Creditreform Bank Rating

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

Creditreform Rating

Long-Term Issuer Rating: A-
Outlook: stable

Short-Term Rating: L2

Preferred Sen. Unsec. Debt: A-
Non-Preferred Sen. Unsec. Debt: BBB+
Tier 2 Capital: BBB-
AT1 Capital: BB

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Rating Action:

Creditreform Rating affirms Banco Bilbao Vizcaya Argentaria, S.A. (Group) long-term issuer rating at 'A-' (Outlook: stable). In addition, our ratings of the Group's bank capital and debt instruments are affected by the change in our rating methodology.

Creditreform Rating (CRA) has affirmed Banco Bilbao Vizcaya Argentaria, S.A. (Group) – in the following BBVA - long-term issuer rating at 'A-' and affirms the short-term rating at 'L2'. The rating outlook is stable.

At the same time, we affirm the rating of the Tier 2 capital of BBVA at 'BBB-', however, we downgrade the rating of the Group`s AT1 capital to 'BB' from 'BB+' as a result of a lower amount of CET1 buffer year-over-year due to the IFRS9 impact. In addition, adjustments in our rating methodology for bank capital and debt instruments occurred because of legislative alterations in the European Union. As a result, CRA reclassifies its rating of senior unsecured debt to preferred senior unsecured debt and affirms it at 'A-'. Moreover, CRA assigns the non-preferred senior unsecured debt, which ranks junior to preferred senior unsecured debt, the following rating: 'BBB+'.

Please find a complete list of rating actions regarding the bank at the end of this rating action paper.

Key Rating Drivers

CRA affirms the rating of Banco Bilbao Vizcaya Argentaria, S.A. (Group) as a result of our updating process for the following reasons:

- Sound earnings figures
- Diversified business model
- Despite recent improvements, still relatively high NPL ratio
- Moderate capitalization

Rating Rationale

BBVA's credit rating affirmation is primarily a result of its diversified business model and the stable performance in recent years net of various one-off effects.

Profitability

The bank's earnings figures increased year-over-year and are at a very completive level. Moreover, the bank is outperforming the peer group clearly with its earnings figures. However, the improvements in its main earnings figures (ROAA, ROAE, RORWA) are primarily driven by various one-off effects, such as the positive impact of the sale of BBVA`s stake in BBVA Chile in 2018 and the negative impact of the value adjustments in relation to BBVA`s stake in Telefonica S.A. in 2017.

For details regarding the banks profitability, we refer to figure 2 and figure 3 in the appendix.

Asset Situation and Asset Quality

BBVA´s reduced its NPL ratio considerably from 5%[1] in 2017 to 4.2% in 2018, however, the NPL ratio is still worse than the average of the peer group. In addition, BBVA sold its major stake in its problematic real estate portfolio in Spain to Cerberus. The banks impairments to NPL ratio is above peer group average with 74%.

By contrast, BBVA`s RWA ratio of 54% exceeds the average of the peer group clearly as a result of its business model.

We refer to figure 4 and figure 5 in the appendix regarding the details of BBVA`s asset situation and asset quality.

Refinancing and Capital Quality

BBVA exhibits relatively low regulatory capital ratios in comparison to the peer group average. The reduction in the phased in capital figures year-over-year is partially a result of the sale of BBVA Chile and the negative impact of IFRS9. However, BBVA was able to improve its fully loaded capital figures in the same period. By contrast, the banks leverage ratio of 6.5% as well as the total equity to total assets ratio outperforms the peer group.

The ratings of BBVA's bank capital and debt instruments are affected due to our rating mechanism and the recent change in our methodology. The downgrade of the Group`s AT1 capital to 'BB' from 'BB+' is a result of a lower amount of CET1 buffer year-over-year due to the IFRS9 impact on this capital position. In addition, BBVA`s issued AT1 capital could not counteract this development.

For details regarding the banks refinancing and capital quality, we refer to figure 6 and figure 7 in the appendix.

Liquidity

In our opinion, the overall liquidity situation of the bank is satisfactory. Noteworthy is the banks stable and balanced loan-to-deposit ratio of 99.8%.

For details regarding the banks liquidity, we refer to figure 8 in the appendix.

Outlook

We consider the outlook of BBVA`s long-term issuer rating and its bank capital and debt instruments as stable. This reflects our view that the banks is likely to maintain its earnings figures in the upcoming years while improving its asset quality continuously. However, we will observe

[1] All ratios and accounting balances are standardized and built with eValueRate/CRA and may vary from BBBVA`s presentation.

BBVA’s development of its capitalization and to what extent the bank is able manage the economic challenges in particular in Turkey and Argentina.

In addition, we assume and pay special attention to the political and economic environment in BBVA`s markets of operations.

Scenario Analysis

In a scenario analysis, BBVA’s rating developed slightly better in the “best case” scenario and slightly worse in the "worst case" scenario. The ratings of bank capital and the senior unsecured debt classes 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 could upgrade BBVA’s long-term issuer credit rating and its bank capital and debt instruments if we see the bank strengthen its capitalization significantly. In addition, a further improvement of the bank’s asset quality might lead to an upgrade as well.

By contrast, a downgrade of BBVA’s long-term issuer credit rating and its bank capital and debt instruments is likely if BBVA faces declining earnings figures. In addition, a worsening of the capitalization or the asset quality might lead to a downgrade of the bank’s long-term issuer rating and its bank capital and debt instruments.

CRA's rating actions at a glance

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

- Long-Term Issuer Rating affirmed at 'A-', stable outlook
- Short-term rating affirmed at 'L2'
- Senior unsecured debt reclassified to preferred senior unsecured debt and affirmed at 'A-'
- Non-preferred senior unsecured debt rated at 'BBB+'
- Tier 2 capital affirmed at 'BBB-'
- AT1 capital downgraded to 'BB' from 'BB+'

Ratings Detail

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**

Ratings Detail and History

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

Figure 1: Ratings Detail and History

Bank Issuer Rating	Rating Date	Publication Date	Result
Initialrating	22.06.2018	09.07.2018	A- / stable / L2
Update	15.07.2019	17.07.2019	A- / stable / L2
Bank Capital and Debt Instruments	**Rating Date**	**Publication Date**	**Result**
Senior Unsecured / T2 / AT1 (Initial)	22.06.2018	09.07.2018	A- / BBB- / BB+
PSU / NPS / T2 / AT1	15.07.2019	17.07.2019	A- / BBB+ / BBB- / BB

Appendix

Figure 2: Group income statement | Source: eValueRate / CRA

Income Statement	2015	2016	2017	%	2018
Income (€000)					
Net Interest Income	16.022.000	17.059.000	17.759.000	-0,9	17.592.000
Net Fee & Commission Income	4.612.000	4.718.000	4.921.000	-0,9	4.879.000
Net Insurance Income	1.079.000	1.107.000	1.070.000	-1,4	1.055.000
Net Trading Income	2.030.000	2.133.000	1.968.000	-37,8	1.224.000
Equity Accounted Results	174.000	25.000	4.000	< -100	-7.000
Dividends from Equity Instruments	415.000	467.000	334.000	-53,0	157.000
Other Income	1.315.000	1.272.000	1.439.000	-34,1	949.000
Operating Income	**25.647.000**	**26.781.000**	**27.495.000**	**-6,0**	**25.849.000**
Expenses (€000)				-	
Depreciation and Amortisation	1.545.000	1.947.000	1.751.000	-23,1	1.346.000
Personnel Expense	6.273.000	6.722.000	6.571.000	-6,9	6.120.000
Tech & Communications Expense	906.000	967.000	961.000	+42,4	1.368.000
Marketing and Promotion Expense	387.000	398.000	352.000	-4,5	336.000
Other Provisions	731.000	1.186.000	745.000	-49,9	373.000
Other Expense	5.555.000	5.407.000	5.452.000	-12,5	4.772.000
Operating Expense	**15.397.000**	**16.627.000**	**15.832.000**	**-9,6**	**14.315.000**
Operating Profit & Impairment (€000)				-	
Pre-impairment Operating Profit	**10.250.000**	**10.154.000**	**11.663.000**	**-1,1**	**11.534.000**
Asset Writedowns	4.246.000	3.801.000	4.805.000	-17,1	3.981.000
Net Income (€000)				-	
Non-Recurring Revenue	-1.401.000	39.000	73.000	> +100	893.000
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	**4.603.000**	**6.392.000**	**6.931.000**	**+21,9**	**8.446.000**
Income Tax Expense	1.275.000	1.699.000	2.169.000	+5,8	2.295.000
Discontinued Operations	-	-	-	-	-
Net Profit	**3.328.000**	**4.693.000**	**4.762.000**	**+29,2**	**6.151.000**
Attributable to minority interest (non-controlling interest)	686.000	1.218.000	1.243.000	-33,5	827.000
Attributable to owners of the parent	2.642.000	3.475.000	3.519.000	+51,3	5.324.000

Figure 3: Group key earnings figures | Source: eValueRate / CRA

Income Ratios (%)	2015	2016	2017	%	2018
Cost Income Ratio (CIR)	60,03	62,09	57,58	-2,20	55,38
Cost Income Ratio ex. Trading (CIRex)	65,19	67,46	62,02	-3,89	58,13
Return on Assets (ROA)	0,44	0,64	0,69	+0,22	0,91
Return on Equity (ROE)	6,02	8,47	8,93	+2,70	11,63
Return on Assets before Taxes (ROAbT)	0,61	0,87	1,00	+0,24	1,25
Return on Equity before Taxes (ROEbT)	8,33	11,53	13,00	+2,98	15,97
Return on Risk-Weighted Assets (RORWA)	0,83	1,21	1,31	+0,45	1,77
Return on Risk-Weighted Assets before Taxes (RORWAbT)	1,15	1,64	1,91	+0,52	2,43
Net Interest Margin (NIM)	2,58	2,81	3,14	-0,18	2,97
Pre-Impairment Operating Profit / Assets	1,37	1,39	1,69	+0,01	1,70
Cost of Funds (COF)	1,31	1,64	1,94	+0,10	2,04
Change in % Points					

Figure 4: Development of assets | Source: eValueRate / CRA

Assets (€000)	2015	2016	2017	%	2018
Cash and Balances with Central Banks	47.113.000	48.933.000	49.980.000	+28,7	64.300.000
Net Loans to Banks	29.379.000	31.373.000	26.261.000	-9,5	23.762.000
Net Loans to Customers	414.230.000	414.654.000	388.325.000	-0,1	387.851.000
Total Securities	163.549.000	142.029.000	125.004.000	-0,6	124.310.000
Total Derivative Assets	44.484.000	45.807.000	37.725.000	-11,4	33.407.000
Other Financial Assets	-	-	-	-	-
Financial Assets	**698.755.000**	**682.796.000**	**627.295.000**	**+1,0**	**633.630.000**
Equity Accounted Investments	879.000	765.000	1.588.000	-0,6	1.578.000
Other Investments	-	-	-	-	-
Insurance Assets	511.000	447.000	421.000	-13,1	366.000
Non-current Assets & Discontinued Ops	3.369.000	3.603.000	23.853.000	-91,6	2.001.000
Tangible and Intangible Assets	19.996.000	18.727.000	15.655.000	-0,7	15.543.000
Tax Assets	17.779.000	18.244.000	16.888.000	+7,2	18.100.000
Total Other Assets	8.566.000	7.274.000	4.359.000	+25,5	5.471.000
Total Assets	**749.855.000**	**731.856.000**	**690.059.000**	**-1,9**	**676.689.000**

Figure 5: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2015	2016	2017	%	2018
Net Loans/ Assets	55,24	56,66	56,27	+1,04	57,32
Risk-weighted Assets/ Assets	53,52	53,15	52,59	-1,12	51,47
NPLs/ Net Loans to Customers	6,12	5,53	5,00	-0,78	4,22
NPLs/ Risk-weighted Assets	6,32	5,89	5,35	-0,65	4,69
Potential Problem Loans/ NPLs	18,43	21,00	24,19	+163,42	187,61
Reserves/ NPLs	73,91	69,87	65,89	+8,72	74,62
Reserves/ Net Loans	4,52	3,86	3,29	-0,15	3,15
Net Write-offs/ Net Loans	1,03	0,87	0,95	+0,08	1,03
Net Write-offs/ risk-weighted Assets	1,06	0,92	1,01	+0,13	1,14
Change in %Points					

Figure 6: Development of refinancing and capital adequacy | Source: eValueRate / CRA

Liabilities (€000)	2015	2016	2017	%	2018
Total Deposits from Banks	108.630.000	98.241.000	91.570.000	-6,7	85.457.000
Total Deposits from Customers	403.362.000	401.465.000	376.379.000	+3,3	388.682.000
Total Debt	95.033.000	87.931.000	73.928.000	+1,4	74.995.000
Derivative Liabilities	45.233.000	45.466.000	39.042.000	-11,6	34.494.000
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	14.790.000	15.467.000	14.072.000	+13,7	16.003.000
Total Financial Liabilities	**667.048.000**	**648.570.000**	**594.991.000**	**+0,8**	**599.631.000**
Insurance Liabilities	9.407.000	9.139.000	9.223.000	+6,6	9.834.000
Non-current Liabilities & Discontinued Ops	-	-	17.197.000	-	-
Tax Liabilities	4.656.000	4.668.000	3.298.000	-0,7	3.276.000
Provisions	8.852.000	9.071.000	7.477.000	-9,4	6.772.000
Total Other Liabilities	4.610.000	4.980.000	4.549.000	-5,4	4.303.000
Total Liabilities	**694.573.000**	**676.428.000**	**636.735.000**	**-2,0**	**623.816.000**
Total Equity	**55.282.000**	**55.428.000**	**53.324.000**	**-0,8**	**52.873.000**
Total Liabilities and Equity	**749.855.000**	**731.856.000**	**690.059.000**	**-1,9**	**676.689.000**

Figure 7: Development of capital ratios | Source: eValueRate / CRA

Capital Ratios (€000)	2015	2016	2017	%	2018
Total Equity/ Total Assets	7,37	7,57	7,73	+0,09	7,81
Leverage Ratio	6,33	6,70	6,71	-0,20	6,51
Phased-in: Common Equity Tier 1 Ratio (CET1)	12,10	12,20	11,70	-0,10	11,60
Phased-in: Tier 1 Ratio (CET1 + AT1)	12,10	12,90	12,90	+0,30	13,20
Phased-in: Total Capital Ratio (CET1 + AT1 + T2)	15,00	15,10	15,40	+0,30	15,70
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	10,30	10,90	11,00	+0,30	11,30
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	-	12,50	12,80	+0,10	12,90
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	-	14,70	15,10	+0,40	15,50
Change in %Points					

Figure 8: Development of liquidity | Source: eValueRate / CRA

Liquidity (%)	2015	2016	2017	%	2018
Net Loans/ Deposits (LTD)	102,69	103,29	103,17	-3,39	99,79
Interbank Ratio	27,05	31,93	28,68	-0,87	27,81
Liquidity Coverage Ratio	-	-	128,00	-1,00	127,00
Customer Deposits / Total Funding (excl. Derivates)	62,12	63,63	62,97	+2,98	65,95
Change in %Points					

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 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. Subject to a peer group analysis were 37 competing institutes.

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 unsolicited bank ratings as well as the methodology for the rating of bank capital and unsecured debt instruments in conjunction with Creditreform`s basic document “Rating Criteria and Definitions”.

On 15 July 2019, 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 subject to one-year monitoring from the rating date and is valid until withdrawal of the rating. Within this period, the rating can be updated. At the latest after one year, a monitoring is required to maintain the validity of the rating.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG (CRA) is permitted to issue credit ratings within the EU, and is obligated to comply with the provisions 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 nor any other natural persons 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 in approving credit ratings and rating outlooks.

In the event 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 ‘Rating Committee’ policy, 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 the following substantially material sources:

1. Transaction structure and participants

2. Transaction documents

3. Issuance documents

There are no other attributes and limitations of the credit rating or rating outlook other than those 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 the available historical data as sufficient.

Between the time of 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 cases 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 rating report and indicates how the different methodologies or 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 and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated including any rating outlooks is indicated clearly and prominently in the 'Basic Data' card as a "rating action"; initial 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, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating 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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