

Management of environmental and social impacts

Environmental, social and reputational risks

As a financial institution, BBVA has an **impact** on the environment and society; directly, through the consumption of natural resources and its relationship with stakeholders; and indirectly, through its credit activity and the projects it finances. These impacts result in direct, indirect and reputational risks.

These **non-financial risks** may affect the credit profile of borrowers or the projects financed by the Bank. To manage such risks, BBVA takes into account environmental, social and reputational aspects in its risk management, alongside traditional financial variables.

BBVA's strategy regarding environmental and social risks aims to gradually integrate its management into the Group's Risk Management Framework, in order to achieve mitigation based on the principle of prudence. For this, BBVA is developing different initiatives that reinforce its capacity to identify and evaluate this type of risk.

In **2017**, BBVA worked with a number of areas involved in the development of new standards for the mining, energy, infrastructure and agricultural business sectors, and a new improved process of due diligence that can assess new operations, customers or products with criteria that are aligned with BBVA's strategy of climate change and sustainable development.

1. Equator Principles

The energy, transport and social services infrastructures that boost economic development and create jobs can have an impact on the environment and society. BBVA is **committed** to managing the financing of these projects in order to avoid and reduce their negative impacts and boost their economic, social and environmental value.

All the decisions on project financing are based on the criterion of **return adjusted to ethical principles**. Placing people at the core of the business implies dealing with stakeholder expectations and the social demand to fight against climate change and respect human rights.

In line with this commitment, BBVA adhered to the **Equator Principles** (EPs) in 2004. Based on the International Finance Corporation's (IFC) Policy and Performance Standards on Social and Environmental Sustainability and the World Bank's Environmental, Health and Safety Guidelines, the Equator Principles are a set of standards for managing environmental and social risks in project financing. These principles have set the benchmark for responsible financing.

During **2017**, the Group contributed to their development and dissemination as a member of the working groups in which it participates and has been one of the eleven signatories to the letter sent to the Equator Principles Association, in which it urged measures to be taken to tighten the environmental and social due diligence requirements for project financing. Thus, during the annual meeting of the EPs, the decision has been taken to start preparing the fourth version of the Principles to align them with the Paris Agreement, face the complications in implementing informed consultation and participation processes and remedy the inconsistencies in the standards used to assess environmental and social risks in projects.

The Sustainable Finance and Reputational Risk team from Corporate & Investment Banking is responsible for analysis of the projects, representation of the Bank before its stakeholders, accountability to senior management, and the design and implementation of the management system, proposing the adoption of best practices and contributing toward training and communication on matters related to the EPs.

In the processes of risk analysis and decision making, BBVA evaluates and takes into consideration not only financial aspects but also social, environmental and reputational ones. The analysis of the projects consists of submitting each transaction to an environmental and social due diligence process, which begins with the assignment of a category (A, B or C) that reflects the level of risk of the project.

The review of the documentation provided by the customer and the independent advisors allows assessing compliance with the requirements established in the EPs according to the category of the project. The financing contracts incorporate the customer's environmental and social obligations that a specialized team of CIB is responsible for monitoring.

Review of the documentation provided by the customer

01 Initial review

- Selection of independent advisor
- Project classification

02 Due diligence

- Review of the Environmental and Social Impact Assessment
- Environmental and Social Due Diligence Report

03 Approval

- Sanction by the CIB Reputational Risk Department
- Inclusion of conditions in the approval of the Risks Committee

04 Financial close

- Preparation of an Action Plan
- Environmental and social clauses in the financing contract

05 Monitoring

- Monitoring reports by the independent advisor
- Report on the environmental and social impact of the project

The application of the EPs in BBVA is integrated into the internal processes for structuring, admission and monitoring of transactions, and is subject to regular controls by the Internal Audit Department.

In 2017, BBVA took the decision to enhance its **due diligence procedures** associated with the projects financing whose development affects indigenous communities. When this occurs, the free, prior and informed consent (FPIC) by these communities must be taken into consideration, regardless of the geographic location of the project. This means extending the current demands of the EPs, which limits this requirement to countries classified as “non-designated”, leaving out the “designated” countries (those that are considered to have a robust legal system and an institutional capacity that provides sufficient guarantees of environmental protection and their people’s social rights). BBVA is one of the ten banks that in 2017 called on the rest of the banks adhering to the Equator Principles to support the adoption of amendments in this respect.

For BBVA, the EPs are the starting point to apply the best practices and the framework of dialogue with customers and groups interested in the projects it finances.

The Group offers public information on the environmental and social project management financed and advised by BBVA.

Operations data analyzed under Equator Principles' criteria (BBVA Group)

	2017	2016	2015
Number of operations ⁽¹⁾	22	32	26
Total amount (million euros)	7,069	6,863	24,557
Amount financed by BBVA (million euros)	1,054	1,451	1,933

⁽¹⁾ 9 out of 22 of the operations are under Equator Principles scope, while the remaining 13 are voluntarily analyzed by BBVA under the same criteria.

2. Eco-rating

The Eco-rating tool is used to rate the risk portfolio of SMEs from an environmental point of view. This is done by assigning a level of credit risk to each customer in accordance with a combination of several factors such as location, polluting emissions, consumption of resources, potential to affect the environment and applicable legislation. During 2017 the environmental risk of 236,273 customers in Spain was rated, with a total exposure volume of €87,875m.

Eco-rating data (Spain, 2017)

Environmental risk level	Volume (million euros)	Customers
Low	75,677	196,338
Medium	11,953	39,417
High	245	518
Total	87,875	236,273

3. Reputational risk management

Since 2006, BBVA has had a **methodology** in place for identifying, evaluating and managing reputational risk. Through this methodology, the Bank regularly defines and reviews a map in which it prioritizes the reputational risks it faces, together with a set of action plans to mitigate them.

This prioritization is carried out according to two **variables**: the impact on stakeholder perceptions and the strength of BBVA's resilience to risk.

This reputational exercise is carried out in each country, and the integration of all of them provides a consolidated view of the Group. In addition, since 2017, a specific exercise has been carried out for the CIB EMEA area.

This exercise has been performed since 2015 using a computer **tool** that allows risks to be assessed by the competent areas.

The main milestones related to reputational risk management in **2017** were:






- Strengthening of the reputational risk model with the establishment of the position of corporate reputation specialist, integrated into BBVA's model of three lines of defense.
- Participation of the Reputational Risk Department in the 2017 corporate Risk Assessment processes and in estimating the impacts of the scenarios in the recovery plan.
- Global Risk Management calculated reputational risk capital for the first time.
- Integration of key risk indicators into the reputational risk management tool with the aim of improving risk monitoring.
- Integration of CIB into the reputational risk management model.

Eco-efficiency

BBVA also assumes its commitment to mitigate the direct impacts of its activity. These impacts are fundamentally those derived from the use of its buildings and offices around the world.

In 2017, BBVA continued to work on its third **Global Eco-efficiency Plan** (GEP), focused on positioning the Group among the leading entities at global level in terms of eco-efficiency. The GEP establishes the following strategic areas and global targets for the period 2016-2020, continuing on from the two previous plans that were begun in 2008 and 2012, respectively, and setting the following targets:

Global Eco-efficiency Plan

Vectors	Strategic guidelines	Global target
 Environmental management and sustainable construction	% occupants in certified buildings	42%
	Consumption per occupant (kWh/occup)	-5%
 Energy and climate change	% of clean energy	48%
	CO ₂ eq emissions per occupant (tCO ₂ eq/occup)	-8%
 Water	Consumption per occupant (m ³ /occup)	-5%
	% occupants in buildings with alternative water sources	9%
 Paper and waste	Paper consumption per occupant (kg/occup)	-5%
	% occupants in occupants in buildings with separate waste collection	30%
 Extension of the commitment	Awareness campaigns for employees and supplier	

Goals per person.

During 2017 a number of the **goals** set have been achieved, such as the percentage of people in certified buildings, in buildings with alternative water sources and with selective waste collection, which increased in 42%, 11% and 41% , respectively.

In addition, during the PGE period (base year 2015), electricity consumption per person was reduced by 6.9% and CO2 emissions per person in the Group by 2.5%.

The evolution of the PGE indicators is reflected in the table below:

Evolution of the GEP indicators (BBVA Group)

	2017	2016	2015
People working in certified buildings (%) ⁽¹⁾	42	40	43
Electricity usage per person (MWh)	5.9	5.8	6.3
Energy coming from renewable sources (%)	27	25	30
CO2 emissions per person (T)	2.2	2.1 ⁽²⁾	2.2
Water consumption per person (m ³)	23.0	21.1	20.7
People working in buildings with alternative sources of water supply (%)	11	10	14
Paper consumption per person (T)	0.1	0.1	0.1
People working in buildings with separate waste collection certificate (%)	41	32	33

⁽¹⁾ Including ISO 14001 and LEED certifications.

⁽²⁾ This figure has been adjusted according to update of the emissions factor applied.

Note: indicators calculated based on employees and external staff.

To achieve these targets, BBVA continued its efforts to minimize its **environmental footprint** through initiatives in all the countries where the Group is present, most notably:

- Projects carried out to improve efficiency in the air conditioning and lighting systems of buildings and branches in countries such as Mexico, the United States, Chile, Paraguay and Peru, which will lead to significant savings with respect to current consumption.
- Remodeling of some headquarters, such as Argentina and Peru.
- Establishment and monitoring of the implementation of energy-saving measures in buildings in Spain, which has led to savings of 6,618.33 MWh in the first eight months of 2017, 2.9% less than in 2016.
- Adaptation to ISO 14001:2015 of the Environmental Management System certifications under ISO 14001 in Argentina, Colombia, Spain, Mexico, Peru, Uruguay, Mexico and Turkey. In total, 1,034 branches and 79 of the Group's buildings around the world possess this certification. Likewise, Environmental Management System certifications under ISO 50001 Standard have been renewed for buildings on the La Moraleja Campus and Ciudad BBVA in Madrid, as well as the services building La Isla in Spain and twelve branches in Lima, Peru.
- Achievement of LEED Platinum certification for sustainable design and construction in the Kizilay Office Building of Turkey and the LEED Gold for the Operational Center in Mexico City. The Torre Reforma building in Mexico is also in the process of achieving this certification. These certifications are in addition to the 19 BBVA buildings that have already received this prestigious environmental certification.
- Participation in the Earth Hour campaign, during which 117 buildings and 330 branches in 177 cities throughout Spain, Portugal, Mexico, Colombia, Argentina, Turkey Peru, Paraguay, Uruguay, Chile and the United States turned off their lights.
- Adhesion to numerous international initiatives such as Environment Day, when some of the most important buildings were illuminated in green, such as the Ciudad BBVA headquarters in Madrid, the BBVA headquarters in Lima, Peru, and the most recent headquarters in Buenos Aires, Argentina. A number of initiatives have also been organized to raise awareness among employees on the occasion of the International Earth Day and International Recycling Day.

[Annex 11 - Environmental footprint](#)