3. Eligible own funds and minimum requirements

3.1. BBVA Group's regulatory capital tiers 2

3.2. Eligible own funds 7

3.3. Own Funds requirements by risk type 12

3.3.1. Entity risk profile 12

3.3.2. Breakdown of minimum capital requirements by risk type 14

3.4. IFRS 9 and OCI Transitional Arrangements 17

3.5. Procedure used in the capital self-assesment process 19

3.1. BBVA Group's regulatory capital tiers

Article 92 of the CRR establishes that credit institutions must maintain the following own funds requirements at all times:

a. Common Equity Tier 1 capital ratio of 4.5%, calculated as Common Equity Tier 1 capital expressed as a percentage on the total amount of risk-weighted assets.

b. Tier 1 capital ratio of 6%, calculated as the level of tier capital 1 expressed as a percentage of the total amount of risk-weighted assets.

c. Total capital ratio of 8%, calculated as the total own funds expressed as a percentage of the total amount of risk-weighted assets

Notwithstanding the application of the Pillar 1 requirement, CRD IV allows competent authorities to require credit institutions to maintain a level of own funds higher than the requirements of Pillar 1 to cover types of risk other than those already covered by the Pillar 1 requirement (this power of the competent authority is commonly referred to as "Pillar 2").

Furthermore, from 2016 and in accordance with CRD IV, credit institutions must comply with the following combined requirement of capital buffers at all times: (i) the capital conservation buffer, (ii) the buffer for global systemically important banks (the "G-SIB" buffer), (iii) the entity-specific countercyclical capital buffer, (iv) the buffer for other systemically important banks ("D-SIB" buffer) and (v) the systemic risk capital buffer. The "combined capital buffer requirement" must be met with Common Equity Tier 1 capital ("CET1") to cover both minimum capital required by "Pillar 1" and "Pillar 2".

Both the capital conservation buffer and the G-SIB buffer (where appropriate) will apply to credit institutions as it establishes a percentage greater than 0%.

The buffer for global systemically important banks applies to those institutions on the list of global systemically important banks, which is updated annually by the Financial Stability Board ("FSB"). Considering the fact that BBVA does not appear on that list, as at the report date, the G-SIB buffer does not apply to BBVA. Detailed information on each of the quantitative indicators that form part of the evaluation process is available on the BBVA Group's website.

The Bank of Spain has extensive discretionary powers as regards the countercyclical capital buffer specific to each bank, the buffer for other systemically important financial institutions (which are those institutions considered to be systemically important domestic financial institutions "D-SIB") and the buffer against systemic risk (to prevent or avoid systemic or macroprudential risk). The European Central Bank (ECB) has the powers to issue recommendations in this respect following the entry into force on November 4, 2014 of the Single Supervisory Mechanism (SSM).

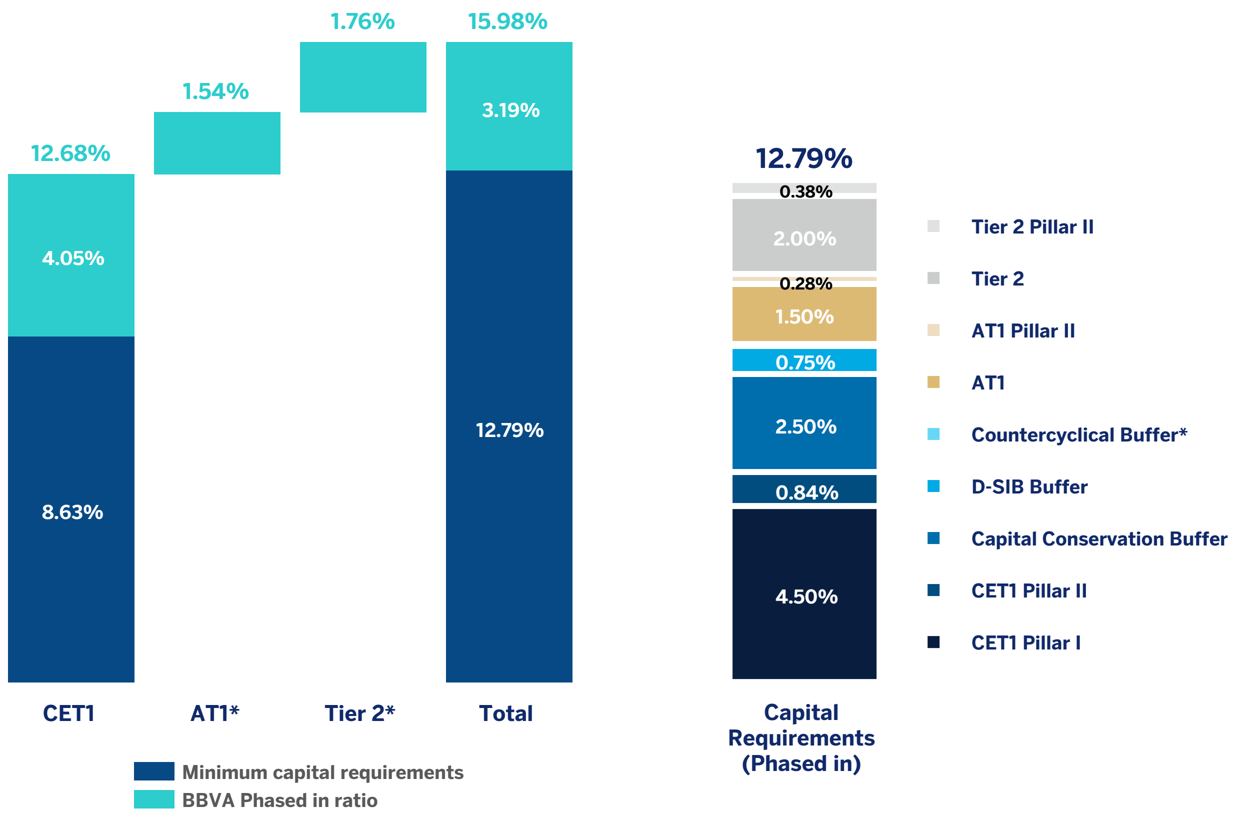
With regard to minimum capital requirements, following the latest decision of the SREP (Supervisory Review and Evaluation Process), which comes into force as of January 1, 2023, the ECB has notified the Group of maintaining the Pillar 2 requirement at 1.71 Therefore, BBVA must maintain a CET1 capital ratio of 8.75% and a total capital ratio of 13.00% at a consolidated level.

Thus, the consolidated overall capital requirement includes: i) the minimum capital requirement of Common Equity Tier 1 (CET1) of Pillar 1 (4.5%); ii) the capital requirement of Additional Tier 1 (AT1) of Pillar 1 (1.5%); iii) the capital requirement of Tier 2 of Pillar 1 (2%); iv) the CET1 requirement of Pillar 2 (0.96%), v) the capital requirement of Additional Tier 1 (AT1) of Pillar 2 (0.32%); vi) the capital requirement of Tier 2 of Pillar 2 (0.43%); vii) the capital conservation buffer (2.5% of CET1); viii) the capital buffer for Other Systemically Important Institutions (O-SIIs) (0.75% of CET1); and ix) the countercyclical buffer (CCyB) (0.04% of CET1)

The BBVA Group has set the objective of maintaining a fully-loaded CET1 ratio at a consolidated level between 11.5% and 12.0%. At the end of the financial year 2022, the fully-loaded CET1 ratio was above this target management range.

CET1 phased-in ratio reach 12.68% which represents +405 basis points over the minimum requirement of 8.63%.

Chart 5. Capital requirements and capital ratios (Phased in)



(*) The AT1 requirement is 1.78%, and Tier2, 2.38%.

(*) The countercyclical capital buffer as of December 31, 2022 amounts to 0.04%.

The following table shows the CET1 ratio that would trigger restrictions on capital distribution capacity and the capital ratios as of December 2022:

Table 5. Capital distribution constraints (12-31-2022)

	CET1 capital ratio that would trigger capital distribution constraints (%)	Current CET 1 capital ratio(%)
CET1 Pillar 1	4.50%	
CET1 Pillar 2 (P2R)	0.84%	
Capital conservation buffer	2.50%	
D-SIB buffer	0.75%	
Countercyclical buffer	0.04%	
CET1 phased-in minimum plus Basel III buffers (excluding capital used to meet other minimum regulatory capital)	**8.63%**	**12.68%**
CET1 phased-in minimum plus Basel III buffers (including capital used to meet other minimum regulatory capital)	**9.49%**	**12.68%**

The following table shows the distribution by geographic areas of the credit exposure for calculation of the countercyclical capital buffer. Countries where no buffer is established are grouped:

Table 6.1. EU CCyB1 - Geographical breakdown of relevant credit exposures for the calculation of the countercyclical capital buffer (Million Euros. 12-31-2022)

	General credit exposures [(1)]		Trading book exposure		Securitisation exposure		Own funds requirements						
	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book	Trading book exposure value for internal models	Exposure value for SA	Total exposure value	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Risk-weighted exposure amounts	Own funds requirements weights	Countercyclical capital buffer rate
Geographical breakdown													
Bulgary	26	1	—	—	—	27	2	—	—	2	26	0.01 %	1.00 %
Denmark	5	130	6	6	—	147	6	—	—	6	75	0.03 %	2.00 %
Slovakia	—	153	—	—	—	153	20	—	—	20	251	0.11 %	1.00 %
Estonia	—	1	—	—	—	1	—	—	—	—	—	—	1.00 %
Hong-Kong	2	3,998	—	—	—	4,000	75	—	—	75	943	0.41 %	1.00 %
Iceland	—	—	—	—	—	—	—	—	—	—	—	—	2.00 %
Luxembourg	72	2,219	15	15	—	2,321	91	2	—	92	1,155	0.50 %	0.50 %
Norway	15	44	15	14	—	87	2	—	—	2	26	0.01 %	2.00 %
United Kingdom	1,133	7,576	71	69	—	8,848	413	8	—	421	5,259	2.30 %	1.00 %
Czech Republic	1	103	—	—	—	104	5	—	—	5	58	0.03 %	1.50 %
Romania	2,200	11	—	—	—	2,210	113	—	—	113	1,409	0.62 %	0.50 %
Sweden	21	267	11	11	—	310	13	1	—	14	170	0.08 %	1.00 %
Total countries with countercyclical capital buffer	**3,475**	**14,503**	**118**	**115**	**—**	**18,208**	**740**	**11**	**—**	**750**	**9,372**	**4.10 %**	
Germany	166	5,470	97	92	25	5,850	199	8	—	207	2,584	1.13 %	—
Argentina	5,279	219	124	—	—	5,622	395	—	—	395	4,938	2.16 %	—
Colombia	2,336	874	28	27	—	3,265	184	2	—	186	2,325	1.02 %	—
Spain	13,774	698	79	29	—	14,579	856	4	—	859	10,743	4.70 %	—
United States	22,620	146,003	67	43	4,140	172,873	5,413	3	36	5,452	68,154	29.81 %	—
France	724	24,704	143	158	—	25,730	785	9	—	794	9,925	4.34 %	—
Italy	1,321	8,481	204	205	—	10,211	304	7	—	312	3,898	1.71 %	—
Mexico	45	5,327	22	19	—	5,413	208	—	—	208	2,598	1.14 %	—
Netherlands	37,151	37,910	387	270	—	75,719	4,073	45	—	4,118	51,475	22.51 %	—
Peru	541	4,956	112	111	—	5,719	197	8	—	206	2,571	1.13 %	—
Portugal	18,100	849	50	1	—	19,000	1,129	—	—	1,129	14,116	6.17 %	—
United Kingdom	2,581	2,374	4	3	—	4,963	238	—	—	238	2,975	1.30 %	—
Turkey	41,677	567	246	—	—	42,491	2,755	2	—	2,758	34,471	15.08 %	—
Total countries with a 0% countercyclical buffer or without countercyclical capital buffer (with own funds requirements greater than 1%)	**146,315**	**238,432**	**1,563**	**958**	**4,165**	**391,435**	**16,736**	**88**	**36**	**16,862**	**210,773**	**92.18 %**	
Other areas [(2)]	4,093	12,142	167	80	—	16,483	669	11	—	679	8,497	3.72 %	
Total countries without countercyclical capital buffer (with own funds requirements less than 1%)	**4,093**	**12,142**	**167**	**80**	**—**	**16,483**	**669**	**11**	**—**	**679**	**8,497**	**3.72 %**	
Total	**153,883**	**265,077**	**1,848**	**1,153**	**4,165**	**426,126**	**18,145**	**110**	**36**	**18,291**	**228,642**	**100.00 %**	

(1) Credit exposure excludes exposures to Central Governments or Central Banks, Regional Governments or Local Authorities, Public sector entities, Multilateral Development Banks, International Organisations and Institutions in accordance with art. 140.4 of Directive 2013/36/EU.

(2) A full breakdown of the countries with relevant exposures for the calculation of the countercyclical capital buffer which are included in "Other areas", is in Annex IV.

Table 6.2. EU CCyB2 - Amount of institution-specific countercyclical capital buffer (Million Euros. 12-31-2022)

	a
Total risk exposure amount	337,066
Institution specific countercyclical buffer rate [1]	0.04 %
Institution specific countercyclical buffer requirement	121

[1] Countercyclical capital buffer calculated as of December 2022 in accordance with Commission Delegated Regulation (EU) 2015/1555.

The countercyclical capital buffer requirement applicable to the BBVA Group is approximately 0.04%, which increased 3 basis points compared to December 2021. This requirement means that the Group must maintain an additional capital buffer of 121 million euros at the end of December 2022.

The increase is mainly due to the activation of the requirement in the United Kingdom (1%), a territory where the Group has significant exposures, making it one of the 10 countries where the Group has the greatest exposure. Additionally, and to a lesser extent, it has also been affected by the activation or increase of the requirement in other less relevant geographies for the Group.

3.2. Eligible own funds

For the purposes of calculating minimum capital requirements, according to Regulation (EU) 575/2013 and subsequent amendments, which are applicable as of the report date, 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, Title I 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 comprehensive income.

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 authorised by the supervisor (following the treatment set out in Article 5 of Decision (EU) 2015/656 of the ECB). As of December 31, 2022, it includes the prudential accrual of 0.31 cents/share as Shareholders remuneration related to 2022 results, which has been agreed by the Management Board on January, 31, 2023 (pending approval by the General Shareholders' Meeting to be held on March 17, 2023).

Furthermore, CET1 capital is adjusted mainly through the following deductions:

f. Additional value adjustments: this includes adjustments resulting from the prudent valuation of positions at fair value, 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.This includes the positive effect due to the prudent treatment of software following the publication of Delegated Regulation 2020/2176 of December 22.

h. Deferred tax assets: it includes deferred tax assets that rely on future profitability and do not rise 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 own 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 instruments eligible as 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 the amount of the treasury stock up to the maximum limit authorized by the ECB to the BBVA Group and the financing of own treasury shares.

m. Securitisation: any instance of securitisation that receives a risk weight of 1.250% is included, as set out in Article 36.1 k) ii) of the CRR.

n. Other regulatory adjustments: other CET1 deductions are included according to the CRR,

which were not recognised in the above headings, such as:

i. losses and gains at fair value arising from the entity's own credit risk related to derivative liabilities (DVA).

ii. the amount corresponding to the insufficient coverage of non-performing exposures, taking into account both Article 36.1.m) of the CRR and the supervisory expectations on prudential provisions for non-performing exposures published in the Appendix to the ECB Guide on non-performing loans for credit institutions published in March 2018.

iii. the adjustment for the transitional treatment of the impact of IFRS9. In this regard, it is worth mentioning that since 2018, the BBVA Group has applied the static and dynamic treatment of the impacts of IFRS 9, therefore, the phased-in capital and leverage ratios are calculated taking into account the transitional provisions defined in Article 473 bis of the CRR and its subsequent amendments to the aforementioned article introduced by Regulation 2020/873 of the Parliament and of the Council of June 24, 2020 in response to the COVID19 Pandemic, opting to apply section 7a of the aforementioned article in the calculation of the impact of the transitory treatment on phased-in risk-weighted assets.

iv. the amount of the deduction arise from significant holdings in financial institutions and deferred tax assets arising from temporary differences that exceed the 10% limit of the CET1, as well as the deduction for exceeding the joint limit of 17.65% of the CET1 according to Article 48.2 of the CRR.

In addition, as of December 31, 2022, the Group do not hold stakes in financial institutions that are excluded from the application of the previously mentioned limits (article 49 of the CRR) and, therefore, the standard template of the EBA EU INS1 shall not be applicable.

v. the execution of 422 million share buyback program, subject to obtaining the corresponding regulatory authorizations and the communication of the specific terms and conditions of the program prior to the beginning of its execution.

In addition, the Group includes as eligible own funds the AT1 capital, which is comprised of:

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

Finally, the Group also includes Tier 2 eligible capital as own funds, which includes the following elements:

q. Capital instruments and Tier 2 share premiums: includes funding that, for credit ranking purposes, comes behind all the common creditors. The issues, moreover, have to fulfil a number of conditions, which are laid out in Article 63 of the CRR, taking into account the transitory provisions established in Part Ten, Chapter 4 of the CRR

r. 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.

s. Credit risk adjustments: it includes the surplus resulting from comparing the provisions and expected credit losses related to exposures calculated under IRB approach with the limit of 0.6% of the risk-weighted exposure.

t. Tier 2 Regulatory adjustments: this mainly includes direct and indirect holdings of own Tier 2 capital instruments and the adjustment of the element described in letter s) derived from the transitional treatment of the impact of IFRS9.

Annex III outlines the main characteristics of capital instruments eligible for inclusion as additional Tier 1 and Tier 2 capital, in accordance with the standard template EU CCA.

The amount of total eligible capital, net of deductions, for the different items making up the capital base as of December 31, 2022 and 2021, respectively, is below, in accordance with the requirements for the disclosure of information related to regulatory own funds established by the Implementing Technical Standards (EBA/ ITS/2020/04) (Implementing Regulation 2021/637 of March 15, 2021):

Table 7. Amount of capital (EU CC1) (Million Euros)

Reference to template EU CC2[1]	12-31-2022	6-30-2022	12-31-2021
a) Capital and share premium	23,810	25,463	26,866
b) Retained earnings	31,436	31,214	30,745
c) Other accumulated earnings and other reserves	(13,952)	(13,295)	(17,200)
d) Minority interests eligible as CET1	1,853	1,988	2,800
e) Net profit of the year attributtable to the Group (2)	3,814	1,478	2,573
Common Equity Tier 1 Capital before other regulatory adjustments	**46,962**	**46,847**	**45,784**
f) Additional value adjustments	(356)	(350)	(260)
g) Intangible assets	(1,395)	(1,416)	(1,484)
h) Deferred tax assets	(1,057)	(1,048)	(1,009)
i) Fair value reserves related to gains o losses on cash flow hedges	425	662	483
j) Expected losses in equity	(16)	—	—
k) Profit or losses on liabilities measured at fair value	(72)	(97)	(2)
l) Direct, indirect and synthetic holdings of own instruments	(356)	(1,749)	(2,800)
m) Securitisations tranches at 1250%	(1)	(24)	(22)
n) Other CET1 regulatory adjustments (2)	(1,396)	(1,262)	(741)
Total Common Equity Tier 1 regulatory adjustments	**(4,223)**	**(5,284)**	**(5,835)**
Common Equity Tier 1 (CET1)	**42,738**	**41,563**	**39,949**
o) Equity instruments and AT1 share premium	4,875	4,925	5,265
p) Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	318	339	472
Additional Tier 1 before regulatory adjustments	**5,193**	**5,264**	**5,737**
Additional Tier 1 (AT1)	**5,193**	**5,264**	**5,737**
Tier 1 (Common Equity Tier 1+Additional Tier 1)	**47,931**	**46,828**	**45,686**
q) Equity instruments and Tier 2 share premiums	3,510	3,737	4,324
r) Eligible own funds instruments included in consolidated Tier 2 issued by subsidiaries and held by third parties	2,310	2,333	2,516
s) Credit risk adjustments	213	758	722
Tier 2 before regulatory adjustments	**6,033**	**6,828**	**7,562**
t) Tier 2 regulatory adjustments	**(103)**	**(9)**	**(179)**
Tier 2	**5,930**	**6,819**	**7,383**
Total Capital (Total capital = Tier 1 + Tier 2)	**53,861**	**53,647**	**53,069**
Total RWAs	**337,066**	**330,871**	**307,795**
CET 1 (phased-in)	12.68 %	12.56 %	12.98 %
CET 1 (fully loaded)	12.61 %	12.45 %	12.75 %
TIER 1 (phased-in)	14.22 %	14.15 %	14.84 %
TIER 1 (fully loaded)	14.15 %	14.05 %	14.62 %
Total Capital (phased-in)	15.98 %	16.21 %	17.24 %
Total Capital (fully loaded)	15.94 %	16.11 %	16.99 %

[*] As of 31 December 2022, the difference between the phased-in and fully loaded ratios arises from the transitional treatment of certain elements of capital, mainly the impact of IFRS 9, to which the BBVA Group has voluntarily adhered (in accordance with article 473a of the CRR). See table 11 for more information on the transitional impact of IFRS 9.

In addition, noted that the Group as of December, 31, 2022 is not applying the transitional treatment of unrealised gains and losses valued at fair value through Other comprehensive Income (hereinafter, unrealised P&L measured at fair value through OCI) as defined in Article 1.6 of that Regulation amending Article 468 of the CRR. Therefore, the Group's own funds, capital and leverage ratios to date reflect the full impact of the above-mentioned unrealised P&L measured at fair value through OCI.

[1] References to regulatory balance sheet (EU CC2) where these items are included.

[2] As of December 31, 2022, the total shareholder remuneration for 2022 is deducted from CET 1, so that "Net profit of the year attributable to the Group" includes the amount of cash remuneration (€2,593 million) and "Other CET1 regulatory adjustments" includes the deduction of €422 million corresponding to the execution of a program to repurchase BBVA shares, approved by the Board of Directors on January 31, 2023 and subject to obtaining the corresponding regulatory authorizations.

The CET1 fully-loaded ratio of the BBVA Group (hereinafter, the Group) stood at 12.61% at the end of December 2022, which allows maintaining a large management buffer over the Group's CET 1 requirement (8.63%) and over the Group's target management range established between 11.5-12% of CET 1. The phased-in CET 1 ratio was 12.68%, the difference between the two ratios is explained by the effect of the transitional adjustments of the IFRS9 impacts on solvency indicators.

These ratios incorporate the effects of the corporate transactions carried out during the year, with a combined impact of -38 basis points on the Group's CET1. These

transactions are the agreement reached with Neon Payments Limited in the first quarter of 2022, the voluntary takeover bid for Garanti BBVA and the acquisition from Merlin of 100% of Tree Inversiones Inmobiliarias Socimi, S.A. in the second quarter of 2022. Excluding these elements, the CET1 fully loaded ratio has increased by 24 basis points, mainly explained by: the generation of earnings in the year (+214 basis points) which, net of shareholder remuneration and payment of CoCos coupons (Contingent Convertible) has generated a positive contribution of +106 basis points. On the other hand, the growth of risk-weighted assets (RWAs) in constant has subtracted -101 basis points, reflecting the organic growth of the activity. Finally, the other elements that make up CET 1 had a positive contribution of +19 basis points; these include market effects, minority interests, regulatory impacts and the compensation in equity of the negative effect on results due to the loss in value of the net monetary position in hyperinflationary economies.

Additional Tier 1 (AT1) fully-loaded capital stood at 1.54% at the end of December 2022 (1.54% phased-in), 34 basis points lower than in 2021, which includes the €500 million reduction effect from the early redemption of a CoCos issue dating back to 2017.

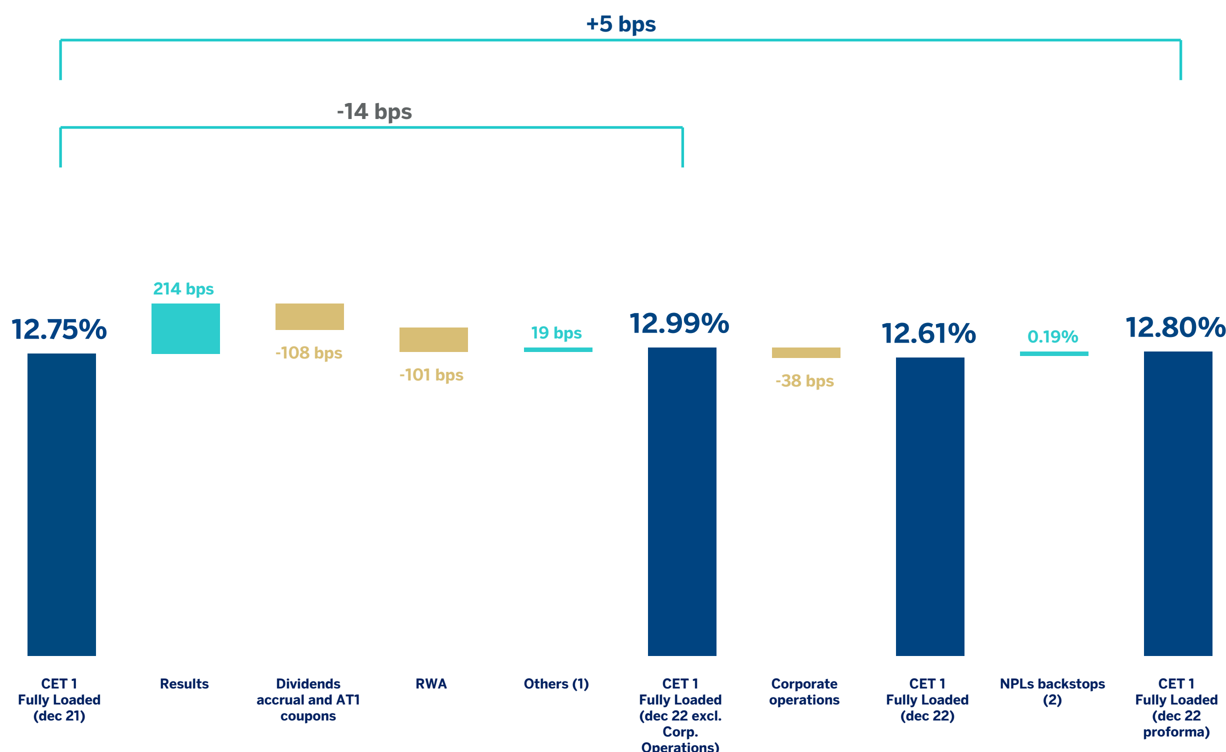
The Tier 2 fully-loaded ratio stood at 1.79% (1.76% phased-in) which represents a reduction of -58 basis points compared to 2021, mainly explained by the effect of increased RWAs during the year and the lower computability of internal credit model provisions.

As a consequence of the foregoing, the fully-loaded total capital ratio stands at 15.94 % as of December 2022, while the total phased-in ratio is 15.98 % as of the same date.

Following the latest SREP (Supervisory Review and Evaluation Process) decision, the ECB has informed the Group that with effect from January 1, 2023, it must maintain at consolidated level a total capital ratio of 13.00% and a CET1 capital ratio of 8.75%, which include a Pillar 2 requirement at consolidated level of 1.71% (a minimum of 0.96% must be satisfied with CET1). Regarding this total capital requirement, 0.21% (0.12% to be met by CET1) corresponds to the ECB's prudential provisioning expectations. Prudential provisions, as of January 1, 2023, will no longer be treated as a deduction in CET1 with a positive effect of 19 basis points on the December 2022 close, which would be equivalent to a pro-forma ratio of 12.80%.

The evolution of fully loaded CET1 ratio during the year 2022 is below:

Chart 6. Annual evolution of the CET1 fully loaded ratio



(1) Includes, among others, minority interests, market related impacts, regulatory impacts and the credit in OCIs that offsets the debit in P&L due to the hyperinflation accounting.

(2) Includes the reversal of the NPL backstop deduction (+19 bps) in January 2023. From that time the SREP Requirement is 8.75% for BBVA Group.

The process of reconciliation between accounting own funds and regulatory own funds is shown below. Based on the shareholders' equity reported in the Consolidated Financial Statements of BBVA Group and applying the

deductions and adjustments shown in the table below, reaching to the regulatory capital figure eligible for solvency purposes:

Table 8. Reconciliation of the Public Balance Sheet from the accounting perimeter to the regulatory perimeter (Million Euros)

Eligible capital own funds	12-31-2022	12-31-2021
Capital	2,955	3,267
Share premium	20,856	23,599
Retained earnings, revaluation reserves and other reserves	34,881	29,984
Other equity	63	60
Less: Treasury shares	(29)	(647)
Attributable to the parent company	6,420	4,653
Attributable dividend	(722)	(532)
Total equity	**64,422**	**60,384**
Accumulated other comprehensive income (Loss)	(17,432)	(16,477)
Non-controlling interest	3,624	4,853
Shareholders`equity	**50,615**	**48,760**
Goodwill and other intangible assets	(1,395)	(1,484)
Deductions	**(1,722)**	**(1,484)**
Differences from solvency and accounting level	(123)	(130)
Equity not eligible at solvency level	**(123)**	**(130)**
Other adjustments and deductions[2]	**(6,032)**	**(7,197)**
Common Equity Tier 1 (CET 1)	**42,738**	**39,949**
Additional Tier 1 before Regulatory Adjustments	**5,193**	**5,737**
Total regulatory adjustments of additional Tier 1	**—**	**—**
Tier 1	**47,931**	**45,686**
Tier 2	**5,930**	**7,383**
Total Capital (Tier 1 + Tier 2)	**53,861**	**53,069**
Total Minimum capital required[1]	**43,111**	**39,275**

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

[2] Other adjustments and deductions include, among others, the adjustment related to the amount of minority interest not eligible as capital, the amount of the treasury shares repurchase up to the maximum limit authorised by the ECB to BBVA Group and the amount of dividends not yet distributed.

3.3. Own Funds requirements by risk type

3.3.1. 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 organisation, 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 reverse repurchase 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 recognised 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 may cause losses as a result of human error; inadequate or defective internal processes; inadequate conduct towards customers, in the markets or against the company; failures, interruptions or deficiencies in systems or communications; theft, loss or misuse of information, as well as deterioration of its quality; internal or external fraud including, in all cases, fraud resulting from cyber-attacks; theft or physical damage to assets or persons; legal risks; risks resulting from workforce and occupational health management; and inadequate 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 following table shows the total capital requirements broken down by risk type as of quarter-end from December 31, 2021 to December 31, 2022:

Table 9. EU OV1 - Overview of RWAs (Million Euros)

	RWEAs(1)					Minimum Capital Requirements (2) (3)
	12-31-2022	9-30-2022	6-30-2022	3-31-2022	12-31-2021	12-31-2022
Credit risk (excluding CCR) (4)	**285,362**	**278,942**	**270,369**	**257,856**	**247,299**	**22,829**
Of which the standardised approach (5)	143,612	150,696	144,373	135,061	129,741	11,489
Of which the Foundation IRB (F-IRB) approach	—	—	—	—	—	—
Of which: slotting approach	5,177	5,541	4,928	4,718	4,498	414
Of which equity IRB under the simple risk-weighted approach(6)	2,570	2,600	2,307	2,418	2,442	206
Of which the Advanced IRB (A-IRB) approach (7)	102,547	104,095	102,013	100,760	97,614	8,204
Counterparty credit risk - CCR	**11,232**	**13,436**	**11,646**	**11,115**	**13,870**	**899**
Of which the standardised approach (8)	6,725	8,908	8,023	7,791	9,661	538
Of which internal model method (IMM)	—	—	—	—	—	—
Of which exposures to a CCP(9)	702	551	223	154	156	56
Of which credit valuation adjustment - CVA	1,741	2,461	2,072	1,932	2,518	139
Of which other CCR	2,063	1,516	1,328	1,238	1,535	165
Settlement risk	**—**	**—**	**—**	**—**	**—**	**—**
Securitisation exposures in the non-trading book (after the cap)(10)	**455**	**326**	**364**	**296**	**325**	**36**
Of which internal assessment approach (SEC-IRBA)	438	271	345	274	300	35
Of which external assessment approach (SEC-ERBA)	17	17	20	22	25	1
Of which standardised approach (SEC-SA)	—	37	—	—	—	—
Of which 1250%/ deduction (10)	—	—	—	—	—	—
Market Risk	**12,969**	**15,568**	**15,751**	**14,867**	**14,712**	**1,037**
Of which the standardised approach (SA)	4,716	5,439	5,884	5,580	4,445	377
Of which IMA	8,252	10,129	9,866	9,287	10,267	660
Large exposures	**—**	**—**	**—**	**—**	**—**	**—**
Operational risk	**27,049**	**33,407**	**32,742**	**32,227**	**31,589**	**2,164**
Of which basic indicator approach	946	690	699	719	748	76
Of which standardised approach	26,103	32,717	32,043	31,508	30,841	2,088
Of which advanced measurement approach	—	—	—	—	—	—
Amounts below the thresholds for deduction (subject to 250% risk weight)(11)	*16,268*	*16,319*	*15,827*	*15,442*	*15,112*	*1,301*
Total	**337,066**	**341,678**	**330,871**	**316,361**	**307,795**	**26,965**

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

(2) Considering the minimum total capital requirement of 8% (Article 92 of the CRR)

(3) Under the total capital requirement ratio after the supervisory review process (SREP), the total capital requirement ratio amounts to 12.79% (€43,111 million as of the reporting date)

(4) Including amounts below the deduction thresholds subject to 250% weight (DTAs rise to €8,472 million and significant investments in financial sector entities and insurance companies amounting to €7,796 million).

(5) Excluding deferred tax assets arising from temporary differences subject to 250% risk weight in accordance with Article 48.4 CRR. This amount is €8,472 million as of december 31, 2022.

(6) It only includes equity exposures under the simple method of IRB approach.

(7) It only includes credit risk exposures under the advanced internal ratings-based approach (AIRB).

(8) It only includes SA-CCR for derivatives.

(9) This row includes the total RWAs corresponding to exposures with central counterparties (CCPs), both qualified and non-qualified, among which are also the initial margins.

(10) The BBVA Group deducts from capital those securitisations meeting the deduction requirements, so it does not apply a weight of 1,250% to these exposures. In this row, the value of €11 million that would result from applying this weight to the exposures deducted is not included.

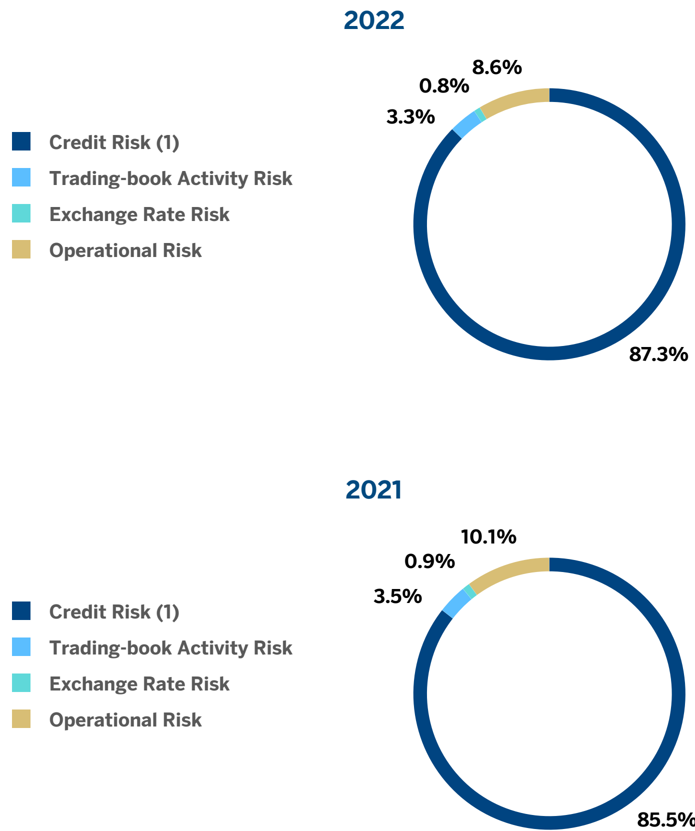
(11) The information in this row is disclosed for information purposes only, as the amount included here is also included in row 1, where institutions are requested to disclose information on credit risk. As a consequence, this row should not be taken into account when calculating the total indicated at the bottom of the table.

In 2022, , risk-weighted assets grew by approximately €30 billion euros, mainly due to the dynamism of lending activity throughout the Group. Of particular note were Turkey and South America, where the Group applies standardised approach. The above growth is partly reduced by the evolution of counterparty credit risk, as well as market risk, in line with the lower volatility observed. Finally, the Group recorded a net impact of supervisory effects and model updates in the calculation of operational risk of approximately €8.2 billion, which had an impact on the Group's CET 1 ratio of approximately -30 basis points.:

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

Total risk-weighted assets are shown below, broken down by type of risk (where credit risk includes counterparty risk) as of December 31, 2022 and December 31, 2021:

Chart 7. Distribution of RWAs by risk type eligible on Pillar 1



(1) Credit Risk includes Risk for CVA adjustment and the prudential advance for the impacts of the TRIM and other regulatory/supervisory impacts

3.3.2. Breakdown of minimum capital requirements by 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 is a breakdown of risk-weighted assets and capital requirements broken down by risk type and exposure categories as of December 31, 2022, September 30, 2022 and December 31, 2021:

Table 10. Capital requirements by risk type and exposure class (Million Euros)

	Capital requirements[2]			RWA's[1]		
Exposure Class and risk type	**12-31-2022**	**9-30-2022**	**12-31-2021**	**12-31-2022**	**9-30-2022**	**12-31-2021**
Credit Risk	**11,779**	**12,366**	**10,853**	**147,240**	**154,576**	**135,660**
Central governments or central banks	2,500	2,556	2,521	31,254	31,948	31,511
Regional governments or local authorities	107	96	95	1,335	1,194	1,189
Public sector entities	80	73	70	1,002	917	876
Multilateral development banks	—	—	—	6	6	6
International organisations	—	—	—	—	—	—
Institutions	393	544	566	4,916	6,805	7,073
Corporates	3,660	3,935	3,177	45,746	49,185	39,710
Retail	2,910	2,901	2,282	36,379	36,262	28,520
Secured by mortgages on immovable property	790	827	691	9,871	10,332	8,637
Exposures in default	215	233	280	2,691	2,913	3,495
Exposures associated with particularly high risk	225	241	292	2,809	3,007	3,654
Covered bonds	—	—	—	—	—	—
Claims on institutions and corporates with a short-term credit assessment	—	2	—	—	24	—
Collective investments undertakings	—	—	—	1	1	1
Equity exposures	—	—	—	—	—	—
Other exposures	898	959	879	11,230	11,982	10,987
Total credit risk by standardised approach	**11,779**	**12,366**	**10,853**	**147,240**	**154,576**	**135,660**
Credit Risk	**9,075**	**9,316**	**8,599**	**113,432**	**116,453**	**107,492**
Central governments or central banks	88	101	79	1,105	1,266	983
Institutions	587	662	578	7,336	8,278	7,228
Corporates	6,441	6,631	6,044	80,508	82,892	75,554
Of which: SMEs	*1,032*	*1,058*	*1,202*	*12,896*	*13,224*	*15,023*
Of which: Specialised lending	*424*	*454*	*414*	*5,306*	*5,677*	*5,173*
Of which: Others	*4,985*	*5,119*	*4,429*	*62,307*	*63,991*	*55,359*
Retail	1,959	1,921	1,898	24,483	24,017	23,727
Of which: Secured by mortgages on immovable property (SME)	*86*	*87*	*108*	*1,078*	*1,091*	*1,346*
Of which: Secured by mortgages on immovable property (non SME)	*713*	*711*	*774*	*8,916*	*8,888*	*9,681*
Of which: Qualifying revolving	*709*	*696*	*523*	*8,868*	*8,699*	*6,541*
Of which: Other SMEs	*93*	*90*	*122*	*1,158*	*1,120*	*1,520*
Of which: Other Non-SMEs	*357*	*337*	*371*	*4,463*	*4,218*	*4,639*
Equity	**1,048**	**1,053**	**1,059**	**13,097**	**13,160**	**13,235**
Simple risk weight approach	206	208	195	2,570	2,600	2,442
Exposures in sufficiently diversified portfolios (RW 190%)	*120*	*117*	*108*	*1,500*	*1,465*	*1,351*
Exchange traded exposures (RW 290%)	*44*	*49*	*56*	*551*	*612*	*702*
Others (RW 370%)	*42*	*42*	*31*	*519*	*523*	*389*
PD/LGD approach	180	180	205	2,250	2,248	2,559
Internal models approach	38	23	35	481	289	433
Exposures subject to 250% risk weght	624	642	624	7,796	8,022	7,800
Total credit risk by IRB approach	**10,122**	**10,369**	**9,658**	**126,529**	**129,612**	**120,727**
Total contributions to the default fund of a CCP	**12**	**22**	**4**	**154**	**279**	**54**
Securitisation exposures	**36**	**26**	**26**	**455**	**326**	**325**
Total credit risk	**21,950**	**22,783**	**20,541**	**274,378**	**284,793**	**256,766**
Settlement risk	**—**	**—**	**—**	**—**	**—**	**—**
Standardised approach:	377	435	191	4,716	5,439	4,445
Of which: Fixed income price risk	*167*	*189*	*113*	*2,088*	*2,358*	*1,971*
Of which: Equity market risk	*1*	*2*	*1*	*16*	*21*	*11*
Of which: Price risk in CIUs	*18*	*21*	*44*	*230*	*261*	*341*
Of which: Foreign exchange risk	*191*	*218*	*28*	*2,383*	*2,731*	*2,059*
Of which: Commodities risk	*—*	*5*	*5*	*—*	*68*	*63*
IMA: Market Risk	660	810	821	8,252	10,129	10,267
Total trading book risk	**1,037**	**1,245**	**1,012**	**12,969**	**15,568**	**14,712**
CVA risk	**139**	**197**	**201**	**1,741**	**2,461**	**2,518**
Operational risk	**2,164**	**2,673**	**2,527**	**27,049**	**33,407**	**31,589**
Others [3]	**1,674**	**436**	**177**	**20,929**	**5,450**	**2,211**
Capital requirements	**26,965**	**27,334**	**24,624**	**337,066**	**341,678**	**307,795**

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

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

[3] This line includes capital consumptions that the Group incorporates to reflect a more conservative treatment of certain elements in accordance with article 3 CRR.

The full series of the capital requirements and RWA by risk type, during the year 2022, is available in the editable file "Pillar 3 2022 - Tables & Annexes".

3.4. IFRS 9 and OCI Transitional Arrangements

The table below shows a comparison of institutions' own funds and capital and leverage ratios with and without the application of the transitional treatment of IFRS9 impact, and with and without the application of the transitional treatment in accordance with Article 468 of the CRR, according to the standard format set by EBA guidelines (EBA/GL/2018/01).

Since 2018 BBVA Group has applied the transitional treatment of IFRS9 impact. Therefore, phased-in capital ratios and leverage ratio are calculated taking into account the transitional provisions as defined by article 473a of the CRR and its subsequent amendments made by Regulation 2020/873 of the Parliament and Council of 24 June 2020 in response to the COVID-19 pandemia. The Group also applies paragraph 7a of the aforementioned article in calculating the impact of the transitional treatment on phased in risk-weighted assets.

In addition, as of the end of December 2022, the Group is not applying the transitional treatment of unrealised gains and losses measured at fair value through other comprehensive income (hereinafter, unrealised gains and losses measured at FVTOCI) outlined in Article 1, Paragraph 6 of the aforementioned regulation amending Article 468 of the CRR. Therefore, the Group's own funds, and its capital adequacy and leverage ratios, reflect to date the full impact of the aforementioned unrealised gains and losses measured at FVTOCI.

Table 11. 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 and with and without the application of the temporary treatment of gains and losses measured at Fair Value through OCI (Million Euros)

Available capital (Million Euros)	12-31-2022	9-30-2022	6-30-2022	3-31-2022	12-31-2021
Common Equity Tier 1 Capital (CET1)	42,738	42,876	41,563	40,537	39,949
Common Equity Tier 1 (CET1) if the transitional provisions of IFRS 9 or similar ECL had not been applied	42,484	42,494	41,181	40,155	39,184
Common Equity Tier 1 (CET1) if the transitional treatment of unrealized gains and losses measured at fair value through OCI (other comprehensive income) had not been applied					
Tier 1 capital (T1)	47,931	48,281	46,828	46,364	45,686
Tier 1 capital (T1) if the transitional provisions of IFRS 9 or similar ECL had not been applied	47,677	47,899	46,446	45,982	44,922
Tier 1 (T1) capital if the transitional treatment of unrealized gains and losses measured at fair value through OCI (other comprehensive income) had not been applied					
Total capital	53,861	54,895	53,647	53,203	53,069
Total capital if the transitional provisions of IFRS 9 or similar ECL had not been applied	53,699	54,512	53,264	52,820	52,473
Total capital if the transitional treatment of unrealized gains and losses measured at fair value with changes in OCI had not been applied (other comprehensive income)					
Risk-weighted assets (Million Euros)					
Total risk-weighted assets	337,066	341,678	330,871	316,361	307,795
Total risk-weighted assets had the transitional provisions of IFRS 9 or similar ECL not been applied	336,884	341,448	330,642	316,131	307,335
Total risk-weighted assets if the transitional treatment of unrealised gains and losses measured at fair value through OCI had not been applied (other comprehensive income)					
Capital ratios					
Common Equity Tier 1 (CET1) (as a percentage of the risk exposure amount)	12.68 %	12.55 %	12.56 %	12.81 %	12.98 %
Common Equity Tier 1 (CET1) (as a percentage of the risk exposure amount) if the transitional provisions of IFRS 9 or similar ECL had not been applied	12.61 %	12.45 %	12.45 %	12.70 %	12.75 %
Common Equity Tier 1 (CET1) (as a percentage of the risk exposure amount) if the transitional treatment of unrealized gains and losses measured at fair value through OCI (other comprehensive income) had not been applied					
Tier 1 capital (T1) (as a percentage of the amount of the exposure)	14.22 %	14.13 %	14.15 %	14.66 %	14.84 %
Tier 1 capital (T1) (as a percentage of the exposure amount) if the transitional provisions of IFRS 9 or similar ECL had not been applied	14.15 %	14.03 %	14.05 %	14.55 %	14.61 %
Tier 1 (T1) capital (as a percentage of the exposure amount) if the transitional treatment of unrealized gains and losses measured at fair value through OCI (other comprehensive income) had not been applied					
Total capital (as a percentage of the amount of the exposure)	15.98 %	16.07 %	16.21 %	16.82 %	17.24 %
Total capital (as a percentage of the amount of the exposure) if the transitional provisions of IFRS 9 or similar ECL had not been applied	15.94 %	15.96 %	16.11 %	16.71 %	17.07 %
Total capital (as a percentage of the amount of the risk exposure) if the transitional treatment of unrealized gains and losses measured at fair value through OCI (other comprehensive income) had not been applied					
Leverage ratio					
Measurement of total exposure corresponding to the leverage ratio (Million Euros)	737,990	765,452	752,016	687,992	671,789
Leverage ratio	6.49 %	6.31 %	6.23 %	6.74 %	6.80 %
Leverage ratio if the transitional provisions of IFRS 9 or similar ECL had not been applied	6.46 %	6.26 %	6.18 %	6.69 %	6.69 %
Leverage ratio if the transitional treatment of unrealized gains and losses measured at fair value through OCI (other comprehensive income) had not been applied					

3.5. 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 four years and analysing 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.