5. Leverage ratio

5.1. Leverage Ratio definition and composition

The leverage ratio (LR) is a regulatory measure (not risk-based) complementing capital designed to guarantee the soundness and financial strength of institutions in terms of indebtedness.

CRR II introduces a mandatory minimum leverage ratio requirement, set at 3% of Tier 1 capital over the total exposure measure.

However, institutions that decide to exclude central bank exposures from the total exposure measure must recalibrate upwards this 3% minimum requirement such that only recently accumulated central bank exposures (only the increase in central bank exposures since the end of 2019) effectively benefit from leverage ratio relief. This exclusion applies until March 31, 2022.

Described below are the elements making up the leverage ratio, in accordance with CRR II:

- Tier 1 capital (letter i in the following table): Section 3.2. of this Document presents details of the eligible own funds, calculated based on the criteria defined in the CRR.
- Total Exposure: As set out in Article 429 of the CRR, the total exposure measure generally follows the book value subject to the following considerations:
  - On-balance sheet exposure other than derivatives is included net of allowances and accounting valuation adjustments.
  - The measure of the Group's total exposure is composed of the total assets as per financial statements adjusted for reconciliation between the accounting perimeter and the prudential perimeter.

Total exposure for the purpose of calculating the leverage ratio is composed by the sum of the exposure values of:

- Assets: the exposure value of an asset item will be its accounting value remaining after the application of specific credit risk adjustments. In general terms, securities financing transactions will not be compensated except for certain conditions.
- Derivatives contracts: the Entity calculates the exposure value of derivatives contracts in accordance with the standard method of counterparty risk (SA-CCR). When calculating the exposure value, the effects of compensation agreements (netting) will be taken into account. For the purposes of calculating the exposure value, collateral received will not be included, except under certain conditions.
- Add-ons for counterparty credit risk of securities financing transactions (SFTs): in addition to the calculation of the exposure value of securities financing transactions, included in the first point, the total exposure measure shall include an add-on due to counterparty credit risk in accordance with article 429e of the CRR II
- Off-balance sheet items: these correspond to risk and contingent liabilities and commitments, mainly collateral and undrawn balances. A minimum floor is applied to conversion factors (CCFs) of 10% in line with the provisions of the Article 429f (3) of CRR II.
- Regular-way purchases or sales awaiting settlement.

The exposures excluded from the total exposure measure are:

- Tier 1 deductions: all those amounts of assets that have been deducted in the determination of the eligible Tier 1 capital are deducted, in order not to duplicate exposure. The main deductions are intangible assets, loss carry forwards and other deductions defined in Article 36 of CRR II and indicated in section 3.2 of this report.
- Additionally, as of 31 December 2021, the temporary exemption of certain exposures to central banks is included.

The table below shows a breakdown of the items making up the leverage ratio as of December 31, 2021 and December 31, 2020.

Table 88. EU LR1 - Summary reconciliation of accounting assets and exposure corresponding to the Leverage Ratio (Million Euros)

Summary table of accounting assets and leverage ratio exposure conciliation	12-31-2021 Phased-In	12-31-2021 Fully Loaded	9-30-2021 Phased-In	9-30-2021 Fully Loaded	31-12-2020 Phased-In	31-12-2020 Fully Loaded
(a) Total assets as published financial statements	662,885	662,885	651,834	651,834	736,176	736,176
(b) Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(21,373)	(21,373)	(21,108)	(21,108)	(20,326)	(20,326)
(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	(1,899)	(1,899)	(2,096)	(2,096)	—	—
(Adjustment for temporary exemption of exposures to central bank (if applicable))	(33,747)	(33,747)	(24,382)	(24,382)	(26,456)	(26,456)
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429a(1)(i) of Regulation (EU) No 575/2013)	—	—	—	—	—	—
Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	—	—	—	—	—	—
Adjustment for eligible cash pooling transactions	—	—	—	—	—	—
(c) Adjustments for derivative financial instruments	(6,311)	(6,311)	(10,014)	(10,014)	(13,858)	(13,858)
(d) Adjustments for securities financing transactions "SFTs"	12,686	12,686	10,647	10,647	1,992	1,992
(e) Adjustment for off-balance sheet items(1)	64,107	64,107	62,739	62,739	67,758	67,758
(Adjustment for prudent valuation adjustments and general credit risk adjustments which have reduced Tier 1 capital)	—	—	—	—	—	—
(f) (Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	—	—	—	—	—	—
(g) (Adjustment for exposures excluded from the total exposure measure corresponding to the leverage ratio under Article 429(14) of Regulation (EU) No 575/2013)	—	—	—	—	—	—
(h) Other adjustments	(4,558)	(5,323)	(3,759)	(4,524)	(4,191)	(5,788)
Leverage ratio total exposure measure	**671,790**	**671,025**	**663,861**	**663,096**	**741,095**	**739,497**
i) Capital Tier 1	**45,687**	**44,922**	**50,329**	**49,564**	**49,597**	**48,012**
Leverage ratio	**6.80 %**	**6.69 %**	**7.58 %**	**7.47 %**	**6.69 %**	**6.49 %**

(1) Corresponds to the off-balance sheet exposure after applying the conversion factors obtained in accordance with Article 429(10) of the CRR.

The full series of the reconciliation of the leverage ratio exposure, during the year 2021, is available in the editable file "Pillar 3 2021 - Tables & Annexes".

Table 89. LR3 - Leverage ratio common disclosure (Millon euros. 12-31-2021)

	12-31-2021 Phased-In	12-31-2021 Fully Loaded	6-30-2021 Phased-In	6-30-2021 Fully Loaded	12-31-2020 Phased-In	12-31-2020 Fully Loaded
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	516,179	532,491	532,491	532,491	610,800	610,800
Trading book exposures	41,234	38,722	38,722	38,722	35,149	35,149
Banking book exposures, of which:	474,945	493,769	493,769	493,769	575,652	575,652
Covered bonds	405	172	172	172	183	183
Exposures treated as sovereigns	117,682	137,889	137,889	137,889	146,923	146,923
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	8,396	6,362	6,362	6,362	19,221	19,221
Institutions	16,856	19,969	19,969	19,969	39,424	39,424
Secured by mortgages of immovable properties	100,550	94,555	94,555	94,555	103,285	103,285
Retail exposures	71,193	71,332	71,332	71,332	73,199	73,199
Corporates	118,158	118,032	118,032	118,032	149,552	149,552
Exposures in default	4,937	6,406	6,406	6,406	8,493	8,493
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	36,769	39,051	39,051	39,051	35,372	35,372

5.2. Evolution of the ratio

As of December 31, 2021, the leverage ratio stands at 6.80% (6.69% in fully loaded terms), decreasing by 78 basis points compared to September 2021. This drop is mainly due to the decrease in capital Tier 1 that has contributed negatively by 69 basis points to the leverage ratio, affected, among others, by the deduction of the maximum amount authorized by the ECB within the share buyback program (see explanation in table 1). For its part, the total exposure increased by approximately €7.9 billion euros, which represents a negative impact of 9 basis points on the leverage ratio.

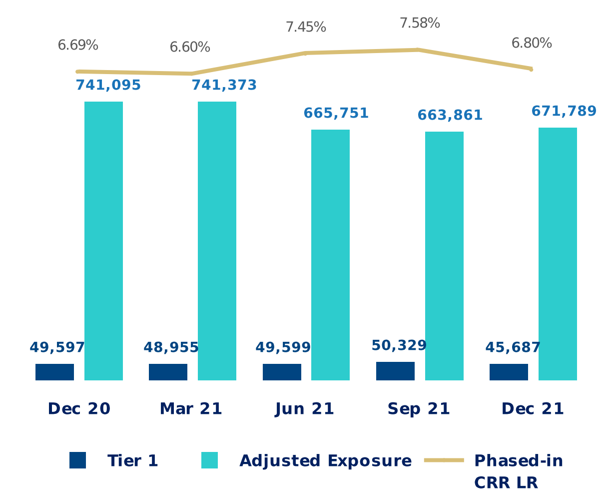
Additionally, during the first 9 months of the year there have been two unique effects that have contributed to the leverage ratio increasing by 11 basis points compared to December 31, 2020 (6.69% phased-in): the sale of BBVA USA and BBVA Paraguay; and the cancellation of an issuance of preference shares eventually convertible into ordinary BBVA shares (Contingent Convertible bonds, also known as CoCos), for a value of €1 billion during the first quarter.

Regarding exposures excluded from the total exposure measure and in accordance with Regulation (EU) 2019/876, which modifies the CRR, certain exposures to central banks and certain securitized exposures are excluded. If this exclusion is not made, the total exposure (phased-in) would amount to €705,537 million, with a phased-in leverage ratio of 6.48% (6.37% in fully loaded terms).

The complete series of exposures to the leverage ratio, during the year 2021, is available in the editable file "Pillar 3 2021 - Tables & Annexes".

It should also be noted that since June 2021, the exposure value of the derivative contracts included in the total exposure is calculated in accordance with the standardized approach for counterparty risk (SA-CCR).

Chart 20. Trends in the leverage ratio



5.3. Governance

The activities making up the Group's regulatory reporting include monthly measurement and control of the leverage ratio by assessing and monitoring this measure in its more restrictive version (fully loaded), to guarantee that leverage remains far from the minimum levels (which could be considered risky levels), without undermining the return on investment.

The estimates and the evolution of the leverage ratio are reported on a regular basis to different governing bodies and committees to guarantee adequate monitoring of the entity's leverage levels and ongoing monitoring of the main capital indicators, which allow to control the risk of excessive leverage.

In line with the risk appetite framework and structural risk management, the Group operates by establishing limits and operational measures to achieve a sustainable development and growth of the balance sheet, maintaining tolerable risk levels at all times. This can be seen in the fact that the regulatory leverage level itself is well above the minimum required levels.