Creditreform Bank Rating

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

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Rating object	Rating information		
Banco Bilbao Vizcaya Argentaria, S.A. (Group)	**Long Term Issuer Rating / Outlook:** A- / stable		**Short Term:** L2
	Rating of Bank Capital and Unsecured Debt Instruments:		
Creditreform ID: 400985414 Incorporation: 1857 (Main-) Industry: Banks Management: Carlos Torres Vila (CEO) Francisco González (Group executive Chairman)	Senior Unsecured A-	Tier 2 BBB-	Additional Tier 1 BB+
	Rating Date: **22 June 2018** Monitoring until: withdrawal of the rating Rating Type: **unsolicited** Rating Methodology: bank ratings; rating of bank capital and unsecured debt instruments		

Contents

SWOT-Analysis

Strengths

+ Impressive earnings figures
+ Persuasive cost to income ratios
+ Diversified business model
+ Geographically diversified business activities
+ One of the major financial institutions in Spain
+ Adequate liquidity

Weaknesses

- Moderate asset quality
- Low capitalization 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 and favorable economic conditions
+ Growth opportunities in its global markets
+/- Digital transformation of the banking business
- Low interest rate environment in Europe puts pressure on the Group's interest income
- Increasing banking regulation leads to rising costs

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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 is the second largest financial institution in Spain, the largest in Mexico (in terms of total assets), and has its registered address in Bilbao, whereas the headquarters are in Madrid. The Group was recognized as a "global systemically important bank" until 2015, and is still considered as an "other systemically important institution" (O-SII); it must, therefore, comply with additional regulatory requirements. With 131,856 employees (at year end 2017) and 8,271 branches (thereof 3,019 in Spain and 1,631 in Mexico), the Group serves approximately 72 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: *Banking activity in Spain*, *Non-Core Real Estate*, *The United States*, *Mexico*, *Turkey*, *South America*, *Rest of Eurasia* and the *Corporate Center*.

Banking activity in Spain includes in particular the retail business, corporate and business banking, corporate & investment banking, and asset management in Spain. *Non-Core Real Estate* includes the Group's management of problematic real-estate assets such as foreclosed assets (we note that most of the problematic assets will be transferred in the joint venture with Cerberus in Q3-2018). 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. See chapter Profitability for the contribution of each operating segment to the Group's operating profit and chapter Asset Situation and Asset Quality for the contribution of each operating segment to the Group's total assets in 2017.

BBVA's shareholder structure is ordinary. The Group's shares are free floating and the most significant shareholders are currently BlackRock Inc. with 5.75% and Lyxor International Asset Management SA with 2.99%.

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

Chart 1: Main subsidiaries and investments of BBVA (Source: S&P Global Market Intelligence and Annual Report 2017 of BBVA)

The Group's has defined six strategic priorities as part of its transformation journey, which it currently focuses on. These priorities include new standards in customer experience, fostering digital sales, creating new business models by seeking out new digital business models, optimizing capital allocation by improving profitability, improving efficiency, and supporting its work force.

BBVA's main transactions in recent year are as follows: acquisition of additional shares of 9.95% of the Garanti Group (therefore holding a total stake of 49.85%) in 2017, a binding offer from the Scotiabank for BBVA's stake in BBVA Chile (completion of the transaction is subject to regulatory approvals), an agreement with a subsidiary of Cerberus Capital Management L.P. for the creation of a "joint venture" including a transfer of BBVA's real estate business in Spain, as well as the acquisition of the Catalunya Banc SA (in 2015).

Business Development

Profitability

BBVA's operating income amounted to €25.27 billion in 2017, increasing by 2.7% in a year-over-year comparison (€669.6 million). Net interest income contributed 70.3% to BBVA's operating income, increasing by 4.1% YOY (€669 million). The continuous positive trend in its net interest income is mostly due to increased activities in all emerging markets, in particular in South America (+9.6%), the United States (+10.5%), Mexico (+6.1%) and - as a result of the acquisition and consolidation (from 2015) of Turkiye Garanti Bankas - in Turkey. However, the bank noticed a slight decline in its net interest income in Spain. Net fee and commission income accounted for 19.5% of operating income, increasing by 4.3% YOY (€202.6 million), mainly attributable to increased income from credit and debit cards, and to a lesser extent, to increased asset management fees. Net trading income contributed the lowest share of the three main drivers to the operating income, accounting for 6.9%, but decreasing by 8.7% YOY (€167.1 million). The decrease and volatility is on one hand attributable to increased expenses in hedging operations, and on the other due to exchange differences. By contrast, net insurance income contributed only 4.2% to the operating income of BBVA, decreasing by 3.4% YOY (€37.9 million) due to the high level of claim ratios as a result of natural disasters occurring in Mexico. The reduction in BBVA's item of equity accounted results in recent years is due to the consolidation of the Garanti Group from the third quarter of 2015 (as a result from the acquisition of an additional stake of the Garanti Group). The Group's dividend income dropped by €134 million YOY, mostly due to the reduction in the dividend paid by its most relevant asset, Telefonica Group. The item of other income comprises mostly gains from sales of non-financial assets and changes in inventories. Moreover, the increase in 2015 in this item is mainly a result of the acquisition of an additional stake in the Garanti Group in this year, which ultimately led to a fair value devaluation of the initially acquired stake of 25.01%, mostly due the depreciation of the Turkish lira against the Euro since the initial acquisition of BBVA.

Operating expenses amounted to €13.07 billion in 2017, decreasing by 2.5% in a year-over-comparison (€333 million). Personnel expenses accounted for 50.3% of operating expenses, decreasing by 2.2% YOY (€150 million) as a result of a lower number of employees, and are the main driver of BBVA's decrease in operating expense. The increase in this position in the previous years is a result of the aforementioned consolidation of the Garanti Group since the third quarter of 2015 and the Catalunya Banc in 2015. The positon of other provisions comprises among others mainly pending legal issues and pensions, and other employment defined benefit obligations. Other expense remained almost unchanged YOY, and comprises levies and taxes (€456 million), whereby BBVA does not provide any additional information regarding the remaining amount (€1.738 billion) declared as 'other expense'.

BBVA's pre-impairment profit amounted to €12.2 billion in the fiscal year 2017. However, the Group recorded asset write-downs in the amount of €4.2 billion in 2017. The asset write-downs consist primarily of impairments on loans and receivables (€3.67 billion) and impairments on non-financial assets (€363 million). The reduction YOY was mainly achieved in Spain, whereas the impairments in the business segment of South America increased in the same period. After deduction of non-recurring events (revenues related to the capital gain from the sale of the stake of China CITIC Bank Corporation Limited

(CNBC) [€228 million]; expenses related to the fall of the share price of the investment in Telefónica S.A. and additional restructuring costs) and taxes, the operating net profit increased by 1.5% YOY (€69 million) to a total of €4.76 billion in 2017.

Considering BBVA's first-quarter results 2018, the Group records stable development in its main sources of operating income/expense and achieves comparable results as in the first quarter of 2017.

A detailed group income statement for the years 2014 – 2017 is shown in Figure 1 below:

Income Statement	2014	%	2015	%	2016	%	2017	%
Income (€000)								
Net Interest Income	14,381,604	69.4%	16,022,246	75.0%	17,059,259	69.3%	17,758,476	70.3%
Net Fee & Commission Income	4,174,350	20.1%	4,611,526	21.6%	4,718,074	19.2%	4,920,693	19.5%
Net Insurance Income	907,938	4.4%	1,079,621	5.1%	1,107,288	4.5%	1,069,425	4.2%
Net Trading Income	2,133,694	10.3%	2,029,647	9.5%	1,907,155	7.8%	1,740,041	6.9%
Equity Accounted Results	343,213	1.7%	173,592	0.8%	25,286	0.1%	3,500	0.0%
Dividends from Equity Instruments	530,816	2.6%	414,735	1.9%	466,806	1.9%	333,559	1.3%
Rental Revenue	65,000	0.3%	90,000	0.4%	76,000	0.3%	61,000	0.2%
Lease and Rental Revenue	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Other Income	-1,812,662	-8.7%	-3,052,175	-14.3%	-757,243	-3.1%	-614,492	-2.4%
Operating Income	**20,723,953**	**100%**	**21,369,192**	**100%**	**24,602,625**	**100%**	**25,272,202**	**100%**
Expenses (€000)								
Depreciation and Amortisation	1,145,155	9.8%	1,271,966	9.9%	1,425,567	10.6%	1,387,454	10.6%
Personnel Expense	5,410,227	46.2%	6,272,995	48.9%	6,721,847	50.2%	6,571,473	50.3%
Occupancy & Equipment	911,000	7.8%	1,030,000	8.0%	1,080,000	8.1%	1,033,000	7.9%
Tech & Communications Expense	856,000	7.3%	906,000	7.1%	967,000	7.2%	961,000	7.4%
Marketing and Promotion Expense	213,000	1.8%	387,000	3.0%	398,000	3.0%	352,000	2.7%
Other Provisions	1,142,048	9.8%	731,222	5.7%	609,475	4.5%	567,523	4.3%
Other Expense	2,024,000	17.3%	2,241,000	17.5%	2,199,000	16.4%	2,194,000	16.8%
Operating Expense	***11,701,122**	**100%**	***12,839,331**	**100%**	***13,400,797**	**100%**	***13,067,379**	**100%**
Operating Profit & Impairment (€000)								
Pre-impairment Operating Profit	**9,022,831**		**8,529,861**		**11,201,828**		**12,204,823**	
Asset Writedowns	5,042,555		4,829,834		4,458,030		4,201,862	
Net Income (€000)								
Non-recurring Revenue	0		902,672		225,000		228,000	
Non-recurring Expense	0		0		577,000		1,300,000	
Pre-tax Profit	**3,980,276**		**4,602,699**		**6,391,798**		**6,930,961**	
Income Tax Expense	898,493	22.6%	1,274,299	27.7%	1,698,875	26.6%	2,168,993	31.3%
Discontinued Operations	0		0		0		0	
Net Profit	**3,081,783**		**3,328,400**		**4,692,923**		**4,761,968**	

**Difference due to rounding*

Figure 1: Group income statement
(Source: S&P Global Market Intelligence)

Chart 2 shows the contribution of each unit to the operating profit (before tax) in 2017.

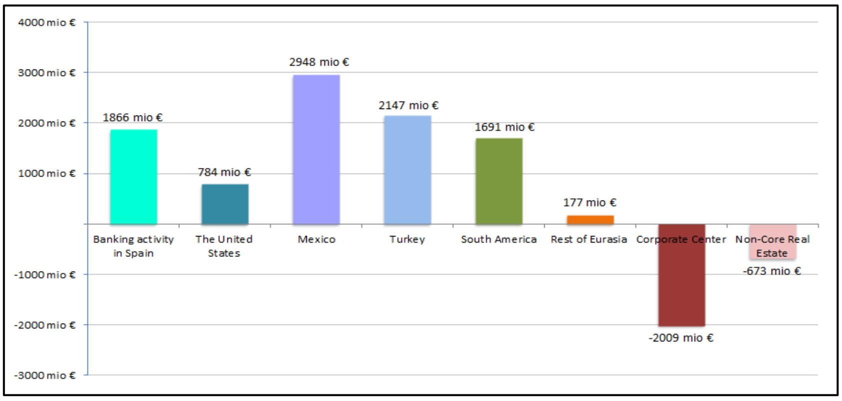

Chart 2: BBVA's operating profit (before tax) by its operating segments in 2017
(Source: Own presentation based on data of annual report 2017 of BBVA)

Due to BBVA’s persuasive performance in 2017, the Group recorded sound earnings figures.

The bank was able to improve in its figures of ROAA and ROAE, as well as in its RORWA in a year-over-year comparison. However, while the Group’s ROAA and ROAE are more favorable than those of the peer group, its RORWA is slightly behind the peer-group average. In addition, the peer group was able to improve in all three of the aforementioned ratios more dramatically than BBVA did YOY.
BBVA’s net interest margin was at an impressive 2.71% and improved considerably by 0.26 percentage points YOY. Moreover, BBVA is way ahead of its competitors with this ratio, who were only able to improve this ratio to a lesser extent. Considering BBVA’s cost income ratios, the Group recorded significantly better ratios than its competitors on average. In addition, BBVA improved its ratios more significantly than the peer group, and has shown a very positive development in this respect in recent years.
BBVA’s earnings ratios are the best performers in any of the areas analyzed.

The development of the key earnings figures for the years 2014 - 2017 is detailed as follows:

Income Ratios (%)	2014	%	2015	%	2016	%	2017	%
Return on Average Assets (ROAA)	0.51	0.04	0.47	-0.04	0.64	0.17	0.68	0.04
Return on Equity (ROAE)	6.57	0.46	6.33	-0.25	8.46	2.14	8.72	0.26
RoRWA	0.91	0.04	0.90	-0.01	1.19	0.29	1.27	0.08
Net Interest Margin	2.57	0.07	2.50	-0.07	2.48	-0.02	2.71	0.23
Cost income Ratio ex. Trading	62.94	-7.02	66.39	3.45	59.05	-7.34	55.53	-3.52
Cost income Ratio	56.46	-4.16	60.08	3.62	54.47	-5.61	51.71	-2.76
Change in %-Points								

Figure 2: Group key earnings figures
(Source: S&P Global Market Intelligence)

Asset Situation and Asset Quality

BBVA’s financial assets accounted for 91% of total assets in 2017, decreasing by 8.1% (€55.5 billion). Net loans to customers represent the largest share of assets, accounting for 56.3%, and decreasing by 6.3% YOY (€26.3 billion). In this respect, BBVA noticed a decline in its loans in Spain and Europe, but an increase in emerging geographies; this positive development, however, was offset by exchange rate effects. The impressive increase in the Group’s net loans to customers from 2014 to 2015 is a result of the good performance of all business segments, especially in Spain and the USA, as well as a result of the aforementioned consolidation of the Turkish group.
Total securities, as the second largest asset, represent 23.6% of BBVA’s total assets and decreased significantly by 13.4% YOY (€25.1 billion). The reduction in this item is a result of various diminutions; most noteworthy are reductions in derivatives (consisting primarily of foreign exchange and interest hedges) and debt securities held for trading or available for sale, whereas public debt securities exhibit the largest share. By contrast, cash and balances with central banks remained largely unchanged YOY and consist primarily of cash balances at central banks (74.3%), which increased significantly over the previous years. Net loans to banks represent only 4.9% of BBVA’s assets, decreasing by 16.7% YOY mostly as a result of decreased loans and advances to credit institutions (€5.1 billion).

BBVA's item of non-current assets held for sale & discontinued operations at the amount of €23.8 billion, 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. The increase in equity accounted investments by €823 million YOY is mainly attributable to the increase of BBVA's stakes in Testa Residencial S.A. and Metrovacesa Suelo y Promoción S.A. By contrast, the Group's reduction in tax assets is a result of various fiscal reforms in some countries where the Group operates (especially USA) which have a negative impact on the Group's deferred tax assets. However, total other assets dropped by €2.9 billion YOY, mainly due to reduced inventory assets, which include the land and other properties which the BBVA Group's real estate entities hold for development and sale as part of their real estate development activities.
The Group's total assets amounted to €690 billion in 2017, decreasing by 5.7% YOY (€41.8 billion).
The development of BBVA's assets for the years 2014 - 2017 is shown in detail in the following:

Assets (€000)	2014	%	2015	%	2016	%	2017	%
Cash and Balances with Central Banks	31,430,052	5.0%	29,282,434	3.9%	40,039,245	5.5%	42,679,927	6.2%
Net Loans to Banks	27,059,007	4.3%	47,208,834	6.3%	40,267,730	5.5%	33,561,330	4.9%
Net Loans to Customers	338,784,304	53.6%	414,229,785	55.2%	414,653,898	56.7%	388,324,666	56.3%
Total Securities	190,096,572	30.1%	208,034,378	27.7%	187,834,299	25.7%	162,728,973	23.6%
Financial Assets	**587,369,935**	**93%**	**698,755,431**	**93%**	**682,795,172**	**93%**	**627,294,896**	**91%**
Equity Accounted Investments	4,509,437	0.7%	879,105	0.1%	765,044	0.1%	1,587,802	0.2%
Other Investments	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Insurance Assets	559,122	0.1%	510,646	0.1%	446,800	0.1%	421,124	0.1%
Non-current Assets HFS & Discontinued Ops	3,793,381	0.6%	3,368,732	0.4%	3,602,856	0.5%	23,852,990	3.5%
Tangible and Intangible Assets	15,190,362	2.4%	19,995,950	2.7%	18,726,962	2.6%	15,654,791	2.3%
Tax Assets	12,426,394	2.0%	17,779,341	2.4%	18,244,593	2.5%	16,888,056	2.4%
Total Other Assets	8,093,624	1.3%	8,566,112	1.1%	7,274,100	1.0%	4,359,104	0.6%
Total Assets	**631,942,255**	**100%**	**749,855,317**	**100%**	**731,855,527**	**100%**	**690,058,763**	**100%**

Figure 3: Development of assets
(Source: S&P Global Market Intelligence)

Chart 3 shows the contribution of each operating segment to the Group's total assets (€690 billion) in 2017.

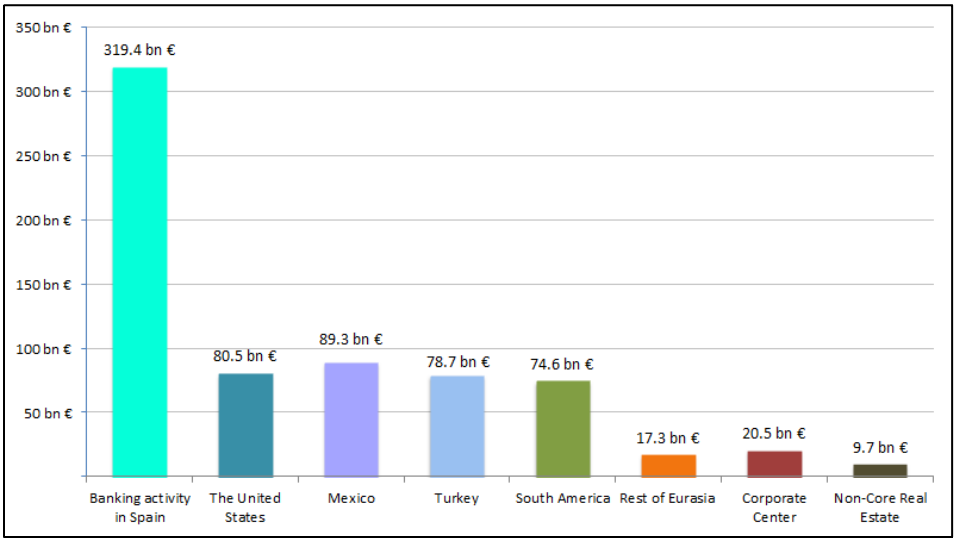

Chart 3: BBVA's total assets by operating segments in 2017
(Source: Own presentation based on data of annual report 2017 of BBVA)

BBVA's asset quality improved largely in comparison to the previous year; however, it is still below peer group average.

The NPL ratio of 5% (standardized calculation, which does not have to match the disclosed ratio of BBVA) is, despite its significant improvement by 0.53 percentage points YOY, still less favorable than the average of the Group's competitors. Moreover, the competitors were able to improve this ratio YOY more significantly than BBVA. By contrast, the Group's NPL / RWA ratio is in line with the average of the peer group as a result of a relatively large amount of risk-weighted assets. However, the peer group was able to improve this ratio more favorably than BBVA. The reserves / impaired loan ratio of BBVA is in line with its competitors. By contrast, the Group shows a relatively high RWA / assets ratio, which remained largely at the same level YOY. The peer group's RWA ratio is considerably more favorable.

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 2014 through 2017 can be found in Figure 4 below:

Asset-Quality (%)	2014	%	2015	%	2016	%	2017	%
Non-Performing Loans (NPL) / Loans	6.84	-1.14	6.12	-0.72	5.53	-0.59	5.00	-0.53
NPL / RWA	6.60	-1.38	6.31	-0.29	5.89	-0.42	5.34	-0.55
Potential Problem Loans / NPL	25.66	0.77	NA	NA	NA	NA	NA	NA
Reserves / Impaired Loans	62.74	3.99	73.78	11.04	69.71	-4.07	65.75	-3.96
Net Write-offs / Risk-adjusted Assets	NA	NA	NA	NA	NA	NA	NA	NA
Risk-weighted Assets/ Assets	55.51	-0.02	53.52	-2.00	53.15	-0.37	52.59	-0.56
Change in %-Points								

Figure 4: Development of asset quality
(Source: S&P Global Market Intelligence)

Refinancing and Capital Quality

BBVA's financial liabilities accounted for 93% of total liabilities in 2017, decreasing by 8.3% YOY (€53.6 billion). Total deposits from customers represent the largest share of the Group's liabilities with 59.1%, decreasing by 6.3% YOY (€25 billion). Approximately 49% of the customer deposits are denominated in euros, whereas 51% are denominated in foreign currencies. The decrease in customer deposits is primarily a result of changes in exchange rates, in particular in the USA, Mexico, and Turkey, as well as a reduction in customer deposits in Europe, especially in Spain. Total deposits from banks accounted for 14.4% of the Group's liabilities, decreasing by 6.8% YOY (€6.7 billion) as a result of lower deposits from European banks. Total debt, accounting for only 10% of BBVA's liabilities, decreased by 16.3% YOY (€12.5 billion) and consists primarily of senior debt (73%). In addition, approximately 39.4% of the Group's debt securities are denominated in foreign currencies and €16.4 billion of the debt securities are covered bonds (denominated in euros).
The balance sheet item of non-current liabilities held for sale & discontinued operations comprises mostly the aforementioned sale of BBVA's stake in BBVA Chile. By contrast, the drop in BBVA's total equity is primarily attributable to foreign currency translations, mainly related to the depreciation of the Mexican Peso and the Turkish Lira.

The development of refinancing and capitalization in the years 2014 - 2017 is detailed as follows:

Liabilities (€000)	2014	%	2015	%	2016	%	2017	%
Total Deposits from Banks	93,360,797	16.1%	108,630,127	15.6%	98,240,705	14.5%	91,570,122	14.4%
Total Deposits from Customers	319,060,280	55.0%	403,362,077	58.1%	401,465,183	59.4%	376,378,706	59.1%
Total Debt	72,190,565	12.4%	81,980,282	11.8%	76,375,189	11.3%	63,914,630	10.0%
Derivative Liabilities	47,383,068	8.2%	45,233,895	6.5%	45,465,391	6.7%	39,041,655	6.1%
Securities Sold, not yet Purchased	11,746,748	2.0%	13,053,482	1.9%	11,556,373	1.7%	10,013,272	1.6%
Other Financial Liabilities	10,011,332	1.7%	14,789,264	2.1%	15,467,088	2.3%	14,072,005	2.2%
Total Financial Liabilities	**553,752,790**	**95%**	**667,049,127**	**96%**	**648,569,929**	**96%**	**594,990,390**	**93%**
Insurance Liabilities	10,459,684	1.8%	9,406,902	1.4%	9,139,105	1.4%	9,223,121	1.4%
Non-current Liab. HFS & Discontinued Ops	0	0.0%	0	0.0%	0	0.0%	17,197,036	2.7%
Unit-Linked Insurance and Investment Contr.	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Tax Liabilities	4,157,440	0.7%	4,655,154	0.7%	4,668,477	0.7%	3,298,465	0.5%
Non-current Asset Retirement Obligations	5,970,266	1.0%	6,299,065	0.9%	6,025,108	0.9%	5,406,594	0.8%
Other Provisions	1,474,050	0.3%	2,552,922	0.4%	3,046,354	0.5%	2,069,974	0.3%
Total Other Liabilities	4,519,214	0.8%	4,609,821	0.7%	4,978,678	0.7%	4,549,991	0.7%
Total Liabilities	**580,333,444**	**91.8%**	**694,572,991**	**92.6%**	**676,427,651**	**92.4%**	**636,735,571**	**92.3%**
Total Equity	**51,608,811**	**8.2%**	**55,282,326**	**7.4%**	**55,427,876**	**7.6%**	**53,323,192**	**7.7%**
Total Passiva	**631,942,255**	**100%**	**749,855,317**	**100%**	**731,855,527**	**100%**	**690,058,763**	**100%**
Deposits from Customers Growth*	6.18	NA	26.42	20.24	-0.47	-26.89	-6.25	-5.78
Change in %-Points								

Figure 5: Development of refinancing and capital adequacy (Source: S&P Global Market Intelligence)

BBVA's regulatory (phased in) capital ratios are clearly below the average of the peer group. However, the peer group was able to improve in these ratios on average YOY.

The Group's drop in the (phased in) CET1 ratio by 0.51 percentage points is attributable to the negative effect on minority interests and deductions due to the regulatory phase-in calendar. Additionally, the aforementioned corporate transactions related to the Garanti Group and CNCB also had a combined negative impact on the Group's CET1 ratio of -13bp. By contrast, the peer group was able to improve its (phased in) CET1 ratio significantly in the same period. However, BBVA counteracted the negative development for its (phased in) Tier 1 ratio (within 2017) by starting two issuances classified as additional Tier 1 capital for €500 million and $1 billion (the latter issued in the US market and not yet calculated in the Group's AT1 ratio) in 2017. Thus, BBVA improved its Tier 1 ratio by 0.07 percentage points YOY. Nonetheless, the (phased in) Tier 1 ratios of the Group's competitors are more favorable on average and increased considerably YOY. Moreover, BBVA issued subordinated Tier 2 debt at a total amount of €1.5 billion, and its Garanti Group issued subordinated debt of $750 million to strengthen the Group's capital position. Eventually, the Group recorded a (phased in) total capital ratio of 15.37% and improved its total capital ratio by 0.23 percentage points YOY. Although BBVA reached an almost comparable increase to its competitors on average, the Group is still clearly behind the average of the peer group. Considering the Group's fully loaded capital ratios, BBVA was able to improve in these ratios steadily over the recent years.

By contrast, the Group displays a sound phased-in leverage ratio, which is above the average of the peer group; however, the peer group was able to catch up slightly YOY. In addition, the considerable reduction of BBVA's RWA by 6.7% YOY is largely a result of the depreciation of various currencies against the euro, and of the Group's strategic management.

The development of capital ratio for 2014 - 2017 is detailed as follows:

Capital (€000)	2014	%	2015	%	2016	%	2017	%
Total Capital	52,818,000	9.34	60,200,000	13.98	58,893,284	-2.17	55,778,000	-5.29
Total Risk-weighted Assets	350,802,000	8.40	401,285,360	14.39	388,951,151	-3.07	362,875,000	-6.70
Capital Ratios (%)								
Core Tier 1 Ratio	11.92	0.34	12.10	0.17	12.18	0.08	11.67	-0.51
Tier 1 Ratio	11.92	-0.32	12.10	0.17	12.88	0.78	12.95	0.07
Total Capital Ratio	15.06	0.13	15.00	-0.05	15.14	0.14	15.37	0.23
Leverage Ratio	5.83	0.24	6.30	0.47	6.70	0.40	6.71	0.01
Fully Loaded: Common Equity Tier 1 Ratio	10.40	-1.19	10.34	-0.06	10.90	0.56	11.08	0.18
Fully Loaded: Tier 1 Ratio	11.13	-1.11	11.61	0.48	12.46	0.84	12.81	0.35
Fully Loaded: Risk-weighted Capital Ratio	14.20	-0.73	14.39	0.19	14.71	0.31	15.26	0.56
Total Equity/ Total Assets	8.17	0.52	7.37	-0.79	7.57	0.20	7.73	0.15
Change in %-Points								

Figure 6: Development of capital ratios
(Source: S&P Global Market Intelligence)

Due to BBVA’s bank capital and debt structure, the Group’s senior unsecured debt instruments have not been notched down in comparison to the long-term issuer rating. 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.

Liquidity

BBVA’s liquidity situation is satisfactory. The Group’s liquidity coverage ratio is below the average of its competitors. Regarding the previous year, BBVA did not disclose any exact figures for its liquidity coverage ratio; however, the bank mentioned that it is above 100%.

The Group’s interbank ratio is markedly lower than that of the peer group on average, and reflects the bank’s relatively high amount of deposits from banks in comparison to its amount of net loans to banks. BBVA’s loan to deposit ratio remained very stable over the previous years, and is almost balanced. In addition, the Group’s ratio is in line with its competitors.

The development of the liquidity ratios for the years 2014 - 2017 is shown in detail as follows:

Liquidity (%)	2014	%	2015	%	2016	%	2017	%
Liquidity Coverage Ratio	NA	NA	NA	NA	NA	NA	124.03	NA
Interbank Ratio	28.98	1.54	43.46	14.48	40.99	-2.47	36.65	-4.34
Loan to Deposit (LTD)	106.18	-1.55	102.69	-3.49	103.29	0.59	103.17	-0.11
Change in %-Points								

Figure 7: Development of liquidity
(Source: S&P Global Market Intelligence)

Conclusion

Overall, BBVA recorded another year of favorable performance and was even able to improve its earnings ratios in the fiscal year 2017; however, the Group's asset quality leaves still room for improvements despite the ongoing improvements undertaken in recent years. In addition, the Group struggles to keep up with its competitors regarding its regulatory capital ratios.

Despite the low-interest environment in Europe, BBVA was able to noticeably improve its net interest income in 2017 through its international diversified business activities. In addition, the Group shows a considerable income from its net fee & commissions, and is able to boost this income YOY while reducing its operating expenses in the same period. As a result, the Group improved its profitability over the previous year. In addition, the Group's geographically broadly diversified business activities have a markedly positive impact on its performance in general, and enable BBVA to be independent of certain economical regions. However, the good performance in 2017 was partly offset by unfavorable exchange rate changes.

Despite the improvement of BBVA's asset quality in recent years, the Group still shows a relatively high stock of NPL's, which have a significant negative impact on the Group's asset quality. Here, BBVA should continue with its priority to reduce its stock of NPL's, respectively to improve its asset quality in the upcoming years. However, the diversified business activities have a noticeable positive impact on the Group's creditworthiness.

On the liabilities side, BBVA records a significant decrease in its deposits from customers which is the result of unfavorable exchange rate changes. However, the Group struggles to keep up with its competitors with its regulatory capital ratios due to its relatively high RWA ratio. Even though the Group complies with all regulatory requirements, it is clearly behind its competitors as regards its ratios due to its relatively high amount of RWA. Moreover, a further negative impact of IFRS 9 (according to BBVA of -31bp) and the phase-in calendar is expected. On the contrary, BBVA displays a sound leverage ratio. A lower dividend payment would enable BBVA to gain ground on its peers and improve its capitalization at the same time.

The liquidity situation of the bank is satisfactory.

Moreover, the Group faces a certain political risk through its activities in Turkey, which might have a negative impact on the bank's business in this region.

In the near future, growing regulations, ongoing digitization, as well as the low interest rate environment in the EU pose a general challenge for the banking landscape. Notwithstanding, an interest rate reversal is becoming more likely, as well as the termination of the ECB bond-buying program. In particular, a rapid increase in the interest rates goes hand-in-hand with an interest-rate adjustment risk for banks, which have adjusted to long-term low-interest rates.

In a scenario analysis, the rating developed slightly better in the “best case” scenario and significantly worse in the "worst case" scenario. The ratings of bank capital and (preferred) 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.

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: **A-**
Tier 2 (T2): **BBB-**
Additional Tier 1 (AT1): **BB+**

Ratings Detail and History

Ratings			
Bank Capital und Debt Instruments			
Instruments	Rating Date	Publication Date	Ratings
Senior Unsecured / T2 / AT1	22.06.2018	09.07.2018	A- / BBB- / BB+

Bank Issuer Ratings			
Type	Rating Date	Publication Date	Ratings
LT Issuer / Outlook / Short-Term	22.06.2018	09.07.2018	A- / stable / L2

Figure 8: Ratings Detail and History

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 S&P Global Market Intelligence. 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 22 June 2018, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to BBVA, 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 (see cover sheet). Within this period, the rating can be updated. At the latest after one year, a follow-up 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.

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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 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.

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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.

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