

1. General information requirements

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1.1. Corporate name and differences between the consolidable group for the purposes of the solvency regulations and accounting criteria

1.1.1. Corporate name and scope of application

Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter “the Bank” or “BBVA”) is a private-law entity subject to the laws and regulations governing banking entities operating in Spain. It carries out its activity through branches and agencies across the country and abroad.

The Bylaws and other public information are available for consultation at its registered address (Plaza San Nicolás, 4 Bilbao) and on its corporate website (www.bbva.com).

The Solvency Regulations are applicable at the consolidated level for the whole Group.

1.1.2. Differences in the consolidable group for the purposes of the solvency regulations and accounting criteria

BBVA Group’s Consolidated Annual Report are presented in accordance with the International Financial Reporting Standards as adopted by the European Union (“EU-IFRS”) in effect as of December 31 2017, taking into consideration Bank of Spain Circular 4/2004, dated December 22, and its successive amendments, and other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

On the basis of accounting criteria, companies are considered to form part of a consolidated group when the controlling institution holds or can hold, directly or indirectly, control of them. An institution is understood to control another entity when it is exposed, or is entitled to, variable returns as a result of its involvement in the subsidiary and has the capacity to influence those returns through the power it exercises on the subsidiary. For such control to exist, the following aspects must be fulfilled:

a) Power: An investor has power over a subsidiary when it has current rights that provide it with the capacity to direct its relevant activities, i.e. those that significantly affect the returns of the subsidiary.

b) Returns: An investor is exposed, or is entitled to variable returns, as a result of its involvement in the subsidiary when the returns obtained by the investor for such involvement may vary based on the economic performance of the subsidiary. Investor returns may be positive only, negative only or both positive and negative.

c) Relationship between power and returns: An investor has control over a subsidiary when it not only has power over the subsidiary and is exposed, or is entitled to, variable returns for its involvement in the subsidiary, but also has the capacity to use its power to influence the returns it obtains due to its involvement in the subsidiary.

Therefore, in drawing up the Group’s Consolidated Annual Report, all dependent companies and consolidated structured entities have been consolidated by applying the full consolidation method.

Jointly-controlled entities, as well as joint ventures (those over which joint control arrangements are in place), are valued using the equity method.

The list of all the companies forming part of BBVA Group is included in the appendices to the Group’s Consolidated Annual Report.

For the purposes of the solvency regulations, the consolidated group comprises the following subsidiaries:

- Credit institutions.
- Investment services companies.
- Investment companies with variable capital.
- Companies managing mutual funds, together with companies managing pension funds, whose sole purpose is the administration and management of the aforementioned funds.

- Companies managing mortgage securitisation funds and asset securitisation funds.
- Venture capital companies and venture capital fund managers.
- Entities whose main activity is holding shares.

Likewise, the special-purpose entities whose main activity implies a prolongation of the business of any of the institutions included in the consolidation, or includes the rendering of back-office services to these, will also form part of the consolidated group.

However, insurance entities and some service firms do not form part of consolidated groups of credit institutions.

Therefore, for the purposes of calculating solvency requirements, and hence the drawing up of this Prudential Relevance Report, the scope of consolidated entities is different from the scope defined for the purposes of drawing up the Group's Consolidated Financial Statements.

The effect of the difference between the two regulations is basically due to:

- The difference between the balance contributed by entities (largely insurance, real-estate and financial companies) that are consolidated in the Group's Consolidated Annual

Report by the full consolidation method and consolidated for the purposes of solvency by applying the equity method. The details of these companies are available in Annexes of the file Pillar III 2017 Annexes, available in the section for [Shareholders and Investors/Financial Information](#) on the Group's website; the balance is mainly composed of the companies BBVA Seguros, Seguros BBVA Bancomer and Garanti Emeklilik.

- The entry of the balance from institutions (mainly financial) that are not consolidated at the accounting level but for purposes of solvency (by the proportional integration method), mainly Altura Markets. The details of these companies is available in the file Pillar III 2017 Annexes, available on the Group's website.

1.1.3. Reconciliation of the Public Balance Sheet from the accounting perimeter to the regulatory perimeter

As explained in Note 32 of the Group's Consolidated Annual Report, this section includes an exercise in transparency aimed at offering a clear view of the process of reconciliation between the book balances reported in the Public Balance Sheet (attached to the Group's Consolidated Annual Report) and the book balances this report uses (regulatory scope), revealing the main differences between both scopes.

Table 2. Reconciliation of the Public Balance Sheet from the accounting perimeter to the regulatory perimeter (Million Euros)

Public Balance Sheet Headings	Public Balance Sheet	Insurance companies and real-estate finance companies ⁽¹⁾	Jointly-controlled entities and other adjustments ⁽²⁾	Regulatory balance sheet
Cash and balances with central banks and other demand deposits	42,680	-	24	42,704
Financial assets held for trading	64,695	2,206	-	66,901
Other financial assets designated at fair value through profit or loss	2,709	(2,061)	-	648
Available for sale financial assets	69,476	(19,794)	-	49,682
Loans and receivables	431,521	(1,805)	764	430,480
Held-to-maturity investments	13,754	-	-	13,754
Hedging derivatives	2,485	(90)	(1)	2,394
Fair value changes of the hedged items in portfolio hedges of interest rate risk	(25)	-	-	(25)
Investments in entities accounted for using the equity method	1,588	3,294	(80)	4,802
Non-current assets held for sale ⁽³⁾	23,853	(334)	3	23,522
Other assets	37,323	595	5	37,923
Total Assets	690,059	(17,989)	715	672,785

⁽¹⁾ Balances corresponding to the companies not consolidated for solvency purposes, but for accounting purposes

⁽²⁾ Other adjustments correspond to other intra-group removals and other homogenization adjustments

⁽³⁾ As of December 31, 2017, derived from the binding offer to purchase by the The Bank of Nova Scotia Group of the company BBVA Chile (see section 1.1.4), this share has been reclassified as a non-current asset held for sale, while under the solvency perimeter BBVA Chile continues consolidating by Global Integration and, therefore, integrating its assets and liabilities in the corresponding headings. However, only for comparative purposes, are shown in this table, under the solvency perimeter, its assets grouped under the heading Non-Current Assets held for Sale

The following table also shows the risks to which each one of the items on the regulatory balance sheet is exposed:

Table 3. EU LI1 - Differences between the accounting and regulatory scopes of consolidation and the mapping of the financial statements categories with regulatory risk categories (Million Euros. 12-31-17)

	Carrying values as reported in published financial statements	Carrying Values under scope of regulatory consolidation ⁽¹⁾	Subject to credit risk framework	Carrying values of items:			Not subject to capital requirements or subject to deduction from capital
				Subject to counterparty credit risk framework	Subject to the Securitisation framework	Subject to the market risk framework	
Assets							
Cash, cash balances at central banks and other demand deposits	42,680	43,458	43,458	-	-	-	-
Financial assets held for trading	64,695	69,201	-	39,709	-	69,201	-
Financial assets designated at fair value through profit or loss	2,709	648	648	-	-	648	-
Available-for-sale assets	69,476	51,072	46,117	-	4,891	65	-
Loans and receivables	431,521	443,809	412,075	25,356	2,658	-	3,719
Held-to-maturity investments	13,754	13,754	13,616	-	139	-	-
Hedging derivatives	2,485	2,416	-	2,416	-	2,416	-
Fair value changes of the hedged items in portfolio hedges of interest rate risk	(25)	(25)	-	-	-	-	(25)
Investments in subsidiaries, joint ventures and associates	1,588	4,807	4,623	-	-	-	183
Insurance or reinsurance assets	421	2,142	-	-	-	-	2,142
Tangible assets	7,191	6,885	6,885	-	-	-	-
Intangible assets	8,464	8,394	-	-	-	-	8,394
Tax assets ⁽²⁾	16,888	16,830	15,633	-	-	-	1,197
Other assets	4,359	4,286	4,286	-	-	-	-
Non-current assets and disposal groups held for sale	23,853	5,108	5,108	-	-	-	-
Total assets	690,059	672,785	552,448	67,482	7,688	72,330	15,611
Liabilities							
Financial liabilities held for trading	46,182	49,106	-	-	-	39,092	10,014
Financial liabilities designated at fair value through profit or loss	2,222	-	-	-	-	-	-
Financial liabilities at amortized cost	543,713	553,816	-	40,742	-	-	513,074
Hedging derivatives	2,880	2,659	-	-	-	2,659	-
Fair value changes of the hedged items in portfolio hedges of interest rate risk	(7)	(7)	-	-	-	-	(7)
Liabilities under insurance contracts	9,223	-	-	-	-	-	-
Provisions	7,477	6,884	559	-	-	-	6,324
Tax liabilities	3,298	2,711	1,464	-	-	-	1,247
Equity refundable on demand	-	-	-	-	-	-	-
Other liabilities	4,550	4,482	-	-	-	-	4,482
Liabilities included in disposal groups classified as held for sale	17,197	-	-	-	-	-	-
Total Liabilities	636,735	619,651	2,024	40,742	-	41,752	535,134

⁽¹⁾ As of December 31, 2017, derived from the binding offer to purchase by the The Bank of Nova Scotia Group of the company BBVA Chile (see section 1.1.4), this share has been reclassified as a non-current asset held for sale. Under the solvency perimeter BBVA Chile continues consolidating by Global Integration and, therefore, integrating its assets and liabilities in the corresponding headings.

⁽²⁾ Deferred tax assets amount to 4,175 Million Euros, which deducted from deferred tax liabilities (1,464 Million Euros), consume 250% RWAs. The consumption of RWAs for this net amounts to 6,778 Million Euros

⁽³⁾ For the purpose of presenting the table, when a single item is associated with the capital requirements according to more than one risk framework, it is showed in all the columns corresponding to the capital requirements to which it is associated. As a result, the sum of the values of the columns by type of risk may be greater than the carrying value according to the scope of regulatory consolidation

A table summarizing the main sources of the differences between the amount of exposure in regulatory terms (EAD)

and the book balances according to the Financial Statements is presented below.

Table 4. EU LI2 - Main sources of the differences between regulatory original exposure amounts and carrying values in financial statements (Million Euros. 12-31-17)

	Items subject to:				
	Total	Credit risk framework	Counterparty credit risk framework	Securitisation framework	Market risk framework
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	699.948	552.448	67.482	7.688	72.330
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	80.470	(2.024)	40.742	-	41.752
Total net amount under regulatory scope of consolidation	(82.031)	56.315	(24.038)	(226)	(114.082)
Amount of off-balance-sheet	184.889	184.889	-	-	-
Counterparty risk in derivatives (includes the add-on)	13.586	-	13.586	-	-
Differences due to netting standards (netting, long/short positions)	(150.050)	-	(35.968)	-	(114.082)
Non-eligibility of the balances corresponding to accounting hedges (derivatives and adjustments for macro-hedging)	(25)	(25)	-	-	-
Non-eligibility of the balances corresponding to accounting hedges (portfolio hedges)	(505)	(505)	-	-	-
Non-eligibility of other financial assets (mainly balances of guarantees provided in cash)	(7.570)	(5.905)	(1.665)	-	-
Non-eligibility of other financial assets (mainly other guarantees)	(3.176)	(3.176)	-	-	-
Non-eligibility of accounts without loan book risk (premiums, transaction costs)	-	-	-	-	-
Non-eligibility of underlying assets of Securitisations	(226)	-	-	(226)	-
Accounting Provisions ⁽¹⁾	5.861	5.852	9	-	-
Corresponding amount of credit risk mitigation techniques (CRM)	119	119	0	-	-
Corresponding amount of credit conversion factors (CCF)	(124.499)	(124.499)	-	-	-
Other	(435)	(435)	-	-	-
Exposure amounts considered for regulatory purposes	698.386	606.739	84.186	7.461	-

⁽¹⁾ Includes provisions for exposures to credit risk via advanced method. The provisions of the credit risk exposures via standard method amounting to 8,023 million euros are not included.

The following table breaks down the credit risk and counterparty amounts by the items of the Public Balance

Sheet by EO, EAD and RWAs, which are the risk concepts on which this Document is based.

Table 5. Credit and Counterparty Credit Risk headings of the Public Balance Sheet for EO, EAD and RWAs (Million Euros. 12-31-17)

Public Balance Sheet Headings	Credit Risk ⁽⁴⁾		
	OE ⁽¹⁾	EAD ⁽²⁾	RWAs ⁽³⁾
Cash, cash balances at central banks and other demand deposits	43,461	43,460	5,009
Financial assets held for trading	34,713	29,714	8,646
Financial assets designated at fair value through profit or loss	648	648	750
Available-for-sale assets	50,102	54,566	9,072
Loans and receivables	649,209	512,531	244,367
Investments in subsidiaries, joint ventures and associates	4,631	4,631	10,682
Tangible assets	6,713	6,713	6,869
Tax assets	11,457	11,457	16,270
Other assets	4,221	4,221	3,583
Non-current assets and disposal groups held for sale	5,134	5,100	5,098
Assets sold under a purchase agreement	25,344	25,344	141
Total Assets + Liabilities	835,632	698,386	310,487

⁽¹⁾OE: Original Exposure

⁽²⁾EAD: OE net of provisions, adjustments and CRM

⁽³⁾RWAs: EAD after taking into account risk-weights

⁽⁴⁾Excluding funds for CCP defaults

1.1.4. Main changes to the Group's scope of consolidation in 2017

Investments

On February 21, 2017, BBVA Group reached an agreement to acquire 41,790,000,000 shares of Turkiye Garanti Bankasi, A.S. (Garanti Bank) from Dogus Holding A.S. and Dogus Arastirma Gelistirme ve Musavirlik Hizmetleri A.S., representing 9.95% of its share capital. On March 22, 2017, the purchase agreement was completed by which the total BBVA stake in Garanti Bank is now 49.85%.

Ongoing divestments

Offer for the acquisition of the BBVA, S.A. stake in BBVA Chile

On November 28, 2017, BBVA received a binding offer (the "Offer") from the group The Bank of Nova Scotia ("Scotiabank") for the purchase of its stake in Banco Bilbao Vizcaya Argentaria, Chile ("BBVA Chile") for approximately USD 2.2 billion (€1.85 billion), as well as other Group companies in Chile with activities linked to this banking business (among them, BBVA Seguros Vida, S.A.). BBVA's total direct and indirect stake in BBVA Chile is around 68.19% of its share capital. On December 5, 2017, BBVA announced it accepted the Offer and signed a sale agreement.

The Offer received does not include BBVA Group's stake in the companies dedicated to the auto finance business in the Forum Group, or in other companies of the group in Chile dedicated to BBVA Group's corporate activities.

The closing of this deal is subject to receiving the corresponding regulatory approval. Derived from this transaction, in the Group's Consolidated Financial Statements most of the assets and liabilities from BBVA Chile are registered under the heading of Non-Current Assets Held for Sale, while under the perimeter of solvency, BBVA Chile

is still consolidated by the full integration method, and thus integrates its assets and liabilities under the corresponding headings.

Agreement for the creation of a joint venture and transfer of the real-estate business in Spain

On November 29, 2017, BBVA reached an agreement with a subsidiary of Cerberus Capital Management, L.P. ("Cerberus"), for the creation of a joint venture to which it will transfer BBVA's real-estate business in Spain (the "Business"). In executing this agreement, BBVA will transfer the Business to a single company (the "Company"), and at the closing date of the transaction, it will sell 80% of the shares in the Company to Cerberus.

The Business includes: (i) foreclosed real-estate owned (hereinafter, the "REOs"), for a gross value of approximately €13 billion, based on a starting point of the situation of the REOs as of June 26, 2017; and (ii) the assets and employees needed for the autonomous management of the Business. For the purpose of the agreement with Cerberus, the whole Business has been valued at approximately €5 billion.

Taking into account the valuation of the whole Business as mentioned, and assuming that all the REOs of the Business will be transferred to the Company as of June 26, 2017, the sale price of this 80% of the shares will be approximately €4 billion. The final price paid will be determined by the volume of REOs actually included, which may vary depending on factors such as sales between the reference date of June 26, 2017 and the closing date of the transaction, and compliance with the normal conditions for transactions of this type.

The deal as a whole is subject to receiving the appropriate authorisations from the competent authorities. This deal will not have any significant impact on the consolidated financial statements.

1.2. Identification of dependent institutions with capital resources below the minimum requirement. Possible impediments to capital transfer

There is no institution in the Group not included in the consolidated Group for the purpose of the solvency regulations whose capital is below the regulatory minimum requirement.

The Group operates mainly in Spain, Mexico, the United States, Turkey and South America. The Group's banking subsidiaries around the world are subject to supervision and regulation (with respect to issues such as compliance

with a minimum level of regulatory capital) by a number of regulatory bodies.

The obligation to comply with these capital requirements may affect the capacity of these banking subsidiaries to transfer funds (e.g. via dividends) to the parent company.

In some jurisdictions in which the Group operates, the regulations lay down that dividends may only be paid with the funds available by regulation for this purpose.

1.3. Exemptions from capital requirements at the individual or sub-consolidated level

In accordance with the exemption from capital requirements compliance for Spanish credit institutions belonging to a consolidated group (at individual or subconsolidated level) established in the CRR, the Group obtained exemption from the supervisor on December 30, 2009 for the following companies (this exemption was ratified through ECB decision 1024/2013):

- Banco Industrial de Bilbao, S.A.
- Banco Occidental, S.A

In addition, for the establishment of Financiero de Crédito de Portugal (BBVA IFIC, S.A.), the BCE has decided not to apply individual prudential or liquidity requirements.

It is also worth noting that on February 10, 2017 the European Central Bank accepted the relinquishment of the bank file presented by Banco de Promoción de Negocios, S.A. which thus was no longer a credit institution regulated by the solvency regulations.