1. Introduction

1.1. Applicable regulatory framework

As a Spanish credit institution, BBVA is subject to Directive 2013/36/EU of the European Parliament and of the Council dated June 26, 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the "CRD IV Directive") amended by Directive 2019/878/EU (the "CRD V Directive).

The major regulation governing the solvency of credit institutions is (EU) Regulation No. 575/2013 of the European Parliament and of the Council of June 26, 2013, on the prudential requirements for credit institutions and investment firms amending (EU) Regulation No 648/2012 ("CRR" and in conjunction with Directive CRD IV and any implementing measures of CRD IV, "CRD IV"), which is complemented by several binding Regulatory Technical Standards that are directly applicable to all EU member states, without the need to implement national measures. This Regulation was amended by Regulation 2019/876/EU ("CRR2") and Regulation 2020/873/EU ("Quick Fix").

The CRD IV Directive was transposed to Spanish national law by means of the Royal Decree-Law 14/2013, of November 29 ("RD-L 14/2013"), Law 10/2014 of June 26, Royal Decree 84/2015, of February 13 ("RD 84/2015"), Bank of Spain Circular 2/2014 of January 31 and Circular 2/2016 of February 2 ("Bank of Spain Circular 2/2016").

During 2021, Directive 2019/878 was transposed into the Spanish legal system through the publication of Royal Decree-Law 7/2021, of April 27 (amending Law 10/2014), Royal Decree 970/2021, of November 8 (which modifies RDL 84/2015) and Circular 5/2021, of September 22 (which modifies Circular 2/2016).

In the Macroprudential field, Royal Decree 102/2019 was published in March 2019, establishing the Macroprudential Authority of the Financial Stability Board, establishing its legal regime. The aforementioned Royal Decree also develops certain aspects related to the macroprudential tools contained in Royal Decree-Law 22/2018. Among them, it provides that the Bank of Spain may adopt measures such as the countercyclical buffer for a given sector, sectoral limits on the concentration of exposures or the establishment of limits and conditions on the granting of loans and other operations. These measures are developed in Bank of Spain Circular 5/2021, of September 22.

1.2. Regulatory developments in 2021

In the field of prudential regulation, the most significant in 2021 has been:

- The publication by the European Commission of the proposal for the fully implementation of the Basel III, which represents the last step of the regulatory reform that began after the financial crisis. The European Commission has proposed to the European Parliament and the Council a series of amendments to banking regulations known as the "banking package 2021" to strengthen the resilience of European Union banks against possible future economic shocks, contribute to the recovery of the pandemic and the transition to climate neutrality. The main objective of the reform is to achieve a simpler, more comparable and risk-sensitive framework. To this end, modifications to CRR2 and CRD V are proposed. The European Commission proposes that the new regulations begin to apply from January 1, 2025, for which the debate with the European Parliament and the Council is now beginning.

- The decision of the European Central Bank (hereinafter ECB) not to extend beyond September 2021 the recommendation to limit the distribution of dividends that prompted credit institutions for the first time in March 2020.

- The entry into force of the guidelines on the definition of default (applicable from January 1, 2021), the full application of CRR2 and the updating of the guidelines on internal governance, the guidelines on adequate remuneration policies and the guidelines on the assessment of the suitability of the members of the management body and the holders of key functions (these updates apply from December 31).

- In Spain, in April 2021, Decree-Law 7/2021 was approved, which transposes the CRD V and resolution directives (BRRD 2) into Spanish legislation. In the prudential part, changes have been included in the definition and requirements of Pillar II, the macroprudential buffers and the remuneration regime.

- Regarding the regulations related to macroprudential regulation, during the year 2021, the Basel Committee on Banking Supervision has published its final report on the methodology for the identification of Global Systemic Banks (G-SIBS), proposing a continuous review of this methodology instead of doing it every three years. Additionally, the European Commission has published a public consultation on the macroprudential framework and, in turn, has asked the opinion of the European Banking Authority, the European Systemic Risk Board and the European Central Bank on a future review of the framework.

In the field of resolution, the most significant in 2021 was:

- Amendment of CRR2 and BRRD 2 regarding the scope of the resolution (known as the Daisy Chain proposal) through a separate proposal for a Regulation (“Proposal for a Regulation amending Regulation (EU) No 575/2013 and Directive 2014/59 /EU as regards the prudential treatment of global systemically important institution groups with a multiple point of entry resolution strategy and a methodology for the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities”).

  At the date of publication of this report, the proposal is in the negotiation phase between the Council and the European Parliament.

- In Europe, the reform of the European Stability Mechanism Treaty was signed, allowing it to act as a security mechanism for the Single Resolution Fund from the beginning of 2022. The European Banking Authority has developed several level 2 and 3 regulatory texts related to the BRRD 2 and the Single Resolution Board (SRB) has published various guides to improve the resolvability of financial institutions.

- In Spain, the approval of Royal Decree-Law 7/2021 that transposes CRD V and BRRD 2 into Spanish law. In the resolution part, the inclusion of adjustments in the hierarchy of creditors in the event of liquidation and the calibration and subordination of the MREL requirement stand out.

In the field of Sustainable Finance, the most significant of 2021 has been the following:

The year 2021 has been key to beginning to integrate ESG criteria into decision-making and risk management of financial institutions and for accelerating the development of regulatory frameworks aimed at promoting sustainability.

At a global level, it should be noted that the International Financial Reporting Standards (IFRS) Foundation has announced the creation of a sustainability standards council (International Sustainability Standards Board, ISSB) to create international standards for the disclosure of information related to sustainability. In addition, the Basel Committee of Banking Supervisors is developing principles for the management and supervision of these risks, which have been reflected in a consultation.

For its part, Europe has managed to position itself as the pioneer region in this area, giving rise to the adoption of important legislative measures such as the European taxonomy of sustainable activities, the Sustainable Finance Disclosure Regulation (SFDR, for its acronym and, more recently, the proposal for the Corporate Sustainability Reporting Directive (CSRD).

Additionally, the European Commission presented in July 2021 a new strategy for sustainable finance, which establishes new initiatives to face climate change and other environmental challenges. These initiatives have materialized in the Basel III implementation proposal presented by the European Commission in October 2021.

Moreover, the preliminary reports of the European Platform for Sustainable Finance have been published on:

(I) the extension of the taxonomy to intermediate economic activities in terms of sustainability, with the aim of supporting activities that allow the transition to a sustainable economy; and

(II) a social taxonomy that would complete the European taxonomy of “green” activities.

For its part, the ECB published in September the results of the first stress tests in which climate risks have been measured in different activities, and it plans to carry out the first supervisory stress tests on banks by 2022 based on climatic risks.

At the national level, Law 7/2021, of May 20, on climate change and energy transition, provides the regulatory and institutional framework aimed at facilitating and guiding the decarbonisation of the Spanish economy in 2050, as established by the European Union and the commitment made by signing the Paris Agreement. This regulation establishes obligations both for the financial and business sector and for supervisors.

In the field of disclosure, article 32 of this Law requires the publication (both in the management report and in Pillar 3) of an annual report on climate change, the content of which will be developed by means of a decree-law (RDL) within a period of two years. This report can be found in section 8 of this document.

In terms of disclosure and supervisory reporting, the main regulatory developments that occurred during 2021 were as follows:

<u>Supervisory reporting</u>

The regulators have continued with the process of reviewing and updating the reporting framework, highlighting the following publications:

- Technical Implementation Standards on supervisory reporting requirements, which amend Commission Regulation 2021/451 with regard to COREP, asset encumbrance, ALMM and G-SII reporting

  The European Banking Authority (EBA) published the final version of the document in December, which has not yet been adopted by the European Commission. The proposed date of application is December 1, 2022, although it is yet to be published in the Official Journal of the European Union (OJEU).

  The purpose of these technical standards is to implement in the reporting the regulatory changes referring mainly to securitizations, the non-deductibility of the CET1 software and the additional liquidity monitoring metrics (ALMM), as well as to introduce the measures of proportionality contained in the CRR2.

- Technical Implementation Standards amending Regulation 2018/1624 on the provision of information regarding resolution plans in the context of the BRRD 2.

  The EBA published the final version of the document in August, which has not yet been adopted by the European Commission or published in the OJEU. The changes introduced are minimal and are intended to align with the changes introduced by BRRD 2 on MREL.

<u>Disclosure</u>

In the field of Pillar 3, the following regulatory developments stand out:

- Technical Implementation Standards amending Regulation 637/2021 on disclosure of information regarding interest rate risk in portfolios other than trading.

  In November, the EBA published the final version of the document, which contains the tables and instructions to breakdown the information regarding interest rate risk in the banking book (IRRBB) in the Pillar 3 report.

  These standards have not yet been adopted by the European Commission or published in the OJEU. However, given that the requirement to break down this information (contained in article 448 CRR2) is applicable from June 28, 2021, the EBA recommended using the tables included in this document breaking down the methodology used to calculate the information.

- In November, the Basel Committee on Banking Supervision (BCBS) published a technical amendment to its G-SII assessment methodology review process technical amendment completion"). In it, the three-year cycle for the review of the methodology is replaced by a process of monitoring and continuous review.

Related to the above, in January 2022 it launched its annual exercise to identify which entities are considered to be of global systemic importance (G-SII) based on data as of December 2021. It is an exercise of collection of data on various indicators that are used to determine global systemic importance.

In Europe, these indicators must be broken down both by the entities considered G-SII and those that, not being G-SII, have an exposure measurement greater than €200,000 million, as established in the EBA Guidelines on the breakdown of the indicators of systemic importance (EBA/GL/2020/14). These guidelines establish the table format that must be used to disclose the indicators, which must be identical to that presented to the BCBS.

The annual exercise of the BCBS of January 2022 introduces changes to the indicators. However, given that the EBA guidelines have not yet been modified to include the new table format and taking into account the need to align with the BCBS, this report breaks down using the new indicators established by the BCBS.

- Technical Implementation Standards on public disclosures and reporting of MREL and TLAC

  These standards have been published in the OJEU in May 2021 (Regulation 2021/763). The date of application of the reporting requirements is June 28, 2021 for MREL and TLAC, while different dates are established for the public breakdown: June 1, 2021 for TLAC and not before January 1, 2024 for MREL.

  Given that at the date of publication of this report BBVA is not considered a G-SII, the TLAC does not apply to it.

- Technical Implementation Standards on prudential disclosures of ESG risks.

  In accordance with article 449a CRR2, the EBA has published in January 2022 the final document that establishes the formats and tables to be used to disclose the information related to environmental, social and governance (ESG) risks. Its application will be gradual starting in Pillar 3 of 2022 (to be published in 2023). At the date of publication of this report, it had not yet been adopted by the European Commission or published in the OJEU.

Crypto assets

Another field that has attracted much attention from international organizations and national regulators during 2021 has been that of crypto assets.

At a global level, the Basel Committee on Banking Supervision published in June a preliminary proposal for the prudential treatment of bank exposures to crypto assets, although it has already announced that it is necessary to have a definitive standard, it will continue working on this new framework during 2022.

At the national level, the National Securities Market Commission (Comisión Nacional del Mercado de Valores. CNMV in Spanish) has issued a Circular to regulate the advertising of crypto assets, which will come into force at the beginning of next year. Meanwhile, in Turkey, the Central Bank issued a new regulation in April that forbids the development of business models by financial institutions that involve the use of crypto assets to make payments.

1.3. Contents of the 2021 Prudential Relevance Report

Article 13 of the CRR establishes that the parent entities of the European Union are subject, based on their consolidated situation, to the disclosure requirements set by Part Eight of CRR.

This report provides the prudential information of BBVA Consolidated Group as of December 31, 2021 which has been prepared in accordance with the precepts contained in Part Eight of the CRR, complying with the guidelines published by EBA and the applicable technical implementation standards.

In addition, the main EBA guidelines that apply as of December 31, 2021 are highlighted below:

- Guidelines on materiality, proprietary information, and confidentiality, and on the frequency of disclosure of information according to Article 432, sections 1 and 2, and Article 433 of Regulation (EU) No. 575/2013 (EBA/GL/2014/14). These guidelines detail the process and the criteria to be followed regarding the principles of materiality, proprietary information, confidentiality and the right to omit information, and provide guidance for entities to assess the need to publish information more frequently than the annual one. These guidelines were adopted by the Executive Commission of the Bank of Spain in February 2015.

- Guidelines on reporting and disclosure of exposures subject to measures applied in response to the crisis arising from COVID-19 (EBA/GL/2020/07). These guidelines were adopted by the Executive Commission of the Bank of Spain on June 23, 2020.

- Guidelines amending the EBA/GL/2018/01 guidelines on the uniform disclosure of information pursuant to Article 473a of Regulation (EU) No. 575/2013 (CRR) with regard to transitional provisions to mitigate the impact on own funds caused by the implementation of IFRS 9, aiming to guarantee compliance with the Quick Fix made to the CRR in response to the COVID-19 Pandemic (EBA/GL/2020/12). These guidelines are applicable from August 11, 2020 until the end of the transitional periods contemplated in articles 468 and 473 bis of the CRR (December 31, 2024 and December 31, 2022, respectively)

- Implementing Technical Standards published in June 2020 concerning reporting and disclosure of public information (EBA/ITS/2020/04, hereinafter “New EBA ITS”). These technical standards implement the changes introduced by CRR2.

  In these technical implementation standards, the EBA, following the mandate of the European Commission in article 434a of the CRR2, implements the changes introduced by aforementioned regulation, integrating in a single document most of the disclosure requirements to the market that were disseminated in various guidelines published to date.

  Additionally, these regulations also aim to unify, as far as possible, public information with the information reported to the Supervisor through integration in regulatory reporting and has meant in some cases the simplification of standard templates that could contain similar information, maintaining only those templates that include just complete and relevant information, such as those referring to the credit quality of the exposures.

  Likewise, together with the aforementioned ITS, the EBA publishes for informative purposes a document called mapping tool that interrelates the quantitative information of most of the standard templates required in Pillar 3 with the regulatory reporting, which has been taken into account in the preparation of this report. The implementation of these standards may produce variations in the content and the way in which the information is presented with respect to previous periods.

- Guidelines on sound remuneration policies under Directive 2013/36/EU (EBA/GL/2021/04). These guidelines were adopted by the Executive Commission of the Bank of Spain in December 2021.

Annex VII contains the list of main changes to the tables with respect to December 2020 derived from the adaptation to the regulations in force as of December 31, 2021.

Additionally, Annex VIII of this report contains the correspondence of the articles of Part Eight of the CRR on disclosure of information that are applicable at the date of the report with the different sections of the document where the required information is found.

The aforementioned annex, together with the rest of the annexes and the tables included in this report, are in an editable format in order to facilitate their treatment, following the recommendations of the EBA Guidelines. This document is called "Pillar 3 2021 - Tables & Annexes", available in the Shareholders and Investors / Financial Information section of the Group's website.

The Prudential Relevance Report (IRP - Pillar 3) of the BBVA Group, corresponding to the year ended December 31, 2021, has been prepared in accordance with the requirements of Part Eight of the CRR and approved by the Audit Committee (in its meeting held on March 1, 2022), applying the rules for the preparation of financial information of the BBVA Group and in compliance with the "General Policy for disclosure of economic-financial, non-financial and corporate information" approved by the governance bodies of Banco Bilbao Vizcaya Argentaria, SA.

Likewise, it should be noted that the data disclosed in the IRP - Pillar 3, have been prepared in accordance with the internal processes and controls described in the "Standard for the preparation of periodic public information of Banco Bilbao Vizcaya Argentaria, S.A." and BBVA Group”. The aforementioned policies and standards guarantee that the information disclosed in the IRP Report - Pillar 3 is subject to the internal control framework defined by the Group, as well as to an adequate level of internal review.