

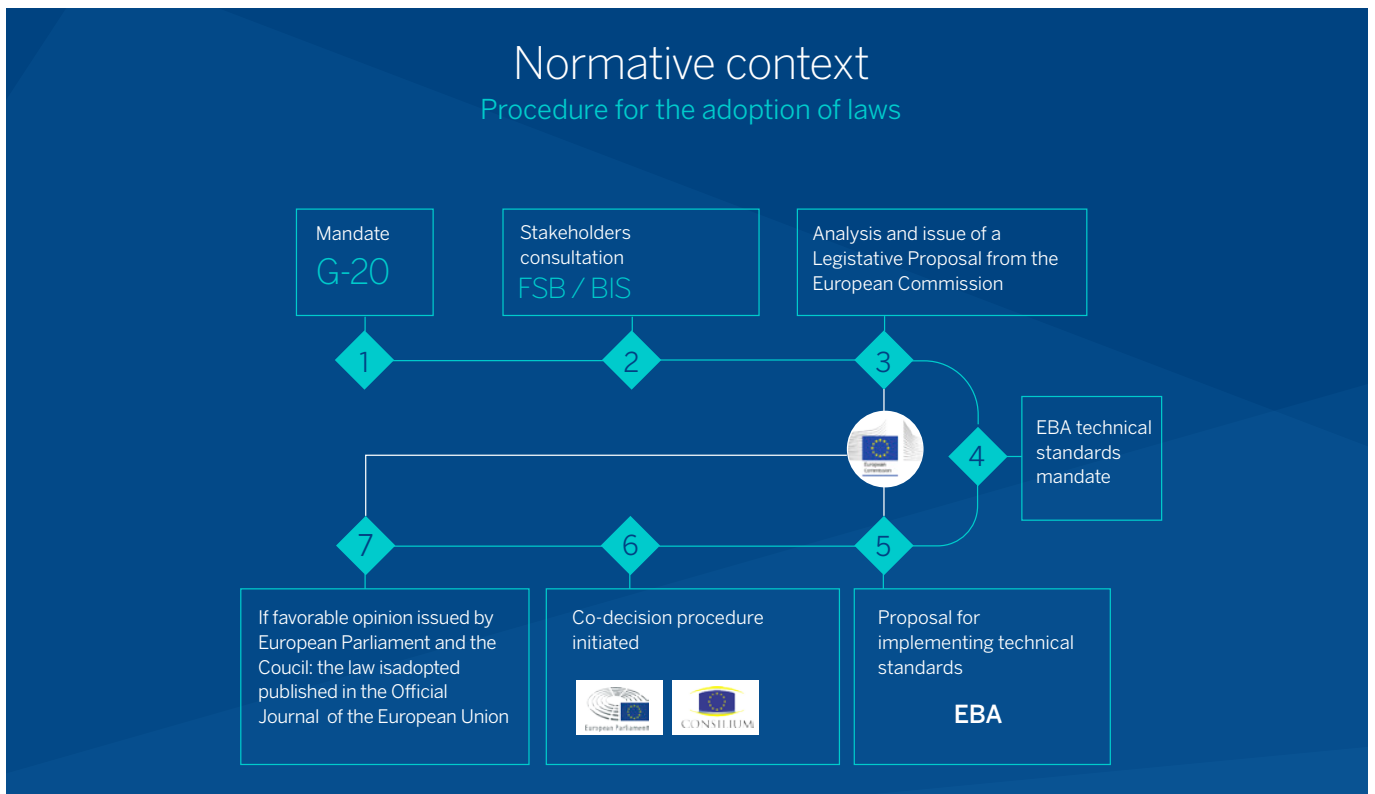
## 5. 7. Supervisors and regulators

The nature of the operations involved makes banking one of the key sectors of a country’s economy, as much of the savings, investment and finance are channeled through it. That is why banks are subject to special scrutiny, which is known as **banking regulation and supervision**. The regulators and supervisors are therefore important stakeholders in the financial industry in general and BBVA in particular.

**Public regulation** aims to ensure that financial institutions operate correctly, strengthen their resilience to adverse events and harmonize the interests of all the parties directly

affected (such as banks, savers and investors) with the general interest.

Over the last few years, a number of European **authorities** such as the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA), the European Commission, etc. and also global authorities such as the Financial Stability Board (FSB), Basel, etc. have developed a regulatory framework to improve the strength of the financial system and thus reduce the virulence and also the probability of future financial crises.



Given the importance of the new regulatory agenda, BBVA has maintained a constant **dialog** with the different regulators to adapt to this new reality under the best conditions.

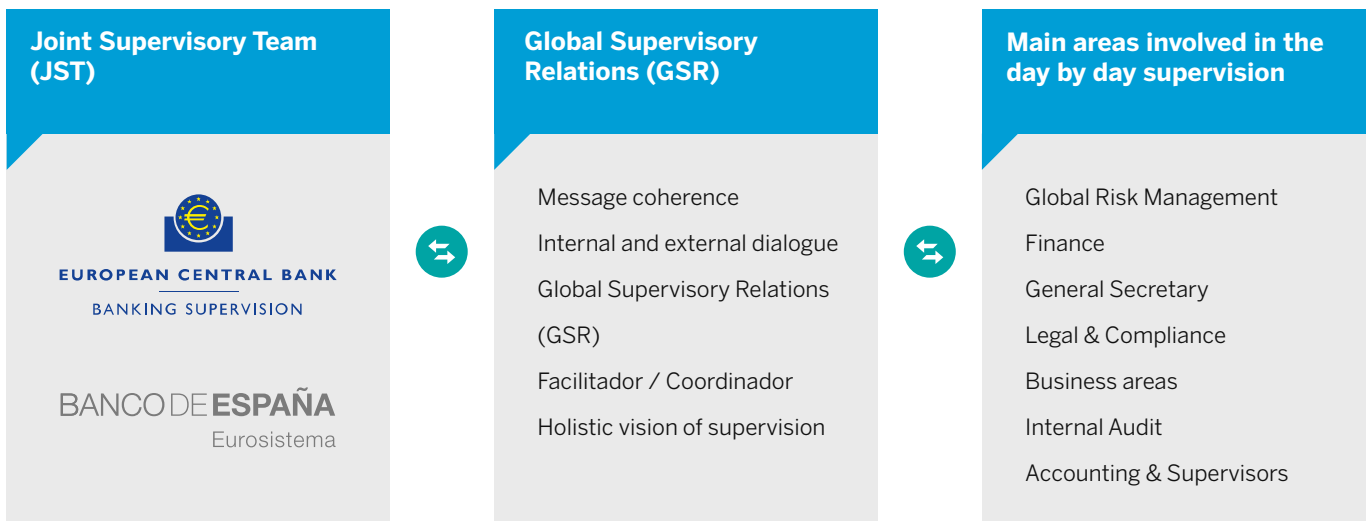
Parallel to this regulation, over the last few years changes have also taken place in the **supervisory environment**, especially in the Eurozone. In June 2012 the heads of state and government of the European Union promoted the creation of a single banking supervisor with the aim of improving the quality of supervision in the Eurozone, boosting market integration and breaking the negative vicious circle that had been created between the lack of confidence in

banking institutions and the doubts about the sustainability of public debt.

Thus, the launch of the **Single Supervisory Mechanism (SSM)** on November 4, 2014 has been one of the fundamental milestones in banking union. Thanks to the SSM, all the financial institutions in the Eurozone of a certain size will be supervised under the same regulatory and methodological framework, regardless of their geographic location. The appearance of this new mechanism, which is now in fact the supervisor with the greatest volume of assets under its responsibility, requires banks to adapt to the new environment.

In addition, the entry into force of Directive 2014/59/EU on January 1, 2015 has involved the establishment of a new European framework for the restructuring and resolution of credit institutions and investment firms, called the **Single Resolution Mechanism (SRM)**, which has been fully operational since January 2016. Its mission is to ensure an orderly resolution of insolvent banks or banking groups, with the minimum impact on the real economy and public finances of the member states participating in the banking union. Its role is not limited to crisis situations; its priority objective is to implement and identify preventive and preparatory measures, such as developing resolution plans, establishing a minimum requirement for own funds and eligible liabilities (MREL) and identifying and dealing with barriers to resolution.

In the case of **BBVA** it was decided to strengthen the relationship with this supervisor with the creation of the Global Supervisory Relations unit, which is responsible for coordinating relations with the SSM and other supervisors, such as the Single Resolution Mechanism (SRM), and to facilitate relations with local supervisors. SSM supervision takes place through mixed groups made up of Bank of Spain teams located in Madrid and ECB teams located in Frankfurt, together named Joint Supervisory Teams (JST). For this reason, BBVA has decided to open an office in Frankfurt to facilitate dialog with the ECB teams. The SRM itself is made up of the Single Resolution Board (SRB), based in Brussels, and the National Resolution Authorities (NRA), which in the case of Spain are the Bank of Spain, the preventive resolution authority, and the Fund for Orderly Bank Restructuring (FROB), the executive resolution authority.



In **2016**, supervisory activity was intense in terms of requests for information, meetings and dialog between BBVA and the supervisor.

In the case of **SSM** this ongoing communication is based on four pillars:

- Review of the business model.
- Corporate governance and risk appetite.
- Capital risk.
- Liquidity risk.

Thus prudential supervision is acquiring a holistic component that extends beyond a simple financial review of the entity, with long-term vision acquiring increasing relevance. As well as the relationship with the **SSM**, the dialog with the **SRM** also took on significant relevance in 2016. Although the focus of the SRM is different from that of the SSM, it will play a significant role over the coming years as another player to be taken into account within the supervisory and regulatory spectrum.

In conclusion, for BBVA constant **dialog** with the supervisor and regulator has become a fundamental task for adapting to this new environment, characterized by greater regulatory pressure and a stronger and more intrusive supervisory culture. Only this way BBVA can guarantee a correct response to the supervisors' new regulatory requirements and demands.