Creditreform Bank Rating

Banco Bilbao Vizcaya Argentaria, S.A. (Group)

Creditreform Rating

Rating Object	Rating Information	
Banco Bilbao Vizcaya Argentaria, S.A. (Group) Creditreform ID: 400985414 Management: Onur Genç (CEO) Carlos Torres Vila (Group executive Chairman)	Long Term Issuer Rating / Outlook: **A- / stable** Type: Update / Unsolicited	Short Term: **L2**
Rating Date: **22 October 2021** Monitoring until: withdrawal of the rating Rating Methodology: CRA "Bank Ratings v.3.0" CRA "Rating of Bank Capital and Unsecured Debt Instruments v.2.0" CRA "Environmental, Social and Governance Score for Banks v.1.0" CRA "Rating Criteria and Definitions v.1.3" Rating History: www.creditreform-rating.de	Rating of Bank Capital and Unsecured Debt Instruments: Preferred Senior Unsecured: Non-Preferred Senior Unsecured: Tier 2: Additional Tier 1:	 **A-** **BBB+** **BBB-** **BB**

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Key Rating Driver

+ Diversified business model with business activities all around the globe with in particular strong franchises in Mexico, Turkey in addition to some in South America
+ One of the major financial institutions in Spain
+ Growth opportunities in its global markets
+ Strong cost to income ratios indicate high level of intrinsic profitability
+ Ongoing cost cutting measures, which ensure the banks high level of profitability

+/- Digital transformation of the banking business

- Low regulatory capital ratios (leaving out the temporary elevation by the sale of BBVA USA) but still with sufficient buffer to the requirements
- Moderate asset quality
- Relatively high exchange rate risk due to its operations in growth markets in particular in South America and Turkey
- Low interest rate environment in Europe puts pressure on the Group's interest income, which is mitigated by the bank's overseas operations

Executive Summary

Creditreform Rating AG has upgraded the long-term issuer rating of Banco Bilbao Vizcaya Argentaria, S.A. (Group) from BBB+ to A- with a stable outlook. The upgrade of the rating is mostly a result of the change in our methodology where BBVA benefits from its globally diversified business model and being one of largest banks in Spain. In addition, BBVA's rating benefits from the only minor impact of the Corona pandemic on the bank's performance, in contrast to our previous expectations. However, the bank's business is subject to exchange rate risk primarily through the overseas operations as well as Turkey. The bank's capitalization remains moderate.

Company Overview

Banco Bilbao Vizcaya Argentaria, S.A. (hereafter: BBVA, bank or the Group) is a banking group whose roots date back to 1857. BBVA was formed from a merger of Banco de Bilbao and Banco de Vizcaya in 1988 (to BBV), and Argentaria *(Corporación Bancaria de España)* in 1999. The bank has its registered address in Bilbao, whereas the headquarters are in Madrid. Moreover, BBVA is one of the largest financial institutions in Spain and in Mexico. The Group is considered as an "other systemically important institution" and must therefore comply with additional regulatory requirements. With 111,322 employees (as of June 2021) and 6,617 branches (thereof 2,366 in Spain and 1,746 in Mexico), the Group serves approximately 80 million customers.

BBVA acts as a global universal bank with activities in the insurance sector and a focus on the customer retail business, as well as on the wholesale business. The Group operates in more than 30 countries and is primarily active in Europe and in North- and South America. BBVA is divided into the following operating segments: *Spain (which includes the former segment Non-Core Real Estate)*, *Mexico*, *Turkey*, *South America*, *Rest of Business* and the *Corporate Center*.
The segment *Spain* includes BBVA's banking and insurance activities in Spain as well as the Group's management of problematic real-estate assets (however, most of the problematic assets were transferred in a joint venture with Cerberus in 2018). The Corporate Center corresponds to the Group's holding functions and includes the costs of the head offices that have a corporate function and other administrative services. The segment *Rest of Business* mainly incorporates the wholesale activities carried out in Europe (excl. Spain) and in the United States (reclassified following the sale of BBVA USA), as well as the banking business developed through BBVA's five branches in Asia. The remaining segments include BBVA's activities in the respective geographical regions, and comprise the retail banking business as well as the insurance activities and wholesale business. We refer to the chapter Profitability for the contribution of each operating segment to the Group's gross income and net profit.

The Group has evolved its strategy and has defined six priorities as part of its transformation journey, which it currently focuses on. These priorities include improving customer financial health, support clients at transition towards a sustainable future, reach more clients through digital channels, driving operational excellence with automated processes and foster the Group's data and technology use.

BBVA's shareholder structure is ordinary. Most of the Group's shares are free floating and the most significant shareholders are currently BlackRock Inc. with 5.5% and Norges Bank with 3.2%.

The main subsidiaries and investments with BBVA's total legal shares are as follows:

Chart 1: Main subsidiaries and investments of BBVA as of 2020 excl. USA | Source: Annual Report 2020 of BBVA

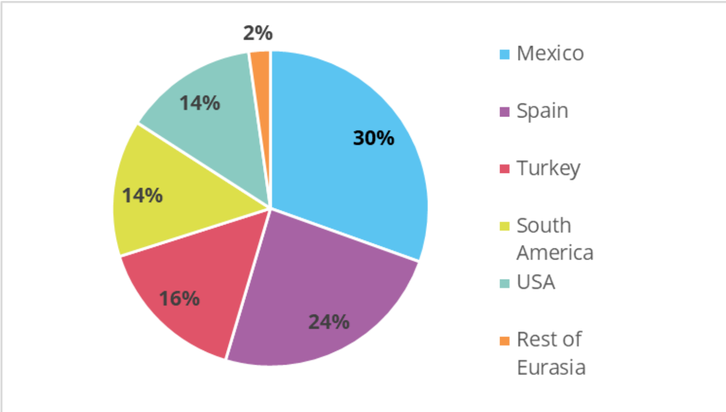
BBVA's main transactions in recent year are as follows. Closing of the sale of BBVA USA Bancshares Inc. (owns all the capital stock of BBVA USA, as well as other companies of the BBVA Group in the United States) for about 11.5 billion USD in June 2021, which leads to a positive results (net of taxes) of about €570 million. However, BBVA will continue to develop the wholesale business that it currently carries out through its branch in New York. This transaction had a positive impact on BBVA Group's CET 1 ratio of about 294bp. Moreover, BBVA sold BBVA Paraguay for approximately $250 million, which generated a capital loss, net of taxes, of approximately €9 million (closing in January 2021). In December 2020, BBVA and Allianz Group completed the founding of BBVA Allianz Seguros, which is a bancassurance joint venture in order to develop the non-life insurance business in Spain and of which Allianz Group has acquired 50% plus one share. BBVA Seguros received a total of approximately €274 million for the sale of this stake. The sale of BBVA Chile to the Scotiabank in 2018 generated a capital gain of about €633 million, net of taxes.

Business Development

Profitability

BBVA's operating income amounted to €21.8 billion in 2020, decreasing by 7.1% in a YOY comparison (€1.6 billion). Note that in our simplified presentation of the bank's income statement the results of BBVA USA are listed under the item of discontinued operations in line with the bank's annual report. Chart 2 shows the contribution of each business segment to BBVA's gross income incl. BBVA USA.

Chart 2: Gross income by BBVA's business segments excl. Corporate Center in 2020 | Source: Annual Report 2020 of BBVA



Net interest income was the main driver of the decrease in operating income (-€1.2 billion YOY) but represents BBVA's major source of income. This decrease is primarily related to foreign exchange effects in Mexico (about -€700 million) and South America (about -€500 million). In addition, BBVA suffers under the low interest environment in Europe. As of June 2021, BBVA reports a stable performance in all business segments except for Turkey, where the bank faces a further decline of its net interest income of about €500 million, which is a result of the depreciation of the Turkish Lira in addition to increasing funding costs.

Net fee and commission income decreased mainly in the business segments in Mexico and Turkey and is predominately related to lower credit and debit cards fees, which contribute about 35% to BBVA fee and commission income. In addition to exchange rate effects, which caused about 2/3 of the reduction in this item, BBVA noticed in both segments lower activities following the Corona pandemic. Moreover, changes in fees regulation lead to the reduction in Turkey as well. As of June 2021, BBVA reports increasing income from net fees and commissions and is about to reach its level of 2019.

Net trading income contributed the lowest share of the three main drivers to the operating income, but increasing significantly as a result of exchange rate hedging gains and the increase in the results generated throughout the year by all the business areas, except for South America. As of June 2021, BBVA was able to maintain its increased level of net trading income.

Operating expenses amounted to €11.6 billion in 2020, decreasing significantly YOY mainly due to foreign exchange effects. Lower personnel expenses followed various foreign exchange devaluations in Mexico, Turkey and South America. In addition, cost-containment plans and lower discretionary expenses as a result of the pandemic primarily in Spain led to lower personnel expense as well. Other expense contains among others €800 million of contributions to the guaranteed banks deposits funds and a hyperinflation adjustment of €348 million related to BBVA's activities in Argentina and Venezuela, which reduced YOY by about €190 million.

Overall, BBVA bears a significant exchange risk due to its operations in volatile and hyperinflationary countries like Argentina and Turkey, which in particular emerges in times of financial distress.

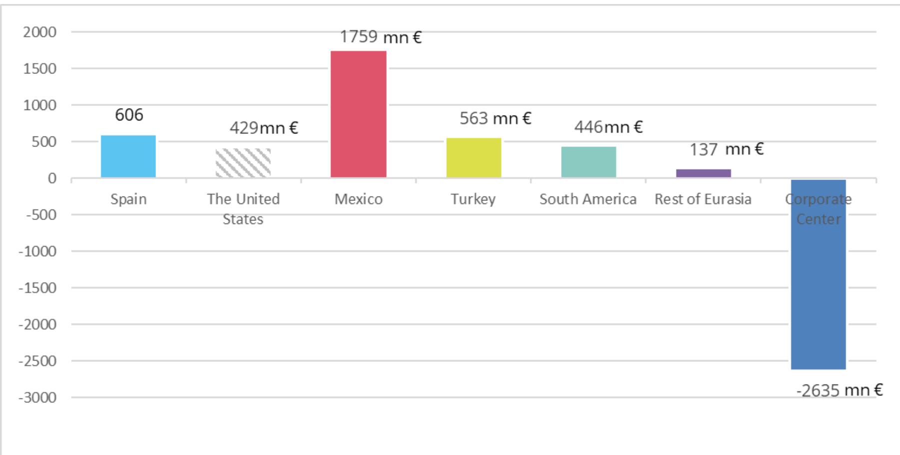
BBVA's net result decreased YOY following large loan loss impairments (most significant increases in Spain and Mexico) of about €5.16 bn due to the Corona pandemic. With cost of risk of about 165bp (own calculation: impairment on financial assets over net loans to customers), BBVA clearly underperforms other large European banks. In addition, BBVA's cost of risk were at a relatively high level already before the pandemic.

As the Corona pandemic did not materialize as previously expected and a fast, worldwide recovery of the economies in 2021 takes place, a rebound of BBVA's loan loss impairments to the level before the pandemic is already expected in 2021, which is indicated by the bank's half-year 2021 report where BBVA reports impairments on financial assets of about €1.58bn.

The result of the segment USA are shown under the line item of discontinued operations due to the sale of BBVA USA, which are actually negative after the large impairments of goodwill (€2 bn).

Chart 3 shows the contribution of each business segment of BBVA to the Group's net profit in 2020.

Chart 3: Ordinary net attributable profit of BBVA by business segment in 2020 | Source: Annual Report 2020 of BBVA



A detailed group income statement for the years of 2017 through 2020 can be found in Figure 1 below:

Figure 1: Group income statement | Source: eValueRate / CRA

Income Statement (EUR m)	2020	%	2019	2018	2017
Income					
Net Interest Income	14.592	-7,6	15.789	17.592	17.759
Net Fee & Commission Income	4.123	-8,4	4.501	4.879	4.921
Net Insurance Income	977	-14,2	1.139	1.055	1.070
Net Trading Income	1.546	+20,2	1.286	1.224	1.968
Equity Accounted Results	-39	-7,1	-42	-7	4
Dividends from Equity Instruments	137	-9,9	152	157	334
Other Income	492	-27,1	675	1.085	1.439
Operating Income	**21.828**	**-7,1**	**23.500**	**25.985**	**27.495**
Expense					
Depreciation and Amortisation	1.440	-4,8	1.513	1.346	1.751
Personnel Expense	4.695	-12,3	5.351	6.120	6.571
Tech & Communications Expense	1.260	+1,5	1.241	1.368	692
Marketing and Promotion Expense	186	-25,6	250	336	269
Other Provisions	746	+21,5	614	373	745
Other Expense	3.328	-14,9	3.911	4.830	5.806
Operating Expense	**11.655**	**-9,5**	**12.880**	**14.373**	**15.834**
Operating Profit & Impairment					
Pre-impairment Operating Profit	**10.173**	**-4,2**	**10.620**	**11.612**	**11.661**
Asset Writedowns	5.369	+49,2	3.598	3.981	4.803
Net Income					
Non-Recurring Income	547	> +100	96	815	133
Non-Recurring Expense	103	+43,1	72	-	60
Pre-tax Profit	**5.248**	**-25,5**	**7.046**	**8.446**	**6.931**
Income Tax Expense	1.459	-24,9	1.943	2.219	2.169
Discontinued Operations	-1.729	> +100	-758	-	-
Net Profit	**2.060**	**-52,6**	**4.345**	**6.227**	**4.762**
Attributable to minority interest (non-controlling interest)	755	-9,4	833	827	1.243
Attributable to owners of the parent	1.305	-62,8	3.512	5.400	3.519

Due to BBVA's more than halved net profit in 2020, all of the Group's earnings figures worsened year-over-year.

BBVA's ROA, ROE and RORWA after taxes figures reached a below average level. However, the figures are remarkable in times of the pandemic, in particular in comparison to other large European banks. By contrast, BBVA's ROA, ROE and RORWA before taxes figures are average and thereby significantly more favorable than the after taxes figures because of the listing of BBVA US segment as discontinued operation. The US segment recorded a negative result due to the goodwill impairment of about €2bn, but does not affect BBVA's operating result due to its classification under the item of discontinued operations. Overall, the Group distinctly benefits from its diversified business model with its highly profitable overseas activities. This fact is underpinned by BBVA's net interest margin, which remained at an impressive level over the recent years. In addition, BBVA maintains its sound cost to income ratios, which represent the bank's intrinsic profitability and which are clearly ahead of most other large European banks. Finally, despite the negative impact of the Corona pandemic on the banks net profit, BBVA's earnings figures are the best performers of all areas analyzed.

A detailed overview of the income ratios for the years of 2017 through 2020 can be found in Figure 2 below:

Figure 2: Group key earnings figures| Source: eValueRate / CRA

Income Ratios (%)	2020	%	2019	2018	2017
Cost Income Ratio (CIR)	53,39	-1,41	54,81	55,31	57,59
Cost Income Ratio ex. Trading (CIRex)	57,46	-0,52	57,98	58,05	62,03
Return on Assets (ROA)	0,28	-0,34	0,62	0,92	0,69
Return on Equity (ROE)	4,12	-3,79	7,91	11,78	8,93
Return on Assets before Taxes (ROAbT)	0,71	-0,30	1,01	1,25	1,00
Return on Equity before Taxes (ROEbT)	10,49	-2,34	12,83	15,97	13,00
Return on Risk-Weighted Assets (RORWA)	0,58	-0,61	1,19	1,79	1,31
Return on Risk-Weighted Assets before Taxes (RORWAbT)	1,49	-0,44	1,93	2,42	1,91
Net Interest Margin (NIM)	2,61	-0,00	2,61	2,97	3,14
Pre-Impairment Operating Profit / Assets	1,38	-0,14	1,52	1,72	1,69
Cost of Funds (COF)	1,34	-0,62	1,96	2,05	1,94

Change in %- Points

Asset Situation and Asset Quality

Net loans to customers represent the largest share of BBVA's assets and are well diversified over the globe, but decreasing predominately as a result of the sale of BBVA USA, which assets are listed under the line item of non-current assets & discontinued operations. Leaving out the sale of BBVA USA and BBVA Paraguay, BBVA would record net loans to customers of about €365bn, which shows a reduction in net loans YOY mainly due to foreign exchange effects (Mexico: -€8bn, Turkey: -€3bn, South America: -€2bn). Leaving out foreign exchange effects, BBVA would record almost unchanged net loans in Mexico, but increased net loans in Turkey and South America. About 43% of BBVA's loans are loans to households (mostly housing loans), while 25% are loans of large companies and only 6% are loans to general governments. The bank's mortgage loans showed the most significant reduction YOY. As of June 2021, BBVA reported little increases of its loan activities, primarily in Spain and Mexico and in the area of consumer loans, while the bank notices slightly reduced net loans in Turkey and South America.

Total securities, as the second largest asset, increased YOY due to increased investments in government debt securities primarily of Spain (+€10bn) to about €33bn and the USA (+€5bn) to about €14bn while government debt securities of the Mexican government were reduced by about €2bn to €19bn. The highest Sovereign Risk Exposure (debt securities and loans) clearly is associated with its home country Spain. As of June 2021, BBVA's debt securities holding did not change significantly.

The bank's cash position increased following its participation at the ECB's TLTRO III program, which enables very favorable refinancing rates up to -1% if conditions are met. Thereby, BBVA took about €35bn and increased the volume to about €38bn as of June 2021. Moreover, the sale of BBVA USA increased the bank's cash position as well. However, the significant increase in the bank's cash position shows a lack of investment opportunities. As of 30 June 2021, BBVA's existing payment deferrals according to EBA criteria amounted to only €2.8bn.

A detailed look at the development of the asset side of the balance sheet for the years of 2017 through 2020 can be taken in Figure 3 below:

Figure 3: Development of assets| Source: eValueRate / CRA

Assets (EUR m)	2020	%	2019	2018	2017
Cash and Balances with Central Banks	71.729	+47,7	48.578	62.137	49.980
Net Loans to Banks	12.702	+6,5	11.932	9.979	12.400
Net Loans to Customers	312.388	-18,6	383.749	375.763	376.771
Total Securities	146.178	+3,8	140.880	124.310	125.004
Total Derivative Assets	42.224	+24,2	33.989	33.407	37.725
Other Financial Assets	34.022	-4,9	35.784	28.034	25.415
Financial Assets	**619.243**	**-5,4**	**654.912**	**633.630**	**627.295**
Equity Accounted Investments	1.436	-3,5	1.488	1.578	1.588
Other Investments	222	-11,9	252	163	195
Insurance Assets	306	-10,3	341	366	421
Non-current Assets & Discontinued Ops	85.986	> +100	3.079	2.001	23.853
Tangible and Intangible Assets	9.946	-40,7	16.782	15.380	15.460
Tax Assets	16.526	-3,3	17.083	18.100	16.888
Total Other Assets	2.511	-33,9	3.800	5.471	4.359
Total Assets	**736.176**	**+5,5**	**697.737**	**676.689**	**690.059**

BBVA's asset quality remained largely at the same level as in the previous year, which is overall at moderate level.

The NPL ratio of 4% is at a moderate level and slightly elevated in comparison to other large European banks due to BBVA business activities in South America and Turkey, which reflect the higher risk of the business activities in this regions. As of June 2021 and mostly due to the sale of BBVA USA, BBVA records a further increase of its NPL ratio to about 4.2%. Moreover, BBVA's NPL to RWA ratio shows a moderate risk of BBVA's loans in comparison to its risk-weighted assets as well. However, this is a result of BBVA's relatively high RWA ratio which is at about 48% and thereby clearly worse than of other large European banks. The elevated RWA ratio is among other a result of the significant business activities in emerging markets, which bear a higher risk weighting. By contrast, the reserves / NPL ratio of about 83% of BBVA is more favorable than that of its competitors on average. This indicates a prudent approach and the awareness of its risk profile and mitigates the elevated NPL ratio. Both of BBVA's net-write off ratios were at an unsatisfactory level already before the Corona pandemic, and even worsened as a result of significant loans loss provisions in 2020, which is another sign of BBVA's higher risk profile with regard to its assets. The bank's potential problem loans ratio (measured by stage 2 loans) is besides the increased loan loss provision the other significant impact of the Corona pandemic as of now. With a potential problem loan ratio of about 9.8%, BBVA clearly is at the lower end in comparison to other large European banks. A further increase in this regard is indicated by the banks half-year 2021 report. In addition, the run out of all public guarantees as well as the end of moratorium measures might lead to a further worsening in this regard, which requires a close monitoring of the upcoming development.

A detailed overview of the asset quality for the years of 2017 through 2020 can be found in Figure 4 below:

Figure 4: Development of asset quality| Source: eValueRate / CRA

Asset Ratios (%)	2020	%	2019	2018	2017
Net Loans/ Assets	42,43	-12,57	55,00	55,53	54,60
Risk-weighted Assets/ Assets	47,91	-4,40	52,30	51,55	52,59
NPLs*/ Net Loans to Customers	4,00	+0,20	3,80	3,90	4,60
NPLs*/ Risk-weighted Assets	4,16	-0,21	4,37	4,69	5,34
Potential Problem Loans**/ Net Loans to Customers	9,79	+1,10	8,69	8,16	1,25
Reserves/ NPLs*	82,75	+4,86	77,89	75,02	65,75
Reserves/ Net Loans	3,89	+0,65	3,24	3,26	3,38
Net Write-offs/ Net Loans	1,72	+0,78	0,94	1,06	1,27
Net Write-offs/ Risk-weighted Assets	1,52	+0,54	0,99	1,14	1,32
Net Write-offs/ Total Assets	0,73	+0,21	0,52	0,59	0,70
Level 3 Assets/ Total Assets	0,18	-0,02	0,20	0,25	0,12
Change in %- Points					

* NPLs are represented from 2017 onwards by Stage 3 Loans.
** Potential Problem Loans are Stage 2 Loans where available.

Refinancing, Capital Quality and Liquidity

Total deposits from customers represent the major source of refinancing of the Group. About 55% of the customer deposits are customer deposits from Spain and 16% from Mexican customers. While customer deposits in Spain increased significantly due to excess liquidity, customer deposits from other areas mostly reduced following the depreciations of the currencies against the Euro in contrast to the nominal development. Most of the banks customer deposits are demand deposits (78%) and bear a risk of quick withdrawals. As of June 2021, BBVA's development of its customer deposits has developed inconspicuously. In general, BBVA denotes increasing deposits at current accounts, while time deposits are decreasing.
BBVA's total debt, as the second largest share of liabilities, consist primarily of senior debt and remained almost unchanged YOY. About 31% of the debt securities are denominated in foreign currencies (primarily in US Dollar) and are overall well diversified in terms of maturity and subordination. Other Financial Liabilities consists of various repurchase agreements. As of June 2021, BBVA participated in the ECB TLTRO III operation and took about €38 billion at very favorable conditions (up to -1%), if conditions are met. The bank is confident to meet the requirements in this regard. Again, the non-current liabilities held for sale & discontinued operations in 2020 comprise primarily the aforementioned sale of BBVA USA. By contrast, the decrease in BBVA's total equity is attributable to various depreciations against the Euro. The most significant impact arose from the devaluation of the Mexican peso (-13.1%) and the Turkish lira (-26.7%).

A detailed overview of the development of liabilities for the years of 2017 through 2020 can be found in Figure 5 below:

Figure 5: Development of refinancing and capital adequacy| Source: eValueRate / CRA

Liabilities (EUR m)	2020	%	2019	2018	2017
Total Deposits from Banks	62.053	+20,3	51.572	54.290	66.727
Total Deposits from Customers	342.862	-10,9	384.700	375.737	367.303
Total Debt	66.311	-3,4	68.619	63.970	63.915
Derivative Liabilities	43.998	+21,2	36.298	34.494	39.042
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	66.946	-2,5	68.628	67.980	58.004
Total Financial Liabilities	**582.170**	**-4,5**	**609.817**	**596.471**	**594.991**
Insurance Liabilities	14.568	-3,0	15.016	12.993	9.223
Non-current Liabilities & Discontinued Ops	75.446	> +100	1.554	-	17.197
Tax Liabilities	2.355	-16,1	2.808	3.276	3.298
Provisions	6.141	-6,1	6.538	6.772	7.477
Total Other Liabilities	5.476	-22,6	7.079	4.303	4.550
Total Liabilities	**686.156**	**+6,7**	**642.812**	**623.815**	**636.736**
Total Equity	**50.020**	**-8,9**	**54.925**	**52.874**	**53.323**
Total Liabilities and Equity	**736.176**	**+5,5**	**697.737**	**676.689**	**690.059**

The Group's CET1 (we consider only fully loaded figures unless otherwise stated) remained almost unchanged YOY and is still at a below average level in comparison to other large European banks. The reduction in CET1 capital (depreciation of foreign currency) was offset by a lower risk-weighted assets amount. However, as of June 2021, BBVA's CET1 ratio was boosted by the sale of BBVA USA and about 14.17%. However, as BBVA targets a share buyback program (10% of shares) starting in Q4-2021, a CET1 ratio of 12.89% is expected at year-end. In addition, as BBVA's targeted CET1 ratio is 11.5-12%, an appropriate dividend distribution is expected. With regard to the minimum required CET1 ratio of 8.59%, the banks records a comfortable buffer. Moreover, BBVA has issued the world's first green Additional Tier 1 bond (€1bn) and amortized a previous AT1 bond (€1.5bn) with a higher coupon in 2020. Referring the Group's Tier 2 capital, BBVA carried out two issuances in 2020 (€1bn and 300mn pound sterling). Following that, the bank was able to increase its Total Capital ratio. However, in comparison to other large European banks, BBVA's regulatory ratios are still at the lower end. As of June 2021, BBVA's AT1 as well as Total Capital ratio were boosted by the sale of BBVA USA as well and reached an good level (AT1: 16.04% and TC: 18.48%), but are expected to decrease according to the CET1 development. Overall, BBVA meets comfortably all regulatory capital requirements. In general, BBVA's credit rating would clearly benefit from lasting increase in the bank's regulatory capital ratios.

In contrast to the regulatory capital figures, the Group shows a sound leverage ratio and an adequate Total Equity to Total Assets ratio. In addition, BBVA even increased its leverage ratio to 7.4% as of June 2021, which is mainly a result of the lower exposure after the sale of BBVA USA. The drop in BBVA's total equity ratio is a result of foreign exchange effects in addition to the extension of the bank's total assets due to the TLTRO III liabilities, which is rather a technical issue than a potential risk. As of June 2021, BBVA showed a solid Total Equity ratio of about 7.7%. With regard to the banks dividend policy, BBVA follows a moderate policy and intends to distribute 35-40% of profits for each fiscal year.

BBVA's capital figures are the least favorable performers in any of the areas analyzed.

The Group's LCR of 149% and NSFR of 127% are in line with other large European banks. BBVA meets clearly the regulatory requirements in this regard. However, the regulatory requirement regarding the NSFR entry into force initially in 2021.
The customer deposits to total funding ratio of shows the Group's stable and favorable source of funding - the deposits of its customers. The drop in 2020 in this ratio is related to the sale of BBVA USA and the shift of these assets to the line item of non-current liabilities. In addition, the almost equal LTD ratio (leaving out the effect of BBVA USA) shows an adequate demand for the Group's loans.

We do not perceive any liquidity issues at BBVA and the whole banking sector.

A detailed overview of the development of capital and liquidity ratios for the years of 2017 through 2020 can be found in Figure 6 below:

Figure 6: Development of capital and liquidity ratios | Source: eValueRate / CRA

Capital Ratios and Liquidity (%)	2020	%	2019	2018	2017
Total Equity/ Total Assets	6,79	-1,08	7,87	7,81	7,73
Leverage Ratio	6,69	-0,11	6,80	6,51	6,71
Common Equity Tier 1 Ratio (CET1)	11,73	-0,01	11,74	11,34	11,00
Tier 1 Ratio (CET1 + AT1)	13,62	+0,25	13,37	12,91	12,80
Total Capital Ratio (CET1 + AT1 + T2)	15,92	+0,51	15,41	15,45	15,10
Net Loans/ Deposits (LTD)	91,11	-8,64	99,75	100,01	102,58
Interbank Ratio	20,47	-2,67	23,14	18,38	18,58
Liquidity Coverage Ratio	149,00	+20,00	129,00	127,00	128,00
Customer Deposits / Total Funding (excl. Derivates)	53,39	-10,04	63,43	63,76	61,45
Net Stable Funding Ratio (NSFR)	127,00	+7,00	120,00	-	-
Change in %- Points					

*Fully loaded figures whenever available.

In general, BBVA's capital and debt instruments have been upnotched following the upgrade of the long-term issuer rating. Due to BBVA's bank capital and debt structure, the Group's preferred senior unsecured debt instruments have not been notched down in comparison to the long-term issuer rating. Due to the seniority structure, BBVA's non-preferred senior unsecured debt has been notched down by one notch. However, the Group's Tier 2 capital rating is three notches below the long-term issuer rating based on the bank's capital structure and seniority in accordance with our rating methodology. Additional Tier 1 capital is rated five notches below the long-term issuer rating, reflecting a high bail-in risk in the event of resolution. However, the rating of the AT1 Capital class has not been upnotched in comparison to the previous rating due to the relatively decreased subordinated capital amount, in line with our methodology.

Environmental, Social and Governance (ESG) Score Card

BBVA has one significant and two moderate ESG rating driver

• Corporate Governance is identified as a significant rating driver. The relevance for the credit rating results from the impact of the corporate governance factor on all other ESG factors and the overall well-being of the bank. This sub-factor is rated positive due to BBVA's strong and sustainable earning figures, the widespread ESG policies and its ambitious ESG targets.

• Corporate Behaviour and Green Financing / Promoting are identified as moderate rating driver. While Green Financing / Promoting is rated neutral due to relatively low amount of green bonds despite the issue of a green AT1 bond, Corporate Behaviour is rated neutral due the misconduct in recent years in relation with money laundering and the corruption investigations.

ESG Score
3,8 / 5

ESG Score Guidance	
> 4,25	Outstanding
>3,5 - 4,25	Above-average
>2,5 - 3,5	Average
>1,75 - 2,5	Substandard
< = 1,75	Poor

Factor	Sub-Factor	Consideration	Relevance Scale 2021	Eval.
Environmental	1.1 Green Financing / Promoting	The sub-factor "Green Financing/Promoting" has a moderate relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	3	( )
Environmental	1.2 Exposure to Environ-mental Factors	The sub-factor "Exposure to Environmental Factors" has a low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
Environmental	1.3 Resource Efficiency	The sub-factor "Resource Efficiency" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)
Social	2.1 Human Capital	The sub-factor "Human Capital" has low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
Social	2.2 Social Responsibility	The sub-factor "Social Responsibility" has no significant relevance for the credit rating, and is rated very positive in terms of the CRA ESG criteria.	1	(+ +)
Governance	3.1 Corporate Governance	The sub-factor "Corporate Governance" is highly relevant for the credit rating, and is rated positive in terms of the CRA ESG criteria.	4	(+)
Governance	3.2 Corporate Behaviour	The sub-factor "Corporate Behaviour" has a moderate relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	3	( )
Governance	3.3 Corporate Transparency	The sub-factor "Corporate Transparency" has no significant relevance for the credit rating, and is rated very positive in terms of the CRA ESG criteria.	1	(+ +)

ESG Relevance Scale	
5	Highest Relevance
4	High Relevance
3	Moderate Relevance
2	Low Relevance
1	No significant Relevance

ESG Evaluation Guidance	
(+ +)	Strong positive
(+)	Positive
( )	Neutral
(-)	Negative
(- -)	Strong negativ

The ESG Score is based on the Methodology "Environmental, Social and Governance Score of Banken (Version 1.0)" of Creditreform Rating AG, which is available on our homepage https://creditreform-rating.de/en/about-us/regulatory-requirements.html. In addition, we refer to CRA's position paper "Consodering the Impact of ESG Factors".

Conclusion

Overall, Banco Bilbao Vizcaya Argentaria, S.A. (Group) showed a decent year of performance in 2020. BBVA reached a considerable net result (leaving out BBVA USA) despite the impact of the Corona pandemic, which resulted in significant loan loss impairments but as of now not in a material worsening of the asset quality of the bank. We upgrade the long-term issuer rating of BBVA from BBB+ to A- due to a change in our methodology where BBVA benefits from being one of the largest banks in Spain with a globally diversified business model. In addition, BBVA's rating benefits from the only minor impact of the Corona pandemic on the bank's performance, in contrast to our previous expectations.

The Group reported decent earnings figures in 2020 despite the Corona pandemic impact. The massive increase in loan loss provisions has a significantly negative impact on the banks profitability next to the huge impairment on goodwill of the USA subsidiary. However, BBVA sold BBVA USA and some reversals of the provisions are expected, which will boost BBVA's profitability in the upcoming years. In addition, various foreign exchange effects burdened the net result of the bank in 2020, of which some are already to rebound in 2021 already. In addition, BBVA reports one of the highest cost of risk (calculated as impairment on financial assets over net loans to customers) with 165bp in comparison to other large European banks. However, this can be mostly explained by the banks higher risk overseas business activities, which in turn cause the banks strong profitability. By contrast, BBVA benefits from its ongoing cost cutting/restructuring measures in the upcoming years, which will ensure that the bank will maintain its very sound intrinsic profitability.

The asset quality of BBVA improved over the last years to a moderate level with only little worsening due to the Corona pandemic. As of now, the Corona pandemic has led to increased stage 2 exposure (potential problem loans) and higher loan impairments. However, with the run out of public guarantees and support measures, the Corona pandemic might have a negative impact on the banks asset quality over the next years. In addition, both write-off ratios are throughout the past years on a very high level and represent in particular the bank's overseas business activities with a higher risk profile.

On the liabilities side, BBVA reported increasing customer deposits and increasing cash and balances with central banks, which is in line with the development of other large European banks. The participation in ECB's TLTRO III funding program, enables BBVA to reduce its costs of funding. BBVA's regulatory capital ratios are clearly below the average of its competitors but the bank meets all regulatory requirements clearly with sufficient buffer. The gains of the sale BBVA USA are supposed to be used for share buybacks. Thus, a drop from the current elevated ratios (as of June 2021) is expected. The liquidity situation of BBVA remains sufficient.

Outlook

We consider the outlook of Banco Bilbao Vizcaya Argentaria, S.A. (Group) long-term issuer rating and its bank capital and debt instruments as stable. The stable outlook is based on the assumption that the bank will regain its strong level of profitability in 2021 already. In addition, we assume only a minor impact of the Corona pandemic on the banks business activities. Moreover, we do not expect significant changes in the bank's capitalization. Lastly, we assume no significant economic worsening due to the Corona pandemic and stable political environment in the banks markets of operations.

Scenario Analysis

Best-case scenario: A

Worst-case scenario: BBB

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

In a scenario analysis, the bank is able to reach an "A " rating in the "best case" scenario and an "BBB" rating in the "worst case" scenario. The ratings of bank capital and senior unsecured debt would behave similarly based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

We might upgrade BBVA's (Group) long-term issuer credit rating and its bank capital and debt instruments if we see that BBVA is able to improve its capital ratios significantly in addition to an improved asset quality while at least maintaining its level of profitability.

By contrast, a downgrade of the Group`s long-term issuer credit rating and its bank capital and debt instruments is likely if we see that BBVA cannot maintain its strong level of profitability, which would eventually lead a worsening of the Group's capital ratios. In particular, we will observe the ongoing Corona pandemic impact on BBVA's asset quality and its business activities in general. In addition, the bank's activities in high inflationary regions require a close monitoring as well.

Appendix

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **A- / stable / L2**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred Senior Unsecured Debt (PSU): **A-**
Non-Preferred Senior Unsecured Debt (NPS): **BBB+**
Tier 2 (T2): **BBB-**
Additional Tier 1 (AT1): **BB**

Rating History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 7: Rating History

Bank Issuer Rating	Rating Date	Result
Initialrating	22.06.2018	A- / stable / L2
Update	15.07.2019	A- / stable / L2
Monitoring	24.03.2020	A- / NEW / L2
Update	06.10.2020	BBB+ / stable / L3
Update	22.10.2021	A- / stable / L2
Bank Capital and Debt Instruments	**Rating Date**	**Result**
Senior Unsecured / T2 / AT1 (Initial)	22.06.2018	A- / BBB- / BB+
PSU / NPS / T2 / AT1	15.07.2019	A- / BBB+ / BBB- / BB
PSU / NPS / T2 / AT1 (NEW)	24.03.2020	A- / BBB+ / BBB- / BB
PSU / NPS / T2 / AT1	06.10.2020	BBB+ / BBB / BB+ / BB
PSU / NPS / T2 / AT1	22.10.2021	A- / BBB+ / BBB- / BB

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating. The following scheme clarifies the level of participation of the rated entity (rating object):

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	No
With Access to Internal Documents	No
With Access to Management	No

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for bank ratings as (v3.0), the methodology for the rating of bank capital and unsecured debt instruments (v2.0) as well as the rating methodology for Environmental, Social and Governance Score for Banks (v1.0) in conjunction with Creditreform's basic document Rating Criteria and Definitions (v1.3).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (v1.3) are published on our homepage:

https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html

On 22 October 2021, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Banco Bilbao Vizcaya Argentaria, S.A. (Group), and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Rating Endorsement Status: The rating of Banco Bilbao Vizcaya Argentaria, S.A. (Group) was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Aggregated data base by eValueRate

2. Annual Report and interim reports

3. Investors relations information and other publications

4. Website of the rated bank

5. Public and internal market analyses

6. Internet research

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained in mentioned methodologies and / or in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data" information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform's default rates are available in the credit rating methodologies disclosed on the website.

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