2. Own funds and Capital

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2.1. Characteristics of the eligible capital resources

The following are considered for the purpose of calculating the minimum capital requirements under the solvency regulations: the elements and instruments corresponding to Tier 1 capital, which is defined as the sum of Common Equity Tier 1 capital (CET1) and additional Tier 1 capital (AT1), as defined in Part Two, Title I, Chapters I to III of the CRR, as well as their corresponding deductions, in accordance with articles 36 and 56, respectively.

Also considered are the elements of Tier 2 capital defined in Part Two of Chapter IV, section I of the CRR. The deductions defined as such in section II of the same Chapter are also considered.

In line with the stipulations of the solvency regulation, the level of Common Equity Tier 1 capital essentially comprises the following elements:

a) Capital and share premium: this includes the elements described in article 26 section 1, articles 27, 28 and 29 of the CRR and the EBA list referred to in article 26 section 3 of the CRR.

b) Accumulated gains: In accordance with article 26. 1 c), the gains that may be used immediately and with no restriction to hedge any risks or losses are included (mainly reserves, including the reserves of the consolidated companies).

c)Other accumulated income and other reserves: Under this heading will be classified mainly the reserves of consolidated companies, and (including the associated exchange-rate differences) the valuation adjustments associated with the available-for-sale portfolio.

d) Minority shareholdings: includes the sum of the ordinary Level 1 capital instruments of a subsidiary that arise in the process of its global consolidation and are attributable to natural or legal third persons.

e) Temporary benefits: included is the net income referring to the perimeter of credit institutions, deducting the amount corresponding to interim and final dividend payments, as set out in article 26, section 2 of the CRR. Also included is the balance of the equity account listing remuneration from equity instruments.

Capital is, moreover, adjusted mainly through the following deductions:

f) Additional value adjustments: The adjustments originated by the prudent valuation of the positions at fair value are included, as set out in article 105 of the CRR.

g) Intangible assets: these are included net of the corresponding tax liabilities, as set out in article 36, section 1, letter b) and article 37 of the CRR. It mainly includes goodwill, software and other intangible assets.

h) Deferred tax assets: These are understood to be assets for deferred taxes that depend on future returns, excluding those deriving from temporary differences (net of the corresponding tax liabilities when the conditions established in article 38.3 of the CRR are met), as per article 36.1 c) and article 38 of the CRR, mainly loss carryforwards (LCFs).

i) Reserves at fair value connected to losses or gains by cash flow hedging: Includes value adjustments of cash flow hedging of financial instruments not valued at fair value, including expected cash flows in accordance with article 33 a) of the CRR.

j) Expected losses in equity instruments: The losses arising from the calculation of risk-weighted exposures through the method based on internal ratings are included, as set out in article 36.1 b) of the CRR.

k) Profit or losses at fair value: These are derived from the entity's credit risk itself, in accordance with article 33 b) of the CRR.

l) Direct and indirect holdings of own instruments (treasury stock): includes the shares and other securities booked as own funds that are held by any of the Group's consolidated entities, together with those held by non-consolidated entities belonging to the economic Group, as set out in article 33. 1 f) and article 42 of the CRR. It mainly includes finance for own shares, synthetic treasury stock and own securities.

m) Securitisation: securitisations that receive a risk weighting of 1.250% are included, as set out in article 36.1 k) ii) of the CRR.

n) Transitional Common Equity Tier 1 capital: Considered as such are unrealised fair value gains and losses, in accordance with articles 467 and 468 of the CRR, as well as all the fair value gains and losses arising from the institution's own credit risk related to derivative liabilities (DVA) under article 33 c).

o) Qualifying deductions of common equity Tier 1: this includes the deductions that exceed the additional Tier 1 capital, as described in article 36.1 b) of the CRR.

The application of some of the above deductions (mainly intangible assets and LCFs) shall be carried out gradually over a transition period of 5 years starting in 2014 (phased in), as set out in the current regulation.

Other deductions that may be applicable are significant stakes in financial institutions and assets for deferred taxes arising from temporary differences that exceed the 10% limit of the CET1, and the deduction for exceeding the overall 17.65% limit of the CET1 according to article 48.2 of the CRR.

In addition, the Group includes as total eligible capital the additional Tier 1 capital instruments defined in article 51, 85 and 484 of the CRR, including the corresponding adjustments, in accordance with article 472 of the CRR:

p) **Equity instruments and issue premiums classified as liabilities:** This heading includes the perpetual contingent convertible securities that meet the conditions set out in article 51 and 52.1 of the CRR.

q) **Elements referred to in article 484.4 of the CRR:** This section includes the preferred securities issued by the Group.

r) **Qualifying Tier 1 capital included in the consolidated additional capital issued by affiliates and held by third parties:** Included as additional consolidated Tier 1 capital is the amount of Tier 1 capital from the subsidiaries, calculated in accordance with article 85 of the CRR and applying the phased-in percentages corresponding transitional period established by article 480 of the CRR.

s) **Temporary adjustments of additional Tier 1 capital:** This includes the adjustments considered in article 472 of the CRR as measures established for gradual adoption of the new capital ratios.

Finally, the entity also includes Tier 2 as eligible capital. Combined with what is indicated in Article 87 of the CRR, it is made up of the following elements:

t) **Equity instruments and Tier 2 share premiums:** Understood as the funding that, for credit seniority purposes, comes behind all the common creditors. The issues, moreover, have to fulfill a number of conditions which are laid out in article 63 of the CRR.

u) **Amounts of the eligible elements, under article 484:** Tier 2 capital includes the subordinated debt received by the Group that does not meet the conditions set out in article 63 of the CRR, but is acceptable in the transitional regulatory capital under article 484 of the CRR.

v) **Qualifying capital instruments included in the consolidated Tier 2 capital issued by subsidiaries and held by third parties:** these instruments are included under articles 87 and 88 of the CRR, by applying the phased-in percentages corresponding to the transitional period established by article 480 of the CRR.

w) **Adjustment for credit risk:** A calculation is made of the surplus resulting between the allowances for impairment losses on assets and provisions for risks related to exposures calculated as per the IRB Approach on the losses they are expected to incur, for the part that is below 0.6% of the risk-weighted exposures calculated according to this method.

The Annex available on the Group's website presents the Group's issuance of perpetual contingent convertible securities and issuance of preference shares, which as explained above, form part of additional Tier 1 capital.

This Annex also details the Group's issues of subordinated debt as of December 31, 2017, calculated as Tier 2 capital.

2.2. Amount of capital

The table below shows the amount of total eligible capital, net of deductions, for the different items making up the capital base as of December 31, 2017 and December 31, 2016, in accordance with the disclosure requirements for information relating to temporary capital set out by Implementing Regulation (EU) No. 1423/2013 of the Commission dated December 20, 2013:

Table 6. Amount of capital (Million Euros)

Eligible capital resources	12-31-17	12-31-16
a) Capital and share premium	27,259	27,210
b) Retained earnings	25,504	23,688
c) Other accumulated earnings (and reserves)	(8,710)	(5,500)
d) Minority interests	5,446	6,969
e) Net attrib. profit and interim and final Group dividends	1,436	1,973
Ordinary Tier 1 Capital before other reglamentary adjustments	**50,935**	**54,339**
f) Additional value adjustments	(332)	(250)
g) Intangible assets	(6,627)	(5,675)
h) Deferred tax assets	(755)	(453)
i) Fair value reserves related to gains o losses on cash flow hedges	(193)	-
j) Expected losses in equity	(20)	(16)
k) Profit or losses on liabilities measured at fair value	-	-
l) Direct and indirect holdings of own instruments	(278)	(181)
m) Securitisations tranches at 1250%	(39)	(62)
n) Temporary CET1 adjustments	(324)	(332)
o) Admisible CET1 deductions	(26)	-
Total Common Equity Tier 1 regulatory adjustments	**(8,594)**	**(6,969)**
Common Equity Tier 1 (CET1)	**42,341**	**47,370**
p) Equity instruments and share premium classified as liabilities	5,751	5,423
q) Items referred in Article 484 (4) of the CRR	142	691
r) Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row d) issued by subsidiaries and held by third parties)	403	383
Additional Tier 1 before reglamentary adjustments	**6,296**	**6,497**
s) Temporary adjustments Tier 1	(1,657)	(3,783)
Total reglamentary adjustments of Additional Tier 1	**(1,657)**	**(3,783)**
Additional Tier 1 (AT1)	**4,639**	**2,713**
Tier 1 (Common Equity Tier 1+Additional Tier 1)	**46,980**	**50,083**
t) Equity instruments and share premium	1,759	2,357
u) Amount of the admissible items, pursuant to Article 484	-	-
v) Admissible shareholders' funds instruments included in consolidated Tier 2 issued by subsidiaries and held by third parties	6,438	5,915
-Of which: instruments issued by subsidiaries subject to ex-subsidiary stage	317	350
w) Credit risk adjustments	601	538
Tier 2 before reglamentary adjustments	**8,798**	**8,810**
Tier 2 reglamentary adjustments	**-**	**-**
Tier 2	**8,798**	**8,810**
Total Capital (Total capital = Tier 1 + Tier 2)	**55,778**	**58,893**
Total RWA's	**362,875**	**388,951**
CET 1 (Phased-In)	11.67%	12.18%
CET 1 (fully-loaded)	11.04%	10.90%
Tier 1 (Phased-In)	12.95%	12.88%
Tier 1 (fully-loaded)	12.76%	12.46%
Total Capital (Phased-In)	15.37%	15.14%
Total Capital (fully-loaded)	15.14%	14.71%

As of December 31, 2017, the phased-in Common Equity Tier 1 (CET1) stood at 11.67%, accounting a decrease with respect to December 2016 of 51 basis points. The negative effect on the minority interests and deductions due to the regulatory phase-in calendar of 80% in 2017 compared to 60% in 2016 has an impact of -57 basis points which is compensated by the organic generation of capital leaning against the recurrence of the results, net of dividends paid and remunerations.

It is also worth noting that in 2017 there were corporate operations that had an impact on CET1, particularly the acquisition of an additional 9.95% stake in Garanti Bank, the sale of 1.7% of the stake in CNCB and the capital increase of Banco Francés (the Group's subsidiary in Argentina), with an impact of approximately -9 basis points on CET1.

Additionally, BBVA Group has registered on December 2017 losses of €1.123 billion due to the unrealized losses from its stake in Telefónica. However, this impact does not affect the Group's equity or solvency, as the losses were already included at this date.

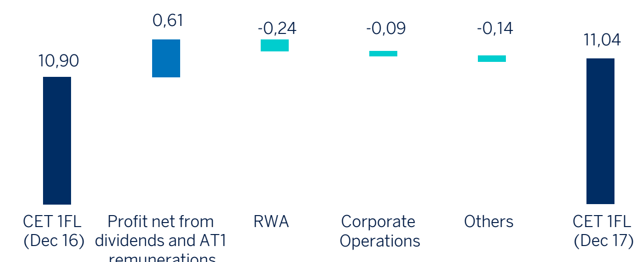
In 2017 the Group continued to strengthen its capital position with two new issuances classified as additional Tier 1 (contingent convertible) for €500m and USD 1.0 billion, respectively (the latter issued in the U.S. market, with a prospectus registered with the Securities and Exchange Commission (SEC), for which as of December 31, 2017 authorization had still not been received for inclusion in the Group's capital ratios. This authorization was finally received at the start of 2018).

At Tier 2, in 2017 BBVA, S.A. issued subordinated debt for a value of approximately €1.5 billion. In addition, Garanti Bank issued Tier 2 capital for USD 750, pending supervisory confirmation for its inclusion in the Group's regulatory ratios; the impact of this issue was of an additional +10 bps of Tier 2 as of December 31, 2017.

It is worth mentioning that during 2017, senior non-preferred debt was issued for €1.79 billion, strengthening the Group's capacity to absorb losses and aiming to comply with the minimum requirement for own funds and eligible liabilities (MREL).Lastly, the total phased-in ratio stood at 15.37%, for the reasons explained above.

In addition, the Group is pending information from the ECB of an update in the methodology of calculating exchange-rate risk. As of December 31, 2017 it would have had a positive impact of 4 bps on the fully-loaded CET1 ratio.

Chart 1: Fully-loaded CET1 ratio by year



(1) Other effects mainly includes the balance of eligible minority interests, regulatory deductions and market value of the available-for-sale portfolios

These capital levels are above the requirements established by the ECB in its SREP letter and the systemic buffers applicable to BBVA Group for the CET1 ratio in 2017 (11.125%).

With respect to changes in risk-weighted assets, a reduction was recorded of around 7% with respect to December 2016, largely due to the depreciation of currencies against the euro and an efficient management and assignment of the Group's capital in line with its strategic objectives.

Annex III, available on the Group's website, shows the features of the main capital instruments with the aim of reflecting the characteristics of an entity's capital instruments, with the level of detail required by regulations, and in accordance with Implementing Regulation (EU) No. 1423/2013 of the Commission dated December 20, 2013.

The process followed is shown below, in accordance with the recommendations issued by the EBA. Based on the shareholders' equity reported in the Group's Consolidated Annual Report and by applying the deductions and adjustments shown in the table below, the regulatory capital figure eligible for solvency purposes is arrived at:

Table 7. Reconciliation of the Public Balance Sheet from the accounting perimeter to the regulatory perimeter (Million Euros)

Eligible capital resources	12-31-17	12-31-16
Capital	3,267	3,218
Share premium	23,992	23,992
Retained earnings, revaluation reserves and other reserves	25,443	23,641
Other equity instruments (net)	54	54
Treasury shares	(96)	(48)
Attributable to the parent company	3,519	3,475
Attributed dividend	(1,043)	(1,510)
Total Equity	**55,136**	**52,821**
Value adjustments	(8,792)	(5,458)
Minority interests	6,979	8,064
Shareholders´ equity	**53,323**	**55,428**
Intangible assets	(6,627)	(5,675)
Fin. treasury shares	(48)	(82)
Indirect treasury shares	(134)	(51)
Deductions	**(6,809)**	**(5,808)**
Temporary CET 1 adjustments	(273)	(129)
Capital gains from the Available-for-sale debt instruments portfolio	(256)	(402)
Capital gains from the Available-for-sale equity portfolio	(17)	273
Differences from solvency and accounting level	(189)	(120)
Equity not eligible at solvency level	**(462)**	**(249)**
Other adjustments and deductions	**(3,711)**	**(2,001)**
Common Equity Tier 1 (CET 1)	**42,341**	**47,370**
Additional Tier 1 before Regulatory Adjustments	**6,296**	**6,497**
Total Regulatory Adjustments of Aditional Tier 1	**(1,657)**	**(3,783)**
Tier 1	**46,980**	**50,083**
Tier 2	**8,798**	**8,810**
Total Capital (Tier 1 + Tier 2)	**55,778**	**58,893**
Total Minimum equity required [(1)]	**40,370**	

[(1)] Calculated over capital requirements of 11.125%

2.3. Bank risk profile

BBVA Group has a General Risk Management and Control Model (hereinafter, the "Model") adapted to its business model, organisation and the geographic areas in which it operates. It allows it to operate within the framework of the control and risk management strategy defined by the Bank's company bodies and adapt to an economic and regulatory environment, addressing management globally and adapted to the circumstances at any particular time. The Model establishes a system of risk management that is adapted to the entity's risk profile and strategy.

The risks inherent in the business that make up the risk profile of BBVA Group are as follows:

- Credit risk: Credit risk arises from the probability that one party to a financial instrument will fail to meet its contractual obligations for reasons of insolvency or inability to pay and cause a financial loss for the other party. This includes counterparty risk, issuer credit risk, liquidation risk and country risk.
- Counterparty risk: The credit risk corresponding to derivative instruments, repurchase and resale transactions, securities or commodities lending or borrowing transactions and deferred settlement transactions.
- Credit valuation adjustment (CVA) risk: Its aim is to reflect the impact on the fair value of the counterparty's credit risk.
- Market risk: Market risk originates in the possibility that there may be losses in the value of positions held due to movements in the market variables that affect the valuation of financial products and assets in trading activity.
- Operational risk: Operational risk is defined as the one that could potentially cause losses due to human errors, inadequate or faulty internal processes, system failures or external events. This definition includes legal risk, but excludes strategic and/or business risk and reputational risk.

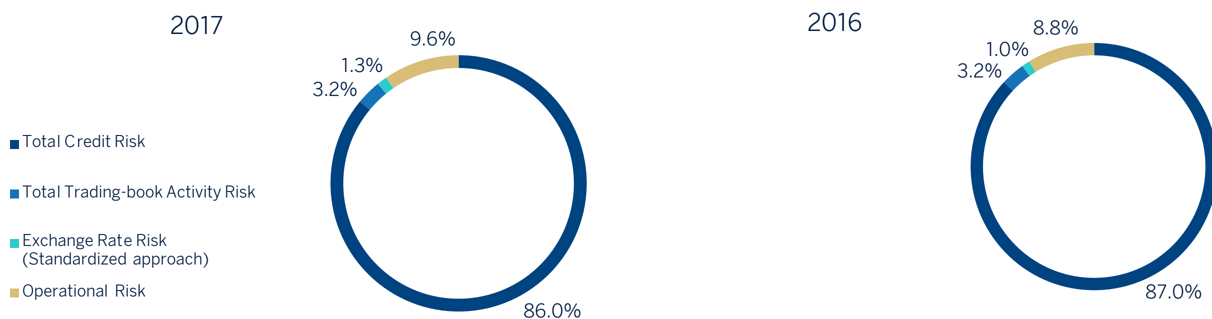
- Structural risks: These are divided into structural interest-rate risk (movements in interest rates that cause alterations in an entity's net interest income and equity value) and structural exchange-rate risk (exposure to variations in exchange rates originating in the Group's foreign companies and in the provision of funds to foreign branches financed in a different currency from that of the investment).

- Liquidity risk: Risk of an entity having difficulties in duly meeting its payment commitments, and where it does not have to resort to funding under burdensome terms which may harm the bank's image or reputation.

- Reputational risk: Considered to be the potential loss in earnings as a result of events that may negatively affect the perception of the Group's different stakeholders.

The chart below shows the total risk-weighted assets broken down by type of risk (where the credit risk encompasses the counterparty risk) as of December 31, 2017 and December 31, 2016:

Chart 2: Distribution of RWAs by risk type eligible in Pillar I



(*) Credit Risk includes Risk by CVA adjustment

2.4. Breakdown of minimum capital requirements by risk type

In accordance with article 92 of the CRR, the entities must at all times comply with the following capital requirements:

a) Common Equity Tier 1 capital ratio of 4.5%, obtained as the level of Common Equity Tier 1 capital expressed as a percentage on the total amount of risk-weighted assets.

b) Common Equity Tier 1 capital ratio of 6%, obtained as the level of Common Equity Tier 1 capital expressed as a percentage on the total amount of risk-weighted assets.

c) Total capital ratio of 8%, obtained as the capital expressed as a percentage on the total amount of risk-weighted assets.

Regardless of article 92 of the CRR, after the Supervisory Review and Evaluation Process (SREP), in 2018 the minimum Common Equity Tier 1 ratio level should be 8.438%. As of December 31, 2017 the Group has a phased-in CET1 ratio of 11.67%, above the regulatory requirement.

The total amount of capital requirements is made up mainly of the following items:

- **Credit and dilution risk**

Weighted exposures for credit and dilution risk, excluding the amount of risk-weighted exposures for the trading book. When calculating the risk-weighted exposures, the credit institutions may apply the standard method or the method based on internal ratings, when allowed by the competent authorities.

- **Counterparty Risk**

Counterparty risk-weighted exposures corresponding to repo and derivative operations (section 3.2.6. of the present Document).

- **Market risk**

It arises mainly in the trading book and includes capital requirements determined with respect to position risk in debt and equity instruments, exchange-rate risk and commodity risk.

- **Structural exchange-rate risk**

Capital requirements determined with respect to structural exchange-rate risk.

- **Credit valuation adjustment risk**

The capital requirements with respect to the credit valuation adjustment risk resulting from OTC derivative instruments that are not credit derivatives recognised for the purpose of reducing the amount of credit risk-weighted exposures.

- **Operational risk**

The capital requirements determined in accordance with Title III of the CRR with respect to operational risk.

In addition, as stated in the introductory section of the present Document, Basel III, unlike the previous framework, introduces capital buffers as a complement to the minimum capital requirements. A transition period ending in 2019 has been established to facilitate the adaptation of financial institutions to the minimum capital requirements.

The third part of the CRR sets out the capital requirements, in accordance with the Basel III framework, as well the techniques for calculating the different minimum regulatory capital ratios.

The total for capital requirements are shown below, broken down by type of risk as of December 31, 2017 and December 31, 2016. The positions in securitisation (standardised and advanced measurement approaches), equity and counterparty risk are broken down separately:

Table 8. EU OV1 Overview of RWAs (Million Euros)

	RWA [1]		Minimum Capital Requirements [2] [3]
	12-31-17	12-31-16 [4]	12-31-17
Credit Risk (excluding CCR)	**286,368**	**309,046**	**22,909**
Of which the standardised approach (5)	198,715	215,908	15,897
Of which the foundation IRB (FIRB) approach	-	-	-
Of which the advanced IRB (AIRB) approach	83,577	89,589	6,686
Of which equity IRB under the simple risk-weighted approach (6)	4,076	3,548	326
CCR	**9,459**	**11,888**	**757**
Of which mark to market	7,844	9,473	628
Of which original exposure	-	-	-
Of which the standardised approach	-	-	-
Of which the Internal model method (IMM)	-	-	-
Of which risk exposure amount for contributions to the default fund of a CCP	49	93	4
Of which CVA	1,566	2,321	125
Settlement Risk	**-**	**-**	**-**
Securitisation exposures in the banking book (after the cap)	**1,751**	**1,477**	**140**
Of which IRB approach	827	332	66
Of which IRB supervisory formula approach (SFA)	-	-	-
Of which internal assessment approach (IAA)	-	-	-
Of which standardised approach	924	1,144	74
Market Risk	**16,018**	**16,370**	**1,281**
Of which the standardised approach	7,408	7,112	593
Of which IMA	8,611	9,258	689
Operational Risk	**34,755**	**34,323**	**2,780**
Of which basic indicator approach	6,204	6,444	496
Of which the standardised approach	10,102	10,781	808
Of which IRB approach	18,449	17,098	1,476
Amounts below the thresholds for deduction (subject to 250% risk weight)	**14,525**	**15,848**	**1,162**
Floor Adjustment	**-**	**-**	**-**
TOTAL	**362,875**	**388,951**	**29,030**

(1) Risk-weighted assets according to the transitional period (phased-in)

(2) Multiplied by 8% of RWAs

(3) Under CET 1 requirements (7.625%) after the supervisory evaluation process (SREP), the requirements amount to 27,669 million euros. Under Total Capital requirements (11.125%), the requirements amount to 40,370 million euros

(4) Shown for comparative purposes only and corresponds to proforma data as of December 2016

(5) Deferred tax assets arising from temporary differences, which are not deducted from own funds (subject to a risk weight of 250%) are excluded, in accordance with Article 48.4 CRR. This amount is up to 6,778 and 7,653 at 31 December 2017 and 31 December 2016, respectively

(6) Equity, calculated under the simple risk-weighted approach and internal model method, is included. Significant investments in financial sector entities and insurers that are not deducted from eligible own funds (subject to a risk weight of 250%) are excluded, in accordance with Article 48.4 CRR. This amount rises to 7,747 and 8,195 as at 31 December 2017 and 31 December 2016, respectively.

The chart below shows the risk-weighted assets broken down by risk and the capital requirements broken down by type of risk and categories of exposure, as of December 31 2017 and December 31 2016:

Table 9. Capital requirements by risk type and exposure class (Million Euros)

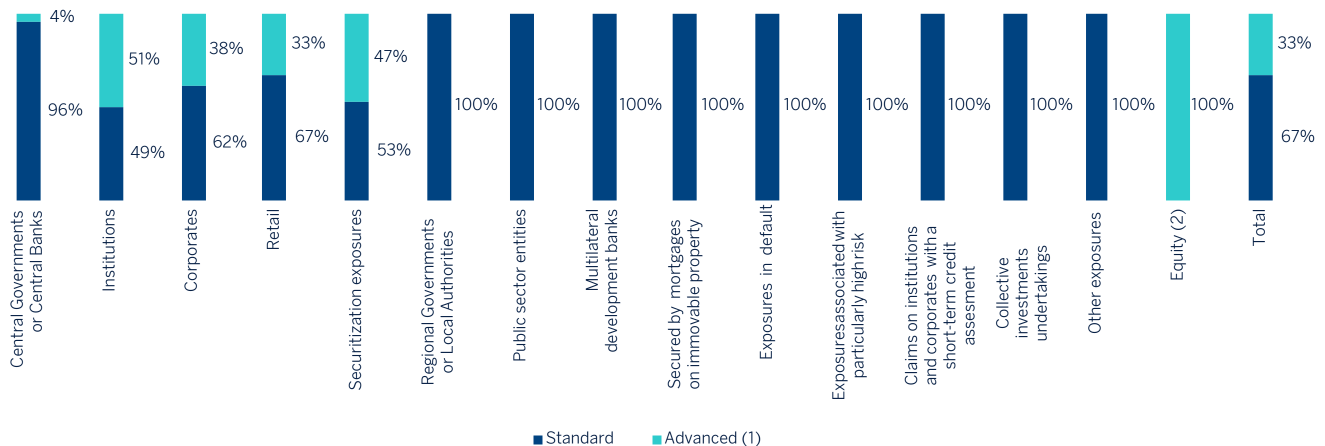
Exposure Class and risk type	Capital requirements (2)		RWA's (1)	
	12-31-17	12-31-16	12-31-17	12-31-16
Credit Risk	**16,684**	**18,239**	**208,554**	**227,987**
Central governments or central banks	2,381	2,408	29,759	30,106
Regional governments or local authorities	100	79	1,252	989
Public sector entities	52	75	654	941
Multilateral development banks	1	3	14	33
International organisations	-	-	-	-
Institutions	463	510	5,793	6,370
Corporates	7,328	8,301	91,600	103,761
Retail	3,134	3,266	39,177	40,821
Secured by mortgages on immovable property	1,569	1,702	19,609	21,276
Exposures in default	420	465	5,248	5,807
Exposures associated with particularly high risk	296	175	3,694	2,193
Covered bonds	-	-	-	-
Claims on institutions and corporates with a short-term credit assesment	0	7	5	87
Collective investments undertakings	2	11	24	140
Other exposures	938	1,237	11,725	15,463
Securitisation exposures	**74**	**92**	**924**	**1,144**
Securitisation exposures	74	92	924	1,144
TOTAL CREDIT RISK BY STANDARDISED APPROACH	16,758	18,330	209,478	229,131
Credit Risk	**6,673**	**7,179**	**83,408**	**89,741**
Central governments or central banks	94	44	1,172	552
Institutions	474	489	5,931	6,114
Corporates	4,531	4.879	56,643	60,983
Of which: Specialised lending	804	965	10,056	12.061
Of which: SMEs	646	777	8,077	9.710
Of which: Others	3,081	3.137	38,510	39.212
Retail	1,573	1.767	19,661	22,091
Of which: Secured by real estate property	661	855	8,268	10.690
Of which: Qualifying revolving	541	590	6,764	7.376
Of which: Other SMEs	129	120	1,612	1.503
Of which: Other Non-SMEs	241	202	3,017	2.523
Equity	**1,342**	**1,331**	**16,775**	**16,639**
On the basis of method:				
Of which: Simple approach	765	863	9,562	10,782
Del que: PD/LGD approach	396	392	4,953	4,896
Del que: Intern models	181	77	2,261	961
On the basis of nature:				
Of which: Listed instruments	433	528	5,412	6,598
Of which: Not listed instruments in sufficiently diversified portfolios	909	803	11,363	10,042
Securitisation exposures	**66**	**27**	**827**	**332**
Securitisation exposures	66	27	827	332
TOTAL CREDIT RISK BY IRB APPROACH	8,081	8,537	101,009	106,713
TOTAL CONTRIBUTIONS TO THE DEFAULT FUND OF A CCP	4	7	49	93
TOTAL CREDIT RISK	**24,843**	**26,875**	**310,536**	**335,937**
SETTLEMENT RISK	**-**	**-**	**-**	**-**
Standardised approach:	226	246	2,829	3,071
Of which: Price Risk by fixed income exposures	197	211	2,461	2,638
Of which: Price Risk by Securitisation exposures	2	1	20	17
Of which: Price Risk by correlation	11	5	142	63
Of which: Price Risk by stocks and shares	16	19	197	234
Of which: Commodities Risk	1	9	9	118
IRB: Market Risk	689	741	8,611	9,258
TOTAL TRADING BOOK RISK	**915**	**986**	**11,439**	**12,329**
FOREING EXCHANGE RISK (STANDARDISED APPROACH)	**366**	**323**	**4,579**	**4,041**
CVA RISK	**125**	**186**	**1,566**	**2,321**
OPERATIONAL RISK	**2,780**	**2,746**	**34,755**	**34,323**
CAPITAL REQUIREMENTS	29,030	31,116	362,875	388,951

(1) Risk-weighted assets according to the transitional period (phased-in)

(2) Multiplied by 8% of RWAs

Below is a breakdown of the percentage of RWAs calculated according to the standardised approach and advanced approach for each exposure class for credit, counterparty and securitisation risk.

Chart 3: Breakdown of RWAs by exposure class and approach



(1) Table 28 of the report sets out the models and portfolios authorised by the supervisor for the purpose of their use in calculating own funds.
(2) RWAs in the equity portfolio are calculated according to the methods indicated in article 155 of the CRR

2.5. Procedure employed in the internal capital adequacy assessment process

The Group carries out the internal capital assessment process in accordance with the Capital Requirements Directive 2013/36/EU and guidelines on collection of information relating to ICAAP for the purpose of the supervisory review and evaluation process (SREP) published by the European Banking Authority.

As part of the internal capital assessment process, the Group assesses and quantifies all the risks that may significantly affect its capital position and extracts a conclusion on its capital adequacy from a holistic medium-term perspective.

The Group applies a proportionate approach that aims to ensure the bank's survival and continuous compliance with all the legal and internal requirements. As well as the regulatory and accounting perspectives, the Group bases its analysis on its capital adequacy position in a sound internal approach that assesses its capital position from an economic point of view that integrates both the quantification of risk capital needs covered in the Basel Pillar I and the needs due to risks not included in it.

The following are some of the points are assessed within the internal capital adequacy assessment process:

- Business and strategy model, describing both the changes planned by the bank in the current business model and its underlying activities such as the relationship between the business strategy and internal capital adequacy assessment.
- Internal governance, risk management and the control framework, reviewing the processes and mechanisms that ensure that the bank has a sound and integrated framework for managing present and future material risks.
- Risk appetite framework, describing the correspondence between this framework and the bank's business strategy and model.
- Identification and assessment of risks (including credit, operational, market, liquidity and other asset and liability risks) and quantification of the capital necessary to cover them, with a quantitative reconciliation between the Pillar I and Pillar II approaches.
- Planning of capital under baseline and stress scenarios, projecting the capital base of the Group, the parent and its main subsidiaries over the next three years and analyzing capital sufficiency in accordance with the regulatory requirements and the internal objectives set out by the entity for the close of the period, also dealing with the planned capital actions.

This internal capital adequacy assessment process concludes with submission to the supervisor of an annual report on the process. The report pays a key role in the review and evaluation methodology applied by the Single Supervisory Mechanism, and is an important element for determining capital requirements under Pillar II.