Letter from the CEO

Creating Opportunities

Letter from the Chief Executive Officer

Dear Shareholders,

BBVA posted strong results in 2018. Our diversified business model has once again proved its resilience and capacity to generate recurring income with double-digit returns, despite a complex environment with high volatility and significant depreciation of currency in some footprint countries.

The global economy grew by 3.6% despite increased volatility and trade tensions. In our footprint, performance varied among countries. We saw positive trends in Spain, with growth of 2.5%, which was above the Eurozone average, and in the United States, the economy grew by 2.9%, driven by expansionary fiscal policies. Growth in our U.S. Sunbelt footprint was 3.2%, higher than the country's average. Mexico maintained solid growth of more than 2%, which was strong in a year influenced by presidential elections. Colombia and Peru also showed strong growth of 2.6% and 3.9% respectively. In Turkey and Argentina, volatility was high and BBVA faced significant currency devaluations, although there was some improvement in the last quarter of the year.

BBVA Group's net attributable profit in 2018 was €5,324 million, representing a 51.3% increase versus 2017 (7% increase on a more comparable basis). The net attributable profit was impacted by the capital gains realized from the 2018 sale of BBVA Chile and the 2017 impairment of the Group's stake in Telefónica.

Tangible book value per share plus dividends increased by 10.1% over the year, despite the depreciations in the Turkish lira and the Argentine peso. This increase is accompanied by peer-leading double-digit returns in both return on tangible equity and return on equity, which were 14.1% and 11.6% respectively.

Also of note is the trend in recurring revenue, 10.4% growth in the year in constant Euros (without accounting for the impact of the exchange rate) and discipline in cost control, which grew by just 2.5%, well below the average inflation of our footprint. This trend was repeated consistently across our geographies. Because of this, the efficiency ratio of the Group has improved by 89 basis points to 49.3%, despite the negative accounting impact the hyperinflation adjustment in Argentina had on gross income.

One of the keys to efficiency improvement has been making our business more digital, which has increased sales in a very efficient manner. It also has an impact on customer satisfaction and we are leaders in six of our banking franchises, which has a direct effect on improving customer loyalty and reducing attrition.

The strength of the Group's risk indicators must also be highlighted, with the NPL ratio improving significantly, ending 2018 at 3.9%, down 61 basis points compared to 2017. The NPL coverage ratio improved 812 basis points over the year to 73%. The Group's cost of risk remained low at 1%.

The resilience of our capital position from a solvency standpoint is also worth to mention. The fully loaded CET1 ratio was 11.34% in 2018, an increase of 26 basis points over the year. This has been achieved, despite the impact of market trends, particularly the depreciation of some currencies and the first implementation of the IFRS 9 standard.

The most notable impacts in the main business areas included the following:

- **Banking activity in Spain**: Net attributable profit grew 10.8% to €1,522 million driven by fees, significant costs reduction and lower impairments. In terms of asset quality, we saw a significant declining trend in our NPL ratio and the cost of risk, which were 4.6% and 0.21% respectively.
- In **Non-Core Real Estate**, the significant reduction of net real estate exposure stands out, as a result of the October close of the sale of BBVA's real estate business in Spain to Cerberus, as well as other portfolio sales during the year. Net losses were significantly reduced to €78 million.
- In the **United States,** net attributable profit was €735 million, 56.9% higher than 2017 in real terms, primarily supported by the favorable performance of net interest income.
- In **Mexico**, net attributable profit for the area was €2,384 million, representing a year-over-year increase of 16.1% in real terms, supported by the net interest income and efficiency improvement. Risk indicators were strong, with all ratios showing improvements.

- In **Turkey**, the bank again demonstrated its capacity to generate high pre-provision profit that can absorb the increase in provisions derived from the deterioration in macroeconomic conditions. Net attributable profit was at €569 million, representing a year-over-year decrease of 4.5% in real terms.

- **South America** generated a net attributable profit of €591 million in 2018, which represents a year-over-year change of -16.5% mainly due to the accounting impact of hyperinflation in Argentina (-€266 million) and the change in the business unit composition derived from the sale of BBVA Chile, which closed in July 2018.

Finally, I want to heartily thank the more than 125,000 employees in the Group for their effort and enormous contribution to the Group's performance. Also, thanks to you, the shareholders, for your constant support which drives us to fulfill our Purpose of bringing the age of opportunity to everyone.

1 March 2019

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