1. General information requirements

1.1. Corporate name and differences between the consolidated 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 consolidated 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 2018, taking into consideration Bank of Spain Circular 4/2017, and its successive amendments, and other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

The BBVA Group's Consolidated Annual Report for 2018 are posted according to the models included in Circular 3/2018 of the Spanish Securities and Investment Board, with the aim of adapting the content of public financial information of credit institutions to the terminology and formats of financial statements established as mandatory by the European Union for credit institutions.

Based on 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 because 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 solvency regulations, the following subsidiaries form part of the consolidated group, as defined in article 18 of the CRR:

- Credit institutions.
- Investment firms.
- Financial institutions.

  A financial institution is a company, different than an institution (credit institution or investment firm), whose main activity consists of acquiring holdings or performing one or more of the following activities.

  - Loans, including in particular consumer finance, credit agreements relating to immovable property, recourse and non-recourse factoring, and financing of commercial transactions (including forfaiting)
  - Financial leasing
  - Payment services

- Issuing and managing other payment channels (e.g. traveller's cheques and bank cheques)
- Granting of guarantees and commitments
- Trading on their own account or on behalf of customers on any of the following instrument.
  - Money market instruments (cheques, bills, certificates of deposit etc.)
  - Foreign currency
  - Financial futures and options
  - Foreign-exchange or interest-rate instruments
  - Marketable securities
- Participating in the issuance of securities and the provision of corresponding services
- Advising companies with regard to capital structure, industrial strategy and related matters, as well as advice and services for mergers and acquisitions of companies
- Brokerage in the interbank markets
- Managing or advising on equity management
- Custody and administration of marketable securities
- Issuance of electronic money

  This definition includes financial holding companies, mixed financial holding companies, payment institutions and asset management firms, but excludes pure industrial holding companies, insurance companies, insurance holding companies and mixed insurance holding companies.

- Auxiliary services companies: a company whose main activity is holding or management of property, management of computing services or any other similar activity of an auxiliary nature with regard to the main activity of one or more institutions (credit institution or investment firm).

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 balances contributed by entities (largely insurance, 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 inclusion of the balances from institutions (mainly financial) that are consolidated by the equity method at the accounting level but for purposes of solvency by the proportional integration method.

The details of these companies are available in Annexes of the file Pillar III 2018 Annexes, available in the section for **Shareholders and Investors/Financial** Information on the Group's website.

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

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. CC2 - Reconciliation of the regulatory capital with public balance sheet (Million Euros. 12-31-18)

Public Balance Sheet Headings	Public Balance Sheet	Regulatory balance sheet	Referece to template CC1
Cash, cash balances at central banks and other demand deposits	58,196	58,296	
Financial assets held for trading	90,117	91,394	
Non-trading financial assets mandatorily at fair value through profit or loss	5,135	2,367	
Financial assets designated at fair value through profit or loss	1,313	-	
Financial assets at fair value through accumulated other comprehensive income	56,337	42,019	
Financial assets at amortized cost	419,660	413,974	
Hedging derivatives	2,892	2,805	
Fair value changes of the hedged items in portfolio hedges of interest rate risk	(21)	(21)	
Investments in subsidiaries, joint ventures and associates	1,578	4,085	
Assets under insurance and reinsurance contracts	366	-	
Tangible assets	7,229	6,940	
Intangible assets	8,314	8,203	g)
Tax assets	18,100	17,722	
Of which: deferred tax assets	1,260	1,260	h)
Other assets	5,472	7,334	
Non-current assets and disposal groups held for sale	2,001	2,001	
Total Assets	**676,689**	**657,119**	
Financial liabilities held for trading	80,774	81,140	
Other financial liabilities designated at fair value through profit or loss	6,993	2,858	
Financial liabilities at amortized cost	509,185	504,968	p) q) t)
Hedging derivatives	2,680	2,468	
Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-	
Liabilities under insurance and reinsurance contracts	9,834	-	
Provisions	6,772	6,189	
Current tax liabilities and deferred tax liabilities (DTL)	3,276	2,568	
Of which: deferred tax liabilities	1,275	1,275	
Other liabilities	4,301	4,228	
Liabilities included in disposal groups clasified as held for sale	-	2	
Total liabilities	**623,814**	**604,420**	
Capital	3,267	3,267	a)
Share premium	23,992	23,992	a)
Equity instruments issued other than capital	-	-	b)
Other equity	50	50	b)
Retained earnings	23,018	22,848	b)
Revaluation reserves	3	3	b)
Other reserves	(58)	92	b)
Less: treasury shares	(296)	(296)	l)
Profit or loss atributable to owners of the parent	5,324	5,292	e)
Less: interim dividend	(975)	(975)	e)
Accumulated other comprehensive income (loss)	(7,215)	(7,285)	c) i) k)
Minority interest (non-controlling interest)	5,764	5,709	
Total equity	**52,874**	**52,698**	
Total equity and total liabilities	**676,689**	**657,119**	

The main differences between the public balance sheet and the regulatory balance sheet are due to withdrawals from the balance generated by insurance, real estate and financial entities that are consolidated through the application of the equity method for the amount of -EUR 10.62 billion; and balance entries generated by entities that are consolidated using the proportional integration method for an amount of +EUR 621 million.

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. 12-31-18)

			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying Values under scope of regulatory consolidation [1]		Subject to counterparty credit risk framework	Subject to the Securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash, cash balances at central banks and other demand deposits	58,196	58,296	58,296	-	-	-	-
Financial assets held for trading [2]	90,117	91,394	-	59,912	-	91,394	-
Financial assets designated at fair value through profit or loss	6,449	2,367	2,293	-	3	2,293	-
Financial assets designated at fair value through other comprehensive income	56,337	42,019	38,210	-	3,320	186	201
Financial assets at amortized cost	419,660	413,974	406,868	390	6,893	-	155
Hedging derivatives	2,892	2,805	-	2,805	-	2,805	-
Fair value changes of the hedged items in portfolio hedges of interest rate risk	(21)	(21)	-	-	-	-	(21)
Investments in subsidiaries, joint ventures and associates	1,578	4,085	4,021	-	-	-	64
Insurance or reinsurance assets	366	-	-	-	-	-	-
Tangible assets	7,229	6,940	6,940	-	-	-	-
Intangible assets	8,314	8,203	-	-	-	-	8,203
Tax assets [3]	18,100	17,722	16,259	-	-	-	1,463
Other assets [4]	5,472	7,334	5,302	-	-	-	2,032
Non-current assets and disposal groups held for sale	2,001	2,001	2,001	-	-	-	-
Total assets	**676,689**	**657,119**	**540,189**	**63,108**	**10,216**	**96,678**	**12,098**
Liabilities							
Financial liabilities held for trading [2]	80,774	81,140	-	36,647	-	81,140	-
Financial liabilities designated at fair value through profit or loss	6,993	2,858	-	-	-	-	2,858
Financial liabilities at amortized cost	509,185	504,968	-	6,177	-	-	498,791
Hedging derivatives	2,680	2,468	-	-	-	2,468	-
Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-	-	-	-	-	-
Liabilities under insurance contracts	9,834	-	-	-	-	-	-
Provisions	6,772	6,191	636	-	-	-	5,555
Tax liabilities [3]	3,276	2,568	1,275	-	-	-	1,293
Other liabilities	4,301	4,228	-	-	-	-	4,228
Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-	-
Total Liabilities	**623,814**	**604,420**	**1,910**	**42,824**	**-**	**83,608**	**512,725**

(1) For the purpose of 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

(2) Due to the new accounting classification of financial assets and liabilities after the introduction of IFRS9, SFTs have been reclassified out of financial assets and liabilities at amortized cost and into financial assets and liabilities measured at fair value held for trading (Note 2.2.1 of the Group's Consolidated Annual Financial Statements)

(3) Deferred tax assets amount to 3,004 Million Euros, which deducted from deferred tax liabilities (article 38 of CRR), consume 250% RWAs, according to Article 48 of CRR

(4) The amount of other assets includes 2,032 million Euros corresponding to Insurance or reinsurance assets, are not subject to capital requirements

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. Main sources of the differences between regulatory original exposure amounts and carrying values in financial statements (Million Euros. 12-31-18)

		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)	710,191	540,189	63,108	10,216	96,678
Liabilities carrying value amount under regulatory scope of consolidation	**124.521**	**(1,910)**	**42,824**	**-**	**83,608**
Total net amount under regulatory scope of consolidation	**(135.472)**	**59,860**	**(14,835)**	**(211)**	**(180,286)**
Amount of off-balance-sheet	179,826	179,826	-	-	-
Counterparty credit risk in derivatives (includes the add-on)	14,280	-	14,280	-	-
Differences due to netting agreements (netting, long/short positions)	(212,814)	(3,413)	(29,116)	-	(180,286)
Accounting Provisions (1)	4,898	4,898	-	-	-
Credit risk mitigation techniques (CRM)	(1,076)	(865)		(211)	-
Credit conversion factors (CCF)	(120,955)	(120,955)	-	-	-
Other	369	369	-	-	-
Exposure amounts considered for regulatory purposes	**699,240**	**598,139**	**91.096**	**10,005**	**-**

(1) Includes provisions for exposures to credit risk via advanced method. The provisions of the credit risk exposures via standard method amounting to 8,022 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 OE, EAD and RWAs (Million Euros. 12-31-18)

	Credit Risk (4)		
Public Balance Sheet Headings	OE (1)	EAD (2)	RWAs (3)
Cash, cash balances at central banks and other demand deposits	58,296	58,296	4,080
Financial assets held for trading	54,151	49,613	7,674
Financial assets designated at fair value through profit or loss	2,618	2,618	1,713
Available-for-sale assets	41,148	40,229	7,585
Loans and receivables	603,097	468,833	232,534
Investments in subsidiaries, joint ventures and associates	3,972	3,972	10,336
Tangible assets	6,940	6,940	6,931
Tax assets	14,984	14,984	16,920
Other assets	4,755	4,749	4,005
Non-current assets and disposal groups held for sale	2,001	2,001	1,698
Assets sold under a purchase agreement	40,869	47,005	3,328
Total Assets + Liabilities	**832,830**	**699,240**	**296,805**

(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 2018

Ongoing divestments

Sale of BBVA, S.A.'s stake in BBVA Chile

On November 28, 2017, BBVA received a binding offer (the "Offer") from The Bank of Nova Scotia group ("Scotiabank") to buy its shareholding in Banco Bilbao Vizcaya Argentaria Chile, S.A. ("BBVA Chile") as well as in other Group companies in Chile with activities related to the mentioned banking business (including, BBVA Seguros Vida, S.A.). BBVA's total direct and indirect share in BBVA Chile is approximately 68.19% of its share capital. On December 5, 2017, BBVA announced the acceptance of the Offer and signed the sale agreement, which was completed on July 6, 2018.

The total amount in cash was approximately 2.2 billion USD, with a net capital gain of 633 million EUR, recorded in the year 2018.

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").

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.

On October 10, 2018, once all mandatory authorisations were obtained, the transfer of the real estate business of BBVA in Spain was finalised. The transaction closing led to the sale of 80% of the share capital of the company Divarian Propiedad, S.A. to an entity managed by Cerberus.

Divarian is the company to which the BBVA Group previously provided contributions to, although the effective transfer of certain REOs is subject to compliance with certain conditions. The final amount to be paid by Cerberus will be adjusted according to the REOs that are finally contributed.

The transaction does not have a significant effect on the attributable profit of the BBVA Group, nor on Common Equity Tier 1 (fully loaded) as of December 31, 2018.

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

As of December, 31, 2018, there is no institution in the Group with own funds 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 Establecimiento Financiero de Crédito de Portugal (BBVA IFIC, S.A.), the BCE has decided not to apply individual prudential or liquidity requirements.

Moreover, Banco Bilbao Vizcaya Argentaria Portugal S.A. has been merged by absorption by BBVA S.A., and it will continue operating in Portugal through a branch. As a result of this merger, BBVA Portugal S.A. ceases to have legal personality and, therefore, is not subject to supervision..