



Letter from the Group Executive Chairman

Creating Opportunities

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Dear Shareholders,

It is an honor for me to address you as Chairman of BBVA for the first time. My appointment and other recent changes to the management team will provide continuity to our strategy and an even greater focus on our Purpose: **to bring the age of opportunity to everyone**. This is what moves all of us at BBVA. The Purpose guides our strategy and inspires our culture and values. It is what ultimately enables us to achieve better financial results for our shareholders with a long-term vision.

BBVA's excellent results in 2018 are a good example of our successful strategy, despite the volatility in some of the countries within our footprint, namely Turkey and Argentina. **Our net attributable profit reached €5,324 million in 2018, a 51% increase over 2017** (or 7% in comparable terms) - an achievement driven by recurring revenues, cost containment, and the capital gains from the sale of BBVA Chile. **The book value per share increased 10.1% and the return on tangible equity stood at 14.1%, positioning BBVA as a leader in profitability in the financial sector.** The Group's fully-loaded CET1 ratio ended the year at 11.34%, 26 basis points above December 2017.

In addition to achieving excellent financial results, in 2018 we also worked to address the big challenges facing society today. We are living in a truly revolutionary age, driven by the rapid emergence of new technologies, such as artificial intelligence, cloud computing, the proliferation of connected devices, decentralized applications, blockchain and biometrics, to name a few. All of this represents a genuine era of opportunity for humanity, but there are also significant social and environmental challenges, such as the fight against climate change and inequality. Challenges that are global in nature and that require everyone's involvement, including banks as important players in the economy. We can make a difference by financing socially sustainable projects and providing financial advice to help people achieve their life goals.

This is why I specifically want to emphasize our contribution in the face of these challenges. **In 2018, in addition to our commitment with the United Nations Global Compact, we publicly embraced the Pledge 2025, our commitment to sustainable finance**, which is based on three central pillars. First, a commitment to finance sustainable development, mobilizing €100 billion through 2025 to combat climate

change, facilitating the transition to a low-carbon economy, and promoting sustainable infrastructure, financial inclusion and entrepreneurship. Second, a commitment to manage the impact our business activity has on the environment. Our commitments include reducing CO₂ emissions by 68% by 2025 and reaching 70% use of renewable energy. Lastly, actively engaging other stakeholders to promote a collective approach to sustainable development.

In 2018 we played a defining role in the development of the Principles for Responsible Banking, together with 16 other financial institutions. These principles represent the guiding framework for financial institutions - a new approach to banking that society both demands and needs. Our success ultimately depends on the prosperity of the communities we serve. **We need an inclusive society, one that takes a sustainable approach to natural resources.**

In addition to promoting sustainable development and contributing to the generation of wealth, growth, and individual prosperity, **the BBVA foundations make an invaluable contribution to society. The foundations undertake an important work in economic, cultural, and scientific fields, such as promoting the development of vulnerable segments of the population.** Other examples include BBVA Foundation's prestigious Frontiers of Knowledge Awards, BBVA Bancomer Foundation's program to rebuild schools and its scholarship program "Por los que se quedan". Additionally, the BBVA Microfinance Foundation has worked on creating opportunities for the most vulnerable, especially women for over ten years. This final example is in fact the private philanthropic initiative that has had the greatest social impact in Latin America, successfully supporting more than five million entrepreneurs over the past ten years.

Technology and the considerable changes taking place in the World are clearly having a significant impact on our business. Opportunities are increasingly found in the digital world. At BBVA we have been pioneers, and we continue to be at the forefront with our commitment to digital transformation. Thanks to these efforts our customers increasingly interact with the bank through digital channels, which are always available and more convenient than ever thanks to our simple, intuitive user experience.

Our business is changing both profoundly and quickly. These changes are exemplified by our increasing digitization. **In 2018, 41% of BBVA Group unit sales were made through digital channels**, compared to just 16% two years ago. In terms of value, digital sales account for 32% compared to 12% two years ago. This significant transformation is not only reflected at the Group level, but represents a trend that is repeated in each of the countries where we operate.

The evidence shows that customers who use digital channels interact with us more frequently, and report greater satisfaction and loyalty to BBVA. **In 2018 we achieved a key milestone: our digital customer base surpassed the 50% threshold**, reaching 27 million. The bank's mobile customer base has increased by 29%, reaching 23 million mobile users, or 43% of total customers. Our goal is to have more than 50% our customers interacting with us through their smartphones in 2019.

Beyond the important changes in the way customers interact with us, the new era in which we live enables us to *create opportunities* through an even better value proposition. The focus is on **helping people and businesses make better financial decisions** that help them better achieve their personal and professional goals. The way we treat our customers' data and the use of artificial intelligence are fundamental ingredients in this enhanced value proposition.

In 2018, we developed new features that use data to help anticipate problems, draw conclusions, and make better recommendations; ultimately to offer our customers value-added services. As a result, BBVA Spain's mobile banking app was recognized as the best in the world for the second year in a row by consulting firm Forrester Research. BBVA Turkey's app ranked second in the same study. Among other distinctions, we were recognized as the best digital bank in Spain, Mexico, and Turkey according to World Finance magazine's Digital Banking Awards.

Our business transformation is undoubtedly tied to how we do things internally. For this reason, the way we work is also changing, driven by the necessary cultural revolution in this new age. **We are leaders in the financial sector in the adoption of agile methodologies, which has transformed the way the entire organization works, using independent, multi-disciplinary teams.** By working in this manner, we have

managed to improve the quality of our deliverables, reduce time-to-market, increase productivity and enhance employees' sense of belonging. There are currently some 30,000 people at BBVA using agile methodologies in their daily activities.

Most importantly, beyond changing the way we work, BBVA's culture remains deeply rooted in a strong set of values. We have always considered this to be one of our biggest strengths. **BBVA is a honest bank, and we will always act in the best interest of our shareholders showing absolutely no tolerance for any conduct or behaviour that runs counter to our values.**

The three values guiding our actions and behaviors are:

"The customer comes first," meaning we are empathetic and put ourselves in the customer's shoes. We are, and have always been, principled and resourceful and are fast agile and decisive when solving customers' problems and addressing their needs.

"We think big," not just in the sense that we are ambitious, but also because we break molds. We innovate and promote change in the *statu quo*, amazing customers with unique personal experiences and solutions that beat their expectations.

"We are one team," personally committed to the bank, the project, and our customers. There is mutual trust, a sense of ownership and a feeling that we all are BBVA.

In conclusion, I am tremendously proud to be leading what I believe to be the greatest project in the world of banking. A project that is possible thanks to each and every one of the more than 125,000 people who work at BBVA. I would like to thank them for their dedication and commitment to our Purpose and our values, and congratulate them on a job well done.

Finally, thanks to you, our shareholders, for your constant support, which motivates us to continue giving our best every day.



1 March 2019

Carlos Torres Vila