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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") which main amendment is 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 mainly 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"), which has been amended by Circular 3/2022 of March, 30.

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.

Section 1.3 of this chapter includes the specific regulations governing the information requirements of the Prudential Relevance Report (Pillar 3).

1.2. Regulatory developments in 2022

During 2022, the regulatory environment for the financial industry has been shaped by a new geopolitical framework caused by the war between Russia and Ukraine and its repercussions. This has shaken up the markets and the financial system and has materialized in a range of economic sanctions imposed on Russia, which have, in turn, prompted a focus on issues related to money laundering and terrorist financing, and the role of cryptoassets.

All this took place alongside the implementation of work plans already stipulated by the regulatory bodies, which focused on three lines of action:

(I) climate change;

(II) strengthen the prudential framework of the financial system;

(III) digitalization of the banking sector.

Another highlight of 2022 were the new data regulations and agreements and the intensification of the global regulatory debate around cryptoassets. Solutions are being sought that address the regulation, supervision and oversight of cryptoassets with a focus on financial stability.

ESG

In 2022, ESG regulatory activity for the European banking system became firmly established and regulation in the United States took off.

At the global level, the BCBS published a statement of principles for effective management and monitoring of climate change-related risks. The principles are designed to be adaptable to different banking systems, in a proportionate manner, depending on the size, complexity and risk profile of the sector. The document lays down 18 principles: 12 for banks (covering corporate governance, internal control, risk management and reporting) and 6 for supervisors (who must ensure that they have adequate resources and capabilities to assess the management of banks).

There are other initiatives driven by global institutions that are advancing swiftly. These include the new International Sustainability Standards Board (ISSB), created in November 2021 by the International Financial Reporting Standards Foundation (IFRS), which in 2022 published two climate and general issues papers for comment, and draft sector-specific standards. The ISSB relied on the Task Force on Climate-related Financial Disclosures (TCFD) and the sector-specific standards of the Sustainability Accounting Standards Board (SASB). The ISSB aims to be a comprehensive global standard-setter. It is therefore partnering with other international organizations and jurisdictions to ensure the development of a robust, internationally applicable framework that will form the basis for the requirements of the various jurisdictions. In addition to the frameworks mentioned so far, we especially highlight the initiatives of the Global Reporting Initiative (GRI), the Value Reporting Foundation, and the WEF (IBC's stakeholder capitalism metrics), with which the ISSB actively collaborates to achieve a global metrics model.

The EU has continued to integrate ESG concepts into prudential regulation, supervision and reporting requirements. In prudential regulation, discussions continued in the legislative negotiation of the CRR III and CRD VI, which introduce the definitions of the different types of ESG risks. In terms of reporting, the European Commission published the Regulatory Technical Standards (RTS), which supplement the Sustainable Finance Disclosure Regulation (SFDR). For its part, the EC has adopted the Implementing Technical Standards (ITS) on Pillar 3 reporting of ESG risks with the aim of integrating all relevant reporting requirements. The ITS provide the tables, templates and instructions that banks should use to disclose relevant qualitative information on ESG risks and quantitative data on climate change-related risks, including transitional and physical risks and mitigation measures. Banks must make the first disclosure in March 2023, releasing data as of December 2022. The first disclosure will be annual and thereafter will be six-monthly.

Regarding taxonomy, the complementary delegated act on climate (mitigation and adaptation) was approved through Delegated Regulation 2021/2139 of June 4, 2021, in order to accelerate decarbonization, and was subsequently modified by Delegated Regulation (EU) 2022/1214 of the Commission of March 9, 2022, which introduces specific information requirements that companies must comply with in relation to their activities in the gas and nuclear energy sectors.

In addition, the European Commission has published a proposal for a Directive on Corporate Sustainability Due Diligence. During 2022, this proposal was under negotiation in the Parliament and the Council. The Directive aims to ensure that companies operating in the internal market contribute to the transition to sustainability through the identification, prevention and mitigation, cessation and minimization of potential or actual adverse human rights and environmental impacts related to the company's own activity or the activities of its subsidiaries or of its value chain. Once adopted, Member States will have two years to transpose the Directive into their national legislation.

Europe has continued to integrate ESG concepts into prudential regulation, supervision, and reporting requirements. Several sustainability reporting standards have been created: one in Europe, following the enactment of the Corporate Sustainability Reporting

Directive (CSRD), for the implementation of which the first set of 'European Sustainability Reporting Standards,' prepared by the European Financial Reporting Advisory Group (EFRAG) to the European Commission; and another in the United States, after the Securities and Exchange Commission (SEC) published in March 2022 the paper 'The Enhancement and Standardization of Climate-Related Disclosures for Investors.'

Reflecting the rising importance of ESG issues in supervision, the ECB has launched the first bottom-up stress test exercise for climate change risk supervision to identify vulnerabilities, best practices and challenges faced by banks in managing climate change risk. The results will feed into the Supervisory Review and Evaluation Process (SREP) from a qualitative standpoint only.

Prudential developments

In the global prudential arena, the Basel Committee on Banking Supervision (BCBS) has addressed new issues. Among other forward steps, the BCBS has adopted a set of principles for the effective management and supervision of financial climate change risks and has advanced the implementation of the prudential treatment of cryptoassets with the publication of its final standard. Moreover, the BCBS has agreed on a roadmap to reflect the development of the European banking union based on the assessment method for global systemically important banks (hereinafter G-SIBs). The Committee has continued to assess risks and vulnerabilities in the global banking system, including those arising from the conflict in Ukraine. The body also addressed the post-crisis regulatory framework, with a focus on the effectiveness of the Basel III reforms, on which a report was published in December 2022.

In the European prudential field, intense negotiations have taken place in the Council and Parliament on the implementation in EU law of the international capital adequacy rules known as Basel III. The proposal presented at the end of 2021 by the European Commission, the "2021 Banking Package", seeks to make EU banks more resilient to potential future economic crises, while contributing to Europe's recovery from the COVID-19 pandemic and the transition to climate neutrality. The package comprises three proposals: (I) the proposed capital requirements directive (CRD VI, amending the previous CRD V); (II) the proposed capital requirements regulation (CRR III, amending CRR II); and (III) a separate legislative proposal around bank resolution (the "Daisy Chain proposal"), which also amends CRR V. The entry into force of the changes will be gradual and is expected to come into effect from 2025.

Furthermore, the European Banking Authority (EBA) has published final draft Regulatory Technical Standards (RTS) for the probability of default (PD) and loss given default (LGD) risk model for banks using the new internal models-based approach under the Fundamental Review of the Trading Book (FRTB). Regarding non-performing loans (NPLs), the EBA has published several consultation papers on the reporting templates that banks must file. The European Commission has 3 months to adopt the EBA's ITS or propose amendments. The result is expected to be published in the first half of 2023, and has published the standard on the information required for the sale of NPL loans.

Regarding securitizations, the EBA has published its final draft of the RTS. The standards specify requirements for originators, sponsors and originating lenders in relation to risk retention. In Spain, on July 8, 2022, the new law on bonds came into force, which implements the European directive and affects both existing bonds and future issues.

In Spain, the Bank of Spain (Spanish 'BdE') published Circular 1/2022 on liquidity, prudential rules and reporting obligations for financial institutions, which amends Circular 1/2009 and Circular 3/2019. The document sets out the liquidity regulations applicable to financial credit institutions and adapts the reporting obligations of credit institutions regarding solvency and shareholder structure to the activity, business model, size and relative importance of each institution. Circular 3/2022, of March 30 opens in new window, of the Bank of Spain, amending Circular 2/2016, of February 2, to credit institutions, on supervision and solvency, which completes the adaptation of the Spanish legal system to Directive 2013/36/EU and Regulation (EU) n.o 575/2013. Moreover, in the context of global economic uncertainty, Royal Decree-Law 6/2022, on urgent measures in response to the economic and social consequences of the war in Ukraine, was adopted to address the economic and social consequences of the war, with short-term measures and steps to accelerate medium- and long-term action on the energy transition. Finally, we highlight the enactment of Law 18/2022, on company formation and growth. The statute includes measures ranging from regulatory streamlining to reduction of the minimum share capital to form private limited companies. It also includes the promotion of collective investment and venture capital, and improved access to finance.

In 2022, the regulatory debate continued on the macroprudential framework and capital buffers. The European Central Bank (ECB) confirmed that it will not extend the loosening of Pillar 2 capital requirements and capital conservation buffer allowed during the COVID pandemic. As of January 1, 2023, banks will return to operating at pre-crisis levels.

Furthermore, the consultation launched by the European Commission in November 2021 on the review of the macroprudential framework, including the design and functioning of capital buffers, was completed. The EBA, the ECB and the European Systemic Risk Board (ESRB) published their respective opinions. The Commission's legislative proposal is expected during the first quarter of 2023.

A relevant novelty is the recognition of the progress of the Banking Union in the method of identification of G-SIBs. In May 2022, the BCBS allowed the calculation of parallel scoring for G-SIBs where 66% of cross-border exposures within the Banking Union for European G-SIBs can be characterized as domestic. This parallel scoring will allow, according to the expert judgment of the national authorities (NCAs), an adjustment of the assignment of the banks to the different levels of required capital (the 'buckets').

Environmental, Social and Governance (ESG) or sustainability criteria are also included in the macroprudential framework, as they were one of the topics addressed in the EuropeanCommission's consultation, which asked whether they should be accorded specific treatment. In July 2022, the ECB and the ESRB published a joint report, "The Macroprudential Challenge of Climate Change," which discusses the adequacy of macroprudential tools to address climate-related risks. The Financial Stability Board (FSB) also commented on this possibility in its final report on supervisory and regulatory approaches to climate-related risks, assessing the pros and cons.

Regarding shadow banking, the EBA has published its final draft of the Regulatory Technical Standards (RTS). The standards set out the criteria for identifying shadow banking entities for large exposure reporting purposes. Entities that conduct banking activities or services authorized and supervised in accordance with the EU prudential framework will not be considered to be shadow banks.

In terms of transparency, and, in the field of remuneration of the Identified Staff, in 2022 the EBA has published the Guidelines on the benchmarking exercises on remuneration practices, the gender pay gap and approved higher ratios under Directive 2013/36/EU (EBA/GL/2022/06), which include additional specifications regarding the presentation, in the Pillar 3 Report, of the standardised remuneration disclosure templates.

Stability and Resolution

In the field of resolution, the Daisy Chain-related changes, which came into effect on November 14, 2022, are a raft of reforms related to the bank resolution framework, with special impact on Multiple Point of Entry ("MPE") banks, where capital and liquidity are managed separately in each subsidiary.

Furthermore, at the Eurogroup meeting, the Eurogroup President's proposal to unblock progress on the Banking Union by setting up a European Deposit Insurance Scheme (EDIS) was rejected. The consensus reached was that certain aspects of the bank crisis management and guarantee fund framework need to be reviewed. A legislative proposal is expected by early 2023.

The EBA published its final guidelines for enhancing the resolution capabilities of banks and resolution authorities, which will be applicable as from January 1, 2024. The Single Resolution Board (SRB) published its operational guidance on the identification and mobilization of collateral in resolution, which supplements the 'Expectations for Banks' paper and helps stakeholders understand the operational and legal requirements that banks should anticipate maximizing the amount of assets that could be mobilized as collateral during and after resolution. For its part, the European Commission published a consultation paper to assess the framework for State aid in the banking system, which is linked to the crisis management framework. Finally, the EBA published a consultation paper to revise its guidance on the method for calculating contributions to the Deposit Guarantee Fund (DGF).

Digital transformation

In 2022, digitization continued to be a priority for European authorities, which have continued to make progress in implementing the digital strategy laid down in 2020. The key pillars of the initiative are strengthening the use of data and the development and regulation of artificial intelligence.

This year, the entry of large digital platforms or 'Big Tech' into the financial sector continued to be a subject of debate for financial authorities around the world. At the global level, the BIS led a discussion on the need to introduce comprehensive regulation for these new providers and to strengthen coordination between authorities across sectors and countries. At the European level, the European Supervisory Authorities issued a report with recommendations to the Commission on how to approach the review of the regulatory and supervisory framework for the financial sector to ensure that it complies with the "same activity, same risk, same regulation" principle. For instance, it is recommended to review prudential consolidation requirements and consider the need for additional supervisory structures to ensure effective regulation and supervision of the new providers, which constitute mixed activity groups.

Another area that attracted great attention from international bodies and national regulators in 2022 was that of crypto-assets. At the global level, the Basel Committee on Banking Supervision published in December the final standard on the prudential treatment of banks' exposures to cryptoassets. These were classified into two groups, with a specific regulatory treatment for each of them. In addition, a limit is imposed on the holding of certain cryptoassets. The FSB has proposed a framework for international regulation of cryptoasset activities, with broad recommendations for the regulation, supervision and oversight of their activities and markets and a review of the high-level recommendations specific to "global stablecoins". The objective is to address the associated financial stability risks more effectively.

Financial markets

During 2022, the EU continues to work along Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT). In this field, the EBA published its guidelines on policies and procedures relating to compliance management and the role and powers of the AML/CFT compliance officer. The guidelines comprehensively address, for the first time at EU level, the AML/CFT governance structure. In addition, in 2022, negotiations have continued in the Parliament and the Council on the AML/CFT package published by the European Commission. Among other proposals, the Commission launched the idea of creating a European anti-money laundering authority. The EU Council agreed in December its position on the texts of the new AML Directive and the new AML Regulation.

1.3. Contents of the 2022 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.

The Prudential Relevance Report (Pillar 3) of the BBVA Group, corresponding to the year ended December 31, 2022, 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 February 27, 2023), 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.

This report provides the prudential information of BBVA Consolidated Group as of December 31, 2022 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, 2022 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 Bank of Spain Executive Commission 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 Bank of Spain Executive Commission 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 the specification and disclosure of systemic importance indicators (EBA/GL/2020/14), adopted by the Bank of Spain Executive Commission. These guidelines have been amended and subsequently adopted by Bank of Spain in 2022 by EBA/GL/2022/12 Guidelines.

- Guidelines on sound remuneration policies under Directive 2013/36/EU (EBA/GL/2021/04). These guidelines were adopted by the Bank of Spain Executive Commission in December 2021. In addition, as regards remuneration, the Guidelines on the benchmarking exercises on remuneration practices, the gender pay gap and approved higher ratios under Directive 2013/36/EU (EBA/GL/2022/06), adopted as its own by the Bank of Spain on December 21, 2022, also apply.

- Commission Implementing Regulation (EU) 2022/631 of 13 April 2022 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards the disclosure of exposures to interest rate risk on positions not held in the trading book, published in the Official Journal of the European Union (OJUE) on April 19, 2022.

- Commission implementing regulation (EU) 2022/2453 of 30 November 2022 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards the disclosure of environmental, social and governance risks, published in the Official Journal of the European Union (OJUE) on December 19, 2022.

Annex VIII.a 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. Additionally, Annex VIII.b contains the correspondence of the articles of Annex II of the Commission Implementing Regulation (EU) 2022/2453 on ESG risk disclosure with the different sections of this report.

The aforementioned annex, together with the other 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 2022 - Tables & Annexes", available in the Shareholders and Investors / Financial Information section of the Group's website.