Sustainable financing

Sustainable bonds and loans

Sustainable bonds and loans are instruments used for channeling funds to finance our customers’ projects in sectors such as renewable energies, energy efficiency, waste management, water treatment and access to essential goods and services such as homes or inclusive finance.

BBVA has the knowledge and experience to provide its customers with comprehensive advice on sustainable financing solutions through both bonds and loans, and it is also playing a relevant role in the development of this market. Since 2014, BBVA is signatory of the Green Bond Principles, a series of voluntary guidelines that establish the issuance transparency requirements and promote integrity in the development of the green bond market. In addition, since 2017, it has also formed part of the working group that is developing the Green Lending Principles, an initiative of the Loan Market Association adapted to the needs in the case of loans.

In bonds, the Bank has been very active in the green bond market in the Iberian Peninsula in 2017. It is a globally recognized institution, having advised, placed and structured green bonds for customers in a variety of sectors in Mexico, the United States and Europe not only in local currency, but also in euros and U.S. dollars.

In this way, in 2017, BBVA consolidated its leadership in the green and social bond market and participated as a bookrunner in a total of 11 green, social and sustainable bond issues, which involved the placement of 10,646 million euros (BBVA’s share was 1,897 million euros). The most outstanding operations were the following:

- First emission of green hybrid bonds of Iberdrola, worth €1,000 million.
- Inaugural green bond of SSE PLC (Scottish and Southern Energy), worth 600 million euros. It is the largest green bond of an UK energy company and aims to finance its portfolio of onshore wind farms. BBVA also acted as a green structuring bank.
- Inaugural green issue of Avangrid Inc., worth $600 million. Significant issuance in the US market that not only followed the guidelines of the Green Bond Principles, but also had the second opinion of the environmental agency Vigeo Eiris, this being a milestone in a market that usually does not solicit opinions from third parties for the issuance of this type of assets. BBVA also acted as a green structuring bank.
- Acciona green bond in the form of private placement, worth €65 million and maturity in 2030.
- Adif AV inaugural green bond, worth €600 million. It is the first green bond of a Spanish public company and the transport sector in Spain, aimed at investments related to railway lines and the maintenance, updating and improvement of the railway system’s energy efficiency. BBVA also acted as a green structuring bank.
- Repsol inaugural green bond of €500 million. It is the first green public bond of a company in the oil and gas sector worldwide and aims to finance projects to reduce emissions and efficiency in refineries in Spain and Portugal, which will reduce 1.2 million tons of CO₂ per year. BBVA also acted as a green structuring bank.
- Second issue of the Engie green bond, worth €700 million, for renewable energy projects, energy efficiency and conservation of natural resources.
- Inaugural social bond of the Community of Madrid of €700 million. It is the first public issue of a social bond carried out by an administration in Spain, whose objective is to finance social sectors, health, employment, education, social inclusion, SMEs, climate change and the environment. BBVA also acted as a sustainable structuring bank.

Additionally, green loans are beginning to take off in the market and BBVA expects them to grow at a pace comparable to that of green bonds. In 2017, the Bank has led this sector globally, being the most active bank, with a total of ten operations, and expects to continue leading this market in its different modalities. In 2017, BBVA has granted green loans for a volume of more than €1,000 million. The main operations include:

- First green loan in the energy sector worldwide in favor of Iberdrola, for an amount of €500 million. The purpose of this green loan is to finance several projects related, mainly, to energy efficiency and renewable energies.
- Green loan in favor of Acciona, worth €100 million.
- First green loan with project finance structure worldwide with the Italian energy company Terna. The financing will be used for the construction of a transmission line between two cities in Uruguay that will connect renewable energy generation projects to the country’s electric distribution system.
First green syndicated financing in a global loan format with the Tradebe Environment Group, for an amount of €265 million. The loan finances the company’s recycling and toxic waste management activities.

First sustainable financing for a public administration in Spain, in favor of the Community of Madrid, for an amount of €240 million.

First revolving sustainable credit line for an amount of €800 million, in favor of Red Eléctrica Española. It is the first syndicated operation whose price is linked to the company’s ESG (environmental, social and government) score.

First green loan with project finance structure in Spain, in which BBVA acted as green coordinator. This is a green financing of just over €176 million to Sociedade Concessionaria Novo Hospital de Vigo S.A., the concessionaire that exploits the non-hospital services of the Álvaro Cunqueiro de Vigo Hospital. Novo Hospital de Vigo is part of several sustainable sectors, such as renewable energy, energy efficiency, sustainable management of waste and water, clean transport and green buildings.

Green loan for the project Installation 3, a waste treatment and recycling plant in Spain.

Financing sustainable projects
BBVA has been supporting the renewable energy sector for years. Thus, in 2017, the Group financed projects of this type with an installed capacity of more than 700 MW, for a total volume of €218m.

Among the highlighted operations of 2017 are the financing of seven wind farms in Portugal, two in Italy and Spain and one photovoltaic plant in Mexico. Moreover, in 2017 the Bank also financed social infrastructure projects for an amount of €333m.

Activities with multilateral institutions
BBVA maintains extensive institutional and business relations with multilateral institutions worldwide, such as the European Investment Bank (EIB), the Spanish Instituto de Crédito Oficial (ICO), the World Bank Group, the Inter-American Development Bank (IDB), Corporación Andina de Fomento (CAF) and other agencies including the German Investment and Development Corporation (DEG), the Netherlands Development Finance Company (FMO) and Société de Promotion et de Participation pour le Développement (Proparco).

This activity covers a broad range of products and geographical areas, including international trade financing, project co-financing, financial brokerage transactions, debt issuance on local capital markets, and transactional and treasury operations.

A significant part of the activity is focused on support for sustainable development in these regions, through a number of core areas of activity:

Financial intermediation operations for multilateral institutions in Europe and Latin America to channel financing to sustainable sectors (e.g., green energy, urban development, SMEs, export sector, etc.) for transactions that meet the required eligibility criteria. There was a particularly high level of financial intermediation in Spain, where lines granted by the EIB and ICO were intermediated. Specifically, 8,448 operations were arranged through ICO for a total of €180.8m. The figures for the EIB were 659 operations arranged for a total of €88.3m. Elsewhere, IFC, IDB, DEG, FMO and Proparco are key financial intermediation institutions for the Group’s subsidiaries in Latin America.

Project co-financing. A key product offered by multilateral institutions is the financing of the private sector projects that contribute to sustainable development. In these cases the Group always has the support of multilateral organizations to co-finance or guarantee projects in which BBVA has an interest.

Foreign trade financing. They are programs developed by supranational organizations to promote foreign trade activities in the countries where they operate. These programs offer partial or full guarantees to confirming banks to cover political and commercial risks in operations with local financial institutions. Their aim is to promote inter-regional “South to South” trade for local SMEs in Latin America. With eight subsidiary banks in the zone, BBVA’s role is crucial.

Development of local capital markets, with the support provided for multilateral institutions, giving them access to local currency and allowing them to participate in projects in the region.

Internationalization of SMEs. BBVA participates in the IDB’s Connect Americas platform, the first social network for internationalizing SMEs, which is based on three basic pillars: (i) education, (ii) connectivity and (iii) financing. They are currently incorporated within the financing modules of all BBVA banks in the region.
Socially responsible investment

BBVA assumed its commitment to socially responsible investment (SRI) in 2008 when it joined the United Nations Principles for Responsible Investment (PRI) through the employee pension plan and one of the Group’s major asset managers, Gestión de Previsión y Pensiones.

The goal at the time was to start building BBVA’s own SRI model from the ground, with the initial implementation focused on employment pension funds. Nine years later, the Group continues to work on improving its model, making it more complete and sound every day.

In 2017, BBVA Asset Management (BBVA AM) has continued to adapt to the market and changes in it, working to extend and improve the SRI solutions offered. Among them are the training solutions in place, such as events streamed and the regular newsletters addressing SRI matters, which are posted on the BBVA AM website; and in particular through personal meetings with our customers to address their specific concerns in this field.

BBVA AM’s SRI model has implemented the following strategies:

- **Integration of ESG criteria in the investment process**

  The inclusion of ESG criteria was carried out by developing a proprietary model that incorporates extra-financial criteria into a model portfolio, constructed according to fundamental analysis. The model was initially implemented in equity and later in fixed income.

  Likewise, an internal ESG rating has also been developed that directly affects the specific management decision-making process, which is communicated periodically to customers in the fund management reports.

  The analysis and inclusion of these criteria within the management models enhances the information that BBVA managers compile about the pool of investable companies and countries, enabling them to evaluate more accurately any possible risks for portfolios.

  Lastly, and with a view to having more reliable and specialized information to hand, the Bank commissions the services of an independent external agent that regularly provides BBVA with information on each company and the country in its investible pool.

- **Exclusion: Rules of Conduct in Defense**

  The Rules of Conduct in Defense apply to all BBVA Group units and subsidiaries, including the asset managers of employment pension funds.

To apply them, BBVA uses exclusion lists of companies and countries, which are drawn up and updated on a regular basis with the help of an independent expert adviser. These lists include companies and countries related to defense materiel, military, police and security armaments, ammunition, explosives, etc., which are automatically excluded from the list of companies in which BBVA can invest. This exclusion also applies to all vehicles managed by BBVA AM.

- **ESG analysis of third-party funds**

  Gradually, and by extending the model, third-party investment funds in the portfolio for certain assets and geographical areas and their respective asset managers are subject to an in-depth due diligence conducted by the team of analysts on the Quality Funds internal platform. This analysis includes questions regarding their SRI engagements and status as signatories to the United Nations PRI.

  As the proportion of these vehicles has been growing in employment pension fund portfolios, a highly relevant change was made in 2015 regarding the selection of vehicles to incorporate into these portfolios to ensure BBVA’s SRI policy is consistent with the one implemented by the funds.

  Thus, after verifying compliance by the asset managers with the United Nations PRI, the study has focused on the exclusions applied by the managers and the voting policies in place, both of which are mandatory elements to be eligible for incorporation in the managed employment pension fund portfolios. We have thus extended SRI-related coverage for portfolios by including the percentage managed by third parties.

  In addition to the foregoing, since 2016, 100% of the vehicle managing entities incorporated in pension funds were signatories to the United Nations PRI initiative.

- **Engagement and exercise of voting rights**

  BBVA AM’s responsibility as a management entity is not limited to the management function itself. It also exercises the right to vote in all the annual general meetings of shareholders of European and Spanish companies, when the portfolio positions make it possible.

  This engagement is not restricted to employment pension funds that have delegated this responsibility to the asset manager; it applies equally to all individual pension funds, mutual funds and SICAVs managed by BBVA AM. The services of an independent external supplier are used for this purpose, whose opinion completes that of BBVA AM’s own analysts.
During the year 2017, professionals from the management company attended a total of 175 annual general meetings (of Spanish and European companies) whose securities are in the portfolios of various investment vehicles managed by BBVA AM, and voted against some items on the agendas. Lastly, it is worth noting that Garanti Asset Management is also a signatory to the United Nations PRI since 2011, and since then has been working within the framework of this initiative, in line with BBVA Group’s commitment.

Thus, BBVA AM continues to make progress in developing its SRI model, strengthening standards and studying additional methods applicable to the new asset classes that allow their customers to be offered a robust and responsible management.

### Assets managed under SRI criteria, per investment vehicle (BBVA Asset Management. 31-12-2017)

<table>
<thead>
<tr>
<th>Mutual funds</th>
<th>Individual pension plans and EPSVs</th>
<th>Employment pension plans and EPSVs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets under management (million euros)</td>
<td>37,639</td>
<td>14,930</td>
</tr>
</tbody>
</table>

**SRI strategy**

- Integration (%) | 0.14 (1) | 6.41 | 28 |
- Exclusion (%) | 100 | 100 | 100 |
- Exclusion (%) | 100 | 100 | 100 (2) |

Note: EPSVs refer to Voluntary Social Welfare Entities.

(1) It refers to BBVA Desarrollo Sostenible fund, which is totally managed under the integration strategy.

(2) It refers to the 100% of the funds that have delegated the vote to the asset manager.

### Solidarity and SRI funds

BBVA currently manages the following solidarity and SRI funds:

- **BBVA Solidaridad** is a mixed fixed-income solidarity fund that invests at least 30% of the portfolio in equity assets. At the time of subscription, the investor can choose one or more NGOs to which the asset manager will donate a percentage of 0.55% of the fund’s total assets under management every six months, from the fund’s income.

- **BBVA Bolsa Desarrollo Sostenible** is an equity SRI fund that invests in the shares of companies considered a sustainable investment. The fund also makes an annual donation of €15,000 to the Foundation for Applied Medical Research (FIMA), which is intended to fund research projects.

- **B+EDUCA** is a fixed-income fund that allocates 25% of the monthly returns directly to the “Por los que se quedan” (For those left behind) integration grant program in Mexico. BBVA Bancomer also charges a lower fee for funds of this kind, and makes direct contributions to this scholarship program.

- **BBVA Leer es Estar Adelante (Reading Means Keeping Ahead)** was the first mutual fund in Peru to support a social cause. It is a fixed-income fund through which investors donate one tenth of the share value (fund price) to the BBVA Continental Foundation program “Leer es Estar Adelante”. BBVA Asset Management Continental undertakes to contribute the equivalent in dollars for each tenth of the share value, in addition to the participants’ donation.

### Financial inclusion

BBVA is aware that greater financial inclusion has a favorable impact on the welfare and sustained economic growth of countries. The fight against financial exclusion is therefore consistent with its ethical and social commitment, as well as its medium-term and long-term business objectives. For this purpose, the Group has developed a financial inclusion (FI) business model to cover the low-income population in emerging countries within its global footprint. This model is based on the development of a responsible business model that is sustainable in the long term, shifting from a model that is intensive in human capital and of limited scalability to a scalable strategy that is intensive in alternative and digital channels with a multi-product focus. In short, this model is based on:

- the use of new digital technologies,
- an increase in products and services offered through non-branch platforms,
- innovative low-cost financial solutions designed for this segment.

At the close of 2017, BBVA had more than eight million active customers in this segment.
During 2017, the main initiatives launched were:

**Mexico**
- Advances on wages, short-term micro-loans, arranged through ATMs and text messages. An average of 22,000 loans per month have been granted in this way.
- Micro-life insurance arranged through ATMs. In 2017 an average of 7,000 policies were signed per month.
- Tandapp, an application for administering saving pools.
- SMS Banking, basic banking services such as balances, transfers between individuals and the purchase of air time through text messages. In 2017, 5.6 million users registered with the service.
- BBVA Plan, an application that makes goal-oriented saving easier. In 2017 this app was downloaded 140,000 times.

**Colombia**
- Launch of the salary advance scheme via mobile app and the web in May 2017.
- Improved usability of the simplified savings account.

**Peru**
- BIM Electronic wallet (professional platform).
- Membership of correspondent agents (own correspondent network).

Other initiatives worth highlighting are the Tuyyop (app for sending remittances between Mexico and the United States) and Bancomer apartados (a functionality of the mobile Bancomer application to create and administer savings plans within the deposit account itself).