

BBVA Creating
Opportunities

Pledge 2025

Our Strategy on Climate Change and
Sustainable Development

Madrid, February 2018



An inflection point on the relevance of environmental & social issues in our business

Global agenda

Sustainable Development Goals 2030 (SDGs)



Paris Agreement



Investors



1,750

Institutional investors

USD 70 TRILLION

Assets under management

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

Regulators

Recommendations on climate change



Action Plan from European Commission on sustainable finance
(Expected for March 2018)

(1) Business & Sustainable Development Commission
(2) The Brooking 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

**€100
Billion
MOBILIZED**

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



To manage

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

**70%
RENEWABLE
ENERGY**

**68% CO₂
EMISSIONS
REDUCTION**

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



To engage

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

**ACTIVE
COLLABORATION**

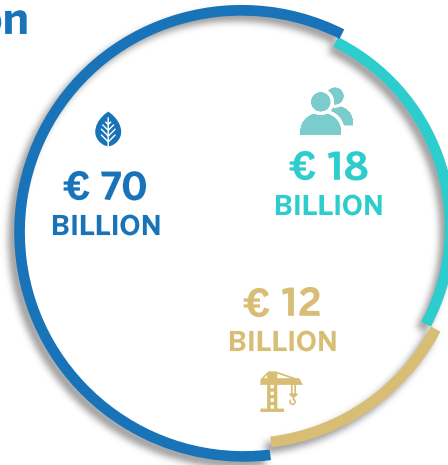
- TCFD recommendations implementation on 2020
- Financial education
- Promotion of Responsible Banking standards within the industry

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

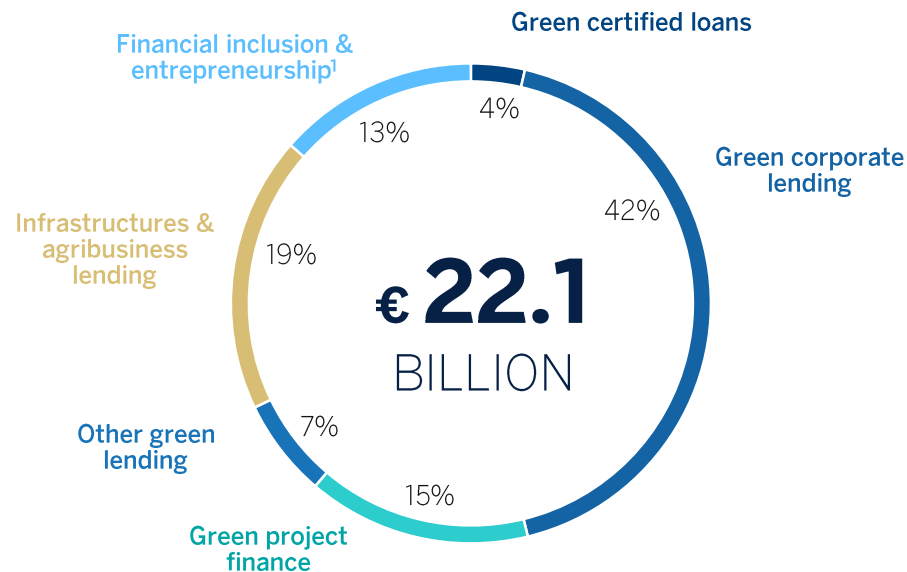
- Project & corporate lending in education, health & affordable housing
- Social bonds intermediated as bookrunner
- Social investment funds & equity
- Agribusiness lending under sustainability criteria



Current exposure on sustainable finance

Credit exposure

December 2017



Sustainable bonds

2017

Sustainable bonds intermediated

€ 10.6
BILLION

€1.5 BILLION
as bookrunner

(1) Including BBVA Microfinance Foundation

(2) Green criteria aligned with Green Bond Principles. Social criteria aligned with Social Bond Principles

BBVA SDGs Bonds Framework

Background

- There is a **growing market on green & social bonds** (USD131bn issued in 2017, USD180bn forecast for 2018)
- **Financial institutions are starting to play a relevant role as issuers**
- **Main advantages for BBVA: increase and diversify its investors' base and a clear positive impact on reputation**
- BBVA has a strong positioning on green bonds and green loan. There is an **opportunity to be perceived as first mover**

Our solution

BBVA's SDGs Bond Framework follows the ICMA¹ **Green Bond Principles (GBP)**, **Social Bond Principles (SBP)** and **Sustainable Bond Guidelines** which have four requirements:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

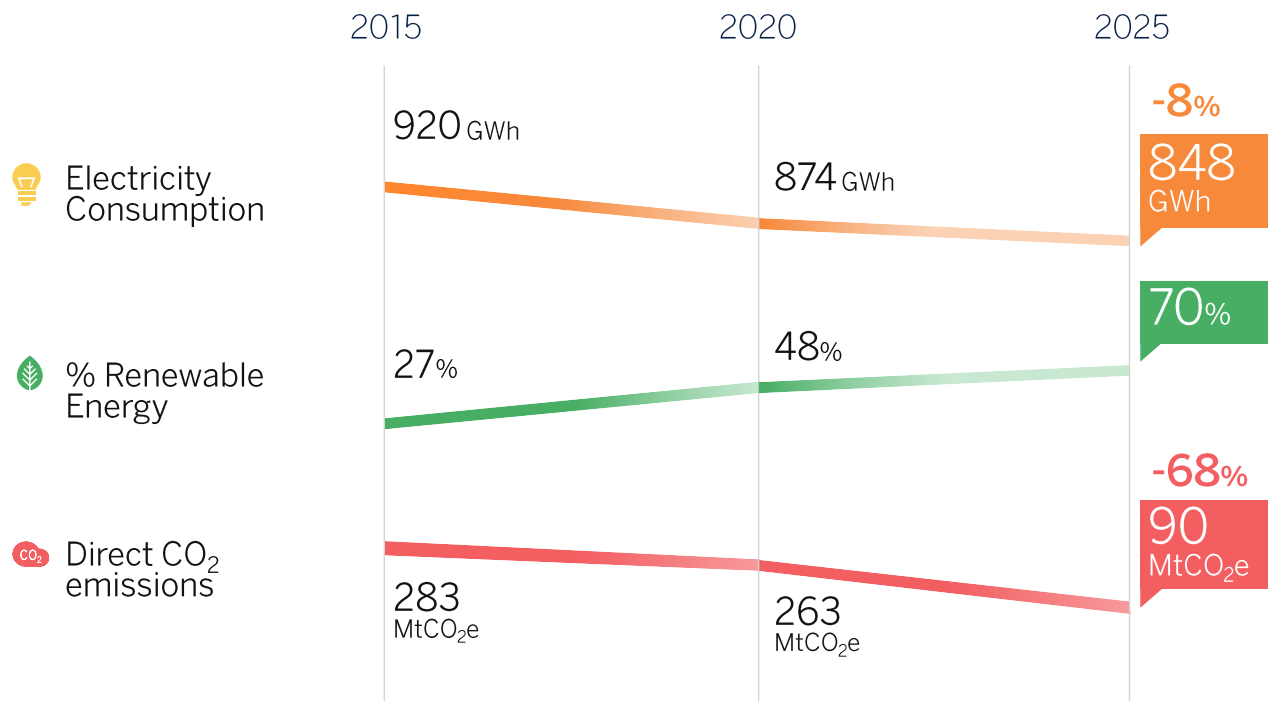
Environmental



Social



Environmental direct impacts targets 2025



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 exposure¹

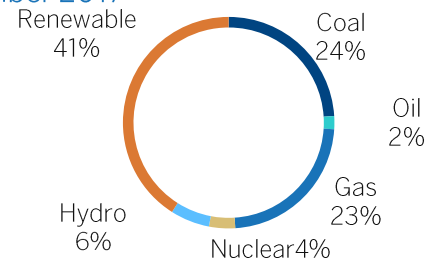
December 2017

€23.370 Million
3,4 % of total assets

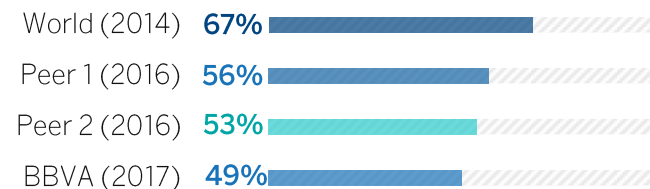
	Utilities	Oil & Gas	Coal Mining	Total
Corporate lending	8.187	12.050	133	20.370
Project finance	416	767	0	1.183
Structured Trade Finance	319	1.473	0	1.792
Equity	0	25	0	25
Total exposure to carbon-related assets	8.922	14.315	133	23.370

Mix in power generation for clients in utilities

December 2017



% carbon-related²



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

2) Peers BNP Paribas, Société Générale. Source data World 2014: International Energy Agency

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

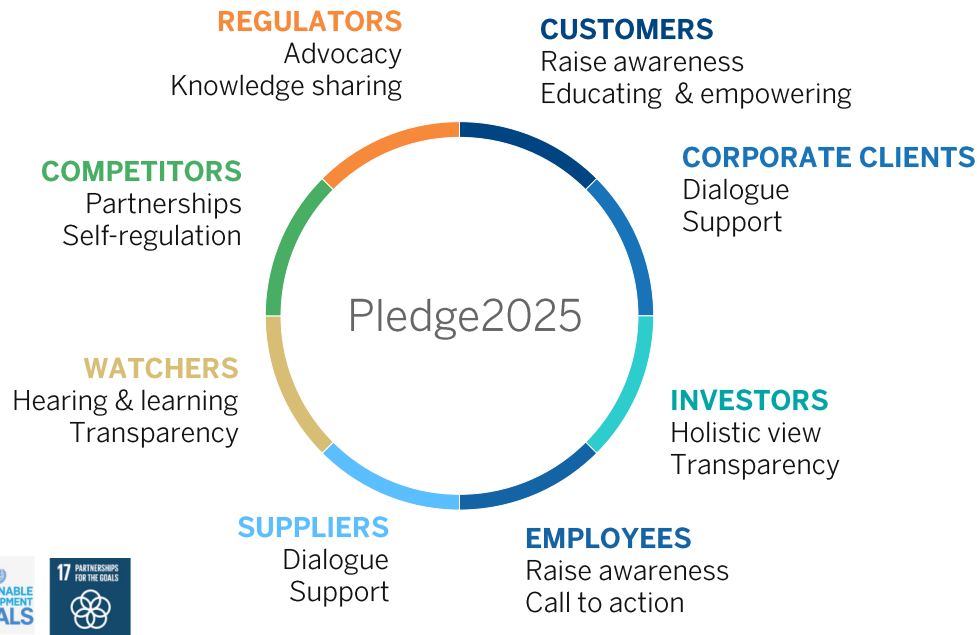
Escalation & exceptions

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



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



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



Conclusions

Environmental & social issues are gaining relevance in our business, not only as **emerging risks** but also as **business opportunities**

Sustainable Development Goals (SDGs) & fight against **climate change** are global challenges that commit States , companies and the whole civic society

Pledge 2025, our strategy on climate change and sustainable development.

A strategy based in our **purpose** and three fundamental pillars:



To finance

- **€100 Billion mobilized** for sustainable finance 2018-2025
- Green finance, sustainable infrastructure, agribusiness, financial inclusion & entrepreneurship



To manage

- **70% renewable energy & 68% reduction in direct emissions**
- First global bank to report carbon-related assets
- New sector norms in mining, energy, infrastructure & agribusiness



To engage

- **Active collaboration** with all stakeholders and commitment with main global initiatives promoting sustainable finance
- TCFD recommendations implemented in 2020
- Education & financial education

A pledge that will be annually reported with third party verification

ANNEXES

UN Sustainable Development Goals

Sector norms: main exclusions

TCFD recommendations road map

Sustainable Development Goals (SDGs)

On 2015 United Nations agreed these 17 goals & 169 targets for 2030



<https://sustainabledevelopment.un.org/>

- Goal 1. End poverty in all its forms everywhere
- Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture
- Goal 3. Ensure healthy lives and promote well-being for all at all ages
- Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
- Goal 5. Achieve gender equality and empower all women and girls
- Goal 6. Ensure availability and sustainable management of water and sanitation for all
- Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all
- Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- Goal 10. Reduce inequality within and among countries
- Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable
- Goal 12. Ensure sustainable consumption and production patterns
- Goal 13. Take urgent action to combat climate change and its impacts*
- Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development
- Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
- Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
- Goal 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development

Sector norms: general exclusions

BBVA will not provide financial services to projects or clients whose core business is linked to any of the following activities or environmental and social impacts:

- Companies that have shown credible and clear evidence (based on court rulings or relevant controversies), of material breaches regarding applicable laws and regulations, or taking part in human rights abuses regardless of the country.
- Activities that involve child or forced labor as defined in ILO conventions.
- Projects that entail the resettlement or violation of rights of indigenous peoples, without their free, prior and informed consent (FPIC)
- Projects located or in the vicinity of UNESCO World Heritage sites, List of Ramsar wetlands, Alliance for Zero Extinction sites and Category I-IV areas of the International Union for the Conservation of Nature.
- Businesses with headquarters based in countries subject to EU, US or UN sanctions

Sector norms: main exclusions



Mining

- New coal mines and coal mine expansions.
- New projects on Mountaintop Removal (MTR) extraction methods
- Asbestos extraction projects
- Major coal producers using MTR mining in more than 10% of their activity
- Clients with a significant portion of their activity consisting in the extraction of coal (more than 40%) used to generate electricity that lack a diversification strategy



Energy

- New nuclear power plants
- Construction of new and expansion of existing coal power plants
- Exploration and production of oil and gas in the Arctic
- Tar sand exploration and production
- Simple hull oil tankers
- Significant coal-based power generation (more than 40%) without a diversification strategy

Exceptions may be made for new nuclear power plants, construction of new and expansion of existing coal power plants, and coal-based power generating clients, in countries with high energy dependency and without viable alternatives. BBVA will report on such projects/clients financed

Sector norms: main exclusions



Agribusiness

- Illegal logging
- The burning of natural ecosystems to clear land for the development of agricultural projects
- Projects for production of first-generation biofuel
- Use of substances prohibited by the Stockholm Convention
- Non-certified Palm oil operations or not in the process of obtaining certification by the Roundtable on Sustainable Palm Oil (RSPO)
- Clients engaging in blast and cyanide fishing
- Clients using driftnets in excess of 2.5km
- Clients trading and manufacturing angora wool
- Clients with animal testing not related to health research
- Clients with direct participation in the trade of shark fins, commercial whale hunting, illegal, undeclared and unregulated fishing



Infrastructure

- Dams failing to comply with WCD Framework
- Facilities failing to comply with the Hong Kong Ship Recycling Convention
- Clients that cannot furnish the health and safety records of their workers and/or areas of influence
- Clients that cannot disclose or provide information about their performance in connection with the use of water, waste and greenhouse gas emissions

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

Area	Recommendations	Done	Plan 2018
GOVERNANCE	Describe the board's oversight of climate-related risks and opportunities	<ul style="list-style-type: none"> ■ Included in the CSR Policy approved by the Board of Directors ■ Board of Directors' oversight (3 times in last 12 months) 	<ul style="list-style-type: none"> ■ Reporting to the Board of Directors and to the Board Executive Committee
	Describe management's role assessing and managing climate-related risks and opportunities	<ul style="list-style-type: none"> ■ 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 	<ul style="list-style-type: none"> ■ 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	<ul style="list-style-type: none"> ■ Quantify credit exposure to carbon-related assets & mix energy generation in utilities 	<ul style="list-style-type: none"> ■ 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	<ul style="list-style-type: none"> ■ Pledge 2025. Strategy on climate change and sustainable development ■ Product portfolio defined at CIB 	<ul style="list-style-type: none"> ■ 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		<ul style="list-style-type: none"> ■ 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

Area	Recommendations	Done	Plan 2018
RISK MANAGEMENT	Describe the organization's processes for identifying and assessing climate-related risks		■ Formalize process
	Describe the organization's processes for managing climate-related risks	<ul style="list-style-type: none"> ■ New sector norms approved by the CEO ■ Equator Principles implemented ■ Due diligence processes in clients, transactions & products defined 	■ 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	<ul style="list-style-type: none"> ■ Quantify credit exposure to carbon-related assets & mix energy generation in utilities ■ Renewable energy 	
	Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions	<ul style="list-style-type: none"> ■ Emissions reported Scope 1 , Scope 2 ■ Committed with Science Based Targets Initiative 	■ Wider disclosure on Scope 3 for carbon-related clients
	Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets	<ul style="list-style-type: none"> ■ Mobilize €100 Billion 2018-2025. Renewable energy 70% and 68% reduction in direct GHG emissions. 100% renewable energy⁷ in 2030 ■ Current exposure in sustainable finance 	■ Annual report verified by third party about Pledge 2025 performance

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