



**BBVA** Creating  
Opportunities

# Information of Prudential Relevance Pillar III 3Q 2017



**BBVA**

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## 1. Introduction

BBVA Group's fully loaded CET 1 ratio stood at 11.20% at the end of September 2017, above the target of 11% and the fully loaded leverage ratio stood at 6.67% which is ahead those of its Peer Group.

Pursuant to solvency regulation requirements, below is the prudential information as of September 30th, 2017, in accordance with the European Banking Authority's "Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013" published in December 2014, adopted by the Banco de España Executive Commission on February 12th, 2015, which specifies the prudential information to be reported within a year.

In order for all European institutions to implement the Basel revision in such a way as to meet CRR requirements on this matter, on December 14, 2016 the European Banking Authority ("EBA") published its final guidelines on regulatory disclosure ("Guidelines on Revised Pillar 3 Disclosures Requirements"). The implementation date for these guidelines is the close of the financial year 2017. However, it is recommended that Global Systemically Important Banks ("G-SIB") should undertake a partial implementation at the close of the financial year 2016.

Following this recommendation, BBVA Group, committed to transparency, has decided to partially implement the guidelines as of the close of the financial year 2016.

## 2. Total eligible 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 September 30, 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 1. Details of total eligible capital**

(Millions of euros)			
	Eligible capital resources	09/30/17	12/31/16
a)	Capital and share premium	27,259	27,210
b)	Retained earnings	25,610	23,688
c)	Other accumulated earnings (and reserves)	(8,116)	(5,500)
d)	Minority interests	5,437	6,969
e)	Net attrib, profit and interim and final Group dividends	1,798	1,972
<b>Ordinary Tier 1 Capital before other regulatory adjustments</b>		<b>51,988</b>	<b>54,339</b>
f)	Additional value adjustments	(334)	(250)
g)	Intangible assets	(6,788)	(5,675)
h)	Deferred tax assets	(913)	(453)
i)	Fair value reserves related to gains or losses on cash flow hedges	(33)	-
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	(297)	(181)
m)	Securizations tranches at 1250%	(45)	(62)
n)	Temporary CET1 adjustments	(165)	(331)
o)	Admissible CET1 deductions	-	-
<b>Total Common Equity Tier 1 regulatory adjustments</b>		<b>(8,595)</b>	<b>(6,969)</b>
<b>Common Equity Tier 1 (CET1)</b>		<b>43,393</b>	<b>47,370</b>
p)	Equity instruments and share premium classified as liabilities	5,771	5,423
q)	Items referred in Article 484 (4) of the CRR	142	691
r)	Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	374	383
<b>Additional Tier 1 before regulatory adjustments</b>		<b>6,287</b>	<b>6,497</b>
s)	Temporary adjustments Tier 1	(1,697)	(3,783)
<b>Total regulatory adjustments of Additional Tier 1</b>		<b>(1,697)</b>	<b>(3,783)</b>
<b>Additional Tier 1 (AT1)</b>		<b>4,590</b>	<b>2,713</b>
<b>Tier 1 (Common Equity Tier 1+Additional Tier 1)</b>		<b>47,983</b>	<b>50,083</b>
t)	Equity instruments and share premium	1,764	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	6,874	5,915
<i>-Of which: instruments issued by subsidiaries subject to ex-subsidiary stage</i>		<i>142</i>	<i>350</i>
w)	Credit risk adjustments	598	538
<b>Tier 2 before regulatory adjustments</b>		<b>9,237</b>	<b>8,810</b>
<b>Tier 2 regulatory adjustments</b>		<b>-</b>	<b>-</b>
<b>Tier 2</b>		<b>9,237</b>	<b>8,810</b>
<b>Total Capital (Total capital = Tier 1 + Tier 2)</b>		<b>57,219</b>	<b>58,893</b>
<b>Total RWA's</b>		<b>365,314</b>	<b>388,951</b>
CET 1 (phase-in)		11.88%	12.18%
CET 1 (fully loaded)		11.20%	10.90%
Tier 1 (phase-in)		13.13%	12.88%
Tier 1 (fully loaded)		12.90%	12.46%
Total Capital (phase-in)		15.66%	15.14%
Total Capital (fully loaded)		15.35%	14.71%

BBVA Group's fully loaded CET 1 ratio stood at 11.20% (11.88% in phase-in terms) at the end of September 2017, above the target of 11%.

This ratio has increased by 30 basis points from December 2016, due to recurrent generation of incomes, reduction in RWAs and different corporate operations that have had a combined impact of -8 basis points (acquisition of an additional 9.95% stake in Turkiye Garanti Bankasi, A.S. ("Garanti Bank"); the sale of 1.7% in China Citi Bank (CNBC); and the capital increase in BBVA Banco Francés by \$400M with the goal of financing the organic growth of the Bank).

During the second quarter of 2017, BBVA S.A. issued €500M in additional Tier 1 capital (contingent convertible), which contributed 13 basis points to the total capital ratio.

In addition, BBVA S.A. has undertaken various subordinate capital issues worth a nominal amount of close to €1,500 throughout the year. Meanwhile, Garanti in Turkey issued \$750M (in the second quarter). These transactions compute as Tier 2 capital, having a 50 basis points impact on the BBVA Group's total capital ratio.

Furthermore, the last "dividend-option" program was completed in April, with holders of 83.28% of rights choosing to receive new BBVA shares, and an interim dividend of €0.09 per share was distributed for 2017, in line with the shareholders compensation policy announced in February.

At the end of September 2017, the phase-in CET1 ratio was 11.88%, the Tier 1 ratio reached 13.13% and the Tier 2 ratio 2.53%, resulting in a total capital ratio of 15.66%. These levels are above the requirements established by the European Central Bank (ECB) in its SREP letter and the systemic buffers applicable to BBVA Group for 2017 (7.625% for the CET1 ratio and 11.125% for the total capital ratio in phase-in terms).

Finally, it is worth mentioning that during the third quarter of 2017, BBVA S.A. issued €1,500M in non-preferred senior debt, which enables to reinforce the loss absorption capacity of the Group and consequently facilitating compliance with the Minimum Required Eligible Liabilities (MREL).

### 3. Capital requirements information

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

The table below presents a breakdown of the RWA and the minimum capital requirements by risk type as of September 30, 2017 and December 31, 2016:

**Table 2: EU OV1- Capital requirements by Risk type**

(Millions of euros)	RWA (1)		Minimum Capital Requirements
	09/30/17	12/31/16 (4)	(2) (3) 09/30/17
<b>Credit Risk (excluding CCR)</b>	<b>289,866</b>	<b>309,046</b>	<b>23,189</b>
Of which the standardized approach (5)	203,124	215,908	16,250
Of which the foundation IRB (FIRB) approach	-	-	-
Of which the advanced IRB (AIRB) approach	83,682	89,589	6,695
Of which equity IRB under the simple risk-weighted approach or the IMA (6)	3,061	3,548	245
<b>CCR</b>	<b>10,482</b>	<b>11,888</b>	<b>839</b>
Of which mark to market	8,586	9,473	687
Of which original exposure	-	-	-
Of which the standardized approach	-	-	-
Of which the Internal model method (IMM)	-	-	-
Of which risk exposure amount for contributions to the default fund of a CCP	58	93	5
Of which CVA	1,838	2,321	147
<b>Settlement Risk</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Securitization exposures in the banking book (after the cap)</b>	<b>1,734</b>	<b>1,477</b>	<b>139</b>
Of which IRB approach	791	332	63
Of which IRB supervisory formula approach (SFA)	-	-	-
Of which internal assessment approach (IAA)	-	-	-
Of which standardized approach	943	1,144	75
<b>Market Risk</b>	<b>16,102</b>	<b>16,370</b>	<b>1,288</b>
Of which the standardized approach (7)	8,906	7,112	712
Of which IMA	7,197	9,258	576
<b>Operational Risk</b>	<b>33,081</b>	<b>34,323</b>	<b>2,646</b>
Of which basic indicator approach	6,036	6,444	483
Of which standardized approach	9,888	10,781	791
Of which advanced measurement approach	17,157	17,098	1,373
<b>Amounts below the thresholds for deduction (subject to 250% risk weight)</b>	<b>14,048</b>	<b>15,848</b>	<b>1,124</b>
<b>Floor Adjustment</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>365,314</b>	<b>388,951</b>	<b>29,225</b>

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

(2) Multiplied by 8% of RWAs.

(3) Under CET 1 requirements (7.625%) after the supervisory evaluation process (SREP), the requirements amount to 27,855 million euros. Under total capital requirements (11.125%) the requirements amount to 40,641 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 amounts to 6,212 and 7,653 at 30 September 2017 and 31 December 2016, respectively.

(6) Significant investments in financial sector entities and insurers that are not deducted from own funds (subject to a risk weight of 250%) are excluded, in accordance with Article 48.4 CRR. This amount amounts to 7,837 and 8,195 as at 30 September 2017 and 31 December 2016, respectively.

(7) Exchange rate risk calculated by standardized approach is included.

Below, the total for capital requirements and RWAs are shown, broken down by type of Risk and exposure categories as of September 30, 2017 and December 31, 2016:

**Table 3. Capital requirements by risk type and category of exposure**

(Millions of euros)

Exposure categories and risk types	Capital Requirements	Capital Requirements	RWA(1)	RWA(1)
	(*)	(*)	Sep-17	Dec-16
	Sep-17	Dec-16		
<b>Credit risk</b>	<b>17,020</b>	<b>18,239</b>	<b>212,753</b>	<b>227,987</b>
Central governments or central banks	2,424	2,408	30,296	30,106
Regional governments or local authorities	81	79	1,010	989
Public sector entities	60	75	745	941
Multilateral Development Banks	4	3	47	33
International organizations	-	-	-	-
Institutions	531	510	6,635	6,370
Corporates	7,157	8,301	89,461	103,761
Retail	3,146	3,266	39,328	40,821
Secured by mortgages on immovable property	1,601	1,702	20,012	21,276
Exposures in default	410	465	5,131	5,807
Items associated with particularly high risk	300	175	3,748	2,193
Covered bonds	-	-	-	-
Short-term claims on institutions and corporate	5	7	59	87
Collective investments undertakings (CIU)	2	11	22	140
Other exposures	1,301	1,237	16,258	15,463
<b>Securitized positions</b>	<b>75</b>	<b>92</b>	<b>943</b>	<b>1,144</b>
Securitized positions	75	92	943	1,144
<b>TOTAL CREDIT RISK BY THE STANDARDIZED APPROACH</b>	<b>17,096</b>	<b>18,330</b>	<b>213,696</b>	<b>229,131</b>
<b>Credit risk</b>	<b>6,655</b>	<b>7,179</b>	<b>83,190</b>	<b>89,741</b>
Central governments or central banks	94	44	1,179	552
Institutions	477	489	5,962	6,114
Corporates	4,464	4,879	55,795	60,983
Of which: SME	770	965	9,624	12,061
Of which: Specialised lending	703	777	8,783	9,710
Of which: Other	2,991	3,137	37,388	39,212
Retail	1,620	1,767	20,253	22,091
Of which: Secured by real estate collateral, SME	-	-	-	-
Of which: Secured by real estate collateral, non-SME	683	855	8,542	10,690
Of which: Qualifying revolving retail	592	590	7,403	7,376
Of which: Other retail assets, SME	113	120	1,408	1,503
Of which: Other retail assets, non- SME	232	202	2,899	2,523
<b>Equity</b>	<b>1,325</b>	<b>1,331</b>	<b>16,558</b>	<b>16,639</b>
By method:				
Of which: Simple Method	780	863	9,756	10,782
Of which: PD/LGD Method	453	392	5,661	4,896
Of which: Internal Models	91	77	1,142	961
By nature:				
Of which: Exchange-traded equity instruments	421	528	5,257	6,598
Of which: Non-trading equity instruments in sufficiently diversified portfolios	904	803	11,301	10,042
<b>Securitized positions</b>	<b>63</b>	<b>27</b>	<b>791</b>	<b>332</b>
Securitized positions	63	27	791	332
<b>TOTAL CREDIT RISK BY THE ADVANCED MEASUREMENT APPROACH</b>	<b>8,043</b>	<b>8,537</b>	<b>100,539</b>	<b>106,713</b>
<b>TOTAL ECC'S DEFAULT GUARANTEE FUND CONTRIBUTION</b>	<b>5</b>	<b>7</b>	<b>58</b>	<b>93</b>
<b>TOTAL CREDIT RISK</b>	<b>25,143</b>	<b>26,875</b>	<b>314,293</b>	<b>335,937</b>
<b>SETTLEMENT RISK</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>0</b>
Standardized:	211	246	2,640	3,071
Of which: Price Risk from fixed-income positions	183	211	2,285	2,638
Of which: Price risk for securitizations	2	1	29	17
Of which: Correlation price risk	12	5	149	63
Of which: Price Risk from equity portfolios	10	19	130	234
Of which: Commodities risk	4	9	47	118
Advanced: Market Risk	576	741	7,197	9,258
<b>TOTAL TRADING-BOOK ACTIVITY RISK</b>	<b>787</b>	<b>986</b>	<b>9,837</b>	<b>12,329</b>
<b>EXCHANGE RATE RISK (STANDARDIZED APPROACH)</b>	<b>501</b>	<b>323</b>	<b>6,266</b>	<b>4,041</b>
<b>RISK DUE TO CVA ADJUSTMENT</b>	<b>147</b>	<b>186</b>	<b>1,838</b>	<b>2,321</b>
<b>OPERATIONAL RISK</b>	<b>2,646</b>	<b>2,746</b>	<b>33,081</b>	<b>34,323</b>
<b>CAPITAL REQUIREMENTS</b>	<b>29,225</b>	<b>31,116</b>	<b>365,314</b>	<b>388,951</b>

(1) Corresponding to phase-in Risk Weighted Assets

(\*) Calculated as 8% RWAs

The chart below shows the total Risk-weighted assets broken down by type of Risk as of September 30, 2017 and December 31, 2016:



**Chart 1. Breakdown of RWA's by Risk Type**





## 4. Main risk weighted assets variations

The following tables show RWA movements for credit Risk by standardized model and advanced model (excluding counterparty risk, equity and securitization positions) between September 30, 2017 and December 31, 2016:

**Table 4: Variations in the period in terms of RWA's for the Credit Risk standardized measurement approach**

(Millions of euros)	RWA amounts	Capital Requirements
<b>RWA's December 2016</b>	<b>223,561</b>	<b>17,885</b>
Asset size	2,779	222
Asset quality	166	13
Model updates	-	-
Methodology and policy	-	-
Acquisitions and disposals	-	-
Foreign exchange movements	(17,171)	(1,374)
Other	-	-
<b>RWA's September 2017</b>	<b>209,336</b>	<b>16,747</b>

**Table 5. EU CR8 – Variations in the period in terms of RWA's for the Credit Risk advanced measurement approach**

(Millions of euros)	RWA amounts	Capital Requirements
<b>RWA's December 2016</b>	<b>84,694</b>	<b>6,776</b>
Asset size	(3,221)	(258)
Asset quality	(1,492)	(119)
Model updates	-	-
Methodology and policy	-	-
Acquisitions and disposals	(1,243)	(99)
Foreign exchange movements	(928)	(74)
Other	211	17
<b>RWA's September 2017</b>	<b>78,021</b>	<b>6,242</b>

As of September 30, 2017, RWAs decline relative to December 2016, largely explained by depreciation of currencies against the euro (especially the Turkish lira and the U.S. dollar) and an improvement in the risk profile of the Group's portfolio, particularly the Spanish portfolio.

In this regard, it is worth noting that €3,000M synthetic securitization was agreed on June 2, which covers potential losses on a portfolio of around 15,000 loans to Spanish SMEs. This was arranged through a mezzanine guarantee facility provided by the European Investment Fund (EIF, a subsidiary of the supranational European Investment Bank). By means of this operation, consumption by the underlying loans (-1,442M in RWAs) is stopped, turning to consume by securitization (+759M in RWAs), enabling the Group to free up €683M in RWAs with a corresponding positive impact on the capital base.

The table below shows the variations for the period between September 30, 2017 and June 30, 2017 in terms of RWA by market risk for the advanced measurement:

**Table 6. EU MR2 B- RWA flow statement of market risk exposures under internal model approach**

(Millions of euros)

RWA flow statements of market risk exposure under IMA	VaR	Stressed VaR	IRC	CRM	Other	Total RWAs	Total Capital Requirements
RWA's at year end of previous statement period (*)	2,394	4,039	1,502	-	-	7,935	635
Movement in risk levels	(301)	(58)	(155)	-	-	(514)	(41)
Model updates/changes	-	-	-	-	-	-	-
Methodology and policy	-	-	-	-	-	-	-
Acquisitions and disposals	-	-	-	-	-	-	-
Foreign Exchange movements	(39)	(61)	(30)	-	-	(130)	(10)
Other	-	-	(95)	-	-	(95)	(8)
<b>RWA's September 2017</b>	<b>2,055</b>	<b>3,920</b>	<b>1,222</b>	<b>-</b>	<b>-</b>	<b>7,197</b>	<b>576</b>

(\*) Previous report period refers to last quarter - June 2017

During the third quarter of 2017, there was a reduction in the RWAs for the market risk, with the advanced measurement approach, mainly due to a decrease in the position in sovereign debt as well as the exit of two scenarios of the historical distribution of risk factors for the calculation of VaR.

## 5. Leverage ratio

The table below shows a breakdown of the items making up the leverage ratio as of September 30, 2017 and December 31, 2016:

**Table 7. Elements Comprising the Leverage Ratio**

(Millions of euros)

Summary table of accounting assets and leverage ratio exposure conciliation	09/30/17 <i>Phase-In</i>	09/30/17 <i>Fully Loaded</i>	12/31/16 <i>Phase-In</i>	12/31/16 <i>Fully Loaded</i>
a) Total assets as per published financial statements	690,797	690,797	731,856	731,856
b) Adjustment for entities which are consolidated for accounting purposes but are	(17,878)	(17,878)	(17,272)	(17,272)
c) Adjustments for derivative financial instruments	(17,860)	(17,860)	(18,788)	(18,788)
d) Adjustments for securities financing transactions "SFTs"	(966)	(966)	(4,525)	(4,525)
e) Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) (1)	62,773	62,773	66,397	66,397
f) (Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-	-	-	-
g) Other adjustments	(9,899)	(10,336)	(10,451)	(10,961)
<b>Total leverage ratio exposure</b>	<b>706,968</b>	<b>706,531</b>	<b>747,216</b>	<b>746,706</b>
h) Tier 1	47,983	47,138	50,083	48,459
<b>Total leverage ratio exposures</b>	<b>706,968</b>	<b>706,531</b>	<b>747,216</b>	<b>746,706</b>
<b>Leverage ratio</b>	<b>6.79%</b>	<b>6.67%</b>	<b>6.70%</b>	<b>6.49%</b>

(1) This corresponds to off-balance sheet exposure after application of the conversion factors obtained in accordance with Article 429, paragraph 10 of the CRR.

The leverage ratio has slightly increase (9 basis points in phase-in terms) compared to December 2016, produced by the reduction in Tier 1 capital ratio, which is explained by the impact of the currency (see section 2 of this report), but compensated by the decrease in the adjusted exposure derived from the movement of the balance sheet masses according to the business activity, as well as the impact of the depreciation of the Turkish lira and the U.S. dollar.

The leverage ratio as is up to 6.79% (phase-in), well above the required minimum of 3%. This level of leverage reflects the nature of the business model geared to the retail sector.