D. Risk Factors

MACROECONOMIC AND GEOPOLITICAL RISKS AND COVID-19 CONSEQUENCES

The COVID-19 pandemic is adversely affecting the Group

The COVID-19 (coronavirus) pandemic has affected, and is expected to continue to adversely affect, the world economy and economic activity and conditions in the countries in which the Group operates. Despite increasing rates of vaccination, new waves of contagion continue to be a source of concern and the emergence of new strains remains a risk. Among other challenges, these countries are experiencing very high unemployment levels, weak activity, supply disruptions and increasing inflationary pressures, while public debt has increased significantly due to support and spending measures implemented by government authorities. Furthermore, there has been an increase in loan losses from both companies and individuals, which has so far been slowed down by the impact of government support measures, including bank payment deferrals, credit with public guarantees and direct aid measures. In addition, volatility in the financial markets may continue, affecting exchange rates and the value of assets and investments, all of which (in addition to other factors referred to below) has adversely affected the Group's capital base and results as of December 31, 2021 and 2020 and for the years then ended, respectively (see *"Item 5. Operating and Financial Review and Prospects—Operating Results—Factors Affecting the Comparability of our Results of Operations and Financial Condition—The COVID-19 Pandemic*").

With the outbreak of COVID-19, the Group experienced a decline in its activity. For example, the granting of new loans to individuals decreased during lockdowns. In addition, in several countries, including Spain, the Group closed a significant number of its branches and reduced the opening hours of working with the public, with central services teams having to work remotely. While these measures were progressively reversed in most regions, additional restrictions on mobility could be adopted that affect the Group's operations. Furthermore, the Group has been and may continue to be affected by the measures or recommendations adopted by regulatory authorities in the banking sector such as variations in reference interest rates, the modification of prudential requirements, the temporary suspension of dividend payments, deferrals of loan payments and the granting of lending to companies and self-employed persons backed by public guarantees. The adoption of further measures or the modification or termination of those already in place, as well as any changes in the financial asset purchase programs of the European Central Bank ("**ECB**") or their withdrawal could materially and adversely affect the Group.

The COVID-19 pandemic may also adversely affect the business and operations of third parties that provide critical services to the Group and, in particular, the greater demand and/or reduced availability of certain resources, compounded by ongoing supply bottlenecks, could in some cases make it more difficult for the Group to maintain the required service levels. In addition, the increase in remote working has increased the risks related to cybersecurity, as the use of non-corporate networks has increased.

Further, despite the progressive lessening of restrictions since 2020 and the increasing resumption of activities, the Group continues to face various risks, such as an increased risk of volatility in the value of its assets (including financial instruments valued at fair value, which may suffer significant fluctuations) and of the securities held for liquidity reasons, an increase in non-performing loans ("**NPLs**") and risk-weighted assets ("**RWAs**") and an increase in the Group's cost of financing and a reduction in its access to financing (especially in an environment where credit ratings are affected).

The COVID-19 pandemic has also exacerbated and may continue to exacerbate other risks disclosed in this section, including but not limited to risks associated with the credit quality of the Group's borrowers and counterparties or collateral, any withdrawal of ECB funding (of which the Group has made and continues to make significant use), the Group's exposure to sovereign debt and rating downgrades, the Group's ability to comply with its regulatory requirements, including MREL (as defined herein) and other capital requirements, and the deterioration of economic conditions or changes in the institutional environment.

The final magnitude of the impact of the COVID-19 pandemic on the Group's business, financial condition and results of operations, which has been and is expected to be significant, will depend on future and uncertain events, including the intensity and persistence over time of the consequences arising from the COVID-19 pandemic in the different geographies in which the Group operates.

A deterioration in economic conditions or the institutional environment in the countries where the Group operates could have a material adverse effect on the Group

The Group is sensitive to the deterioration of economic conditions or the alteration of the institutional environment of the countries in which it operates and, especially, Spain, Mexico and Turkey, which represented 62.4%, 17.8% and 8.5% of the Group’s assets as of December 31, 2021, respectively (55.6%, 15.0% and 8.1% as of December 31, 2020, respectively and 52.9%, 15.6% and 9.2% as of December 31, 2019, respectively). Furthermore, the Group will increase its shareholding stake in Garanti BBVA (Turkey) if the announced voluntary takeover bid for the shares of such company not already owned by BBVA is completed (the magnitude of such increase will depend on the final take up of the takeover bid). Additionally, the Group is exposed to sovereign debt, particularly sovereign debt related to these countries. See “*Item 5. Operating and Financial Review and Prospects—Operating Results—Operating Environment*” for summarized information on some of the challenges that these countries are currently facing and that could significantly affect the Group.

The Group faces, among others, the following general risks with respect to the economic and institutional environment in which it operates: a deterioration in economic activity in the countries in which it operates; more persistent inflationary pressures, which could trigger a tightening of monetary conditions; stagflation due to more intense or more protracted supply shocks; variations in exchange rates and/or interest rates; an unfavorable evolution of the real estate market, to which the Group remains significantly exposed; changes in the institutional environment in the countries in which the Group operates that could lead to sudden and sharp falls in GDP and/or regulatory or governmental policy changes, including with respect to exchange controls and restrictions on dividends; growing public or external deficits that could lead to downgrades in sovereign debt credit ratings and even a possible default or restructuring of such debt; and episodes of volatility in markets, which could lead the Group to register significant losses. Moreover, emerging economies (to which the Group is significantly exposed, particularly in respect of Mexico and Turkey) could be particularly vulnerable to external factors, such as changes in the financial risk appetite or a sharp deceleration of global activity.

Furthermore, economic deterioration typically results in a decrease in the price of real estate assets. The Group is exposed to the real estate market, mainly in Spain and, to a lesser extent, Mexico and Turkey, due to the fact that many of its loans are secured by real estate assets and due to the significant volume of real estate assets that it maintains on its balance sheet. As of December 31, 2021, the Group’s exposure to the construction and real estate sectors (excluding the mortgage portfolio) in Spain was equivalent to €9,504 million, of which €2,123 million corresponded to loans for construction and development activities in Spain (representing 1.3% of the Group’s loans and advances to customers in Spain (excluding the public sector) and 0.3% of the Group’s consolidated assets). The total real estate exposure (excluding the mortgage portfolio), including developer credit, foreclosed assets and other assets, reflected a coverage ratio of 54% in Spain as of December 31, 2021. A fall in the price of real estate assets in Spain (or, to a lesser extent, Mexico or Turkey) would reduce the value of any real estate securing loans granted by the Group and, therefore, in the event of default, the amount of the expected losses related to such loans would increase. In addition, it could also have a significant adverse effect on the default rates of the Group’s residential mortgage portfolio, the balance of which, as of December 31, 2021, was €91,324 million at a global level (as of December 31, 2020 and 2019, €91,428 million and €110,534 million, respectively).

Geopolitical and other challenges and uncertainties globally could have a material adverse effect on the Group

In addition to the significant macroeconomic challenges posed by the COVID-19 pandemic, which led to a fall in GDP in 2020 in many of the countries where the Group operates, BBVA could experience negative impacts to its businesses, financial condition and results of operations as a result of geopolitical and other challenges and uncertainties globally. Currently, the world economy is facing several exceptional challenges. Russia’s invasion of Ukraine, the largest military attack on a European state since World War II, could lead to significant disruption, instability and volatility in global markets, as well as higher inflation (including by contributing to further increases in the prices of energy, oil and other commodities and further disrupting supply chains) and lower or negative growth. The EU, UK, U.S. and other governments have imposed significant sanctions and export controls against Russia and Russian interests and threatened additional sanctions and controls. The impact of these measures, as well as potential responses to them by Russia, is currently unknown and, while the Group’s direct exposure to Ukraine and Russia is limited, they could significantly and adversely affect the Group’s business, financial condition and results of operations. Geopolitical and economic risks have also increased over the past few years as a result of trade tensions between the United States and China, Brexit, the rise of populism and tensions in the Middle East. Growing tensions may lead, among others, to a deglobalization of the world economy, an increase in protectionism or barriers to immigration, a general reduction of international trade in goods and services and a reduction in the integration of financial markets, any of which could materially and adversely affect the Group’s business, financial condition and results of operations.

BUSINESS RISKS

The Group’s businesses are subject to inherent risks concerning borrower and counterparty credit quality, which have affected and are expected to continue to affect the recoverability and value of assets on the Group’s balance sheet

The total maximum credit risk exposure of the Group as of December 31, 2021 was €753,730 million (€747,145 million and €807,520 million as of December 31, 2020 and 2019, respectively). The Group has exposures to many different products and counterparties and the credit quality of its exposures can have a significant effect on the Group's earnings. Adverse changes in the credit quality of the Group's counterparties (including borrowers) or in their behavior or businesses, or any adverse changes in the collateral they may have provided, may reduce the value of the Group's assets, and materially increase the Group's write-downs and loss allowances. Credit risk can be affected by a range of factors, including an adverse economic environment, reduced consumer, corporate or government spending, changes in the rating of contractual counterparties, their debt levels and the environment in which they operate, increased unemployment, reduced asset values, increased retail or corporate insolvency levels, reduced corporate profits, changes (and the timing, quantum and pace of these changes) in interest rates, litigation and legal and regulatory developments.

In recent years, our NPL ratio (as defined in the Glossary of our Consolidated Financial Statements) (4.1%, 4.2% and 4.2% as of December 31, 2021, 2020 and 2019, respectively) has benefited from the low interest rate environment, which has led to increased recoveries and repayments. If as currently expected interest rates increase, this will likely lead to a deterioration of our NPL ratio and an increase in the Group's RWAs. See "*—The Group's business is particularly vulnerable to interest rates and the Group is exposed to risks related to the transition to alternative reference rates*".

The impact of an increase in default rates on the Group will depend on its magnitude, timing and pace, but is likely to be significant. Furthermore, it is possible that the Group has incorrectly assessed the creditworthiness or willingness to pay of its counterparties, that it has underestimated the credit risks and potential losses inherent in its credit exposure and that it has made insufficient provisions for such risks in a timely manner. The processes involved in making such assessments, which have a crucial impact on the Group's results and financial condition, require difficult, subjective and complex calculations, including forecasts of the impact that macroeconomic conditions could have on these counterparties. In particular, the processes followed by the Group to estimate losses derived from its exposure to credit risk may prove to be inadequate or insufficient in the current environment of economic uncertainty, which could affect the adequacy of the provisions for insolvencies provided by the Group. An increase in non-performing or low-quality loans could significantly and adversely affect the Group's business, financial condition and results of operations.

The Group's business is particularly vulnerable to interest rates and the Group is exposed to risks related to the transition to alternative reference rates

The Group's results of operations are substantially dependent upon the level of its net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. It is possible that changes in market interest rates affect the Group's interest-earning assets differently from the Group's interest-bearing liabilities. This, in turn, may lead to a reduction in the Group's net interest margin, which could have a significant adverse effect on its results. Moreover, changes in interest rates may affect the Group's credit risk exposure (see "*—The Group's businesses are subject to inherent risks concerning borrower and counterparty credit quality, which have affected and are expected to continue to affect the recoverability and value of assets on the Group's balance sheet*").

Interest rates are highly sensitive to many factors beyond the Group's control, including fiscal and monetary policies of governments and central banks, regulation of the financial sector, domestic and international economic and political conditions and other factors. In this sense, the COVID-19 pandemic triggered a process of cuts in reference interest rates, which is currently starting to be reversed in order to combat inflation. However, interest rate increases are being implemented at a different pace across regions and it is possible that such increases could be delayed or reversed (as the case may be) in the event of the appearance of new COVID-19 strains that restrict growth or otherwise. Increases in interest rates could adversely affect the Group by reducing the demand for credit, limiting its ability to generate credit for its clients and leading to an increase in the default rate of its counterparties. In contrast, in a low interest rate environment, prepayment activity increases, which reduces the weighted average lives of the Group's interest-earning assets, and the Group's net interest margin may decrease as assets that are not subject to interest rate floors reprice, any of which could have a material adverse effect on the Group.

Moreover, the transition away from and discontinuation of IBORs could have an adverse effect on the Group. While significant progress has been made in global financial markets in the transition to alternative reference rates ("**ARRs**"), the transition of USD LIBOR settings is still pending (other than one-week and two-month USD LIBOR settings, which transitioned as of January 1, 2022). ARRs have compositions and characteristics that differ from the benchmarks they replace, in some cases have limited history and may demonstrate less predictable performance over time than the benchmarks they replace. These changes may adversely affect the yield on loans or securities held by the Group, amounts paid on securities the Group has issued, amounts received and paid on derivatives the Group has entered into, the value of such loans, securities or derivative instruments, the trading market for such products and contracts, and the Group's ability to effectively use hedging instruments to manage risk. Further, certain impacted clients, counterparties and other market participants may refuse, delay or lack operational readiness to transition to ARRs, or such transition may otherwise adversely affect them, which may adversely affect the Group's exposure to them. Moreover, market and client adoption of ARRs may vary across or within categories of contracts, products and services, resulting in market fragmentation, decreased trading volumes and liquidity, increased complexity and modeling and operational risks. In addition, litigation, disputes or other action may occur as a result of the transitioning of contracts.

As a result of the above, the evolution of interest rates and the transition to ARRs could have a material adverse effect on the Group's business, financial condition or results of operations.

The Group faces increasing competition

The markets in which the Group operates are highly competitive and it is expected that this trend will continue in the coming years with the increasing entry of non-bank competitors (some of which have large client portfolios and strong brand recognition) and the emergence of new business models. Although the Group is making efforts to anticipate these changes, investing in its digital transformation, its competitive position is affected by the fact that non-bank operators are less heavily regulated than banks such as BBVA. For example, banking groups are subject to prudential regulations that have implications for most of their businesses, including those in which they compete with non-bank operators that are subject only to regulations specific to the activity they develop or that benefit from loopholes in the regulatory framework.

Moreover, the widespread adoption of new technologies, including cryptocurrencies and payment systems, could adversely affect BBVA's competitive position. Furthermore, such adoption could require substantial investment to modify or adapt existing products and services as the Group continues to increase its mobile and internet banking capabilities. Likewise, the increasing use of these new technologies and mobile banking platforms could have an adverse impact on the Group's investments in facilities, equipment and employees of the branch network. A faster pace of transformation towards mobile and online banking models could result in the Group having to accelerate the reconfiguration and transformation of the Group's commercial network, including the closure, restructuring or sale of branches and reductions in the number of employees, which may result in significant expenses. Failure to successfully maintain BBVA's competitive position or effectively implement changes in its business efficiently or on a timely basis could have a material adverse impact on the Group's business, financial condition or results of operations.

The Group faces risks related to its acquisitions and divestitures

The Group has both acquired and sold various companies and businesses over the past few years. On June 1, 2021, the Group announced the closing of the USA Sale. Other recent transactions include the sale of BBVA Paraguay, BBVA Chile and the sale of a majority stake in Divarian Propiedad S.A., a real estate business company. Further, on November 15, 2021, BBVA announced its decision to launch a voluntary takeover bid for the shares of Garanti BBVA not already owned by BBVA. The voluntary takeover bid is subject to the prior approval of several authorities, both in Turkey and in other jurisdictions. For additional information, see *"Item 4. Information on the Company—History and Development of the Company—Capital Divestitures" and "—Capital Expenditures*".

The Group may not complete any ongoing or future transactions (including the voluntary takeover bid for the shares of Garanti BBVA) in a timely manner, on a cost-effective basis or at all and, if completed, they may not obtain the expected results. In addition, if completed, the Group's results of operations could be adversely affected by divestiture or acquisition-related charges and contingencies. The Group may be subject to litigation in connection with, or as a result of, divestitures or acquisitions, including claims from terminated employees, customers or third parties. In the case of an acquisition, the Group may be liable for potential or existing litigation and claims related to an acquired business, including because either the Group is not indemnified for such claims or the indemnification is insufficient. Further, in the case of a divestiture, the Group may be required to indemnify the buyer in respect of similar or other matters, including claims against the divested entity or business.

In the case of an acquisition, even though the Group reviews the companies it plans to acquire, it is often not possible for these reviews to be complete in all respects and there may be risks associated with unforeseen events or liabilities relating to the acquired assets or businesses that may not have been revealed or properly assessed during the due diligence processes, resulting in the Group assuming unforeseen liabilities or an acquisition not performing as expected. In addition, acquisitions are inherently risky because of the difficulties that may arise in integrating people, operations and technologies. There can be no assurance that any of the businesses the Group acquires can be successfully integrated or that they will perform well once integrated.

Acquisitions may also lead to potential write-downs that adversely affect the Group's results of operations. Any of the foregoing may cause the Group to incur significant unexpected expenses, may divert significant resources and management attention from the Group's other business concerns, or may otherwise have a material adverse impact on the Group's business, financial condition and results of operations.

The Group faces risks derived from its international geographic diversification and its significant presence in emerging economies

The Group is made up of commercial banks, insurance companies and other financial services companies in various countries and its performance as a global business depends on its ability to manage its different businesses under various economic, social, political, legal and regulatory conditions (including, among others, different supervisory regimes and different tax and legal regimes related to the repatriation of funds or the nationalization or expropriation of assets). In addition, the Group's international operations may expose it to risks and challenges to which its local competitors may not be exposed, such as currency risk, the difficulty in managing or supervising a local entity from abroad, political risks (which could affect only foreign investors) or limitations on the distribution of dividends, thus worsening its position compared to that of local competitors.

There can be no guarantee that the Group will be successful in developing and implementing policies and strategies in all of the countries in which it operates, some of which have experienced significant economic, political and social volatility in recent decades. In particular, the Group has significant operations in several emerging economies, such as Mexico and Turkey, and is therefore vulnerable to the deterioration of these economies. Furthermore, the Group will increase its shareholding stake in Garanti BBVA (Turkey) if the announced voluntary takeover bid for the shares of such company not already owned by BBVA is completed (the magnitude of such increase will depend on the final take up of the takeover bid). Emerging markets are generally affected by the conditions of other commercially or financially related markets and by the evolution of global financial markets in general (they may be affected, for example, by the evolution of interest rates in the United States and the exchange rate of the U.S. dollar), as well as, in some cases, by fluctuations in the prices of commodities. The perception that the risks associated with investing in emerging economies have increased, in general, or in emerging markets where the Group operates, in particular, could reduce capital flows to those economies and adversely affect such economies and therefore the Group. Moreover, emerging economies are more prone to experience significant changes in inflation and foreign exchange rates, which may have a material impact on the Group's results of operations, assets (including risk-weighted assets) and liabilities. In Turkey, for example, inflation was 36.1% in December 2021 and the Turkish lira depreciated 40.2% against the euro as of December 31, 2021 compared to December 31, 2020.

The Group's operations in emerging economies are also exposed to heightened political risks, such as changes in governmental policies, expropriation, nationalization, interest rate limits, exchange controls, government restrictions on dividends and/or fees and adverse tax policies. For example, the repatriation of dividends from BBVA's subsidiaries in Venezuela, Argentina and Turkey is subject to certain restrictions and there is no assurance that further restrictions will not be imposed. In addition, the Turkish Central Bank's repeated interest rate cuts in the midst of rising inflation and continued currency depreciation has affected and may continue to affect the Group's results. Further, the Group may be affected by restrictions applicable to the fees and commissions that may be charged to customers, as is currently the case in Turkey.

If the Group failed to adopt effective and timely policies and strategies in response to the risks and challenges it faces in each of the regions where it operates, particularly in emerging economies, the Group's business, financial condition and results of operations could be materially and adversely affected.

Since the Group's loan portfolio is highly concentrated in Spain, adverse changes affecting the Spanish economy could have a material adverse effect on its financial condition

The Group has historically carried out its lending activity mainly in Spain, which continues to be its primary business area. As of December 31, 2021, total risk in financial assets in Spain (calculated as set forth in Appendix IX (*Additional information on risk concentration*) of the Consolidated Financial Statements) amounted to €229,013 million, equivalent to 40% of the Group's total risk in financial assets. The Group's gross exposure of loans and advances to customers in Spain totaled €201,405 million as of December 31, 2021, representing 61% of the Group's total amount of loans and advances to customers. The COVID-19 pandemic has had a significant impact on the Spanish economy and the sovereign fiscal position. Spanish GDP contracted 10.8% in 2020, as the pandemic and the measures adopted to slow its spread brought about a sharp reduction in economic activity in the first half of the year, which was among the most severe within the Eurozone. The sharp decline in economic activity in 2020 and measures adopted to support the economy have given rise to concerns about public debt sustainability in the medium and long term. In addition, while increases in unemployment have been limited by the implementation of short-time work schemes, as these measures are withdrawn, unemployment could rise. Moreover, the inflation rate for 2021 (6.5% in December 2021) was the highest since 1989. Further, while economic recovery is expected to be boosted by the implementation of EU-level initiatives, in particular the financial support linked to the Next Generation EU plan, there are risks as to the capacity of the Spanish economy to absorb the EU funds and translate the support to productive investment. In addition, the Spanish economy is particularly sensitive to economic conditions in the Eurozone, the main export market for Spanish goods and services. Further, the Group's Spanish business includes extensive operations in Catalonia, which represented 16% of the Group's assets in Spain as of December 31, 2021 (16% as of December 31, 2020). While social and political tensions have generally declined since 2017, if such tensions were to increase, this could lead to scenarios of uncertainty, volatility in capital markets and a deterioration of economic and financing conditions in Spain.

Given the relevance of the Group's loan portfolio in Spain, any adverse change affecting economic conditions in Spain could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is exposed to various risks in connection with climate change

Climate change presents both immediate and long-term risks to the Group and its customers, with the risks expected to increase over time. Climate change poses the following risks to the Group, among others:

- *Physical risks*. The activities of the Groups or those of its customers or counterparties could be negatively impacted by the physical risks posed by climate change. For example, extreme weather events may damage or destroy their properties and other assets or otherwise disrupt their operations (for example, if supply chains are disrupted as a result), diminishing –in the case of customers- their repayment capacity and, if applicable, the value of properties pledged as collateral to the Group.

- *Regulatory risks*. Following the Paris agreement, financial institutions are progressively coming under increased pressure regarding the management and disclosure of their climate risks and related lending and investment activities. Banking regulators across the world are increasingly viewing financial institutions as having an important role in helping to address the risks related to climate change both directly and with respect to their customers. Legislative or regulatory changes regarding how banks manage climate risk or otherwise affecting banking practices may result in higher regulatory, compliance and credit costs. For example, several of the European Union's sustainability initiatives are expected to significantly impact asset management activities in 2022, as asset managers will need to include sustainability as part of their financial advice. In addition, the ECB will be conducting a stress test on climate-related risks (CST) during 2022, whose output will be integrated into the annual Supervisory Review and Examination Process ("SREP") using a qualitative approach. The test aims to identify vulnerabilities, industry best practices and the challenges faced by banks and may result in increased regulation. For additional information see "*Item 4. Information on the Company—Business Overview—Supervision and Regulation*"*.*

- *Reputational risks.* The perception of climate change as a risk by society, shareholders, customers, governments and other stakeholders continues to increase, including in relation to the financial sector's operations and strategy. This may result in increased scrutiny of the Group's activities, including companies to which it lends. The Group's reputation may be harmed if its efforts to reduce environmental and social risks are deemed to be insufficient. For example, the Group's reputation may be adversely affected due to its financing of businesses that are perceived to adversely affect the environment, such as oil companies or coal-fired power generation businesses.

- *Transition risks:* As the countries where the Group operates progressively transition to a low-carbon economy, some of the Group's customers may be adversely affected. For example, the Group's corporate credit portfolios include carbon-intensive industries like oil and gas and power that are exposed to risks related to the transition to a low-carbon economy, as well as low-carbon industries that may be subject to risks associated with new technologies.

- *Business risks.* BBVA is exposed to near term risks related to climate change, including increases in credit-related costs due to deterioration in the business performance of the Group's customers exposed to climate change risks and decreases in the value of collateral assets caused by changes in climate and the effects thereof. BBVA is also exposed to potential long-term risks, including increases in credit-related costs due to deteriorating macroeconomic conditions, which may be caused in part by an increase in infectious diseases, heatstroke or other related ailments resulting from climate change. The Group could also be adversely affected by widespread declines in asset values as a result of climate change or climate change-related risks, reduced availability of insurance and significant interruptions to business operations, and may be required to change its business models in response to those consequences.

Any of these factors may have a material adverse effect on the Group's business, financial condition and results of operations.

FINANCIAL RISKS

The Group has a continuous demand for liquidity to finance its activities and the withdrawal of deposits or other sources of liquidity could significantly affect it

Traditionally, one of the Group's main sources of financing has been savings accounts and demand deposits. As of December 31, 2021, the balance of customer deposits represented 72% of the Group's total financial liabilities at amortized cost. However, the volume of wholesale and retail deposits can fluctuate significantly, including as a result of factors beyond the Group's control, such as general economic conditions, changes in economic policy or administrative decisions that diminish their attractiveness as savings instruments (for example, as a consequence of changes in taxation, coverage by guarantee funds for deposits or expropriations) or competition from other savings or investment instruments (including deposits from other banks).

Likewise, changes in interest rates and credit spreads may significantly affect the cost of the Group's short and long-term wholesale financing. Changes in credit spreads are driven by market factors and are also influenced by the market's perception of the Group's solvency. As of December 31, 2021, debt securities issued by the Group represented 11.4% of the total financial liabilities at amortized cost of the Group.

In addition, the Group has made and continues to make significant use of public sources of liquidity, such as the ECB's extraordinary measures taken in response to the financial crisis since 2008 or those taken in connection with the crisis caused by the COVID-19 pandemic. The ECB announced in December 2020 the new conditions of its Targeted Long Term Refinancing Operations III program, increasing the maximum amount that BBVA may receive from 50% of eligible loans to 55% and extending the enhanced conditions in terms of cost by one additional year until June 2022. As of December 31, 2021, €38,692 million had been borrowed by the BBVA Group (€35,032 million as of December 31, 2020 and €7,000 million as of December 31, 2019). However, the conditions of this or other programs could be revised or these programs could be cancelled.

In the event of a withdrawal of deposits or other sources of liquidity, especially if it is sudden or unexpected, the Group may not be able to finance its financial obligations or meet the minimum liquidity requirements that apply to it, and may be forced to incur higher financial costs, liquidate assets and take additional measures to reduce leverage. Furthermore, the Group could be subject to the adoption of early intervention measures or, ultimately, to the adoption of a resolution measure by the Relevant Spanish Resolution Authority (see "*Item 4. Information on the Company—Business Overview—Supervision and Regulation—Capital Requirements, MREL and Resolution*"). Any of the above could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group and some of its subsidiaries depend on their credit ratings and sovereign credit ratings

Rating agencies periodically review the Group's debt credit ratings. Any reduction, effective or anticipated, in any such ratings of the Group, whether below investment grade or otherwise, could limit or impair the Group's access to capital markets and other possible sources of liquidity and increase the Group's financing cost, and entail the breach or early termination of certain contracts or give rise to additional obligations under those contracts, such as the need to grant additional guarantees. Furthermore, if the Group were required to cancel its derivative contracts with some of its counterparties as a result thereof and were unable to replace them, its market risk would worsen. Likewise, a reduction in the credit rating could affect the Group's ability to sell or market some of its products or to participate in certain transactions, and could lead to the loss of customer deposits and make third parties less willing to carry out commercial transactions with the Group (especially those that require a minimum credit rating).

Furthermore, the Group's credit ratings could be affected by variations in sovereign credit ratings, particularly the rating of Spanish sovereign debt. The Group holds a significant portfolio of debt issued by Spain, by the Spanish autonomous communities and by other Spanish issuers. As of December 31, 2021, the Group's exposure (EBA criteria) to Spain's public debt portfolio was €38,626 million, representing 5.8% of the consolidated total assets of the Group. Any decrease in the credit rating of Spain could adversely affect the valuation of the respective debt portfolios held by the Group and lead to a reduction in the Group's credit ratings. Additionally, counterparties to many of the credit agreements signed with the Group could also be affected by a decrease in the credit rating of Spain, which could limit their ability to attract additional resources or otherwise affect their ability to pay their outstanding obligations to the Group.

Any of these factors may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's ability to pay dividends depends, in part, on the receipt of dividends from its subsidiaries

Some of the Group's operations are conducted through BBVA's subsidiaries. As a result, BBVA's results (and its ability to pay dividends) depend in part on the ability of its subsidiaries to generate earnings and to pay dividends to BBVA. Due, in part, to the Group's decision to follow a 'Multiple Point of Entry' strategy, in accordance with the framework for the resolution of financial entities designed by the Financial Stability Board (the "**FSB**"), the Group's subsidiaries are self-sufficient and each subsidiary is responsible for managing its own capital and liquidity. This means that the payment of dividends, distributions and advances by the Group's subsidiaries to BBVA depends not only on the results of those subsidiaries, but also on the context of their operations and liquidity needs, and may be further limited by legal, regulatory and contractual restrictions. For example, in response to the crisis caused by the COVID-19 pandemic, certain restrictions were adopted that affect the distribution and/or repatriation of dividends from some of the Group's subsidiaries. There is no assurance that these restrictions will not remain in effect or, where lifted, reinstated, or that similar or new restrictions will not be imposed in the future. Furthermore, the Group's right, as a shareholder, to participate in the distribution of assets resulting from the eventual liquidation or any reorganization of its subsidiaries will be effectively subordinated to the rights of the creditors of those subsidiaries, including their commercial creditors.

In addition, the Group (including the Bank) must comply with certain capital requirements, where non-compliance could lead to the imposition of restrictions or prohibitions on making any: (i) distributions relating to common equity tier 1 ("**CET1**") capital; (ii) payments related to variable remuneration or discretionary pension benefits; and (iii) distributions linked to additional Tier 1 (AT1) instruments.

Likewise, the ability of the Bank and its subsidiaries to pay dividends is affected by the recommendations and requirements of their respective supervisors, such as those made in response to the COVID-19 pandemic, and no assurance can be given that further supervisory restrictions or recommendations will not restrict the Group's or the Group's subsidiaries' ability to distribute dividends in the future (see "*Item 8. Financial Information—Consolidated Statements and Other Financial Information—Dividends*" for further details).

The Group's earnings and financial condition have been, and its future earnings and financial condition may continue to be, materially affected by asset impairment

Regulatory, business, economic or political changes and other factors could lead to asset impairment. In recent years, severe market events such as the past sovereign debt crisis, rising risk premiums and falls in share market prices, have resulted in the Group recording large write-downs on its credit market exposures. Doubts regarding the asset quality of European banks has also affected their evolution in the market in recent years.

Several ongoing factors could depress the valuation of the Group's assets or otherwise lead to the impairment of such assets (including goodwill and deferred tax assets). This includes the COVID-19 crisis, increased trade and geopolitical tensions (including the armed conflict in Ukraine), Brexit, the surge of populist trends in several European countries and potential changes in U.S. economic policies, any of which could increase global financial volatility and lead to the reallocation of assets. In addition, uncertainty about China's growth expectations and its policymaking capability to address certain severe challenges has contributed to the deterioration of the valuation of global assets and further increased volatility in the global financial markets.

In particular, the final impact of the COVID-19 crisis on the valuation of the Group's assets is still unknown. Since the outbreak of the crisis in the first quarter of 2020, public support measures have been introduced in the countries where the Group operates, most of which have been in the form of public guarantees on new loans to corporates and small and medium-sized enterprises ("**SMEs**") and payment deferrals. Once these measures come to an end, it is possible that the Group will need to record significant loan-loss provisions as a result of the deterioration in the credit quality of the Group's clients, especially SMEs. Any such provisions could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group has a substantial amount of commitments with personnel considered wholly unfunded due to the absence of qualifying plan assets

The Group faces liquidity risk in connection with its ability to make payments on its unfunded commitments with personnel (which are recognized under the heading "Provisions—Provisions for pensions and similar obligations" in the Group's consolidated balance sheet), which it seeks to mitigate, with respect to post-employment benefits, by maintaining insurance contracts which were contracted with insurance companies owned by the Group. The insurance companies have recorded in their balance sheets specific assets (fixed interest deposit and bonds) assigned to the funding of these commitments. The insurance companies also manage derivatives (primarily swaps) to mitigate the interest rate risk in connection with the payments of these commitments. The Group seeks to mitigate liquidity risk with respect to early retirements and post-employment welfare benefits through oversight by the Assets and Liabilities Committee ("**ALCO**") of the Group. The Group's ALCO manages a specific asset portfolio to mitigate the liquidity risk resulting from the payments of these commitments. These assets are government and covered bonds which are issued at fixed interest rates with maturities matching the aforementioned commitments. The Group's ALCO also manages derivatives (primarily swaps) to mitigate the interest rate risk in connection with the payments of these commitments. Should BBVA fail to adequately manage liquidity risk and interest rate risk either as described above or otherwise, it could have a material adverse effect on the Group's business, financial condition and results of operations.

LEGAL RISKS

The Group is party to a number of legal and regulatory actions and proceedings

The financial sector faces an environment of increasing regulatory and litigation pressure. The Group is party to government procedures and investigations, such as those carried out by the antitrust authorities which, among other things, have in the past and could in the future result in sanctions, as well as lead to claims by customers and others.

The various Group entities are also frequently party to individual or collective judicial proceedings (including class actions) resulting from their activity and operations, as well as arbitration proceedings. For example, in April 2017, the Mexican Federal Economic Competition Commission (Comisión Federal de Competencia Económica) launched an antitrust investigation relating to alleged monopolistic practices of certain financial institutions, including BBVA's subsidiary BBVA Bancomer, S.A. ("BBVA Mexico") in connection with transactions in Mexican government bonds. The Mexican Banking and Securities Exchange Commission (Comisión Nacional Bancaria y de Valores) also initiated a separate investigation regarding this matter. These investigations resulted in certain fines, insignificant in amount, being initially imposed, certain of which BBVA Mexico has challenged. In March 2018, BBVA Mexico and certain other affiliates of the Group were named as defendants in a putative class action lawsuit filed in the United States District Court for the Southern District of New York, alleging that the defendant banks and their named subsidiaries engaged in collusion with respect to the purchase and sale of Mexican government bonds. In December 2019, following a decision from the judge assigned to hear the proceedings, plaintiffs withdrew their claims against BBVA Mexico's affiliates. In November 2020, the judge granted the remaining defendants' motion to dismiss for lack of personal jurisdiction. The plaintiffs filed a motion for reconsideration of that decision in May 2021, which remains pending.

More generally, in recent years, regulators have increased their supervisory focus on consumer protection and corporate behavior, which has resulted in an increased number of regulatory actions. In Spain and in other jurisdictions where the Group operates, legal and regulatory actions and proceedings against financial institutions, prompted in part by certain recent national and supranational rulings in favor of consumers (with regards to matters such as credit cards and mortgage loans), have increased significantly in recent years and this trend could continue in the future. The legal and regulatory actions and proceedings faced by other financial institutions in relation to these and other matters, especially if such actions or proceedings result in favorable resolutions for the consumer, could also adversely affect the Group.

It is difficult to predict the outcome of legal and regulatory actions and proceedings, both those to which the Group is currently exposed and those that may arise in the future, including actions and proceedings relating to former Group subsidiaries or in respect of which the Group may have indemnification obligations. As of December 31, 2021, the Group had €623 million in provisions for the proceedings it is facing, of which €533 million corresponded to legal contingencies and €90 million corresponded to tax related contingencies. However, the uncertainty arising from these proceedings (including those for which no provisions have been made, either because it is not possible to estimate any such provisions or for other reasons) makes it impossible to guarantee that the possible losses arising from such proceedings will not exceed, where applicable, the amounts that the Group currently has provisioned and, therefore, could affect the Group's consolidated results in a given period. In addition, legal actions and proceedings draw resources away from the Group and may require significant attention on the part of the Group's management and employees. Further, their outcome may result in a significant increase in operating and compliance costs and/or a reduction in revenues, and may also damage the Group's reputation.

As a result of the above, legal and regulatory actions and proceedings currently faced by the Group or to which it may become subject in the future or which may otherwise affect the Group, whether individually or in the aggregate, if resolved in whole or in part adversely to the Group's interests, could have a material adverse effect on the Group's business, financial condition and results of operations.

The Spanish judicial authorities are carrying out a criminal investigation relating to possible bribery, revelation of secrets and corruption by BBVA

Spanish judicial authorities are investigating the activities of Centro Exclusivo de Negocios y Transacciones, S.L. ("**Cenyt**"). Such investigation includes the provision of services by Cenyt to BBVA. On July 29, 2019, BBVA was named as an investigated party (*investigado*) in a criminal judicial investigation (Preliminary Proceeding No. 96/2017 – Piece No. 9, Central Investigating Court No. 6 of the National High Court) for alleged facts which could constitute bribery, revelation of secrets and corruption. On February 3, 2020, BBVA was notified by the Central Investigating Court No. 6 of the National High Court of the order lifting the secrecy of the proceedings. Certain current and former officers and employees of the Group, as well as former directors, have also been named as investigated parties in connection with this investigation. BBVA has been and continues to be proactively collaborating with the Spanish judicial authorities, including sharing with the courts information obtained in the internal investigation hired by the entity in 2019 to contribute to the clarification of the facts. As at the date of this Annual Report, no formal accusation against BBVA has been made.

This criminal judicial proceeding is in the pre-trial phase. Therefore, it is not possible at this time to predict the scope or duration of such proceeding or any related proceeding or its or their possible outcomes or implications for the Group, including any fines, damages or harm to the Group's reputation caused thereby.

REGULATORY, TAX, COMPLIANCE AND REPORTING RISKS

The financial services sector is one of the most regulated in the world. The Group is subject to a broad regulatory and supervisory framework, which has increased significantly in the last decade. Regulatory activity in recent years has affected multiple areas, including changes in accounting standards; strict regulation of capital, liquidity and remuneration; bank charges and taxes on financial transactions; regulations affecting mortgages, banking products and consumers and users; recovery and resolution measures; stress tests; prevention of money laundering and terrorist financing; market abuse; conduct in the financial markets; anti-corruption; and requirements as to the periodic publication of information. Governments, regulatory authorities and other institutions continually make proposals to strengthen the resistance of financial institutions to future crises. Further, there is an increasing focus on the climate-related financial risk management capabilities of banks.

Furthermore, the international nature of the Group’s operations means that the Group is subject to a wide and complex range of local and international regulations in these matters, sometimes with overlapping scopes and areas regulated. This complexity, which can be exacerbated by differences and changes in the interpretation or application of these standards by local authorities, makes compliance risk management difficult, requiring highly sophisticated monitoring, qualified personnel and general training of employees.

Any change in the Group’s business that is necessary to comply with any particular regulations at any given time, especially in Spain, Mexico or Turkey, could lead to a considerable loss of income, limit the Group’s ability to identify business opportunities, affect the valuation of its assets, force the Group to increase its prices and, therefore, reduce the demand for its products, impose additional costs on the Group or otherwise adversely affect its business, financial condition and results of operations.

The Group is subject to a broad regulatory and supervisory framework, including resolution regulations, which could have a significant adverse effect on its business, financial condition and results of operations

The Group is subject to a comprehensive regulatory and supervisory framework, the complexity and scope of which has increased significantly in recent years. In particular, the banking sector is subject to continuous scrutiny at the political and supervisory levels, and it is foreseeable that in the future there will continue to be political involvement in regulatory and supervisory processes, as well as in the governance of the main financial entities. For this reason, the laws, regulations and policies to which the Group is subject, as well as their interpretation and application, may change at any time. In addition, supervisors and regulators have significant discretion in carrying out their duties, which gives rise to uncertainty regarding the interpretation and implementation of the regulatory framework. Moreover, regulatory fragmentation and the implementation by some countries of more flexible or stricter rules or regulations could also adversely affect the Group’s ability to compete with financial institutions that may or may not have to comply with any such rules or regulations.

Regulatory changes, adopted or proposed, as well as their interpretation or application, have increased and may continue to substantially increase the Group’s operating expenses and adversely affect its business model. For example, the imposition of prudential capital standards has limited and could further limit the ability of subsidiaries to distribute capital to the Group, while liquidity standards may require the Group to hold a higher proportion of financial instruments with higher liquidity and lower performance, which can adversely affect its net interest margin. In addition, the Group’s regulatory and supervisory authorities may require the Group to increase its loan loss allowances or asset impairments, which could have an adverse effect on its financial condition. It is also possible that governments and regulators impose additional ad hoc regulations or requirements in response to a particular crisis, such as has occurred in response to the COVID-19 pandemic, including the imposition of requirements on credit institutions to provide financing to various entities or grant payment deferrals.

Any legislative or regulatory measure and any necessary change in the Group’s business operations as a consequence of such measure, as well as any failure to comply with it, could result in a significant loss of income, represent a limitation on the ability of the Group to take advantage of business opportunities and offer certain products and services, affect the value of the Group’s assets, force the Group to increase prices (which could reduce the demand for its products), impose additional compliance costs or result in other possible negative effects for the Group.

One of the most significant regulatory changes resulting from the prior financial crisis was the introduction of resolution regulations (see “*Item 4. Information on the Company—Business Overview—Supervision and Regulation—Capital Requirements, MREL and Resolution*”). In the event that the Relevant Spanish Resolution Authority (as defined herein) considers that the Group is in a situation where conditions for early intervention or resolution are met, it may adopt the measures provided for in the applicable regulations, including without prior notice. Any such determination, or the mere possibility that such determination could be made, could materially and adversely affect the Group’s business, financial condition and results of operations, as well as the market price and behavior of certain securities issued by the Group (or their terms, in the event of an exercise of the Spanish Bail-in-Power (as defined herein)).

Increasingly onerous capital and liquidity requirements may have a material adverse effect on the Group’s business, financial condition and results of operations

The Group is subject to various minimum capital, liquidity and funding requirements, among others. For example, in its capacity as a Spanish credit institution, the Group is subject to compliance with a “Pillar 1” solvency requirement, a “Pillar 2” solvency requirement and a “combined buffer requirement”, at both the individual and consolidated levels, each as determined by the ECB. Further, the Group must maintain a minimum level of own funds and eligible liabilities (MREL), and is subject to a further requirement on the level of subordinated own funds and eligible liabilities, each as determined by the Single Resolution Board (“**SRB**”). For additional information on such requirements, see “*Item 4. Information on the Company—Business Overview—Supervision and Regulation—Capital Requirements, MREL and Resolution*” and, with respect to the Group’s requirements in particular, “*Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Capital*” and Note 32.1 to the Consolidated Financial Statements.

While the Group believes it meets its current requirements (as applicable to the Bank and the Group as whole, respectively), the capital requirements, the MREL requirements and the own funds and eligible liabilities available for MREL purposes are subject to interpretation and change and, therefore, no assurance can be given that the Group’s interpretation is the appropriate one. Further, no assurance can be given that the Bank and/or the Group will not be subject to more stringent requirements at any future time. Likewise, no assurance can be given that the Bank and/or the Group will be able to fulfil whatever future requirements may be imposed, even if such requirements were to be equal or lower than those currently applicable to it/them. In addition, there can be no assurance as to the ability of the Bank and/or the Group to comply with any capital target that may be announced to the market at any given time, which could be perceived by investors and/or supervisors as signaling a lack of capital-generating capacity or that the capital structure has deteriorated, either of which could adversely affect the market value or behavior of securities issued by the Bank and/or the Group and, therefore, lead to the implementation of new recommendations or requirements regarding “Pillar 2” or (should the Relevant Spanish Resolution Authority interpret that obstacles may exist for the viability of the resolution of the Bank and/or the Group, as the case may be), MREL. Further, the Bank and/or the Group may report amounts different from consensus estimates, as occurred with respect to the CET 1 ratio as of December 31, 2021, which may also affect market perceptions of the Bank and the Group.

If the Bank or the Group failed to comply with its “combined buffer requirement” they would have to calculate the Maximum Distributable Amount (“**MDA**”) and, until such calculation has been undertaken and reported to the Bank of Spain, the affected entity would not be able to make any discretionary payments. Once the MDA has been calculated and reported, such discretionary payments would be limited to the calculated MDA. Likewise, should the Bank or the Group not meet the applicable capital requirements, additional requirements of “Pillar 2” or, if applicable, MREL could be imposed. Likewise, in accordance with the EU Banking Reforms (as defined below), any failure by BBVA to comply with its respective “combined buffer requirement” when considered in addition to its MREL could result in the imposition of restrictions or prohibitions on discretionary payments. Additionally, failure to comply with the capital requirements may result in the implementation of early intervention measures or, ultimately, resolution measures by the resolution authorities.

Regulation (EU) 2019/876 of the European Parliament and of the Council, of May 20, 2019 (as amended, replaced or supplemented at any time, “**CRR II**”) establishes a binding requirement for the leverage ratio effective from June 28, 2021 of 3% of Tier 1 capital (as of December 31, 2021, the phased-in leverage ratio of the Group was 6.80% and fully loaded it was 6.67%). Moreover, CRR II proposes new requirements that capital instruments must meet in order to be considered Additional Tier 1 (“**AT1**”) or Tier 2 instruments, including certain grandfathering measures until June 28, 2025. Once the grandfathering period in CRR II has elapsed, AT1 and/or Tier 2 instruments which do not comply with the new requirements at such date will no longer be considered as capital instruments. This could give rise to shortfalls in regulatory capital and, ultimately, could result in failure to comply with the applicable minimum regulatory capital requirements, with the aforementioned consequences.

Additionally, the full implementation of the ECB expectations regarding prudential provisions for NPLs and the ECB’s review of internal models being used by banks subject to its supervision for the calculation of their RWAs could result, respectively, in the need to increase provisions for future NPLs and increases in the Group’s capital needs.

Furthermore, the implementation of the pending Basel III reforms (informally referred to as Basel IV) described in “*Item 4. Information on the Company—Business Overview—Supervision and Regulation—Capital Requirements, MREL and Resolution*” (including changes to the calculation of the Group’s Operational Risk) could result in an increase of the Bank’s and the Group’s total RWAs and, therefore, could also result in a decrease of the Bank’s and the Group’s capital ratios. Likewise, the lack of uniformity in the implementation of the Basel III reforms across jurisdictions in terms of timing and applicable regulations could give rise to inequalities and competition distortions. Moreover, the lack of regulatory coordination, with some countries bringing forward the application of Basel III requirements or increasing such requirements, could adversely affect an entity with global operations such as the Group and could affect its profitability.

There can be no assurance that the current or future capital requirements or MREL requirements will not adversely affect the Bank’s or its subsidiaries’ ability to make discretionary payments, or result in the cancellation of such payments (in whole or in part), or require the Bank or such subsidiaries to issue additional securities that qualify as eligible liabilities or regulatory capital, to liquidate assets, to curtail business or to take any other actions, any of which may have adverse effects on the Group’s business, financial condition and results of operations. Furthermore, an increase in capital requirements, including the imposition of Total Loss Absorbing Capacity (TLAC) requirements (which are currently only imposed upon financial institutions of global systemic importance), could adversely affect the return on equity and other of the Group’s financial results indicators. Moreover, the Bank’s or the Group’s failure to comply with their capital requirements or MREL requirements could have a significant adverse effect on the Group’s business, financial condition and results of operations.

Finally, the Group must also comply with liquidity and funding ratios. Several elements of the Liquidity Coverage Ratio (LCR) and Net Stable Financing Ratio (NSFR) (as described herein), as introduced by national banking regulators and fulfilled by the Group, may require implementing changes in some of its commercial practices, which could expose the Group to additional expenses (including an increase in compliance expenses), affect the profitability of its activities or otherwise lead to a significant adverse effect over the Group’s business, financial condition or results of operations. For information on the Group’s requirements, see “*Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources*”.

The Group is exposed to tax risks that may adversely affect it

The size, geographic diversity and complexity of the Group and its commercial and financial relationships with both third parties and related parties result in the need to consider, evaluate and interpret a considerable number of tax laws and regulations, as well as any relevant interpretative materials, which in turn involve the use of estimates, the interpretation of indeterminate legal concepts and the determination of appropriate valuations in order to comply with the tax obligations of the Group. In particular, the preparation of the Group’s tax returns and the process for establishing tax provisions involve the use of estimates and interpretations of tax laws and regulations, which are complex and subject to review by the tax authorities. Any error or discrepancy with tax authorities in any of the jurisdictions in which the Group operates may give rise to prolonged administrative or judicial proceedings that may have a material adverse effect on the Group’s results of operations.

In addition, governments in different jurisdictions are seeking to identify new funding sources and they have recently focused on the financial sector. The Group’s presence in various jurisdictions increases its exposure to regulatory and interpretative changes, which could, among other things, lead to an increase in the rates of taxes to which the Group is subject, changes in the calculation of tax bases and exemptions therefrom, or the creation of new taxes, in each case including in response to the demands of various political forces. Recent changes in Spain include the imposition of a minimum effective tax rate in the Spanish Corporate Income Tax (18% in the case of credit institutions) or the reduction of the Spanish Corporate Income Tax exemption for dividends and capital gains from domestic and foreign subsidiaries to 95%, which means that 5% of the dividends and capital gains of Group companies in Spain are subject to, and not exempt from corporate tax. In addition, the Spanish financial transaction tax (“**FTT**”) came into effect in January 2021. The EU Commission's proposal for a FFT Directive, aimed at harmonizing Member States’ FFT initiatives, is still pending approval.

Any of these factors may have a material adverse effect on the Group’s business, financial condition and results of operations.

The Group is exposed to compliance risks

The Group, due to its role in the economy and the nature of its activities, is singularly exposed to certain compliance risks. In particular, the Group must comply with regulations regarding customer conduct, market conduct, the prevention of money laundering and the financing of terrorist activities, the protection of personal data, the restrictions established by national or international sanctions programs and anticorruption laws (including the US Foreign Corrupt Practices Act of 1977 and the UK Bribery Act of 2010), the violations of which may lead to very significant penalties. These anti-corruption laws generally prohibit providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of the Group’s business, the Group directly or indirectly, through third parties, deals with entities whose employees are considered to be government officials. The Group’s activities are also subject to complex customer protection and market integrity regulations.

Generally, these regulations require banking entities to, among other measures, use due diligence measures to manage compliance risk. Sometimes, banking entities must apply reinforced due diligence measures due to the nature of their activities (among others, private banking, money transfer and foreign currency exchange operations), as they may present a higher risk of money laundering or terrorist financing.

Although the Group has adopted policies, procedures, systems and other measures to manage compliance risk, it is dependent on its employees and external suppliers for the implementation of these policies, procedures, systems and other measures, and it cannot guarantee that these are sufficient or that the employees (110,432 as of December 31, 2021) or other persons of the Group or its business partners, agents and/or other third parties with a business or professional relationship with the Group do not circumvent or violate regulations or the Group's ethics and compliance regulations, acts for which such persons or the Group could be held ultimately responsible and/or that could damage the Group's reputation. In particular, acts of misconduct by any employee, and particularly by senior management, could erode trust and confidence and damage the Group's reputation among existing and potential clients and other stakeholders. Actual or alleged misconduct by Group entities in any number of activities or circumstances, including operations, employment-related offenses such as sexual harassment and discrimination, regulatory compliance, the use and protection of data and systems, and the satisfaction of client expectations, and actions taken by regulators or others in response to such misconduct, could lead to, among other things, sanctions, fines and reputational damage, any of which could have a material adverse effect on the Group's business, financial condition and results of operations.

Furthermore, the Group may not be able to prevent third parties outside the Group from using the banking network in order to launder money or carry out illegal or inappropriate activities. Further, financial crimes continually evolve and emerging technologies, such as cryptocurrencies and blockchain, could limit the Group's ability to track the movement of funds. Additionally, in adverse economic conditions, it is possible that financial crime attempts will increase significantly.

If there is a breach of the applicable regulations or the Group's ethics and compliance regulations or if the competent authorities consider that the Group does not perform the necessary due diligence inherent to its activities, such authorities could impose limitations on the Group's activities, the revocation of its authorizations and licenses, and economic penalties, in addition to having significant consequences for the Group's reputation, which could have a significant adverse impact on the Group's business, financial condition and results of operations. Furthermore, the Group from time to time conducts investigations related to alleged violations of such regulations and the Group's ethics and compliance regulations, and any such investigation or any related proceeding could be time consuming and costly, and its results difficult to predict.

Finally, the COVID-19 outbreak has led in many countries to new specific regulations, mainly focused on consumer protection measures. The difficulties associated with the need to adapt the Group's processes and systems to these new regulations quickly has posed a compliance risk. Likewise, the increase in remote account opening driven in part by the pandemic could increase money laundering risks. Additionally, criminals are continuing to exploit the opportunities created by the pandemic across the globe and increased money laundering risks associated with counterfeiting of medical goods, investment fraud, cyber-crime scams and exploitation of economic stimulus measures put in place by governments exists. Increased strain on the Group's communications surveillance frameworks could in turn raise the Group's market conduct risk.

BBVA's financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of its operations and financial position

The preparation of financial statements in compliance with IFRS-IASB requires the use of estimates. It also requires management to exercise judgment in applying relevant accounting policies. The key areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated and individual financial statements, include the classification, measurement and impairment of financial assets, particularly where such assets do not have a readily available market price, the assumptions used to quantify certain provisions and for the actuarial calculation of post-employment benefit liabilities and commitments, the useful life and impairment losses of tangible and intangible assets, the valuation of goodwill and purchase price allocation of business combinations, the fair value of certain unlisted financial assets and liabilities, the recoverability of deferred tax assets and the exchange and inflation rates of Venezuela. There is a risk that if the judgment exercised or the estimates or assumptions used subsequently turn out to be incorrect then this could result in significant loss to the Group beyond that anticipated or provided for, which could have an adverse effect on the Group's business, financial condition and results of operations.

Observable market prices are not available for many of the financial assets and liabilities that the Group holds at fair value and a variety of techniques to estimate the fair value are used. Should the valuation of such financial assets or liabilities become observable, for example as a result of sales or trading in comparable assets or liabilities by third parties, this could result in a materially different valuation to the current carrying value in the Group's financial statements.

The further development of standards and interpretations under IFRS-IASB could also significantly affect the results of operations, financial condition and prospects of the Group.

OPERATIONAL RISKS

Attacks, failures or deficiencies in the Group's procedures, systems and security or those of third parties to which the Group is exposed could have a significant adverse impact on the Group's business, financial condition and results of operations, and could be detrimental for its reputation