

Transcript of interview with Chairman, Carlos Torres Vila

00:01

Q: Good morning, Carlos.

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A: Good morning.

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Q: Happy New Year.

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A: Happy New Year.

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Q: 2021 has been the year of the recovery, but also of major disruptive changes related to innovation and sustainability. What do you expect for 2022?

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A: For 2022 we expect a recovery that will build on the ongoing recovery. Economic growth has recovered in almost all markets after the sharp downturn we saw in 2020. Although, in order to continue with this recovery, it will also depend a lot on how the uncertainties around the COVID variants, the supply chain tensions and inflation tensions, etc., start to clear up.

Then, beyond the economic aspect, what I expect is that the unprecedented changes we are experiencing in the world in terms of digitization and technological innovation, and in terms of sustainability and specifically, decarbonization will continue to play a key role in 2022. All of this affects all businesses and all sectors, in all countries. I think these are big challenges ahead of us because of these two big forces of innovation and sustainability and decarbonization. But they are also great opportunities, opportunities for all companies, great opportunities for everyone.

Governments are clearly going to focus on decarbonization in 2022. Hopefully, not only the developed countries, but also the emerging ones, so we have to help them so that they also embrace this with strength.

And I believe that private companies, all of them, should consider decarbonization as a driving factor of their strategy and investment. There is a lot of profitable investment that can already be made to decarbonize and above all, it is very important for the sustainable future of the companies themselves, the sustainability of each one.

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Q: In November last year, BBVA presented an ambitious growth plan at its Investor Day. What are the bank's strengths and levers to achieve this?

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A: The strengths are very clear and revolve around the strength of our franchises. Some stand out in particular, such as Mexico, which has a distinguishing leadership, but also in other places such as Turkey, South America and Spain, we have franchises with high market shares, of double digit, and with a profitability that far exceeds that of the competition. Recently, last December I was in Peru and Colombia. It had been a while since I had been there with the teams, and I was able to see first-hand what I am talking about, the leadership and the power of our franchises, which would be the primary source of strength. This allows us to have financial metrics that are clearly better than those of the competition, standing out in efficiency, our cost to income ratio is much better than the competition's. And that leads us to profitability ratios that are also higher, almost double in ROTE.

But beyond the financial side, I would stress our leadership in two areas that are strategically relevant in the times we live in: On the one hand, digitization and innovation. As you know, our mobile application has been rated as the best over the past five years. And we have seen how during the pandemic digitization has become more important. We've seen customer acquisition through mobile almost double. And then the second important issue is sustainability and decarbonization. We are also leaders in this area. We have a clear commitment to decarbonization. We are the most sustainable European bank according to the Dow Jones Sustainability Index, and the second most sustainable in the world also according to Dow Jones. And, we have a commitment to channeling €200 billion in sustainable financing by 2025.

But the bank's greatest strength is undoubtedly its team, the best team, a team united around a purpose, to bring the age of opportunity to everyone, with a very strong culture and values focusing on the customer, on ambition and innovation and on teamwork.

With these foundations, with these strengths, we will continue to grow profitably in the future, we will continue to help our customers with their money and their path to sustainability. We have set ourselves some very ambitious targets, the most ambitious of any bank in Europe. As for efficiency, we expect to reach a 42 percent cost to income ratio in 2024, which is one of the best in the world. In profitability, 14 percent ROTE in 2024. In tangible book value per share growth including dividends a 9 percent increase in annual growth between now and 2024. And growth in customers, by adding more than 10 million customers by 2024. And what I had just talked about: to channel sustainable financing with a commitment of €200 billion by 2025.

04:59

Q: The takeover bid for the 50 percent of Garanti BBVA was one of the most notable news for the bank last year. What are your views on the country, and what are the keys to this operation?

05:10

A: Turkey is a strategic country for BBVA, and we see a country with huge long-term potential because of its size (85 million people), its youth, its demographics (average age is 32), its trade partners and its geographical position: It has very strong ties with Europe. All this leads to a very high potential growth of 3.5 percent, which compares with less than 1.5

percent in Europe. In addition, banking penetration is very low, so there is additional potential growth. In this context, Garanti BBVA, our bank there, is a bank that has very strong results and a very strong presence, it is a leading bank, the most important institution, the one with the highest market capitalization. And it has demonstrated in difficult years, in a complex environment, that it is capable of generating high returns with an average result of more than €1.2 billion each year, over the past five years.

And what we have been presented with is an opportunity to increase our stake by acquiring the 50 percent that we do not own, by making an offer for a bank that we already consolidate globally, i.e. it does not change the Group's risk profile. But with this, we can increase our share of the net result. And with this, we obtain very attractive financial returns, we also optimize capital because we eliminate the inefficiency of minority interests. And ultimately, we see this as an operation that is, without a doubt, very attractive in the long term for BBVA and its shareholders.

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Q: In addition to the share buyback announced by the bank and the takeover bid for Garanti BBVA, what do you plan to use the excess capital for? And what's the time frame to invest it?

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A: Well, between 2021 and 2022 we expect to distribute to our shareholders more than €7 billion, which is roughly equivalent to 20 percent of our current market capitalization. This includes the €3.5 billion of the share buyback we have announced, which is already underway in its first tranche, €1.5 billion. We have already executed a substantial part of this tranche. It also includes the expected dividends for the two years, applying the 'pay out' policy of 40-50 percent of profit, which is the bank's policy, to a profit figure, which is the one estimated by the analysts' consensus.

After the share buyback program and the acquisition of 100 percent of Garanti, if we are successful in the offer we have made for Garanti BBVA, we will continue to have a relevant excess capital of more than €2 billion, which together with the additional capital we will generate in the coming years, gives us the opportunity to continue investing in growing our franchises, our business and also to make additional distributions to our shareholders.

The clear priority is profitable growth that creates long-term value for our shareholders, but we could also see additional distributions in order to be within our target range, with a capital ratio between 11.5 and 12 percent in 2024.

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Q: Finally, Carlos, what is your assessment of the bank's evolution over the past few years?

08:21

A: These have been years marred by the pandemic and, as I said last year, I am very proud of the response of BBVA and the whole team to come forward, to turn to our customers, to society, financially helping more than 3 million families, the self-employed and businesses in many ways, with more than €63 billion in deferrals and additional financing. And also

providing service, being by their side in difficult times. As I said, the whole bank, all the teams, all the managers, all of them were there to help. And especially noteworthy is the leadership of CEO Onur Genç throughout this process.

In addition, we have seen how the pandemic has accelerated the trends that are part of our strategy, digitization and sustainability. During this time, we also made very relevant strategic decisions, such as the sale of our subsidiary, our bank in the United States, the takeover bid to buy the minority interests in Garanti BBVA, the largest share buyback in Europe, and having doubled our commitment to mobilizing sustainable financing. In addition, we have launched our most ambitious social plan to date, committing €550 million to support inclusive growth from BBVA and our foundations.

You also asked me about the evolution of these years, and one way to measure it is to look at the share price. If we look at the numbers since January 2019 to date, BBVA's share price, including dividends, has seen an increase of 37 percent, which compares with an equivalent 30 percent for European banks and a 6 percent drop for Spanish banks.

And looking ahead, we have highly ambitious goals. We have great capital strength. We have the best team. We have all the right ingredients to create opportunities for our customers and clients, our employees and society as a whole.

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Q: Thank you very much, Carlos.

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A. Thank you.