BBVA Sustainable Bonds Framework
Financing UN Sustainable Development Goals
Madrid, April 2018
Summary

01 Our Approach to Sustainable Finance

02 BBVA Sustainable Bonds Framework

Annexes
TCFD recommendations  road map
01

Our Approach to Sustainable Finance
An inflection point on the relevance of environmental & social issues in our business

Global agenda

Sustainable Development Goals 2030 (SDGs)

Paris Agreement

Market

USD 12 TRILLION
Annual market linked to SDGs in 2030¹

USD 5–7 TRILLION
Expected annual investment till 2030, 70% in emerging markets²

Consumers
Growing sustainability consciousness

Competitors
Starting to develop advanced strategies

Investors

1,750
Institutional investors

USD 70 TRILLION
Assets under management

Regulators

Recommendations on climate change

Action Plan from European Commission on sustainable finance

¹ Business & Sustainable Development Commission
² The Brookings Institution
Pledge 2025
BBVA strategy on climate change and sustainable development

To finance
We will help to create the scale of capital mobilization to halt global climate change & attain the UN Sustainable Development Goals.

- Green finance
- Sustainable infrastructure and agribusiness
- Financial inclusion & entrepreneurship

€100 Billion Mobilized

To manage
We will manage our environmental & social risks to minimize potential negative direct & indirect impacts.

- Transparency in carbon-related exposure
- Alignment with 2°C scenario
- Sector norms in mining, energy, agribusiness & infrastructure

70% Renewable Energy
68% CO₂ Emissions Reduction

To engage
We will engage with all our stakeholders to collectively promote the contribution of financial industry to sustainable development.

- TCFD recommendations implementation on 2020
- Financial education
- Promotion of Responsible Banking standards within the industry

ACTIVE COLLABORATION

Our purpose: to bring the age of opportunity to everyone
A €100 Billion mobilization between 2018 and 2025

Transition to a low carbon economy
- Green lending to companies & institutions
- Green bonds intermediated as bookrunner
- Energy efficiency, water & waste management & solutions for SMEs & individuals
- Green investment funds & equity

Financial inclusion & entrepreneurship
- Lending to underserved
- Lending to vulnerable microentrepreneurs
- Lending to women entrepreneurs
- New digital business
- Impact investment

Infrastructures & agribusiness
- Project & corporate lending in education, health & affordable housing
- Social bonds intermediated as bookrunner
- Social investment funds & equity
- Agribusiness lending under sustainability criteria
Current exposure on sustainable finance

Credit exposure
December 2017

Sustainable bonds
2017

- **€ 10.6 BILLION**
- **€ 1.5 BILLION** as bookrunner

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1. Including BBVA Microfinance Foundation
2. Green criteria aligned with Green Bond Principles. Social criteria aligned with Social Bond Principles
## Environmental direct impacts targets 2025

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
<th>2025 Percentage</th>
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<tbody>
<tr>
<td><strong>Electricity Consumption</strong></td>
<td>920 GWh</td>
<td>874 GWh</td>
<td>848 GWh</td>
<td>-8%</td>
</tr>
<tr>
<td><strong>% Renewable Energy</strong></td>
<td>27%</td>
<td>48%</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td><strong>Direct CO₂ emissions</strong></td>
<td>283 MtCO₂e</td>
<td>263 MtCO₂e</td>
<td>90 MtCO₂e</td>
<td>-68%</td>
</tr>
</tbody>
</table>

**70%** renewable energy

**68%** CO₂ emissions reduction (2015)

Committed with Science Based Targets Initiative & RE 100 Initiative to achieve 100% renewable energy in 2030
### Transparency in carbon-related assets

#### Carbon-related assets exposure

**December 2017**

€**23.370 Million**

3.4% of total assets

<table>
<thead>
<tr>
<th></th>
<th>Utilities</th>
<th>Oil &amp; Gas</th>
<th>Coal Mining</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate lending</td>
<td>8.187</td>
<td>12.050</td>
<td>133</td>
<td>20.370</td>
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<tr>
<td>Project finance</td>
<td>416</td>
<td>767</td>
<td>0</td>
<td>1.183</td>
</tr>
<tr>
<td>Structured Trade Finance</td>
<td>319</td>
<td>1.473</td>
<td>0</td>
<td>1.792</td>
</tr>
<tr>
<td>Equity</td>
<td>0</td>
<td>25</td>
<td>0</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total exposure to carbon-related assets</strong></td>
<td><strong>8.922</strong></td>
<td><strong>14.315</strong></td>
<td><strong>133</strong></td>
<td><strong>23.370</strong></td>
</tr>
</tbody>
</table>

#### Mix in power generation for clients in utilities

**December 2017**

- **Renewable**: 41%
- **Coal**: 24%
- **Oil**: 24%
- **Nuclear**: 4%
- **Gas**: 23%
- **Hydro**: 6%

**% carbon-related**

- **World (2014)**: 67%
- **Peer 1 (2016)**: 56%
- **Peer 2 (2016)**: 53%
- **BBVA (2017)**: 49%

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1) Includes assets linked to utilities and energy generation based on fossil fuels (coal, oil & gas)
# Sector norms

**Purpose**
To address industry-specific sustainable issues and provide clear guidance on the procedures that must be followed during customer management and transactions in these sectors.

| Integrating new Human Rights commitment | Integrating new environmental commitment |

**Scope**
Corporate & Investment Banking activities carried out by all BBVA Group institutions, businesses lines, branches, subsidiaries and geographies.

- Energy
- Mining
- Infrastructure
- Agribusiness

**Due diligence processes**
Transactions + Clients + Products

**How we did it?**
- Based on international standards
- Benchmark analysis
- Economic assessment

**Escalation & exceptions**
Exemptions will only take place exceptionally and shall only be approved by the CIB Leadership Committee.
Exemption requests must be clearly justified and supported by all decision-making tiers.

*A set of norms that are best practices within the industry that will be annually updated.*
Engagement with all stakeholders and commitment with the main global initiatives

**REGULATORS**
- Advocacy
- Knowledge sharing

**CUSTOMERS**
- Raise awareness
- Educating & empowering

**COMPETITORS**
- Partnerships
- Self-regulation

**CORPORATE CLIENTS**
- Dialogue
- Support

**WATCHERS**
- Hearing & learning
- Transparency

**INVESTORS**
- Holistic view
- Transparency

**SUPPLIERS**
- Dialogue
- Support

**EMPLOYEES**
- Raise awareness
- Call to action

Representing European banking at the Global Steering Committee of United Nations forum for financial institutions. Chair of the Sustainable Finance Working Group at the European Banking Federation.
Progressive implementation of TCFD recommendations on climate change

Focus on financial impact

Transition Risks
- Policy and Legal
- Technology
- Market
- Reputation

Physical Risks
- Acute
- Chronic

Risks

Opportunities
- Resource Efficiency
- Energy Source
- Products/Services
- Markets
- Resilience

Strategic Planning Risk Management

Financial Impact
- Revenues
- Expenditure

- Income Statement
- Cash Flow Statement
- Balance Sheet
- Assets & Liabilities
- Capital & Financing

Areas of recommendations

Governance
- Risk management
- Strategy
- Metrics & targets

BBVA member of pilot group promoted by United Nations (UNEP FI)

16 banks
ANZ, Barclays, BBVA, BNP Paribas, Bradesco, Citi, DNB, Itaú, National Australia Bank, Royal Bank of Canada, Rabobank, Santander, Société Générale, Standard Chartered, TD Bank Group and UBS
Rationale to establish a BBVA Sustainable Development Goal Bond Framework

To increase acceleration of Sustainable transition within the bank and to support of the implementation of the 2030 Agenda and the 17 Sustainable Development Goals

To contribute towards developing sustainable financing solutions for clients and investors. Strong link between Green Bonds, Green Finance and SDGs

Our purpose is to bring the age of opportunity to everyone; BBVA has been an active player in the development and growth of the Green Bond market whilst a pioneer in Green and Social Loans

To raise funds for new and existing projects with environmental benefits and resilient to climate change

Supporting the future infrastructure

A new funding tool to target SRI investors
BBVA Sustainable Development Goal Bond Framework at a glance

- **Public, Transparent, Standard, and Aligned** to the four core components of the ICMA Green and Social Bond Principles and Sustainability Bond Guidelines

- Provides BBVA Group with the possibility to issue **Green, Social or Sustainability Bonds**

- **In line with the UN Sustainable Development Goals (SDG), Agenda 2030**, the bonds issued under this framework will mainly promote the following goals: SDG3 Good Health and Well-Being, SDG4 Quality Education, SDG7 Affordable and Clean Energy, SDG8 Decent Work and Economic Growth, SDG9 Industry, innovation and infrastructure, SDG10 Reduced Inequalities, SDG11 Sustainable Cities and Communities, SDG12 Responsible Consumption and Production, SDG13 Climate Action and SDG15 Life on land

- Supported by a **strong governance structure**: Sustainable Finance Working Group and BBVA SDGs Bond Committee responsible for defining which Projects will be eligible and will be included in each bond. The Global Head of Responsible Business at BBVA will have a final veto over any Project if needed

- **Strict management and tracking of the funds**: an external auditor or other suitably qualified provider will be requested to provide a limited assurance report regarding allocation of the proceeds obtained from the relevant Green, Social or Sustainability Bond to Green or Social Projects

- **Reports** will be made available to the public at BBVA’s webpage

- **Framework Verification**: BBVA has obtained an independent verification assessment from DNV-GL
BBVA SDG Bond Framework Summary

Use of Proceeds

Green Eligible Categories
- Energy Efficiency
- Sustainable Transport
- Water
- Waste Management
- Renewable Energy

Social Categories
- Healthcare
- Education
- SME financing and microfinancing
- Affordable housing

Process for Project Evaluation and Selection
- A Prospective List of Eligible Projects is reviewed by the Sustainable Finance Working Group
- The BBVA SDGs Bond Committee will conduct an additional review on the selected and labeled Projects and decide which should be finally included in each Green, Social or Sustainability Bond
- Responsible Business will have final veto

Management of Proceeds
- BBVA will track the use of proceeds of its Green, Social or Sustainability Bonds issued under this Framework
- A percentage of the proceeds of each Green, Social or Sustainability Bond may be dedicated to finance those Green or Social Projects (as appropriate) originated in the current year of the issue date of the relevant bond.

Reporting
- Each BBVA issuing entity will gather the information to be included in the relevant SDGs Bond Report
- The BBVA SDGs Bond Committee will prepare the SDGs Bond Reports within 12 months of the issuance date of each Green, Social or Sustainability Bond and until the relevant maturity date
- Each SDGs Bond Report will be reviewed and approved by the Sustainable Finance Working Group and published on BBVA’s website
For the purpose of this BBVA SDGs Framework, loans, investments and projects financed through a Green Bond, a Social Bond or a Sustainability Bond must fall under the **Green Eligible Categories**, the Social Eligible Categories or both of them.

Eligible Projects include new or future Projects and refinance of existing Projects and ongoing Projects (refinancing) that have been financed within the past 3 years since the relevant bonds are issued.

A Project shall be considered a Green Project or Social Project when 80% of either its principal or the business of the client’s Project is dedicated to any of the **Green or Social Eligible Categories**.
BBVA SDG Bond Framework

Project Evaluation and Selection

Inclusion criteria are in three categories: Environmental and Social impacts, alignment with the UN Sustainable Development Goals and Reporting indicators.

The remaining eligible transactions will each be assigned a label of high or moderate impact.

Three different levels of review

01 The Sustainable Finance Working Group

Senior Directors of BBVA Group headed by the Responsible Business Department established a Prospective Project list.

02 Sustainable Finance and Reputational Risk Department

Expert in sustainability choses the Projects which are most appropriate for the type of bond being issued. Transactions are assessed for their overall sustainability. Transactions which are determined to be of overall net positive value will be assigned a label of high or moderate impact.

03 BBVA SDGs Bond Committee

Responsible for the management of the SDGs Framework. will conduct an additional review on the selected and labeled Projects and decide which Projects should be finally included in each Green, Social or Sustainability Bond.

The Global Head of Responsible Business at BBVA has a final veto over which Projects are to be financed.
BBVA SDG Bond Framework

Management of Proceeds

BBVA has implemented an indicator in its loan tracking system to identify potential eligible loans from among its entire loan portfolio whilst another indicator has been established to label those eligible loans allocated to each bond issued under this SDGs framework.

The Sustainable Finance Working Group will monitor these lists of projects.

BBVA will use its internal systems and processes to properly track the use of proceeds of its Green, Social or Sustainability Bonds issued under this Framework.

An external qualified provider will provide a limited assurance report of the allocation of the proceeds.

BBVA will make an effort to dedicate a percentage of the proceeds of each Green, Social or Sustainability Bond for new financing; unallocated proceeds will be held in BBVA’s liquidity portfolio.

Any eligible Project that will cease to or not comply with the eligible criteria will be substituted; a buffer of potential Eligible Projects above the proceeds arising from the issuance of Green, Social or Sustainability Bonds will be intended to maintain...
BBVA SDG Bond Framework

Reporting

Each dedicated SDGs Bond Report will be available on BBVA’s website within 12 months from issuance date.

Annually (from the first reporting date) BBVA will publish the evolution of the SDGs Bond Report of each Green, Social or Sustainability Bond launched until maturity.

Each SDGs Bond Report will include at least the following information:

- Allocation of proceeds in each Green or Social Eligible Category
- Share of proceeds used for financing or re-financing purposes.
- The remaining balance of unallocated proceeds
- Indicate which SDGs apply to each Green or Social Eligible Category Relevant expected environmental or social impacts per Green or Social Eligible Category and, if possible, actual impact metrics

SDGs Bond Report will be prepared by the SDGs Bond Committee and reviewed and approved by the Sustainable Finance Working Group
BBVA has obtained an independent verification assessment from DNV-GL which confirms the validity of the BBVA SDGs Framework. This independent verification assessment is published on the BBVA website https://accionistaseinversores.bbva.com

For each Green, Social or Sustainability Bond issuance under the BBVA SDGs Framework, BBVA will obtain an independent verification assessment from an external verifier and will make such verification accessible on the BBVA website https://accionistaseinversores.bbva.com

In addition to the independent verification assessment referred to above, BBVA may request, on an annual basis starting one year after issuance and until maturity (or until full redemption), a limited assurance report of the allocation of the proceeds obtained from the relevant Green, Social or Sustainability Bond to Green or Social Projects, provided by its external auditor or other suitably qualified provider.
Breakdown of selective eligible assets as of April 2018

Disbursement of eligible assets

April 2018

- Green: 76%
- Renewable Energy: 47%
- Social: 24%
- Clean Transport: 23%
- Water: 2%
- Waste Management: 3%
- Energy Efficiency: 1%

Identified qualifying assets in the existing asset pool of BBVA prioritizing:

- Projects in Europe and Latam
- Project Finance and “Green & Social Loans”
- Projects where data on impact is available
Contacts

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ANNEXES

TCFD recommendations road map
# Implementation road map of the TCFD recommendations on climate change 1/2

<table>
<thead>
<tr>
<th>Area</th>
<th>Recommendations</th>
<th>Done</th>
<th>Plan 2018</th>
</tr>
</thead>
</table>
| GOVERNANCE    | **Describe the board’s oversight** of climate-related risks and opportunities   | - Included in the CSR Policy approved by the Board of Directors  
- Board of Directors’ oversight (3 times in last 12 months)                                                 | Reporting to the Board of Directors and to the Board Executive Committee                              |
|               | **Describe management’s role** assessing and managing climate-related risks and opportunities | - Plans & norms approved and oversighted by the CEO  
- Global Leadership Team & Sustainable Finance Working Group as forums to help decision-making  
- Responsible Business as specialist function coordinating implementation & monitoring                  | Reporting to the Global Leadership Team meeting                                                    |
| STRATEGY      | **Describe the climate-related risks and opportunities** the organization has identified over the short, medium and long term | - Quantify credit exposure to carbon-related assets & mix energy generation in utilities                  | Update risks and opportunities definition that are material for BBVA                                 |
|               | **Describe the impact** of climate-related risks and opportunities on the organization’s businesses, strategy and financial planning | - Pledge 2025. Strategy on climate change and sustainable development  
- Product portfolio defined at CIB                                                                  | Strategy implications assessment  
Retail business opportunities                                                                        |
|               | **Describe the resilience** of the organization’s strategy, taking into consideration different scenarios, including a 2°C or lower scenario | - Participation in pilot group with UNEP FI  
- First impact assessment on credit portfolios                                                     |                                                                                                      |
## Implementation road map of the TCFD recommendations on climate change 2/2

<table>
<thead>
<tr>
<th>Area</th>
<th>Recommendations</th>
<th>Done</th>
<th>Plan 2018</th>
</tr>
</thead>
</table>
| **RISK MANAGEMENT**         | Describe the organization’s **processes for identifying** and assessing climate-related risks | - New sector norms approved by the CEO  
- Equator Principles implemented  
- Due diligence processes in clients, transactions & products defined | **Formalize process**                                            |
|                             | Describe the organization’s **processes for managing** climate-related risks    |                                                                      | **Sector norms & due diligence processes implementation** |
|                             | Describe how processes for identifying, assessing & managing these risks are **integrated** into the organization’s **overall risk management** |                                                                      | **Integration as emerging risk**               |
| **METRICS & TARGETS**       | Disclose the **metrics** used to assess climate-related risks and opportunities in line with its strategy and risk management process | - Quantify credit exposure to carbon-related assets & mix energy generation in utilities  
- Renewable energy | **Wider disclosure on Scope 3 for carbon-related clients** |
|                             | Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 **greenhouse gas (GHG) emissions** | - Emissions reported Scope 1, Scope 2  
- Committed with Science Based Targets Initiative | **Annual report verified by third party about Pledge 2025 performance** |
|                             | Describe the targets used by the organization to manage climate-related risks and opportunities and **performance against targets** | - Mobilize €100 Billion 2018-2025. Renewable energy 70% and 68% reduction in direct GHG emissions. 100% renewable energy by 2030  
- Current exposure in sustainable finance |                                                             |
BBVA Sustainable Bonds Framework

Financing UN Sustainable Development Goals

Madrid, April 2018