



**BBVA**

Creating Opportunities

# Prudential Relevance Report Pillar III 1Q 2020

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*The English language version of this report is a free translation from the original, which was prepared in Spanish. All possible care has been taken, to ensure that the translation is an accurate presentation of the original. However, in all matters of interpretation, views or opinion expressed in the original language version of the document in Spanish take precedence over the translation.*

# 1. Introduction

## Contents of the Prudential Relevance Report

This report provides the prudential information of BBVA Consolidated Group as of March 31, 2020 in accordance with Article 13 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council dated June 26, 2013 (hereinafter CRR) which states that the parent entities of the European Union are subject, based on their consolidated situation, to the disclosure requirements set by Part Eight of CRR. Therefore, It has been prepared in accordance with the precepts contained in Part Eight of the CRR and complying with the guidelines published by EBA as well as the applicable technical implementation standards that apply as of March 31, 2020.

In this report, phased-in capital ratios as of March 2020 are calculated taking into account the transitional treatment of IFRS9 (EBA/GL/2018/01), while fully loaded capital ratios incorporate the full impact of this accounting standard.

## Macroeconomic and prudential environment

During the first quarter of 2020, economic performance was conditioned by the global spread of the COVID-19 pandemic, which required most countries to adopt extraordinary measures to limit the mobility of people and cease a significant part of productive activity. To contain this health crisis, most countries have put in place strong social distancing measures. At the time of publication of this report, it is unclear how long these will last for and how quickly they will be relaxed. However, they will undoubtedly have a severe impact on activity through the supply, demand and financial channels, despite the economic stimulus measures announced.

Authorities have responded to these developments, at national, European and global level, deploying a broad scope of actions. In different geographical areas, including Spain, some of the measures with direct financial costs have been aimed by increasing the resources assigned to the health system, in order to minimize the public health consequences caused by the disease. Furthermore, on the fiscal policy side it has been necessary to adopt measures to mitigate the loss of income of the most vulnerable households and to encourage companies to have liquidity, through public guarantee schemes for bank loans and tax deferrals, to enable them to meet their payment commitments.

Regarding monetary policy, and more specifically concerning Economic and Monetary Union, the Eurosystem has approved large-scale purchases of financial assets in order to enable both private agents and tax authorities in the euro area to benefit from reduced financing costs, and has adopted several measures to encourage the extension of bank credit.

In the short term, the main purpose of the actions undertaken is the need to ensure an income flow for those agents whose sources of income have been damaged by the epidemic. Furthermore, in the mid-term, according to estimations made by BBVA Research, limiting the risk that the transitory disruption will lead to a long-lasting, even permanent, decline in activity should help to avoid a deeper recession and support a partial recovery in 2021.

These measures are completed by international and European statements seeking to allow greater flexibility in the implementation of the accounting and prudential frameworks, backed up by proposals for specific amendments to the prudential framework.

Concerning prudential regulation, major measures include the announcements of the European Banking Authority (March 12, 25 and 31, as well as April 2 and 22) which have focused on providing

flexibility to the regulatory framework, especially with regard to how moratorium measures, both public and private, and the guarantees granted by the different authorities should be considered for prudential purposes. In addition, in order to mitigate the adverse impacts of volatility on the markets, it is proposed to use flexible measures already contemplated in the market risk framework, as well as to temporarily review the criteria for aggregating prudential valuation adjustments.

The European Commission, for its part, in the announcement of April 28, allows the use of the existing flexibility in the regulatory framework and proposes changes in specific aspects of the prudential regulations (among others, we highlight the transitional treatment of IFRS9 provisions in capital, as a support factor for SMEs and Infrastructures). These changes are expected to be applicable from June 2020.

At supervisory level, the European Central Bank has announced several measures to enable banks to continue developing their important role as financial contributors to the real economy, addressing at the same time operational challenges and avoiding pro-cyclicality.

As announced on March 12, banks are allowed to operate temporarily below the level of capital defined by the Pillar 2 Guidelines (P2G), the capital conservation buffer (CCB), as well as the liquidity coverage ratio (LCR). Furthermore, banks are allowed to use Additional Tier 1 or Tier 2 capital instruments to meet the requirements of Pillar 2 (P2R). These measures are reinforced by the release of the counter-cyclical capital buffer (CCyB) reported by various national macro-prudential authorities and by other complementary measures published by the European Central Bank (deferral, for six months, of the existing deadline for imposed corrective actions, as well as the issuance of Targeted Review of Internal Models (TRIM) decisions, monitoring letters and internal model decisions not yet communicated to institutions, improvements in the treatment of non-performing loans in Pillar II, as well as the reduction in qualitative market risk multiplier).

With regard to the payment of dividends, on March 27 the European Central Bank recommended that credit institutions should refrain from distributing dividends or making irrevocable commitments to distribute them, and from repurchasing shares to remunerate shareholders, until October 1, 2020 at the earliest. Consequently, the Board of Directors of BBVA has agreed to modify, for the financial year 2020, the Group's shareholder remuneration policy, which was announced through the Relevant Event notification of February 1, 2017, establishing a new policy for 2020 of not making any dividend payment for the 2020 financial year until the uncertainties caused by COVID-19 are resolved and, in any case, not before the end of the financial year.

For its part, the Single Resolution Board (SRB) joins the European banking authority and competent national authorities in their efforts to mitigate the impact of COVID-19. In this regard, on April 1 a statement was made indicating that the SRB will monitor market conditions with the aim of analyzing whether it is necessary to adapt the transition periods and provisional MREL objectives required of banking groups, applying the degree of discretion and flexibility permitted by the regulatory framework. According to the statement, the SRB could make adjustments to MREL's objectives in line with those capital requirements (capital buffers). In addition, the SRB in its April 8 statement clarifies that with respect to the existing binding targets (set in the 2018 and 2019 resolution cycles), it intends to adopt a forward looking approach for banks that may have difficulties in meeting those targets. Regarding the 2020 resolution plan cycle, the criteria incorporated in BRRD2 will be adopted, in addition to removing the reference to the requirement in terms of total eligible liabilities and own funds (TLOF), the possibility of adopting new transitional periods (an intermediate target in 2022 and a final target in 2024) is included.

At the international level, the Basel Committee communicated on March 27, the delay of one year (until January 1, 2023) the date of implementation of Basel III. Likewise, in its communication of April 3, it

allows the authorities to adopt greater flexibility to neutralize in capital the impacts associated with the higher expected losses generated under the IAS39 accounting framework, allowing this impact to be mitigated 100% during the years 2020/2021 (both initiatives are still pending to be implemented in Europe).

The Group has taken into consideration these pronouncements in the calculation of capital and liquidity ratios for the three-month period from January 1 to March 31, 2020.

## 2. Own funds and IFRS 9 transitional arrangements information

Following EBA guidelines (EBA/GL/2018/01), the table below shows a summary of own funds, main capital ratios and leverage ratio with and without the application of IFRS9 transitional arrangement, as of March 31, 2020:

**TABLE 1. Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs**

	03-31-2020 <sup>(1)</sup>	12-31-2019	09-30-2019	06-30-2019	03-31-2019
CET1 Capital	40,854	43,653	43,432	42,329	41,784
CET1 Capital without IFRS9 transitional arrangement or similar ECL	39,902	42,844	42,623	41,520	40,975
Tier 1 Capital (T1)	46,974	49,701	51,035	48,997	47,455
Tier 1 Capital (T1) without IFRS9 transitional arrangement or similar ECL	46,022	48,892	50,226	48,188	46,646
Total Capital	56,731	58,005	59,731	56,941	54,797
Total Capital without IFRS9 transitional arrangement or similar ECL	55,779	57,196	58,922	56,132	53,988
<b>Risk-weighted assets (million euros)</b>					
Total Risk-weighted assets	368,666	364,448	368,196	360,069	360,679
Total Risk-weighted assets without IFRS9 transitional arrangement or similar ECL	368,839	364,943	368,690	360,563	361,173
<b>Capital ratio</b>					
CET1 Capital (as a percentage of total exposure to risk)	11.08%	11.98%	11.80%	11.76%	11.58%
CET1 Capital (as a percentage of total exposure to risk) without IFRS9 transitional arrangement or similar ECL	10.82%	11.74%	11.56%	11.52%	11.35%
Tier 1 Capital (T1) (as a percentage of total exposure to risk)	12.74%	13.64%	13.86%	13.61%	13.16%
Tier 1 Capital (T1) (as a percentage of total exposure to risk) without IFRS9 transitional arrangement or similar ECL	12.48%	13.40%	13.62%	13.36%	12.92%
Total Capital (as a percentage of total exposure to risk)	15.39%	15.92%	16.22%	15.81%	15.19%
Total Capital (as a percentage of total exposure to risk) without IFRS9 transitional arrangement or similar ECL	15.12%	15.67%	15.98%	15.57%	14.95%
<b>Leverage Ratio</b>					
Total exposure related to leverage ratio	749,989	731,087	740,141	732,135	722,708
Leverage Ratio	6.26%	6.80%	6.90%	6.69%	6.57%
Leverage ratio without IFRS9 transitional arrangements or similar ECL	6.15%	6.70%	6.79%	6.58%	6.45%

(1) The figures in this table correspond to those included in the COREP Statements reported to the supervisor so that, as of March 31, 2020, the estimated positive impact of +2 basis points on capital ratios due to the reduction of the limit of share buybacks which is pending to be approved by the ECB is not included. Including this positive impact, the CET1 phased-in ratio, if transitional provisions of IFRS9 would not have been applied, would be 10.84%.

The table below shows the amount of total eligible capital, net of deductions, for the different items making up the capital base as of March 31, 2020 and December 31, 2019, respectively, in accordance with the disclosure requirements related to regulatory own funds established by the Commission's Implementing Regulation (EU) No 1423/2013 of December 20, 2013:

TABLE 2. Amount of own funds

	03- 31- 2020	12- 31- 2019
Common Equity Tier 1 Capital before other regulatory adjustments	48,479	52,783
f) Additional value adjustments	(406)	(302)
g) Intangible assets	(4,567)	(6,803)
h) Deferred tax assets	(1,442)	(1,420)
i) Fair value reserves related to gains or losses on cash flow hedges	(370)	69
j) Expected losses in equity	-	-
k) Profit or losses on liabilities measured at fair value	(136)	(24)
l) Direct, indirect and synthetic holdings of own instruments	(458)	(484)
m) Securitizations tranches at 1250%	(9)	(25)
n) Other CET1 deductions	(237)	(142)
<b>Total Common Equity Tier 1 regulatory adjustments</b>	<b>(7,625)</b>	<b>(9,130)</b>
<b>Common Equity Tier 1 (CET1)</b>	<b>40,854</b>	<b>43,653</b>
o) Equity instruments and AT1 share premium	5,325	5,280
p) Elements referred in Article 484(4) of the CRR	116	120
q) Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	678	648
<b>Additional Tier 1 before regulatory adjustments</b>	<b>6,120</b>	<b>6,048</b>
<b>Total regulatory adjustments of Additional Tier 1</b>	<b>-</b>	<b>-</b>
<b>Additional Tier 1 (AT1)</b>	<b>6,120</b>	<b>6,048</b>
<b>Tier 1 (Common Equity Tier 1+Additional Tier 1)</b>	<b>46,974</b>	<b>49,701</b>
r) Equity instruments and Tier 2 share premiums	4,085	3,064
s) Eligible own funds instruments included in consolidated Tier 2 issued by subsidiaries and held by third parties	5,055	4,690
- Of which: instruments issued by subsidiaries subject to ex-subsidiary stage	905	921
t) Credit risk adjustments	618	550
<b>Tier 2 before regulatory adjustments</b>	<b>9,757</b>	<b>8,304</b>
<b>Tier 2 regulatory adjustments</b>	<b>-</b>	<b>-</b>
<b>Tier 2</b>	<b>9,757</b>	<b>8,304</b>
<b>Total Capital (Total capital = Tier 1 + Tier 2)</b>	<b>56,731</b>	<b>58,005</b>
<b>TOTAL RWA's</b>	<b>368,666</b>	<b>364,448</b>
CET 1 (phased-in)	11.08%	11.98%
CET 1 (fully loaded)	10.84%	11.74%
TIER 1 (phased-in)	12.74%	13.64%
TIER 1 (fully loaded)	12.47%	13.37%
Total Capital (phased-in)	15.39%	15.92%
Total Capital (fully loaded)	14.87%	15.41%

(\*) As of March 31, 2020, the main difference between phased-in and fully-loaded ratios arises from the transitional treatment of the impact of IFRS9 to which the BBVA Group has voluntarily adhered (in accordance with article 473 bis of the CRR).

(\*\*) For the purposes of this table, as of March 31, 2020 the fully-loaded capital ratios include the positive impact of +2 basis points due the reduction of the limit of share buybacks which is pending to be approved by the ECB.

BBVA's fully loaded CET1 ratio has decreased by 90 basis points in the first quarter of 2020 to 10.84%. It should be noted that the impairment of goodwill recorded by BBVA in the United States at the end of 2019 and the first quarter of 2020, for the amount of €1,318m and €2,084m, respectively, has not had an impact on capital at the consolidated level.

The uncertainty caused by the COVID-19 pandemic has led to a significant fluctuation in asset prices in the financial markets, accompanied by a sharp increase in volatility. The stock exchanges have experienced falls in response to the impact of the crisis on corporate earnings and the increase in risk aversion that has also spread to the debt markets, as well as the evolution of exchange rates. All of this has had a negative impact on the Group's capital base, particularly with regard to the value of financial assets not valued at fair value through profit and loss, due mainly to the negative impact of the deterioration in the macroeconomic scenario resulting from COVID-19.

The fully loaded Additional Tier 1 capital (AT1) stood at 1.63% at the end of March 2020. In February, the Group carried out the early amortization of the CoCos issuance of €1.5 billion nominal amount with a coupon of 6.75%, issued in February 2015, which since December 2019 no longer computed in the capital ratios.

In terms of the issues eligible as Tier 2 capital, in January 2020 BBVA, S.A. issued €1 billion of Tier 2 subordinated debt over a ten-year period, with an option for early amortization in the fifth year, and a coupon of 1%.

With regard to the rest of the Group's subsidiaries, Garanti BBVA carried out a Tier 2 issue in February for TRY 750m (€114m) at Turkish Lira Overnight Reference Rate (TLREF) plus 250 basis points.

All of this, together with the evolution of the remaining elements computable as Tier 2 capital, has placed the fully loaded Tier 2 ratio at 2.40% as of March 31, 2020.

Furthermore, the flexibility measures communicated by the European Central Bank in relation to the capital requirements described in the introductory section have resulted in a lower requirement of 68 basis points of fully loaded CET1 ratio for BBVA, leaving this requirement at 8.59%. The total capital ratio required would be 12.75%, reduced by 2 basis points due to the lower anti-cyclical buffer applicable.

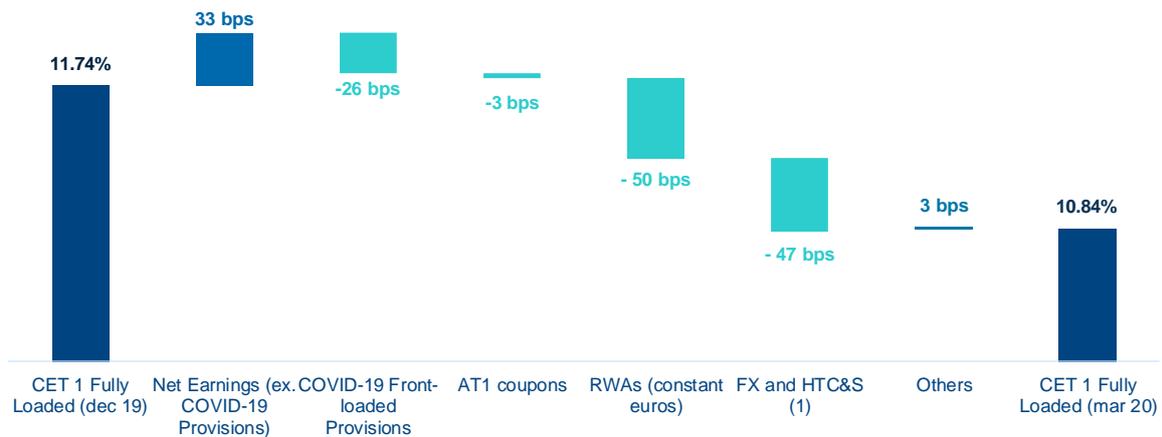
As a result, it has been agreed to modify the CET1 capital target in line with the new situation, which has been set as a management buffer between 225 to 275 basis points to the CET1 requirements. This range is the one used as a reference for determining the previous CET1 capital target (under fully-loaded view) of between 11.5% and 12%, which means that the new target maintains an equivalent distance in terms of CET1. At the end of March, the management buffer of the fully loaded CET1 would be 225 basis points.

The CET 1 phased-in ratio stood at 11.08% at the end of March 2020, taking into account the transitory treatment of the IFRS 9 standard. AT1 stood at 1.66% and Tier 2 at 2.65%, resulting in a total capital ratio of 15.39%. The current management buffer at the CET1 level would therefore be 249 basis points.

Risk-weighted assets (RWA) increased by approximately €3,884m in the first quarter of the year. Isolating the effect of exchange rates, mainly due to the depreciation of the Mexican peso and the emerging currencies, it would result in a growth of €16,065m. This reflects the strength of the activity in the first two months of the year, as well as the increased demand for credit and drawing down of funding facilities resulting from the COVID-19 situation.

On the other hand, during this first quarter of 2020, the equity requirements for market risk under the internal model are mainly affected by the growth of the IRC component due to the increase in positions, as well as by the increase in the VaR and SVaR figures caused by the high volatility of the markets. The IRC component remains subject to the surcharge imposed after the internal model revision process (TRIM) in 2019.

CHART 1. Evolution of the CET1 fully loaded ratio



(1) Exchange rate effect on CET1 and evolution of the "Held to collect and sell" portfolio.

In terms of Minimum Requirement for own funds and Eligible Liabilities (MREL) requirements, BBVA has continued its issuance plan during 2020 by closing two public issues of non-preferred senior debt, one in January 2020 for €1,250m over seven years and one coupon of 0.5%, and another in February 2020 for CHF 160m over six and a half years and a coupon of 0.125%.

The supervisor has also made announcements regarding the fulfillment of this MREL requirement, with a delay to be expected in the timetable for its entry into force.

The Group finds that the present structure of own funds and eligible liabilities, together with the proposed plan for issuances, should enable it to comply with the MREL by the date of entry into force of the requirement.

## 3. Own Funds 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 shows a breakdown of the RWA and the minimum capital requirements broken down by type of risk, as of March 31, 2020 and December 31, 2019. Securitisation and equity are included.

TABLE 3. Capital requirements by risk type and exposure class

Exposure Class and risk type	Capital Requirements <sup>(2)</sup>		RWA <sup>(1)</sup>	
	03-31-2020	12-31-2019	03-31-2020	12-31-2019
Central governments or central banks	2,541	2,375	31,766	29,685
Regional governments or local authorities	170	132	2,124	1,644
Public sector entities	68	63	845	790
Multilateral development banks	2	1	20	11
International organizations	-	-	-	-
Institutions	531	429	6,635	5,366
Corporates	7,101	6,999	88,760	87,486
Retail	3,062	3,079	38,274	38,493
Secured by mortgages on immovable property	1,161	1,199	14,507	14,983
Exposures in default	294	305	3,679	3,808
Exposures associated with particularly high risk	429	411	5,366	5,136
Covered bonds	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	0	0	1	1
Collective investments undertakings	0	1	5	8
Other exposures	1,087	1,021	13,587	12,767
Total credit risk by Standardized approach	16,446	16,014	205,569	200,176
Credit Risk	7,152	7,125	89,404	89,061
Central governments or central banks	61	54	761	673
Institutions	614	532	7,671	6,646
Corporates	4,879	4,769	60,993	59,615
Of which: SMEs	970	998	12,124	12,478
Of which: Specialized Lending	436	433	5,450	5,407
Of which: Others	3,474	3,338	43,420	41,730
Retail	1,598	1,770	19,979	22,128
Of which: Secured by mortgages on immovable property	665	712	8,318	8,904
Of which: Qualifying revolving	465	589	5,808	7,365
Of which: Other SMEs	134	131	1,679	1,636
Of which: Other Non-SMEs	334	338	4,173	4,223
Equity	1,085	1,293	13,567	16,167
On the basis of method:	-	-	-	-
Of which: Simple approach	686	813	8,572	10,164
Of which: PD/LGD approach	348	444	4,355	5,554
Of which: Internal models	51	36	640	449
On the basis of nature:	-	-	-	-
Of which: Listed instruments	314	378	3,919	4,730
Of which: Non listed instruments in sufficiently diversified portfolios	772	915	9,648	11,437
Total credit risk by IRB approach	8,238	8,418	102,971	105,228
Total contributions to the default fund of a CCP	5	3	59	44
Securitization exposures	30	74	370	924
Total credit risk	24,718	24,510	308,969	306,372
Settlement risk	0	-	0	-
Standardized approach:	301	272	3,756	3,395
Of which: Price Risk by fixed income exposures	200	197	2,498	2,461
Of which: Price Risk by Securitization exposures	1	2	7	21
Of which: Price Risk by correlation	81	51	1,019	641
Of which: Price Risk by stocks and shares	18	20	222	248
Of which: Commodities Risk	1	2	11	24
IRB: Market Risk	1,041	726	13,013	9,075
Total trading book risk	1,342	998	16,770	12,470
Foreign exchange risk (standardized approach)	172	288	2,151	3,596
CVA risk	149	122	1,856	1,529
Operational risk	2,905	3,030	36,315	37,877
Others <sup>(3)</sup>	208	208	2,605	2,605
Capital requirements	29,493	29,156	368,666	364,448

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

(2) Calculated on the total minimum capital requirement of 8% (Article 92 of the CRR).

(3) This line includes those regulatory impacts of the TRIM (Targeted Review of Internal Models) which, as of March 31, 2020, have not been assigned to their corresponding category of exposure (mainly real estate secured exposures).

A summary of the RWAs and capital requirements by risk type and method of calculation is shown below:

TABLE 4. EU OV1 – RWAs general vision

	RWA <sup>(1)</sup>		Minimum Capital Requirements <sup>(2) (3)</sup>
	03-31-2020	12-31-2019	03-31-2020
Credit Risk (excluding CCR)	288.403	286.159	23.072
Of which the standardized approach <sup>(4)</sup>	194.195	190.603	15.536
Of which the foundation IRB (FIRB) approach <sup>(6)</sup>	4.579	4.606	366
Of which the advanced IRB (AIRB) approach <sup>(8)</sup>	86.962	88.191	6.957
Of which equity IRB under the simple risk-weighted approach <sup>(5)</sup>	2.667	2.758	213
CCR	10.595	8.289	848
Of which mark to market	8.679	6.716	694
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	59	44	5
Of which CVA	1.856	1.529	149
Settlement Risk	0	-	0
Securitization exposures in the banking book (after the cap) <sup>(7)</sup>	370	924	30
Of which IRB approach (SEC-IRBA)	117	-	9
Of which standardized approach (SEC-SA)	-	-	-
Of which ERB approach (SEC-ERBA)	253	-	20
Market Risk	18.921	16.066	1.514
Of which the standardized approach	5.907	6.991	473
Of which IMA	13.013	9.075	1.041
Operational Risk	36.315	37.877	2.905
Of which basic indicator approach	765	805	61
Of which the standardized approach	14.591	15.250	1.167
Of which IRB approach	20.960	21.822	1.677
Amounts below the thresholds for deduction (subject to 250% risk weight)	14.063	15.134	1.125
Floor Adjustment	-	-	-
<b>TOTAL</b>	<b>368.666</b>	<b>364.448</b>	<b>29.493</b>

(1) Risk-weighted assets for the transitional period (phased-in).

(2) Calculated on the total capital requirements of 8% (Article 92 of the CRR).

(3) According to the 8.59% minimum CET1 ratio required, the capital requirements amount to EUR 31,668 million euros. According to the 12.75% minimum Total Capital ratio required, the capital requirements amount to EUR 47,005 million euros.

(4) Deferred tax assets arising from temporary differences which are not deducted from eligible own funds (subject to a risk weighting of 250%) in accordance with Article 48.4 of the CRR are excluded. This amount is 7,518 y 7,279 million euros as of March 31, 2020 and December 31, 2019, respectively.

(5) Equity, calculated under the simple risk-weighted approach and internal model approach, is included. Significant investments in financial sector entities and insurers that are not deducted from eligible own funds (subject to a risk weighting of 250%) in accordance with Article 48.4 CRR are excluded. This amount is 6,544 and 7,854 as of March 31, 2020 and December 31, 2019, respectively.

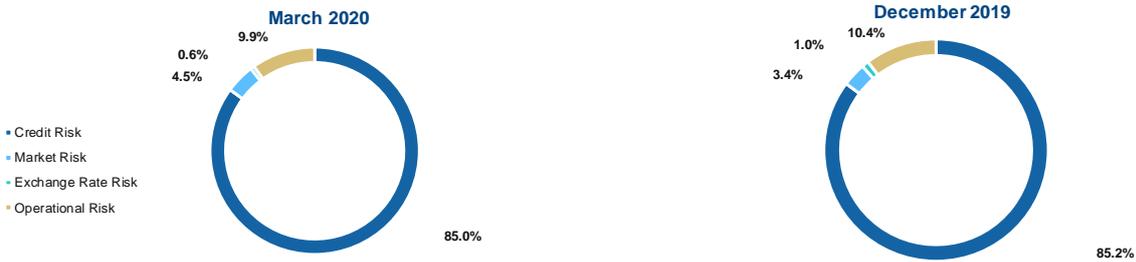
(6) Exposures classified in the FIRB approach correspond to specialized lending exposures. The Group has chosen to use the slotting criteria, in line with article 153.5 of the CRR.

(7) As of March 31, 2020, in accordance with the reform of the securitization framework in Regulation (EU) 2017/2401, the standard approach and the IRB approach are substituted by the IRBA and ERBA methods.

(8) As of March 31, 2020, it includes the effects derived from Targeted Review of Internal Models (TRIM).

The following chart shows the total RWAs, broken down by risk type as of March 31, 2020:

CHART 2. Distribution of RWA by type of computable risk in Pillar I



(1) Credit Risk includes Risk by CVA adjustment.

## 4. Variations in risk-weighted assets

The following tables show the main variations in the period in terms of RWAs for credit risk and counterparty risk by standardized and IRB approach (excluding equity and securitization), between December 31, 2019 and March 31, 2020:

TABLE 5. EU CR8 – RWA flow statements of credit and counterparty risk exposures under the IRB approach

	Credit Risk		Counterparty Credit Risk		Total	
	RWA amounts	Capital Requirements	RWA amounts	Capital Requirements	RWA amounts	Capital requirements
RWAs as of December 31, 2019	84,638	6,769	4,423	355	89,061	7,124
Asset size	2,005	162	830	65	2,835	228
Asset quality	548	44	(412)	(33)	136	11
Model updates	-	-	-	-	-	-
Methodology and policy	-	-	-	-	-	-
Acquisitions and disposals	-	-	-	-	-	-
Foreign exchange movements	(2,610)	(209)	(17)	(1)	(2,628)	(210)
Other	-	-	-	-	-	-
RWAs as of March 31, 2020	84,581	6,766	4,823	386	89,404	7,152

TABLE 6. RWA flow statements of credit risk exposures under the standardized approach

	Credit Risk		Counterparty Credit Risk		Total	
	RWA amounts	Capital Requirements	RWA amounts	Capital Requirements	RWA amounts	Capital requirements
RWAs as of December 31, 2019	197,882	15,831	2,294	184	200,176	16,014
Asset size	11,372	910	528	42	11,901	952
Asset quality	(191)	(15)	(32)	(3)	(224)	(18)
Model updates	-	-	-	-	-	-
Methodology and policy	-	-	-	-	-	-
Acquisitions and disposals	-	-	-	-	-	-
Foreign exchange movements	(7,350)	(588)	1,066	85	(6,284)	(503)
Other	-	-	-	-	-	-
RWAs as of March 31, 2020	201,713	16,137	3,856	308	205,569	16,446

The table below shows the variations, between December 31, 2019 and March 31, 2020 RWA by market risk – advanced measurement approach (IMA):

TABLE 7. EU MR2-B – RWA flow statements of market risk exposures under the IMA

RWA flow statements of market risk exposure under IMA	VaR	SVar	IRC	CRM	Other	Total RWAs	Total Capital Requirements
RWAs as of December 31, 2019	2,095	4,680	2,301	-	-	9,075	726
Movement in risk levels	1,055	1,174	2,489	-	-	4,719	378
Model updates/changes	-	-	-	-	-	-	-
Methodology and policy	-	-	-	-	-	-	-
Acquisitions and disposals	-	-	-	-	-	-	-
Foreign Exchange movements	(95)	(414)	(272)	-	-	(781)	(62)
Other	-	-	-	-	-	-	-
RWAs as of March 31, 2020	3,056	5,440	4,518	-	-	13,013	1,041

## 5. Leverage ratio

A breakdown of the elements included in the leverage ratio as of March 31, 2020 and December 31, 2019 is as follows:

TABLE 8. LRSum – Summary reconciliation of accounting assets and leverage ratio exposures

Summary table of accounting assets and leverage ratio exposure conciliation	03-31-2020 Phased-In	03-31-2020 Fully Loaded	12-31-2019 Phased-In	12-31-2019 Fully Loaded
(a) Total assets as published financial statements	730,923	730,923	698,690	698,690
(b) Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation (Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429 (13) of Regulation (EU) No 575/2013)	(19,340)	(19,340)	(21,636)	(21,636)
(c) Adjustments for derivative financial instruments	(24,810)	(24,810)	(7,124)	(7,124)
(d) Adjustments for securities financing transactions "SFTs"	4,330	4,330	1,840	1,840
(e) Adjustment for off-balance sheet items <sup>(1)</sup>	64,055	64,055	67,165	67,165
(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	(5,168)	(6,529)	(7,847)	(8,656)
<b>Leverage ratio total exposure measure</b>	<b>749,989</b>	<b>748,629</b>	<b>731,087</b>	<b>730,279</b>
h) Capital Tier 1 <sup>(2)</sup>	46,974	45,906	49,701	48,775
<b>Leverage ratio total exposure measure</b>	<b>749,989</b>	<b>748,629</b>	<b>731,087</b>	<b>730,279</b>
<b>Leverage ratio</b>	<b>6.26%</b>	<b>6.13%</b>	<b>6.80%</b>	<b>6.68%</b>

(1) This corresponds to off-balance sheet exposure after application of the conversion factors obtained in accordance with Article 429.10 of the CRR.

(2) The figures in this table correspond to those included in the COREP Statements reported to the supervisor so that, as of March 31, 2020, the estimated positive impact of +2 basis points on Tier 1 due to the reduction of the limit of share buybacks which is pending to be approved by the ECB is not included.

Among the activities included in the Group's regulatory reporting, a monthly measurement and control of the leverage ratio is carried out by assessing and monitoring this measurement in its more restrictive version (fully loaded), to ensure that leverage remains far from the minimum levels (which could be considered high-risk levels), without undermining the return on investment.

The estimates and the development of the leverage ratio are reported on a regular basis to different governing bodies and committees to guarantee an adequate control of the entity's level of leverage and ongoing monitoring of the main capital indicators.

In line with the risk appetite framework and structural risk management, the Group proceeds by establishing limits and operational measures to achieve a sustainable development and growth of the balance sheet, maintaining at all times acceptable levels of risk. This can be seen in the fact that the level of leverage set out by the regulator is itself well above the minimum required levels.

As of March 31, 2020, the phased-in leverage ratio stood at 6.3% (6.1% in fully loaded terms). This ratio is 53 basis points lower than the one as of December 2019, mainly due to the decrease in Tier 1 capital, which had an impact of -37 basis points. The rest of the variation is due to the increase in exposures. This ratio continues to be comfortably above the required minimum of 3%. The leverage ratio reflects the nature of the business model that is aimed towards the retail sector.

## 6. Liquidity risk

During the first quarter of 2020, liquidity conditions remained comfortable across all countries in which the BBVA Group operates. In the second part of the quarter, the global crisis caused by COVID-19 had a significant impact on financial markets. The effects of this crisis on the Group's balance sheets have fundamentally been felt through greater drawing down of credit facilities by wholesale customers in the face of worsening funding conditions in the markets, with no significant effect in the retail world. In view of this situation, a joint response has been made by the different central banks, through specific measures and programs to facilitate the funding of the real economy and the availability of liquidity in the financial markets.

The BBVA Group maintains a solid liquidity position in each of the geographical areas and maintains liquidity ratios well above the minimum required:

- Regarding the liquidity coverage ratio (LCR), throughout 2019 the BBVA Group has maintained a liquidity buffer at both consolidated and individual levels, which allows to keep this ratio comfortably above 100%. The consolidated ratio as of March 31, 2020, stands at 134%. While this requirement is only established for the Group and banks in the Eurozone, all subsidiaries exceed the minimum requirement by a wide margin. It should be noted that in the construction of the Consolidated LCR no liquidity transferability is assumed between the subsidiaries; therefore, no excess liquidity is transferred from these entities abroad to the consolidated ratio. If the impact of these high liquid assets excluded is considered, the BBVA Group's LCR would be 156%, i.e. +22 percentage points above the 134%.

TABLE 9. LCR main LMUs

	March 2020
<b>Group</b>	<b>134%</b>
BBVA Eurozone	156%
BBVA México	146%
BBVA USA (*)	144%
Garanti BBVA	153%

(\*) Calculated according to US regulations (Fed Modified LCR).

- The following table shows the main disclosure figures of the consolidated LCR as of March 31, 2020, both assuming the non-transferability of liquidity between subsidiaries, and incorporating the excess liquidity of foreign subsidiaries into the consolidated figures. As set out in Article 435 of Regulation (EU) No 575/2013, these figures are calculated as month-end observations simple averages for the last twelve months:

TABLE 10. Disclosure LCR

Rounded million euros	Weighted total value (average)	
	Excluding liquidity excess of subsidiaries	Including liquidity excess of subsidiaries
<b>Number of data points used in the calculation of averages</b>	<b>12</b>	<b>12</b>
Total High Quality Liquid Assets (HQLA)	91,337	111,600
Total net cash outflow	71,122	71,122
LCR (%)	128%	157%

- The net stable funding ratio (NSFR), defined as the ratio between the amount of available stable funding and the amount of required stable funding, is one of the key reforms of the Basel Committee and requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. This ratio should be at least 100% at all times. The BBVA Group's NSFR and its main LMUs as of March 31, 2020, calculated on the basis of Basel requirements, are shown below.

TABLE 11. NSFR main LMUs

	March 2020
Group	120%
BBVA Euro zone	114%
BBVA México	127%
BBVA USA	112%
Garanti BBVA	151%

- Regarding internal liquidity indicators, both in terms of the financing structure and the capacity to manage short-term liquidity risk, in all the Group's entities they continue to reflect a situation of a comfortable financing structure without unmanageable tensions. In this sense, the Loan to Stable Customer Deposits indicator reflect a stronger performance in the range of 100%-115% and survival periods under stress well above the three-month objective, despite the context observed with an increase in credit line withdrawals from wholesale customers as well as a growing trend in the funds from the different customer segments.

The highlights for the main geographical areas are as follows:

- In the Eurozone, the liquidity situation remains comfortable with an ample high quality liquidity buffer. The impact of the COVID-19 crisis has led to greater loan volumes through the increase in the drawing down of credit facilities in the wholesale business of Corporate & Investment Banking, also accompanied by a growth in customer deposits. In addition, it is important to mention the different measures implemented by the European Central Bank (ECB) in order to face the crisis, such as the expansion of asset purchase programs, especially through the Pandemic Emergency Purchase Program (PEPP) for €750,000m until the end of the year, the coordinated action of Central Banks for the provision of US dollars, a package of temporary collateral easing measures affecting eligibility for use in funding operations and the easing and improvement of the conditions for the TLTRO III program. This easing of the TLTRO III program conditions will allow the increase of the maximum amount available for BBVA from €21 billion to €35 billion.
- BBVA USA also maintains an adequate liquidity buffer consisting of high-quality assets which allows it to face this environment from a sound position. As in the Eurozone, there was an increase in loans mainly due to a rise in the drawing down of credit facilities by companies during the first quarter of 2020. Deposits also grew in the quarter although at a slower rate than loans.
- In BBVA Mexico, the liquidity situation remained sound in the first quarter of 2020. As in the previously mentioned geographical areas, as a result of the COVID-19 crisis, there was an increase in the drawdowns of credit facilities, mainly by wholesale customers, which was largely offset by the increase in deposits, and ending the quarter with a comfortable position

in all liquidity ratios. Regarding the measures taken by Banxico, in addition to reducing the monetary policy rate, it announced a reduction in the Monetary Regulation Deposit and the start of auctions of US dollars with credit institutions (swap line with the Fed).

- In Garanti BBVA, the liquidity situation remained comfortable in the first quarter of 2020 with a similar contraction in foreign currency loans and deposits, while in the local currency there was similar growth in deposits and loans. As a result of the COVID-19 crisis, there have been increases in some credit risk indicators in Turkey (Credit Default Swaps) which have led to increased collateral requirements that cover derivative valuations and wholesale funding. These increased collateral requirements have been met through the entity's excess liquidity. Despite these outflows, Garanti BBVA maintains a sound liquidity buffer.
- In South America, an adequate liquidity situation prevails throughout the region despite increased volatility in the financial markets in the last month. In Argentina, outflows of US dollar deposits in the banking system have been gradually declining over the first quarter. BBVA Argentina continues to maintain a sound liquidity position, as shown by its liquidity ratios. In Colombia, market volatility has resulted in an increase in customer bank deposits (improving the credit gap) by increasing the preference for liquidity and reducing off-balance sheet funds (mutual funds). An adequate liquidity position also prevails in Peru.

## Glossary of Terms

ACRONYM	DESCRIPTION
AT1 (Additional Tier 1)	Additional Tier 1 capital consisting of hybrid instruments, mainly CoCos and preferred stock
Basilea III	Set of proposals to reform banking regulation, published from 16 December 2010 with a gradual period of implementation
BRRD2 (Bank Recovery and Resolution Directive)	Directive (EU) 2019/879 amending Directive 2014/59/EU and establishing a framework for the restructuring and winding-up of credit institutions and investment firms, which sets out some MREL requirements under Pillar 2 for all resolution entities, whether systemic or non-systemic, where the resolution authority will decide on a case-by-case basis the requirements
CCB (Capital Conservation Buffer)	Conservation buffer, is a capital buffer of 2.5% of a bank's total exposures that needs to be met with an additional amount of Common Equity Tier 1 capital. Its objective is to supplement a bank's capital
CCyB (Countercyclical Buffer)	Countercyclical capital buffer, which aims to mitigate or prevent risks of a cyclical nature caused by excessive credit growth at the aggregate level.
CET 1 (Common Equity Tier 1)	Tier 1 ordinary capital: the entity's highest level of capital
COCO (Contingent Convertible)	Preference shares convertible into ordinary shares
CRR (Capital Requirements Regulation) / CRD IV (Capital Requirements Directive)	Solvency rules on the prudential requirements for credit institutions and investment firms (Regulation EU 575/2013)
CVA (Credit Valuation Adjustment)	Value adjustments for counterparty credit risk
EBA (European Banking Authority)	European Banking Authority. Independent institution responsible for promoting the stability of the financial system, the transparency of financial markets and products, and the protection of depositors and investors
ECB (European Central Bank)	European Central Bank. EU institution that forms the core of the Eurosystem and the Single Monitoring Mechanism
IMA (Internal Model Approach)	Internal model approach for calculating exposure due to market risk
IRB (Internal Rating-Based approach)	Internal model method for calculating exposure due to credit risk, based on internal ratings. This method can be broken down into two types, depending on the estimations set by the Supervisor or the own ones: FIRB (Foundation IRB) and AIRB (Advanced IRB)
IRC (Incremental Risk Capital)	Charge applied to the market risk exposure calculated by the internal method that quantifies the risk not captured by the VaR model, specifically in migration and default events
LCR (Liquidity Coverage Ratio)	Liquidity coverage ratio
LMUs (Liquidity Management Units)	Group entities with financial self-sufficiency created with the aim of preventing and limiting liquidity risk, preventing it from spreading in a crisis that could affect only one or more of these Entities

ACRONYM	DESCRIPTION
LR (Leverage Ratio)	Leverage ratio: a measure that relates a company's indebtedness and assets, calculated as level 1 capital divided by the entity's total exposure
MREL (Minimum Required Eligible Liabilities)	Minimum requirement of own funds and eligible liabilities. New requirement faced by European banks, which aims to create a buffer of solvency that absorbs the losses of a financial entity in the event of resolution without jeopardizing taxpayers' money. The level of this buffer is determined individually for each banking group based on their level of risk and other particular characteristics.
PSG (Pillar 2 Guide)	It indicates to credit institutions the appropriate level of capital to be held in order to provide a sufficient buffer against stress
P2R (Pillar 2 Requirements)	Pillar 2 requirements are capital requirements above the regulatory minimum (known as Pillar 1) to cover undervalued or uncovered risks
RWA (Risk Weighted Assets)	Degree of risk applied to exposures (%)
TRIM (Targeted Review of Internal Models)	Targeted review of internal models is a project to assess whether the internal models currently used by banks comply with regulatory requirements, and whether their results are reliable and comparable
SRB (Single Resolution Board)	European Banking Union Resolution Authority whose objective is to ensure the orderly resolution of banks in crisis with the least possible impact on the real economy and public finances of participating EU countries and third parties
SREP (Supervisory Review and Evaluation Process)	Supervisory Review and Evaluation Process
TIER I (Tier One Capital)	Capital built by instruments that are able to absorb losses when the entity is in operation. It consists of CET1 and AT1
TIER II (Tier Two Capital)	Supplementary capital consisting of instruments, mainly subordinated debt, revaluation reserves and hybrid instruments, which will absorb losses when the entity is not viable
TLOF (Total Eligible Liabilities and Own Funds)	Total eligible liabilities and own funds
VaR (Value at Risk)	A risk measurement model that provides a prediction of the maximum loss that the entity's trading portfolios might experience as a result of market price variations over a given time horizon and for a specific confidence interval