Creditreform Bank Rating

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

Creditreform Rating

Rating Object	Rating Information			
Banco Bilbao Vizcaya Argentaria, S.A. (Group)	Long Term Issuer Rating / Outlook: **BBB+ / stable**		Short Term: **L3**	Type: Update unsolicited
	Rating of Bank Capital and Unsecured Debt Instruments:			
Creditreform ID: 400985414 Incorporation: 1857 (Main-) Industry: Banks Management: Onur Genç (CEO), Carlos Torres Vila (Group executive Chairman)	Preferred Senior Unsecured: **BBB+**	Non-Preferred Senior Unsecured: **BBB**	Tier 2: **BB+**	Additional Tier 1: **BB**

Rating Date:	**06 October 2020**
Monitoring until:	withdrawal of the rating
Rating Methodology:	CRA "Bank Ratings v.2.0" 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

Contents

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Key Rating Driver

Strengths

+ Diversified business model
+ Geographically diversified business activities
+ One of the major financial institutions in Spain
+ Strong cost to income ratios

Weaknesses

- Moderate asset quality
- Low regulatory capital ratios in peer group comparison
- Relatively high exchange rate risk due to its operations in growth markets

Opportunities / Threats

+ Improving asset quality as a result of sizeable write-offs in recent years
+ Growth opportunities in its global markets

+/- Digital transformation of the banking business

- Impact of the Corona pandemic global economy with Spain being heavily affected and suffering a strong economic downturn
- High exposure affected to moratorium measures
- Low interest rate environment puts pressure on the Group's interest income

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 125,041 employees (as of June 2020) and 7,699 branches (thereof 2,592 in Spain and 1,866 in Mexico), the Group serves approximately 79 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)*, *The United States*, *Mexico*, *Turkey*, *South America*, *Rest of Eurasia* 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 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. 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 2019 | Source: Annual Report 2019 of BBVA

BBVA's main transactions in recent year are as follows. Sale of BBVA Paraguay for approximately $270 million with an expected net gain of about $20 million (closing of the transaction in 2020 is subject to obtaining the regulatory approvals). The sale of BBVA Chile to the Scotiabank in 2018 generated a capital gain of about €633 million, net of taxes.

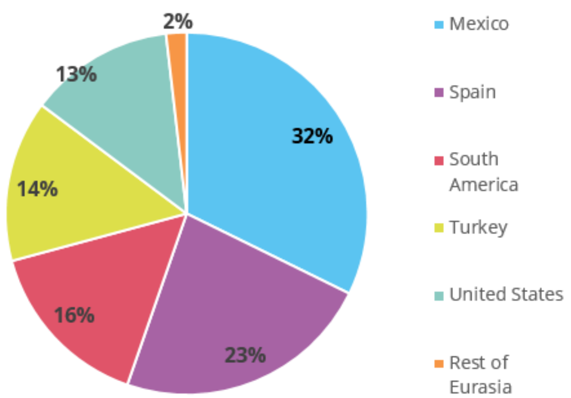
In addition, BBVA bears a significant exchange risk due to its operations in hyperinflationary countries Argentina and Turkey. In 2019, The Argentine peso depreciated by 36% and the Turkish Lira by 9% against the Euro.

Business Development

Profitability

BBVA's operating income amounted to €26.6 billion in 2019, increasing by 2.3% in a year-over-year comparison (€600 million). Chart 2 shows the contribution of each business segment to BBVA's gross income. Net interest income was the main driver of increase in BBVA operating income (€610 million YOY) and represents BBVA's major source income. This increase is primarily a result of increased income from retail portfolio in Mexico. Net fee and commission income accounted for 19% of operating income, increasing by 3.1% YOY (€154 million). The increase is mainly attributable to favorable contribution from all the business areas, in particular Turkey and Spain, whereas credit and debit cards fees contribute the most with almost 41% income from fees. Net trading income contributed the lowest share of the three main drivers to the operating income, accounting for 5.2%, but increasing by €160 million YOY mainly as a result of gains from exchange differences.

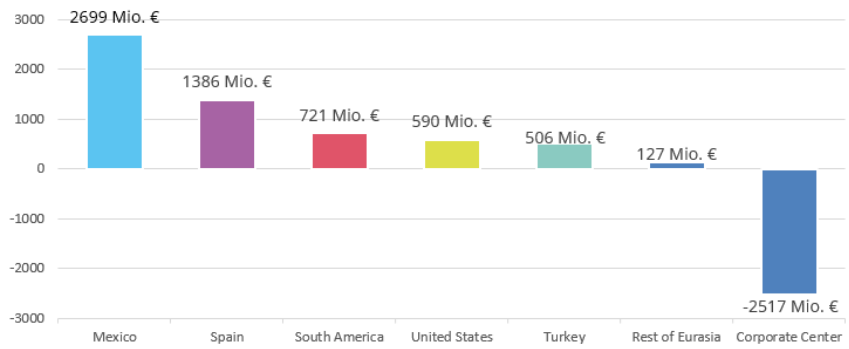
Chart 2: Gross income by BBVA's business segments ecl. Corporate Center in 2019 | Source: Annual Report 2019 of BBVA



Operating expenses amounted to €16 billion in 2019, increasing significantly by 11.4% in a year-over-comparison (€2.6 million). The main driver of the increase is BBVA's impairment on goodwill of the US segment of about €1.318 billion, which resulted in a strong increase in the item of depreciation and amortization to about €3 billion. Personnel expenses accounted for 39.6% of operating expenses, increasing by 3.6% YOY (€220 million) as a result increase in wages. Other expense decreased by about €573 million YOY mainly due to lower rent expense, which are following a technical change related to the implementation of IFRS 16 (lease expense). Other expense contains among others €770 million of contributions to the guaranteed banks deposits funds and a hyperinflation adjustment of about €538 million related to BBVA's activities in Argentina.

BBVA's pre-impairment profit amounted to €10.57 billion in the fiscal year 2019 and represents a strong decrease YOY due to the aforementioned impairment on goodwill. In addition, the Group recorded an increase of the loan-loss provisions, primarily in the United States for specific clients of the commercial portfolio and the larger write-offs in the consumer portfolio in South America, for Argentina and Peru, and to a lesser extent in Mexico, explained by the growth on this portfolio and the impact of the macro scenario deterioration. On the contrary, Spain recorded a 43.6% year-on-year reduction for lower provision requirements mainly due to the positive effect of non-performing loans and write-off portfolios sales in 2019. Ultimately, BBVA achieved a net profit of about €4.345 billion, which represents a decrease of about 30% YOY, mainly due to the aforementioned impairment on goodwill of BBVA USA and the sale of BBVA Chile. Chart 3 shows the contribution of each business segment of BBVA to the Group's net profit in 2019.

Chart 3: Net profit of BBVA by business segment in 2019 | Source: Annual Report 2019 of BBVA



Considering the current impact of the Corona pandemic and BBVA's half-year 2020 results, the Group reports a distinct net loss of about €823 million (H1-2019: €2.9 billion net profit). The negative result has two major driver. First, BBVA more than doubled its impairments on financial assets (primarily customer loans) to €4.1 billion (H1-2019: €1.7 bn) following the impact of the Corona pandemic. Second, the Group reported a huge impairment on goodwill of the Group's USA subsidiary of about €2,084 billion following the negative macroeconomic scenario following COVID-19. These factors are accompanied by a lower net interest income of about €288 million (primarily related to Mexico) and lower net fee and commission income of about €366 million. Moreover, the Group annualized cost of risk ratio increased tremendously to about 210bp in the first half-year 2020 (H1-2019: 91bn). BBVA's cost of risk are one of the highest in our peer group comparison.

Despite the negative H1-2020 result and the Corona pandemic, BBVA expects to achieve a positive net profit by the end of the year 2020 due to improvements in Mexico. In addition, the bank expects to improve its cost of risk ratio to about 150-160bps.

A detailed group income statement for the years of 2016 through 2019 can be found in Figure 1 below:

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

Income Statement	2016	2017	2018	%	2019
Income (€000)					
Net Interest Income	17.060.000	17.759.000	17.592.000	+3,5	18.202.000
Net Fee & Commission Income	4.718.000	4.921.000	4.879.000	+3,2	5.033.000
Net Insurance Income	1.107.000	1.070.000	1.055.000	+8,0	1.139.000
Net Trading Income	2.133.000	1.968.000	1.224.000	+13,1	1.384.000
Equity Accounted Results	25.000	4.000	-7.000	> +100	-42.000
Dividends from Equity Instruments	467.000	334.000	157.000	+3,2	162.000
Other Income	1.272.000	1.439.000	1.085.000	-34,8	707.000
Operating Income	**26.782.000**	**27.495.000**	**25.985.000**	**+2,3**	**26.585.000**
Expenses (€000)					
Depreciation and Amortisation	1.947.000	1.751.000	1.346.000	> +100	3.046.000
Personnel Expense	6.722.000	6.571.000	6.120.000	+3,6	6.340.000
Tech & Communications Expense	673.000	692.000	1.368.000	+4,8	1.434.000
Marketing and Promotion Expense	294.000	269.000	336.000	-5,7	317.000
Other Provisions	1.186.000	745.000	373.000	+65,4	617.000
Other Expense	5.807.000	5.806.000	4.830.000	-11,9	4.257.000
Operating Expense	**16.629.000**	**15.834.000**	**14.373.000**	**+11,4**	**16.011.000**
Operating Profit & Impairment (€000)					
Pre-impairment Operating Profit	**10.153.000**	**11.661.000**	**11.612.000**	**-8,9**	**10.574.000**
Asset Writedowns	3.800.000	4.803.000	3.981.000	+5,4	4.197.000
Net Income (€000)					
Non-Recurring Income	175.000	133.000	815.000	-97,4	21.000
Non-Recurring Expense	136.000	60.000	-	-	-
Pre-tax Profit	**6.392.000**	**6.931.000**	**8.446.000**	**-24,2**	**6.398.000**
Income Tax Expense	1.699.000	2.169.000	2.219.000	-7,5	2.053.000
Discontinued Operations	-	-	-	-	-
Net Profit (€000)	**4.693.000**	**4.762.000**	**6.227.000**	**-30,2**	**4.345.000**
Attributable to minority interest (non-controlling interest)	1.218.000	1.243.000	827.000	+0,7	833.000
Attributable to owners of the parent	3.475.000	3.519.000	5.400.000	-35,0	3.512.000

Due to BBVA's reduced net profit in 2019, all of the Group's earnings figures worsened year-over-year.

Despite the worsening of BBVA's ROA before and after taxes figures, the Group is still able to clearly outperform the peer group with regard to this ratios. In addition, BBVA's ROE and RORWA before and after taxes are still more favorable than the average of the peer group. The Group's distinctly benefits from its diversified business model with its highly profitable overseas activities. BBVA's net interest margin was at an impressive 2.99% and remained at this outstanding level over the recent years. In addition, BBVA still shows sound cost to income ratios, which are still ahead of its competitors. Eventually, despite the movements in its net profit over the recent years, BBVA is able to outperform the peer group in all of the analyzed years with regard to its earnings figures.

BBVA's earnings ratios are despite the worsening YOY the best performers in any of the areas analyzed.

Considering the development in 2020, we expect a strong decline of BBVA's profitability due to increasing loan loss provisions following the Corona pandemic as well as due to the aforementioned one-off effect related to the USA subsidiary. However, BBVA expects to achieve a positive result at year-end 2020, which would be a remarkable result in the midst of the current Corona pandemic.

A detailed overview of the income ratios for the years of 2016 through 2019 can be found in Figure 2 below:

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

Income Ratios (%)	2016	2017	2018	%	2019
Cost Income Ratio (CIR)	62,09	57,59	55,31	+4,91	60,23
Cost Income Ratio ex. Trading (CIRex)	67,46	62,03	58,05	+5,49	63,53
Return on Assets (ROA)	0,64	0,69	0,92	-0,30	0,62
Return on Equity (ROE)	8,47	8,93	11,78	-3,87	7,91
Return on Assets before Taxes (ROAbT)	0,87	1,00	1,25	-0,33	0,92
Return on Equity before Taxes (ROEbT)	11,53	13,00	15,97	-4,33	11,65
Return on Risk-Weighted Assets (RORWA)	1,21	1,31	1,79	-0,60	1,19
Return on Risk-Weighted Assets before Taxes (RORWAbT)	1,64	1,91	2,43	-0,67	1,76
Net Interest Margin (NIM)	2,81	3,14	2,97	+0,02	2,99
Pre-Impairment Operating Profit / Assets	1,39	1,69	1,72	-0,20	1,51
Cost of Funds (COF)	1,64	1,94	2,05	+0,04	2,09
Change in %- Points					

Asset Situation and Asset Quality

BBVA's financial assets accounted for 94% of total assets in 2019, increasing by 3.5% (€22. billion). Net loans to customers represent the largest share of assets, accounting for 55%, and increasing by 2.1% YOY (€8 billion). In this respect, BBVA noticed an increase in the business areas in Mexico and to a lesser extent, in the United States, South America and Eurasia, which was partially offset by a decline of its loans in Spain. As of June 2020, BBVA reported a further increase in it loan activities, primarily in Spain due to government support measures. Total securities, as the second largest asset, represent 20.2% of BBVA's total assets and increasing significantly by 13.3% YOY (€16.5 billion). As of now, BBVA holds primarily government related securities at about €103 billion, thereof €45.9 billion related to Spain, €31.7 billion related to Latin America, and €19.8 billion related to the US. The increase in government related securities is the main driver of the increase in total securities. As of June 2020, BBVA increased its holding in government related debt securities related to Spain by about €8 billion since the end of the year 2019. Moreover, as of June 2020 BBVA increased its cash position held at the central Bank of Spain by about €20 billion following the TLTRO III participation. As of 30 June 2020, BBVA's total volume of exposures affected by supporting measures amounted to €50 billion (€36 billion under deferment payments and €14 billion under public guarantee).

BBVA's item of non-current assets held for sale & discontinued operations at the amount of €23.8 billion in 2017, comprises the sale of BBVA's stake in BBVA Chile (at a price of approximately $2.2 billion), as well as the agreement to create a joint venture with a subsidiary of Cerberus Capital Management L.P. to transfer the real estate business in Spain.

A detailed look at the development of the asset side of the balance sheet for the years of 2016 through 2019 can be taken in Figure 3 below:

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

Assets (€000)	2016	2017	2018	%	2019
Cash and Balances with Central Banks	48.933.000	49.980.000	62.137.000	-21,8	48.578.000
Net Loans to Banks	15.812.000	12.400.000	9.979.000	+19,6	11.932.000
Net Loans to Customers	407.363.000	376.771.000	375.763.000	+2,1	383.749.000
Total Securities	142.029.000	125.004.000	124.310.000	+13,3	140.880.000
Total Derivative Assets	45.805.000	37.725.000	33.407.000	+4,6	34.942.000
Other Financial Assets	22.852.000	25.415.000	28.034.000	+27,6	35.784.000
Financial Assets	**682.794.000**	**627.295.000**	**633.630.000**	**+3,5**	**655.865.000**
Equity Accounted Investments	765.000	1.588.000	1.578.000	-5,7	1.488.000
Other Investments	691.000	195.000	163.000	+54,6	252.000
Insurance Assets	447.000	421.000	366.000	-6,8	341.000
Non-current Assets & Discontinued Ops	3.603.000	23.853.000	2.001.000	+53,9	3.079.000
Tangible and Intangible Assets	18.036.000	15.460.000	15.380.000	+9,1	16.781.000
Tax Assets	18.244.000	16.888.000	18.100.000	-5,6	17.083.000
Total Other Assets	7.276.000	4.359.000	5.471.000	-30,5	3.801.000
Total Assets	**731.856.000**	**690.059.000**	**676.689.000**	**+3,3**	**698.690.000**

BBVA's asset quality remained largely at the same level as in the previous year, which is overall at a below peer group average level.

The NPL ratio of 3.8% is, despite the slight improvement YOY, still less favorable than the average of the Group's competitors. In addition, BBVA's NPL ratio reflects the higher risk of BBVA activities in South and Middle America. Moreover, the competitors were able to improve this ratio YOY more significantly than BBVA. However, despite the less favorable NPL ratio, BBVA presents a NPL to RWA ratio, which is in line with its competitors, which shows a moderate risk of BBVA's loans in comparison to its risk-weighted assets. However, this is a result of BBVA's relatively high RWA ratio which is at 52% and thereby clearly worse than the average of the peer group. This RWA ratio is among other a result of its significant business activities in emerging markets. In addition, 78.5% of BBVA's RWAs are related to credit risk.
All of BBVA's net-write off ratios are significantly worse than the average of the peer group, which is another sign of BBVA's higher risk profile with regard to its assets. By contrast, the reserves / NPL ratio of BBVA is more favorable than that of its competitors on average. This indicates a prudent approach and an awareness of its risk profile.

According to BBVA's half-year 2020 report, the Group reports stable asset quality figures with regard to the stock of non-performing loans. However, we expect a strong decline of the asset quality in the upcoming years due to the ending of public guarantees as well as the end of moratorium measures. According to the ECB, moratorium measures are not automatically a trigger of unlikeliness to pay. Thus, we perceive a high credit risk in addition to a high level of uncertainty with regard to BBVA's asset quality as of now, which requires a close monitoring of the upcoming development.

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

A detailed overview of the asset quality for the years of 2016 through 2019 can be found in Figure 4 below:

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

Asset Ratios (%)	2016	2017	2018	%	2019
Net Loans/ Assets	55,66	54,60	55,53	-0,61	54,92
Risk-weighted Assets/ Assets	53,15	52,59	51,47	+0,70	52,16
NPLs*/ Net Loans to Customers	5,63	5,15	3,90	-0,10	3,80
NPLs*/ Risk-weighted Assets	5,89	5,34	4,69	-0,32	4,38
Potential Problem Loans**/ Net Loans to Customers	1,16	1,25	8,16	+0,53	8,69
Reserves/ NPLs*	69,71	65,75	75,02	+2,87	77,89
Reserves/ Net Loans	3,92	3,38	3,26	-0,03	3,24
Net Write-offs/ Net Loans	0,93	1,27	1,06	+0,03	1,09
Net Write-offs/ Risk-weighted Assets	0,98	1,32	1,14	+0,01	1,15
Net Write-offs/ Total Assets	0,52	0,70	0,59	+0,01	0,60
Change in %- Points					

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

Refinancing and Capital Quality

BBVA's financial liabilities accounted for 95% of total liabilities in 2019, increasing by 3% YOY (€17.6 billion). Total deposits from customers represent the largest share of the Group's liabilities with 59.6%, increasing by 2.1% YOY (€8 billion). Approximately 47.5% of the customer deposits are customer deposits from Spain. As of June 2020, BBVA was able to attract even more customer deposits and reached about €402 billion due to the liquidity measures by central banks. In general, BBVA denotes increasing deposits at current accounts, while time deposits are decreasing.
Total debt, accounting for only 10.8% of BBVA's liabilities, increasing by 8.7% YOY (€5.6 billion) and consists primarily of senior debt. In addition, approximately 34% of the Group's debt securities are denominated in foreign currencies, primarily in US Dollar. Moreover, about 71% of BBVA's Debt certificates have fixed-interest rates and 29% have variable interest rates. In addition, about €16 billion of BBVA's debt securities are covered bonds (mostly denominated in euros). Other Financial Liabilities consists of various repurchase agreements. As of June 2020, BBVA took part at the ECB TLTRO III operation and took about €35 billion at very favorable conditions.
Again, the non-current liabilities held for sale & discontinued operations in 2017 comprises mostly the aforementioned sale of BBVA's stake in BBVA Chile. By contrast, the increase in BBVA's total equity is attributable to retained earnings of the previous year.

As of June 2020, the Group's total equity decreased significantly due to dividend payments for fiscal year 2019, which was payed before the recommendation of the ECB to suspend dividend payments. However, most of the peer banks suspended their dividend payments. Thus, BBVA's capitalization decreased in comparison to its peers. Considering the dividends for the 2020 fiscal year, BBVA intends not to pay any dividend until the uncertainties caused by COVID-19 pandemic will disappear.

A detailed overview of the development of liabilities for the years of 2016 through 2019 can be found in Figure 5 below:

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

Liabilities (€000)	2016	2017	2018	%	2019
Total Deposits from Banks	69.821.000	66.727.000	54.290.000	-5,7	51.181.000
Total Deposits from Customers	387.951.000	367.303.000	375.737.000	+2,1	383.684.000
Total Debt	76.375.000	63.915.000	63.970.000	+8,7	69.563.000
Derivative Liabilities	45.465.000	39.042.000	34.494.000	+8,0	37.251.000
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	68.957.000	58.004.000	67.980.000	+6,5	72.426.000
Total Financial Liabilities	**648.569.000**	**594.991.000**	**596.471.000**	**+3,0**	**614.105.000**
Insurance Liabilities	9.139.000	9.223.000	12.993.000	+15,6	15.016.000
Non-current Liabilities & Discontinued Ops	-	17.197.000	-	-	1.554.000
Tax Liabilities	4.668.000	3.298.000	3.276.000	-14,3	2.808.000
Provisions	9.071.000	7.477.000	6.772.000	-3,5	6.537.000
Total Other Liabilities	4.981.000	4.550.000	4.303.000	-13,0	3.745.000
Total Liabilities	**676.428.000**	**636.736.000**	**623.815.000**	**+3,2**	**643.765.000**
Total Equity	**55.428.000**	**53.323.000**	**52.874.000**	**+3,9**	**54.925.000**
Total Liabilities and Equity	**731.856.000**	**690.059.000**	**676.689.000**	**+3,3**	**698.690.000**

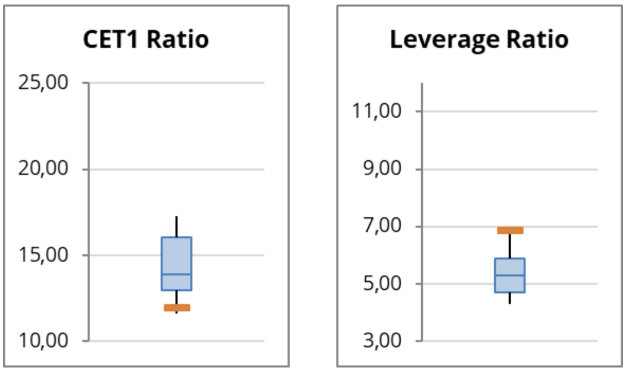
BBVA's regulatory (fully loaded) capital ratios are clearly below the average of the peer group. In addition, the peer group was able to improve in these ratios average more distinctly than BBVA.

The Group's increase in the fully-loaded CET1 ratio by 0.40 percentage points is attributable to retained earnings. However, the overall increase was partially offset by increased risk-weighted assets. Eventually, BBVA's CET1 ratio is clearly less favorable than the ones of the peer group on average (see chart 4). In addition, BBVA has carried out two issues of AT1 instruments (1 billion EUR and $1 billion USD) in 2019 to counteract the amortization of €1.5 billion issue in February 2020. Following that, BBVA was able to increase its AT1 capital ratio, but is still a below peer group average ratio with its value. Moreover, we appreciate the additional issue of AT1 capital in July 2020 of about €1 billion. Referring the Group's Tier 2 capital, we acknowledge a reduction, however; BBVA carried out two issuances in 2020 to counteract this development. Nevertheless, a total capital ratio of 15.22% as of June 2020 (fully loaded) is clearly less favorable in comparison to the peer group.

As the net result of 2020 will likely be significantly lower than in 2019, the announced suspension of the dividend payment might lead to only a small increase in BBVA capitalization. As of June 2020, BBVA's objective is to maintain a buffer on its fully loaded CET ratio requirement (which is currently at 8.59%) between 225 and 275 basis points.

In general, BBVA's credit rating would clearly benefit from a significant increase in the bank's regulatory capital ratios.

Chart 4: Boxplots of the peer group analysis of BBVA's CET1 and Leverage ratio in 2019 | Source: Own presentation



By contrast, the Group displays a sound leverage ratio, which is above the average of the peer group (see chart 4); however, BBVA reports a drop in its leverage ratio to 6.2% as of June 2020. The total equity ratio of the Group is also more favorable than the one of the peer group on average. Overall, BBVA meets comfortably all regulatory capital requirements.

A detailed overview of the development of capital ratios for the years of 2016 through 2019 can be found in Figure 6 below:

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

Capital Ratios (%)	2016	2017	2018	%	2019
Total Equity/ Total Assets	7,57	7,73	7,81	+0,05	7,86
Leverage Ratio	6,49	6,71	6,51	+0,39	6,90
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	10,90	11,00	11,34	+0,40	11,74
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	12,50	12,80	12,91	+0,46	13,37
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	14,70	15,10	15,45	-0,03	15,42
Change in %- Points					

In general, BBVA's capital and debt instruments have been notched down following the down notching 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 four notches below the long-term issuer rating, reflecting a high bail-in risk in the event of resolution. However, AT1 Capital has not been notched down in comparison to the previous rating due to the increased subordinated CET1 Capital.

Liquidity

The Group's LCR of 129% is below the average of the peer group. However, BBVA meets clearly the regularity requirement. By contrast, BBVA's Net Stable Funding Ratio of about 120% is in line with the peer group, however, the regulatory requirement regarding this ratio 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. In addition, the equal LTD ratio with about 100% shows an adequate demand for the Group's loans. However, the peer group reports a distinctly higher LTD ratio on average.

Up to now, we do not perceive any liquidity issues at BBVA and the whole banking sector.

A detailed overview of the development of liquidity for the years of 2016 through 2019 can be found in Figure 7 below.

Figure 7: Development of liquidity | Source: eValueRate / CRA

Liquidity (%)	2016	2017	2018	%	2019
Net Loans/ Deposits (LTD)	105,00	102,58	100,01	+0,01	100,02
Interbank Ratio	22,65	18,58	18,38	+4,93	23,31
Liquidity Coverage Ratio	-	128,00	127,00	+2,00	129,00
Customer Deposits / Total Funding (excl. Derivates)	61,49	61,45	63,76	-0,50	63,26
Net Stable Funding Ratio (NSFR)	-	-	-	-	120,00
Change in %- Points					

Environmental, Social and Governance (ESG) Score Card

BBVA has one significant and two moderate ESG rating driver

• Corporate Governance is identified as a highly 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, 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 2020	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	( )
	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 neutral in terms of the CRA ESG criteria.	2	(+)
	1.3 Resource Efficiency	The sub-factor "Resource Efficiency" has no significant relevance for the credit rating, but 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, but is rated positive in terms of the CRA ESG criteria.	2	(+)
	2.2 Social Responsibility	The sub-factor "Social Responsibility" has no significant relevance for the credit rating and is rated neutral 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	(+)
	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	( )
	3.3 Corporate Transparency	The sub-factor "Corporate Transparency" has no significant relevance for the credit rating and is rated potive 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) shows a stable year of performance in 2019 without the one-off effects, but faces a very challenging fiscal year 2020. The Corona pandemic has a massive impact on the world economy market and in particular in Spain, which is one main market of BBVA. Moreover, the current economic development is characterized by a high degree of uncertainty for one of the largest banks in Spain despite its globally diversified business model.

The Group reported a sound level of profitability with its earnings figures in 2019. However, we expect a strong negative impact on the profitability of BBVA in the fiscal year 2020 due the Corona pandemic. 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. Moreover, a second wave of the pandemic might lead to a further decline of the profitability. In addition, BBVA reports one of the highest cost of risk values as of H1-2020. By contrast, BBVA benefits from its cost cutting measures, its diversified business model and its high operating income. In addition, due to improved developments, BBVA expects a positive result in 2020.

The asset quality of BBVA remains at a low level even though BBVA was able to improve its quality in the recent years. However, the sudden impact of the Corona pandemic and the following strong economic downturn, especially in Spain, is likely to lead to regression with regard to BBVA's reduction of its NPL portfolio. The global economic downturn imposes a huge burden for BBVA. However, BBVA loans activities increased following the government economic measures undertaken by the authorities. Nevertheless, we expect a strong decline in BBVA's asset quality following the Corona pandemic.

On the liabilities side, BBVA records a sound growth in its customer deposits following the Corona pandemic. In addition, BBVA benefits from the ECB's TLTRO III operations through very favorable costs of funding. BBVA's regulatory capital ratios are clearly below the average of its competitors. At least BBVA announced to not pay any dividend for fiscal year 2020, which might increase the banks capital ratio slightly. The liquidity situation of BBVA remains sufficient.

It remains to be seen whether the Group will achieve a positive result in 2020 and whether the loan loss provision proves to be sufficient. In addition, the impact of the Corona pandemic bears a high risk for the Group next to the still challenging low interest rate environment. Nevertheless, we expect BBVA as a globally active bank to overcome this challenging environment. However, the development is strongly correlated to the wellbeing of the banks major markets in Spain and Mexico.

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 achieve a positive net result in 2020 according to BBVA despite the Corona pandemic impact underpinned by its strong operating income. In particular, we expect BBVA to regain its profitability level in the following years. However, we will observe how the bank will deal with the Corona pandemic effects on the economy and especially the impact on the banks quality of assets. In addition, 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 achieve its announced positive result in 2020, which would eventually lead to declining earnings figures as well as 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.

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 **BBB+ / stable / L3**

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

Rating History

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

Figure 8: 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
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

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. Subject to a peer group analysis were 24 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 bank ratings as (Version 2.0), the methodology for the rating of bank capital and unsecured debt instruments (Version 2.0) as well as the rating methodology for Environmental, Social and Governance Score for Banks (Version 1.0) in conjunction with Creditreform's basic document Rating Criteria and Definitions (Version 1.3).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (Version 1.3) are published on our homepage:

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

On 06 October 2020, 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.

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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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