INDEPENDENT OPINION

ON BBVA'S UPDATED SUSTAINABLE TRANSACTION BANKING FRAMEWORK FOR PRODUCTS LINKED TO SDGs

December 2019

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion (thereafter the "Opinion") on the sustainability credentials of the updated Transactional Products Framework for products linked to Sustainable Development Goals (SDGs) (the "Framework") created by BBVA (the "Bank") to govern its financial solutions for customer projects that directly contribute to one or more of the SDGs.

Our Opinion is established according to Vigeo Eiris' exclusive methodology and is built on the assessment of the following three components:

1) The coherence between the Framework and the Bank's sustainability commitments.
2) The use of proceeds alignment with sustainability themes[1] and their potential contribution to SDGs.
3) The Bank's reporting commitments, including the relevance of the selected indicators to the targeted environmental and/or social objectives and impacts.

Of note, this Opinion exclusively covers these three components. It does not cover the Bank's ESG performance, the contents and relevance of the use of proceeds, the process for project evaluation and selection, management of proceeds, or the sustainable management of the projects and associated risks & impacts.

Our sources of information are multichanneled, combining data from (i) public information gathered from public sources, press content providers and stakeholders, (ii) information from Vigeo Eiris' exclusive ESG rating database, and (iii) information provided by the Issuer through documents.

We carried out our due diligence assessment from November 29th to December 20th, 2019. We consider that we were provided with access to all the appropriate documents we solicited. We consider that the information made available enables us to establish our opinion with a reasonable level of assurance on its completeness, precision and reliability.

VIGEO EIRIS' OPINION

We express a reasonable assurance[2] (our highest level of assurance)on the capacity of the Framework for products linked to Sustainable Development Goals (SDGs) to support projects which are likely to contribute to the UN SDGs.

BBVA has described the main characteristics of the Eligible Transactional Products within the full version of the Sustainable Transactional Banking Framework for products linked to SDGs (the last updated version was provided to Vigeo Eiris on December 20th, 2019). The Bank has committed that the reduced version of this Framework will be publicly accessible on the Bank's website[3], in line with good market practices.

- We reach a reasonable assurance on the coherence of the Framework with BBVA's main strategic sustainability priorities and contributes to achieving its sustainability commitments.
- We reach a reasonable assurance that all eligible categories are aligned to at least one of the nine sustainability themes under review, and they are likely to contribute to thirteen United Nations' SDGs, namely: Goal 2. Zero Hunger, Goal 3. Good Health and Well-being, Goal 4. Quality Education, Goal 6. Clean Water and Sanitation, Goal 7. Affordable and Clean energy, Goal 8. Decent Work and Economic Growth, Goal 9. Industry, Innovation and Infrastructure, Goal 10. Reduced Inequalities, Goal 11. Sustainable Cities and Communities, Goal 12. Responsible Consumption and Production, Goal 13. Climate Action, Goal 14. Life Below Water and Goal 15. Life on Land.

[1] The nine sustainability themes screened under our methodology are: Access to Information, Capacity Building, Energy & Climate Change, Ecosystem Protection, Food & Nutrition, Health, Infrastructure, Responsible Finance and Water & Sanitation.

[2] Definition of Vigeo Eiris' scales of assessment (as detailed in the Methodology section):
- Level of Evaluation: Advanced, Good, Limited, Weak.
- Level of Assurance: Reasonable, Moderate, Weak.

[3] www.bbva.es

- We reach a reasonable assurance that the Bank's reporting commitments include relevant indicators to the targeted environmental and/or social objectives and impacts. We are of the opinion that the reporting commitments are good.

The Bank has committed that the Framework will be supported by external reviews:

- A pre-issuance Framework verification in the form of a publicly accessible Independent Opinion delivered by Vigeo Eiris on the sustainability credentials of the Framework. This Opinion will be annually updated.
- A limited assurance verification: annually performed by a third-party auditor, on the allocation of transactional products to Green, Social or Sustainable Eligible Categories.

This Second Party Opinion is based on the review of the Framework and information provided by the Issuer, according to our exclusive assessment methodology

Paris, December 20th, 2019

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Disclaimer

Transparency on the relation between Vigeo Eiris and BBVA: Vigeo Eiris has executed two external assignments for BBVA until now. No established relation (financial or commercial) exists between Vigeo Eiris and BBVA.

This opinion is based on the information which has been made available to Vigeo Eiris and which has been analysed by Vigeo Eiris. This opinion does not imply that Vigeo Eiris certifies the materiality, the excellence or the irreversibility of the products selected by BBVA. BBVA is fully responsible for attesting the compliance with its commitment defined in its policies, for their implementation and for their monitoring. The opinion delivered by Vigeo Eiris does not focus on financial performance or financial risk. Vigeo Eiris is not liable for the incurred consequences resulting from BBVA or any third parties using this opinion to make (or not make) any kind of business transaction.

This opinion is provided by Vigeo Eiris to BBVA and can only be used by BBVA within the frame mutually agreed in the corresponding contract. The distribution and publication of such opinion is at the discretion of BBVA and to be submitted to Vigeo Eiris for prior written approval thereto.

DETAILED RESULTS

Coherence of the issuance

Context note: The banking sector has a great potential to support the transition of society to a low carbon and sustainable economy. Their action is key in the promotion of effective solutions for the development of sustainable finance products and services, and the minimization of the impact of their investments and activities on environment, people and society. The banking sector can effectively contribute to these challenges by mobilizing the resources needed to achieve the SDGs targets by 2030, which require between 5 to 7 trillion USD per year according to the United Nations Conference on Trade and Development.

We are of the opinion that the Framework is coherent with BBVA's main sustainability priorities and contributes to achieving its sustainability commitments.

BBVA seems to acknowledge its role and has developed different responsible finance products and services to support the transition to a sustainable economy. The Bank is a signatory of the United Nations Global Compact Principles and has formalized a climate change and sustainable development strategy, Pledge 2025. The objective of this strategy is to align the activity of the Bank to the SDGs and the 2ºC scenario of the Paris Agreement based on three lines of action:

- Financing: BBVA has pledged to mobilize 100 billion euros in green finance, sustainable infrastructures, social entrepreneurship and financial inclusion through 2025.
- Management: The Bank has committed to work to mitigate its own environmental and social risks and to minimise its potential impacts, both direct and indirect. Specific commitments in this regard include 70% of its energy consumption coming from renewable energy and a 68% reduction of its direct greenhouse gas emissions by 2025 compared to 2015.
- Engagement: BBVA will engage with all its stakeholders to collectively promote the contribution of the financial industry to sustainable development.

In addition, BBVA has published a *SDGs Bond Framework* in April 2018 based on the International Capital Market Association's Green and Social Bond Principles, to finance and refinance projects and entities that support the Sustainable Development Goals and the 2030 Agenda, and has updated it in December 2019. BBVA is the first Spanish bank to commit to the Science Based Targets Initiative to certify that its emission goals are consistent with the decarbonization level required to meet the 2ºC scenario set for 2050.

By creating a Framework to govern the finance or coverage of transactional products related to the twelve Eligible Categories; BBVA coherently responds to its main sustainability priorities as well as contributes to achieving its sustainability commitments.

Use of proceeds

We reach a reasonable assurance that all eligible categories are aligned to at least one of the nine sustainability themes under review, and they are likely to contribute to thirteen United Nations' SDGs, namely: Goal 2. Zero Hunger, Goal 3. Good Health and Well-being, Goal 4. Quality Education, Goal 6. Clean Water and Sanitation, Goal 7. Affordable and Clean energy, Goal 8. Decent Work and Economic Growth, Goal 9. Industry, Innovation and Infrastructure, Goal 10. Reduced Inequalities, Goal 11. Sustainable Cities and Communities, Goal 12. Responsible Consumption and Production, Goal 13. Climate Action, Goal 14. Life Below Water and Goal 15. Life on Land.

BBVA's SDGs Transactional Products will exclusively finance or cover, in whole or in part, new or existing projects corresponding to twelve generally defined Green and/or Social Eligible Categories. "Existing" projects refer to ongoing or renewal of transactional products contracts with clients.

The Bank will exclude from the SDGs Transactional Products any project related to nuclear power, defense, mining, oil and gas, emissions due to the burning of fossil fuels, civilian firearms, gambling, pornography and tobacco. And area for improvement would be to exclude other sensitive activities for sustainable development such as animal welfare, chemicals of concern, genetic engineering, and alcohol.

We have analysed the Bank's commitments regarding the Use of Proceeds, and we are of the opinion that:

- All Eligible Categories are in line with at least one of the nine sustainability themes under review. Under our methodology, the use of proceeds are in line with eight of the nine sustainability themes screened, namely: Capacity Building, Ecosystem Protection, Energy & Climate Change, Food & Nutrition, Health, Infrastructure, Responsible Finance and Water & Sanitation, and the two types of impacts are: Environmental and Social.
- All Eligible Categories are likely to contribute to at least one SDG as detailed in the table below.
- An area for improvement is to specify exclusion criteria for each eligibility criteria.

Green Eligible Categories	Sustainability theme identified	Type of Impact	UN SDGs identified	UN SDGs targets
1. Sustainable water and water management	Water & Sanitation	Environmental & Social	SDG 6. Clean Water and Sanitation	6.3, 6.4
2. Energy efficiency	Energy & Climate Change	Environmental	SDG 7. Affordable and Clean Energy	7.3
			SDG 9. Industry, Innovation and Infrastructure	9.4
			SDG 11. Sustainable cities and communities	11.3
			SDG 13. Climate Action	N/A
3. Clean transportation	Energy & Climate Change	Environmental	SDG 3. Good Health and Well-being	3.9
			SDG 9. Industry, Innovation and Infrastructure	9.1, 9.4
	Infrastructure		SDG 11. Sustainable Cities and Communities	11.2, 11.6
			SDG 13. Climate Action	N/A
4. Environmentally sustainable management of living natural resources and land use	Protection of Ecosystems	Environmental	SDG 11. Sustainable Cities and Communities	11.6, 11.7
	Food & nutrition		SDG 2. Zero hunger	2.4

Green Eligible Categories	Sustainability theme identified	Type of Impact	UN SDGs identified	UN SDGs targets
5. Pollution Prevention and Control	Water & Sanitation	Environmental & Social	SDG 3. Good Health and Well-being	3.9
	Protection of ecosystems		SDG 11. Sustainable Cities and Communities	11.6
			SDG 12. Responsible Consumption and Production	12.4, 12.5
6. Renewable Energy	Energy & Climate Change	Environmental	SDG 7. Affordable and Clean Energy	7.2
			SDG 13. Climate Action	N/A
7. Aquatic biodiversity conservation	Protection of Ecosystems	Environmental	SDG 14. Life Below Water	14.1, 14.2, 14.4, 14.5
8. Terrestrial biodiversity conservation	Protection of Ecosystems	Environmental & Social	SDG 15. Life on Land	15.1, 15.2, 15.5, 15.A
	Energy & Climate Change			

Social Eligible Categories	Sustainability theme identified	Type of Impact	UN SDGs identified	UN SDGs targets
9. Healthcare	Health	Social	SDG 3. Good Health and Well-being	3.8
10. Access to essential services	Capacity Building	Social	SDG 4. Quality Education	4.1, 4.3, 4.4, 4.6
	Responsible Finance		SDG 8. Decent Work and Economic Growth	8.3
			SDG 10. Reduced inequalities	10.2
11. SME financing and microfinancing	Capacity Building	Social	SDG 8. Decent Work and Economic Growth	8.3
			SDG 9. Industry, Innovation and Infrastructure	9.3
12. Affordable housing	Infrastructure	Social	SDG 10. Reduced Inequalities	10.2
			SDG 11. Sustainable Cities and Communities	11.1

UN SDG 2 consists in ending hunger, achieving food security and improved nutrition and promoting sustainable agriculture. More precisely, SDG 2 targets by 2030 include:

2.4 Ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality

UN SDG 3 consists ensuring healthy lives and promote well-being for all at all ages. More precisely, SDG 3 targets by 2030 include:

- 3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
- 3.9 Substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination

UN SDG 4 consists in ensuring inclusive and equitable quality education and promote lifelong learning opportunities for all. More precisely, SDG 4 targets by 2030 include:

- 4.1 Ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes
- 4.3 Ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university
- 4.4 Substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship
- 4.6 Ensure that all youth and a substantial proportion of adults, both men and women, achieve literacy and numeracy

UN SDG 6 consists in ensuring availability and sustainable management of water and sanitation for all. More precisely, SDG 6 targets by 2030 include:

- 6.3 Improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
- 6.4 Substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity

UN SDG 7 consists in ensuring access to affordable, reliable, sustainable and modern energy for all, SDG 7 targets by 2030 include:

- 7.2 Increase substantially the share of renewable energy in the global energy mix
- 7.3 Double the global rate of improvement in energy efficiency

UN SDG 8 consists in promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. More precisely, SDG 8 targets by 2030 include:

- 8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services

UN SDG 9 consists in building resilient infrastructure, promoting sustainable industrialization and fostering innovation. More precisely, SDG 9 targets by 2030 include:

- 9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
- 9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets
- 9.4 Upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

UN SDG 10 consists in reducing inequality within and among countries and its targets by 2030 include:

- 10.2 Empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

UN SDG 11 consists in making cities inclusive, safe, resilient and sustainable. More precisely, SDG 11 targets by 2030 include:

- 11.1 Ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
- 11.2 Provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
- 11.3 Enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries
- 11.6 Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
- 11.7 Provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities

UN SDG 12 consists in ensuring sustainable consumption and production patterns. More precisely, SDG 12 targets by 2030 include:

- 12.4 Achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment
- 12.5 Substantially reduce waste generation through prevention, reduction, recycling and reuse

13 UN SDG 13 consists in taking urgent action to combat climate change and its impacts. Companies can contribute to this goal by investing in the transition to net-zero carbon energy, energy efficiency and the reduction of GHG emissions from transport operations with abatement levers such as modal shift to lower carbon modalities.

UN SDG 14 consists in conserving and sustainably using the oceans, seas and marine resources for sustainable development. More precisely, its targets include:

- 14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution
- 14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans
- 14.4 By 2020, effectively regulate harvesting and end overfishing, illegal, unreported and unregulated fishing and destructive fishing practices and implement science-based management plans, in order to restore fish stocks in the shortest time feasible, at least to levels that can produce maximum sustainable yield as determined by their biological characteristics
- 14.5 By 2020, conserve at least 10 per cent of coastal and marine areas, consistent with national and international law and based on the best available scientific information

UN SDG 15 consists in protecting, restoring and promoting sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss. More precisely, its targets include:

- 15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements
- 15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally
- 15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species
- 15.A Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems

Reporting

We reach a reasonable assurance that the Bank's reporting commitments include relevant indicators to the targeted environmental and/or social objectives and impacts. We are of the opinion that the reporting commitments are good.

The reporting commitments at transaction level (clients towards BBVA) and at BBVA aggregated level appear to be good, covering both the allocation of funds and the environmental and social impact achieved by the projects underlied by the Transactional Products.

The reporting requirements for clients that received SDGs linked Transactional Products from BBVA are considered to be good. BBVA will require clients to provide specific information regarding their corporate social responsibility and environmental strategy at the time of signing the deal. Clients are required to report every 12 months and until the maturity date of the product, on:

- The allocation of funds: Clients are required to report to BBVA the amount of funds allocated to each Eligible Category.
- The relevant applicable SDG related to each Eligible Category, and when possible, to detail the list of green or social projects
- Expected environmental or social impacts per eligible category, and if possible, impact metrics according to market standards

The Bank has formalised a list of examples of relevant indicators that can be used by clients to report on the expected environmental and social benefits (output and impact) for each Eligible Categories included in the Framework. An area for improvement is to make certain relevant indicators mandatory.

An area for improvement would be to require an external verification of the client's reporting and impact indicators.

The reporting commitments at BBVA level are considered to be good. BBVA has committed to annually publish in its Annual Report a consolidated review of the allocation of the funds and the environmental and social impacts of the Transactional Products defined under this Framework.

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization, activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Issuer's Corporate Social Responsibility as an organization, and on the process and commitments applying to the intended issuance.

Vigeo Eiris' methodology for the definition and assessment of the corporation's ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and is organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance.

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, and internal review by the audit department for second party opinions) complemented by a final review and validation by the Director of Methods. Our SPO are also subject to internal quality control at three levels (consultants in charge of the mission, Production Manager, and final review and validation by the Director of Sustainable Finance and/or the Director of Methods. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company, then the Director of Methods, and finally Vigeo Eiris' Scientific Council.

All employees are signatories of Vigeo Eiris' Code of Ethics, and all consultants have also signed its add-on covering financial rules of confidentiality.

VIGEO EIRIS' ASSESSMENT SCALES

Performance evaluation	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks.
Good	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.

Level of assurance	
Reasonable	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework
Moderate	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework
Weak	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework

Vigeo Eiris is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organizations. We undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organizations.

Vigeo Eiris offers a wide range of services:

- **For investors:** decision making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more).
- **For companies & organizations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable bonds, corporate ratings, CSR evaluations and more).

Vigeo Eiris is committed to delivering client products and services with high added value: a result of research and analysis that adheres to the strictest quality standards. Our methodology is reviewed by an independent scientific council and all our production processes, from information collection to service delivery, are documented and audited. Vigeo Eiris has chosen to certify all its processes to the latest ISO 9001 standard. Vigeo Eiris is an approved verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

With a team of more than 240 experts of 28 different nationalities, Vigeo Eiris is present in Paris, London, Brussels, Casablanca, Hong Kong, Milan, New York, Rabat and Santiago de Chile.

The Vigeo Eiris Global Network, comprising 4 exclusive research partners, is present in Brazil, Germany, Israel and Japan.

For more information: **www.vigeo-eiris.com**

OPINION ON THE SUSTAINABILITY ASPECTS OF THREE TRANSACTIONAL BANKING PRODUCTS

November 20, 2019

SCOPE

Vigeo Eiris was commissioned by BBVA (the "Bank" or the "Group") to provide an independent opinion on the sustainability credentials of three transactional banking products (deposits, structured bonds and supply chain program) governed by BBVA Sustainable Transaction Banking Framework (the "Framework").

Our opinion is established according to Vigeo Eiris' Environmental, Social and Governance ("ESG") exclusive assessment methodology. It is built on the review of the following components:

I. Sustainability objectives of the products

II. Evaluation and selection process of the issuers included in the sustainable portfolio and suppliers benefitting from supply chain facility

III. Eligibility criteria of the concerned issuers and suppliers

IV. Processes in place to allocate the proceeds

V. Reporting commitments on the sustainability performance of the products

Our sources of information are gathered from Vigeo Eiris exclusive ESG rating database and from BBVA.

We carried out our due diligence assessment from November 14th to November 20th, 2019. We consider that we were provided with access to all the appropriate documents we solicited. We consider that the provided information enables us to establish our opinion with a reasonable level of assurance on its completeness, precision and reliability.

VIGEO EIRIS' OPINION

The objectives of the transactional banking products are clearly defined and formalised in a dedicated document, made available to investors. Nevertheless, these objectives do not appear to address precise environmental or social thematic, neither do they entail any quantitative targets.

The sustainability objectives of these products are coherent with BBVA's approach of integrating sustainability issues into its transaction banking products' offer.

The process for evaluation and selection of issuers and suppliers is reasonably structured and entails internal and external controls steps. One area for improvement relates to internal audit processes.

This process relies on exclusion and selection criteria that are clearly defined and transparent. We consider that these criteria are partially relevant, regarding their exhaustiveness and precision.

The rules for the management of proceeds are clearly defined.

The reporting commitment appears comprehensive, covering both the allocation of the funds and the impact of products. The public reporting process could demonstrate more precision to reflect the environmental and social impacts of these products.

DETAILED RESULTS

I. OBJECTIVES OF THE SUSTAINABLE TRANSACTIONAL BANKING PRODUCTS

The objectives of the transactional banking products are clearly defined and formalised in a dedicated document, made available to investors. Nevertheless, these objectives do not appear to address precise environmental or social thematic, neither do they entail any quantitative targets.

The transactional products' objectives are disclosed in BBVA' Sustainable Transaction Banking Framework, which the Group intends to release in December 2019.

BBVA, which aims at developing three types of sustainable transactional products, has defined three sustainability objectives for these products:

- Promote corporate sustainability best practices by facilitating debt market and liquidity access for organizations which can be shown to outperform their peers in sustainability.
- Encourage the inclusion of outperformers in sustainability in BBVA CIB's bond/equity portfolio
- Offer BBVA clients the ability to invest in sustainability-linked liquidity and funding products

The sustainability objectives of these products are coherent with BBVA's approach of integrating sustainability issues into its transaction banking products' offer.

Such objectives are coherent with BBVA's strategy:

- BBVA is committed to the United Nations Global Compact Principles and in 2016 the Bank released a commitment to achieve the targets set by the Paris COP21 and the United Nations Sustainable Development Goals.
- In 2018, BBVA released its new strategy on climate change and sustainable development (Pledge 2025), which objective is to align the activity of the Bank to the SDGs and the 2ºC scenario of the Paris Agreement. This strategy is based on a threefold commitment: (1) to mobilize Eur 100 billion (by 2025) in green finance, sustainable infrastructure and agribusiness, entrepreneurship and financial inclusion, to manage the environmental and social risk associated with the Bank's activity, (2) to minimize potentially negative direct and indirect impacts and (3) to engage all stakeholders to increase the financial sector's collective contribution to sustainable development.

Axes for improvement consist in:

- Defining, in a more precise manner, environmental and social topics to be addressed by these products. While BBVA' sustainable development strategy clearly mentions sectors to be supported by its sustainable financing efforts (sustainable infrastructure and agribusiness, entrepreneurship and financial inclusion), the sectors or fields of activity targeted by the sustainable transactional products are not mentioned in the Framework document. In this respect, BBVA states they do not wish to restrict themselves to goals mentioned in their climate change strategy because the sustainability goals of these products may go beyond this scope.
- Setting quantitative targets for the sustainability performance of these products. BBVA has released a commitment to mobilise EUR 100 billion in green finance by 2025 but does not report on the level of contribution of these products to this objective. In addition, deposits and structured bonds will be used to maintain BBVA CIB's sustainable portfolio, which entails equities and bonds of issuers considered sustainable by the Bank. Nevertheless, BBVA does not disclose information on whether it intends to measure the ESG performance of this portfolio, neither does the company disclose any ESG performance target for this portfolio. For example, the ESG performance of this portfolio could be benchmarked against a sustainability index and a target of performance against this index could be set.

II. EVALUATION AND SELECTION PROCESS OF THE ISSUERS INCLUDED IN THE SUSTAINABLE PORTFOLIO AND SUPPLIERS BENEFITTING FROM SUPPLY CHAIN FACILITY

The process for evaluation and selection of issuers and suppliers is reasonably structured and entails internal controls steps. One area for improvement relates to internal audit processes:

<u>1/ Deposits and structured bonds</u>

The Group has implemented processes for evaluation and selection of issuers that are clearly framed and entail validation steps by several teams, including external experts.

- BBVA relies on internal and external expertise for the definition of the methodology, exclusion and selection criteria for issuers included in its sustainable portfolio, as well as for data collection and analysis:
    - BBVA transaction banker and product specialists are charged with identifying business opportunities meeting the Sustainable Transaction Banking Framework's criteria.
    - The sustainability character of each business opportunity is then assessed by a team of sustainable experts. The sustainable experts' team is also responsible for the review and maintenance of the Framework for BBVA sustainable transaction banking, in collaboration with the business units.
    - The review of the portfolio constituents will be carried out quarterly by a portfolio monitoring team, composed of members from BBVA CIB Sustainable Finance and Reputational Risk Teams.
    - BBVA states that data collection and controversy research will be conducted by independent ESG research providers (including DJSI, Carbon Disclosure Project, Reprisks, etc.) and that the Group will only use ESG providers for which they have a reasonable level of assurance on the frequency of update of information.

- Internal and external control processes appear to be in place for the issuers' selection:
    - BBVA CIB sustainable finance team plans to validate the sustainability aspects of each transaction, after its assessment by the sustainable experts' team.
    - BBVA CIB sustainable finance team will also be charged with conducting a quarterly review of the sustainable portfolio, to ensure its components meet the requirements defined in the Sustainable Transaction Banking framework. Issuers that are found to not comply with Eligible Criteria will be removed from the Portfolio.
    - Each month, a sample of operations is discussed in the Sustainable Finance Working group, a team led by the Bank's responsible business department and entailing members from several departments, including Global Client Coverage, Global Clients Strategy, Sustainable Finance; Reputational Risk – CIB, etc
    - BBVA states that it will recourse to an external ESG rating agency to conduct an annual review of a sample of its sustainable portfolio.
- An additional update process appears to be in place to ensure only Eligible issuers are kept in the porftolio:
    - An extraordinary review of the portfolio will be conducted annually, after communication of DJSI results.
- One area for improvements relates to the implementation of internal audits processes:
    - These selection and validation processes do not appear to be audited internally, which slightly lowers our assurance on BBVA's ability to ensure these processes meet the Group' sustainable objectives.

2/ Supply chain program:

The Group has implemented processes for evaluation and selection of issuers that are clearly framed and entail validation steps by several teams, as well as monitoring processes.

- BBVA relies on both internal and external expertise to help buyers select suppliers eligible for a pricing benefit. BBVA's team can support buyers in developing sustainability assessment tools for their suppliers. In addition, buyers may use externally developed sustainability initiatives, industry assessments and/or certifications (such as IFC-ILO Better Work program, Responsible Alliance- Self Assessment score, CDP, DJSI, Product Standard certification such as Ecocert, etc.) as criteria to select suppliers for the sustainable supply chain program.

- A validation process appears to be in place:
    - the Bank states that BBVA CIB Sustainable Finance team will be in charge to evaluate whether the systems the client has in place for its suppliers are eligible for this product. BBVA also mentions the criteria taken into account to conduct this evaluation: these include client sustainability strategy, client expectations from its suppliers in terms of sustainability, client key sustainability issues and targets and metrics associated with supplier performance.

- BBVA CIB Sustainable Finance will also validate each proposed suppliers' eligibility for a pricing benefit. BBVA reports that this team will meet at least monthly to define the list of selected suppliers.

- Regular monitoring appears to be ensured throughout the process:

  - BBVA commits to require its clients to communicate their corporate social responsibility and environmental strategy at the time of signing the deal and to provide annual reports on the sustainable supply chain finance project, entailing an indicator reflecting the impacts of the program.

  - BBVA states that information collected in the frame of the Supplier Evaluation will be compiled in a report entailing a brief overview of the company's activity, its sustainability profile and the list of eligible suppliers with their selection criteria and reporting indicators.

- Internal controls processes appear to be in place:

  - Each month, a sample of operations is discussed in the Sustainable Finance Working group, a team led by the Bank's responsible business department and entailing members from several departments, including Global Client Coverage, Global Clients Strategy, Sustainable Finance; Reputational Risk – CIB, etc.

- One area for improvements relate to the reinforcement of internal audits processes:

  - These selection and validation processes do not appear to be audited internally, which slightly lowers our assurance on BBVA's ability to ensure these processes meet the Group' sustainable objectives.

- **III. ELIGIBILITY OF THE CONCERNED ISSUERS AND SUPPLIERS**

1. Deposits and structured bonds

The process relies on exclusion and selection criteria that are clearly defined and overall transparent. We consider that these criteria are partially relevant, regarding their exhaustiveness and precision.

The **exclusion criteria** are transparent and exhaustive, although area of improvement remains with respect to their precision.

- Initial exclusion criteria are transparent and exhaustive.
  - In the Sustainable Transaction Banking Framework, BBVA clearly states that the funds obtained through any product under this Framework will not be used under any circumstance in any project of for any company related to any of the following activities: nuclear power generation, defence, civilian firearms, mining, carbon related, oil & gas, tobacco, gambling, pornography'. In another document, BBVA refers to 'companies involved' in those activities.
- Initial exclusion criteria could demonstrate more precision.
  - BBVA does not specify what is meant by 'any project or for any company related'. Indeed, 'any activity' is not clear if there is no clear definition of what is taken into account in each activity. For instance, is a company that produces cigarette paper involved in tobacco or not. Moreover, not setting thresholds may lead to the exclusion of companies having a very minor percentage of income (for instance 0.01%) from an indirect participation (through subsidiaries) in a controversial activity. Finally, BBVA states that it 'will use and rely primarily on information provided by the client, and on any other information available from generally recognized publicly accessible sources without having independently verified it.' This could mean that involvement is such activities is evaluated by the screened companies themselves, with a 'yes' or 'no' answer, so based on self-acknowledgement, without relying on research done by external providers.
- Controversies exclusion criterion is partly transparent and exhaustive.
  - BBVA states that its CIB Sustainable Finance team will use RepRisk to search the Eligible Companies for controversies. 'A controversy is defined as a large scale, public event which calls into question the integrity and ethics of a company or an NGO or investor campaign concerning a certain ESG issue such as cases of gross negligence or blatant disregard for laws and industry best practices. These types of events would make a company ineligible.' The use of an external provider of controversies affecting companies give some assurance to the detection of controversies.
- Controversies exclusion criterion could demonstrate more precision:
  - BBVA has not indicated how any event affecting companies will be considered as matching its definition of a controversy. Wordings like 'large scale', 'public event' remains vague. Moreover, there is no reference in BBVA's documentation to a severity scale that would apply to distinguish minor from major controversies. Also, no reference is provided to the number of controversies or the recurrence of the same controversy that would be taken into account to assess a company's exposure to controversies. In addition, it is not clear from BBVA's documentation how long an event will be taken into account and after what period a controversy will be considered as expired. Finally, it is not clear whether corrective measures carried out by companies could be taken into account to mitigate the negative assessment of controversies and possibly allow company to remain eligible.

The **selection criteria** are transparent and exhaustive, although partially relevant **regarding their exhaustiveness and precision**:

- Bonds and equity chosen for inclusion in a sustainable deposit must be issued by a company that complies with one of the two criteria:
  - Member of a Sustainability Index (DJSI, FTSE4Good, CDP, MSCI…).
  - Above industry average CSR score from CSR Hub or other recognized ESG rating provider.

  BBVA communicated to Vigeo Eiris that, at the moment, the only two references it is using as criteria for Eligible Companies are companies listed in the DJSI or companies with an above average score from CSR Hub.

  These criteria are transparent and precise: both Robeco SAM and CSR Hub disclose their selection methodology.

  They are partially exhaustive: Given that CSR Hub screens about 18,000 companies, setting the eligible threshold higher than 'above industry average' would enable to select best in class companies.

2. Sustainable supply chain finance.

The process relies on selection criteria only that are clearly defined and transparent. We consider that these criteria are partially relevant, regarding their exhaustiveness and precision.

- Selection criteria are partly transparent and exhaustive.
    - BBVA states there are various approaches a Buyer can take to establishing the sustainability criteria/standards and that its product should finance all manner of approaches. BBVA provides two examples it may expect to see:
        - 1. Buyers may have in place or will develop with BBVA's help, already established sustainability assessments for their suppliers or sustainable initiatives that suppliers can participate in.
        - 2. Buyers may choose to reward suppliers that participate in certain industry assessments or certifications. In its documentation, BBVA provides a list of possible options, which is non-exhaustive. Additionally, when a certification is used, BBVA will ensure the certification is market-recognized and reputable.
        - BBVA states that, in order for a supplier to be eligible for a pricing benefit, the systems the Buyer has in place to classify and rank suppliers must be well defined and credible. The BBVA Sustainable Finance team will be in charge of the revision to evaluate whether the systems the client has in place for its suppliers are eligible for this product. This evaluation will be based on a review of several features, such as the client expectation of its suppliers, key sector issues, targets and metrics.
- Selection criteria could demonstrate more precision.
    - BBVA states this product should finance all kinds of approaches and gives two examples it may expect to see. However, even if BBVA stipulates that its 'Sustainable Finance team will be in charge of the revision to evaluate whether the systems the client has in place for its suppliers are eligible for this product', BBVA does not clearly states what will be the minimum requirement to become eligible, which allows much room for interpretation. In the first example, one could understand that any sustainability assessment would be acceptable and BBVA does not clearly state what kind of measures (for instance as integration of sustainable issues into contractual clauses, risk assessment, supplier questionnaires, external audits, etc) would be required to be considered credible. In a reaction to this remark, BBVA has provided Vigeo-Eiris with additional comments, which clarify that BBVA's process aims at continuous improvement and that it will depend on company size and sector, sophistication of suppliers, and supplier location. We suggest that BBVA puts this additional explanation in the framework document.

IV PROCESSES IN PLACE TO ALLOCATE THE PROCEEDS

The rules for the management of proceeds are clearly defined but limited information is disclosed on means enabling a documented and transparent allocation process.

The rules for the management of proceeds for sustainable deposits and sustainable structured bonds are clearly defined:

- The proceeds will be used to invest in bonds and equity from companies deemed sustainable based on the Eligibility Criteria. The proceeds of the sustainable deposits will be matched to Eligible Assets. The volume of outstanding deposits will not exceed the collateral of Eligible Assets. A buffer will be established to ensure sufficient collateral to cover all outstanding deposits. These rules are clear and exhaustive. One suggestion could be to report on a maximum period for the reallocation of funds in case of divestment from a company.

A structure in charge of monitoring the allocation of funds has been defined:

- The sustainable specialist team will be in charge of monitoring the fund allocation and reporting on this allocation to the CIB Sustainable Finance team. The CIB Sustainable Finance team will be in charge of communicating on the components of the portfolio each quarter.

External controls are planned to be allocated to ensure a transparent allocation process:

- BBVA states that it will request on an annual basis a limited assurance report of the allocation of the proceeds or guarantees of the sustainability transactional products by its external auditor or another suitably qualified provider

V. REPORTING COMMITMENTS ON THE SUSTAINABILITY PERFORMANCE OF THE PRODUCTS

The reporting commitment appears comprehensive, covering both the allocation of the funds and the impact of products. The public reporting process could demonstrate more precision.

- Reporting to clients: In the case of sustainable deposits, previous to the operation, BBVA will put the inclusion criteria at prospective client's disposal. At the end of the deposit term, BBVA will put the composition of the portfolio including number of companies, industries and geographies at the client disposal. This reporting appears quite comprehensive.
- Public reporting: BBVA will publish in its Annual Report, an annual consolidated report including the allocation of the funds and the impacts of the transactional products. This reporting appears comprehensive as well. We could however suggest BBVA defining a formalized list of relevant ESG quantitative indicators that would be representative of such impacts and would allow the follow up of such impacts over time. Since it is BBVA's intention that an external party annually reviews transactions carried out under the framework, a set of relevant ESG indicators would be of interest for such review. In reaction to this remark, BBVA has indicated to Vigeo-Eiris that the number of sustainable suppliers and the percentage of CO_2 reduced through the sustainable portfolio could be published. We suggest that BBVA indicates such example in its documentation.

This Opinion is limited to the structured bonds, deposits and supply chain program, as of the date of the Opinion.

Paris, November 20^{th}, 2019

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