

BBVA Creating Opportunities

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



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

(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

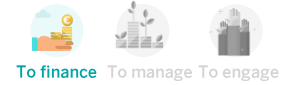
We will engage with all our stakeholders **to collectively promote the contribution** of financial industry to sustainable development

**ACTIVE
COLLABORATION**

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

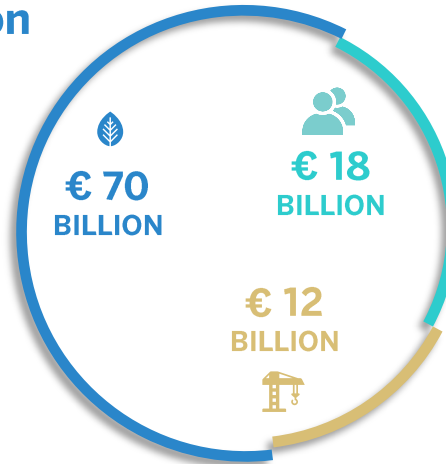
Our purpose: to bring the age of opportunity to everyone

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

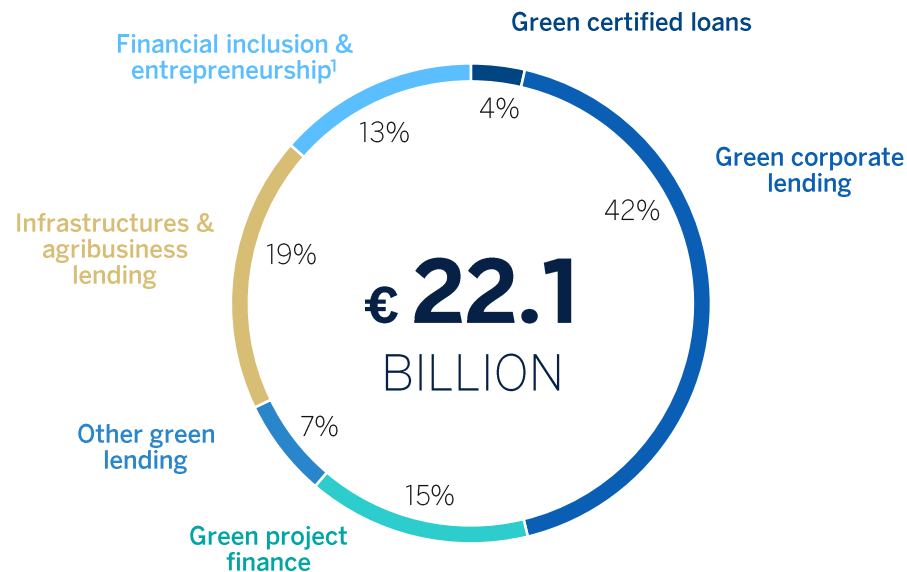


Current exposure on sustainable finance



Credit exposure

December 2017



Sustainable bonds

2017

Sustainable bonds intermediated

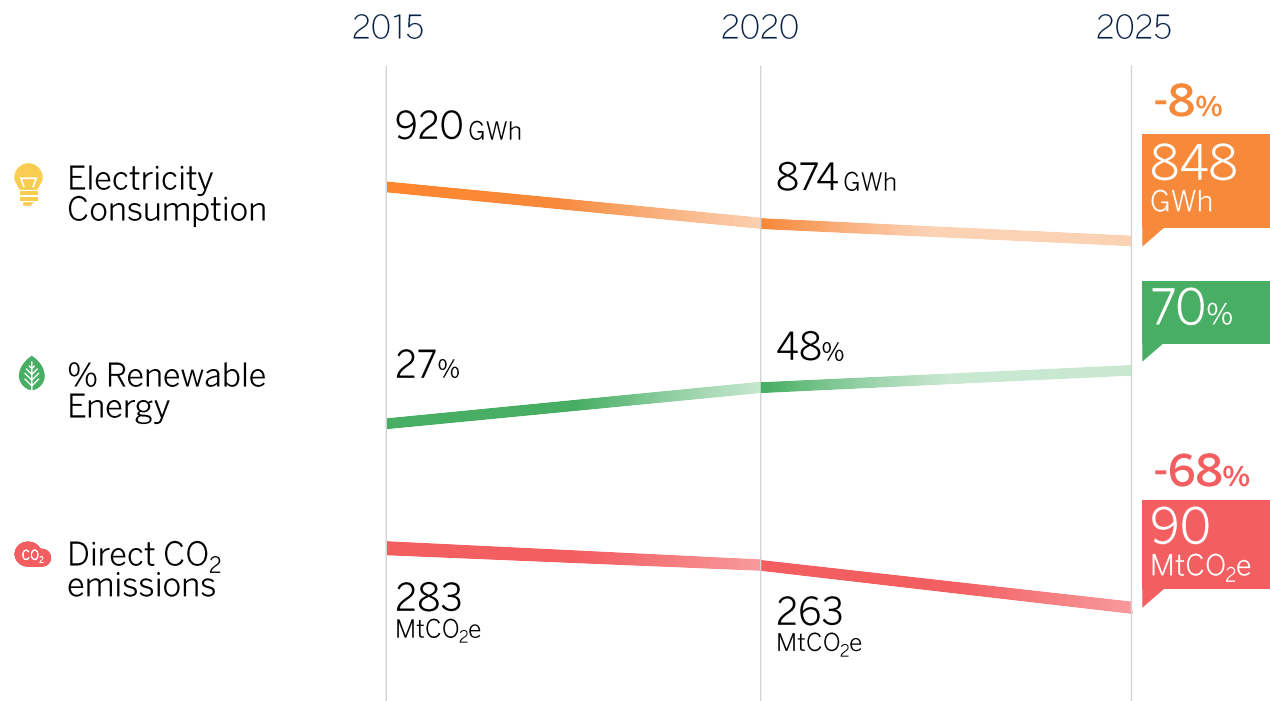
€ 10.6
BILLION

€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

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

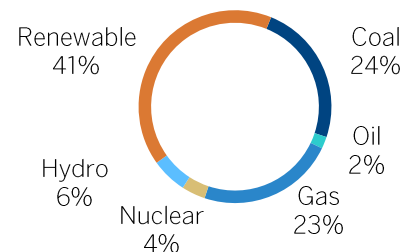
December 2017

€ 23.370 Million
3,4 % of total assets

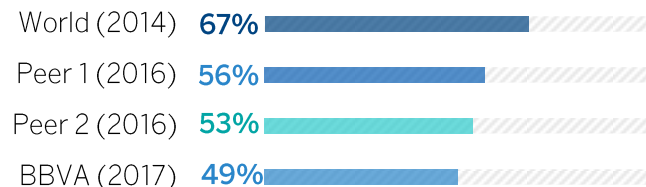
	Utilities	Oil & Gas	Coal Mining	Total
Corporate lending	8.187	12.050	133	20.370
Project finance	416	767	0	1.183
Structured Trade Finance	319	1.473	0	1.792
Equity	0	25	0	25
Total exposure to carbon-related assets	8.922	14.315	133	23.370

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

Transition Risks

Policy and Legal
Technology
Market
Reputation

Physical Risks

Acute
Chronic

Risks

Opportunities

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

TCFD | TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES



02

BBVA Sustainable Bonds Framework

Rationale to established 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

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

A new funding tool to target SRI investors

BBVA Pledge 2025



17 Sustainable Development Goals



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

Supporting the future infrastructure

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

BBVA SDG Bond Framework

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

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**



Excluded Activities

Nuclear power
generation

Mining

Large scale
(above 20 MW) dams

Carbon related

Defense

Oil & Gas

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

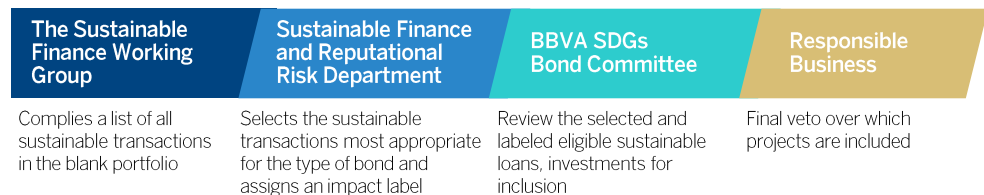
The remaining eligible transactions will each be assigned a label of high or moderate impact

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 chooses 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 published 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

External Review

Framework Verification

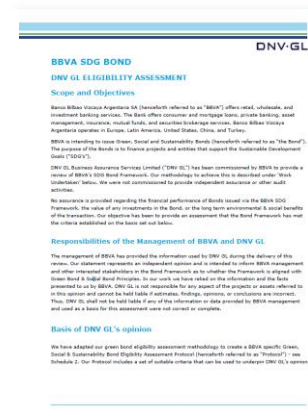
BBVA has obtained an independent verification assessment from DNV-GL which confirms the validity of the BBVA SDGs Framework. This independent verification assessment is published on the BBVA website <https://accionistaseinversores.bbva.com>

Bond Verification

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>

Reporting Assurance

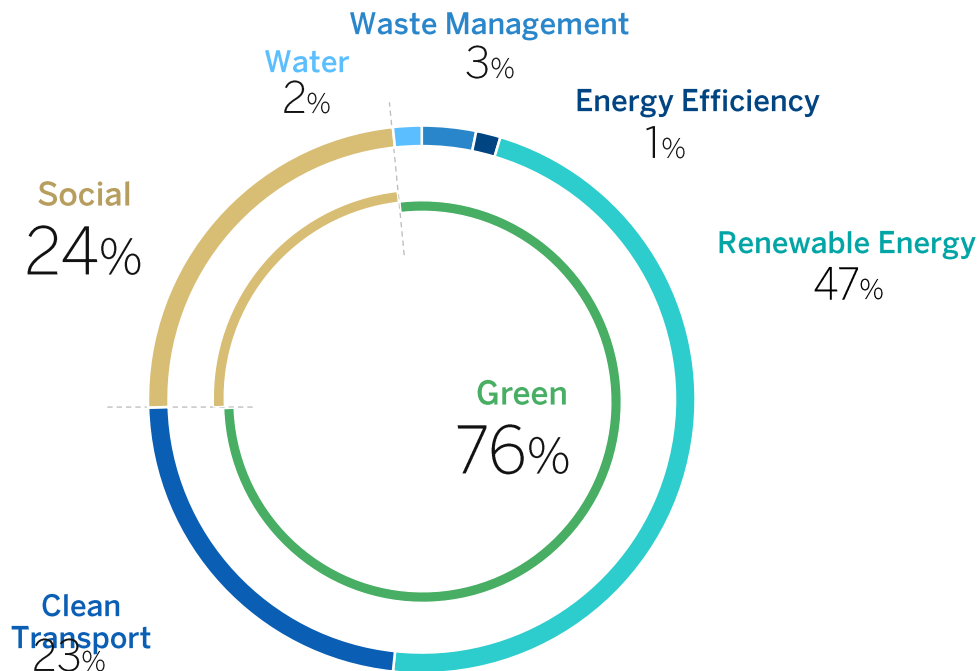
In addition to the independent verification assessment referred to above, BBVA may request, on an annual basis starting one year after issuance and until maturity (or until full redemption), a limited assurance report of the allocation of the proceeds obtained from the relevant Green, Social or Sustainability 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



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

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		<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Sector norms & due diligence processes implementation
	Describe how processes for identifying, assessing & managing these risks are integrated into the organization's overall risk management		<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Annual report verified by third party about Pledge 2025 performance

BBVA Creating Opportunities

BBVA Sustainable Bonds Framework

Financing UN Sustainable Development Goals

Madrid, April 2018

