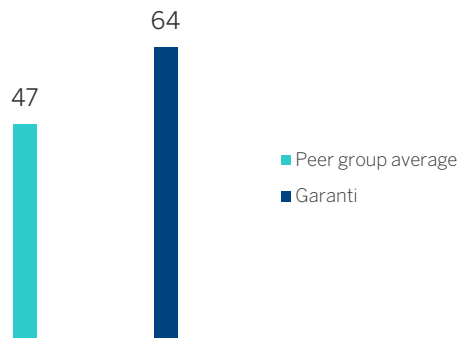
To this end, Garanti has launched the CX platform (Garanti Empati). In addition to ensuring that all employees are better informed regarding all the work and projects underway, it allows them to:

- Share best practices in customer experience.
- Work on building a relationship of trust with customers, in which better communication is crucial.

In addition, there is a mobile platform designed to empower sales force, "STEP", designed as a seamless workspace with the slogan of "a bank in a tablet". Employees can keep up with all customer information, transactions, product usage and customer requests from a single, easy to use interface. It also enables video communication with product / subject matter experts; that is to say, it provides expert level information to our customers from first hand.

As a result, Garanti is ahead of its competitors in the NPS index.

Net Promoter Score (NPS) (Turkey, Percentage)



Peer group average: Akbank, Isbank, YKB, Deniz and Finanz.

Efforts to improve customer experience will continue throughout **2017** with a view to making further improvements in areas considered to be critical for the entity, as well as in the complaint-handling processes.

Garanti has also worked in 2016 to expand the **customer base** effectively, and will continue to do so in 2017 through:

- Continuous efforts on new customer acquisition and retention.
- An increase in cross sales.
- Use of big data as an effective way to identify customers.

B. To drive **digital sales**, Garanti has positioned mobile banking at the center of its omni-channel strategy, investing in digital channels with a view to achieving sustained and profitable growth. It is worth mentioning that the vast majority of non-cash financial transactions are conducted through digital channels, which are thus assuming a very prominent role in terms of what they represent for the bank's total sales.

92%
Of all **non-cash financial transactions**
go through digital channels:



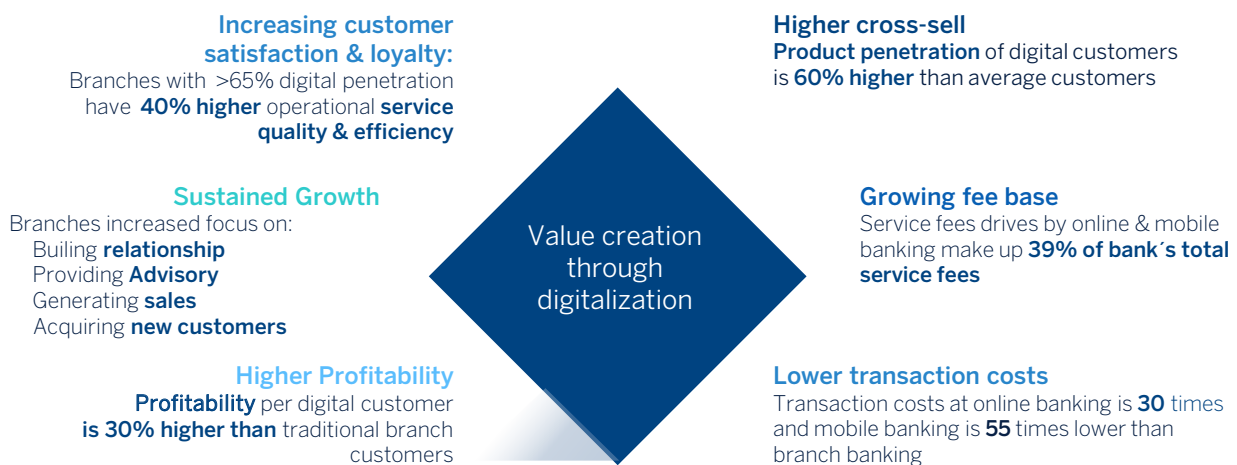
With increasing weight in **mobile**

Mobile transactions:

- **70 million** in 2015
- **>111 million** as of December 2016

The bank is convinced of the possibility of value creation through digitalization and is pursuing a more productive use of digital channels, improving existing services, incorporating new features and developing new applications and products for the digital environment.

Investments in digital channels. Feeding the sustainable and profitable growth model



Some examples of the new mobile apps and functionalities that have been launched include:

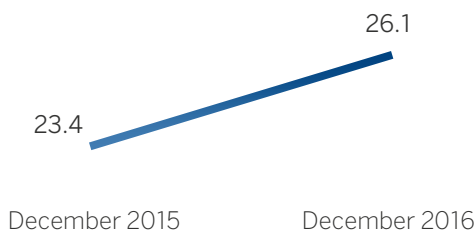
- Bonus Flaş (BBVA Wallet), which has already reached a broad user base with 2.8 million downloads in 2016.

- The launch of "mobile appointment", by which customers can get prioritized queue numbers and are allocated to less busy branches. This has allowed customers to be served quicker and easier, thus improving the customer experience.

- Individual meetings with consultants via video calls.

In addition to providing customers with innovative solutions that best meet their needs, Garanti has redesigned its digital platforms to offer an incident-free experience. These initiatives have resulted in a significant increase in online sales.

Digital sales (Percentage of total sales YTD, number of transactions)



- C. **Optimization of capital allocation** is yet another strategic priority for Garanti to ensure sustainable growth and achieve optimal profitability. This requires alignment of decision-making with capital consumption and business return, as well as a precise calculation of the risks assumed. In this regard, tracking capital consumption for the historical portfolio and new customers alike is an essential part of the decision-making process. To achieve sustained profitability, the focus will continue to be on diversifying the sources of income from fees and commissions. Effective spread management, prudent risk management and policies designed to improve **efficiency** are further key factors

for maintaining and improving the profitability of the business.

- D. **Human capital**, in other words employees, represents Garanti's most valuable asset. This is demonstrated by the investment figures in training and the recognition obtained, which proves the bank's standing among the leaders in terms of quality standards in personnel management.

The most valuable asset: human capital

Training hours per employee:

36 hours/year

- 542 thousand hours of in class training

- 113 thousand hours of digital training

- **IIIP Gold** certificate in 2015:

- Received **first Gold** in Turkey in 2012

Garanti Leadership Academy

- 85% of our Bank's directors graduated from these programs

- Ambassadors of our common culture of management

- Best Talent Management in Turkey

1st company from Turkey to earn "Gold Certificate" from Inverstors in People for the second time

The [Management Report](#) provides more details on the macro and industry trends, activity and earnings of this business area.

2.2.5. Mexico



2016
Constant €

Net attributable profit

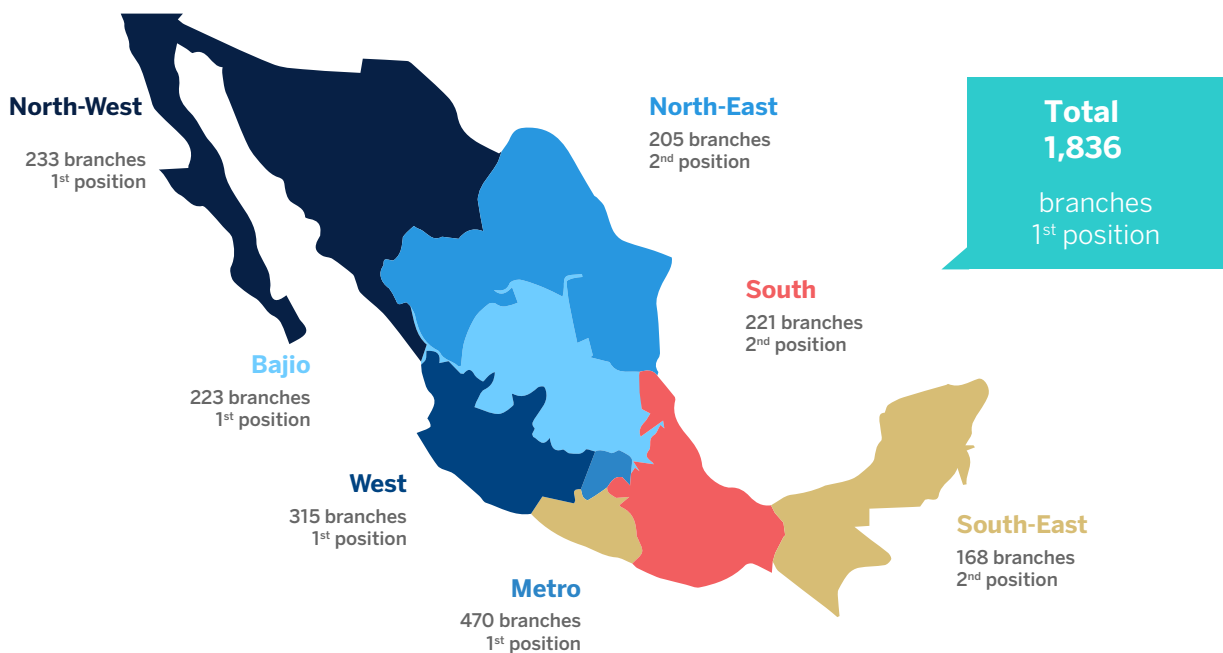
€ 1,980 M

+11.0% vs. 2015

Definition of the area

This area comprises the banking, real-estate and insurance businesses conducted by BBVA Group in Mexico (hereinafter, BBVA Bancomer or BBVA Mexico).

- Activity continues strong
- Operating expenses still growing below gross income
- Double-digit year-on-year growth in net attributable profit
- Sound risk quality



The largest banking infrastructure:

Banches: **1,836**
ATMs: **11,434**

Correspondents⁽¹⁾: **31,670**
TPVs: **171,702**

⁽¹⁾ It includes banking and exchange correspondents.

Management priorities

The **Investment Plan** implemented in 2013 for this area concluded in 2016, entailing a total investment of US\$3.5 billion. The plan included remodeling 1,831 branches (over 99% of the network), the installation of the most modern ATMs available on the market (the number increased during the year by 661 units), the launch of new applications, and the development of a robust operational and informational

platform. In addition, the new head offices have obtained the LEED certificate as sustainable buildings (Torre and Parques BBVA Bancomer). This has resulted in BBVA Bancomer achieving the top ranking on the Net Promoter Score (NPS), with improved customer service excellence and a franchise model implemented in branches, with specialized executives by product and segment.

Additionally, in 2016, BBVA Bancomer continued working on the **Strategic Priorities** that the Group launched in 2015, within an ongoing transformation process to continue

improving customer experience and the efficiency of processes as the key drivers of business profitability.

Investment plan 2013-2016: 3,500 million dollars



A. Provide a new standard in customer experience

Goal: to provide the best customer experience through a new customer service standard and model, boosting the relationship between customers and the bank through the most suitable and convenient channel for them, while offering the products and services that they need.

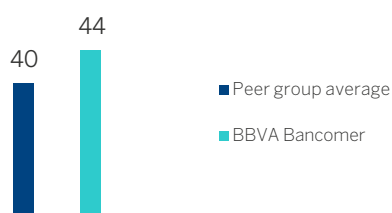
In **2015**, BBVA Mexico launched a series of initiatives to enhance customer loyalty and retention. The most significant was the *Experiencia Única* (Unique Experience) model, now implemented in all the branches, which standardizes customer service and generates an internal certification model that allows an ongoing improvement in the service.

BBVA Mexico has continued making further progress in this regard in **2016**. As a result, it has been recognized by its customers as one of the banks offering the best service in Mexico, as reflected in the rise in the Net Promoter Score over the year. Compared with its peers on the open market, BBVA Bancomer closed the year ranked first in the country.

Additionally, the mobile apps launched to simplify use of financial services have undergone a continuous improvement process in terms of user experience (UX) and transparency. Data from December 31, 2016 show that the BMovil, Send and Wallet apps have had over four million downloads, payroll portability reached 79%, the customer contact center was redefined, 82% of transactions were migrated to ATMs or self-service machines, the first cross-border accounts (from Mexico to the United States) were opened for non-resident customers in the SME and retailer segments, and the credit limit on cards for customers with a good financial history was raised.

- ✓ **Payroll attraction doubled from 11 to 22 thousand per month**
- ✓ **79% of total payroll portability, meaning that 8 out of 10 employees choose *Nómina Bancomer* (BBVA Bancomer payroll)**

Net Promoter Score (NPS) (Mexico, Percentage)



Peer group average: Banamex, Santander, Banorte, HSBC.

Several initiatives in individual customer segments are being developed in **2017** to consolidate the bank's positioning, improve customer service, create better value-added offerings and increase the customer base loyalty. The initiatives expected to be implemented include, among others: customer sub-segmentation, a new incentive model and expansion of the product offering.

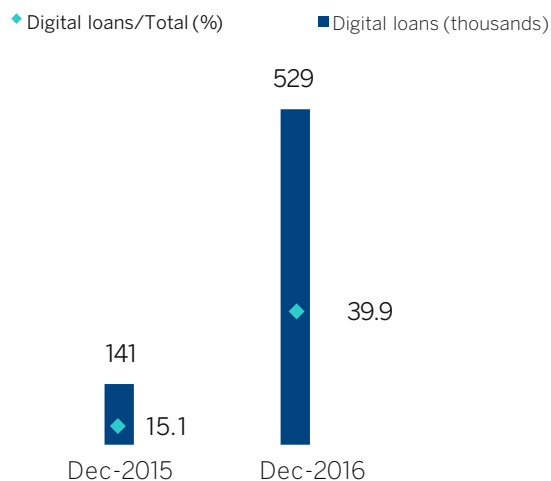
B. Drive digital sales

Goal: support and boost sales through digital channels and after-sales service, with swift, simple and secure access to financial services. There was only a limited

capability to track the performance of digital campaigns in **2015**. A new CRM (client relationship management) model was implemented in **2016** for digital marketing campaigns.

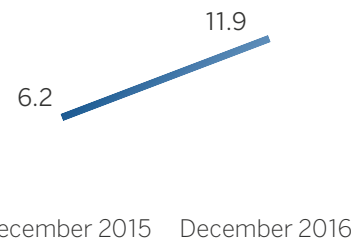
In **2015** an initial model had been implemented to provide incentives for attracting and converting traditional customers into digital customers, various products and services were designed for digital consumption (One-click) and certain solutions were developed for the digital ecosystem. The Bancomer Trader app for trading shares online was launched in **2016**. BBVA Send received an award at the 2016 Bit Prizes as the most innovative app in the financial sector for boosting digitalization in Mexico. This app lets users withdraw cash without a card (20% of the app users are not customers of the Bank). Additionally, "One-click" is one of the best examples of the boost to digital sales, since it provides the segments of private individuals and small businesses with access to consumer loans through digital and remote channels such as Bancomer.com, *Bancomer Móvil* and ATMs. The number of consumer loans granted through this medium represents over 40% of total loans. This figure for 2015 was 11%.

Consumer loans granted through digital channels (Mexico. Thousands. Percentage)



Since 2014, when we only had six **digital products**, we have increased our range substantially to 31. For instance, in 2016 BBVA Bancomer launched Mexico's first fully digital bank account as a result of a continuous process of renewal to adapt to the needs of new customer segments. As a result of all these efforts, BBVA in Mexico has reached a figure of 3.9 million active **digital customers** and granted over 500,000 **loans** through digital channels at the close of 2016. This means a year-on-year growth of 4.5 times.

Digital sales⁽¹⁾ (Mexico. Percentage of total sales YTD, number of transactions)



⁽¹⁾ Figures have been restated due to changes in the inclusion of some products.

A key focus will be maintained in **2017** on the ongoing technology development and innovation for supporting the sales process with tools that simplify the management and procedure of lending. At the same time, the aim is also to provide financial users with incentives to save, and the launch of several simple savings products is being pursued.

C. Optimize capital allocation

Goal: To optimize capital allocation by boosting and improving profitability to ensure the successful sustainability of the business.

To achieve this goal, significant progress has been made in improving and generating more efficient processes and tools to enable an integral management of BBVA Bancomer's capital and that of its subsidiaries, while complying with the requirements of local and global authorities. The initiatives currently underway in this regard aim to guarantee that the business has the essential financial information available as the primary management tool. Additionally, more importance is being given to a cross-cutting vision of business profitability (customer, segment, product, region, unit and business area). Likewise, substantial initiatives are being identified for improving cost efficiency.

D. Unrivaled efficiency

Goal: To provide greater added value at a reasonable price, achieving high levels of productivity across the whole value chain with a clear focus on commercial activity.

A number of action plans are being developed and implemented to generate more efficient processes that will increase network productivity. Improvements are also being made in fraud prevention services and efficiency of information analysis.

E. A first-class workforce

Goal: To attract, develop, motivate and retain a first-class workforce, provide the best employee experience,

and bring corporate culture into line with the Group's transformation process:

The area seeks the continuous improvement and development of the team. To do so, a leadership model has been incorporated by relaunching the communication strategy for the corporate culture and values. Constant efforts are also being made to increase the levels of transparency and employee satisfaction. Among the **initiatives** are: the substantial simplification of pay scales and salaries; incorporation of an office for retaining, taking care of and developing talent in the entity; creation of a new hiring process for reducing hiring times by half; a change in the design of the training program; and development of a new selection strategy with a view to attracting the best young talent available in the market.

F. Social responsibility

An additional strategic priority was defined in 2015 for Mexico due to the importance of the BBVA Bancomer Foundation for the country.

Its **goal** is to enhance our commitment to social development and welfare, foster education in the country

and support the communities within the institution's sphere of action.

Among the **initiatives** implemented to foster this strategic priority, every year some of the bank's earnings are allocated to support education for children with limited resources and scarce opportunities for development through a scholarship program. Financial literacy programs are likewise carried out to raise awareness of the practical advantages and positive impact of a responsible use of financial services and products. Over 2.5 million people benefited from these financial literacy programs in 2016. Additionally, the *Por los que se quedan* (For those left behind) and "Young Knowledge Olympics" programs benefited over 84,000 students in the country. Last but not least, BBVA Bancomer also fosters corporate volunteering. A total of 2,235 employees have been involved in over seven initiatives that benefited over 15,600 citizens, 3,500 students, 9 public schools and a public park.

The [Management Report](#) provides more details on the macro and industry trends, activity and earnings of this business area.

2.2.6. South America



2016
Constant €

Net attributable profit

€ 771 M

+1.1% vs. 2015

- Activity decelerating on the back of a slower macro growth.
- Positive trend in revenues.
- Costs influenced by high inflation in some countries and the adverse effect of exchange rates.
- Credit risk metrics behavior as expected: slight deterioration due to macro environment.

Definition of the area

South America manages the BBVA Group's businesses in the region. The area is notably diversified and has units operating in practically the entire zone.

BBVA's footprint in South America

	Banks	AFPs	Insurance company
Argentina	x		x
Bolivia		x	
Chile	x		x
Colombia	x		x
Paraguay	x		
Peru	x		
Uruguay	x		
Venezuela	x		x

Management priorities

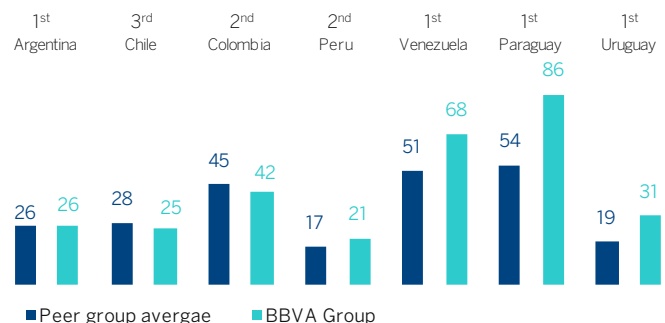
In 2016, the area has focused on the six Strategic Priorities defined by the Group, whose main **objective** is to strengthen BBVA's leading position in the region and become a benchmark for service quality and capacity to build digital relationships with customers.

Work has been undertaken to further the execution of various **transformation and technological development programs**, as well as to expand the offer of the different distribution channels which reinforces value creation for our customers.

Significant **progress** has been made on the objectives set, such as positioning BBVA as the bank most recommended by its customers and increasing the digital offering in the region. The most important developments are described in more detail below.

- A. To **provide a new standard in customer experience**, in **2016** BBVA has worked to sustain and strengthen its leadership in service quality. Specifically, a number of initiatives have been reinforced to ensure ongoing contact with customers and to discover the reasons for satisfaction or displeasure. This is crucial in enabling BBVA to embrace a process of ongoing improvement in real time and to share best practices among different geographic areas. Particularly noteworthy is the launch of the *Experiencia Única* (One Experience) program, successfully implemented in Mexico, which guarantees customers a high quality in all their interactions with the Bank. This focus on quality has enabled BBVA to lead its peers in many of the South American countries in which it operates: Argentina, Paraguay, Uruguay and Venezuela.

Net Promoter Score (NPS) ⁽¹⁾ (By geography. Percentage)



⁽¹⁾ Peer group average: Argentina: Banco Galicia, HSBC and Santander Río / Chile: BCI, Banco de Chile and Santander / Colombia: Bancolombia, Davivienda and Banco de Bogotá / Peru: BCP, Interbank and Scotiabank / Venezuela: Banesco, Mercantil and Banco de Venezuela / Paraguay: Continental, ITAU and Regional / Uruguay: ITAU, Santander and Scotiabank.

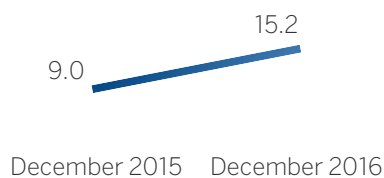
South America will continue working on this line in **2017**, boosting the evolution toward a digital ecosystem. The focus will continue to be on customer experience. In this regard, the region expects to finalize adoption of the new quality model launched in 2016 (*Experiencia Única*), which provides customer feedback in real time, enabling teams to identify and implement improvement opportunities faster.

- B. To **drive digital sales**, progress has been made throughout **2016** in implementing the digital strategy aimed at increasing the functionalities of the different

websites as well as creating and improving specific mobile banking applications. Among these initiatives BBVA Wallet stands out. It was initially launched in Chile and has been expanded to Colombia as part of the implementation process in the rest of the franchises in the region. These initiatives have led to a doubling of sales through digital channels to 1.4 million products sold through the websites and mobile devices. In addition, the region has seen a 60% increase in the volume of customers interacting with BBVA through mobile phone in 2016.

In **2017**, work will also take place to further the transformation of distribution models, paying particular attention to productivity through digital sales and increasing the efficiency of physical networks. The key issue in digital sales will be to transform risk processes and models to adapt them to the new reality of banks in South America. In the physical network, work will be done on the deployment of new management models and customer service protocols, while identifying opportunities for automation and migration to digital channels.

Digital sales (South America. Percentage of total sales YTD, number of transactions)



- C. To **create / associate with / acquire new business models**, the Group has been analyzing the innovation ecosystem. It has identified more than 300 FinTech companies in the region and has connected with the most relevant startups.

In **2017** these interactions will continue with the goal of ensuring BBVA is closely positioned alongside the entrepreneur and developer communities.

- D. To **optimize capital allocation**, in **2016** the area has furthered the development of monitoring tools and indicators for this purpose and, consequently, its optimization.

In **2017**, the banks in South America will begin to

transform their balance sheets, implementing the monitoring tools based on capital consumption that were developed in 2016. Particularly noteworthy are the pricing models based on capital consumption and the monitoring of specific metrics.

- E. To adapt the cost structure and achieve **an unrivalled efficiency**, and as a result of the greater transformation of the Bank towards a digital model, progress has been made in **2016** to identify cross-cutting initiatives in the region that help to achieve this priority.

The adaptation of the Group's cost structure to the new reality in each of the franchises in the region requires a multi-year perspective, but the projects are expected to yield results starting in **2017**.

- F. Finally, **to develop, attract, motivate and retain a first-class workforce**, work has continued on transforming the way of working through initiatives such as:

■ The agile format, which facilitates the rapid and efficient development of solutions and products through the creation of multi-disciplinary teams focused on a common goal. This has enabled transformation initiatives to be implemented in record time, offering customers new capabilities and products. To this regard, a large number of Business Development & Engineering teams in South American countries are already working with this methodology. A total of 215 people have been actively working in 31 scrums.

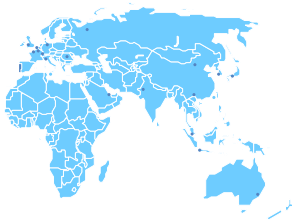
■ Work has also been carried out to transform work spaces in corporate headquarters to make interaction faster and simpler. This transformation, which already began in Chile in 2015, continued to advance in 2016: Argentina was the latest country to join in, with the opening of its new headquarters in Buenos Aires.

■ Finally, cultural transformation will play a key role in 2017 as we continue to work on our goal to attract and retain top talent. We will therefore continue boosting the agile methodology, which means implementing a project-based organization.

As result of all the above, in 2017 South America will continue its transformation so that it can fulfill its Purpose: to bring the age of opportunity to everyone.

The [Management Report](#) provides more details on the macro and industry trends, activity and earnings of this business area.

2. 2. 7. Rest of Eurasia



2016

Net attributable profit

€ 151 M

+100.1 % vs. 2015

Definition of the area

This business area includes business activity in the rest of Europe and Asia, i.e. the Group's retail and wholesale businesses in the area.

The [Management Report](#) provides more details on the macro and industry trends, activity and earnings of this business area.

- The loan book recovered its upward path in the fourth quarter of the year.
- Reduction in the balance of deposits, strongly impacted by the branches in Europe.
- Significant progress in earnings, supported by good revenues and reduction in costs.

2.2.8. Corporate Center

The Corporate Center is an aggregate that contains the rest of the items that have not been allocated to the business areas, as it basically corresponds to the Group's holding function. It includes: the costs of the head offices that have a corporate function; management of structural exchange-rate positions; specific issues of capital instruments to ensure adequate management of the Group's global solvency; portfolios and

their corresponding results, whose management is not linked to customer relations, such as industrial holdings; certain tax assets and liabilities; funds due to commitments with employees; goodwill and other intangibles. It also comprises the result from certain corporate operations carried out by the Group in 2015.

The [Management Report](#) provides more details on the macro and industry trends, activity and earnings of this business area.

2.2.9. Other information: Corporate & Investment Banking

- The environment of pressure on margins and excess liquidity remains unchanged
- Slight slowdown in lending, but a slowdown in the rate of decline in customer deposits
- Further improvement of results in the fourth-quarter, thanks to good management of market volatility

Definition of the area

Corporate & Investment Banking (CIB or BBVA CIB) includes the Group's wholesale businesses, i.e. investment banking, global markets, global loans and transactional services for international corporate customers and institutional investors across its global footprint.

BBVA CIB is a provider of high added-value services. Thanks to a model with global coverage, it improves the product offering and promotes a strategic dialog with customers, supported by good geographical diversification.

CIB: a global business unit with a diversified business



Management priorities

Progress in digital transformation and customer experience

Customers remain the main pillar of BBVA CIB's strategy. In 2016 work has therefore continued on reinforcing this strategy, with particular focus on progress in digital transformation and customer experience, through the development of a less capital-intensive model that is more efficient in terms of costs.

BBVA CIB aims to offer a differential **growth** and higher **profitability** than the industry average, based on a recurring and stable business model, aligned with the Group's main financial objectives and Strategic Priorities, as described below.

A. Provide new standard in customer experience

In 2016 major progress has been made on the goal of achieving the best possible experience for our customers across all the business areas, products, channels and geographic areas.

By way of an example, the creation of the **Client Excellence Team** in CIB has boosted this strategy, achieving significant results, such as the implementation of Fenergo in Europe, an internal tool for managing the contracting process; and the launch of **Net Promoter Score** as a key indicator for discovering the level of satisfaction of customers who operate with CIB. Significant improvements have also been recorded in the

automation of some of the post-contracting processes.

There have also been significant achievements in **cross-cutting synergies**, thanks to the marketing initiatives implemented, which have had a positive impact on revenues from customers.

Among the main **objectives** for the future of customer experience in the unit are to extend the internal Fenergo tool to other geographies and customer segments and implement a project for improving customer claims management. With respect to the cross-cutting approach, the aim is to extend the diversification acid test to more customers in order to identify their geographical and product diversification and thus be able to improve cross-selling.

B. Drive digital sales and new business models

The CIB digital transformation continues. In this regard, significant progress has been made in driving digital sales in 2016, as the launch of the Net Cash app in Spain. This is an online banking platform for corporates and institutions that has achieved very good results since its implementation, with over 264,000 downloads and 1.8 million connections in the month (December 2016 data), with planned implementation over the coming months in Chile, Peru and Argentina. This is a clear example of the continued development of new channels, leading to greater interaction with customers, making available a wider range of products and improving processes through a higher level of automation, transparency and speed of execution.

The **objectives** for the coming years are: continue to make improvements to the global payments platform and infrastructure and to the e-Banking tool in each country, and enhance the digitalization of products and services, developing the Net Cash architecture and developing the user experience (UX); in other words, everything involving

the interface design, information architecture, usability and web product design.

C. New business models

The unit has some initiatives underway that will be maturing in the coming years; among them, the identification of non-bank competitors, the development of alliances with players positioned along the different links of the value chain within the financial industry, and the review of potential new technical developments (Blockchain).

D. Optimize capital allocation

BBVA CIB continues to optimize its capital model by developing new processes and tools that can increase the contribution to the Group's capital ratio (CET1), as well as adapt them to the new regulatory requirements.

E. Adapt the model, the processes and the structures to achieve an unrivaled efficiency

The unit has a permanent focus on cost efficiency, with particular emphasis on the management of discretionary expenses. Development also continues on the investment plan in information technology.

F. Attract, develop, motivate and retain a first-class workforce

Lastly, BBVA CIB is developing initiatives to boost the talent of its team and facilitate the cultural change that is being developed and implemented across the Group by Talent & Culture.

The [Management Report](#) provides more details on the macro and industry trends, activity and earnings of BBVA Group's wholesale businesses