2. Own Funds and Capital

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2.1. Characteristics of the eligible capital resources

For the purposes of calculating minimum capital requirements, according to Regulation (EU) 575/2013 and subsequent amendments, which enter into force on June 27, 2019 (CRR), the elements and instruments of Tier 1 capital are defined as the sum of Common Equity Tier 1 capital (CET1) and additional Tier 1 capital (AT1), as defined in Part Two, Title I, Chapters I to III of the CRR, as well as their corresponding deductions, in accordance with Articles 36 and 56, respectively.

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

The level of Common Equity Tier 1 capital essentially comprises the following elements:

a. **Capital and share premium**: this includes the elements described in article 26 section 1, and 28 of the CRR and the EBA list referred to in Article 26 Section 3 of the CRR.

b. **Accumulated gains**: in accordance with Article 26. 1 c), the gains that may be used immediately and with no restriction to cover any risk or losses are included, in the event that they occur.

c. **Other accumulated income and other reserves**: In accordance with Article 26. 1, d) and e), this item primarily classifies the exchange-rate differences and the valuation adjustments associated with the portfolio of financial assets at fair value with changes to other overall results.

d. **Minority interests eligible as CET1**: includes the sum of the Common Equity Tier 1 capital instruments of a subsidiary that arise in the process of its global consolidation and are attributable to natural or legal third persons other than companies included in the consolidation, calculated in accordance with Article 84 et seq. of the CRR.

e. **Net profit of the year attributed to the Group**: the independently verified profits are included, net of any possible expense or foreseeable dividend previously authorized by the supervisor (following the treatment set out in Article 5 of Decision (EU) 2015/656 of the ECB).

Furthermore, basic bank capital is adjusted mainly through the following deductions:

f. **Additional value adjustments**: the adjustments arising from the prudent valuation of the positions at fair value are included, as set out in Article 105 of the CRR.

g. **Intangible assets**: these are included net of the corresponding tax liabilities, as set out in Article 36.1 b) and Article 37 of the CRR. It mainly includes goodwill, software and other intangible assets. The amount shall be deducted from the amount of the accounting revaluation of the intangible assets of the subsidiaries derived from the consolidation of the subsidiaries attributable to persons other than the companies included in the consolidation.

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

i. **Reserves at fair value related to losses or gains from cash flow hedging**: includes value adjustments of cash flow hedging of financial instruments not valued at fair value, including expected cash flows in accordance with Article 33 a) of the CRR.

j. **Negative amounts due to the calculation of the expected losses**: the default provision on expected losses in exposure weighted by method based on internal ratings, calculated in accordance with Article 36.1 d) of the CRR, is included.

k. **Profit and loss at fair value**: these are derived from the entity's credit risk, in accordance with Article 33 b) of the CRR.

l. **Direct, indirect and synthetic holdings of own instruments (treasury stock)**: includes the shares and other securities booked as bank capital that are held by any of the Group's consolidating entities, together with those held by non-consolidating entities belonging to the economic Group, as set out in Article 36.1 f) and Article 42 of the CRR. It mainly includes finance for own shares, synthetic treasury stock and own securities.

m. **Securitization**: any instance of securitization that receives a risk weighting of 1.250% is included, as set out in Article 36.1 k) ii) of the CRR.

n. **Other CET1 deductions**: other CET1 deductions are included according to the CRR, which were not recognized in the above headings, such as losses and gains at fair value arising from the entity's own credit risk related to derivative liabilities (DVA).

Additionally, as outlined in Article 473 bis of the CRR, the Group has decided to apply transitional provisions to mitigate the impact on of the introduction of IFRS 9 on own funds, which allows the impact to be recognized progressively during a transitional period of 5 years (2018-2022).

Other deductions that may be applicable are significant stakes in financial institutions and assets for deferred taxes

arising from temporary differences that exceed the 10% limit of the CET1, and the deduction for exceeding the overall 17.65% limit of the CET1 according to Article 48.2 of the CRR. As of December 31, 2019, these stakes are held at levels below the limits indicated, with no deductions to that effect being applicable.

However, as of December 31, 2019, the Group no longer holds stakes in financial institutions that are not subject to deduction for exceeding the indicated limits (article 49 of the CRR) and, therefore, the standard template of the EBA INS1 shall not be applicable.

In addition, the Group includes as total eligible bank capital the additional Tier 1 capital instruments defined in Articles 51, 52, 85, 86 and 484 of the CRR, including the corresponding adjustments, in accordance with Article 472 of the CRR:

o. **Capital instruments and share premium eligible as AT1**: this item includes the perpetual contingent convertible securities that meet the conditions set out in Articles 51 and 52.1, 53 and 54 of the CRR.

p. **Elements referred to in Article 484.4 of the CRR**: this section includes preferred securities issued by the Group.

q. **Qualifying Tier 1 capital included in the consolidated additional capital issued by affiliates and held by third parties**: included as additional consolidated Tier 1 capital is the amount of Tier 1 capital from the subsidiaries, calculated in accordance with Article 85 and 86 of the CRR.

Finally, the Group also includes Tier 2 as eligible bank capital. Along with the guidelines established in Article 87 of the CRR, it is made up of the following elements:

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

s. **Eligible own funds instruments eligible as Tier 2 capital issued by subsidiaries and held by third parties**: These instruments are included under Articles 87 and 88 of the CRR.

t. **Credit risk adjustments**: a calculation is made of the surplus resulting between the allowances for impairment losses on assets and provisions for risk related to exposure calculated as per the IRB approach and the losses they are expected to incur, for the part that is below 0.6% of the risk-weighted exposure.

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

This Annex also details the Group's issues of subordinated debt as of December 31, 2019, calculated as Tier 2 capital.

2.2. Amount of own funds

The amount of total eligible capital, net of deductions, for the different items making up the capital base as of December 31, 2019 and 2018, respectively, is below, in accordance with the requirements for the disclosure of information related to regulatory own funds established by the Commission's Implementing Regulation (EU) No 1423/2013 of December 20, 2013:

Table 5. Amount of capital (CC1) (Million Euros)

Reference to template CC2[1]	12-31-2019	12-31-2018[2]
a) Capital and share premium	27,259	27,259
b) Retained earnings	26,960	23,773
c) Other accumulated earnings and other reserves	(7,157)	(7,143)
d) Minority interests eligible as CET1	4,404	3,809
e) Net profit of the year attributed to the Group	1,316	3,188
Common Equity Tier 1 Capital before other regulatory adjustments	**52,783**	**50,887**
f) Additional value adjustments	(302)	(356)
g) Intangible assets	(6,803)	(8,199)
h) Deferred tax assets	(1,420)	(1,260)
i) Fair value reserves related to gains o losses on cash flow hedges	69	35
j) Expected losses in equity	-	-
k) Profit or losses on liabilities measured at fair value	(24)	(116)
l) Direct, indirect and synthetic holdings of own instruments	(484)	(432)
m) Securitisations tranches at 1250%	(25)	(34)
n) Other CET1 deductions	(142)	(211)
Total Common Equity Tier 1 regulatory adjustments	**(9,130)**	**(10,573)**
Common Equity Tier 1 (CET1)	**43,653**	**40,313**
o) Equity instruments and AT1 share premium	5,280	4,863
p) Elements referred in Article 484(4) of the CRR	120	142
q) Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	648	629
Additional Tier 1 before regulatory adjustments	**6,048**	**5,634**
Total regulatory adjustments of Additional Tier 1	**-**	**-**
Additional Tier 1 (AT1)	**6,048**	**5,634**
Tier 1 (Common Equity Tier 1+Additional Tier 1)	**49,701**	**45,947**
r) Equity instruments and Tier 2 share premiums	3,064	3,768
s) Admissible shareholders' funds instruments included in consolidated Tier 2 issued by subsidiaries and held by third parties	4,690	4,409
-Of which: instruments issued by subsidiaries subject to ex-subsidiary stage	921	37
t) Credit risk adjustments	550	579
Tier 2 before regulatory adjustments	**8,304**	**8,756**
Tier 2 regulatory adjustments	**-**	**-**
Tier 2	**8,304**	**8,756**
Total Capital (Total capital = Tier 1 + Tier 2)	**58,005**	**54,703**
TOTAL RWA's	**364,448**	**348,264**
CET 1 (phased-in)	11.98%	11.58%
CET 1 (fully loaded)	11.74%	11.34%
TIER 1 (phased-in)	13.64%	13.19%
TIER 1 (fully loaded)	13.37%	12.91%
Total Capital (phased-in)	15.92%	15.71%
Total Capital (fully loaded)	15.41%	15.45%

[*] As of December 31, 2019, the diference between phased-in and fully loaded ratios arises from the transitional treatment of certain capital elements, mainly the impact of IFRS9, to which the BBVA Group has voluntarily adhered (in accordance with the article 473 *bis* of the CRR). See paragraph 2.3 for more information on the transitional impact of IFRS9.

[1] References to regulatory balance sheet items (CC2) reflecting the diferent items described.

[2] As a result of the amendment to IAS 12 "Income Tax" as explained in Note 2.3 of the Group's Consolidated Financial Statements, and in order to make the information comparable, the information for the 2018 financial year has been restated, with no impact on either consolidated equity or regulatory capital.

As of December 31, 2019, Common Equity Tier 1 (CET1) phased-in[3] stood at 11.98% (with a fully loaded ratio of 11.74%), including the impact of the first application of IFRS 16 which entered into force on January 1, 2019 (-11 basis points), which represents a growth of 40 basis points from December 2018, mainly supported by the profit generation, net of dividend payments and remuneration of contingent convertible capital instruments (hereinafter CoCos), nothwithstanding the moderate growth of risk-weighted assets.

It should be noted that the impairment of the goodwill in the United States recognized by the Group amounting to 1.318 billion euros has no impact on the regulatory own funds.

The Additional Tier 1 phased-in capital (AT1) stood at 1.66% at December 31, 2019. In this regard, BBVA S.A. carried out an issuance of €1.0 billion CoCos, registered at the Spanish Securities Market Commission (CNMV) and another issuance of the same type of instruments, registered in the Securities Exchange Commission (SEC), for $1.0 billion.

On the other hand, in February 2020, the CoCos issuance of €1.5 billion issued in February 2015 will be amortized. As at December 31, 2019, it is no longer included in the capital ratios.

Finally, in terms of issues eligible as Tier 2 capital, BBVA S.A. issued a €750 million subordinated debt and carried out the early redemption of two subordinated debt issuances; one for €1.5 billion redeemed in April 2019, and another

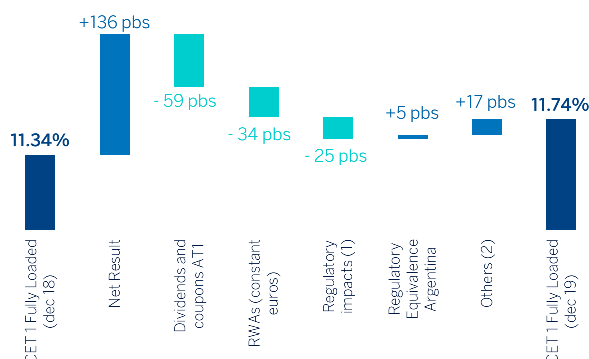
3 This phased-in CET1 ratio takes into account the impact of the first implementation of the IFRS 9 standard. In this context, the Parliament and the European Commission have established transitional arrangements that are voluntary for the institutions, adapting the impact of IFRS 9 on capital ratios. The Group has informed the supervisory body of its adherence to these arrangements

issued in June 2009 by Caixa d'Estalvis de Sabadell with an outstanding nominal amount of €4.9 million and redeemed in June 2019.

With regard to the other subsidiaries of the Group, BBVA Mexico carried out a Tier 2 issuance of USD 750 million and partially repurchased two subordinate issuances ($250 million due in 2020 and $500 million due in 2021). For its part, Garanti BBVA issued another Tier 2 issuance of TRY 253 million.

All of this, together with the evolution of the remaining elements eligible as Tier 2 capital, set the Tier 2 phased-in ratio at 2.28% as of December 31, 2019. In addition, in the first months of 2020, two subordinated debt issuances eligible as Tier 2 were issued, one of €1.0 billion issued by BBVA, S.A. and another of TRY 750 million issued by Garanti BBVA. These issuances will be included in the capital ratios for the first quarter of 2020 with an estimated impact of approximately +28 basis points on the Tier 2 ratio.

Chart 2. Annual evolution of the CET1 fully loaded ratio



(1) Includes impacts of IFRS 16 (-11pbs) and TRIMs (-14pbs).

(2) Others mainly include the contribution of minority interests eligible as CET1 and market impacts, such as exchange rate impacts and developments of the Held to Collect & Sell portfolio.

These levels are above the requirement established by the supervisor in his application letter in 2019, and above the regulatory requirements applicable to him as of January 1, 2020.

In November 2019, BBVA received a new communication from the Bank of Spain regarding its minimum requirement for own funds and eligible liabilities (MREL), as determined by the Single Resolution Board, that was calculated taking into account the financial and supervisory information as of December 31, 2017.

In accordance with such communication, BBVA has to reach, by January 1, 2021, an amount of own funds and eligible liabilities equal to 15.16% of the total liabilities and own funds of its resolution group, on sub-consolidated basis (the MREL requirement). Within this MREL, an amount equal to 8.01% of the total liabilities and own funds shall be met with subordinated instruments (the subordination requirement), once the relevant allowance is applied.

This MREL requirements equal to 28.50% in terms of risk-weighted assets (RWAs), while the subordination requirement included in the MREL requirement is equal to 15.05% in terms of RWAs, once the relevant allowance has been applied.

In order to comply with this requirement, BBVA has continued its program during 2019 by closing three non-preferred debt, for a total of €3.0 billion, of which one in green bonds by €1.0 billion. In addition, BBVA issued a senior preferred debt of €1.0 billion. Moreover, during the first two months of 2020, BBVA has issued a senior non-preferred debt of €1.25 billion and another of 0.16 billion Swiss francs. The Group estimates that the current own funds and eligible liabilities structure of the resolution group meets the MREL requirement, as well as the new subordination requirement.

For its part, Risk-weighted assets (RWAs) increased by approximately 16.1 billion euros in 2019 as a result of activity growth, mainly in emerging markets and the incorporation of regulatory impacts (the application of IFRS 16 standard and TRIM - Targeted Review of Internal Models) for approximately 7.6 billion euros (which have had an impact on the CET1 ratio of -25 basis points). It should be noted that during the second quarter of the year the recognition by the European Commission of Argentina as a country whose supervisory and regulatory requirements are considered equivalent[4] had a positive effect on the evolution of the RWAs.

The characteristics of the main capital instruments are shown in Annex III, available on the Group's website, in accordance with Commission Implementing Regulation (EU) No 1423/2013 of December 20, 2013.

The process of reconciliation between accounting own funds and regulatory own funds is shown below. Based on the shareholders' equity reported in the Group's Consolidated Annual Accounts and applying the deductions and adjustments shown in the table below, we arrive at the regulatory capital figure eligible for solvency purposes:

4 On April 1, 2019, the Official Journal of the European Union published Commission Implementing Decision (EU) 2019/536, which includes Argentina within the list of third countries and territories whose supervisory and regulatory requirements are considered equivalent for the purposes of the treatment of exposures in accordance with Regulation (EU) No. 575/2013.

Table 6. Reconciliation of the Public Balance Sheet from the accounting perimeter to the regulatory perimeter (Million Euros)

Eligible capital own funds	12-31-2019	12-31-2018[2]
Capital	3,267	3,267
Share premium	23,992	23,992
Retained earnings, revaluation reserves and other reserves	26,277	23,021
Other equity	56	50
Less: Treasury shares	(62)	(296)
Attributable to the parent company	3,512	5,400
Attributable dividend	(1,084)	(1,109)
Total equity	**55,958**	**54,326**
Accumulated other comprehensive income (Loss)	(7,235)	(7,215)
Non-controlling interest	6,201	5,764
Shareholders` equity	**54,925**	**52,874**
Goodwill and other intangible assets	(6,803)	(8,199)
Direct and synthetic treasury shares	(422)	(135)
Deductions	**(7,225)**	**(8,334)**
Differences from solvency and accounting level	(215)	(176)
Equity not eligible at solvency level	**(215)**	**(176)**
Other adjustments and deductions[3]	**(3,832)**	**(4,049)**
Common Equity Tier 1 (CET 1)	**43,653**	**40,313**
Additional Tier 1 before Regulatory Adjustments	**6,048**	**5,634**
Tier 1	**49,701**	**45,947**
Tier 2	**8,304**	**8,756**
Total Capital (Tier 1 + Tier 2)	**58,005**	**54,703**
TOTAL Minimum capital required[1]	**46,540**	**41,576**

[1] Calculated over minimum total capital applicable for each period.

[2] As a result of the amendment to IAS 12 "Income Tax" as explained in Note 2.3 of the Group's Consolidated Financial Statements, and in order to make the information comparable, the information for the 2018 financial year has been restated, with no impact on either consolidated equity or regulatory capital.

[3] Other adjustments and deductions includes the amount of minority interest not eligible as capital, amount of dividends not distributed and other deductions and filters set by the CRR.

2.3. IFRS 9 Transitional Arrangements

Following the guidelines of the EBA (EBA/GL/2018/01), the following is a summary of own funds, capital adequacy ratios, leverage ratio with and without the application of the transitional provisions of IFRS 9 or the analogous ECL.

Table 7. IFRS 9-FL - Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs (Million euros)

Own funds (million euros)	12-31-2019	09-30-2019	06-30-2019	03-31-2019	12-31-2018
CET1 Capital	43,653	43,432	42,329	41,784	40,313
CET1 Capital without IFRS9 transitional arrangement or similar ECL	42,844	42,623	41,520	40,975	39,449
Tier 1 Capital (T1)	49,701	51,035	48,997	47,455	45,947
Tier 1 Capital (T1) without IFRS9 transitional arrangement or similar ECL	48,892	50,226	48,188	46,646	45,083
Total Capital	58,005	59,731	56,941	54,797	54,703
Total Capital without IFRS9 transitional arrangement or similar ECL	57,196	58,922	56,132	53,988	53,839
Risk-weighted assets (million euros)					
Total Risk-weighted assets	364,448	368,196	360,069	360,679	348,264
Total Risk-weighted assets without IFRS9 transitional arrangement or similar ECL	364,943	368,690	360,563	361,173	348,804
Capital ratio					
CET1 Capital (as a percentage of total exposure to risk)	11.98%	11.80%	11.76%	11.58%	11.58%
CET1 Capital (as a percentage of total exposure to risk) without IFRS9 transitional arrangement or similar ECL	11.74%	11.56%	11.52%	11.35%	11.31%
Tier 1 Capital (T1) (as a percentage of total exposure to risk)	13.64%	13.86%	13.61%	13.16%	13.19%
Tier 1 Capital (T1) (as a percentage of total exposure to risk) without IFRS9 transitional arrangement or similar ECL	13.40%	13.62%	13.36%	12.92%	12.93%
Total Capital (as a percentage of total exposure to risk)	15.92%	16.22%	15.81%	15.19%	15.71%
Total Capital (as a percentage of total exposure to risk) without IFRS9 transitional arrangement or similar ECL	15.67%	15.98%	15.57%	14.95%	15.44%
Leverage Ratio					
Total exposure related to leverage ratio	731,087	740,141	732,135	722,708	705,299
Leverage Ratio	6.80%	6.90%	6.69%	6.57%	6.51%
Leverage ratio without IFRS9 transitional arrangements or similar ECL	6.70%	6.79%	6.58%	6.45%	6.39%

2.4. Entity risk profile

The BBVA Group has a general risk management and control model (hereinafter, the "Model") that is appropriate for its business model, its organization, the countries where it operates and its corporate governance system. This model allows the Group to carry out its activity within the risk management and control strategy and policy defined by the corporate bodies of BBVA and to adapt itself to a changing economic and regulatory environment, facing this management at a global level and aligned to the circumstances at all times. The Model establishes a suitable risk management system related to the risk profile and strategy of the entity.

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

- Credit risk and dilution: Credit risk arises from the probability that one party to a financial instrument will fail to meet its contractual obligations for reasons of insolvency or inability to pay and cause a financial loss for the other party. This includes counterparty risk, issuer risk, liquidation risk and country risk.
- Counterparty risk: The credit risk corresponding to derivative instruments, repurchase and resale transactions, securities or commodities lending or borrowing transactions and deferred settlement transactions.
- Credit Valuation Adjustment Risk (CVA): Its aim is to reflect the impact on the fair value of the counterparty's credit risk, resulting from OTC derivative instruments which are not recognized credit derivatives for the purpose of reducing the amount of credit risk weighted exposure.
- Market risk: Market risk originates in the possibility that there may be losses in the value of positions held due to movements in the market variables that affect the valuation of financial products and assets in the trading book. This includes risk with respect to the position in debt and equity instruments, exchange rate risk and commodity risk.
- Operational risk: a risk that can cause losses due to human errors, inadequate or defective internal processes, inadequate conduct toward customers or markets, failures, interruptions, or deficiencies of systems or communications, inadequate management of data, legal risk and, finally, as a consequence of external events,

including cyberattacks, fraud committed by third parties, natural disasters, and poor service provided by suppliers. This definition includes legal risk, but excludes strategic and/or business risk and reputational risk.

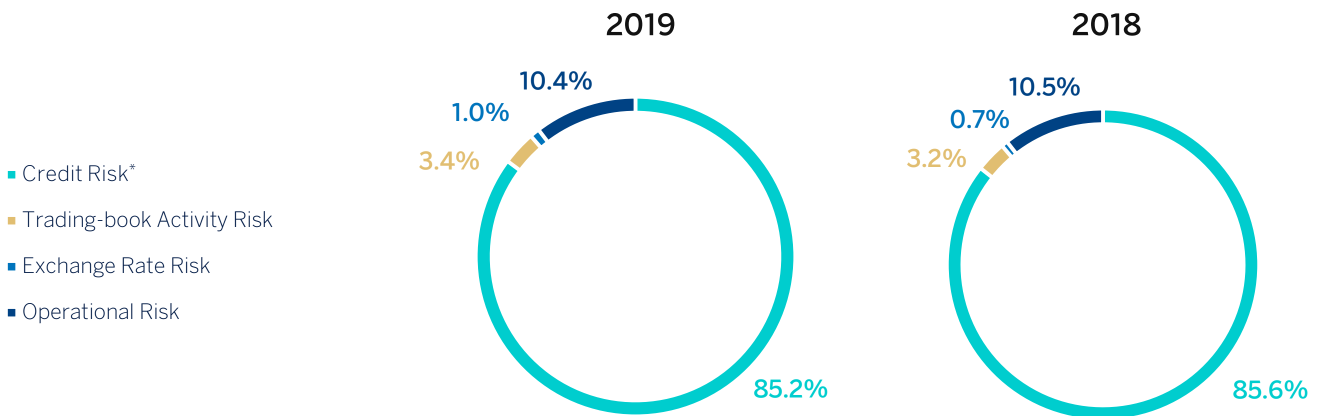
- *Structural risk:* This is divided into structural interest-rate risk (movements in market interest rates that cause changes in an entity's net interest income and book value) and structural exchange-rate risk (exposure to variations in exchange rates originating in the Group's foreign companies and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

- *Liquidity risk:* Risk of an entity having difficulties in duly meeting its payment commitments, or where, to meet them, it has to resort to funding under burdensome terms which may harm the Group's image or reputation.

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

The chart below shows the total risk-weighted assets broken down by type of risk (where credit risk encompasses counterparty risk) as of December 31, 2019 and December 31, 2018:

Chart 3. Distribution of RWAs by risk type eligible on Pillar I



(*) Credit Risk includes Risk by CVA adjustment

2.5. Breakdown of minimum capital requirementsby risk type

This section provides an overview of risk-weighted assets and the minimum capital requirements established by Article 92 of the CRR.

The following table shows the total capital requirements broken down by risk type as of December 31, 2019 and December 31, 2018:

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

	RWA[1]		Minimum Capital Requirements[2] [3]
	12-31-2019	12-31-2018	12-31-2019
Credit Risk (excluding CCR)	**286,159**	**274,256**	**22,893**
Of which the standardised approach[4]	190,603	188,158	15,248
Of which the foundation IRB (FIRB) approach[6]	4,606	5,421	369
Of which the advanced IRB (AIRB) approach[7]	88,191	77,733	7,055
Of which equity IRB under the simple risk-weighted approach[5]	2,758	2,944	221
CCR	**8,289**	**8,483**	**663**
Of which mark to market	6,716	7,065	537
Of which original exposure	-	-	-
Of which the standardised approach	-	-	-
Of which the Internal model method (IMM)	-	-	-
Of which risk exposure amount for contributions to the default fund of a CCP	44	41	3
Of which CVA	1,529	1,377	122
Settlement Risk	**-**	**-**	**-**
Securitisation exposures in the banking book (after the cap)	**924**	**2,623**	**74**
Of which IRB approach	863	1,673	69
Of which IRB supervisory formula approach (SFA)	-	-	-
Of which internal assessment approach (IAA)	-	-	-
Of which standardised approach	61	950	5
Market Risk	**16,066**	**13,316**	**1,285**
Of which the standardised approach	6,991	5,048	559
Of which IMA	9,075	8,268	726
Operational Risk	**37,877**	**36,725**	**3,030**
Of which basic indicator approach	805	5,908	64
Of which the standardised approach	15,250	9,341	1,220
Of which IRB approach	21,822	21,476	1,746
Amounts below the thresholds for deduction (subject to 250% risk weight)	**15,134**	**12,862**	**1,211**
Floor Adjustment	**-**	**-**	**-**
Total	**364,448**	**348,264**	**29,156**

[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] Under CET 1 requirements (9.27%) after the supervisory evaluation process (SREP), the requirements amount to EUR 33,784 million euro. Under Total Capital requirements (12.77%), the requirements amount to EUR 46,540 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%) are excluded, in accordance with Article 48.4 oh the CRR. This amount is 7,279 and 6,548 million euros as of December 31, 2019 and December 31, 2018, respectively.
In addition, the standardized approach includes the impact of the first application of IFRS16 (for further information on the standard, see Note 2.3. of the Group's consolidated Financial Statements).

[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%) are excluded, in accordance with Article 48.4 CRR. This amount is 7,854 and 6,313 million euros as December 31, 2019 and December 31, 2018, respectively.

[6] Exposures clasisified 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 December 31, 2019, it includes the effects derived from TRIM (Targeted Review of Internal Models) that will become effective in 2020.

The evolution of RWAs during 2019 is characterized by the organic growth of the activity, being the effect of the exchange rate not relevant at this period. Additionally, the following singular impacts stand out:

- Inclusion of regulatory impacts (application of IFRS 16 and TRIM - Targeted Review of Internal Models) for approximately €7.6 billion.
- Recognition by the European Commission of Argentina as an equivalent country for the purposes of supervisory and regulatory requirements with a reduction in RWAs of approximately €1.5 billion.
- Change from the basic approach to the standardized approach of operational risk at Garanti BBVA for the purpose of calculating consolidated requirements, which has resulted in a reduction of approximately €0.6 billion.

- Recognition of sovereign guarantees that mitigate the credit risk of securitization, mainly from the United States, which has led to a reduction of approximately €0.9 billion.

The respective sections of the report explain in more detail the evolution of RWAs by type of risk.

The following is a breakdown of risk-weighted assets and capital requirements broken down by risk type and exposure categories as of December 31, 2019 and December 31, 2018:

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

Exposure Class and risk type	Capital requirements[2]		RWA's[1]	
	12-31-2019	12-31-2018	12-31-2019	12-31-2018
Credit Risk	**16,014**	**15,817**	**200,176**	**197,715**
Central governments or central banks	2,375	2,445	29,685	30,560
Regional governments or local authorities	132	113	1,644	1,416
Public sector entities	63	57	790	714
Multilateral development banks	1	1	11	10
International organisations	-	-	-	-
Institutions	429	496	5,366	6,203
Corporates	6,999	7,159	87,486	89,481
Retail	3,079	2,941	38,493	36,768
Secured by mortgages on immovable property	1,199	1,237	14,983	15,466
Exposures in default	305	333	3,808	4,159
Exposures associated with particularly high risk	411	132	5,136	1,652
Covered bonds	-	-	-	-
Claims on institutions and corporates with a short-term credit assesment	0	0	1	2
Collective investments undertakings	1	5	8	57
Other exposures	1,021	898	12,767	11,229
Securitisation exposures	**5**	**76**	**61**	**950**
Securitisation exposures	5	76	61	950
Total credit risk by Standardised approach	**16,019**	**15,893**	**200,237**	**198,665**
Credit Risk	**7,125**	**6,498**	**89,061**	**81,222**
Central governments or central banks	54	54	673	677
Institutions	532	429	6,646	5,366
Corporates	4,769	4,441	59,615	55,513
Of which: SMEs	998	950	12,478	11,877
Of which: Specialised lending	433	506	5,407	6,330
Of which: Others	3,338	2,984	41,730	37,305
Retail	1,770	1,573	22,128	19,667
Of which: Secured by mortgages on immovable property	712	591	8,904	7,385
Of which: Qualifying revolving	589	555	7,365	6,938
Of which: Other SMEs	131	140	1,636	1,752
Of which: Other Non-SMEs	338	287	4,223	3,592
Equity	**1,293**	**1,220**	**16,167**	**15,246**
On the basis of method:	-		-	
Of which: Simple approach	813	647	10,164	8,085
Of which: PD/LGD approach	444	479	5,554	5,989
Of which: Internal models	36	94	449	1,172
On the basis of nature:	-		-	
Of which: Listed instruments	378	439	4,730	5,493
Of which: Non listed instruments in sufficiently diversified portfolios	915	780	11,437	9,753
Securitisation exposures	**69**	**134**	**863**	**1,673**
Securitisation exposures	69	134	863	1,673
Total credit risk by IRB approach	**8,487**	**7,851**	**106,091**	**98,141**
Total contributions to the default fund of a CCP	**3**	**3**	**44**	**41**
Total credit risk	**24,510**	**23,748**	**306,372**	**296,846**
Settlement risk	**-**	**-**	**-**	**-**
Standardised approach:	272	222	3,395	2,776
Of which: Price Risk by fixed income exposures	197	155	2,461	1,940
Of which: Price Risk by Securitisation exposures	2	1	21	13
Of which: Price Risk by correlation	51	54	641	670
Of which: Price Risk by stocks and shares	20	11	248	136
Of which: Commodities Risk	2	1	24	18
IRB: Market Risk	726	661	9,075	8,268
Total trading book risk	**998**	**884**	**12,470**	**11,044**
Foreing exchange risk (standardised approach)	**288**	**182**	**3,596**	**2,271**
CVA risk	**122**	**110**	**1,529**	**1,377**
Operational risk	**3,030**	**2,938**	**37,877**	**36,725**
Others [3]	**208**	**-**	**2,605**	**-**
Capital requirements	**29,156**	**27,861**	**364,448**	**348,264**

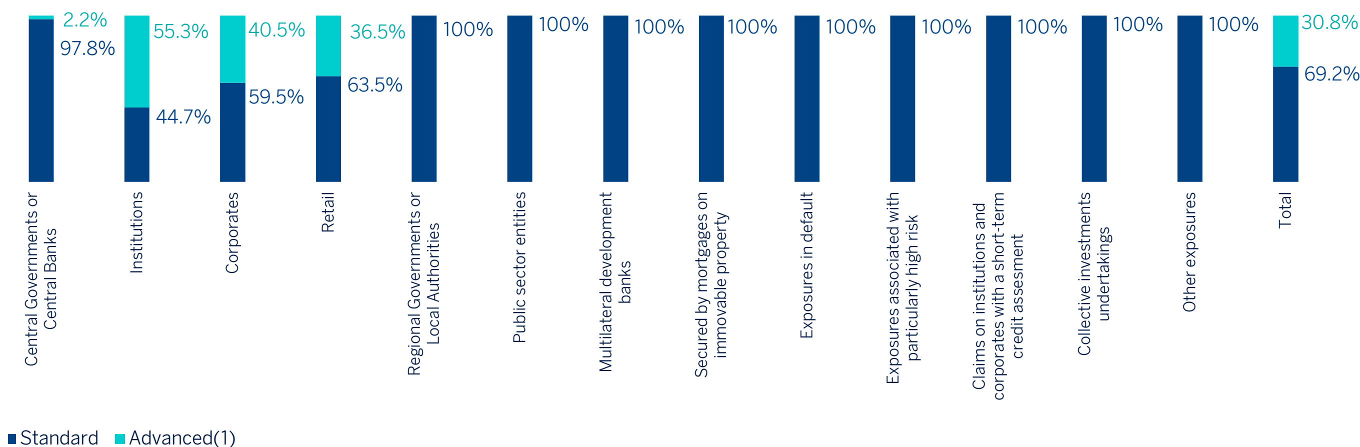
[1] Risk-weighted assets for the transitional period (phased-in).

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

[3] This line includes the regulatory impacts of TRIM (Targeted Review of Internal Models) which as of December 31, 2019 have not been assigned to their corresponding exposure category (mainly exposures secured by real estate property).

A breakdown of the percentage of RWAs calculated according to the standardized approach and IRB approach for each exposure category in the frameworks for credit and counterparty risk and securitization risk is below:

Chart 4. Distribution of RWAs by exposure category and method



(*) Excluding securitization and equity credit risk positions

(1) Table 28 of the report sets out the models and portfolios authorized by the supervisor to be used in calculating capital requirements.

2.6. Procedure used in the capital self-assessment process

The Group carries out the internal capital assessment process in accordance with the Capital Requirements Directive 2013/36/EU and guidelines on the supervisory review and evaluation process (SREP) published by the European Banking Authority. In accordance with Article 108 of the Capital Requirements Directive (2013/36/EU), the Group complies with the obligations set out in Article 73 thereof on a consolidated basis. Furthermore, the document is structured on the basis of the ECB's guidance on the internal capital adequacy assessment process (ICAAP) of November 2018.

Within the framework of the internal capital assessment process, the Group assesses and quantifies all risk that could significantly affect its capital position and draws a conclusion on the capital adequacy from a holistic medium-term perspective.

The Group applies a proportionate approach that aims to ensure the entity's survival and continued compliance with all legal and internal requirements. In addition to regulatory and accounting perspectives, the Group bases its capital adequacy position analysis on a sound internal approach in which its capital position is assessed under an economic vision, which includes quantifying capital needs for risk covered in Pillar 1 of Basel and the needs due to risk not covered by Pillar 1.

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

- Business and strategy model, describing both the changes planned by the bank in the current business model and its underlying activities such as the relationship between the business strategy and internal capital assessment process.
- Internal governance, risk management and the control framework, reviewing the processes and mechanisms that ensure that the bank has a sound and integrated framework for managing present and future material risk.
- Risk appetite framework, describing the correspondence between this framework and the bank's business strategy and model.
- Identification and assessment of risk (including credit, operational, market, liquidity and other structural risk) and quantification of the capital necessary to cover them, with a quantitative reconciliation between the Pillar 1 and Pillar 2 approaches.
- Planning capital under baseline and stress scenarios, projecting the capital base of the Group, the parent and its main subsidiaries over the next three years and analyzing capital sufficiency in accordance with the regulatory requirements and the internal objectives set out by the entity for the close of the period, also dealing with the planned capital actions.

This internal capital assessment process concludes with submission to the supervisor of an annual report on the process. The report plays a key role in the review and evaluation methodology applied by the Single Supervisory Mechanism, and is an important element for determining capital requirements under Pillar 2.