

# 8. Environmental, social and governance risk

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## 8.1. Introduction and regulatory framework

### 8.1.1. Compromise with sustainability

Decarbonization is one of the greatest challenges facing humanity. Climate change and the transition to a low-carbon economy have significant implications for the value chains of most productive sectors, since they require significant investments in many industries. As a financial institution, BBVA has an indirect impact on the environment and society through its lending activity and the projects it finances.

The investment needed to make the world go zero emissions has to be attractive, economically viable and profitable. In this sense, investment in renewables, energy efficiency or electric cars already has a profitable alternative for families and companies, compared to fossil fuels. However, most activities do not have an emission-free version that is economically viable.

BBVA aspires to gradually align its activity to a scenario of zero net emissions by 2050 and to use its role as a bank to help its clients with financing, advice and innovative solutions, in the transition towards a more sustainable future inspired by the Sustainable Development Goals. In addition to the intermediate decarbonization targets that it published in 2021 in five sectors (electricity generation, automobiles, cement, steel, and coal), in 2022 it has published decarbonization targets for the Oil and Gas sector<sup>1</sup>.

Likewise, customers, markets and society as a whole not only expect large companies to create value, but also expect them to contribute positively to society and that the economic development to which they contribute with their financial activity is inclusive, contributing to a just transition.

BBVA has a governance model at the highest level that has incorporated sustainability as one of its six strategic priorities, integrating it transversally into the executive sphere. BBVA has carried out an analysis of risks and opportunities associated with climate change and has a risk management model as described below. Likewise, BBVA has an additional objective to the decarbonization objectives mentioned above of channeling 300,000 million euros into sustainable business between 2018 and 2025.

Climate change presents short-, medium- and long-term risks to the Group and its customers, and these risks are expected to increase over time. The Group's activities or those of its customers and/or counterparties could be adversely affected by, among others, the following risks:

- Transition risks: these are those risks linked to the transition to a low-carbon economy in response to

climate change, and arising from changes in legislation, the market, consumers, etc., to mitigate and address the requirements arising from climate change. Transition risks include:

- a. Legal and regulatory risks: Legislative or regulatory changes related to how banks manage climate risk or otherwise affect banking practices or climate-related disclosures may lead to increased compliance, operational and credit costs and risks. The Group's customers and counterparties may also face similar challenges.
  - b. Technology risks: These include risks arising from the costs of transitioning to or not adapting to low-emission technologies, which could eventually reduce the creditworthiness of the Group's customers.
  - c. Market risks: BBVA is exposed to the risk of a significant increase in the cost of financing customers with greater exposure to climate change risk, which could affect their creditworthiness or credit rating. BBVA is also exposed to risks arising from changes in demand, changes in supply or the cost of energy, among others.
  - d. Reputational risks: The perception of climate change as a risk by society, shareholders, customers, governments and other stakeholders continues to increase, encompassing the operations and strategy of the financial sector. This may lead to increased scrutiny of climate change activities, policies, objectives and the way in which climate change issues are disclosed. The Group's reputation may be damaged if its efforts to reduce environmental and social risks are deemed insufficient.
- Physical risks are those arising from climate change that may result from increased frequency and severity of extreme weather events or long-term weather changes, which may lead to physical damage to the Group's or its customers' assets, disruption to operations, disruption to the supply chain or increased costs to deal with them, thereby impacting asset value or customer creditworthiness.

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

<sup>1</sup> For upstream financing.

## 8.1.2. Regulatory framework

### 8.1.2.1. Law 7/2021 on climate change

Under Law 7/2021, of May 20, on climate change and energy transition (hereafter Law 7/2021), BBVA has submitted a report (hereafter, Climate Change Report), which includes, among others, the following matters: the organization's governance structure, the strategic focus, both in terms of adaptation and mitigation of the entity to

manage the financial risks associated with climate change, the real and potential impacts of the risks and opportunities associated with climate change, the processes of identification, evaluation, control and management of the risks related to the climate and the metrics, scenarios and objectives used to evaluate and manage the relevant risks and opportunities associated with climate change.

**Table 101.** Contents index of the Law 7/2021, of May 20, about climate change and energetic transition

Topic	Reporting criteria
Govern	Governance structure of organization, including the role that its various bodies perform, in relation to the identification, evaluation and management of risks and opportunities related to climate change.
Strategy	Strategic approach, in terms of adaptation and mitigation of the entities to manage the financial risks associated with climate change, taking into account the current risks at the time of writing the report, and those that may arise in the future, identifying the actions necessary at that time to mitigate such risks.
Impacts	The real and potential impacts of risks and opportunities associated with climate change on the organization's activities and its strategy, as well as on its financial planning.
Risk management	The processes for identifying, evaluating, controlling and managing climate-related risks and how these are integrated into its global business risk analysis and its integration into the organization's global risk management.
Metrics and goals	Metrics, scenarios and objectives used to assess and manage important risks and opportunities related to climate change and, if calculated, the scope 1, 2 and 3 of its carbon footprint and how its reduction is addressed.

### 8.1.2.2. Instructions on Technical Standards on ESG risk

The European Banking Authority has published on 24 January 2022 its final draft implementing technical standards (ITS) amending the CRR on Pillar 3 disclosures on environmental, social and governance (ESG) risks. The final draft ITS proposes comparable disclosures to show how climate change may exacerbate other risks within institutions' balance sheets, how institutions are mitigating those risks, and their ratios, including ESG, on exposures that fund taxonomy-aligned activities, such as those consistent with the objectives of the Paris Agreement.

These ITS were subsequently incorporated into the body of European Union regulations in Commission Implementing Regulation (EU) 2022/2453 of 30 November 2022 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards disclosure of information on environmental, social and governance risks.

In this report BBVA presents quantitative information on the ESG risks of the BBVA Group's main companies: BBVA S.A., BBVA Mexico, BBVA Turkey, BBVA Peru, BBVA Colombia, BBVA Argentina and BBVA Uruguay<sup>2</sup>. These portfolios account for 96.3% of the total balance sheet.

### 8.1.2.3. Article 8 of the EU Taxonomy

Article 8 of the Regulation (EU) 2020/852 of the European Parliament and of the Council, of June 18, 2020 (hereinafter, the Taxonomy Regulation), regarding the establishment of a framework to facilitate sustainable investments, establishes certain obligations of disclosure of non-financial information to companies subject to the Non-Financial Information Directive (hereinafter NFRD). Based on this, financial institutions must include in their Non-Financial Information Report certain information on their exposure to the economic activities included in the EU taxonomy by virtue of the aforementioned article 8.

At present, Delegated Act 2021/2139, which completes the Taxonomy Regulations, covers the objectives of climate change mitigation (known by the acronym CCM or Climate Change Mitigation) and adaptation to it (known by the acronym CCA or Climate Change Adaptation).

The rest of the environmental objectives foreseen by the Taxonomy, such as the protection of water and marine reserves, the transition to a circular economy, the prevention of pollution and the protection of the ecosystem, as well as other social objectives have not yet been developed. As the regulation develops, BBVA will publish the sustainability information as appropriate at all times.

<sup>2</sup> There are no available ESG metrics for BBVA Uruguay in templates ESG3, ESG5 and ESG10

Based on the above, the ratios as of December 31, 2022 and 2021 for BBVA Group in accordance with the provisions of Delegated Regulation 2121/2178 of July 6,

2021 and the clarifications of the European Commission are as follows<sup>3</sup>:

**Table 102.** Exposure ratios regarding Taxonomy

	2022	2021
% exposure to economic activities included in the Taxonomy (Taxonomy-eligible) <sup>(1)(2)</sup>	45.2	45.6
% exposure to economic activities not included in the Taxonomy (Taxonomy-non-eligible) <sup>(1)(2)</sup>	9.4	10.5
% exposure to central governments and central banks	28.7	28.5
% exposure of non accredited to NFRD. <sup>(1)(3)</sup>	37.2	35.2
% trading portfolio exposure	15.5	18.6
% inter-bank demand loans portfolio exposure	1.4	1.6
% derivatives exposure	5.9	4.9

<sup>(1)</sup> The ratios have been prepared with data from the most representative BBVA Group entities that include 96.5% of total assets. The financial assets analysed correspond to the categories of financial instruments valued "At amortized cost", "Fair Value with Changes in Other Comprehensive Income (FVOCI)", "Fair Value with Changes in P&L" and "Non-negotiable at Fair Value with changes in results". These ratios represent the best estimates available to date.

<sup>(2)</sup> Regarding the eligibility of an asset, the economic activities of the clients are classified as eligible according to the Delegated Regulations that complement Regulation (EU) 2020/852 of the European Parliament and of the Council. Economic activities covered by the Delegated Acts of Climate Change Mitigation and Climate Change Adaptation are considered eligible. EU regulation has not been developed for the other environmental goals, therefore eligibility does not cover a wide range of potentially sustainable economic activities and exposures. The modifications implemented by Commission Delegated Regulation (EU) 2022/1214 of March 9, 2022, by which nuclear energy and gas are included in the Taxonomy, were taken into account for the ratios as of December 31, 2022.

<sup>(3)</sup> BBVA considers Not Subject to the NFRD those counterparties within the category of "Non-Financial Corporations" that are considered SMEs located in the EU for regulatory reporting purposes, as well as counterparties with registered offices outside the EU. Exposure to individuals includes self-employed workers, in which case the activity code (NACE) is reviewed to determine their eligibility. The rest of the exposure corresponding to the retail segment is considered eligible, for example, in the case of housing loans, regardless of their energy rating or efficiency.

The following have been considered when preparing the ratios: ratios number 3, percentage exposure to central governments and central banks, number 5, percentage exposure to the trading portfolio, and number 7, derivative exposure percentage, are calculated on the Group's total assets. The other ratios are calculated using the same methodology as in the definition provided by the European Commission for the Green Asset Ratio (hereinafter, the GAR), which enters into force on January 1, 2024. Thus the percentages are calculated on the total assets covered in the GAR, which are all the exposures on the balance sheet, except for the exposures to central governments, central banks and the trading portfolio.

Since 2022, to determine eligibility, BBVA Spain is using information from the adjusted Statistical Classification of Economic Activities in the European Community (adjusted NACE). This is information generated internally by GRM and used for internal risk management and represents the best internally available information. For the rest of the geographical areas, information has continued to be used on the economic activities of customers applying equivalent local standards in the geographies where the Group operates. These local classifications by activity have an equivalence to NACE. This information is also available in the computer systems and is used to assess the specific economic activities of customers, both in internal management (origination, risk assessment) and in the regulatory area (FINREP).

As of 2023, companies subject to the Non-Financial Information Directive (NFRD) will make public the

information corresponding to the economic activities they carry out in relation to the Taxonomy. The BBVA Group will incorporate this information into its analysis of the economic activities that comply with the regulation (alignment), thereby allowing greater precision in the measurement of the economic activities that it finances based on the Taxonomy.

The information related to the alignment of the objectives, financed economic activities, description of the strategy, the products developed and marketed as well as the integration of ESG aspects in the relationship with customers are included in the chapters "Report on climate change and other issues environmental and social aspects" and "Integration of ESG aspects in customer relationships" within "Additional information" of this report. The information regarding the weight of the financing of economic activities aligned with the Taxonomy in the global activity of the BBVA Group is broken down in the chapter "Metrics and goals: Sustainable business channelling" of this report. The application of the European Taxonomy in the framework of the sustainable mobilization of the Group is described in the chapter "Additional information on the Group's sustainability standards and frameworks" of the Consolidated Management Report.

<sup>3</sup> Sustainable-finance-taxonomy-article-8-report-eligible-activities-assets-faq\_en" published on December 20, 2021 (update for the last time on October 2022)

## 8.2. Business processes and strategy

### 8.2.1. Paris Agreement alignment of the loan portfolio

The Net Zero 2050 commitment (zero net emissions in 2050) also includes emissions from customers who receive financing from the Bank. For this reason, in order to accompany its clients in the transition towards a more sustainable future, with specific plans and objectives, BBVA undertook to publish alignment objectives for the sectors defined in the Guide to set the Net Zero Banking Alliance objectives.

BBVA's commitment to alignment involves establishing a framework comprising objectives and commitments for the different sectors considered to be the greatest emitters. These objectives, as defined in the aforementioned Guide, must be set at the sectoral level. In this sense, BBVA announced its objective of phase-out of activities related to coal, ceasing to finance companies involved in these activities before 2030 in developed countries and before 2040 in the rest of the countries in which BBVA is present. (under the terms of the Environmental and Social Framework).

Under the PACTA methodology, BBVA published intermediate decarbonization targets for 2030 for the electricity generation, automobile, steel and cement sectors, which, together with coal, account for 60% of global CO<sub>2</sub> emissions. The Net Zero scenario of the International Energy Agency (IEA) has been used as a benchmark.

In 2022, BBVA published its alignment target for the Oil & Gas sector. BBVA is participating in the definition within the NZBA of a specific guideline for this sector. However, given its relevance in global emissions, it was decided to publish a metric that would include the largest amount of emissions given the information available. The PCAF<sup>4</sup> methodology has been used for the calculation and a scope 1, 2 and 3 absolute emission reduction target has been established for oil exploration and production.

The Group is working on sectoral strategic plans for all sectors for which a portfolio alignment target or exit commitment has been defined. The content of these plans includes an analysis of the sector's risks and opportunities, the long-term vision of the sector's role in the decarbonisation of the economy and the strategic responses of stakeholders across the sector.

In addition, the plans include an analysis of the current state of the portfolio and positioning with respect to the Group's objective for the sector, as well as the identification of drivers to manage portfolio transition risk, including portfolio alignment metrics. This is reflected in the formulation of a commercial plan, which

includes the identification of opportunities with existing and potential customers, and a tiered approach to define the appetite for customers in the sector. These business plans allow the definition of projected decarbonisation curves for each sector to monitor progress in the alignment exercise.

During 2022, a series of multidisciplinary working groups, consisting of teams from GRM, CIB, Sustainability and Strategy, called Climate and Environmental Sectoral Panels, have been launched. These groups have developed Sector Strategic Plans in the Oil & Gas and Power (including electricity generation) sectors. This work has made it possible to define strategies and business plans aimed at meeting the alignment objectives established in the medium term as well as mitigating the risks related to decarbonisation in the balance sheet.

The following table shows, for the sectors in which alignment targets have been defined, the summary of the emission intensity metrics, the exposure amount, the detail of the metrics and the expected distance with respect to the 2030 scenario. BBVA sets the 2030 portfolio alignment targets in line with industry practices, and prepares a year-by-year Net Zero scenario to meet these targets. One of the requests of the EBA is to draw up short-term targets (3 years). In this regard, there is a roadmap to Net Zero each year that could represent the aforementioned target, but this is internal information that does not constitute a target officially communicated by the Group.

<sup>4</sup> Partnership for Carbon Accounting Financials (PCAF): This initiative was born in 2019 and its objective is to establish an international methodology to measure and disclose greenhouse gas emissions financed by banks and investors.

**Table 103.** ESG3: Banking book - Climate change transition risk: Alignment metrics

Sector	NACE Sectors	Portfolio gross carrying amount (Million euros)	Alignment metric	Description	Year of reference	Distance to IEA NZE2050 in the year 2030
Power	See Annex for detail	9,115	0.215722	Average tonnes of CO2 per MWh	2022	66 %
Automotive	See Annex for detail	716	0.000194	Average tonnes of CO2 per passenger-km	2022	94 %
Aviation	See Annex for detail	320	0.000104	Average tonnes of CO2 per passenger-km	2022	48 %
Cement, clinker and lime production	See Annex for detail	741	0.691848	Average tonnes of CO2 per tonne of output	2022	42 %
Iron and steel, coke, and metal ore production	See Annex for detail	2,127	1.142109	Average tonnes of CO2 per tonne of output	2022	26 %

(\*) Accounting portfolios: "At amortised cost", "Fair Value through Other Comprehensive Income (FVOCI)", "Fair Value through P&L" and "Non-tradable at Fair Value through Profit or Loss". Instruments: loans and advances, fixed income and equities. Sectors: non-financial corporations. Special features: principal activity code (NACE) information used for internal management and reporting purposes. The figures may vary slightly from the calculations made on the PACTA portfolio alignment, because this methodology takes into account the committed available while the figures shown in the table above correspond to transactions with a gross book balance.

### 8.2.1.1. Methodological notes on alignment calculation

#### 8.2.1.1.1. Scope

The analysis was carried out for BBVA S.A., BBVA Mexico, BBVA Peru, BBVA Argentina, BBVA Colombia and Garanti. In order to obtain the customers for which the metric has been calculated, a selection has been made of those whose activity is considered to form part of the value chain responsible for emissions in the sector. However, it has been considered that a high percentage of the emissions of each sector is covered. In addition to the selection made by economic activity code (NACE), an additional selection has been carried out to identify those customers who, despite having a main activity that was not included in the analysis, could have part of their activity within the sectors included in the alignment. The analysis does not include fixed income and equity balances, which will be incorporated in 2024.

The metric for the fossil fuels sector (Oil & Gas) has been defined based on the absolute emissions financed by the three scopes (1, 2 and 3) of the sector's upstream<sup>5</sup> and parent companies, and emission reduction targets have been set. The figure for absolute emissions financed is 14 million tonnes of CO<sub>2</sub>e and the reduction target for 2030 is 30%.

During 2023, BBVA plans to continue incorporating more sectors into the alignment calculation, including Maritime Transport and Commercial Real Estate.

#### 8.2.1.1.2. Metric calculation

The metrics used are emissions intensity per unit of output for each sector, following NZBA recommendations. The key provider of emissions intensity information is Asset Resolution, which provides asset information for the portfolio included in the calculation perimeter. The coverage percentage is between 95% and 100% depending on the sector under analysis. To calculate the metric, each client is assigned an emissions intensity figure, based on production capacity. This figure is obtained by weighting the different intensities that a customer may have depending on the different technologies used in its economic activity. The intensity metric is calculated as the average intensity per customer, weighted by the production with each technology.

Once the intensity per client is obtained, the portfolio intensity is calculated as the average weighted by the weight of each client's exposure over the total exposure under analysis. In this calculation, the client's total exposure (drawn plus undrawn committed) is used.

#### 8.2.1.1.3. Scenario calculation

For the calculation of alignment, BBVA uses the IEA Net Zero scenario as a reference, except in the case of aviation, where the ISF NZ scenario developed by the University of technology Sydney for UNPRI has been used. However, the data used as a reference in 2030 for the distance calculation may differ from the data published by the scenarios. The PACTA methodology uses the scenario as a reference for emission decreases to meet a 1.5° scenario, but applies a different starting point than the scenario. The starting point applied is the result of aggregating all customers in the database used, taking this aggregation as a market reference. This database covers, according to data from the external supplier, 87% of the assets in the Power sector, 96% of the auto assets, 91% of the steel assets, 73% of the cement assets, and with information on more than 47,000 aircraft. This figure, however, does not differ significantly from the scenario and is more ambitious in most cases.

### 8.2.1.2. Alignment objectives and metrics

It is important to emphasize that the baseline of these metrics may change, since the sources of information used and the methodology are constantly changing. BBVA's commitment is to maintain the level of ambition for reduction despite the fact that the baselines may change.

In this sense, the baseline of the electricity generation, steel and cement sectors has been modified and the objectives have been adjusted maintaining the level of ambition. These changes have been due to improvements in the calculation methodology and in the databases used. The primary provider of emissions intensity information is Asset Resolution, which provides asset information for the portfolio included in the calculation perimeter. The coverage percentage is between 95% and 100% depending on the sector under analysis.

In order to follow up on these objectives and supervise their compliance, the Bank has tested a governance framework that includes the creation of a Sustainability Alignment Steering Group (SASG) made up of the heads of the Business, Risk, Sustainability and Strategy areas, with the following functions:

- Approval of the sectoral alignment objectives and intermediate objectives, as well as the methodologies used in their calculation.
- Evaluation of the fulfillment of these objectives and the promotion of initiatives to facilitate their management.
- Analysis and understanding of the best practices in the sector, promoting the

<sup>5</sup> Oil & Gas companies with activities in exploration, drilling and extraction



integration of sustainable criteria in day-to-day business.

After having passed through the SASG, the monitoring of compliance with the objectives, including the explanation of possible deviations and measures to redirect them (if applicable), will be submitted for review to the highest executive level and subsequently to the corporate bodies, at least twice a year.

To facilitate effective management and compliance with the alignment objectives, BBVA has developed a series of internal tools that allow it to integrate the management of these objectives into the day-to-day risk and business processes. These tools include:

- Alignment dashboard with PACTA methodology.
- TRi (Transition Risk Indicator), a tool for assessing each customer's current emissions profile and decarbonization strategies.
- Sustainability Client Toolkit, which compiles ESG information from large corporations and/or entities with public information that is required at management level in a single repository for use from the front end.

During 2022, a series of multidisciplinary working groups, consisting of teams from GRM, CI&B, Sustainability and Strategy, were launched, under the name Climate and Environmental Sectoral Panels. These groups have developed Sector Strategic Plans in the Oil & Gas and Utilities sectors (including power generation). This work made it possible to define strategies and business plans aimed at meeting the alignment objectives established in the medium term, as well as mitigating the risks related to decarbonization on the balance sheet.

This work is a fundamental part of portfolio alignment management and input for the definition of the risk appetite included in the Sector Frameworks. In 2023, plans will be implemented for the rest of the sectors for which an alignment objective has been defined.

### 8.2.2. Climate change opportunities for BBVA

As well as the risks described above, a number of associated opportunities have arisen which BBVA is considering to use and position itself correctly with respect to the major disruption represented by climate change.

**Table 104.** Climate change opportunities for BBVA

Sector	Opportunity	Time Horizon <sup>(1)</sup>
Oil & Gas	Possibility of reusing oil & gas transport assets for biofuels and hydrogen	MT
	Electrification of the oil and gas industry, and use of hydrogen	MT
Chemicals	Carbon capture and storage through chemical separation of carbon dioxide for later reuse	ST
Electricity	Strong boost to renewable energy, electricity storage	ST
	Energy efficiency services and hydrogen development	MT
	Development of nuclear fusion	LT
Construction & infrastructures	Boosting the distribution of solar panels	ST
	Renovation of buildings (headquarters, housing, premises, etc.) as well as industrial plants in need of energy-efficiency improvements because of the increased regulatory impact and self-consumption	ST
	Infrastructures to improve climate change adaptation: changes in cities, development of a smart grid, charging infrastructure for electric vehicles	ST
Transportation	Efficient low-emission and mobility services (electrical, Liquefied natural gas -LNG- and hydrogen)	ST
Mining & metals	Production of metals to manufacture electric vehicles (copper, lithium, cobalt and nickel among others)	ST
	Efficient irrigation systems, use of waste as a source of biogas	ST
Agriculture	Renewable energy use (solar) in agricultural plants	MT
	Development of new anti-drought products	MT
Carbon markets	Creation of carbon credit markets	ST
Other sectors	Circular economy, recycling, waste and water treatment, tree planting, food industry, tourism industry conversion to carbon neutrality (fossil fuel change, etc) and natural capital	ST

<sup>(1)</sup> ST: Short Term, <4 years; MT: Medium Term, 4-10 years; LT: Long Term, >10 years.

### 8.2.3. Sustainable finance

BBVA's approach to the origination of sustainable financing includes the channeling of financial flows towards activities or customers considered sustainable

under certain criteria, basically following the following formats:

- Finalist financing: the use of the funds is allocated to a sustainable activity or purpose in accordance with:

- The EU taxonomy developed so far (climate change mitigation and adaptation objectives);
  - Internal standards inspired by said taxonomy (or by the reports available on the objectives and categories not yet developed - environmental objectives other than adaptation or mitigation, social objectives or certain transition activities-) that may, additionally, present a certain degree of flexibility when applied in non-European geographic areas in order to reflect their different national circumstances and avoid excluding emerging markets. If a local taxonomy is developed locally, the latter will be applied;
  - Other market standards such as the SDGs or the LMA and ICMA principles for green and social loans and bonds.
- Generalist financing: in general, linked to a series of indicators or KPIs related to ESG aspects, thus trying to encourage positive behavior in terms of sustainability, in accordance with market standards such as the principles for loans and bonds linked to sustainability of LMA and ICMA.

### 8.2.3.1. Framework for sustainable bond issuance

BBVA has extensive experience in the green bond issuance market, an activity that began in 2007 when it took part in the issuance of the first green bond by the EIB. Since then, the Group has led, structured, advised and placed green and social bonds for its customers in Europe, Turkey, the United States, Mexico and South America.

In April 2018, BBVA published its framework for issuing own sustainable bonds, linked to the United Nations Sustainable Development Goals (SDGs). Under this framework, BBVA can issue three types of bonds:

- Green bonds: debt instruments whose funds will be used to finance new and/or existing green projects;
- Social bonds: debt instruments whose funds will be used to finance new and/or existing social projects;
- Sustainable bonds: debt instruments whose funds will be used to finance new and/or existing green and social projects.

It is a framework aligned with the International Capital Market Association (ICMA) Green and Social Bond Principles and the 2018 Sustainable Bond Guide, backed by strong governance and strict management and monitoring, of net funds earned and has an independent

verification assessment by an independent third party. The framework is public and is available on the BBVA shareholders and investors website.

In 2022, the new Framework for the issuance of sustainable debt instruments was published (which replaces -except for current issuances- the 2018 Bond Framework). The new Framework has been updated to align it with the eligibility criteria for the environmental and of social growth provided for in the internal standards of the Bank inspired by the EU Taxonomy and extend it to other debt instruments in addition to bonds. Like the previous framework, it takes into account the best practices of the bond market, being aligned with the Green Bond Principles, Social Bond Principles and the ICMA Sustainability Bond Guidelines, and the possibility of adapting it to the future EU Green Bond Standard when it comes into force opens up. It also has the independent verification of the company DNV. The new Framework is public and it is also available on the BBVA shareholders and investors website.

The issuance of green and social bonds is part of BBVA's climate change and sustainable development strategy. In the sustainable bonds market, the Group has carried out, since its inaugural issue in 2018, eight public issues divided between green bonds for an amount of €4,680 million and social bonds for an amount of €2,000 million. BBVA publishes an annual monitoring report on its own green and social bonds issued. In 2022, BBVA published its fourth report, which includes the impacts of the bonds issued from 2018 to 2021 and is available on the BBVA shareholders and investors website. In relation to the environmental loans and projects financed with the green bonds issued by BBVA, since 2018 a total of 3,666,415 tons of CO<sub>2</sub> emissions have been avoided into the atmosphere, which is equivalent to the annual emissions of 1,451,471 cars. Additionally, the volume of treated water has been equivalent to the annual consumption of 412,965 citizens in Spain. 906,864 tons of waste have been treated, equivalent to the waste generated by 2,051,729 people in one year.

In relation to the social bonus issued in 2021, within the health subcategory, the bonus has enabled 1,044 beds in hospitals and clinics and 184 places in nursing homes, with up to 2,159,014 potential beneficiaries. In the area of education, 53,815 students have been helped. In the affordable basic infrastructure section, the social bond has contributed to extending broadband telecommunications services to more than 200,206 facilities, 303,275 homes and 4,975 companies. Altogether, 814,580 people have potentially benefited. Likewise, more than 814,580 people have benefited from the funds that have been allocated to socioeconomic advances and empowerment, through financing for vulnerable or low-income groups. Finally, 31 families have benefited in the category of affordable housing. In total, almost four million people have potentially benefited from the social destination of the funds raised by the BBVA bond issued in 2021.

### 8.2.3.2. CIB framework for sustainable products

BBVA considers that sustainable financing is an important strategy to help its customers on their path towards sustainability and to increase corporate responsibility. In this way, BBVA is committed to developing innovative financial solutions. The Sustainable Products Framework, applicable to the products of BBVA's Corporate & Investment Banking (CIB) activity, is aligned with this strategy, with the SDGs and with the Paris Agreement.

The framework is divided into two types of products:

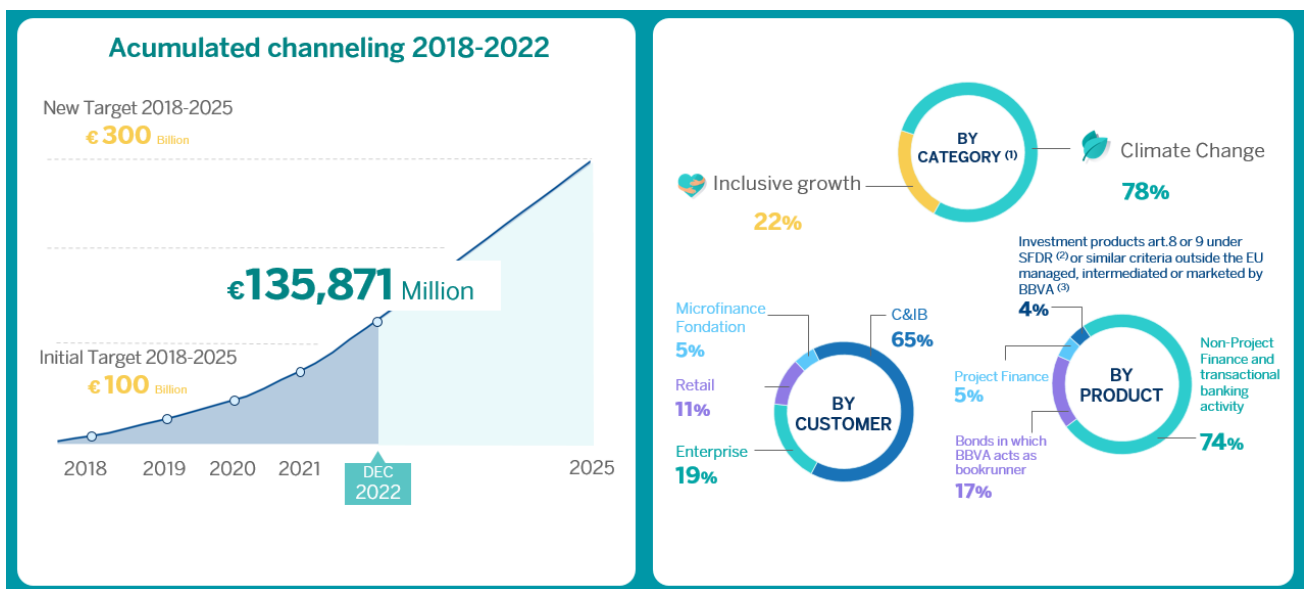
- **SDG-linked:** SDG-linked products consist of customer project finance solutions that directly contribute to one or more SDGs. These projects can be considered as green, social or sustainable depending on the use of the funds.

- **Linked to sustainability:** products linked to sustainability consist of financial solutions that are not based on the use of funds and that will be eligible based on sustainability criteria defined in the Framework itself.

The framework is public and is available on the BBVA shareholders and investors website. It is certified by an independent third party.

BBVA<sup>6</sup> has once again increased its 2025 Goal, tripling its initial target for channeling sustainable business by setting it at €300,000 million for the period 2018 - 2025. Between 2018 and 2022, BBVA mobilized a total of €135,871 million in sustainable business, distributed as follows:

Chart 24. Accumulated channeling of sustainable business 2018-2022



(1) In those cases where it is not feasible or there is not enough information available to allow an exact distribution between the categories of climate change and inclusive growth, internal estimates are made based on the information available.

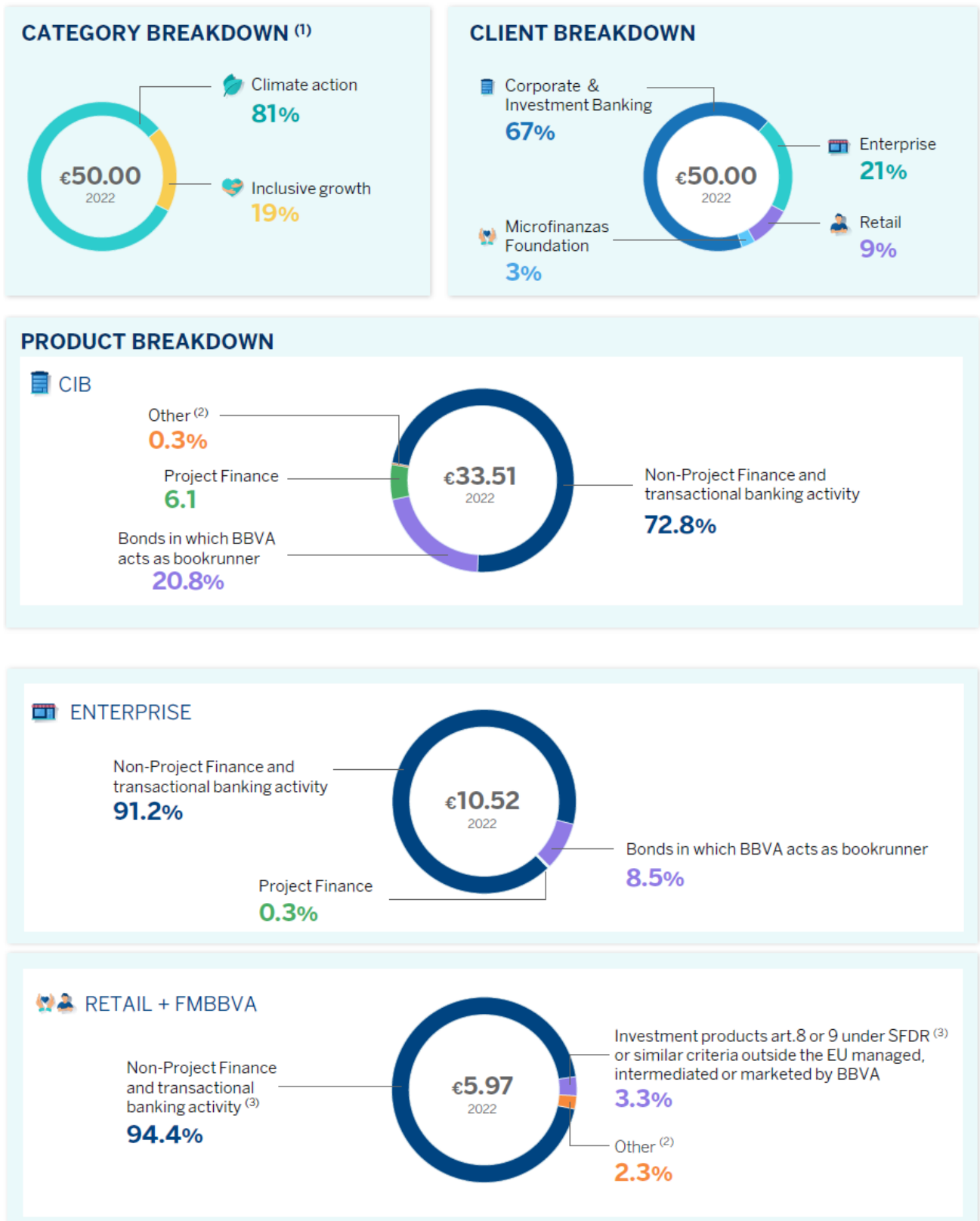
(2) Sustainable Finance Disclosure Regulation (SFDR).

(3) Includes, in CIB and Enterprise: structured deposits, mainly; and in Retail: structured deposits, insurance policies for electric vehicles and self-renting of electric vehicles, mainly.

The sustainable business channeling data for the year 2022 is detailed below (in € billion):

<sup>6</sup> For the purposes of the Goal 2025, it is included the channeling of sustainable business of the entities that are part of BBVA Group as of 12/31/2022 as well as the BBVA Microfinance Foundation.

Chart 25. Sustainable business channelling data during 2022



(1) In those cases where it is not feasible or there is not enough information available to allow an exact distribution between the categories of climate change and inclusive growth, internal estimates are made based on the information available.

(2) Includes, in CIB and Enterprise: structured deposits, mainly; and in Retail: structured deposits, insurance policies for electric vehicles and self-renting of electric vehicles, mainly.

(3) Sustainable Finance Disclosure Regulation (SFDR).

In addition to the figures on channelling sustainable business for climate change and inclusive growth, with the aim of generating a positive impact on society,

through the Community Commitment 2021-2025, BBVA and its foundations will allocate 550 million euros to social initiatives to support inclusive growth in the countries in which it is present. The programmes will

reach 100 million people over this period. Between 2021 and 2022, BBVA allocated 237 million euros to social initiatives to support inclusive growth in the countries where it is present, reaching 62 million people.

For the purposes of the Goal 2025, channeling is considered to be any mobilization of funds, cumulatively, towards activities or clients considered to be sustainable in accordance, fundamentally, with existing regulations, internal standards inspired by existing regulations, market standards such as the Green Bond Principles, the Social Bond Principles and the Sustainability Linked Bond Principles of the International Capital Markets Association, as well as the Green Loan Principles, Social Loan Principles and the Sustainability Linked Loan Principles of the Loan Market Association and best market practices. The foregoing is understood without prejudice to the fact that said mobilization, both at an initial stage or at a later time, may not be registered on the balance sheet. To determine the funds channeled to sustainable business, internal criteria is used based on both internal and external information, either from public sources, provided by customers or by a third party (mainly data providers and independent experts).<sup>7</sup>

The aforementioned sustainable business pipeline is a metric that may differ from other metrics of a regulatory

nature. In particular, this metric differs from the amount of exposure to sustainable business disclosed under the technical standards of execution (ITS) on the information of Pillar 3 related to environmental, social and governance (ESG) risks<sup>8</sup>, whose objective is the measurement of exposure to mitigation and adaptation actions<sup>9</sup> against climate change. The reasons for these differences come from the different calculation criteria used in both concepts, highlighting the following: (i) while channelling includes mobilization of financial flows that may not be recorded on the balance sheet (e.g. transactional banking activity, investment funds, investment or bonds in which BBVA acts as bookrunner, etc), the regulatory metric only includes exposures within the balance sheet assets; (ii) while the concept of channelling is cumulative (reflects accumulated balances since 2018), the regulatory metric only includes exposure for the year in question; (iii) while the channelling reflects the total mobilization of flows, the regulatory metric only includes outstanding balances on the balance sheet in the fiscal year in question; (iv) while the concept of channelling also includes the mobilization of flows that contribute to a purpose of a social nature such as inclusive growth and other environmental objectives, the regulatory metric only contemplates the contribution to a climate purpose.

**Table 105.** ESG10. Climate change mitigating actions

Type of financial instrument	Type of counterparty	Gross carrying amount (million EUR)
Bonds (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	152
	Non-financial corporations	362
	Other counterparties	0
Loans (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	935
	Non-financial corporations	16,446
	Of which Loans collateralised by commercial immovable property	1,494
	Households	2,574
	Of which Loans collateralised by residential immovable property	2,057
	Of which building renovation loans	53
	Other counterparties	356

(\*) Book portfolios: "At amortised cost", "Fair Value through Other Comprehensive Income (FVOCI)", "Fair Value through P&L", "Non-tradable at Fair Value through Profit or Loss" and "Trading". Instruments: loans and fixed income, and additionally loans secured by commercial and residential real estate. Sectors: Central banks and governments have been included as "other counterparties", credit institutions and other financial institutions as "financial corporations". Exposures include both transactions aligned with the European Taxonomy and those under the institution's internal standard. Fixed Income issues that comply with widely accepted environmental market standards. The detail of these actions is developed in the following sections of the report.

### 8.2.3.3. Qualitative information on the nature of the mitigation measures

The loans and bonds considered as environmentally sustainable financing presented in the table above correspond to all those operations that BBVA has considered to meet the requirements defined according to the internal standards for climate change mitigation activities. These standards are inspired by the EU taxonomy developed to date and also take into account

local taxonomies, standards and best practices in the market where the Group operates. Likewise, BBVA has developed internal standards on objectives and categories not developed in the European Taxonomy for the time being (environmental objectives other than adaptation or mitigation, social objectives or certain transition activities) which may, in addition, present a certain degree of flexibility when applied in non-European geographical areas in order to reflect their different national situations and avoid excluding emerging

<sup>7</sup> BBVA does not assume any responsibility for the opinions expressed by third parties or for any errors or omissions in the information coming from external sources.

<sup>8</sup> Included in the Implementing Regulation (EU) 2022/2453 of the Commission of 30 November 2022, amending the implementing technical standards laid down in the Implementing Regulation (EU) 2021/637.

<sup>9</sup> According to the regulatory definition (FINREP) of exposure: outstanding risk of loans and advances, as well as bonds in the investment portfolio.

markets. If a local taxonomy is developed locally, this will be applied and also inspired by other market standards such as the SDGs or the LMA and ICMA principles for green and social lending and bonds.

#### 8.2.3.3.1. Type of risk mitigated: climate change transition risk

BBVA supports counterparties by facilitating the flow of funds towards activities included in the internal standards mentioned above, which mainly refer to climate change mitigation objectives.

Likewise, in relation to "transition" activities, a term widely used when talking about the economy, specific sectors, financial portfolios or companies, it is used to describe the changes in the economies necessary to meet the European Union's environmental objectives.

The BBVA standard of sustainable activities includes, among others, activities considered as transition activities by the European taxonomy, such as nuclear energy, the manufacture of plastics in their primary form, building renovation and gas-related activities, where other transition activities contemplated in the Taxonomy will be incorporated. Beyond the European Taxonomy, other activities such as the extraction of strategic minerals and activities related to energy efficiency are considered under strict criteria, which can be reviewed within a certain time horizon.

On the other hand, decreasing GHG emission pathways of activities that do not yet meet the technical selection criteria of the European Taxonomy, but adhere to internationally recognised frameworks such as the Science Based Target Initiative, where the success of the transition is assessed by the average emissions change over time, are also considered as a transition.

The same philosophy is applied for geographies where market maturity is not comparable to more developed countries, therefore the same metrics are used but with a pathway over time to reach the same environmental target.

#### 8.2.3.3.2. Type of risk mitigated: climate change physical risk

For the time being, BBVA focuses all its efforts on supporting the customer in mitigation measures and supporting the ecological transition, although initial standards have also been developed for certain adaptation activities mainly for activities related to the primary sector, such as efficient agriculture, eco-schemes or drought-resistant seeds.

## 8.2.4. Sustainable investment solutions

In 2022, BBVA Asset Management (BBVA AM), the Group's investment management unit that brings together all asset management activities worldwide, continued with its sustainability integration plan. The plan took specific form, among others, in the following developments:

- Incorporation of the ESG extra-financial criteria in the process of investment and risk control decision-making for vehicles and portfolios they manage, both in the investment process and voting policy. Once this model was developed for assets under management in Europe, during 2022 BBVA AM worked towards its incorporation into assets under management in Mexico.
- Commitment to sustainable investment best practices such as adherence to the Principles for Responsible Investment promoted by the United Nations and the Net Zero Asset Managers Commitment to reach 2050 with net zero emission portfolios. In 2022, regarding the latter commitment, BBVA AM announced some initial targets for decarbonization of portfolios, including 22% of total assets under management, with the following intermediate targets for 2030:
  - Reduction of 50% of emissions in the equity and corporate fixed-income portfolio, and
  - Improved CCPI (Climate Change Performance Index) for eurozone sovereign debt. The CCPI is an index that annually monitors climate protection performance by country.
- Exclusion policies. An exclusions rule was approved for the entire BBVA AM business that includes:
  - Exclusion of companies in breach of international standards and treaties related to good practices in labor rights, human rights and anti-corruption policies,
  - Exclusions of certain activities, such as controversial armament, coal, and oil and gas linked to tar sands and the Arctic, and
  - Additional sectoral exclusions for sustainable products.

This policy already applies to all assets under management in Europe and Mexico.

During 2022, BBVA AM continued to expand its offering of sustainable products, i.e. products that follow sustainability targets or metrics in their investment policy. BBVA AM now markets 9 new investment funds (8 in Spain, 1 in Mexico), bringing the total number of investment vehicles using sustainability targets and metrics to 33. Assets under management in sustainable solutions at the end of 2022 amounted to €7,020 million euros (€5,598 million in 2021), and net acquisition of new funds was 976 million euros (€1,559 million in 2021).

In the retail banking segment, it is worth noting that 3,133 million euros correspond to funds that promote ESG characteristics, that 108 million euros correspond to funds with a sustainable investment objective and that 2,593 million euros correspond to pension plans that promote ESG characteristics.

The assets managed under the criteria described above at year-end 2022 and 2021 are shown below:

**Table 106.** Assets under management with SRI criteria (BBVA Asset Management. Million Euros)

	<b>2022</b>	<b>2021</b>
<b>Total assets under management</b>	<b>124,601</b>	<b>119,307</b>
Europe	74,599	80,981
Mexico	35,614	30,179
South America	7,384	4,252
Turkey	7,005	3,895
<b>SRI strategy applied</b>		
Exclusion <sup>(1)</sup>	110,213	119,307
Vote <sup>(2)</sup>	110,213	111,160
Integration <sup>(3)</sup>	110,213	80,981

<sup>(1)</sup> The exclusion strategy, with the exclusion policy approved in 2021, applies to assets managed in Europe and Mexico.

<sup>(2)</sup> The voting strategy is applied to 100% of the assets under management in Europe for those instruments, in BBVA AM portfolios, that generate voting rights and their issuers are in the European and US geographical areas and in the business of AM México for those issuers that generate voting rights and their issuers are in the Mexican geographic area.

<sup>(3)</sup> The integration strategy is applied in SRI pension plans and mutual funds of the Europe business and, since 2022, AM Mexico.

## 8.3. Governance model

### 8.3.1. Corporate bodies

BBVA's corporate bodies have defined and promoted that the Group has a strategy that incorporates sustainability as one of its priorities. Sustainability was embedded in the Group's strategic plan in 2019.

For the Board of Directors, an essential element of this strategic approach is the integration of sustainability into the Group's businesses and activities, managing the risks associated with these areas, and considering them a great business opportunity to support its growth strategy. Combined with this is the establishment of targets which facilitate their execution, supervision and monitoring. This approach allows the Group's corporate bodies to define the basic lines of action for BBVA as regards the management of opportunities and risks arising from sustainability and oversee their execution by the executive areas in all spheres of the Entity's operations.

For this role, the Board is assisted by its committees on matters within their respective areas of concern. The Executive Committee plays an active role in promoting this strategy and monitoring the integration of sustainability into the Group's business processes and activities.

Also important is the role of the Risk and Compliance Committee, which assists the Board of Directors in the integration of sustainability in the analysis, planning and management of the Group's risks, and in supervising their execution; that of the Audit Committee, in supervising the public information on sustainability reported to the market; and the Remuneration Committee, in driving the integration of indicators related to sustainability in the Group's variable remuneration model.

In the exercise of these functions, in 2022 the Board approved the update of the General Sustainability Policy, which integrates the previous Corporate Social Responsibility Policy and the General Sustainability Policy. The new policy sets out the general principles and the key management and control objectives and guidelines to be followed by the Group in terms of sustainable development with a focus on climate change, natural capital and inclusive growth.

In addition to this, there is the role of the corporate supervisory and monitoring bodies for the implementation of the Group's sustainability strategy and activity, and compliance with the organization's objectives, which is carried out based on the reports received by the Sustainability Area and the different areas of the Bank which incorporate sustainability into their daily businesses and activities. The reports are submitted to the corporate bodies according to their

area of concern along the lines described in the preceding paragraphs, on a scheduled or ad hoc basis.

To achieve the best performance of its functions in this area, the Board of Directors believes it necessary to have suitable knowledge and experience in sustainability matters. To this end, it continues to conduct initiatives that involve the recruitment, within the process of gradual replacement its members, of directors with extensive knowledge and experience in these matters, and in the extension of the continuous training program of its members to matters related to sustainability.

### 8.3.2. Cross-cutting integration of sustainability into the executive sphere

BBVA incorporates sustainability as part of its daily activities, encompassing not only relations with customers but also internal processes. The definition and execution of the strategy, which includes sustainability and climate change as one of its priorities, has a transversal nature, being the responsibility of all areas of the Group to incorporate it progressively into their strategic agenda and their work dynamics. This is also reflected in the remuneration policy of the Group, as stated in the corresponding chapter of this document.

In 2021, BBVA gave a fresh impetus to its strategy by elevating sustainability to the highest executive level of the organization, reporting directly to the CEO and Chair (in this case, in areas linked to strategy and transformation) by creating the Global Sustainability business area.

In a context in which all the Group employees and areas integrate sustainability into their day-to-day activity, the new global area designs the strategic sustainability agenda, defines and promotes the lines of work in this area of the different global and transformation units (including Finance, Talent and Culture, Data, Engineering, and Organization among others) and develops new sustainable products.

In addition, BBVA has established a network of experts, comprising sustainability specialists from different areas of the Group (Client Solutions, Corporate & Investment Banking, Asset Management, Global Risk Management and Global Sustainability), coordinated as a network by the global Sustainability area. These experts are responsible for building knowledge in the field of sustainability at the Group. This knowledge is then used to provide customer guidance, support areas in developing new value propositions in the sphere of sustainability, make climate change risks part of risk management, and draw up a public agenda and set of sustainability standards.

The Group's sustainability governance model integrates a suitable structure of corporate bodies with a robust executive structure that reports to them. It combines the



cross-cutting reach of the global sustainability area with the execution of the strategic priority in the various business areas, which allows the Board and its Committees to have the necessary information to make suitable decisions and perform their supervisory and control function.

### **8.3.3. Progress in the execution of the strategy**

BBVA incorporates sustainability in its day-to-day business, both in customer relations and in internal processes, including its management control and reporting processes.

BBVA in Spain is integrating sustainability in its financial reporting to senior management and business areas. These reports on sustainable operations include both financial plans and budgets, from which some internal resource allocation decisions are derived.

On a recurring basis, financial reports are used for decision-making based on the sustainability pillar, including data on sustainable business channelling, profitability, percentage penetration of sustainable activity, as well as balance sheets and income statements that enable monitoring of sustainable operations for each of the business segments.

## 8.4. Sustainability Risks management

### 8.4.1. Integrating climate change into risk planning

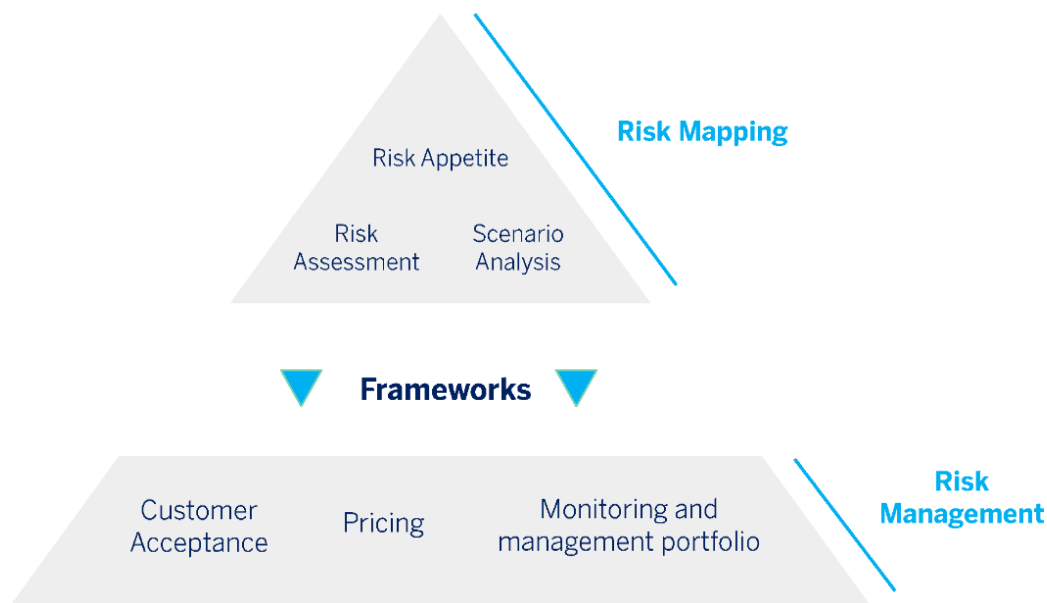
The risks associated with climate change (transitional and physical) are considered as an additional factor affecting the risk categories already identified and defined in the BBVA Group and are therefore managed through the Group's risk management frameworks (credit, market, liquidity, operational and other non-financial risks). As a result, the integration of climate-change related risks into the BBVA Group's risk management framework is based on their incorporation into the governance and processes currently in place, taking into account regulatory and supervisory trends.

Correct planning requires reliable, complete and up-to-date data. Accordingly, in 2022 work continued on the deployment of the sustainability data strategy, based on the Principles for effective risk data aggregation and risk

BCBS 239, in which sustainability data needs have been identified, data gaps have been assessed and a conceptual model and implementation plan have been developed. All this is geared to guaranteeing a comprehensive vision of the Group's climate change risks to ensure their correct control and management. In response to both regulatory and management needs, and so on, the data considered include data related to customer climate scorings, real estate energy efficiency certificates, ESG ratings, greenhouse gas emissions, asset and collateral location and sector-specific metrics, etc.

Climate change risk management in BBVA Group is based on the risk planning process which is marked by the defined risk appetite and makes use of management frameworks which establish how these risks are to be addressed in day-to-day business activities.

Chart 26. Integrating climate change into risk management and planning



### 8.4.2. Risk planning

#### 8.4.2.1. Risk appetite Framework (RAF)

BBVA's Risk Appetite Framework, approved by the corporate governance bodies and applicable to all the Group's material geographic areas, determines the risk levels that BBVA is willing to assume to achieve its targets, considering the organic evolution of the business. It is organized under a pyramidal structure that starts from the thresholds of the core metrics and the metrics by type of risk and declines in a framework of

management limits. The Framework has a general statement that sets out the general principles of the risk strategy and the target risk profile. The statement includes a commitment to sustainable development as one of the elements defined by the BBVA business model, focusing on supporting the customer in the transition toward a sustainable future, and incorporating the climate factor in risk management. This statement is complemented and detailed by a quantification of the appetite through metrics and thresholds that provide a clear and concise guide to the maximum acceptable risk profile.

A quantitative transition risk metric has been incorporated into the framework since 2021. This High Transition Risk metric measures Exposure at Default (EAD) in relation to capital of the activities most exposed to transition risk in accordance with the Taxonomy defined internally (High Transition Risk), focusing on activities classified as High or Very High risk. With respect to this metric, the Board of Directors of BBVA has approved thresholds at a Group and geographic area level, which determine the maximum appetite for this risk.

Furthermore, a new metric has been included in the 2023 management limits, called High Market Misalignment. This metric is defined as the percentage of the capital base of exposure to customers whose issuance intensity is above 30% of the market average. This metric takes a transition risk management approach by focusing on customers with a clear level of misalignment with respect to the emissions intensity trajectories established by the International Energy Agency, The Net Zero Emissions scenario for each of the sectors. The calculation scope is the loan portfolio of the automotive, power generation, steel and cement sectors.

The definition of the levels of tolerance established in the Risk Appetite Framework are based on the Risk Assessment and Scenario analyses described below. These are further developed in 8.4.2.3 Risk Assessment.

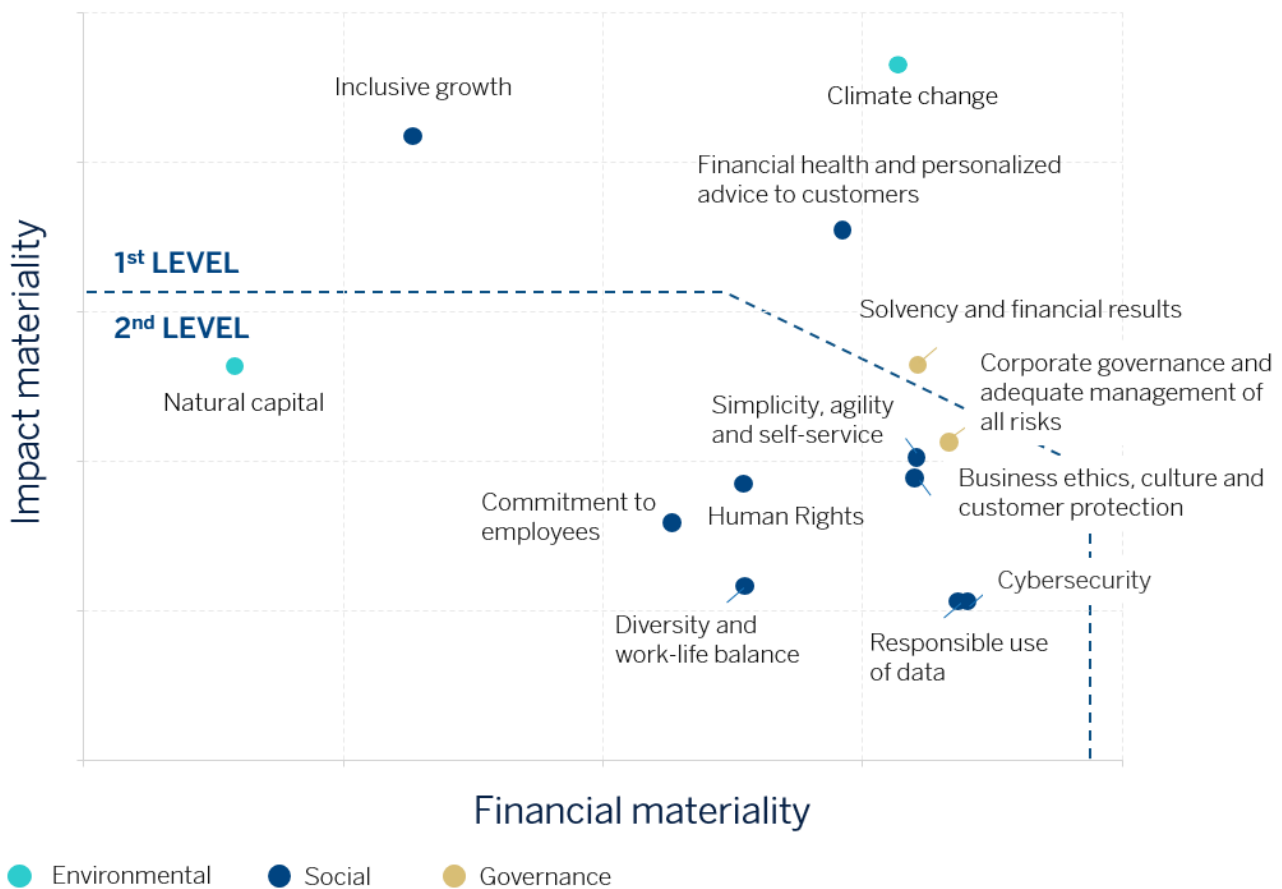
### 8.4.2.2. Materiality analysis

BBVA periodically prepares a materiality analysis to identify those environmental, social and governance issues that are most relevant to the Group and its stakeholders. In 2022, this analysis has been carried out following the new GRI requirements (December 2021 version) and the proposal of the new European Corporate Sustainability Reporting Directive (CSRD), which has implied the incorporation of the double materiality approach, which analyzes, both, the impact that BBVA's activity has on the environment and its stakeholders (impact materiality) and the impact that the environment and its stakeholders have on BBVA's activity (financial materiality).

As a result of this analysis, the material issues for BBVA's stakeholders are the ones shown in the following matrix:

Chart 27. Materiality matrix

## Materiality Analysis BBVA 2022



As a result of the double materiality analysis for the year 2022, the most outstanding material issues are:

- Climate change: Stakeholders have climate change among their main concerns and expect BBVA to contribute to an orderly transition towards a low-emissions economy. This requires proper risk and opportunity management.
- Inclusive growth: Stakeholders expect the bank's business model to support the financial inclusion of people in the countries in which it operates, entrepreneurs, and the development of inclusive infrastructures.
- Financial health and personalized advice to customers: Stakeholders expect the bank to get to know its customers and propose personalized solutions and recommendations to better manage their finances and achieve their life goals. All this in a proactive and increasingly automated way.
- Solvency and financial results: Stakeholders expect BBVA to be a bank with ample capital and liquidity, thus contributing to the stability of the system. In addition, they expect BBVA to generate good results over time. That is, they demand a sustainable business model in the current ecosystem.

It should be noted that, with respect to the materiality analysis published in 2021, a total of thirteen material issues remain, although the "COVID-19" issue has been disregarded as its degree of importance has decreased and "Natural Capital" has been included.

These issues materialize in three of the six strategic priorities: "Helping customers in the transition towards a sustainable future", "Improving the financial health of customers" and "searching operational excellence", as well as in ambitious objectives in terms of efficiency, profitability, value creation for the shareholder, customer growth and sustainable business channelling for the coming years.

The information regarding the performance of these most relevant matters and the rest of the material matters for the BBVA Group in the year 2022 is developed in the different chapters of this report.

The scope of this analysis includes the main geographical areas in which BBVA operates (Spain, Mexico, Turkey, Argentina, Colombia and Peru) and short, medium and long-term time horizons have been taken into account. For more details on the sources used, the methodology, as well as the objectives and degree of progress of these material issues for BBVA and its stakeholders, see the section "Additional information on materiality analysis" in the chapter "2.4. Additional information" of the Consolidated Management Report.

### 8.4.2.3. Risk Assessment

This section firstly provides a self-assessment of how the different climate-change related risk factors impact on the main types of risk currently existing (credit, market, liquidity, etc.); secondly, an analysis of the sectors that are most sensitive to this risk (under the so-called "internal risk taxonomy"); and, finally, the methodology used to assess the climate vulnerability of the relevant geographic areas where the BBVA Group operates. These last two aspects are integrated into the management through processes such as admission frameworks or the establishment of risk limits.

As part of its General Risk Management and Control Model, the Group develops periodic risk identification and assessment processes to identify material risks that could have a negative impact on its risk profile and to manage those risks actively and proactively. These processes cover all types of risks faced by the Group in its daily activity, including those risks that are more difficult to quantify. Since 2022, the General Risk Management and Control Model specifically considers sustainability as an essential part of the Group's strategy.

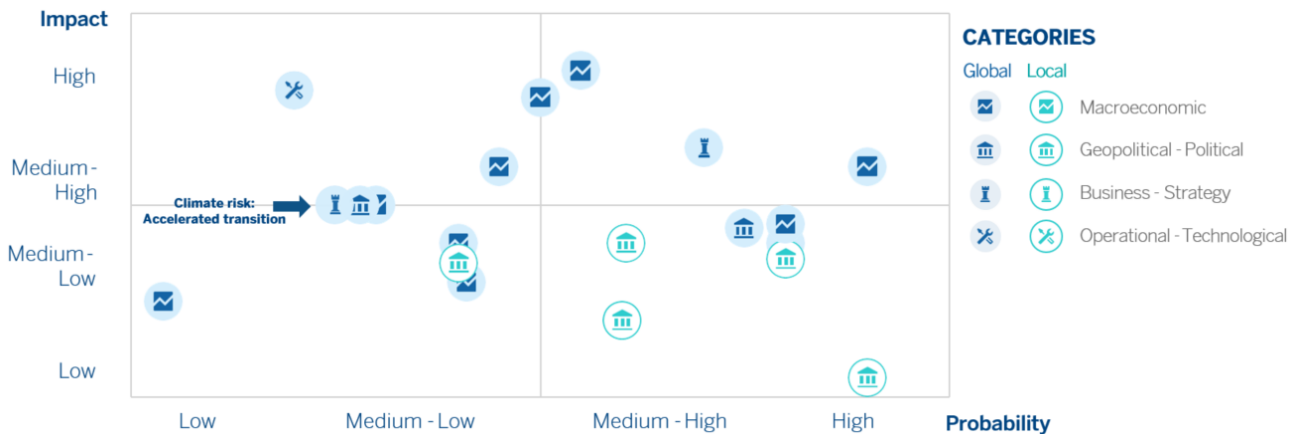
The Global Risk Assessment is a prospective exercise which updates at least twice a year, and allows a comparison between risk types, business activities and moments in time, facilitating the understanding of the Bank's positioning and its development, and identifying the material risks to cover with capital. Since 2020 the Group has carried out a climate assessment, mainly of a qualitative nature, which assesses BBVA's vulnerability to transition and physical risk. As in the case of the global assessment, the climate assessment process is of a participative and global nature in the GRM area. The results of the assessment are submitted to the highest executive risk committee (GRMC), as well as the corporate bodies, as this assessment is integrated in key corporate processes such as the Risk Appetite Framework and the Internal Capital Adequacy Assessment Process (ICAAP).

The climate change risk assessment process runs parallel to the Group's global risk assessment, although there are two major differences. First, there are still no mature indicators to assess the different risks quantitatively and second, the time horizon of the analysis is much more extensive. The analysis is carried out for a short-term horizon coinciding with the planning horizon (4 years), medium term (4-10 years) and long term (over 10 years). The climate change risk assessment, like the other risks, is carried out from two perspectives of the global assessment:

1. Identification of risk events: transition risk and physical risk are included in the identification of risk events that may have a material impact on the Group. Below is the matrix of risk events identified in 2022 that are graphically represented according to their estimated

impact on the BBVA Group and their assigned probability.

**Chart 28.** Risk materializing in the short term: time horizon 12-18 months



Climate change risk is included as a material event in this inventory since 2019. The assessment in the analysis of climate change risk events classifies physical and transition risks. In the short term (12-18 months), it is considered that an accelerated transition to a low-carbon economy would entail a medium-impact risk event, although the probability currently given to this type of scenario is medium low. At a medium/long-term time horizon, the risk of physical climate change is included in the inventory of emerging risks (those that may have an impact on a longer horizon) and is assigned a medium risk.

2. Risk level assessment: The second approach followed in risk assessment is based on an assessment of the profile of each type of risk expressed in a heat map. In 2022, the analysis was extended to the six relevant geographical areas of the BBVA Group (Spain, Mexico, Turkey, Argentina, Peru and Colombia). The financial year incorporates risk factors, such as the carbon footprint of customers, the energy efficiency of real estate collateral and the emissions financed, to name a few. Work has also been done on the preliminary inclusion of quantitative metrics for certain risk factors, especially exposures to activities that are sensitive to transition risk (include table of indicators).

portfolios, with an earlier impact on transition risk in Spain given the speed of this geographic area in adopting decarbonization policies. In contrast, there has been a reduction in risk due to regulatory pressure in emerging geographies. The factor that has the greatest impact in the long term on credit risk is that derived from the investments in technological change that companies will have to carry out in order to decarbonise. With respect to the impact of physical risk on loan portfolios, the greater frequency/severity of extreme meteorological events and structural changes in climate patterns explains the deterioration shown in the assessment over longer-term horizons. Also noteworthy is the increase in medium-term insurance risk associated with the increase in reinsurance premiums, which may have an impact in the medium term, although the level of risk remains at a medium-low level.

The impact of transition risk on liquidity risk is low due to the stability of the retail deposit base and the high asset quality of the liquid asset buffer. Market risk is equally low, due to the diversification of the equity portfolio and low exposure to sectors sensitive to transition risk in the fixed-income portfolio.

As for operational risk, there is a difference in the perceived risk in Spain (medium-low) and in the rest of the geographic areas (medium-high), due to the greater exposure of the latter to physical risk in the medium and long term.

### 8.4.2.3.1. Assessment conclusions

The conclusions of the assessment for 2022 suggest that the main risks emerge in medium- and long-term loan

**Table 107.** Risk Assessment Climate Change 2022

	Spain			Rest of geographical areas		
	ST	MT	LT	ST	MT	LT
<b>Transition risk</b>						
Credit	Low risk	Moderate-high risk	High risk	Low risk	Moderate-low risk	High risk
Liquidity and funding	Low risk	Moderate-low risk	Moderate-low risk	Low risk	Moderate-low risk	Moderate-low risk
Structural equities risk	Low risk	Low risk	Low risk	Low risk	Low risk	Low risk
Credit spread risk	Low risk	Low risk	Low risk	Low risk	Low risk	Low risk
Markets (trading)	Low risk	Low risk	Low risk	Low risk	Low risk	Low risk
Insurance	Low risk	Low risk	Low risk	Low risk	Low risk	Low risk
Operational	Moderate-low risk	Moderate-low risk	Low risk	Moderate-low risk	Moderate-low risk	Moderate-low risk
Reputational	Moderate-low risk	Moderate-low risk	Moderate-low risk	Moderate-low risk	Moderate-low risk	Moderate-low risk
<b>TOTAL</b>	Moderate-low risk	Moderate-low risk	High risk	Low risk	Moderate-low risk	Moderate-low risk
<b>Physical risk</b>						
Credit	Low risk	Moderate-high risk	High risk	Low risk	Moderate-low risk	High risk
Liquidity and funding	Low risk	Moderate-low risk	Moderate-low risk	Low risk	Moderate-low risk	Moderate-low risk
Structural equities risk	Low risk	Low risk	Low risk	Low risk	Low risk	Low risk
Credit spread risk	Low risk	Moderate-low risk	Moderate-low risk	Low risk	Moderate-low risk	Moderate-low risk
Markets (trading)	Low risk	Low risk	Low risk	Low risk	Low risk	Low risk
Insurance	Low risk	Moderate-low risk	Moderate-low risk	Low risk	Moderate-low risk	Moderate-low risk
Operational	Moderate-low risk	Moderate-low risk	Moderate-low risk	Moderate-low risk	Moderate-low risk	Moderate-low risk
<b>TOTAL</b>	Moderate-low risk	Moderate-low risk	High risk	Low risk	Moderate-low risk	Moderate-low risk

Temporary horizons definitions:  
 ST: short term; up to 4 years (planning horizon)  
 MP: medium term from 4 to 10 years  
 LP: long term; more than 10 years

Low risk
Moderate-low risk
Moderate-high risk
High risk
Not applicable

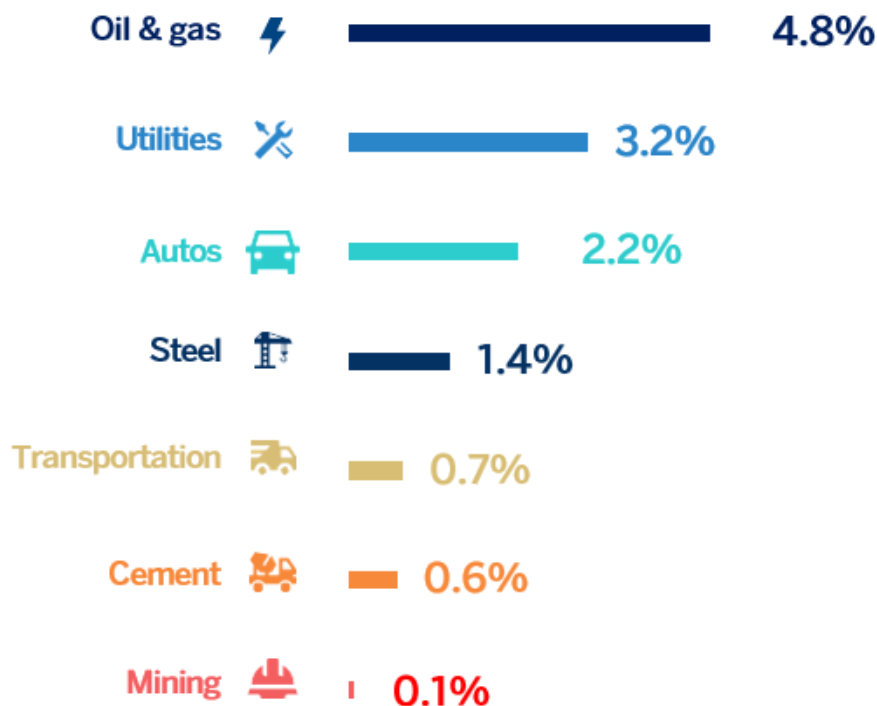
Within the scope of preparing and defining its industry frameworks governing the credit admission process, BBVA has developed an internal Taxonomy of transition risk in order to classify industries according to their sensitivity to transition risk. In addition, metrics are identified at the customer level to assess their vulnerability and to integrate this aspect into risk and customer support decisions.

The estimation of the transition risk-sensitivity level is based on the qualitative analysis of the amount of exposure to regulatory, technological and market changes caused by decarbonization that may have a financial impact on the companies of the industry and on the estimation of the time horizon impact of these effects.

Therefore, industries are categorized according to their level of sensitivity to transition risk: very high, high, moderate or low. The industries identified as most sensitive to transition risk are energy or fossil fuel generation sectors (energy, utilities and coal mining); emission-intensive basic industries (steel, cement); and activities that are final users of energy and generators of emissions through their products or services (vehicles manufacturers, air and sea transportation).

As a result of this exercise, with data as at December 31, 2021, 12.95% of the exposure (measured by EAD) of the wholesale portfolio (equivalent to 6.69% of the Group's portfolio) has been identified as corresponding to sectors defined as "high transition risk", with a high or very high level of exposure to this risk. This calculation was made on a portfolio of €209,759 million (of the Group's total EAD of €406,097 million), corresponding to the EAD of the wholesale lending portfolio.

Chart 29. Financing distribution to high transition risk sectors



Prepared by BBVA. Includes the percentage of exposure at default of activities internally defined as "transition risk sensitive" over the EAD of the wholesale portfolio as of December 31, 2021 (not including the subsidiaries of Garanti, Forum Chile, Uruguay, Venezuela and BPI). The "transition risk sensitive" portfolio includes activities that generate energy or fossil fuels (energy, utilities, excluding renewable generation and water, waste treatment and coal mining), basic industries with emission-intensive processes (steel and cement), final activities users of the energy through their products or services (vehicles manufacturers, air and sea transportation) and mining, with a high or very high level of sensitivity to this risk.

During 2022, this calculation was introduced for the small business sector (SMEs and the self-employed). The results obtained 2022 indicate that the EAD associated with high or very high transition risk in this portfolio is limited, at around 3%, and focused in mainly in Spain and in the automotive (components) sector.

In addition, climate change and environmental risk impact has been incorporated into country risk analysis since 2019, as an additional input for establishing risk policies affecting exposures to private or sovereign administrations of all the countries with which the Bank has some type of risk (+100 countries).

### 8.4.3. Analysis of scenarios and stress testing

#### 8.4.3.1. Scenarios and internal stress tests

The climate scenarios have been integrated into the governance of the BBVA Group's internal scenarios, with initiatives being developed in several areas:

1. The climate reflection is presented together with the preparation of the budget baseline scenario. It reviews the climate policies in place in each relevant geographic area, their effective relevance within the overall economic policy

framework, their consistency with the transition to a decarbonized economy and whether there may be any bias on the economic growth of the budget baseline scenario due to its potential development.

2. The climate driver has been integrated into the high-level risk scenarios (HLRS) which are monitored and assessed continuously in the Group by the Scenario Working Group. They serve as a basis for choosing the scenario which is used in the Group's internal capital adequacy assessment process (ICAAP).

In 2022 different physical risk events in Spain were assessed in order to consider them as input in the ICAAP. Among the events taken into account, drought is considered relevant for the design of physical climate change risk scenarios due to its presence in recent history, its persistence over time and its impact on the economy.

#### 8.4.3.2. Regulatory and supervisory scenarios and stress tests

In October 2021, the ECB published the methodology for the stress tests on climate change risk scheduled for 2022 in the months March to July. 104 entities participated fully or partially in this exercise, and of

these, 41 entities, including BBVA, participated in the whole exercise. The exercise was based on three different modules, with the following contents:

1. Module 1: qualitative questionnaire about the internal framework of climate stress testing including 11 blocks with topics related to governance, RAF, integration with the strategy, ICAAP and future plans
2. Module 2: analysis of the current portfolio of entities with respect to revenue dependence on polluting<sup>10</sup> sectors as well as emissions financed in such sectors
3. Module 3: Bottom-up stress testing and loss projections with different types of risks and horizons considered:
  - Transition risks:
    - Short-term (3-year projection) including both credit risk and market risk, based on the Network for Greening the Financial System Disorderly scenario (NGFS)
    - Long term (2030-2040-2050), including only credit risk and considering dynamic balance sheet projections based on both the macro situation and the Entity's strategy covering three NGFS scenarios (Hot House, Orderly and Disorderly)
  - Physical risk (credit risk): two one-year projections each, considering a flood scenario and a drought and heat wave scenario
  - The exercise covered operational risk and reputational risk by means of qualitative questionnaires

In order to comply with the methodology required by the ECB in this exercise, a sectoral layer has been incorporated into the loss projection models. These models, together with the sectoral scenarios published by the ECB, have made it possible to make projections reflecting the idiosyncrasies of each sector. In this way, the possible differences in sensitivities to climate change risk in each of them are adequately reflected through differentiated impacts.

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<sup>10</sup> The exercise focused on a list of 22 NACE sectors published by the ECB.



## 8.5. Transition risk

These are the risks pertaining to the transition to a low-carbon economy, and which arise from changes in legislation, the market, consumers, etc., to mitigate and address the requirements derived from climate change.

**Table 108.** Transition Risks

Risk subtype	Risks associated with climate change	Risk description	Time horizon <sup>(1)</sup>
<b>Legal and regulatory</b>	Increase in the cost of CO <sub>2</sub> emissions	Financial risk to BBVA customers whose liquidity or earnings could be harmed from having to face higher costs or, alternatively, higher investments in emission neutralization, resulting from regulatory changes	ST
	Increase in monitoring and tracking requirements	Increased cost of direct emissions from the Bank in its operations	ST
		Increased staffing and economic resources for the study and monitoring of the Group's clients, and tracking of their compliance with environmental requirements	ST
		Uncertainty for financial agents regarding changes and their implementation	ST
	Changes in the regulation of existing products and services	Impairment of client asset positions due to the generation of stranded assets (assets that prior to the end of their economic life are no longer able to earn an economic return)	MT
		Sales drop due to adjustments to offerings, to align with new legal specifications for a product	MT
	Increase in regulatory capital requirements due to risk associated with climate change	Possibly different prudential treatment of financial assets in terms of riskweighted assets based on their exposure to physical and transition risks	MT
		Adverse regulatory changes that may cause certain exposures on BBVA's climate change balance sheet to have higher capital consumption	MT
	Risks of environmental lawsuits	Possible lawsuits against BBVA for not complying with environmental regulations in its business or supply chain	ST
	Risk of lawsuits against third parties	Potential lawsuits for environmental crimes against BBVA clients. BBVA could be impacted by its clients' loss of solvency resulting from an increase in litigation costs	ST
<b>Technological</b>	Replacement of existing products and services with lower-emission alternatives	BBVA clients with a position in sectors that are outperformed by alternative technologies could suffer solvency problems and their ability to cope with their credit commitments could be diminished	ST
	Failed investment in new technologies	Clients that invest in failed technology may go through solvency difficulties and be unable to meet their credit commitments	ST
	Cost of transitioning to low-emission technology	The necessary investments to be made by BBVA clients to change their production models and in R&D can have a negative impact on the balance sheet structure or profitability of said clients if they are not made properly and reduce the ability to meet their credit commitments	ST
		Costs of investing in remodelling and adapting BBVA-owned buildings	ST

Risk subtype	Risks associated with climate change	Risk description	Time horizon <sup>(1)</sup>
Market	Changes in (market) trends, financial agent and consumer preferences	Changes in demand caused by changes in consumer preferences can lead to falls in sales for BBVA clients and result in loss of profits and solvency	ST
		Reduction in demand for certain products can cause price falls that affect the valuation of companies' assets (crude oil reserves, fossil fuel cars, etc.)	ST
		Increased demand for certain products or services may impact on the price of certain raw materials. While this may be reflected in prices, it may lead to lower profits or the loss of BBVA's clients' market share	ST
		Risk of change in the Bank's client preferences for not considering the Bank well positioned in the sustainable segment	ST
		Difficulty or impediments to proper price formation or allocation of financing or investment sums	ST
	Uncertainty in market signals	Forecasts made by research agencies or services to dictate the strategy of entities may not be fulfilled due to abrupt changes in the market caused by changes in regulations or demand	ST
	Increased cost of raw materials	Sharp changes in the price of raw materials, resulting in changes in supply or energy cost, can lead to deteriorating liquidity and declining profits for clients. It can be mitigated with end-product price increases	ST
		BBVA's energy supply cost could also be affected	ST
		Risk of a significant increase in the cost of financing clients with higher exposure to climate change risks, in a way that affects their solvency by making it more difficult for them to cope with their credit commitments	ST
	Financial risks	Risk of worsening the credit rating of clients with exposure to climate change risks, with the associated adverse effects for BBVA	ST
Direct risk of client loss for not meeting what various stakeholders expect from BBVA as regards the climate change challenge and fostering a more inclusive world		ST	
Reputational	Change in consumer preferences	Indirect risk of our clients losing business, which affects their solvency, because they engage in an activity that is not considered sustainable	ST
		Demand from clients to limit our operations' direct impacts	ST
	Stigmatization of a sector	Risk of assets stranded by a sharp change in the perception of a sector, with significant loss of sales	ST
	Investment exclusions in certain sectors due to market pressures	Withdrawal from profitable deals due to reputational risk or a sectoral ban	ST
	Policy implementation	Risk derived from greater scrutiny of activities, policies, objectives and the way in which aspects related to climate change are disclosed. The Group's reputation may be damaged if its efforts to reduce environmental and social risks are considered insufficient.	ST

<sup>(1)</sup> ST: Short Term, <4 years; MT: Medium Term, 4-10 years; LT: Long Term, >10 years.

### 8.5.1. Measurement and integration of transition risk

In 2022, sustainability factors continued to be included as one of the analysis axis in the Action Frameworks of all the sectors included in the taxonomy as High transition risk. In these Action Frameworks, the risks and opportunities of the climate transition are incorporated as an additional factor in the definition of the risk portfolio view, which is carried out annually and where the risk appetite is defined at sector level.

In sectors classified as High transition risk, transition risk assessment criteria have begun to be defined at customer level based on their alignment with the objectives of the Paris Agreement or the ambition and credibility of their transition plans. In some cases, this analysis leads to the definition of specific risk policies with the customer or to the definition of credit risk mitigants.

In addition to the integration into the sectoral frameworks, in 2022, sustainability factors also continued to be systematically integrated into the customer analysis processes for credit origination, enabling their incorporation into decision making.

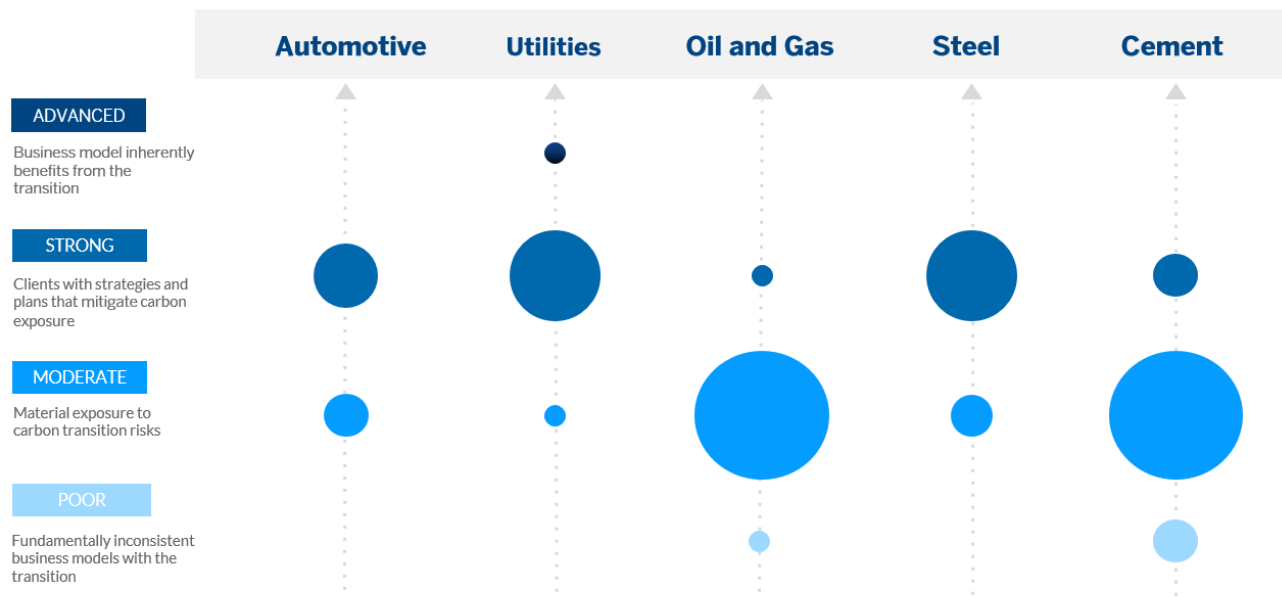
This analysis is performed in an environment integrated in BBVA's systems, called ESG Client Toolkit, which presents a common interface for the Risk and Business teams where the customers' sustainability information is viewed. This interface provides insight into climate transition strategies, governance and climate change risk and opportunity management practices, decarbonization metrics and targets, as well as progress in the management of other ESG aspects material to the customer's sector of activity, its compliance with BBVA's Environmental and Social Framework, existence of social, environmental and ethical controversies and its level of alignment with the objectives of the Paris Agreement and level of emissions financed. This

environment integrates the calculation of the transition risk scorecard, known as the Transition Risk indicator.

Moreover, for those sectors classified as high transition risk, an advanced transition risk scorecard has been developed to incorporate transition risk dimensions in the customer's profile. The scorecard evaluates the company's current low-carbon profile; the levels of regulatory pressure in the geographic areas where it is present; its level of disclosure on climate management in line with TCFD recommendations; and the ambition and maturity of its decarbonization objectives. The result of the scorecard is a valuable tool to better identify the strengths and weaknesses of customers and to define concrete products to help them in the transition to low-carbon business models.

In 2022, versions of the transition scorecard were developed for the steel and cement sectors to join those previously defined for Automotive, Power Generation and Oil & Gas. The number of customers for whom the transition scorecard is available has been significantly expanded and work has begun on integrating it into standard risk management processes. The following image shows the results of the transition scorecard of the main customers in BBVA's Automotive, Oil & Gas, Power Generation, Steel and Cement manufacturing portfolio (the size of the circles represents the number of customers in each category):

Chart 30. Classification of the transition scorecard of main customers



In the retail area the transition risk analysis was focused on the mortgage, auto loan and SME portfolios. In all of them, one of the main aspects that determines the transition risk are carbon emissions associated with each of them. These emissions are associated with the use of fossil fuels or electricity, or dependence on them for the correct operation of the asset or customer. Therefore, the calculation of financed emissions serves as a lever to identify the portfolios that are most sensitive to changes in regulation, fuel prices or depreciation of certain types of "unsustainable" assets. In turn, to mitigate risk, BBVA also acts as a financing facilitator to address the investments required for climate change mitigation and adaptation to climate change with more sustainable forms of life and products.

In the case of mortgages, during 2022 we worked on the correct collection of consumption and emissions data associated with mortgage guarantees, both from real and estimated Energy Efficiency Certificates (EEC), and in Spain we are promoting the standardized and

homogeneous collection of these estimates and real EEC data at sector level. Based on the definition made in 2021 of sustainability criteria to classify when a collateral asset is considered sustainable, BBVA has applied differentiated pricing to loans with sustainability content, such as in the Efficient Home Mortgage, for homes with consumption letter A or B.

In the case of vehicle loans, as well as the type of fuel, mechanisms are being implemented to have information available associated with average emissions of each vehicle based on its make, model and version. As with mortgages, financing with sustainable products is encouraged when the sustainability criteria are met, in this case, for electric or plug-in hybrid cars.

### 8.5.1.1. Financed emissions calculation

Sustainability and the risks derived from climate change have become particularly important at all levels in the

banking sector. The new obligation to disclose prudential information on environmental, social and governance (ESG) and climate change risks has led BBVA to follow the EBA's recommendation and use the PCAF methodology for the measurement and analysis of greenhouse gas (GHG) emissions financed by the entity.

Measuring the amount of greenhouse gases emitted by BBVA's customers is a challenge due to the lack of public information and the complexity of the methodology. The main source of information used for data on emissions and fossil fuel production by customers is Trucost, a subsidiary of S&P Dow Jones Indices LLC. In the absence of available emissions data at the customer level, the PCAF database has been used to obtain the emission factors.

The results presented include BBVA SA (Portugal is not included due to low materiality). A project was opened in the BBVA Group in 2022 and a road map has been established to cover the valuation of all the asset classes defined in the standard and to extend the scope of the

geographies over 2022 and 2023. So far the portfolios valued in BBVA Group are: (1) corporate loans, (2) project finance, (3) mortgages, (4) commercial real estate and (5) cars in Spain.

Direct and indirect emissions have been classified into the three scopes (1, 2 and 3) as indicated in the PCAF 'Standard' document according to the source of emissions and the activity in the organisation's value chain in which the emissions occur.

The main metrics used in the analysis of the results include: (i) The volume of investment financed by the entity subject to PCAF, (ii) The emissions in tonnes of carbon dioxide or equivalent produced by the financed activity, (iii) The economic intensity, which measures the emissions financed by the volume of investment, and (iv) The quality score defined by PCAF, which refers to the level of granularity and quality of the data.

The sectors with the greatest weight in issues financed for the BBVA, S.A. perimeter are detailed below:

**Table 109.** Financed emissions (BBVA S.A., 2022)

Sector	Emissions financed (MtCO <sub>2</sub> e)	Intensity (tCO <sub>2</sub> e/€M)	Score
Agriculture, forestry and fishing	2.0	1116	4.4
Mining and quarrying	4.4	2264	4.9
Manufacturing	16.4	756	4.6
Power generation, gas, steam and air conditioning	5.4	671	4.9
Transport and storage	2.4	448	4.5

(\*) BBVA SA, excluding Portugal branches, which have not been included due to low materiality

PCAF offers various levels of quality scores when calculating financed emissions. The criterion takes into account the availability and reliability of the data used in the calculation by the entities and is measured based on a scale from 1 to 5. This means, that the score is situated at a higher level if the quality of the data is lower (estimates by sector or trends by industry, for example), tending to 5. On the contrary, the best score is obtained when the calculation of financed emissions is based on data on emissions reported and verified at the individual counterparty level (score 1).

In 2023 the BBVA Group is focusing on improving data and increasing its granularity in order to improve the score defined by the PCAF standard. Lines of work are being opened with tactical solutions with a view to 2023 and defining strategic solutions for capturing relevant data in BBVA's systems and defining data quality rules.

The difficulties arising from the scarcity and quality of information for the valuation of financed issues is an issue that the BBVA Group and other entities in the financial sector share in the regular quarterly meetings with the PCAF Global Core Team. Challenges and difficulties are discussed and best practices are shared between the financial industry and the PCAF team with the aim of increasing the homogeneity, transversality

and comparability of the calculations of financed issues in the financial system.

## 8.5.2. Sector breakdown

The table below shows the figures associated with transition risk broken down by sector.

**Table 110.** ESG1. Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (Million euros)

Sector/subsector	Gross carrying amount			Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)		GHG emissions percentage derived from company-specific reporting <sup>(3)</sup>	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity	
	Of which excluded from Paris Agreement <sup>(2)</sup>	Of which stage 2 exposures	Of which non-performing exposures	Of which Stage 2 exposures	Of which non-performing exposures	Of which Scope 3 financed emissions									
Exposures towards sectors that highly contribute to climate change <sup>(1)</sup>	145,396	14,034	12,114	5,548	(4,249)	(705)	(3,196)	34,517,926	17,585,884	0.12 %	111,336	22,114	7,149	4,797	3
<b>A - Agriculture, forestry and fishing</b>	<b>4,972</b>	<b>1</b>	<b>591</b>	<b>182</b>	<b>(150)</b>	<b>(53)</b>	<b>(84)</b>	<b>2,039,757</b>	<b>484,441</b>	—	<b>3,859</b>	<b>924</b>	<b>118</b>	<b>71</b>	<b>3</b>
<b>B - Mining and quarrying</b>	<b>5,530</b>	<b>3,295</b>	<b>103</b>	<b>188</b>	<b>(112)</b>	<b>(7)</b>	<b>(99)</b>	<b>4,416,295</b>	<b>725,846</b>	—	<b>4,816</b>	<b>526</b>	<b>112</b>	<b>76</b>	<b>3</b>
B.05 - Mining of coal and lignite	124	52	1	1	(1)		(1)	306,324	9,839	—	114	9	—	1	3
B.06 - Extraction of crude petroleum and natural gas	2,924	2,800	21	4	(6)	(2)	(2)	2,636,167	564,002	—	2,386	389	111	38	3
B.07 - Mining of metal ores	1,565	40	31	149	(79)	(2)	(76)	239,352	70,296	—	1,551	9	—	5	2
B.08 - Other mining and quarrying	360	—	19	13	(6)	(1)	(5)	77,371	31,297	—	283	69	1	7	3
B.09 - Mining support service activities	557	403	31	21	(20)	(2)	(15)	1,157,081	50,412	—	482	50	—	25	3
<b>C - Manufacturing</b>	<b>47,726</b>	<b>3,018</b>	<b>2,782</b>	<b>1,042</b>	<b>(871)</b>	<b>(128)</b>	<b>(640)</b>	<b>16,449,674</b>	<b>11,313,615</b>	<b>0.03 %</b>	<b>40,434</b>	<b>5,580</b>	<b>266</b>	<b>1,446</b>	<b>3</b>
C.10 - Manufacture of food products	8,584	—	448	208	(155)	(16)	(122)	3,379,252	2,992,671	—	7,336	963	58	227	3
C.11 - Manufacture of beverages	1,836	—	83	22	(13)	(1)	(9)	242,968	182,684	—	1,513	151	15	157	4
C.12 - Manufacture of tobacco products	734	—	—	—	—	—	—	229,081	122,777	—	732	1	—	1	2
C.13 - Manufacture of textiles	1,711	—	172	39	(46)	(21)	(20)	354,616	275,842	—	1,538	145	12	16	2
C.14 - Manufacture of wearing apparel	602	—	70	42	(34)	(5)	(25)	54,234	34,731	—	542	37	5	18	2
C.15 - Manufacture of leather and related products	431	—	43	25	(19)	(3)	(15)	113,332	98,442	—	396	27	2	6	1
C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	406	—	50	17	(15)	(2)	(12)	147,630	79,083	—	336	51	8	11	3
C.17 - Manufacture of pulp, paper and paperboard	1,550	—	86	20	(16)	(2)	(11)	642,275	220,115	—	1,146	374	4	26	3
C.18 - Printing and service activities related to printing	340	—	43	27	(17)	(2)	(13)	52,898	34,678	—	268	43	13	16	4
C.19 - Manufacture of coke oven products	2,495	2,417	342	46	(44)	(15)	(28)	3,487,989	2,186,533	—	1,292	1,070	12	121	4
C.20 - Production of chemicals	4,501	201	124	38	(36)	(3)	(24)	1,475,614	930,598	—	4,023	315	13	150	2
C.21 - Manufacture of pharmaceutical preparations	1,497	—	43	16	(14)	(1)	(11)	267,369	170,358	0.86 %	1,169	294	1	33	3
C.22 - Manufacture of rubber products	1,741	1	110	35	(28)	(4)	(20)	295,555	234,457	—	1,456	203	20	62	3
C.23 - Manufacture of other non-metallic mineral products	2,624	—	151	45	(42)	(8)	(30)	1,096,669	311,717	—	2,135	426	11	52	3
C.24 - Manufacture of basic metals	3,636	101	219	77	(79)	(8)	(47)	1,225,841	687,528	—	3,276	253	5	102	2
C.25 - Manufacture of fabricated metal products, except machinery and equipment	2,219	1	166	191	(153)	(5)	(142)	634,161	514,552	—	1,747	342	31	99	3

Sector/subsector	Gross carrying amount			Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)		GHG emissions percentage derived from company-specific reporting <sup>(3)</sup>	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity	
	Of which excluded from Paris Agreement <sup>(2)</sup>	Of which stage 2 exposures	Of which non-performing exposures	Of which Stage 2 exposures	Of which non-performing exposures	Of which Scope 3 financed emissions									
C.26 - Manufacture of computer, electronic and optical products	3,190	—	24	28	(23)	(2)	(20)	508,048	418,426	—	3,122	44	6	18	1
C.27 - Manufacture of electrical equipment	2,027	—	146	11	(20)	(11)	(6)	417,445	357,639	—	1,708	245	14	60	3
C.28 - Manufacture of machinery and equipment n.e.c.	2,542	297	118	48	(37)	(3)	(30)	596,778	504,772	—	2,377	113	10	42	2
C.29 - Manufacture of motor vehicles, trailers and semi-trailers	2,936	—	166	28	(18)	(4)	(12)	712,630	615,761	—	2,460	304	2	170	3
C.30 - Manufacture of other transport equipment	780	—	68	7	(9)	(4)	(4)	213,453	138,391	—	733	17	—	30	2
C.31 - Manufacture of furniture	306	—	34	28	(21)	(2)	(17)	79,841	44,279	—	222	62	10	12	4
C.32 - Other manufacturing	690	—	48	30	(23)	(5)	(15)	100,926	65,531	—	603	68	6	13	3
C.33 - Repair and installation of machinery and equipment	348	—	28	14	(9)	(1)	(7)	121,069	92,050	—	304	32	8	4	3
<b>D - Electricity, gas, steam and air conditioning supply</b>	<b>16,870</b>	<b>6,522</b>	<b>1,007</b>	<b>651</b>	<b>(523)</b>	<b>(78)</b>	<b>(431)</b>	<b>5,434,559</b>	<b>1,053,718</b>	<b>0.15 %</b>	<b>12,051</b>	<b>2,530</b>	<b>1,300</b>	<b>989</b>	<b>4</b>
D35.1 - Electric power generation, transmission and distribution	14,488	4,501	919	648	(515)	(73)	(430)	4,674,665	740,308	0.01 %	10,549	2,067	895	977	4
D35.11 - Production of electricity	10,558	3,960	763	526	(418)	(67)	(342)	4,042,720	497,372	—	7,577	1,880	841	260	3
D35.2 - Manufacture of gas; distribution of gaseous fuels through mains	2,375	2,021	87	1	(7)	(5)	—	751,655	312,471	1.00 %	1,498	460	405	12	5
D35.3 - Steam and air conditioning supply	7	—	1	2	(1)	—	(1)	8,239	939	—	4	3	—	—	5
<b>E - Water supply; sewerage, waste management and remediation activities</b>	<b>1,027</b>	<b>—</b>	<b>56</b>	<b>20</b>	<b>(15)</b>	<b>(1)</b>	<b>(12)</b>	<b>420,181</b>	<b>165,073</b>	<b>—</b>	<b>634</b>	<b>194</b>	<b>166</b>	<b>33</b>	<b>6</b>
<b>F - Construction</b>	<b>9,331</b>	<b>4</b>	<b>888</b>	<b>855</b>	<b>(563)</b>	<b>(50)</b>	<b>(484)</b>	<b>1,257,567</b>	<b>1,055,824</b>	<b>0.27 %</b>	<b>6,355</b>	<b>880</b>	<b>1,748</b>	<b>348</b>	<b>5</b>
F.41 - Construction of buildings	6,029	1	645	615	(406)	(42)	(343)	433,899	346,565	0.41 %	3,874	526	1,448	181	6
F.42 - Civil engineering	1,654	3	74	124	(87)	(3)	(80)	301,660	264,290	—	1,169	161	243	81	3
F.43 - Specialised construction activities	1,648	—	169	116	(70)	(5)	(61)	522,008	444,969	—	1,312	193	57	86	4
<b>G - Wholesale and retail trade; repair of motor vehicles and motorcycles</b>	<b>30,137</b>	<b>846</b>	<b>2,518</b>	<b>1,163</b>	<b>(883)</b>	<b>(112)</b>	<b>(661)</b>	<b>1,585,359</b>	<b>1,092,283</b>	<b>—</b>	<b>25,857</b>	<b>2,494</b>	<b>374</b>	<b>1,412</b>	<b>3</b>
<b>H - Transportation and storage</b>	<b>11,927</b>	<b>340</b>	<b>1,791</b>	<b>309</b>	<b>(329)</b>	<b>(129)</b>	<b>(172)</b>	<b>2,431,780</b>	<b>1,390,695</b>	<b>1.00 %</b>	<b>8,246</b>	<b>2,096</b>	<b>1,285</b>	<b>300</b>	<b>4</b>
H.49 - Land transport and transport via pipelines	4,603	308	598	173	(129)	(27)	(84)	649,855	526,735	—	3,927	497	42	137	3
H.50 - Water transport	547	—	12	80	(64)	(3)	(59)	459,132	123,542	—	428	115	1	3	3
H.51 - Air transport	587	—	283	11	(12)	(9)	(3)	730,992	220,649	—	397	22	146	22	5
H.52 - Warehousing and support activities for transportation	6,015	32	884	42	(122)	(90)	(24)	585,128	514,386	1.97 %	3,337	1,449	1,095	134	4
H.53 - Postal and courier activities	175	—	14	3	(2)	—	(2)	6,673	5,383	—	157	13	1	4	2
<b>I - Accommodation and food service activities</b>	<b>8,149</b>	<b>—</b>	<b>1,694</b>	<b>453</b>	<b>(307)</b>	<b>(97)</b>	<b>(190)</b>	<b>385,059</b>	<b>288,311</b>	<b>—</b>	<b>4,108</b>	<b>3,331</b>	<b>654</b>	<b>56</b>	<b>5</b>
<b>L - Real estate activities</b>	<b>9,727</b>	<b>8</b>	<b>684</b>	<b>685</b>	<b>(496)</b>	<b>(50)</b>	<b>(423)</b>	<b>97,695</b>	<b>16,078</b>	<b>—</b>	<b>4,976</b>	<b>3,559</b>	<b>1,126</b>	<b>66</b>	<b>6</b>

Sector/subsector	Gross carrying amount			Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)		GHG emissions percentage derived from company-specific reporting <sup>(3)</sup>	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Of which excluded from Paris Agreement <sup>(2)</sup>	Of which stage 2 exposures	Of which non-performing exposures	Of which Stage 2 exposures	Of which non-performing exposures	Of which Scope 3 financed emissions	Of which Scope 3 financed emissions								
Exposures towards sectors other than those that highly contribute to climate change <sup>(1)</sup>	24,235	9	2,647	653	(1,023)	(252)	(527)			17,921	2,801	657	2,856	5	
<b>K - Financial and insurance activities</b>	<b>2,213</b>	<b>—</b>	<b>50</b>	<b>37</b>	<b>(24)</b>	<b>(1)</b>	<b>(20)</b>			<b>1,936</b>	<b>161</b>	<b>24</b>	<b>92</b>	<b>2</b>	
Exposures to other sectors (NACE codes J, M - U)	22,022	9	2,597	616	(999)	(251)	(507)			15,985	2,640	633	2,764	5	
<b>TOTAL</b>	<b>169,631</b>	<b>14,043</b>	<b>14,761</b>	<b>6,201</b>	<b>(5,272)</b>	<b>(957)</b>	<b>(3,723)</b>	<b>34,517,926</b>	<b>17,585,884</b>	<b>0.12 %</b>	<b>129,257</b>	<b>24,915</b>	<b>7,806</b>	<b>7,653</b>	<b>4</b>

(\*1) Accounting portfolios: "At amortised cost", "Fair Value through Other Comprehensive Income (FVOCI)", "Fair Value through P&L" and "Non-tradable at Fair Value through P&L". Instruments: loans and advances, fixed income and equities. Sectors: non-financial corporations.

(\*2) Specific details:

- Information on customers' economic activities has been used based on the local economic classifications of each geography, in the case of Spanish companies, the National Classification of Economic Activities (CNAE), or other equivalent standards in the other geographies where the Group operates. These local classifications by activity are equivalent to the Statistical Classification of Economic Activities of the European Community (NACE). In addition, information provided by risk analysts who review the NACE for individual customers is being used when it does not accurately reflect the main economic activity. This information on customer economic activity is used for the BBVA Group's internal risk management.
- Calculation of GHG emissions only for scope BBVA S.A. loans and advances (excluding Portugal branches, whose emissions have not been measured due to low materiality). For a better understanding of the figures, the appendix includes the same table only for scope BBVA S.A.
- Operational marking excluded from the Paris Agreement(1). The thresholds considered for exclusion from the Paris Agreement on the basis of the Delegated Regulation (EU) 2020/1818 are:
  - Companies deriving 1 % or more of their revenues from the exploration, mining, extraction, distribution or refining of anthracite, hard coal and lignite.
  - Companies deriving 10 % or more of their revenues from the exploration for, extraction, extraction, distribution or refining of liquid fuels.
  - Companies deriving 50 % or more of their revenues from the exploration for, extraction, production or distribution of gaseous fuels.

(\*3) Revenues from customer activities are obtained from S&P data. Revenues from activities indicated in the supplier's "S&P Paris-Aligned & Climate, Transition (PACT) Indices Methodology" are considered. For those cases where no information is available on the client's activity revenues, it is assumed that its revenues come from the main activity (NACE) used for internal management and reporting.

(\*4) Companies engaged in electricity generation take into account the emissions intensity estimated under the PACTA methodology in the logic to be considered as companies excluded from the Paris Agreement.

(\*5) Exposures computed in the numerator of column k ("GHG emissions") are estimated under the PCAF methodology with approach 1a or 1b.

<sup>(1)</sup> In accordance with the Commission delegated regulation EU) 2020/1818 supplementing regulation (EU) 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks -Climate Benchmark Standards Regulation - Recital 6: Sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006.

<sup>(2)</sup> Exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation

<sup>(3)</sup> GHG emissions (column i, "GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty)"): gross carrying amount percentage of the portfolio derived from company-specific reporting

### 8.5.3. Wholesale (corporate and institutional) and business customers banking

In 2022, in the sphere of corporate financing related to sustainability, the Group mobilized globally a total of €14,055 million in financed linked to the achievement of certain environmental and social indicators (KPI-linked) and linked to the customer's ESG rating (ESG-linked) among which are pioneering operations in the food sector.

BBVA continues to work to offer innovative solutions to its customers. For this reason, it has launched a new finance KPI-linked product that focuses on reducing our customers' water footprint (Water Footprint Loan). Transactions have already been formalized with two clients in Spain and Italy. In Spain, BBVA has assumed the role of sustainable coordinator in various landmark operations. Outside Spain, BBVA has participated in several landmark operations, including a few the main syndicated finance deals in Germany, the UK, Belgium, Mexico, Peru and Colombia. The Group continues to work on formats that try to promote positive behaviour from its customers in terms of sustainability, in line with the objectives of the Paris Agreement.

Furthermore, BBVA remained extremely active in the financing of sustainable projects throughout 2022, participating in the channelling of €2,098 million (BBVA participation) of sustainable finance in the following main areas:

- €1,092 million in projects related to climate change (renewable energy, energy efficiency, sustainable mobility, etc.),
- €848 million in projects related to inclusive growth (health sector, telecommunications sector as facilitators of access to new technologies, etc.),
- €158 million in sustainable infrastructure projects.

BBVA has also acted as bookrunner in issues of green (€3,241 million), social (€419 million) and sustainable bonds (€2,489 million) and bonds linked to environmental indicators (€1,710 million) for clients in the United States, Mexico, South America, Asia and Europe, including Spain. The issues have accounted for an estimated total volume handled by BBVA of €7,860 million, where the activity of European customers in 2022 stood out. BBVA continues to support the development of the green bond market in Mexico, Colombia, Argentina and Asia, leading inaugural bond issues in these regions.

In the transactional banking area, BBVA has participated in transactions for an amount of €8,852 million issued under its "CIB framework for sustainable products",

available on the Bank's corporate website. It continues to innovate with new solutions for its customers that try to promote an improvement in aspects related to sustainability. For example, sustainability-linked reverse factoring ('confirming' in Spain) based on a service to evaluate and rank their suppliers based on sustainability criteria. This enables better discounted prices suppliers with a higher score in relation to these criteria, as well as being able to support customers in reducing their scope 3 emissions.

#### 8.5.3.1. Opportunities and risks analysis

BBVA has developed a "Guide to the integration of ESG factors in credit analysis", which identifies the most relevant environmental and social aspects by industry and presents metrics for monitoring the performance of our large corporate customers in these aspects.

In addition, BBVA has defined an internal taxonomy of transition risk in order to classify sectors according to their sensitivity to this type of risk. In the preparation and definition of its sectoral frameworks used in credit approval, metrics are identified that enable the vulnerability of each customer to transition risks to be assessed and this aspect to be integrated into risk and support decisions. Additional information on this point is provided in the chapter "Integrating climate change into risk planning" of this report.

Progress is also being made in developing internal capabilities to classify customers based on their public information, low-carbon business profile and decarbonisation plans.

In the Corporate and Business Banking (CBB) area, BBVA has pioneered the use of data analytics to calculate the carbon footprint of companies and use it to offer valuable solutions to our customers. The carbon footprint calculator for companies provides information on the ESG profile of customers (calculation of the footprint, evolution over time, comparison with the average for the sector and similar companies, etc.), which enables us to categorise our customers and implement advisory actions and targeted commercial actions, personalised and adapted to the profile of each customer.

It has recently evolved with the incorporation of functionalities that make it possible to define energy saving targets, alerts that warn when the target is being reached and a comparison of consumption against other companies in the same sector of activity (CNAE), similar turnover and number of employees on the payroll, indicating the monthly expenditure percentile against other comparable companies.

In addition, BBVA uses natural language processing techniques for large-scale ESG categorization of customers based on public information such as



customers' corporate websites, official records, news, etc. This leadership in digital transformation enriches the business information provided and helps customers to improve their environmental performance.

In addition to promoting sustainability in the businesses it finances, the BBVA Group has joined numerous sustainability initiatives, as detailed in section "2.3.7 Participation in international initiatives" in the chapter "Report on climate change and other environmental and social issues" in the Management Report.

### 8.5.3.2. Direct support to wholesale customers (corporate and institutional) and other enterprises

To complete the sustainable offer, the ESG Advisory service was created in 2020 to assist global customers in their transition toward a sustainable future in all sectors of activity. This involves data-driven assessments and guidance to assist customers in undertaking commitments to align with the Paris Agreement and make progress in terms of the United Nations 2030 Sustainable Agenda.

Dialogue with customers on ESG aspects is based on:

- General description of how sustainability is evolving in the political and financial context, explaining the principal regulatory issues, reporting needs, developments in the financial markets, ESG classifications, etc.
- Industrial specialization in industries which are facing the biggest challenges for a transition to a low-carbon economy. oil and gas, energy, automobile manufacturers and auto parts, as well as other industries such as infrastructures, processed food, beverages, cement, fintechs and pharmaceuticals. Customers are informed on the main challenges and opportunities for the industry and the dialogue is focused on a roadmap for each industry to align with the Paris Agreement commitment. To do that, BBVA provides information for its customers on regulation, technological improvements and the best practices of each industry. The Group also provides a comparative analysis on how similar companies are performing in terms of ESG, different alternatives to improve their sustainable profile, and how to establish specific short- and medium-term objectives.
- Description of sustainable finance products. BBVA offers customers a list of sustainable products and finance (bonds, loans, global transactional banking, global markets, equities, mergers and acquisitions).

BBVA directly supports its global and non-global customers to incorporate ESG practices in their business

strategies and transactions by carrying out one-on-one visits, invitations to events, advice on projects with technology and consulting firms and other information services.

SME banking customers also have publicity information and a catalogue of sustainable products on the transactional banking website. The Group makes available to its customers product information and sustainability advice and explains their impact on the environment (savings in electricity consumption with an energy efficiency loan, fuel savings when arranging a loan to renew the vehicle fleet, etc.).

### 8.5.3.3. Support metrics

Since 2020, CIB bankers have visited close to 500 large global customers and made more than 300 pitches, with the aim of maintaining a dialogue and discussion focused on sustainability (they represent approximately 15% of the client base corporate and institutional). In total, visits have been made to customers from 42 different countries and of these, close to 20% have been visited in more than one geographical area in which BBVA is present.

In 2022, 30 global customers have been contacted through the ESG Advisory service.

Furthermore, in 2022, close to 350 commercial and ESG advisory visits were made to Corporate and Business Banking (CBB) customers, who have been presented with a value proposition with ESG features adapted to their needs and profile (sector, activity, maturity, relationship with BBVA, risk profile, proposed use of funds, product and price). BBVA has a network of sustainable finance experts (fully fledged throughout Spain and under development in other countries) to support our customers in their transition to a greener future.

The development of sustainable business in customers' companies, focused on promoting sustainable mobility, energy efficiency and renewable energy has led to agreements with third parties for the distribution of electric cars, to enhance energy saving projects and the installation of solar panels. Agreements with energy companies and automotive dealerships stand out.

Likewise, events with sustainability-related content have been organized: trends, sustainable finance, risks, opportunities, energy efficiency, renewable energy, clean transportation and agriculture.

Finally, BBVA, in partnership with a company specializing in managing European funds from the Next Generation EU program approved by the European Commission, offers an information service to customers promoting Spanish business projects related to the environmental transition and sustainable mobility, among other topics. More than 65,000 visits were generated on the aid portal

created for this purpose, resulting in more than 2,500 opportunities to provide information in this area.

### 8.5.3.4. Financed emissions concentration

The main global companies with the highest volume of greenhouse gas emissions have a responsibility to reduce their impact on the environment and must contribute to the transition to more sustainable activities. BBVA Group has analysed its exposure to the world's most carbon-intensive companies, which is used as a complement to the sectoral analysis (NACEs) in other sections of this report. To analyse exposure to the top 20 most polluting companies, the financing granted to any of the companies belonging to their group is taken into account. The relationship between corporate groups and companies belonging to them is based on the principles of supervisory reporting on large exposures (COREP Large Exposures) and connected clients.

Reporting on the world's top 20 carbon-intensive companies, according to the EBA's ITS, should be based on accurate and publicly available information. Examples of data sources for identifying the top carbon-emitting companies include the Carbon Majors database, which includes reports from the Carbon Disclosure Project (CDP) and the Climate Accountability Institute, as well as Thomson Reuters.

However, these reports use different criteria to determine the most polluting companies, as they are

based on different perimeters within the value chain to measure greenhouse gas emissions. One of the public lists uses annual Scope 1 and 2 emissions to establish the ranking of the most polluting companies, while another one adds Scope 3 emissions to the above. Therefore, the results are not equivalent, due to the different emission perimeter considered by each of them.

BBVA has information from several recognised data providers<sup>11</sup> in the sector with which it collaborates in order to have the best information on climate issues. This information is based on the questionnaires sent to companies by the Carbon Disclosure Project, an organisation that the EBA<sup>12</sup> mentions as valid for determining a list of the most polluting companies.

Based on this information, a list of the most polluting companies has been drawn up, whose emissions perimeter includes the three scopes (1, 2 and 3 upstream). BBVA understands that this scope is the one that companies can directly manage within their value chain, where they can carry out mitigation actions, accelerate their transition to production processes or improve energy efficiency.

Below are the Group's exposure data for the 20 most carbon-intensive companies worldwide, where it can be seen that there are 6 customers with a grouped balance of 1,384 million euros, representing 0.79% of the exposure to non-financial companies and whose weighted average maturity is 0.39 years.

**Table 111.** ESG4. Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms (Million euros)

Gross carrying amount (aggregate)	Gross carrying amount towards the counterparties compared to total gross carrying amount (aggregate) <sup>(*)</sup>	Of which environmentally sustainable (CCM)	Weighted average maturity	Number of top 20 polluting firms included
1,384	0.79 %		0.39	6

(\*) For counterparties among the top 20 carbon emitting companies in the world, exclusively considering non-financial corporates in the investment portfolio of the entity

(\*\*) Accounting portfolios: "At amortised cost", "Fair Value through Other Comprehensive Income (FVOCI)", "Fair Value through P&L" and "Non-tradable at Fair Value through Profit or Loss". Instruments: loans, fixed income and equities. Sectors: non-financial corporations.

### 8.5.4. Retail banking

BBVA has developed data-based tools and solutions that help retail customers estimate CO<sub>2</sub> emissions that they can generate in their daily activities, with the aim of promoting more sustainable habits that try to contribute to the reduction of their emissions.

Since 2021, BBVA in Spain has used data analytics to calculate the carbon footprint of its private customers, obtaining an approximate estimate of CO<sub>2</sub> emissions into the atmosphere, based on gas and electricity bills and fuel expenses. During 2022, this analysis has been completed with new functionalities such as the list of CO<sub>2</sub>

emissions by transaction and category, including the purchase of tickets for additional means of transport, such as planes, trains, taxis, transport vehicles with drivers or public transport. as well as information on possible sustainable solutions such as the installation of solar panels through the alliance with a large Spanish company in the energy sector. In Turkey there is also a tool for private customers to calculate their carbon footprint and in Mexico it was launched reusing global components to reduce time to market.

The Group is working to make various products available to retail customers, both investment and financing, that seek to encourage a positive behavior in terms of sustainability, adapting to the situation of the

<sup>11</sup> For emissions information, information from Trucost —a subsidiary of S&P Dow Jones Indices LLC— has been used.

<sup>12</sup> In any case, BBVA has analysed the public lists of CDP and Thomson Reuters in order to include the most complete information possible in this exercise of analysing the most polluting companies. According to the CDP list, there are 9 customers with a grouped balance of 3,833 million euros, representing 2.18%, with an average maturity of 2.63 years. According to the Thomson Reuters list there are 8 clients with a bundled balance of 2,997 million euros, representing 1.71%, with an average maturity of 1.64 years.

geographical areas in which the Group operates. Thus, the offer of sustainable solutions in the different countries seeks, among others, to support energy efficiency and the decarbonisation of the economy, with products such as financing lines for the acquisition of hybrid and electric vehicles, or with green mortgages for homes with high energy ratings or loans to improve the energy efficiency of homes.

In 2021, BBVA in Spain already made sustainable formats available to its private customers for a large part of the products it markets. In 2022, specifically, €198.9 million were channelled for the acquisition of hybrid and electric vehicles and €870 million in green mortgages. Also, products have been incorporated in various geographical areas of its footprint that offer sustainable alternatives for financing electric cars and mortgages for housing with a high energy rating (in the latter case, except in some jurisdictions such as Argentina). Also, the first green financing for SMEs has been launched, especially in Colombia, where this segment is financed from solar panels to sustainable agro projects. Likewise, alliances have been developed to promote energy efficiency in homes, such as the alliance with a large company in the energy sector in Spain to finance solar panels and alliances with a retail chain in Mexico and household appliance chains in Argentina and Colombia for the financing of household appliances with an efficient label.

In 2022, BBVA Group contributed to channelling sustainable business through solutions for retail customers in a total of €5,970 million in the following geographical areas: €2,921 million in Spain; €767 million in Mexico; €564 million in Turkey; €81 million in Colombia; €121 million in Peru; €50 million in Argentina, €1,466 million through the BBVA Microfinance Foundation.

#### 8.5.4.1. Opportunities and risks analysis

BBVA has been pioneer in Spain to offer the calculation of the carbon footprint to its individual customers thanks to its digital and data analytics capabilities. This service raises the awareness of the Bank's individual customers on the impact its actions have on the environment and help them transition to a more sustainable world. When the characteristics of the property (surface area, energy certification, etc.) are added, BBVA can assess energy efficiency improvements and offer information, for example, about simple and sustainable changes in habits that allow a reduction of utility bills. The cost of an electric vehicle can be compared to a gasoline vehicle so that the user can see the economic advantages of opting for a more sustainable transport solution. Customers will also be able to view and/or subscribe to any of the sustainable products offered by BBVA. The Bank provides its customers with the Valora tool, which allows them to have an estimated automatic appraisal of their real estate and transportation assets.

#### 8.5.4.2. Direct support to retail customers

BBVA supports its customers in incorporating ESG practices through one-on-one meetings and visits, mass participation events or project advice with technology and consulting firms. BBVA provides information to its customers through digital channels and through the commercial branch network. A comprehensive service model that ranges from awareness raising, project design and public aid management.

The managers, mobile banking and the commercial website offer a wide catalogue of sustainable investment and financing products, suitable for each of the geographies in which they operate and with a focus, mainly, on sustainable mobility, home renovation with energy efficiency and mortgage associated with energy efficiency. In Spain, a sustainable alternative is already offered for most of the existing traditional products for SMEs and individuals.

BBVA makes information on sustainability available to customers in different digital media. On the corporate website they can find news and articles, on the website and in the mobile banking app they can find information about the sustainable products offered by the bank and even hire them. In addition, numerous tips are included on how to reduce carbon emissions and also achieve economic savings by reducing energy consumption, also offering different savings simulators when using different sustainable goods, an electric car, efficient appliances, condensing boilers or small changes in day-to-day habits such as changing the room temperature or installing LED lights.

#### 8.5.4.3. Support metrics

In 2022, the carbon footprint calculator received 867,535 visits. 34 events have been organized in various formats (webinars, writing tables, forums, breakfasts, meetings, etc.) that have impacted 33,872 people: 1,643 in-person attendees (5%), 1,691 online (5%), 28,039 streaming (83 %) and 2,499 views of the post-event video (7%). They include content related to sustainability: trends, sustainable finance, achievement of SDGs, risks, opportunities, gender equality and diversity and inclusion policies, energy efficiency, renewable energy, sustainable transport and agriculture.

#### 8.5.4.4. Mortgage loans detail

EPC (Energy Performance Certificate) labelling is a classification of buildings according to their energy performance. It must be calculated in accordance with the methodology adopted by Directive 2010/31/EU - Energy Performance of Buildings Directive-EPBD.

The BBVA Group's exposures secured by real estate, as well as those from foreclosure processes or received in payment of debts, are distributed according to their

geographical diversification, and due to the same, it has a presence in countries outside the scope of application of said Directive. Therefore, the standards for assessing the energy consumption intensity or energy efficiency of real estate in each region have different levels of maturity, which adds complexity when trying to provide a uniform view from a global perspective.

Most of the buildings are business-related in Spain, where the EPC is the standard approach for assessing energy efficiency. According to the applicable regulations in Spain, the assessment and generation of an energy certificate in the sale and purchase of a residential property has been mandatory since 2013. BBVA S.A. has implemented in recent years the necessary changes to collect information on energy certificates for new mortgage loans in the business in Spain and, in addition, it has a process for obtaining information on the pre-existing portfolio through EPC data provided by an independent appraisal company approved in Spain, thus covering most of the exposure. In this regard, the EPC information was obtained from existing public registers and, if the information was not available, on the basis of a model developed by this appraisal company to estimate the intensity of energy consumption based on the nearest neighbourhood, geographical area, year of construction and floor of the building. This model has been analysed and approved by BBVA's Internal Validation team.

It should be noted that due to the type of property in question, the issuing of EPC labels is not compulsory, as is the case for building plots, storage rooms or independent garages, for which no information or estimated energy consumption (kWh/m<sup>2</sup>/year) has been obtained.

For properties within the banking business in Spain, information on estimated energy consumption (kWh/m<sup>2</sup>/year) has been included whenever an EPC label is available and in those cases where the external model calculates an estimated EPC.

In Turkey, energy certificates have been collected from existing property valuation documents in the country since 2017. Since January 2023, the procurement process has been modified to automatically collect label and consumption information.

In Mexico, two projects are underway to obtain energy efficiency information. On the one hand, the contracting process will be modified to automatically collect information on new operations and, on the other hand, the most optimal procedure for rating the current portfolio is being analysed. In both cases, the objective is to have information on energy consumption (kWh/m<sup>2</sup>).

In Colombia, an initiative is expected to be launched during the first half of 2023, with the aim of managing the collection of the emissions metric (kgCO<sub>2</sub>/m<sup>2</sup>/year) for each guarantee and from this, to be able to generate the consumption metric (kWh/m<sup>2</sup>/year) applying the

country's energy mix. In Peru, a diagnosis is being carried out to incorporate energy efficiency metrics in the local guarantee application.

BBVA is actively working to identify key local factors to determine the degree of sustainability of buildings. Some of these factors are associated with the water resources required or waste management, as the energy efficiency of the buildings is of different importance depending on the climate of the countries in which it operates.

**Table 112.** ESG2. Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral (Million euros)

	Total gross carrying amount amount															Of which level of energy efficiency (EP score in kWh/m <sup>2</sup> of collateral) estimated
	Level of energy efficiency (EP score in kWh/m <sup>2</sup> of collateral)							Level of energy efficiency (EPC label of collateral) <sup>(1)</sup>							Without EPC label of collateral	
	0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500	A	B	C	D	E	F	G			
<b>Total EU area</b>	<b>82,682</b>	<b>8,935</b>	<b>27,231</b>	<b>18,171</b>	<b>3,995</b>	<b>1,150</b>	<b>588</b>	<b>1,023</b>	<b>1,421</b>	<b>1,978</b>	<b>6,026</b>	<b>34,792</b>	<b>5,357</b>	<b>8,231</b>	<b>23,855</b>	<b>5 %</b>
Of which Loans collateralised by commercial immovable property	10,645	1,188	1,534	950	310	104	56	245	418	686	693	1,340	313	392	6,559	1 %
Of which Loans collateralised by residential immovable property	71,318	7,747	25,697	17,221	3,685	1,046	532	778	1,003	1,292	5,333	33,452	5,044	7,839	16,577	7 %
Of which Collateral obtained by taking possession: residential and commercial immovable properties	719	—	—	—	—	—	—	—	—	—	—	—	—	—	719	—
Of which Level of energy efficiency (EP score in kWh/m <sup>2</sup> of collateral) estimated	1,248	260	447	417	102	19	3								1,248	100 %
<b>Total non-EU area</b>	<b>36,863</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>5</b>	<b>174</b>	<b>428</b>	<b>14</b>	<b>6</b>	<b>1</b>	<b>—</b>	<b>36,234</b>	<b>—</b>
Of which Loans collateralised by commercial immovable property	14,291	—	—	—	—	—	—	4	94	191	2	3	—	—	13,997	—
Of which Loans collateralised by residential immovable property	22,259	—	—	—	—	—	—	1	80	237	12	3	1	—	21,924	—
Of which Collateral obtained by taking possession: residential and commercial immovable properties	313	—	—	—	—	—	—	—	—	—	—	—	—	—	313	—
Of which Level of energy efficiency (EP score in kWh/m <sup>2</sup> of collateral) estimated	—	—	—	—	—	—	—								—	—

(\*) Accounting portfolios: "At amortised cost", "Fair Value through Other Comprehensive Income (FVOCI)", "Fair Value through P&L" and "Non-marketable at Fair Value through Profit or Loss". Loans secured by real estate are in the "At amortised cost" portfolio. Instruments: loans secured by residential real estate, commercial real estate and foreclosed real estate collateral. Sectors: non-financial corporations and households. Data on the Group's prudential perimeter, where energy efficiency information is available mainly in the Spanish and Turkish business.

<sup>(1)</sup> The EPC labels included are the certified labels obtained from the client, from the registry, provided by the appraiser and estimated by methodology based on certified homes belonging to the same building.

## 8.6. Physical risk

Physical risks arise from climate change and can be caused by more frequent and severe extreme weather events or long-term weather changes, and can lead to physical damage to company assets, disruptions in the supply chain or increased costs to cope with them.

Physical risk is associated with the location of assets and vulnerability based on their activity and can materialize in credit risk through different transmission channels, having an impact in multiple ways such as, for example,

on the purchasing power of customers, business productivity, market demand or the value of assets. In 2022, BBVA learnt a great deal in this field and its level of maturity and knowledge of the different methodologies for the assessment of physical risk has advanced considerably. However, these advances represent a first approximation due to the complexity of carrying out an assessment of the exposure and impacts of physical risks.

**Table 113.** Physical Risks

Risk subtype	Risks associated with climate change	Risk description	Time horizon <sup>(1)</sup>
Acute risks	Increased severity of extreme weather events, such as cyclones and flooding	Reduced revenue from decreased production capacity (e.g. transport difficulties and supply chain disruptions)	MT
		Direct losses from asset damage (BBVA and clients)	MT
		Increased cost of insurance	MT
	Business continuity problems	Damage to BBVA facilities from environmental catastrophes that hinder normal service provision	MT
Chronic risks	Changes in precipitation patterns and extreme variability weather patterns	Loss of value of clients' assets (guarantees) because they are located in areas with water supply problems (desertification)	MT
		Increases in clients' operating costs (investments in agriculture)	MT
		Lower renewables production (hydro and wind)	MT
	Rising average temperatures	Population movements that can lead to depression in certain areas, accompanied by loss of business	LT
	Sea level rise	Threats to client assets that can lead to loss of profits and their solvency	LT

<sup>(1)</sup> ST: Short Term, <4 years; MT: Medium Term, 4-10 years; LT: Long Term, >10 years.

### 8.6.1. Physical risk classification and measurement

BBVA has continued to make progress in assessing the materiality of chronic and acute risks in the different portfolios. The analysis of physical risk is articulated around three pillars: threat, exposure and vulnerability.

In terms of hazard, ThinkHazard methodology of the World Bank has been used. This tool indicates the risk levels of different natural hazards, both acute and chronic, at a global level and provides a different level of detail depending on the geographical area of the planet. These risk levels are calculated using historical data based on the frequency of occurrence and intensity of different natural hazards. For this first assessment of physical risks, four acute hazards (extreme heat, cyclone, flood and fire) and two chronic hazards (sea level rise and drought) have been considered.

Importantly, the information used is provided by a range of private, academic and public organisations. In addition, work has been done to increase the granularity of the risk levels provided by ThinkHazard, using scientific and technical criteria, for the most relevant hazards in Spain, Peru, Mexico and Colombia. Specifically, the level of risk provided for tropical cyclones, coastal and river flooding and forest fires has been adjusted based on historical information on frequency of occurrence and severity.

For the vulnerability component, the sectoral granularity of the analysis for Wholesale Banking and SMEs has been increased for 2022. This analysis is based on 8 indicators that capture the level of vulnerability of assets and processes, labour productivity, energy supply, transport routes, and natural resources, as well as indirect vulnerability due to the use of raw materials and changes in demand as a result of physical risks. In this way, the sensitivity of each sector to climate hazards is assessed indirectly by analysing its sensitivity to these indicators, resulting in a vulnerability score for each sub-sector. This methodology follows the best practices identified by the Taskforce on Climate-related Financial Disclosure (TCFD) and UNEP-FI. As a result, a qualitative classification of (sub)sectors is generated according to the potential impact on their business model and incidence of chronic or acute changes in climate.

Threat and vulnerability scores are applied at the contract level based on the location to identify prone exposure to physical risk.

Geographically, Mexico and Argentina are the countries with the highest exposure to physical risks, both collateral and non-financial companies. On the other hand, the sectors with the highest exposure to physical risks are Agriculture, Mining and extractive activities with average maturity periods of less than 5 years and Electricity where two thirds of the portfolio has a maturity period of less than 10 years.

The advances achieved during 2022 have allowed a first approximation, based on international tools and methodologies, of the exposure prone to chronic and acute risks. The implementation of an action plan has also begun, the objective of which is to have the analytical capabilities and data necessary to integrate physical risks into risk policies and processes.

As of 2023, work will be done to have precise and standardized information on the locations of the guarantees and assets of our clients from all portfolios, to analyze the exposure of the wholesale and retail portfolios to the different chronic and acute hazards based on climate scenarios, and in calculating the financial impacts of perils at the customer and asset level.

## **8.6.2. Exposure towards physical risk**

The table below shows the figures of exposures subject to potential physical risk associated with climate change.

**Table 114.** ESG5. Banking book - Climate change physical risk: Exposures subject to physical risk (Million euros)

	Gross carrying amount											Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	of which exposures sensitive to impact from climate change physical events													
	Breakdown by maturity bucket						of which exposures sensitive to impact from chronic climate change events	of which exposures sensitive to impact from acute climate change events	of which exposures sensitive to impact both from chronic and acute climate change events	Of which Stage 2 exposures	Of which non-performing exposures	of which Stage 2 exposures	Of which non-performing exposures	
Total	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity									
A - Agriculture, forestry and fishing	4,972	2,850	625	13	68	3	194	1,428	1,934	498	111	-109	-46	-54
B - Mining and quarrying	5,530	2,628	69	—	48	2	202	2,368	175	60	165	-91	-3	-84
C - Manufacturing	47,726	8,164	1,332	21	370	3	5,282	3,960	645	831	261	-210	-30	-165
D - Electricity, gas, steam and air conditioning supply	16,870	5,187	1,167	831	727	5	1,147	2,201	4,564	625	134	-142	-42	-93
E - Water supply; sewerage, waste management and remediation activities	1,027	2	—	—	—	4	1	1	—	—	1	—	—	—
F - Construction	9,331	1,447	142	53	61	3	49	1,544	110	157	132	-85	-4	-75
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	30,137	431	53	44	1	4	46	383	100	74	50	-39	-4	-35
H - Transportation and storage	11,927	78	11	8	2	4	5	84	10	34	3	-4	-3	-1
L - Real estate activities	9,727	1,187	1,233	112	10	6	79	2,202	261	121	16	-29	-11	-11
Loans collateralised by residential immovable property	93,577	506	1,370	7,627	2,713	17	2,643	8,104	1,469	1,334	595	-200	-31	-156
Loans collateralised by commercial immovable property	24,936	2,851	2,873	455	22	5	751	4,476	974	728	214	-180	-40	-128
Repossessed colaterals	1,032	—	—	—	158	20	27	113	18	—	—	—	—	—
I - Accommodation and food service activities	8,149	2,024	1,876	166	40	5	384	3,029	693	802	213	-136	-36	-89
J - Information and communication	9,952	15	1	—	2	2	1	16	1	1	—	—	—	—
K - Financial and insurance activities	2,213	6	—	1	1	3	—	4	4	—	—	—	—	—
Other relevant sectors	12,070	347	89	19	13	4	29	348	91	83	34	-24	-8	-15

(\*) Accounting portfolios: "At amortised cost", "Fair Value through Other Comprehensive Income (FVOCI)", "Fair Value through P&L" and "Non-tradable at Fair Value through Profit or Loss". Instruments: loans, fixed income and equities. In addition, loans secured by residential real estate, commercial real estate and foreclosed real estate collateral. Sectors: non-financial corporations and households (only for the part of loans secured by residential real estate). Specific details: Main activity code (NACE) information used for internal management and reporting purposes. In other relevant sectors all other NACE activities are included until the perimeter is complete.



## 8.7. Other climate and environmental risks

The General Sustainability Policy includes the protection of natural capital as one of its main focuses of action. Specifically, BBVA recognises the need to protect ecosystemic services and natural assets as well as natural ecological species and processes, and considers biodiversity and natural capital in its relationship with its customers.

The Environmental and Social Framework includes a series of general exclusions and prohibited activities in relation to biodiversity loss and the fight against deforestation:

- Projects that would put at risk UNESCO World Heritage sites, Ramsar-listed wetlands, and Alliance for Zero Extinction sites and International Union for Conservation of Nature category I-IV sites.
- Projects involving resettlement or infringement of the rights of indigenous or vulnerable groups without their free, prior and informed consent.
- Projects related to deforestation: burning of natural ecosystems for the development of agricultural or livestock projects, removal of forests with high conservation value and high carbon content, palm oil farms not certified or not in the process of certification by the Roundtable for Sustainable Palm Oil (RSPO), palm oil farms in swamps and peat-rich areas, and from 2022, projects in International Union for Conservation of Nature (IUCN) key biodiversity areas of the Brazilian Amazon and Cerrado.

If BBVA concludes that any of the circumstances described in the prohibited activities or general exclusions apply to a project, it will not participate in that project.

In the case of natural capital, BBVA has identified the levels of impact and dependencies by sector following the methodology of the ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) tool developed by the Natural Capital Finance Alliance in collaboration with UNEP-WCMC. This tool provides information on how the activity of the sub-sectors that BBVA finances depends on nature and provides environmental information by sector. BBVA has carried out an impact analysis using UNEP-FI's Impact Tool

Analysis, which assesses the impacts related to natural capital in most of the countries in which BBVA is present.

Following international reference frameworks such as the SASB Materiality Map and rating agencies, BBVA has identified the sub-sectors of activity it finances and the most relevant environmental and social factors of each one, including aspects such as pollution and waste, biodiversity and land use or water resource management. This exercise is included in the "Sector Guide for the integration of sustainability factors in credit analysis", which defines the most common metrics and reference thresholds in relation to environmental aspects and is used as a support tool in the admission process.

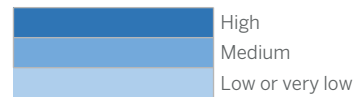
As a member of the TNFD Forum (Task Force on Nature-related Financial Disclosures or TNFD) since 2022, BBVA is following the publication of the different versions of the framework for the management and disclosure of nature-related risks and opportunities and the guidelines published for market participants to start pilot testing for reporting under the TNFD reporting framework that is scheduled to be published in 2023.

As solutions, BBVA has developed a series of financing products aimed at generating positive impacts on the assets that make up natural capital. In 2022, BBVA has formalised the first syndicated credit line linked to indicators related to the reduction of the water footprint (Water Footprint Loan), for an amount of 2,500 million euros and with a total of 24 financial institutions where BBVA has acted as a sustainable coordinator (key indicators: water consumption in energy generation and CDP Water Score). Also in 2022, BBVA and an Italian company signed a Water Footprint Loan for 50 million euros (key indicators: water extraction and water leakage). BBVA has also been financing companies through sustainability-linked loans that include water-related KPIs in some key sectors that are highly dependent on this natural resource. In 2020, BBVA Mexico signed the first loan linked to KPIs with a cement company in Latin America and in 2021, with a data centre, applications and services company.

BBVA has developed internal standards to promote the financing of sustainable fishing activities with the MSC and ASC (sustainable blue finance) labels and also supports reforestation projects to offset its environmental footprint.

**Table 115.** Natural capital dependency. Heat mapping of portfolios

	Natural capital dependency	EAD (billions of euros)
Agribusiness	High	2.2
Paper & forest products	High	1.3
Integrated Oil & Gas	High	4
Water utilities	High	3.2
Other Food, beverage and tobacco	Medium	16
Mining	Medium	3.2
Marine transportation	Medium	0.4
Road and rail transportation	Medium	2.7
Transportation infrastructure operators	Medium	3.1
Textiles, apparel and luxury goods	Medium	2.9
Power generation	Medium	16.2
Air transportation	Medium	1.1
Steel & Processed Metals	Medium	4.7
Other	Low or very low	91.3
<b>Total</b>		<b>152.3</b>



The activities with the most significant dependencies on natural capital are agribusiness, oil & gas, forestry and paper products, food, beverages and tobacco, and mining. While water, flood and storm protection and climate regulation are the most important ecosystem services on which our loan portfolio depends, confirming our current environmental priorities.

Given the importance to BBVA's loan portfolio and the dependence on water resources in the Power Generation sector, the Group has built a framework for conducting detailed water stress risk assessments at the customer level. This assessment was carried out using the locations of its customer's power generation plants, the Aqueduct Water Risk Atlas tool of the World Resources Institute (WRI), which identifies water risk at asset locations, and the ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) tool developed by the Natural Capital Finance Alliance, which details water impacts and dependencies.

The results of the assessment are a water stress risk scorecard of the customer and of the assets. The results of this assessment lead to the conclusion that water is a key parameter when assessing the credit risk of customers, considering that their activity may be negatively affected by the physical effects of climate change in the coming years.

## 8.8. Social risk

### 8.8.1. Management of indirect environmental and social impacts

BBVA addresses environmental, natural capital and social risks from the perspective of impact prevention and mitigation. To do this, it uses tools such as its Environmental and Social Framework or the Equator Principles, which have an environmental and social focus.

### 8.8.2. Environmental and social framework

In 2020, the Environmental and Social Framework for the mining, agribusiness, energy, infrastructure and defense sectors (hereinafter the Framework) was approved.

The Framework, which is reviewed annually, provides a series of rules and exclusions in relation to transactions and clients operating in these five sectors, as they are considered to have a greater social and environmental impact. The Framework is public and available on the BBVA shareholders and investors website.

To carry out its effective implementation, BBVA receives advice from an independent external expert who performs due diligence on the clients covered by the Framework in order to mitigate the risks associated with these sectors.

For the annual Framework review, new market trends, the expectations of stakeholders and the strengthening of the implementation procedures are considered.

In the last review, dated October 2022, the main new features were as follows:

- Elimination of exceptions to coal bans for countries with high energy dependence and no viable alternatives.
- New restriction in the energy sector, with a prohibition to finance "new projects or expansion of existing oil and gas exploration, drilling and extraction projects (conventional and non-conventional)."
- New restriction in the agribusiness sector, with the prohibition to finance "projects in key biodiversity areas of the International Union for Conservation of Nature (IUCN), the Brazilian Amazon and the Cerrado."
- Inclusion of new biodiversity and anti-deforestation best practices for clients, such as benchmark standards.

### 8.8.3. Due diligence

#### 8.8.3.1. Due diligence process on wholesale (corporate and institutional) and business customers banking

In the area of customer knowledge and assessment, known as Know Your Customer (hereinafter KYC) and based on the information provided by an external ESG expert advisor, BBVA has implemented a process to check that new wholesale customers covered by the Environmental and Social Framework do not incur in any of the general exclusions or specific prohibitions defined for certain sectors. In the event of any controversy or non-compliance, a specific analysis of the situation would be carried out, with the possibility of adopting a customer dialogue and support plan with measures aimed at correcting the situation.

In addition, specific sustainability questionnaires have been created for each industry, so that risk managers and specialists can gain greater knowledge of the environmental, social and governance performance of large corporate and institutional customers, linked to the time of preparation or renewal of the customer's Financial Programme, and enable them to make the best decisions based on data.

#### 8.8.3.1.1. Exclusions

As part of the corporate strategy, BBVA includes in its Environmental and Social Framework the general exclusions and prohibited activities applicable to the mining, agribusiness, energy, infrastructure and defense sectors. BBVA will not support the provision of financial services to customers covered by the Framework when it verifies the existence of sufficient evidence that they or their transactions are involved in the prohibited activities provided for in the Framework for the defense sector. In the rest of the sectors (mining, energy, agribusiness and infrastructure), a specific analysis of the situation will be carried out, which may mean not starting the relationship, or adopting a plan for dialogue and customer support with measures aimed at understanding and try to correct the situation.

Since 2021, more than 300 business groups under this framework were analysed. BBVA initiated a dialogue and accompaniment plan with 17 groups. A review process has been carried out, based on best efforts, of the stock of customers for the progressive implementation of the measures provided for therein.

### 8.8.3.2. Due diligence process on retail banking

BBVA identifies, accredits and documents the activity carried out by our customers through the Know Your Customer process known as KYC. This KYC process, which is renewed periodically, has been designed and implemented through a risk approach and allows a better knowledge of customers, their transactions and segmentation, channels, jurisdictions and transaction monitoring.

The retail segment is also promoting the inclusive growth line, mobilizing resources for the investment needed to build infrastructure and support inclusive economic development. This line includes financing (via cards, loans, credits or mortgage financing) to individuals who meet the income thresholds and/or vulnerability criteria established for each country. The social mortgage, which is aimed at segments of the population with lower purchasing power and in which the State subsidizes part of the total amount of the mortgage financing, stands out.

Lastly, as mentioned in previous sections, the BBVA Group is committed to sustainable development, which is one of the defining elements of BBVA's business model. In this regard, the General Retail Credit Risk Policy establishes that one of the general principles governing retail credit risk management in the BBVA Group is respect for equality and diversity, avoiding unfair bias in access to financial products for reasons such as gender, color, ethnic origin, disability, religion, sexual orientation or political opinion.

Additionally, the General Risk Management Model Policy establishes that in order to avoid unfair bias in access to financial products based on gender, color, ethnic origin, disability, religion, sexual orientation or political opinion, none of these variables will be included in the admission and pricing models.

BBVA also has financing formulas for entrepreneurs, individuals or legal entities, including micro-enterprises, that meet certain conditions, such as deadlines for starting up economic activity or certain turnover thresholds. In this segment, BBVA's programme for financing women entrepreneurs in Turkey is relevant, so that women with small and medium-sized businesses can access loans under preferential conditions subject to the terms set out in the programme.

### 8.8.4. Equator Principles

Energy, transport and social service infrastructures, which drive economic development and create jobs, can have an impact on the environment and society. BBVA, evaluates the financing of projects to reduce and avoid negative impacts and, in this way, enhance their economic, social and environmental value.

All decisions to finance projects are based on the criterion of principle-aligned returns. This implies meeting stakeholder expectations, considering the social demand for the fight against climate change and respect for human rights.

Since 2004 BBVA has adhered to the Equator Principles (EP), which include a range of standards for managing environmental and social risk in project finance, which were developed on the basis of the International Finance Corporation's (IFC) Policy and Performance Standards on Social and Environmental Sustainability and the World Bank's General Guidelines on Environment, Health and Safety.

The EPs apply globally to all industrial sectors and to five financial products under the terms set forth in the principles: (I) project finance advisory; (II) project finance; (III) project-related corporate loans; (IV) project-related bridge loans; and (V) project-related refinancing and project-related acquisition.

Project assessment consists of subjecting each transaction to an environmental and social due diligence process, including potential human rights impacts. The first step is the allocation of a category (A, B or C), which reflects the project's level of risk.

- Category A: projects with potentially significant adverse social or environmental impacts that are irreversible or unprecedented.
- Category B: projects with potentially limited adverse social and environmental impacts that are few in number, site-specific, reversible and readily addressed through mitigation measures.
- Category C: projects with minimal or no social or environmental impacts.

Reviewing the documentation provided by the customer and independent advisers is a way to assess compliance with the requirements established in the EPs, according to the project category. Finance agreements include the client's environmental and social obligations. The application of the EPs at BBVA is integrated into the internal processes for structuring, acceptance and monitoring of transactions.

BBVA has due diligence procedures associated with the financing of projects whose execution affects indigenous peoples. When this circumstance occurs, the prior free and informed consent is required from these communities, irrespective of the geographic location of the project, including for projects in countries where a robust legislative system is presupposed, which ensures the protection of the environment and the social rights of its inhabitants. When identifying potential risks, the operation must include an effective form of management of these risks, as well as operational mechanisms to support claims management.

The data of the financed transactions that were analyzed under the EP criteria during 2022 and 2021 are shown below:

**Table 116.** Operational data analysed according to the Equator Principles criteria

	Category A			Category B			Category C	
	2022	2021		2022	2021		2022	2021
Number of transactions	4	2	Number of transactions	12	23	Number of transactions	9	17
Total amount (millions of euros)	15,776.0	2,227.6	Total amount (millions of euros)	14,280.8	10,954.5	Total amount (millions of euros)	15,937.7	5,466.1
Amount financed by BBVA (millions of euros)	604.1	109.4	Amount financed by BBVA (millions of euros)	1,219.0	1,714.1	Amount financed by BBVA (millions of euros)	993.7	756.3

Note: In 2021, the number of financed operations analysed reached 42, including 20 analysed under the scope of the Equator Principles, and the remaining 22 were voluntarily analysed by BBVA under the same criteria. In 2022, only operations under the scope of application of the Equator Principles are analysed.

### 8.8.5. Commitment to Human Rights

BBVA is committed to respecting internationally recognized human rights. This commitment applies to the relationships that BBVA establishes with its customers, suppliers, employees and with the communities in which it carries out its business and activities.

BBVA has had a commitment to human rights since 2007, which has been updated in 2022, framed in the Group's General Sustainability Policy and which is aligned with its Code of Conduct. This commitment takes the United Nations Guiding Principles on Business and Human Rights as a point of reference.

In 2022, BBVA has adopted an active role in the field of future community legislative initiatives. Within the framework of its participation in the Working Groups on Sustainable Finance of the European Banking Federation (EBF), in the Association of European Financial Markets and in the European Financial Services Roundtable, BBVA contributes to the preparation of sectoral positions on various community initiatives. In this context, it is worth noting the work of dialog and support with the European regulator in relation to the proposal for a directive on due diligence of companies in terms of sustainability. In addition, BBVA is also part of the EBF's advisory group on diversity and inclusion.

BBVA identifies the social and labor risks that derive from its activity in the different areas and countries in which it operates in order to manage its possible impacts through processes specifically designed for this purpose or through existing processes that integrate the human rights perspective. For additional information regarding the Equator Principles, see the chapter "Management of indirect environmental and social impacts" of this report.

On the other hand, the methodology for evaluating BBVA's reputational risk, which is mentioned in the

"Reputational risk" section of the "Risk management" chapter, is an essential complement to this impact management.

In 2018, BBVA carried out a first human rights due diligence process. In 2021, a new due diligence process was carried out in order to prevent, mitigate and remedy potential impacts on human rights in line with the United Nations Guiding Principles on Business and Human Rights. The main objectives of this exercise were:

- Updating and inclusion of new topics compared to the previous year.
- Assessment of the adequacy of the claim measures and mechanisms to manage these risks (according to the United Nations Guiding Principles on Business).
- Renewal of the Human Rights Action Plan to prevent and/or mitigate potential negative impacts that arose from the due diligence process carried out in 2018.
- Alignment of the process with the current Operational Risk Management Model and regulatory recommendations so that this process constitutes a continuous and dynamic process. For more information, see the "Operational Risk" section in the "Risk Management" chapter of this report.

This global due diligence process has been carried out in the global areas of BBVA and replicated in Spain, Mexico, Turkey, Argentina, Colombia, Peru, Uruguay<sup>13</sup> and Venezuela. For each country, the issues with the greatest impact and frequency were prioritized as a result of the social and governmental practices of the country and of the interviews held with the management areas and the global Risk Control Specialists and as a result, each country has prepared its own action plan.

<sup>13</sup> At the end of 2022, in the absence of completing the preparation of the action plans.

### 8.8.5.1. Identification, assessment and testing

Taking as a starting point the issues analyzed in the previous due diligence process of 2018, and incorporating recommendations and expectations from analysts and investors and other emerging issues, in 2021 an internal taxonomy of 28 issues grouped into 6 topics that cover, among others, aspects of forced labor, child labor, freedom of association and collective bargaining, equal pay or discrimination, has been elaborated:

1. Employment condition
2. Projects and products: impact on human rights derived from lending activity
3. Supply chain
4. Customer well-being
5. Respect for communities
6. Cross-cutting issues: data protection and the impact of new technologies on human rights

For each of these 28 issues, an assessment was made of:

- Inherent risk: based on the of seriousness of impact and frequency of occurrence for each issue.
- Residual risk: to assess the mitigating aspects available to BBVA to manage each issue. In this identification and evaluation phase, the potential negative impacts on stakeholders were taken into account, such as the employees themselves (with a focus on women), suppliers or subcontractors, customers, as well as the indigenous population and local communities.

Subsequently, within the framework of the current Non-Financial Risks Model, the global Risk Control Specialists for each issue checked the results of the assessment and the adequacy of the action plans as mitigants. This test had a twofold objective: first, to move steadily toward an alignment of the two models (due diligence of human rights and the Non-Financial Risk Model); and second, achieve a greater systemization of the process.

### 8.8.5.2. Prevention and mitigation: Action Plan

The results of the global due diligence process determined that there is, in general, a medium-high effectiveness of the management and mitigation measures for each of the issues. However, areas for improvement were detected around four areas that have been documented in a document called the Human Rights Action Plan 2021-2022 that is available on the

shareholders and investors website and that includes 25 action plans:

1. Strategy. One of the areas for improvement detected was to strengthen the structure of management, monitoring and control of the risks associated with human rights. Throughout 2021 and 2022 we reinforced the alignment with the Non-Financial Risk Model by working on the gradual integration of the management of these risks in the ordinary processes. In addition, we carried out a half-yearly monitoring system of the implementation of the 2021-2022 Action Plan.
2. Stakeholders. In 2021, the active participation of key stakeholders in the due diligence process was identified as an area to be enhanced. In 2022 we conducted a consultation process with key stakeholders. The results were integrated into the Human Rights Action Plan 2021-2022.
3. Reporting and disclosure. In addition to GRI, BBVA discloses information on human rights in accordance with two of the most advanced standards: Measuring Stakeholder Capitalism of the International Business Council (IBC) of the World Economic Forum (WEF) and the Sustainability Accounting Standards Board (SASB).
4. Processes Action plans were established in each of the 6 thematic areas:
  - Employment conditions. In 2022, the commitment to non-discrimination between employees was strengthened. The non-discrimination variable was included in the internal analytical model of existing data to contribute to the Group's selection and recruitment processes. Moreover, work continued on global labor disconnection guidelines which will include express measures on digital disconnection, methods and contact times in calls, emails and other channels.
  - Projects and products. Within the scope of the BBVA Environmental and Social Framework, the possibility of initiating a dialogue and support plan with the clients covered by said Framework is foreseen. This protocol specifically includes the requirements relating to human rights.
  - Supply chain. In 2022, work has continued in order to reinforce the integration of ESG issues and specifically human rights in the supplier evaluation process.

- Customer well-being. In 2022, the development of a vulnerable customer protection framework has continued to develop criteria and good practices to adequately protect these customers.
- Respect for communities. Work has been done to define a global framework for sustainable mobility, which will contribute to reducing the environmental footprint in the places and local communities where the Group is present. For more information, see the chapter "Management of direct environmental impacts" of this report.
- Cross-cutting issues. In September 2022, a general privacy and data protection policy was approved for the entire BBVA Group. Additionally, a global personal data protection monitoring tool has been launched.

### 8.8.5.3. Claims methods<sup>14</sup>

BBVA has a whistleblowing channel that allows any interest group to report confidentially and anonymously if they wish, any behavior that is directly or indirectly linked to human rights. In the complaints received through this channel in 2022, there are no human rights violations attributable to the Group entities as of December 31, 2022. For more information, see the "Compliance and conduct" section of this report.

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<sup>14</sup> A complaints mechanism is a formalized way established or facilitated by the company, through which individuals or groups can raise their concerns with respect to any impact of the company on their lives, including, among others, the consequences for their human rights.

## 8.9. Governance

BBVA considers the corporate governance performance of customers by analysing their compliance with the Group's Environmental and Social Framework and integrates the assessment of their management and governance practices within the risk analysis.

Some of our clients operate in sectors with potential impact, and we have therefore developed a specific Environmental and Social Framework (hereinafter, the Framework) as part of our commitment to promote sustainable development and human rights in the Mining, Agribusiness, Energy, Infrastructure and Defence sectors.

In addition to the sectoral standards and recommendations mentioned in the Framework, BBVA takes into consideration the following declarations, conventions and initiatives, within its responsible banking framework:

- Universal Declaration of Human Rights
- United Nations Agenda 2030 of the Sustainable Development Goals (SDGs)
- Paris Agreement of the United Nations Framework Convention on Climate Change (UNFCCC)
- Conventions of the International Labour Organisation (ILO)
- UN Manifesto for Global Economic Ethics
- UN Global Compact
- UN Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- Global Reporting Initiative
- Carbon Disclosure Project (CDP)
- UNEP FI Statement on Sustainable Development and Positive Impact Initiative
- IFC Performance Standards and Environmental, Health and Safety Guidelines
- Equator Principles
- Principles for Responsible Investment (PRI)
- Recommendations of the Task Force on Climate-related Financial Disclosures
- Principles for Responsible Banking promoted by UNEP-FI

- Financial Sector Collective Commitment to Climate Action
- Science-Based Targets Initiative
- 2 Degrees Investing Initiative

### 8.9.1. Integration of corporate governance practices in risk management processes

BBVA analyses the corporate governance performance of its customers and takes their management and governance practices into account in the admission process. The identification, assessment and monitoring of customer risks and their operations are integrated into BBVA's standard risk, compliance and operations processes and tools. Decisions are based on internal information or, where appropriate, on information provided by independent external analysts. Specifically, the Governance and Management module of the corporate segment credit rating model assesses the following aspects:

- Strategy, quality and skills of the management team to execute the company's strategy.
- Risk management standards and risk tolerance, including the ability to take a long-term view of the perspectives of different stakeholders.
- Operational performance standards, existence of robust internal controls and an independent process and policy oversight structure including processes to ensure the quality of financial and non-financial reporting.
- Independence, experience and skills of the Board of Directors.

The evaluation of the management team is done by assessing their experience and knowledge of the industry or knowledge of customers and their needs.

One of the aspects considered in the review of customers is the integration of climate change in their governance and decision-making processes, in line with the recommendations of the TCFD.

BBVA also analyses our customers' ESG disputes as an indicator of the quality of their governance and internal controls. Disputes are incidents related to environmental, social and governance (ESG) issues with negative implications on the reputation and financial performance of our customers. The analysis of controversies is based on the impact that incidents have caused on the environment and society (impact), the business risk as a consequence of incidents (risk) and



the management systems and capacity to respond to incidents (management).

Based on the above analysis and the assessment carried out by the CIB Sustainable Finance team, the risk teams qualitatively integrate the results in the calculation of the customer rating and incorporate this analysis in the definition of the risk appetite with each customer, following specific criteria previously defined.

## 8.9.2. Related exclusions

BBVA's Environmental and Social Framework includes general exclusions and prohibited activities applicable to specific sectors. When there is sufficient evidence of the existence of any of the following cases related to governance risk, a specific analysis of the situation will be carried out, which may involve not initiating the relationship, or the adoption of a plan for dialogue and customer support with measures aimed at understanding and trying to correct the situation.

- Customers for whom BBVA has sufficient evidence of material breaches of applicable human rights laws and regulations, or of involvement in human rights abuses, regardless of whether such involvement is in breach of local legislation in each country.
- Customers subject to EU, USA and United Nations financial sanctions.
- Customers for whom BBVA has sufficient evidence that they are employing child or forced labour, as these concepts are defined in the ILO Conventions.
- Projects that involve the resettlement or infringement of the rights of indigenous or vulnerable groups without their free, prior and informed consent.
- Projects that threaten UNESCO World Heritage sites, Ramsar-listed wetlands, Alliance for Zero Extinction sites, and IUCN Category I-IV areas.

In the case of Customers (i) in the defence sector, this will entail not providing financial services to the customer and (ii) in the other sectors (mining, energy, agribusiness and infrastructure), a specific analysis of the situation will be carried out, which may entail not initiating the relationship, or adopting an engagement plan with the customer with measures aimed at understanding and trying to correct the situation.

## 8.10. Additional initiatives

### 8.10.1. Direct environmental impact

BBVA has a clear commitment to both society and the environment. The global strategy of the reduction of direct impacts is organized around four core elements: (I) reduction in consumption through the energy efficiency initiatives; (II) use of renewable energy; (III) awareness and involvement of employees and other stakeholders in the path toward a low-carbon economy; and (IV) compensation of its environmental footprint in scope 1, 2 and part of scope 3 (category 5 waste, category 6 emissions from business trips and category 7 displacements of employees of central services that represent 35.8% of the total number of employees object of the report)<sup>15</sup> through the purchase of project credits from the Voluntary Carbon Market to comply with the commitment acquired in 2021 to be a carbon-neutral company by 2050.

### 8.10.1.1. Group eco-efficiency plan

In its objective of reducing environmental impacts, BBVA, within the framework of the 2025 Goal, will recommend, on the one hand, a 68% reduction in Scope 1 and 2 CO<sub>2</sub> emissions compared to 2015 and, on the other hand, a consumption of 70% of electricity from renewable sources in 2025, reaching 100% in 2030. In line with the latter objective, BBVA has been a member since 2018 of the RE100 initiative, through which the world's most influential companies commit to making their energy 100% renewable by 2050. For its part, on the other hand, BBVA continues to make progress towards reaching 100% by 2030.

In 2021, BBVA established a new Global Eco-efficiency Plan for the period 2021-2025, setting more ambitious targets, aligned with its climate strategy, focused on reducing direct impacts and achieving the 2025 Goal:

**Table 117.** Global Eco-efficiency Plan Goals 2021-2025

Vector	Indicators	Goal target <sup>(1)</sup>	GEP target <sup>(2)</sup>
<b>Consumptions</b>	Renewable electricity (%)	70 %	77 %
	Electricity consumption per employee (MWh/Employee)	—	(10)%
	Energy consumption per employee (MWh/Employee)	—	(7)%
	Water consumption per employee (m <sup>3</sup> /Employee)	—	(11)%
	Paper consumption per employee (kg/Employee)	—	(11)%
<b>Circular economy</b>	Net waste per employee (t/Employee)	—	(4)%
<b>Carbon footprint</b>	Scope 1&2 carbon emissions (tCO <sub>2</sub> e)	(68)%	(67)%
<b>Sustainable building</b>	Environmentally certified area (%)	—	45 %

<sup>(1)</sup> Base year 2015.

<sup>(2)</sup> Base year 2019. For the 2021-2025 Eco-efficiency Plan, 2019 is taken as the base, since the consumption values for 2020 are distorted due to the effect of the COVID-19 pandemic.

This plan is based on four lines of action:

#### 1. Consumption

With the aim of reducing BBVA's environmental footprint<sup>16</sup>, the following lines of actions will be implemented:

- Electricity consumption: BBVA's strategy is focused on the use of renewable energy as a key lever to contribute to the decarbonization of the energy markets where the Group is present. The strategy consists of reaching Power Purchase Agreements, such as those already in place in Mexico, Spain and Argentina, and acquiring renewable energy certificates, such as Guarantees of Origin in Spain and Portugal, or

international renewable energy certifications (iRECs) in Mexico, Colombia, Peru and Turkey. There will also be a commitment to self-generation of renewable energy by the installation of solar photovoltaic and solar thermal panels in the Group's facilities, as is already happening in a number of subsidiaries in Turkey, Uruguay and Spain.

- Implementation of energy saving measures (ESMs) for the operation of buildings, to control and reduce consumption.
- Initiatives for the reduction of water consumption, such as gray water recycling systems and rainwater recirculation for irrigation in the headquarters of Spain and

<sup>15</sup> Within the scope 3 emissions reported, the following categories defined in the GHG Protocol are not included: Category 1 purchase of goods and services; Category 2 capital goods; Category 3 fuel and energy related activities (not included in scopes 1 or 2); Category 4 upstream transportation and distribution; Category 7 transportation of network workers (which account for 64.2% of the total reported); Category 8 upstream leased assets; Category 9 transportation and distribution; Category 10 processing of the products sold; Category 11 use of the products sold; Category 12 end-of-life treatment of products sold; Category 13 downstream leased assets; Category 14 franchises; Category 15 investments. In relation to the information on Category 15 Investments, see the Calculation of financed emissions section of section 2.3.4 Management of risks associated with climate change and environmental factors. The scopes excluded to date could be material.

<sup>16</sup> Certain geographical areas are not included in the perimeter (Venezuela, Chile, Bolivia, Switzerland, the United States, Brazil and BBVA branches outside of Spain) nor certain BBVA Group companies in Spain and Turkey, which represent 8.2% of all BBVA Group employees.

Mexico, and the installation of waterless urinals in some of the buildings in Spain.

- Finally, there are measures for the digitalization and centralization of printing to reduce the consumption of paper, which is also recycled or environmentally certified in most of the geographical areas (Argentina, Colombia, Spain, Mexico, Peru, Turkey and Portugal) by 79.2% in 2022.

## 2. The circular economy

Waste generation is becoming a serious problem at global level, so part of BBVA's contribution to sustainable development must consist in transitioning linear

**Table 118.** Waste (Circular economy)

	2022	2021
Hazardous waste (tons)	440	120
Recycled hazardous waste (tons)	293	58
Disposed hazardous waste (tons)	147	62
Non-hazardous waste (tons)	4,129	4,251
Recycled non-hazardous waste (tons)	1,410	2,207
Disposed non-hazardous waste (tons)	2,719	2,044

The increase in hazardous waste generation in 2022 is due to the replacement of facility components at the end of their useful life. This equipment replacement is necessary to ensure the continuity of the facilities. Throughout 2022 initiatives to reduce disposable single-use plastics have been established, so the value is not reported as it is negligible.

## 3. Carbon footprint

The reduction of the carbon footprint is one of the goals established within the Goal 2025. BBVA's total emissions are composed of:

- Scope 1 greenhouse gas emissions, comprising direct emissions from own-use property combustion facilities, vehicle fleet fuels and refrigerant gases.
- Scope 2 greenhouse gas emissions, including indirect emissions related to the production of electricity purchased for and consumed by buildings and branches.
- Scope 3 greenhouse gas emissions, which include other indirect emissions. At BBVA, this scope includes emissions from business travel (by air and rail), emissions from waste management and emissions from the employees' travel from headquarters to other sites (representing 35.8% of the total number of employees covered by the report).

Both Scope 1 and 2 emissions and Scope 3 emissions are calculated taking into account the GHG Protocol standard established by the World Resources Institute

consumption practices to circular consumption. BBVA has been working for many years to reduce this impact through sustainable construction standards and the implementation of ISO 14001-certified Environmental Management Systems. It has also implemented Aenor's Zero Waste certification in Ciudad BBVA, BBVA's headquarters in Spain. The goal is to minimize the amount of waste sent to landfills. The Bank's facilities have clearly differentiated and marked areas that enable to carry out a proper sorting and subsequent recycling of waste.

(WRI) and the World Business Council for Sustainable Development (WBCSD).

BBVA is a neutral company in terms of CO<sub>2</sub> emissions related to the aforementioned categories and offsets its carbon emissions through the purchase of credits in the Voluntary Carbon Market. Moreover, in line with the recommendations of the Taskforce on Scaling Voluntary Carbon Markets, BBVA has established requirements for the selection of projects with which to offset its residual emissions. Among these requirements are the obligation for projects to be certified under the maximum quality standards such as the Verra Verified Carbon Standard (VCS) and the Gold Standard, American Carbon Registry (ARC), Climate Action Reserve (CAR) and Plan Vivo; and that preferably are CO<sub>2</sub> absorption or capture projects.

## 4. Sustainable construction

Another of the objectives is to guarantee the implementation of the best environmental and energy standards in BBVA buildings to achieve a large percentage of environmentally certified surface area. In fact, the BBVA facilities hold a number of construction and management certifications.

Among the construction certifications, there are 16 buildings and 10 Group branches with the prestigious LEED (Leadership in Energy and Environmental Design) certificate for sustainable construction. These buildings include the Group's headquarters in Spain, Mexico, Argentina and Turkey. Three of them have also received the highest certification, LEED Platinum. We also hold 7 WWF Green Office labels in Turkey and 20 Edge badges in Peru. These certifications promote the reduction of our environmental footprint and carbon emissions.

With respect to management certifications, BBVA has implemented an Environmental Management System in many of its buildings, based on the ISO 14.001:2015 standard, which is certified every year by an independent entity. This certification is used to control and evaluate environmental performance in the operations of some of its buildings. This system is implemented in 86 buildings and 1,022 branches in the main countries where the

Group operates. In 2022, BBVA Mexico expanded its area certified under this management system to four new buildings (42,260 sq m). Finally, three of the buildings in Spain, the BBVA Argentina headquarters and ten branches in that country also have an Energy Management System certified by an independent third party that meets the ISO 50.001:2018 standard.

**Table 119.** Evolution of the global eco-efficiency plan indicators (BBVA Group)<sup>(1)</sup>

	Values 2022	Achievement 2022 (Δ 22-19) <sup>(2)</sup>	Objective PGE 22-19	Objective PGE 25-19
Renewable electricity (%)	92%	92 %	74 %	77 %
Electricity consumption per employee (MWh/Employee) <sup>(3)</sup>	5.74	(14)%	(6)%	(10.0)%
Energy consumption per employee (MWh/Employee) <sup>(4)</sup>	6.30	(16)%	(5)%	(7)%
Water consumption per employee (m <sup>3</sup> /Employee)	16.58	(12)%	(2)%	(11)%
Paper consumption per employee (kg/Employee)	34.05	(31)%	(9)%	(11)%
Net waste per employee (t/Employee) <sup>(5)</sup>	0.03	(8)%	(2)%	(4)%
Scope 1&2 carbon emissions (tCO <sub>2</sub> e) <sup>(6)</sup>	52,966.20	(79)%	(62)%	(67)%
Environmentally certified area (%) <sup>(7)</sup>	44%	44 %	41 %	45 %

<sup>(1)</sup> Data for the last months of 2022 have been estimated due to the non-receipt of media.

<sup>(2)</sup> Achievement in the year 2022 with respect to the base year 2019. The achievement of the renewable electricity and environmentally certified area indicators is the % resulting in 2022.

<sup>(3)</sup> Includes the sum of renewable and non-renewable electricity (per employee).

<sup>(4)</sup> Includes the consumption of electricity and fossil fuels (natural gas, Liquefied Petroleum Gas -LPG-, diesel, coal).

<sup>(5)</sup> Net waste is the total waste generated minus the waste that is recycled. To obtain the 2022 achievement, the reference data for 2019 of net waste has been restated, including the estimate of recycled waste, since its measurement was not incorporated until 2020.

<sup>(6)</sup> Includes scope 1 (fuels in installations and vehicle fleet and refrigerant gases), scope 2 market-based. The reference data for 2015 and 2019 of Scope 1 emissions has been restated, including the estimation of Refrigerant Gas emissions and Fleet fuels as its measurement was incorporated in 2021.

<sup>(7)</sup> Includes ISO 14001, ISO 50001, LEED, Edge and WWF Green Office certifications.

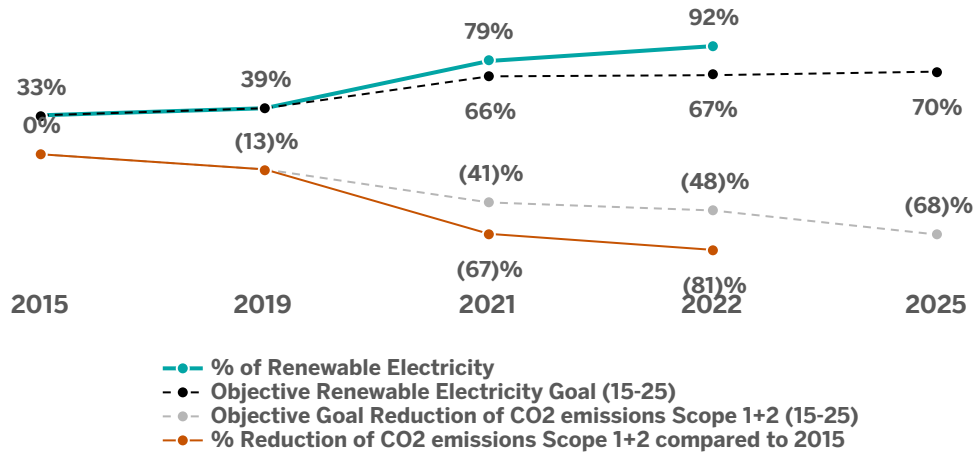
### 8.10.1.2. Environmental footprint

The Group's environmental footprint shows positive data with respect to the base year 2019, exceeding in all areas the objectives defined for this moment, with reductions of (79)% in Scope 1 and 2 emissions (according to the

market-based method), (14)% in electricity consumption, (16)% in energy consumption, (12)% in water consumption, (31)% in paper and (8)% in net waste (all data points are per employee). The percentage of renewable electricity consumption has reached 92%, and the environmentally certified area was 44%.

Goal 2015-2025<sup>17</sup>

Chart 31. Environmental performance 2022



\*CO2 (scope 1+2) emissions goal (MtCO2e)

BBVA's environmental performance data obtained in 2022 and the progress achieved with respect to 2021 are shown in the following table:

<sup>17</sup> In order to establish the objectives of achieving the Goal 2015-2025, the consumption data for 2015 are taken as a reference. The reference data for 2015 and 2019 of Scope 1 emissions has been restated, including the estimation of Refrigerant Gas emissions and Fleet fuels as its measurement was incorporated in 2021.

**Table 120.** Environmental footprint (BBVA Group)<sup>(1)</sup>

	2022	2021 <sup>(8)</sup>	Δ 22-21
<b>Consumption</b>			
Total water consumption (cubic meters)	1,809,571	1,934,769	(6.5) %
Public water supply (cubic meters)	1,727,582	1,882,391	(8.2) %
Recycled water (cubic meters)	81,989	52,377	57 %
Paper (tons)	3,718	3,640	2 %
Total Energy (Megawatt hour) <sup>(2)</sup>	688,158	707,920	(2.8) %
Energy from renewable sources (%)	83.9 %	71.3 %	18 %
Energy from non renewable sources (%)	16.1 %	28.7 %	(44) %
<b>Carbon footprint</b>			
Scope 1 emissions (tons CO <sub>2</sub> e) <sup>(3)</sup>	41,395	51,038	(19) %
Emissions from fuels in facilities (t CO <sub>2</sub> e)	11,783	14,799	(20) %
Emissions from vehicle fleet fuels (t CO <sub>2</sub> e)	10,163	8,546	19 %
Emissions from refrigerant gases (t CO <sub>2</sub> e)	19,450	27,693	(30) %
Scope 2 emissions (tons CO <sub>2</sub> e) market-based method <sup>(4)</sup>	11,571	42,152	(73) %
Scope 2 emissions (tons CO <sub>2</sub> e) location-based method <sup>(5)</sup>	199,183	204,977	(3) %
<b>Scope 1&amp;2 emissions (tons CO<sub>2</sub>e) market-based method</b>	<b>52,967</b>	<b>93,190</b>	<b>(43) %</b>
<b>Scope 1&amp;2 emissions (tons CO<sub>2</sub>e) location-based method</b>	<b>240,578</b>	<b>256,016</b>	<b>(6) %</b>
Scope 3 emissions (t CO <sub>2</sub> e) <sup>(6)</sup>	37,026	4,254	770 %
Emissions from waste management (t CO <sub>2</sub> e)	1,367	1,116	22 %
Recycled hazardous waste (%)	66.0 %	48.0 %	18.0 %
Recycled non-hazardous waste (%)	34.0 %	52.0 %	(18.0) %
Donated IT equipment (units)	1,154	1,225	(6) %
Emissions from business travel (t CO <sub>2</sub> e)	14,568	3,138	364 %
Emissions from employees commuting (t CO <sub>2</sub> e)	21,091	5,325	296 %
<b>Total CO<sub>2</sub>e emissions (t CO<sub>2</sub>e) market-based method</b>	<b>89,992</b>	<b>97,444</b>	<b>(8) %</b>
<b>Total CO<sub>2</sub>e emissions (t CO<sub>2</sub>e) location-based method</b>	<b>277,604</b>	<b>260,269</b>	<b>7 %</b>
Impact of emissions (Scope 1&2) (€) <sup>(7)</sup>	2,434,718	4,096,258	n/a

n.a.: not available

<sup>(1)</sup> The data reflected here includes the countries Argentina, Colombia, Spain and Portugal, Mexico, Peru, Turkey and Uruguay. Certain geographical areas are not included in the perimeter (Venezuela, Chile, Bolivia, Switzerland, the United States, Brazil and BBVA branches outside Spain) or certain BBVA Group companies in Spain and Turkey, which represent 8.2% of the total employees of the BBVA Group. Some of the data for 2022 is estimated since at the end of the report the complete information for the year was not yet available.

<sup>(2)</sup> Includes the consumption of electricity and fossil fuels (diesel, natural gas and LP gas), except fuels consumed in fleets.

<sup>(3)</sup> Emissions derived from direct energy consumption (fossil fuels) and calculated based on the emission factors of 2006 IPCC Guidelines for National Greenhouse Gas Inventories. For its conversion to CO<sub>2</sub>e, the IPCC Fifth Assessment Report and the IEA have been used as sources. As of 2021, the emissions derived from the use of the vehicle fleet and from refrigerant gas leaks in our facilities were included in this scope, applying the DEFRA emission factors to calculate CO<sub>2</sub>e emissions in all geographical areas, including Turkey.

<sup>(4)</sup> Emissions derived from electricity consumption and calculated based on the contractual data and, failing that, the latest emission factors available from the IEA for each country.

<sup>(5)</sup> Emissions derived from electricity consumption and calculated based on the energy mix of each geographical area. The emission factors are the latest available according to IEA for each country.

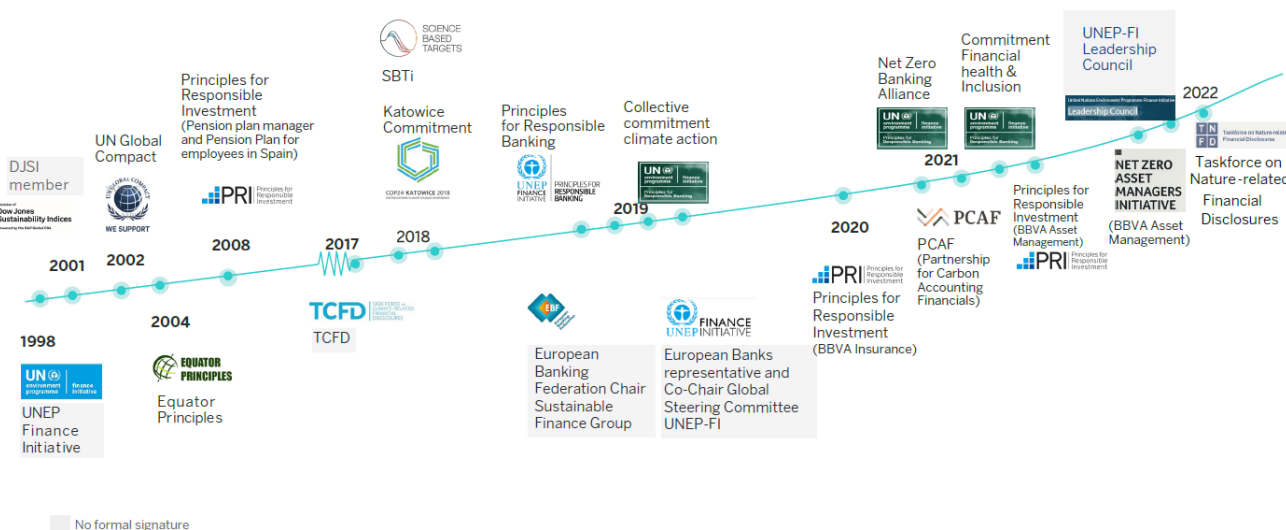
<sup>(6)</sup> Indirect emissions derived from business trips (plane and train), waste management and employee travel, using the emission factors published by DEFRA in 2022. Substantial increase in 2022 compared to 2021 due to the elimination of travel restrictions of business after the pandemic and the return of employees to the workplace in a hybrid model. For the commuting emissions of our employees, only Commuting commutes by Central Services employees have been taken into account, incorporating in 2022 the data from Turkey (2,320 tons CO<sub>2</sub>e), which in 2021 were not included for this category.

<sup>(7)</sup> The impact of greenhouse gas emissions for 2022 is calculated using only Scope 1 and 2 emissions and using the CO<sub>2</sub> social cost factor based on a proportional estimate of the 2020 EPA social cost of carbon (\$51/tCO<sub>2</sub>) and for 2025 (\$56/tCO<sub>2</sub>), (3% discount rate, with an exchange rate of €1,153/\$).

<sup>(8)</sup> The data for 2021 differs from that published in the previous Non-Financial Information Report because the estimates included at the end of the 2021 financial year have been replaced by the actual consumption available after the publication of said report and certain values have been modified according to the corrected data.

Given the business activities in which the BBVA Group engages, the Group has no environmental liabilities, expenses, assets, provisions or contingencies that are significant in relation to its equity, financial position and earnings.

## 8.10.2. Participation in international initiatives



For over 20 years, BBVA has participated actively in various supranational initiatives in close collaboration with all the stakeholders (such as the industry itself, regulators and supervisors, investors and civil society organizations). For yet another year, BBVA reiterates its support for the United Nations Global Compact.

Specifically, over the course of 2022, the Bank engaged in the following initiatives:

- Since January, BBVA has been a member of the Massachusetts Institute of Technology's (MIT Climate and Sustainability Consortium or MCSC) to accelerate the implementation of large-scale solutions to fight climate change.
- Since April, BBVA has co-chaired the Climate Finance Leadership Initiative in Colombia (CFLI). This is an initiative of the Glasgow Financial Alliance for Net Zero to speed up the global transition to net zero greenhouse gas emissions.
- In May, BBVA joined the Edison Alliance, with the commitment of the BBVA Microfinance Foundation to support the digital inclusion of vulnerable populations in Latin America.
- In July, BBVA became a founding member of Carbonplace, the global platform through which customers around the world will be offered access to voluntary carbon credits to offset their emissions.
- Since September, BBVA has been a member of the European High Level Expert Group (HLEG) that provides recommendations to the European Commission to boost sustainable finance in emerging countries. BBVA is the only private-sector bank in this group. In mid-2023, the group will present its recommendations on

transformative, innovative actions to mobilize private-sector finance.

- As part of the Alliance of CEO Climate Leaders promoted by the World Economic Forum (WEF), the Chair of BBVA, together with other CEOs and leaders of major global companies, signed a statement in November calling on world leaders and participants in the United Nations Climate Change Conference at Sharm El Sheikh (COP 27) to commit to a just transition.

### 8.10.2.1. Universal reference frameworks

BBVA became in 2022 the first Spanish bank to join the global initiative promoted by the Task Force on Nature-related Financial Disclosures (TNFD). TNFD's mission is to develop a framework for companies around the world to report and act on their evolving impacts, dependencies, risks and opportunities related to nature. The ultimate goal is to support a shift in global financial flows.

BBVA was one of the 28 founding banks of the Principles for Responsible Banking promoted by the United Nations alliance with the financial sector (hereinafter, UNEP-FI). This is the reference framework based on six principles that seek to respond to the growing demand from different interest groups for a comprehensive framework that covers all dimensions of sustainable banking. BBVA believes that these six principles will help to reaffirm its Purpose, enhance its contribution to both the United Nations SDGs and the objectives derived from the Paris Climate Agreements, and align its business strategy with them.

In 2020, 2021 and 2022, BBVA has reported to UNEP-FI on its progress regarding each of the six principles. For more information on the progress and developments

reported, see the chapter named "UNEP-FI Principles for Responsible Banking Reporting Index" in this report.

Within the framework of these principles, in 2021 BBVA was one of the founding banks of the Collective Commitment to Financial Health and Inclusion promoted by UNEP-FI with the aim of promoting universal financial inclusion and a banking sector which supports the financial health of all its customers.





BBVA was a founding member of the UN Net-Zero Banking Alliance (NZBA). The banks of this international alliance commit to making their credit and investment portfolios net neutral in greenhouse gas emissions by 2050 as deadline, in line with science and the most ambitious goals of the Paris Agreement

Likewise, BBVA Asset Management is a member of Net Zero Asset Managers, a initiative launched by a group of international asset managers to support the goal of reducing net greenhouse gas emissions to zero by 2050 or earlier.

### 8.10.2.2. Sustainability indices and ratings

BBVA participates annually in the main sustainability analyses conducted by rating agencies in this area. Based on the evaluations obtained through these analyses, companies are chosen to be part of the sustainability indices.

 <p>Member of <b>Dow Jones Sustainability Indices</b> Powered by the S&amp;P Global CSA</p>	 <p><b>MSCI ESG RATINGS</b> AAA</p> <p>CCC B BB BBB A AA <b>AAA</b></p>	 <p><b>FTSE4Good</b></p>
<p>86 points / 100 Member of DJSI World and DJSI Europe 1<sup>st</sup> Bank in Europe and among its peers</p>	<p>AAA rating Member of the MSCI ESG Leaders Indexes <sup>(1)</sup></p>	<p>ESG Rating 4.6 / 5 Member of the FTSE4 Good Index Series</p>

 <p><b>MOODY'S ANALYTICS</b></p>	 <p>Rated MORNINGSTAR   SUSTAINALYTICS</p>	 <p><b>Bloomberg</b> Gender-Equality Index 2022</p>	 <p><b>CDP</b> DRIVING SUSTAINABLE ECONOMIES</p>
<p>ESG Score 57 / 100 (robust)</p>	<p>ESG Risk Rating 22,5 (medium risk) (December, 2022) <sup>(2)</sup></p>	<p>82.42 puntos /100 Member of Bloomberg Gender-Equality Index</p>	<p>Score B</p>

<sup>(1)</sup> The inclusion of BBVA in any MSCI indices and the use of the logos, trademarks, service marks or index names does not constitute the sponsorship or promotion of BBVA by MSCI or any of its subsidiaries. The MSCI indices are the exclusive property of MSCI. MSCI and the MSCI indices and logos are trademarks or service marks of MSCI or its subsidiaries.

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In addition, since 2020 the Bank is part of the Nasdaq Sustainable Bond Network (NSBN), platform which brings together the world's various issuers of sustainable debt and provides a clear reference framework for socially responsible investment.