Daiwa Capital Markets

BBVA

William Hahn
Credit Research
+44 20 7597 8355
William.Hahn@uk.daiwacm.com

	Senior Preferred	Senior Non-Preferred	Outlook
Moody's	A3	Baa2	Stable
S&P	A-	BBB+	Negative
Fitch	A-	BBB+	Stable

Source: Moody's, S&P and Fitch

Background and ownership

Banco Bilbao Vizcaya Argentaria S.A. (BBVA) is a retail-focused banking group headquartered in Madrid, with total assets amounting to EUR720bn as at end-1Q21. In addition to its Spanish operations, the bank has a strategic focus on high-growth markets, investing in technology for competitive advantage and market penetration. From a lending perspective, Spain is the group's home market, where it is the second largest bank and classified as a domestic systemically-important bank with market shares of 14% and 15% in terms of loans and deposits. In addition to its strong market position in Spain it also has a solid franchise in South America, particularly in Mexico, where it generates high margins, making it the group's main revenue generator (34% of group total). Turkey is another core market for BBVA where its near 50% ownership of Garanti generates 16% of the group's revenues. We do however consider it a key sensitivity given the regions macro and political risk. In November 2020, BBVA reached an agreement to sell its subsidiary in the U.S. for USD11.6bn, with the deal expected to be concluded by mid-2021. Part of the proceeds are intended for dividend payments and a targeted 10% share buyback leaving a considerable USD6bn available for possible M&A activity after a combination with Banco de Sabadell fell through at the end of 2020.

BBVA – Key Data

	1Q21
Total Assets (€bn)	719.7
Loan Book (€bn)	322.8
Loans to Deposits (%)	97.5
Cost to Income (%)	44.7
Net Profit (€m)	1,210
LCR (%)	151
FL CET1 (%)	11.9
FL Leverage Ratio (%)	6.5
Market Cap* (€bn)	31.6
P/B*	0.70

*Source: Bank statements, Bloomberg. *As of 05/05/2021*

Main activities

BBVA activities are focused on **retail banking**, complemented by operations in **wholesale banking, asset management and insurance,** through a geographically-diversified network of mostly locally funded subsidiaries. BBVA's operating units are split by geographical areas and as of 1Q21 risk distribution as per RWA allocation was as follows: Spain (30.4% of total), Mexico (17.5%), Turkey (15%), South America (11%), rest of business (8%). The aggregated Corporate & Investment Banking businesses accounted for 27% of attributable profit in 1Q21, highlighting the bank's retail focus. The Spanish unit aggregates the retail network, corporate and investment banking, insurance and asset management. Despite only owning 49.85% of Garanti bank in Turkey, BBVA controls the majority of the board of directors, leading to full consolidation as a BBVA subsidiary.

Financial strength indicators

Asset quality – Asset quality remained adequate with an NPL ratio of 4.3% (+30bps yoy) and was mostly due to declining loan volumes in Spain and South America (sale of Paraguay unit), only partially offset by loan growth in other geographies. Downward pressure on asset quality also stems from the sale of BBVA USA given its stronger asset quality metrics than the rest of the group. It accounted for some 17% of the group's loan book and 19% of its RWAs as at 3Q20. Nevertheless, the coverage ratio was strong at 81% (-74bps yoy) and we consider it sufficient given reduced forward-looking cost of risk (CoR) assumptions for the group. New retail loan production is picking up in all of BBVA's markets and reached pre-Covid levels, in particular mortgage lending is pulling ahead, on average up 60% against February 2020. Digital customer acquisition is also ramping up significantly with group wide growth of 64% yoy, and strong customer acquisition even in developed markets such as Spain (+500k customers over the past year). In BBVA's Spanish home market, total lending activity was down by 1.4% yoy due to overall lower mortgage volumes (-2.6% yoy), partially offset by loan growth towards SME and small business helped by state guaranteed loans. The NPL ratio in the bank's core Spanish market is in line with the market average at 4.4%. In contrast to sluggish lending activity in Europe, Turkish Lira loan growth was up +35% (at constant exchange rates) driven by both commercial and retail demand while impairments fell by 60% yoy. BBVA senior management reiterated its stance that it remains cautious on deploying excess capital generated from the sale of its US division, after merger talks with Banco de Sabadell fell through in November 2020.

Profitability – BBVA has seen profitability return to pre-Covid levels with net income of EUR1.2bn up from just EUR292m in 1Q20, over 85% of which was generated in its core markets Spain, Mexico and Turkey. This was ahead of analysts' consensus views that saw net income at EUR905m. In addition to resilient underlying business performance across the group, BBVA did not set aside any additional pandemic related provisions during the quarter, which also supported the bottom line. BBVA's gross income of EUR5.15bn (-10.8% yoy) was mostly generated in Mexico (34% of total), Spain (32%) and Turkey (16%). The reduction in top-line revenue was predominantly driven by a fall in NII to EUR3.45bn (-14.2% yoy). In Spain, Euribor repricing has helped stabilise customer spreads while in Mexico cost of funding reductions offset negative impact from yield contraction, resulting in customer spread increases over the past four quarters. Profitability in Mexico was up 47% to EUR493m also thanks to lower provisions (-34% yoy) and improving CoR of 355bps (-175bps yoy). In Turkey however, NII fell by 35% yoy due to Turkish Lira customer spread compression caused by interest rate increases from 2H20 onwards. The Turkish Central Bank raised the base rate by 200bps in March alone to 19%, which added short term margin pressure as liabilities (mostly deposits) reprice faster than balance sheet assets in that market. Additionally, we expect pressure on loan demand from the higher interest rates, which BBVA expects to come down gradually to 16% towards the end of 3Q21. Nevertheless, Turkey recorded a strong net income increase to EUR191m (+48% yoy) helped by strong reductions in impairments and provisions. South American operations that contribute 14% of the group's gross revenues are mainly split across Argentina, Columbia and Peru, generated a combined net income of EUR104m (+150% yoy) mainly due to impairment and provision reductions. BBVA group RoTE has recovered gradually over the course of the last year and during the first quarter, reaching 11% (1Q20: 2.8%).

BBVA - Additional Data

Key Ratios (%)	1Q21	1Q20	1Q19
FL CET1	11.9	10.8	11.3
Phased Total Capital	16.2	15.4	15.2
NPL	4.3	4.0	3.9
NPL Coverage	81	83	74
LCR	151	134	127
Cost to Income	44.7	42.9	48.3
Balance Sheet (EURbn)			
Total assets	719.7	730.0	691.2
Loans to customers	322.8	333.8	393.2
Customer deposits	331.0	318.3	378.5
Debt securities	36.1	35.7	38.9
Total Equity	50.7	49.1	53.5
Income Statement (EURbn)			
Operating Income	2.8	3.3	3.1
Operating Expenses	2.3	2.4	2.9
Cost of Risk (bps)	117	254	103
Net Income	1.2	-1.8	1.2

Source: BBVA earnings reports

Capitalisation – BBVA's fully-loaded CET1 ratio was 14.58% on a pro-forma bases as it includes the positive impact from the sale of BBVA USA. Adjusted for this it would be 11.88%, which is within managements target range of 11.5-12%. The capital position is comfortably above regulatory requirements of 8.59% (+329bps buffer). CET1 was strengthened over the past quarter by retained earnings (+34bps) and RWA reductions (+2bps) only partially offset by dividends, accruals and AT1 coupons (-17bps) and other factors (-4bps). BBVA is considering a 10% share buyback after the closing of the BBVA USA sale, which would see the pro-forma CET1 ratio reduce to 13.55%. The group's leverage ratio stood at 6.5% above its peer group average of 5.5%. BBVA has maintained its policy of actively hedging its main investments in emerging markets, covering on average between 30% and 50% of annual earnings and around 70% of the CET1 capital ratio surplus. Based on this policy, the sensitivity of the CET1 ratio to a depreciation of 10% against the Euro of the main emerging-market currencies is estimated at -5bps for the Mexican peso and -2bps for the Turkish lira. The latter is particularly relevant given the recent rate hikes by the Turkish Central Bank.

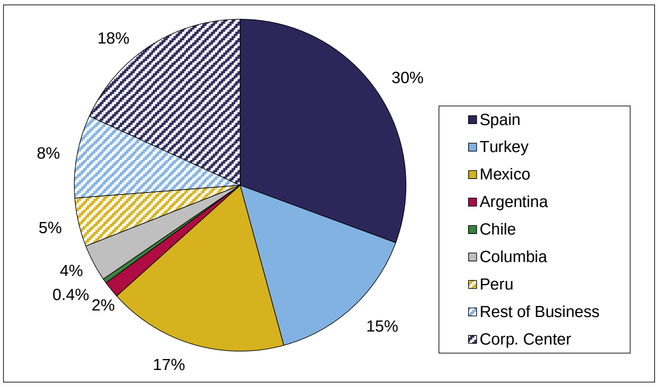
Funding & Liquidity – The liquidity position was solid across the group with LCR ratios well above requirements across regions. On a consolidated basis, LCR stood at 151% and NSFR at 127%. BBVA also confirmed that it took part in the March TLTRO III funding round to take advantage of the improved conditions announced by the ECB in December 2020. It tapped the programme for EUR3.5bn, which when added to existing uptake amounts to a total EUR38.4bn. BBVA made further progress on its pledge to commit EUR100bn towards sustainable financing between 2018-2025. In 1Q21 the bank also mobilised EUR8bn in funds (FY20: EUR20.3bn), representing a cumulative total of EUR50.1bn since 2018. All of BBVA's subsidiaries remained well funded and had adequate liquidity positions. There was no reliance on intragroup funding as BBVA is one of the few European banks to follow the multiple point of entry (MPE) resolution strategy, which means subsidiaries are self-sufficient in this regard. Subsidiaries also need to be self-sufficient in terms of liquidity which in times of stress is a positive as it reduces contagion risk. With regards to MREL, BBVA issued EUR1bn in eligible senior debt over the past quarter. Its MREL requirement does not apply to its consolidated balance sheet, but only to its European resolution entity, of which BBVA S.A. accounts for over 95%. As of 2021, BBVAs MREL requirement is 15.16%, equivalent to 28.50% of RWA of the European resolution group as of FY17 and a subordinated requirement of 17.25%. BBVA currently complies with these requirements.

Rating agencies' views

Moody's: BBVA's ratings reflect the group's significantly improved asset-risk profile, following the disposal of its legacy real estate assets; modest Moody's-defined tangible common equity (TCE) ratio, as well as its proven capacity to generate capital in times of stress; and low earnings volatility and above-average recurring profitability although below historical levels. BBVA also has good funding and liquidity profiles. The group's extraordinary business diversification, stemming from the wide geographical spread of its operations, is reflected in a one-notch positive qualitative adjustment. There are, however, risks to the bank's credit profile, namely in terms of asset quality and profitability, as a result of the deteriorating operating environment because of the coronavirus pandemic.

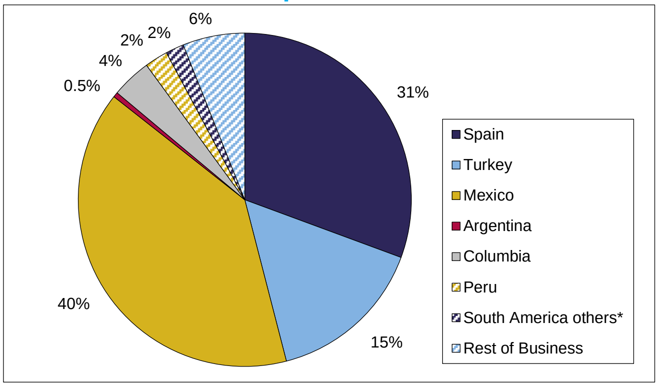
Fitch: In June 2020, Fitch downgraded BBVA's Long-Term Issuer Default Rating (IDR) to 'BBB+' from 'A-'. The Outlook on the Long-Term IDR is Stable. The downgrade reflects the significant influence that exposure to less stable and weakening emerging economies has on the group's overall risk profile and its profit generation capabilities. This is particularly important following the significant deterioration of Mexico's operating environment as a result of the coronavirus outbreak given the relevance of the Mexican subsidiary as the major profit contributor for the group. This is combined with a deteriorating operating environment in its home country of Spain where the economic fallout from the coronavirus crisis is expected to be among the most severe in Europe.

1Q21 RWA distribution



Source: Company reports

1Q21 Net attributable profit distribution



*Source: Company reports, *incl. Bolivia, Chile, Paraguay, Uruguay and Venezuela*

Recent Benchmark Transactions

Issue Date	Security	Maturity/Call	Currency	Size (m)	Type	Coupon	Yield	Final Spread (bps)
16/03/2021	SP	6NC5	EUR	1,000	Fixed	0.125%	0.173%	MS + 52
10/09/2020	SP	3Y	USD	1,200	Fixed	0.875%	0.912%	T + 75
10/09/2020	SP	5Y	USD	800	Fixed	1.125%	1.267%	T + 100
07/07/2020	AT1 (Green)	PNC5.5	EUR	1,000	Fixed	6.0%	6.0%	MS + 645.6

Source: BondRadar

This is an issuer profile and contains factual statements only. All statements are sourced from BBVA financial reports, which can be found at [*https://shareholdersandinvestors.bbva.com/*](https://shareholdersandinvestors.bbva.com/)

Daiwa Capital Markets

Credit Research

Key contacts

London		
Head of Research	*Chris Scicluna*	+44 20 7597 8326
Financials, Supras/Sovereigns & Agencies	*William Hahn*	+44 20 7597 8355
Research Assistant	*Katherine Ludlow*	+44 20 7597 8318
Tokyo		
Domestic Credit		
Chief Credit Analyst	*Toshiyasu Ohashi*	+81 3 5555 8753
Electronics, Automobiles, Non-Banks, Real Estate, REIT	*Takao Matsuzaka*	+81 3 5555 8763
Chemicals, Iron & Steel	*Kazuaki Fujita*	+81 3 5555 8765
International Credit		
Non-Japanese/Samurai, European Sovereigns	*Hiroaki Fujioka*	+81 3 5555 8761
Non-Japanese/Samurai	*Fumio Taki*	+81 3 5555 8787
Non-Japanese	*Jiang Jiang*	+81 3 5555 8755
London Translation		
Head of Translation, Economic and Credit	*Mariko Humphris*	+44 20 7597 8327

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[Standard & Poor's]

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[Moody's]

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[Fitch]

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1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies.
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2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITS: Daiwa Office Investment Corporation (8976), Daiwa Securities Living Investment Corporation (8986).

3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.

4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of Y10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.

5) Daiwa Securities Group Inc. and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group Inc. is to acquire up to 5.01% of Credit Saison's total common shares outstanding (excl. treasury shares; as of 31 Jul 2019).

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- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.
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