

## 47. Solvency

The Bank's own funds are determined according to the established regulation, in particular, according to Directive 2013/36/EU and Regulation (EU) 575/2013, approved by the European Parliament and the Council (CRD IV / CRR).

Total capital includes tier 1 and tier 2. Tier 1 comprises common equity tier 1 (CET1) and additional tier 1.

Common equity tier 1 includes: (i) paid-up capital, share premium, reserves and retained earnings deducted of anticipated dividends; ii) and deductions related to own shares and loans to finance the acquisition of shares of the Bank, the shortfall of value adjustments and provisions to expected losses concerning risk-weighted exposure amounts calculated according to the IRB approach and goodwill and other intangible assets. Reserves and retained earnings are adjusted by the reversal of unrealised gains and losses on cash-flow hedge transactions and on financial liabilities valued at fair value through profits and losses, to the extent related to own credit risk. The minority interests are only eligible up to the amount of the Group's capital requirements attributable to the minorities. In addition, the deferred tax assets arising from unused tax losses carried forward are deducted, as well as the deferred tax assets arising from temporary differences relying on the future profitability and the interests held in financial institutions and insurers of at least 10%, in this case only in the amount that exceeds the thresholds of 10% and 15% of the common equity tier 1, when analysed on an individual and aggregated basis, respectively. The additional value adjustments necessary for the prudent valuation requirements applied to all assets at fair value as well as the irrevocable payment commitments for the Deposits Guarantee Fund and the Single Resolution Fund, are also deducted.

Additional tier 1 comprises preference shares, hybrid instruments and perpetual bonds representing subordinated debt, that are compliant with the issue conditions established in the Regulation.

Tier 2 includes the subordinated debt that is compliant with the Regulation. Additionally, Tier 2 instruments held in financial institutions and insurers of at least 10% are deducted.

The legislation stipulates a transitional period between the own funds calculated under national law until 31 December 2013, and own funds estimated according to communitarian law, in order to exclude some elements previously considered (phase-out) and include new elements (phase-in). The transitional period for the majority of the elements lasted until the end of 2017, with the exception of the deferred tax already recorded on the balance sheet of January 1, 2014, and the subordinated debt and all the hybrid instruments not eligible to own funds, according to the new regulation, that have a longer period ending in 2023 and 2021, respectively.

With the IFRS9 introduction the Group has decided to gradually recognise the impacts, according to art<sup>o</sup> 473<sup>o</sup>-A of CRR.

According to the regulatory framework, financial institutions should report common equity tier 1, tier 1 and total capital ratios, including a conservation buffer, according to the following table:

2019 Minimum Capital Requirements								
BCP Solo	of which:				Fully implemented	of which:		
	Phased-in	Pillar 1	Pillar 2	Buffers		Pillar 1	Pillar 2	Buffers
CET1	7.00%	4.50%	0.00%	2.50%	7.00%	4.50%	0.00%	2.50%
T1	8.50%	6.00%	0.00%	2.50%	8.50%	6.00%	0.00%	2.50%
Total	10.50%	8.00%	0.00%	2.50%	10.50%	8.00%	0.00%	2.50%

The Bank meets all the requirements and other recommendations issued by the supervisor on this matter.

The Bank has adopted the methodologies based on internal rating models (IRB) for the calculation of capital requirements for credit and counterparty risk, covering a substantial part of both its retail portfolio and its corporate portfolio. The bank has adopted the advanced approach (internal model) for the coverage of trading portfolio's general market risk and for exchange rate risks and the standard method was used for the purposes of operating risk coverage.

The own funds and the capital requirements determined according to the methodologies CRD IV / CRR (phased-in) previously referred, are the following:

	(Thousands of euros)	
	2019	2018
<b>Common equity tier 1 (CET1)</b>		
Share capital	4,725,000	4,725,000
Share Premium	16,471	16,471
Reserves and retained earnings	699,485	816,664
Regulatory adjustments to CET1	(541,037)	(958,304)
	4,899,919	4,599,831
<b>Tier 1</b>		
Capital Instruments	400,000	1,169
	5,299,919	4,601,000
<b>Tier 2</b>		
Subordinated debt	811,140	462,696
Others	(38,365)	(31,498)
	772,775	431,198
<b>Total own funds</b>	6,072,694	5,032,198
<b>RWA - Risk weighted assets</b>		
Credit risk	29,771,502	29,874,167
Market risk	1,595,571	1,166,542
Operational risk	2,341,374	2,207,019
CVA	102,460	169,095
	33,810,907	33,416,823
<b>Capital ratios</b>		
CET1	14.5%	13.8%
Tier 1	15.7%	13.8%
Tier 2	2.3%	1.3%
<b>Total</b>	18.0%	15.1%

The 2019 and 2018 amounts include the accumulated net income.