

# Executive summary

BBVA is a customer-centric global financial services group founded in 1857. BBVA is present in **more than 30 countries**. It is a solid leader in Spain, and the **biggest financial institution in Mexico**; it has franchises that are **leaders in South America and the Sunbelt region of the United States**; and is the **largest shareholder in the Turkish bank Garanti**.

Its diversified business is focused on high-growth markets, and it views technology as a key sustainable competitive advantage.

## Business strategy and model

During 2018, BBVA made significant progress on its transformation, firmly underpinned by the Group's Purpose, and the six Strategic Priorities, as fundamental pillars of the Organization's strategy.

### Our vision and aspiration

BBVA is developing a transformation process needed in order to adapt itself to the new environment within the financial industry, characterised by trends validating the Group's strategic vision. In other words, a reconfiguration of the financial services industry is taking place. Those trends are:

- A complex macroeconomic environment, characterised by strong regulatory pressure, low interest rates, high currency volatility, and geopolitical risks.
- A highly regulated banking industry, that is, traditional banking subject to a large number of legal regulations, both globally and locally.
- A shift in the needs and expectations of customers who demand higher value-added services that enable them to achieve their objectives, with a simple, transparent and immediate relationship model similar to the one they already enjoy with a number of other highly digitised industries.
- Certain data that is evolving into a strategic asset. Given the large amount of data stored within organizations, the ability to interpret and make value proposals to customers is considered to be critical, provided there is customer

consent under all circumstances.

- Certain technological giants, with business models based on data that create ecosystems where the lines between different types of businesses are being blurred.
- Greater competition because of the arrival of new players who focus on the most profitable aspects of the value chain.

In this context, the main objective of the Group's transformation strategy –its aspiration– is to strengthen the relationship with the clients.

## Progress in BBVA's transformation journey

BBVA advanced in fulfilment of its Purpose in 2018: to bring the age of opportunity to everyone, this is reflected in the tagline: Creating Opportunities. We want to help our customers make better financial decisions and attain their life goals; we want to be more than a bank, we want to be an engine of opportunities and have a positive impact on peoples' lives and companies' businesses.

In this respect, important steps were taken in the development of the six Strategic Priorities of the Group throughout the year in order to continue its advances in the transformation process. These advances were reflected in the results of key performance indicators (KPIs).

### Strategic priorities

#### 1. The best customer experience

BBVA Group's main focus is based on providing a new standard in customer experience that stands out for its simplicity, transparency and swiftness, further empowering its customers while offering them customised advice.

#### 2. Digital sales

BBVA's relationship model is evolving to adapt to the growing multi-channel customer profile, which is why it is essential to foster digitalization. For this purpose, it is developing an important digital offering including products and services that let customers use the most convenient channel for them.

### 3. New business models

Throughout 2018, BBVA continued to consolidate itself as one of the leading banks in terms of digital transformation and activity in the entrepreneurship ecosystem. The Group is actively participating in the disruption of the financial industry in order to incorporate key findings into the Bank's value proposition, through both the search for new digital business models as well as the leveraging of the FinTech ecosystem.

### 4. Optimize capital allocation

The objective of this priority is to improve the profitability and sustainability of the business while simplifying and focusing it on the most relevant activities. Throughout 2018, efforts continued to promote the correct allocation of capital and this is allowing the Group to continue improving in terms of solvency.

### 5. Unrivalled efficiency

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

### 6. A first class workforce

BBVA Group's most important asset is its people; therefore, a first class workforce is one of the six Strategic Priorities, which entails attracting, selecting, training, developing and retaining top-class talent.

BBVA Group has developed new people management models and new ways of working which have enabled the Bank to keep transforming its operational model, but have also promoted cultural transformation and have favoured the ability to become a purpose-driven company, or, in other words, a company where staff guide their actions according to the Values, and are genuinely inspired and motivated by the same Purpose.

## Highlights

BBVA Group's **net attributable profit for 2018, € 5.324 billion**, includes the capital gains from the sale of BBVA Chile.

Once more, there was a **notably good performance** of the more recurring revenue, and control of operating expenses.

Management of liquidity and funding in BBVA aims to finance the recurring growth of the banking business at suitable maturities and costs, using a wide range of instruments that provide access to a large number of alternative sources of finance, always in compliance with current regulatory requirements.

The level of the **BBVA Group's liquidity coverage ratio (LCR) remained comfortably above 100%** throughout 2018, without including liquidity transfers between subsidiaries; in other words, no kind of excess liquidity in the subsidiaries abroad is considered in the calculation of the consolidated ratio. As of December 31, 2018, the **LCR stood at 127%**. Although this requirement is only established at Group level, the minimum level is easily exceeded in all the subsidiaries.

BBVA Group's **risk quality metrics have continued to perform positively throughout the year**. Since the end of 2017, non-performing loans continued their declining trend, been reduced 16.6% and the Group's non-performing loan ratio recorded a further improvement strongly influenced by the decline in non-performing loans.

As regards solvency, **BBVA Group's fully-loaded CET1 ratio stood at 11.3%** at the end of December 2018, in line with the target of 11%. This ratio has increased by 30 basis points since the end of 2017, leveraged on organic earning generation and reduction of risk weighted asset capital consumption.

The following sections present details related to the Group's solvency. The Management Report, which is attached to the BBVA Group Consolidated Financial Statements, presents the main indicators of the Group's activity and profitability.