3. Strategy

During 2016, the BBVA Group made great progress in its **Transformation Journey**, strongly supported by the Group's Purpose and six Strategic Priorities. The Entity's new strategy has been bolstered with particular focus on digitalization and customer experience, simplifying the organizational structure and in 2017 redefining the Bank's new tagline: "Creating Opportunities".

The BBVA Group is immersed in a transformation process necessary to adapt to the new **environment** of the financial industry and preserve its leadership. This environment is characterized by:

- Economic downturn, increased regulatory pressure, negative impact on the profitability of the industry, low interest rates and increased competition.
- Changes in the expectations of customers, who demand services of greater added value to help them achieve their goals. Customers want advice, transparency and a digital relationship model.
- Entry of new players and large digital companies with highly attractive value propositions and the resulting risk for traditional banks of a gradual erosion of the relationship with their customers.

Success in this new environment requires a more selective approach, involving a redefinition of the value proposition and the adaptation of the universal banking business model.

In this context, the goal of BBVA Group's transformation strategy is to strengthen its relationship with its customers. This strategy is structured around a **Purpose and six Strategic Priorities**, which are the pillars buttressing not only the strategic plans across all the Group's regions and areas but also the culture of the Organization as a whole.

Finally, in 2016 we strengthened our **responsible banking model** with the approval of a new strategic plan for 2016-2018.

3. 1. Our vision: a new financial environment for the financial industry

3. 1. 1. Macroeconomic environment

Weak global economic growth, vulnerable to risks

Global growth improved in the second half of 2016 (estimated at 0.8% for the third quarter and 0.9% for the fourth). Developed countries are speeding up their growth thanks to improved confidence and a stronger industrial sector, which is also having an effect on the Chinese economy. The performance of the rest of the emerging economies is uneven, but in general the trend is for recovery. The improvement in global trade also appears to be confirmed, after a weak first half of the year. Global growth is therefore expected to be slightly higher than 3% in 2017, sustained by support from central banks, relative calm on the financial markets and the recovery of emerging economies.

Global GDP growth and inflation in 2016 (Real percentage growth)

	GDP	Inflation
Global	3.0	4.8
Eurozone	1.7	0.2
Spain	3.2	-0.2
The United States	1.6	1.3
Mexico	2.0	2.8
South America [(1)]	-2.8	43.4
Turkey	2.3	7.8
China	6.7	2.0

Source: BBVA Research estimates.

[(1)] It includes Brazil, Argentina, Venezuela, Colombia, Peru and Chile.

Keys to growth in 2017

The key in this scenario of weak economic growth within a context of reduced global trade and a greater aversion to the spread of globalization lies in addressing the economic consequences of some of the risks linked to economic policies. First, there is the uncertainty in connection with the economic policy of the new administration in the United States, particularly regarding protectionism and its potential global effects. Second, while the impact of Brexit (the referendum at the end of June resulting in a victory for those wanting the United Kingdom to leave the European Union) has not had a systemic impact, there is nevertheless lingering uncertainty regarding the negotiations related to it, which could weigh heavily on economic confidence in 2017. An additional factor is concern with respect to the results of a very busy electoral calendar throughout Europe.

The 2017 outlook for **Spain** is one of moderate growth of up to 2.7%, in light of the weakening of some support factors such as fiscal policy and an increase in oil prices.

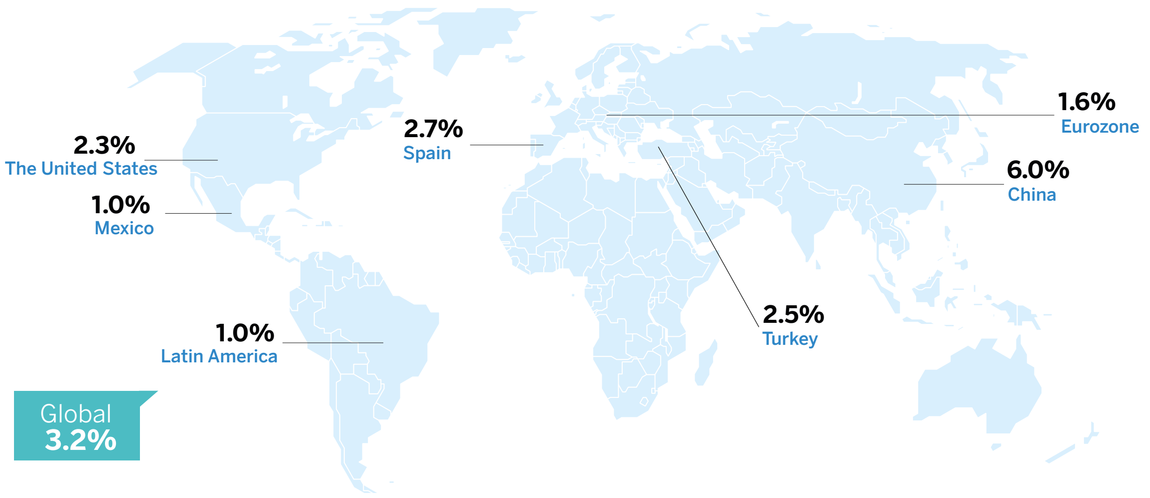
The recovery in the **rest of Europe** faces the risk of a slowdown associated with political uncertainty or the reversal of the reforms implemented in some countries. In this context, we expect a GDP growth of 1.7% in 2016 and 1.6% in 2017.

In the **United States**, there are still major doubts regarding economic policy, particularly with respect to trade agreements, as well as the rate of interest rate hikes by the Federal Reserve (FED) and their resulting impact on emerging economies. In light of the foregoing, the average growth in 2016 will slow to 1.6% and then increase until 2.3% in 2017. In this scenario, the FED is expected to conduct a gradual normalization process in a context characterized by the uncertainty of the external environment together with the FED's own concerns regarding the trending growth in productivity and the economy's potential GDP growth.

The key for **emerging economies** is management of their vulnerability to sudden movements of capital. There has been increased inflationary pressure in Turkey, which could lead to a tougher monetary policy in an environment of moderate growth of 2.3% in 2016 and 2.5% in 2017. The pace of economic growth in Mexico could have tapered off to 2% in 2016 and this slowdown may become more pronounced, down to 1% in 2017, given the uncertainty associated with the trade measures adopted by the United States. The GDP of South America as a whole could contract by 2.8% in 2016, though it should recover and post growth of slightly over 1% in 2017 thanks to the increased contribution from the foreign sector, the end of the downturn in Brazil, private investment in Argentina and the plans for public-sector investment in countries such as Peru and Colombia.

However, in the more medium and longer term, the greatest risk for the global economy remains linked to the imbalances in **China's economy**. In this regard, concerns regarding a substantial slowdown in 2016 were allayed after reports of 6.7% growth (6.9% in 2015). However, the outlook continues to be for a gradual slowdown to around 6% in 2017. In the long term, doubts regarding the prospects of growth remain, given the slow progress of structural reforms in some key areas, particularly in state-owned companies.

Economic growth in 2017 (Percentage of GDP growth)



Source: BBVA Research
Latin America: Argentina, Brasil, Chile, Colombia, Mexico, Peru and Venezuela

3. 1. 2. The regulatory environment in the financial industry

The Single Resolution Mechanism: an assessment of the first year

The **Single Resolution Mechanism** (SRM) became fully operational on 1 January 2016, passing the responsibility for resolution from the Member States in the banking union to the Single Resolution Board (SRB). The SRM is highly significant, as it is one of the three essential pillars of a true European banking union. Since the beginning of the year, a total of 144 Eurozone banks have been working under the auspices of the SRB, 129 of which are supervised directly by the European Central Bank (ECB) and another 15 are large cross-border groups.

The SRM comprises two **elements**: the SRB and the Single Resolution Fund (SRF). It applies to banks covered by the Single Supervisory Mechanism (SSM). The SRM complements the SSM and attempts to secure an orderly resolution of banks in distress at a minimum cost for taxpayers and the European economy.

The **SRB** is the main decision-making body of the SRM and decides on the resolution mechanisms for distressed banks that are within the scope of the SSM. As the highest authority for banks in the banking union, it has the power to exercise its powers at its own discretion with respect to any of the banks in the Member States forming part of the banking union. In general, as the banking supervisor the ECB informs the SRB of problems faced by any of the banks in the union. The SRB then decides the best strategy for resolution on a case-by-case basis.

The second element of the SRM is the **SRF**, which is essential for financing the resolution of banks in distress when a bail-in of shareholders and creditors is insufficient. The fund's resources come from the banks in the 19 Member States that form the SSM. The target of the SRF is to accumulate at least the equivalent of 1% of the deposits covered during the next eight years (2016 – 2023). It is essential to note that the funds accumulated in the SRF are only used as a last resort. At no time may the funds be used to absorb the losses of an entity or for its recapitalization. However, in some exceptional cases, SRF funds can be used whenever the following conditions are fulfilled: the existence of a bail-in of at least 8% of total liabilities (including own funds) and the SRF contribution does not exceed 5% of total liabilities (including own funds). The SRF does not yet have all the estimated funds needed. The contributions of the banks will gradually increase over the coming years. To make up for this shortfall, bridge financing has been set up through intergovernmental agreements (IGAs), which can be executed in case of need. Currently 14 of the 19 Member States of the banking union have established a Loan Facility Agreement (LFA).

The SRM becoming fully operational is a positive step, even though the SRF is still in the accumulation phase. The SRF is one of the essential elements for mitigating risks in the European banking system and enables genuine banking union.

The regulatory reform driven by the G-20 is almost complete and the aim is for its implementation to be more uniform

Completion of the regulatory reform driven by the G-20 following the outbreak of the financial crisis continued into 2016. A vital step was taken at the close of 2015 for completing the resolution framework for global systemically important banks (G-SIBs) with the approval in November of the minimum total loss-absorbing capacity (TLAC) requirements. Implementation continued throughout 2016 in most of the Member States of the Financial Stability Board (FSB). Additionally, the FSB published a Key Attributes Assessment Methodology in October with a view to affording an effective and uniform implementation of the resolution systems. Progress has also been made in the review of the global capital framework (Basel III), particularly as regards the methods for calculating the minimum requirements. In addition, the implementation of the agreed reforms, which involve greater capital and liquidity requirements and boost the transparency and governance of banking institutions, has made significant progress in most jurisdictions and strengthened the banking system. The impact of this global reform on economic activity is drawing increasing interest, since it could restrict economic growth.

Europe continues to take steps forward in its process of strengthening and completing banking union

The progress made in European banking union has been significant, in keeping with last year (2015).

An **initial milestone** was the full roll-out of the SRM and the start of the timeline for accumulating the resources necessary in the SRF over the next eight years. This element is essential for reducing risks in the banking system and thus enables more effective banking union.

The European Commission reached a **second milestone** on November 23, when presenting a particularly wide-ranging legislative proposal with a view to including the most recent international regulatory agreements in European regulations, though adapting them to what is still a fragile economic recovery. The legislative proposal revises Europe's prudential rules, particularly the CRR, CRD and BRRD, and includes various elements for shoring up the banking system against adverse shocks and thus reducing possible risks. Among the elements included are: details for the compliance with a leverage ratio, long-term liquidity ratio, implementation of a more risk-sensitive methodology for calculating the market risk of the financial instruments held for trading by banks, introduction of interest-rate risks in the banking portfolio, and a review of the maximum exposure per counterparty. Turning to bank resolution, the requirement for total loss absorbing capacity (TLAC) was introduced for systemically important banks and the final design of this instrument was clarified for the other European entities (MREL). All these elements mitigate the risk faced by entities and reduce the likelihood that taxpayers will have to bail out banks, though at a possible additional cost. The Commission hopes that the measures specified will be effective enough to minimize undesired effects and their negative impact on growth will be limited, so that the benefits of greater financial stability will more than offset the additional costs.

The step yet to be taken for achieving an effective banking union entails moving toward a **European Deposit Insurance Scheme** (EDIS). Last year the Commission introduced a legislative proposal for a timeline for making steady progress toward combining the different national deposit guarantee funds into a single European one. The process will conclude in 2024 with a common fund managed centrally, though the legislative process has progressed much slower and faces complications, which means its approval is less certain.

The EBA's transparency exercise demonstrates greater resistance by European banks to unexpected shocks

On July 29, the European Banking Authority (EBA) published the results of its most recent EU-wide stress tests on banks. The results were highly positive. The simulation revealed that only two banks of the fifty analyzed would need extra capital if faced with an unexpected and substantial shock. This is a significant improvement compared with previous exercises and demonstrates the increased resilience of European banks. In turn, the good performance of the entities in Spain is the result of the restructuring of the system and an effective cleaning of their balance sheets. Lastly, if progress is to be made toward an effective banking union it is essential to resolve some issues inherited from the financial crisis in other areas of Europe as soon as possible.

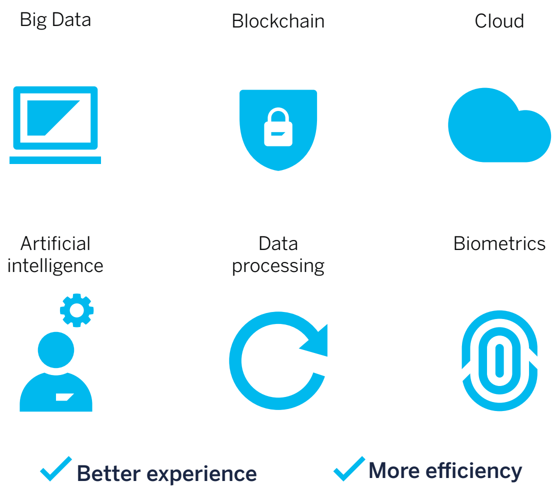
3. 1. 3. Digitalization

Digitalization is making an impact on the financial industry, since it can satisfy the new demands of customers in various ways.

Firstly, the entry of **mobile devices** has led to changes in the distribution model. Society as a whole is permanently connected, regardless of location. Mobile devices have become the main channel of contact. The number of mobile banking users worldwide has grown exponentially and customers are increasingly interacting through their mobile devices.

Moreover, new **developments in technology** (big data, artificial intelligence, Blockchain, the cloud, data processing, biometry, etc.) represent a major advance in customer experience. These technologies allow us to analyze automatically data and algorithms (risk profile, habits and preferences, financial needs and expectations, etc.), together with simple interactions and a fluid transition across channels and vendors. Likewise, they provide easy access to the best solutions available on the marketplace with the most beneficial conditions by default. Technological innovations reduce unit costs thanks to process automation and scalability.

> The customer will be the main beneficiary in this new environment as financial services become democratized



New technologies foster the **democratization** of financial services: the entire world will be able to gain access to better and more sophisticated services that were up to now only available for high-value segments. In this context, having access to a customer's relevant information with his/her consent has proven to be critical in providing automated and personalized advice. And to achieve this, it is essential to earn the customer's trust.

Additionally, **new, specialized players** are entering the financial industry and successfully tackling parts of the value chain (payments, financing, asset management, insurance, etc.). Their disruptive proposals are primarily based on improving customer experience and enhancing specialization in certain products. These players include FinTech companies and large digital corporations (Google, Amazon, etc.), which are now competing with banks in the new environment.

In conclusion, **traditional banking** should respond by becoming more competitive and providing value-added solutions, with greater focus on customer experience and the development of their digital offering.

3. 1. 4. Shift in consumer behavior

Customers are asking for a **new type of banking relationship** and have begun demanding new services based on new needs. We are currently in an environment where consumers are permanently connected (they want to operate at any time from any place). They are already accustomed to digital experiences (they expect proactive and personalized assistance for managing their money) and the use of multiple devices and applications (they want to be able to operate via what is the most convenient channel for them). They are also calling for greater transparency and trust in their banking relationship, in addition to enhanced customization, accessibility and convenience in financial services in order to achieve their own goals in life.

Furthermore, a **socio-demographic shift** is underway that should also be considered. The Millennial Generation has a clearly digital profile and is becoming a new group of consumers requiring services. Digitalization is reaching the adult population (a greater number and with more purchasing power in developed markets), while the middle class in emerging countries is also increasing their digital potential.

In light of the foregoing, the financial industry has to transform and offer a more extensive service and advice to customers, in addition to a new value proposition based on a digital relationship model focused on an omnichannel approach, personalization and convenience.

3. 1. 5. Reputation and materiality analysis

Reputation and trust have begun to recover in 2016, but they remain at low levels

The financial sector has experienced a profound crisis in reputation and trust since 2007, particularly in the case of developed economies. Recovery is not yet complete. The reputation of banks in developed economies, according to the **Reputation Institute** (RepTrak Pulse), fell from 61 to 53 points from 2007 to 2013. The decline is even greater in the case of Spain, where the figure fell from 60 to 40 in the same period. Since then there has been a recovery, with the figure rising in 2016 to 53.5 points, still below pre-crisis levels.

Another key indicator is the **Edelman Trust Barometer**, which measures trust in industry. The trend here has been similar. In this case, the percentage of people around the world who trust banks a great deal or quite a lot bottomed out in 2012 at 43% (16% in Spain). Since then, the figures have improved to 51% (35% in Spain), above all in 2016.

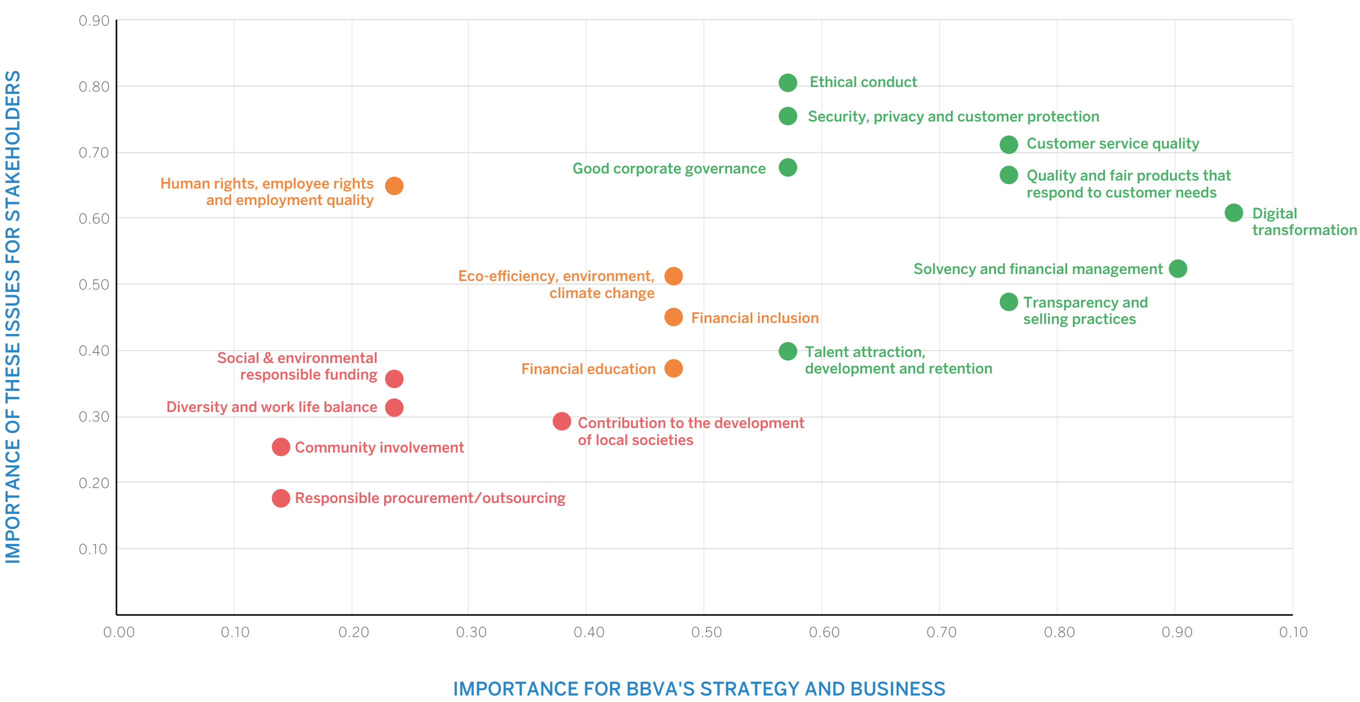
However, it is important to note that the financial sector is still the worst rated. According to the report, in 2016 the gap in trust between the informed public and general public has continued to grow (60 versus 48).

Materiality analysis

At BBVA, we have a broad range of **tools** for consultation and dialog with all our stakeholders in each country and business area in which we operate. These tools guarantee two things: that stakeholders have the proper service channels available and BBVA has sufficient sources of information to know what their priorities and expectations are with respect to the Entity, and can thus offer them the appropriate response to their needs.

Identification and prioritization of **material issues** in 2016 are summed up in the following materiality matrix, where they are classified according to two variables: the importance for stakeholders and importance for the BBVA business. The matrix has been prepared following the recommendations on disclosure in the GRI G4 sustainability reporting guidelines.

Materiality matrix



The material issues with the highest priority are:

- Ethics and good corporate governance.
- Quality products and services for customers
- Transparency and selling practices
- Digital transformation
- Financial solvency

- Talent attraction, development and retaining

The second-level issues are:

- Financial education.
- Climate change and eco-efficiency.
- Financial inclusion.
- Human rights and quality employment.

BBVA addresses these issues through its six Strategic Priorities.

3. 2. Our aspiration

In this context, the main objective of the BBVA Group's transformation strategy, i.e. our aspiration, is **to strengthen the relationship with our customers**.

Customers should be the main beneficiaries of this new environment, in which financial services are becoming more democratic. To do so, we are redefining our **value proposition**, based on the fundamental pillars of **customer experience and trust**.

We want to help our customer take financial decisions through a **clear, simple and transparent** offering of products and services, based on **fair conditions** and concepts of **prudence and integrity** to gain their trust.

Our value proposition must also be **easy and convenient**; in other words, a proposition that offers the chance of accessing our services at any time, from any place and by the means chosen by each individual customer, allowing the choice of using either do-it-yourself (DIY) options through digital channels or human interaction.

We also have to provide the **relevant assistance and advice**. We have to help our customers take the best decisions (banking and non-banking), support them in the management of their day-to-day finance, provide products and services that are proactive, innovative and personalized, together with the best recommendations from all the possible financial alternatives.

Finally, to attain our aspiration, we are leveraging **technology** and data. Since we began our transformation process in 2007, we have been striving to improve our platforms (multi-channel architecture, core banking system, etc.) while adapting to the new development paradigms (platform as a service), to make technology work for our customers.

3. 3. Transformation of the BBVA Group: the Transformation Journey

We have taken great strides in 2016 to fulfill our **Purpose**: "To bring the age of opportunity to everyone". Aligned with our vision of the future, our Purpose is our reason for being and guides our strategy and decision-making. We want to help our customers achieve their goals in life. We want to go beyond being a bank and become a vehicle of opportunities with a positive impact on the lives of people and on the business of companies.

In line with our Purpose, significant steps have also been taken in the development of the Group's six **Strategic Priorities** to make headway in our transformation process.

Strategic Priorities

1 New standard in customer experience

2 Drive digital sales

3 New business models

4 Optimize capital allocation

5 Unrivaled efficiency

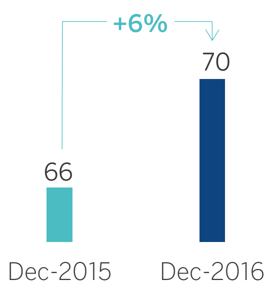
6 A first-class workforce

A new standard in customer experience

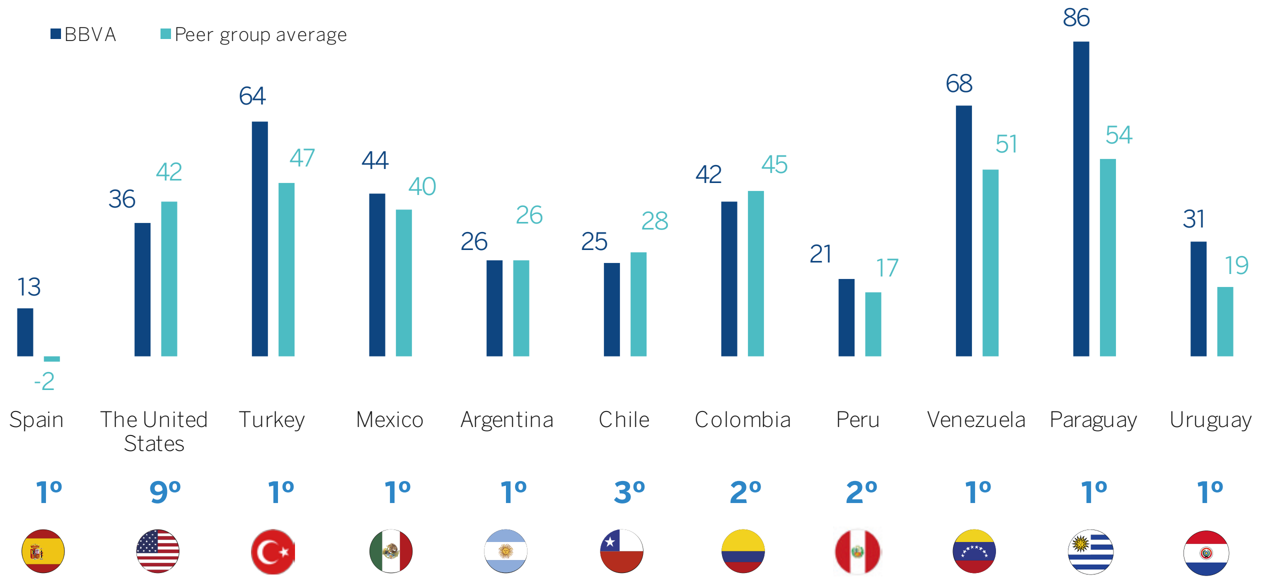
The focus of BBVA Group is on providing the best customer experience that stands out for its simplicity, transparency and swiftness, further empowering our customers while bringing them personalized advice.

We have a customer-oriented business model that offers a differential service with a very ambitious goal: **to be leaders in customer satisfaction across our global footprint**.

Number of customers (BBVA Group. Millions)



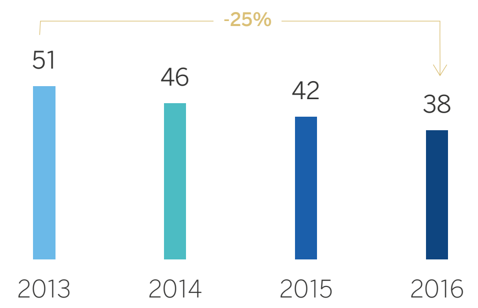
Net Promoter Score (NPS) (By geography. Percentage)



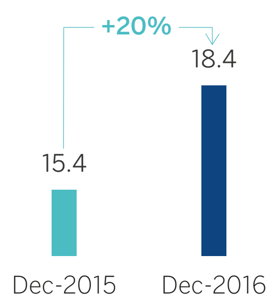
Peer Group: Spain: Santander, CaixaBank, Bankia, Sabadell, Popular / The United States: Bank of America, Bank of the West, Comerica, Frost, Chase, Regions, US Bank, Wells Fargo/ Mexico: Banamex, Santander, Banorte , HSBC /Peru: BCP, Interbank, Scotiabank / Argentina: Banco Galicia, HSBC, Santander Rio/ Colombia: Bancolombia, Davivienda, Banco de Bogotá/ Chile: BCI, Banco de Chile, Santander / Venezuela: Banesco, Mercantil, Banco de Venezuela / Paraguay: Continental, ITAU, Regional / Uruguay: ITAU, Santander, Scotiabank.

Our relationship model is evolving to adapt to our customers' multi-channel profile. The amount of digital and mobile customers in BBVA Group grew considerably in **2016,** while branch activity has declined in recent years.

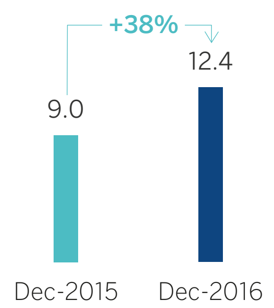
Branch activity (BBVA Spain. Millions of transactions)



Digital customers (BBVA Group. Millions)



Mobile customers (BBVA Group. Millions)



There was also significant progress made in improving the customer experience in terms of the distribution model, products and functionalities.

Various projects were launched in the **distribution model**: "Mis conversaciones" (My conversations) and "Alta Digital (Digital Onboarding) in Spain, a new customer welcome program in the United States, expansion of the remote manager model in Mexico, Argentina, Turkey and Peru, "Step" (a relationship model based on the use of tablets and arrangement of appointments by mobile in Turkey, "Feedback online - Opinator" in Argentina and the launch of "Experiencia única" (Unique experience) in Peru.

Some of the more prominent **new products and functional features** developed in 2016 include: mobile-to-mobile transfer, "BBVA Valora" and "Commerce 360" in Spain; salary advances, cross-sales of digital insurance, simple credit renewals for SMEs and digital auto and mortgage credits in Mexico; swift signature on loans and aggregation of external accounts in the United States; online banking notification via mobile devices and smart car insurance in Turkey; a personal financial and expense manager in Spain and Mexico; and the "Precios - Cotiza" model in Peru.

Finally, with a view to prioritizing **global and local projects**, BBVA has implemented a "Single Development Agenda (SDA)", which develops solutions that have a clear impact on customer experience. The aim is also to provide strategic consistency with significant impact at Group level in the development of customer solutions, prioritize and coordinate the allocation of resources, minimize expenses, streamline time to market (or launch times) and develop infrastructure and capabilities adequately.

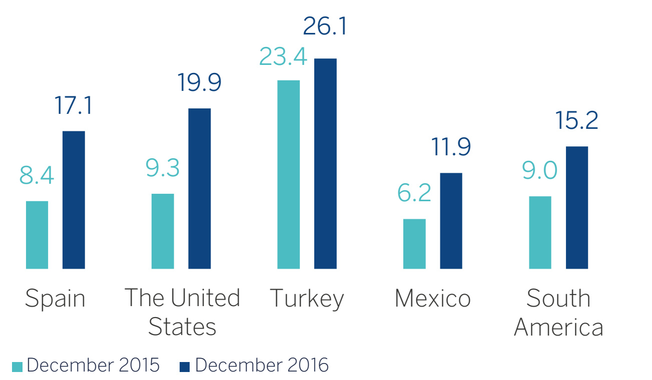
Driving digital sales

At BBVA, it is essential to drive digitalization for our transformation while boosting business on digital channels. In this regard, we are developing a range of digital products and services that enable customers to use the channel most convenient for them.

The **Product Digitalization Plan** includes the digitalization of traditional products (mortgages, car insurance, receipt financing, one-click loans, etc.) and the launch of native products, i.e. ones that were digital from the start (Wallet, Link, Wibe, etc.)

Moreover, significant work is being carried out on **sales through digital channels**, which have been developing very positively in all countries.

Digital sales
(By geography. Percentage of total sales YTD, number of transactions)



New business models

New Digital Businesses (NDB) is the BBVA business unit responsible for participating actively in the digital disruption of the financial industry and thus reinventing BBVA from the outside through a quest for new digital business models for the Bank by leveraging our efforts on the FinTech ecosystem.

Continuing with the strategy initiated in 2015, BBVA further consolidated its position in **2016** as one of the banks that are a benchmark in digital transformation and activity in the FinTech ecosystem. Salient efforts were made throughout the year to develop new business models through four key levers:

M&A and strategic investments

SIMPLE
HOLVI
Atom 29,5%
SpringStudio
MADIVA
Openpay

Strategic alliances

Google
PROSPER
DWOLLA
R · DLG

Internal incubator

API_MARKET
8 proyectos en incubación

Venture capital

PROSPER
PERSONAL CAPITAL
earnest
Hixme
INSIKT
brave
DocuSign
Guideline
coinbase
hippo
taulia
civic
DRIVE MOTORS

Note: DriveMotors, Civi, Hippo, Guideline, Hixme and Brave are investments made by Propel Venture Partners U.S. Fund I, LP, a venture capital fund managed independently by Propel Venture Partners LLC, in which BBVA Compass Bancshares Inc. is a Limited Partner.

1. **M&A and strategic investments:** thanks to our active role in the FinTech ecosystem, BBVA is now considered to be an attractive investor for startups looking for not only a financial investor, but a strategic ally. For BBVA, investment in companies of this sort means accelerating our digital transformation and is an excellent way to incorporate new products and markets, not to mention talent and digital and

entrepreneurial capabilities. The activity in this area intensified further in 2016, with over 100 companies evaluated as potential targets. Three operations have been concluded:

a. A strategic investment (29.5%) in the UK's first digital bank with its own license (Atom).

b. The acquisition of a "neo-bank" focused on the small business and self-employed segment, currently operating in Finland and Germany (Holvi).

c. The conclusion of an agreement for the acquisition of Openpay, a Mexican startup offering online payment solutions.

2. **Strategic alliances:** BBVA's ranking as leader in many countries and its digital reputation have attracted the interest of a number of FinTech and technology companies. The goal is to reach mutually beneficial agreements that also provide our customers with a better value proposition. In 2016, our teams were proactive in the emerging ecosystem, with four agreements reached during the year (Google, Prosper, R3 and Dwolla) and an extensive portfolio of projects that we expect to close in the next few quarters.

3. **Internal incubator:** As part of our strategy to be an active member of this ecosystem, we have decided to create an internal incubation model that combines internal talent and know-how with the partnership of "resident" entrepreneurs. The projects are selected by positioning our customers or potential customers at the center and harnessing technology that best meets their needs. Various generation cycles were generated throughout 2016 in the United States of America and Europe, resulting in a portfolio of eight projects currently at the incubation stage, with the ambitious goal of going live in 2017.

   The incubation process has already proved successful, as our first company BBVA Open Platform has reached the marketplace in its Beta version. It is a pioneer in opening APIs (Application Programming Interfaces) for third parties with over 100 users in the test environment in Spain and over 300 users in the United States.

4. **Venture capital:** In addition to our strategic activities, in 2016 we strengthened and made independent our venture capital vehicle through Propel Ventures Partners.

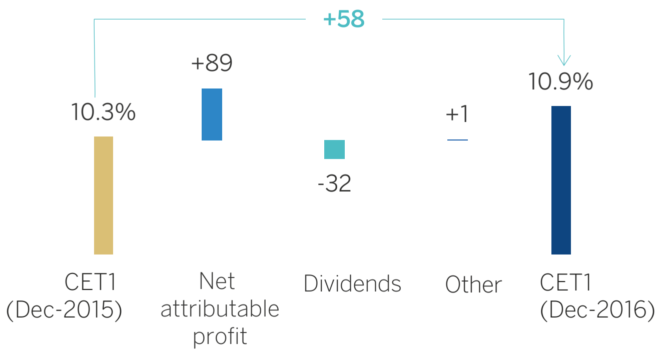
   Propel Venture Partners (Propel) is the new independent venture-capital firm that manages BBVA funds destined for startups that use technology for changing financial services for the benefit of our customers. BBVA has allocated US$250 million for investment in FinTech companies, and these funds will be managed by the Propel team.

Optimizing capital allocation

The **objective** of this priority is centered on improving the profitability and sustainability of the business while simplifying and focusing it in on the most relevant activities.

We have been working throughout **2016** to adapt and make our business model more efficient, profitable and dynamic. A number of initiatives (business portfolio optimization, capital tracking committees in all geographic areas, etc.) have been launched that have ensured BBVA Group will achieve solid capital adequacy ratios. In this regard, at the end of 2016, BBVA Group had a fully-loaded CET1 of 10.9%. This represents a rise of 58 basis points on the figure of 10.3% at the close of 2015.

CET1 Fully-Loaded (Year-on-year trend in basis points)

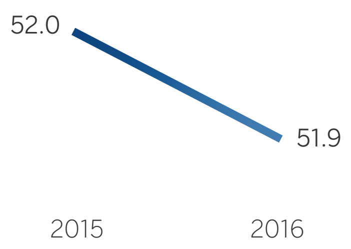


Unrivaled efficiency

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

In this regard, in **2016** we identified the key levers and developed the action plans necessary to make this change a reality. We are thus transforming our distribution model, systems architecture, operational model, organizational structures and processes. And we are doing so without losing sight of providing a new standard in customer experience.

Efficiency ratio (BBVA Group. Percentage)



A first-class workforce

Our priority at BBVA entails attracting, developing, motivating and retaining a first-class workforce, providing the best employee experience and bringing corporate culture into line with the Group's transformation and its Purpose.

Achieving our **objectives** involves transforming the Organization by implementing new ways of working (organization based on projects, communities of expertise, agile methodology, collaborative tools, etc.) and boosting a culture of collaboration and entrepreneurship, with flatter structures. We have also launched a new model of variable remuneration, aligned with BBVA's strategic objectives. These initiatives will help ensure that BBVA is the best place to work.

3. 4. Bringing the BBVA Purpose to life

A year ago, BBVA's new **Purpose** was communicated internally to all our employees. It was a highly anticipated moment since over 28,000 employees had actively participated in providing ideas on what our role should be in creating a better World.

Our Purpose is to bring the age of opportunity to everyone

We're starting 2017 by communicating externally our inspiring message of bringing the age of opportunity to the communities we serve. We are doing that through the launch of our new corporate **tagline**: Creating Opportunities.

This tagline was also the result of a **collaborative effort** where the marketing teams from all countries provided suggestions and local insights. The ideas were consumer tested to find the best fit with the Purpose and also tested against the previous tagline. The final choice was the winner in every consumer survey.

Years ago, **Adelante** was an invitation to move forward. Now, we're inviting people and businesses to explore the amazing opportunities that exist in a world where the access to knowledge through technology is opening all sorts of possibilities. At BBVA, we view ourselves as enablers to help people make better financial decisions, so they can seize opportunities, wherever they may be. We're passionate about the idea of 'creating', a verb that captures the imagination of dreamers, shapers, entrepreneurs and people with everyday aspirations.

The external expression of our Purpose is also part of a broad Customer Solutions initiative. The new tagline comes with a bold new exciting brand identity designed to create a stronger emotional connection through our different consumer touch points. Throughout the year, this new **BBVA Brand** will be expressed in our online/mobile banking experience, through our advertising, in our social media, through the way the brand looks, feels and even sounds. We're committed to building an even more powerful BBVA Brand. That means making our Brand more attractive, not only visually, but providing it with more meaning. Over the years, we've worked hard making our communication more TCR (transparent, clear and responsible) and now our communication will continue to evolve to express other aspects of our customer service. We will reinforce aspects like advice/relevant assistance, ease/convenience, anticipating people's needs.

An inspiring Purpose, a new Brand look & feel, reinforcing Brand principles and communicating how we're helping people create opportunities in their lives. All of this, so that we continue to build BBVA into a power brand and one that people relate to, admire and recommend.

This year will also be devoted to communicating internally the behaviors associated to our new Purpose. All of us have a role in bringing the age of opportunity to life. We can do that in the way we collaborate, communicate, share, innovate and, especially, serve our customers. **BBVA Creating Opportunities.**

3. 5. Responsible banking model

At BBVA we have a differential banking **model** that we refer to as responsible banking, based on seeking out a return adjusted to principles, strict legal compliance, best practices and the creation of long-term value for all stakeholders. It is reflected in the Bank's Corporate Social Responsibility or Responsible Banking Policy, which is approved by the Board of Directors. The Policy's mission is to manage the responsibility for the Bank's impact on people and society, which is key to the delivery of BBVA's Purpose.

All the business and support areas integrate this policy into their operational models. The Responsible Business unit coordinates their implementation and basically operates as a second line for offering support.

In **2016** the governance of the responsible banking model has been strengthened. It is supervised by the Board of Directors and its different committees, as well as by the Global Leadership of the Bank, chaired by the CEO. Furthermore, this year a new BBVA Strategic Plan has been approved. It integrates the strategic initiatives linked to the responsible banking model and their respective action plans.

The main strategic responsible business **initiatives** for 2016-2018 are:

- Creation of lasting and more balanced relationships with our customers through transparent, clear and responsible communication and financial literacy in the solutions that we offer.
- Full integration of how we do business through responsible business policies, a reputational risk model, and a people-centric culture throughout the Organization.
- Promotion of responsible and sustainable growth through financial inclusion, sustainable finance, support for SMEs and responsible investment.
- Investment in the community, with priority for financial literacy initiatives for society, entrepreneurship, knowledge and other social causes that are relevant from a local point of view.

Indicators of reputation as aggregate indicators of responsible business (2016)

External reputation among customers

Country	Position relative to peer group[1]
Spain	1st
The United States	2nd
Turkey	1st
Mexico	3rd
Argentina	2nd[2]
Chile	3rd
Colombia	3rd
Peru	1st
Venezuela	2nd
Paraguay	1st
Uruguay	n/av

Source: RepTrak (Reputation Institute); except in Turkey, source: TRI*M Index (TNS).
n/av = not available
[1] Peer group: Spain: Santander, CaixaBank, Bankia; The United States: Regions, Wells Fargo, Chase; Turkey: Is Bankasi, Ziraat, YKB, Akbank; Mexico: Banamex, Banorte, Santander, HSBC; Argentina: Galicia, Santander, HSBC; Chile: Banco de Chile, Santander, BCI; Colombia: Bancolombia, Bogotá, Davivienda; Peru: BCP, Interbank, Scotiabank; Venezuela: Banesco, Mercantil, Banco de Venezuela; Paraguay: Continental, Itaú.
[2] Tie with other entities.

Internal reputation among employees

Country	Year-on-year score variation
Spain	=
The United States	↓
Turkey	↑
Mexico	=
Argentina	=
Chile	↑
Colombia	=
Peru	=
Venezuela	↑
Paraguay	↓
Uruguay	↑
Group	=

Source: 2016 internal reputation study, RepTrak (Reputation Institute), except in Turkey, source: TRI*M Index (TNS).
Note: The up/down arrows indicate positive/negative evolution statistically significant; the equals sign (=) indicates stability.

The specific responsible business indicators are included below in the document in their corresponding chapter.

Strategic Responsible Business initiatives

STRATEGIC INITIATIVE	STRATEGIC PRIORITY	2018 OBJECTIVE AND KPIs	PROGRESS IN 2016	2017 ACTION PLAN	DELIVERABLES
1) TCR to transform the traditional bank **TCR to create the new Bank**	1. New standard in customer experience 2. Drive digital sales	1st in clarity and transparency (Net TCR score) 1st in recommendations (NPS)	TCR Communication	TCR product leaflets	100% of the units sold in the individual customer segment (80% in Turkey); 80% of units sold in SMEs (except for Turkey and Chile)
				TCR contracts	80% of units sold. (all countries)
				TCR in call centers	Implementation of the script in 80% of the units sold in Argentina, Chile, Colombia, Venezuela, Peru and Turkey
				TCR in complaints management	Pilot projects in Venezuela and Peru
				TCR Advertising Code	Monitoring and feedback
				TCR in key customer journeys	Implementation in Spain, Mexico, Turkey and Peru
				TCR in non-commercial communications	Pilot project in Spain
				TCR in global products	TCR integrated in the GLOMO initiative (global mobile application)
				TCR in other Single Development Agenda projects	API market, the API platform with a variety of functionalities available for companies
				TCR incorporated into scrums	TCR integrated into the agile methodology
				TCR Training	Training in contracts; training in relevant information, and engagement in the Google + community
				TCR in the UX System	TCR integrated in the design principles
2) Financial capabilities in customer solutions	1. New standard in customer experience	1st in clarity and transparency (Net TCR score) 1st in recommendations (NPS)	Financial education	Global products	TCR integrated in the design principles
				Local products	Pilot projects in Spain, Mexico and the United States
3) Corporate Social Responsibility (CSR) insights in the area of customer solutions	1. New standard in customer experience	Integration in the Customer Solutions creation process	People-centric solutions	Donations from employees and customers in GLOMO	Integration in the GLOMO initiative
				High-impact solutions in retail banking	Local developments in all the main markets
				Sustainable finances	Defined business plan for wholesale banking
4) Responsible Business as a second line	4. Optimize capital allocation 6. A first-class workforce	1st/2nd in reputation among customers (RepTrak pulse) Maintain internal reputation (annual survey)	Standards of conduct Materiality analysis Social, environmental and reputational risks The team The environment Suppliers	Reputational risk	Transition to a new governance model led by GRM Internal Control; annual exercise; ICAAP and risk appetite process
				Responsible business policies	Human Rights Commitment and defined action plan; purchase approval process; definition of the social and environmental framework
				Monitoring of materiality and reputation	New methodology for the materiality exercise based on big data
				Global Eco-Efficiency Plan	Performance measured against defined objectives for 2020
				Talent & Culture initiatives	Values and Behavior project; work/life balance and diversity plan; second edition of Responsible Banking course
5) Investment in the community	1. 1. New standard in customer experience 5. Unrivaled efficiency	1st/2nd in citizenship reputation (RepTrak citizenship)	Investment in social programs Entrepreneurship Knowledge, education and culture	Momentum & Open Innovation	Launch of the new global program in Spain, Mexico, the United States, Turkey and Colombia
				Center for education and financial capabilities	Launch of the center; annual summit
				Volunteer work	Definition of local volunteer plans; global volunteering initiative and global volunteer recognition plan
6) Communication and advocacy	1. 1. New standard in customer experience	A benchmark for responsible banking (Synthetic responsible banking index)	Criteria and standards	Responsible business reporting	Integrated annual report; integration on the corporate website www.bbva.com
			Shareholders	Analyst and investor engagement	Meetings and roadshows with investors and shareholders
				Customer engagement	Communication and marketing plan

3. 6. Business organizational chart and structure

BBVA announced in July 2016 that it would **simplify** its organizational structure to streamline and accelerate transformation.

The main **changes** include direct reporting of the main business areas and geographies to the CEO, and the integration of key areas in Customer Solutions to develop our value proposition for customers globally and locally.

BBVA Group. Organizational Chart

(1) Reporting channel to CEO for Argentina, Colombia, Chile, Peru, Venezuela, Uruguay and Paraguay, as well as monitoring of all countries, including Spain, Mexico, Turkey and USA.
(2) Integrates Global Products & Digital Sales; Design &Marketing; Data & Open Innovation; Business Development in Spain, Mexico, Turkey, USA and South America; Distribution model; Asset Management & Global Wealth and New Digital Businesses.

The new organization chart is divided into four areas: Execution & Performance, New Core Competences, Risk & Finance and Strategy & Control. The CEO handles the first three functions while the Group Executive Chairman handles Strategy & Control.

1. **Execution & Performance:**

   - The geographic areas now report directly to the CEO: Spain, Mexico, the United States and Turkey directly, and the rest of the countries through a newly created area called Country Monitoring, which manages Argentina, Chile, Colombia, Peru, Venezuela, Uruguay and Paraguay, in addition to monitoring all the geographic areas (including Spain, Mexico, the United States and Turkey).

   - Corporate & Investment Banking is the area responsible for managing the Group's investment banking, global markets, global lending and transactional services for international corporate clients and institutional investors.

2. **New Core Competences:** This group of areas encompasses the critical capabilities and global talent needed to compete in the new environment.

- Customer Solutions (CS) includes the key levers for implementing the offering of products and services for customers in all geographic areas. Its main responsibilities are:

    - Grow and transform our business, defining and shaping the Bank's relationship with our customers.

    - Develop internal capabilities for creating products and customer experiences.

    - Continue attracting and fostering innovation at BBVA

    - Create and acquire new businesses with a perspective that differs from BBVA's.

  The new CS organization mainly comprises:

    a. Execution units, which are the driving force of the demand for creating products and experience through innovation, and focus on the execution of results in the countries. These units in turn include the Business Development teams for Spain, Mexico, the United States, Turkey and South America; New Digital Businesses, CIB & Commercial and Asset Management & Global Wealth.

    b. Capability Units, dedicated to the creation of products and experiences for our external and internal customers, including: Design & Marketing and Data & Open Innovation.

    c. Product and experience units: the driving force for creating and transforming the experience that our customers have in digital and traditional channels, including: Global Products & Digital Sales and Distribution & Engagement.

- Engineering: In addition to managing technology operations, the area develops the software and processes for customer solutions with a global approach.

- Talent & Culture: focused on developing talent at the Entity and defining the global models, policies and processes for managing people and developing the Bank's organization and culture.

3. **Risk & Finance** comprises relevant aspects such as the management of global risks, balance sheet and Group solvency.

    - Finance: the area in charge of managing asset and liability risk and capital risk, relations with analysts, investors, shareholders and rating agencies, management of investments, and, starting 2016, planning, management control and management information systems.

    - Global Risk Management: the area responsible for risk management and for ensuring Group solvency, supporting its strategy and ensuring business development combined with adequate risk management throughout the entire life cycle and across all geographic areas where the Group operates.

4. The **Strategy & Control** areas, under the responsibility of the Group Executive Chairman, establish the Group's strategy and frameworks for action and control in issues as important as compliance, communications, internal audit and accounting. It is organized as follows:

    - Global Economics, Regulation & Public Affairs: the area responsible for the Group's Economic Research Department and for promoting and developing BBVA's institutional relations.

    - Legal & Compliance: legal risk management, legal advice to the Group, management of risks arising from compliance issues (prevention of money laundering, customer protection, personal data and markets) and the compilation, standardization and presentation of the Group's main internal control issues to the Corporate Assurance committees.

    - Strategy & M&A: the area responsible for corporate development functions, definition of the strategy guidelines at Group level, and execution of mergers and acquisitions. It also encompasses the Real Estate and Equity Holdings units.

    - Accounting & Supervisors: responsible for preparing and reporting accounting, regulatory and tax related information, and checking and balancing all the information addressed to the Company's governing bodies, regulators and supervisors. It is also responsible for relations with regulatory and supervisory bodies and external auditors.

    - Communications: manages BBVA Group communications across all geographic areas, defining and implementing brand journalism to boost BBVA's reputation.

    - General Secretary: provides legal and technical advice and support to the company bodies and the different BBVA areas on institutional, legal, corporate and corporate governance matters.

    - Internal Audit: provides an independent, objective assurance and advice conceived to add value and improve the Organization's operations.