

Responsible procurement

In 2017, BBVA Group carried out an in-depth transformation of the procurement function, based on three basic pillars of development for the **Procurement Model**:

- Focus on service: maximizing quality and experience for the internal customer.
- Limitation of reputational risk for BBVA Group in contracts with suppliers.
- Contribution to the Group's efficiency through active management of costs and suppliers.

This transformation has given rise to important changes in the area's **functions**. Of note in this respect are:

- A move toward a more flexible structure that generates opportunities for efficiency and improves the control environment.
- Progress toward management by projects, creating a pool of profiles for executing contracting projects.
- Creation of the procurement partners function to guarantee the end-to-end quality of service and internal customer care. Organized by customer area, and with the support of a procurement analytics pool, they are also responsible for identifying opportunities for optimizing expenses, following service level agreements and measuring customer satisfaction.
- Change in the purchasing manager role to a more strategic focused on value creation. Structure geared to service, agility and flexibility in contracting through specialization and differential purchasing management. They are organized around teams of experts, together with a pool of buyers, to execute Purchasing projects.
- Creation of the Lean Purchasing Unit, focused on dealing with purchases in which time to market is a critical factor.
- Creation of the Operational Procurement Unit to focus and optimize operational and/or administrative activities and thus ensure transactional specialization and improved service levels.

Suppliers main figures			
	2017	2016	2015
Number of suppliers	4,563	4,240	4,598
Supplier turnover (million euros) ⁽¹⁾	7,077	7,751	8,443
Supplier satisfaction index ⁽²⁾	82	n/a	82
Number of approved suppliers	4,895	4,698	n/av

n/av= not available.

n/a= not applicable.

⁽¹⁾ Payments made to third parties. Does not include suppliers with amounts below €100,000.

⁽²⁾ Biennial survey.

Responsible Procurement Policy

BBVA wants to contribute positively to the development of the societies where it operates. The Group aims to integrate ethical, social and environmental factors in the supply chain for which it is responsible. That is why in 2017 it has drafted an Ethical Code for Suppliers, which defines the minimum standards of behavior in ethical, social and environmental conduct that suppliers are expected to comply with when they provide products and services.

Supply chain

BBVA has a **global technological platform** that supports every stage of the procurement process in the Group (budgeting, purchasing and finance): the Global Procurement System (GPS). The platform is operational in Spain, Mexico, Peru, Colombia, Chile, Argentina, Venezuela and the regional procurement organization of South America (hub in Chile), which provides the procurement services for the rest of the countries in the region. GPS is integrated into the Adquira marketplace technology platform. The platform allows online interaction between the Group's companies and their suppliers in a collaborative environment through the electronic exchange of documents.

Every year new companies and/or countries join the GPS technological platform. This increases the scope of its use and achieves greater consolidation of the standard and global purchasing processes through the tool, as well as an improvement in the quality of the Group's information on procurement data. In **2017** the main progress made was the incorporation of five new insurance companies in Mexico.

It thus covers the main stages of the **procurement process**, from the issue of orders to the registration of invoices, including electronic invoicing, and is legally valid in Spain and Mexico. In addition, Adquira allows suppliers to manage online the exchange of documents and information supporting the supplier approval process, as well as storing their data with BBVA.

Within the GPS, BBVA has an **electronic catalog procurement tool (SRM)** accessible via the intranet, which is designed to issue decentralized procurement requests; i.e., directly from the user area. SRM is available in Spain, Mexico, Chile and, since the first quarter of 2017, in Peru.

Supplier portal

BBVA has a **supplier portal** that facilitates the Group's online relationship with its suppliers. It is a collaborative environment that targets companies and self-employed workers or people interested in working with BBVA Group, allowing them to interact with the Bank electronically during the whole procurement cycle.

The supplier portal consists of two **environments**:

- A public environment, accessible from the website (<https://suppliers.bbva.com>), which provides general information on the procurement process in BBVA, as well as relevant aspects of its purchasing model. Second, companies and self-employed workers who want to offer their products and services to the Bank can register on the portal and keep their data updated.
- A private environment, that allows suppliers who are already working with BBVA to operate fully online, from the tender process (online auctions) and approval, to payment (e-invoice) through the Adquira platform.

In addition to the portal, a **supplier directory** has also been created. This is a new internal tool that can be accessed via the intranet, allowing users to consult contact data and general information about the Bank's suppliers.

Supplier management

1. Approval process

BBVA carries out an **approval process** in place for its recurrent suppliers with significant procurement volumes. This approval process assesses the financial, legal, labor and reputational position of the suppliers, gives information on their basic technical capacities and verifies that they share the same values as the Group with respect to social responsibility. It also determines whether suppliers are complying with their legal responsibilities (employment or environmental regulations, among other) and whether they promote civic responsibilities, through compliance with the following aspects:

- Compliance with UN social and environmental principles.

- Adoption of internal measures to guarantee diversity and equal opportunities in human resources management.
- Adoption of measures to promote occupational health and safety, preventing accidents and incidents at work.
- Support for freedom of association and collective bargaining of workers in all the countries in which they operate.
- Existence of a code of conduct or policy to prevent forced labor, child labor, and other human rights violations, by the company itself and by its subcontractors.
- Existence of a code of conduct or policy to avoid bribery and corruption.
- Involvement in activities through direct actions or donations or in collaboration with other organizations and institutions to promote culture, scientific knowledge, sport, the environment or marginalized sectors.
- Hiring people with disabilities.
- Existence of an corporate social responsibility policy in the company.

The approval is reviewed periodically and is subject to continuous monitoring. As part of the constant improvement in this process, in **2017** changes have been introduced at global level in the approval processes designed to mitigate reputational risk. The alert system for approved suppliers has continued to develop, to ensure that updated information is available on certain events which could affect their solvency or risk.

The percentage of approved active suppliers is 27%, which accounts for 73% of the total awarded ⁽¹⁾.

2. Percentage of local suppliers

BBVA has a firm **commitment** to contribute to economic and social growth in countries where it operates. Thus 97% of the suppliers are local, accounting for 94% ⁽²⁾ of the total orders. For this purpose, local suppliers are considered those whose tax identification code coincides with the country of the company that receives the goods or services.

3. Impact management

A proper management of the real and potential impacts a company such as BBVA can cause is needed within the procurement process. BBVA has a series of **mechanisms and rules** in place to manage these impacts: Procurement Policy, Approval Process and Corporate Standard for Procurement of Goods and Contracting Services.

(1) Active suppliers into the GPS platform (excluding the United States, Paraguay, Uruguay and Portugal).

(2) Excluding Uruguay.

These **impacts** may be:

- environmental impacts,
- impacts created by unethical employment practices within the suppliers' companies,
- impacts derived from the lack of freedom of association,
- impacts on human rights,
- positive or negative impacts on society.

The **Responsible Procurement Policy** establishes, among other aspects, that during the procurement process, special attention should be paid to comply with the legal requirements applicable with respect to human rights, employment rights, rights of association and environmental rights by all those involved in the process, and to involve them in the Group's efforts aimed at preventing corruption. Likewise, the aim is to ensure that the choice of suppliers is adapted to the internal rules in place at any time, and in particular aligned to the values of the Group's Code of Conduct, based on respect for the law, commitment to integrity, competition, objectivity, transparency, value creation and confidentiality. The clauses included in the specifications and the contractual models include the following:

- Compliance with the law in each geographical area, and in particular with the obligations it imposes with respect to personnel, Social Security or the systems of alternative social insurance, recruitment of foreign workers, the Tax Authority, public records, etc.
- Compliance with current legislation on the social integration of people with different capabilities.
- Clauses that ensure policies are in place to avoid gender discrimination, as well as measures to reconcile work and family life;
- Equality clause.
- Compliance with labor, security and occupational health legislation.
- Anti-corruption declaration.
- Adhesion to the United Nations Global Compact.

The Responsible Procurement Policy also establishes as one of its principles to "raise awareness in social accountability of staff and other stakeholders involved in the Group's procurement process."

With respect to **security firms**, which are particularly critical on these matters, the specifications and contracts establish compliance with current law, with particular stress on labor law and law specific to these kinds of companies, as well as compliance with human rights, non-discrimination policies, equality, etc.

In order to promote inclusion and diversity, BBVA in Spain has continued its contact with various **special employment centers** (CEE) to examine in depth areas for potential collaboration. The result has been firm contracts for a significant volume of awards. The total volume of purchases in 2017 from these CEE is estimated at over €3.2m.

BBVA maintains its commitment to the **environment**, and has decided to use green energy for its buildings and branches in Spain. Green energy certifies a 100% renewable energy production and source, avoiding emissions of CO₂ and other polluting gases. This commitment has been applied to Mexico, creating a renewable energy integration plan for its buildings and branches. LEED and ISO 14001 energy certifications are further proof of this commitment.

[Annex 18 - Suppliers and annual turnover](#)

[Annex 19 - Average payment period to suppliers](#)

[Annex 20 - Customer satisfaction index](#)

[Annex 21 - Supplier approval](#)