BBVA
Report on TCFD
December 2020
LETTER FROM THE CHAIRMAN

Climate change is one of the most severe disruptions ever seen in history: it is global in nature, and its economic and social impacts are far-reaching. Climate change demands a determined response from governments, regulators, businesses and society at large. At BBVA we have been among the first to take ownership of our responsibility. We made our 2025 Pledge to Sustainable Finance over three years ago, and have been working toward a sustainable transition aligned to our purpose: “To bring the age of opportunity to everyone”.

The financial sector generates a limited level of direct carbon emissions, yet as banks we play a critical role in supporting our clients in the transition to a sustainable future by providing them with financing and advice. For BBVA, sustainability is a strategic priority. We are one of the most proactive banks in green and social bonds issuance and a leading provider of certified sustainable loans. Climate change also entails a huge opportunity. So, we want to go further, and support our clients with advice, helping them develop their own transition plans and boosting the development of innovative sustainable solutions for companies and individuals alike.

The Net Zero 2050 commitment is a very relevant milestone in our sustainability strategy

The next UN Climate Change Conference, COP26, to be held in Glasgow, will set the goal of ensuring that financial flows are consistent with a trend toward low carbon emissions, and will urge governments and companies to commit to carbon neutrality. At BBVA, we are carbon neutral in emissions since 2020. Additionally, in 2021 we have taken another step forward with two very relevant announcements: First, we have committed to reduce to zero our exposure to coal-related activities by 2030 in developed countries, and by 2040 in the rest of the countries. Second, we have made a commitment to be net greenhouse gas emissions neutral by 2050, also taking into account the emissions of the clients we finance. This is a very relevant milestone that involves aligning ourselves with the most ambitious scenario of the Paris Agreement, that is, limiting the increase in temperatures to 1.5ºC compared to pre-industrial revolution levels. With this, we advance by 20 years the base scenario of the Paris Agreement of 2ºC.

The launch of our TCFD report in 2020 is a new milestone in our pledge to sustainability. This further step toward transparency enables us to look back on our progress in terms of governance model, strategy, risk management and metrics relating to climate change.

However, there is still a long way ahead. This report is a further step in our commitment to disclose – consistently, reliably, and in a standardized form – the climate-related risks and opportunities that arise in the course of our business. We shall continue to deliver on our commitment so as to meet the needs and requirements of investors, regulators, clients and other stakeholders.
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Mission of Task Force on Climate-Related Financial Disclosures

In April 2015, G20 Finance Ministers and Central Bank Governors asked the Financial Stability Board (here-in-after, the FSB) to review how the financial sector could take account of climate-related issues. The FSB established the Task Force on Climate-related Financial Disclosures (here-in-after, the Task Force) to develop voluntary and consistent climate-related financial risk disclosures (here-in-after, the TCFD recommendations) for use by companies across industries in providing information to investors, lenders, insurers, and other stakeholders. The work and recommendations of the Task Force help companies understand what financial markets want from disclosure in order to measure and respond to climate change risks, and encourage firms to align their disclosures with investors’ needs.

Demand for Climate-Related Financial Disclosure

Demand for climate-related disclosure has increased significantly since the release of the TCFD recommendations in June 2017. Many private sector financial institutions, investors, and others continue to make progress on incorporating climate-related disclosure into their financial decision-making. Recognizing that climate-related financial reporting is still evolving, the Task Force’s recommendations provide a foundation to improve investors’ and others’ ability to appropriately assess and price climate-related risk and opportunities.

Improving the quality of climate-related financial disclosures begins with organizations’ willingness to adopt the Task Force’s recommendations. Organizations already reporting climate-related information under other frameworks may be able to disclose under this framework immediately and are strongly encouraged to do so. The Task Force recognizes the challenges associated with measuring the impact of climate change, but believes that by moving climate-related issues into mainstream annual financial filings, practices and techniques will evolve more rapidly.

**What type of information should the TCFD report include?**

The Task Force structured its recommendations around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management and metrics and targets. The four overarching recommendations help investors and others understand how reporting organizations assess climate-related risks and opportunities. In addition, there is guidance supporting all organizations in developing additional climate-related financial disclosures consistent with the recommendations and recommended disclosures. For the financial sector and certain non-financial sectors, supplemental guidance was developed to highlight important sector-specific considerations and provide a fuller picture of potential climate-related financial impacts in those sectors.

This report seeks to summarize BBVA’s strategy for combating climate change and the measures being taken to follow up on the TCFD recommendations.

BBVA’s TCFD Report fulfills the Task Force recommendations as follows:

<table>
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<th>TCFD Recommendations</th>
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<th>Pages</th>
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<td>• Equator Principles</td>
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</table>

**WHAT ARE THE TCFD RECOMMENDATIONS?**
INTRODUCTION

The financial sector and climate change

The fight against climate change is one of the biggest disruptive events of all time, with extraordinary economic consequences to which all actors in our environment (governments, regulators, businesses, consumers and society in general) must adapt.

Climate change and the transition toward a low-carbon economy have significant implications on the value chains of most production sectors, and may require significant investments in many industries. However, technological progress in the fields of energy efficiency, renewable energies, efficient mobility and the circular economy will continue to generate new opportunities for all.

On the other hand, customers, markets and society as a whole not only expect large companies to create value, but to also make a positive contribution to society. In particular, that the economic development to which they contribute with their activity is inclusive.

BBVA is aware of the key role that banking plays in this transition toward a more sustainable world through its financial activity, has adhered to the Principles for Responsible Banking promoted by the UN, the Katowice Commitment and the Collective Commitment to Climate Action and is keen to play a central role, as demanded by society, and to help its customers in their transition toward this sustainable future.

As a financial institution, BBVA has an impact on the environment and society directly through the consumption of natural resources and its relationship with stakeholders; and indirectly (and most importantly) through its credit activity and the projects it finances.

There are two type of risks that impact the business:

- **TRANSITION RISK**: which are those risks pertaining to the transition to a low-carbon economy, and which arise from changes in legislation, the market, consumers, etc., to mitigate and address the requirements of climate change.

- **PHYSICAL RISK**: which arise from climate change and can originate from increased frequency and severity of extreme weather events or long-term weather changes, and which may imply physical damage to companies’ assets, disruptions in supply chains or increase in the expenses needed to face such risks.
BBVA, a bank committed to sustainability

A long history

BBVA is guided by one purpose “to bring the age of opportunity to everyone”. A purpose with the aim of having a positive impact on the lives of people, companies and society as a whole. BBVA’s strong commitment to sustainability is arguably one of the most relevant ways to fulfill this purpose.

This commitment is not new. BBVA adhered to the United Nations Global Compact in 2002, and adopted the Equator Principles in 2004.

The focus on sustainable finance began in 2007 when BBVA participated in the first issuance of a green bond (by the European Investment Bank, EIB) and when, in 2008, the employee pension plan in Spain was the first to sign the Responsible Investment Principles. Since then the Bank has been promoting sustainable solutions, managing their direct impact and integrating environmental and social risk into their decision making.

In 2018 BBVA presented its 2025 Pledge to contribute to the achievement of the United Nations Sustainable Development Goals (SDGs) and the challenges arising from the Paris Climate Agreement. A commitment based on three lines of action:

01 FINANCE

Originate new financing to curb climate change and achieve the SDGs by business origination up to EUR 100 billion between 2018 and 2025 to support green finance, sustainable infrastructure, agribusiness, entrepreneurship and financial inclusion.

02 MANAGE

Integrate environmental and social risks associated with the Bank’s activity to minimize potential direct and indirect negative impacts, and to progressively align its activity with the Paris Agreement. The Bank also set as one of its goals to have 100% renewable energy under contract by the BBVA Group by 2030.

03 INVOLVE

Engage stakeholders to collectively boost the financial industry’s contribution to sustainable development.
Leadership and commitment

Beyond its key role in fostering sustainable financing, BBVA encourages a new way of doing sustainable banking.

The Bank has actively participated in important initiatives in close collaboration with all stakeholders including the industry itself, regulators and supervisors, investors and civil society organizations. These initiatives focus on the following six priority areas:

- **a / Universal leading frameworks:**
  BBVA was one of the 28 founding banks of the Principles for Responsible Banking promoted by the UNEP FI, the United Nations alliance with the financial sector. This is the framework of reference for corporate responsibility in the banking sector, which has already been adhered to by more than 200 banks and more than 40% (by volume of assets) of the banking system.

- **b / Alignment with the Paris Agreement:**
  BBVA signed the Katowice Commitment in December 2018 together with BNP Paribas, ING, Société Générale and Standard Chartered. This initiative is aimed at developing a methodology to help align lending operations with the Paris Agreement, and has inspired the Collective Commitment to Climate Action launched by 31 international financial institutions as part of the United Nations climate summit in New York in September 2019. BBVA has also joined the Science-Based Targets initiative and participates in the Alliance of CEO Climate Leaders of the World Economic Forum (WEF). We have made a commitment to be net greenhouse gas emissions neutral by 2050, also taking into account the emissions of the clients we finance, as founding members of the UN-convened Net Zero Banking Alliance.

- **c / Market standards:**
  BBVA has actively promoted the Green Bond Principles, the Social Bonds Principles, the Green Loan Principles and other standards developed by the industry itself, having allowed the creation of an ordered and growing market of sustainable financial instruments.

- **d / Transparency:**
  In September 2017, BBVA committed itself to the Financial Stability Board’s TCFD recommendations and has been reporting on its objectives, plans and performance while observing its maximum commitment to transparency.

- **e / Financial regulation:**
  BBVA has been participating in consultation processes and in different activities with regulatory bodies and supervisors to promote regulations on sustainable finance. This includes participation in the UNEP FI and European Banking Federation working groups defining recommendations for bank use of European taxonomy.

BBVA co-chairs the UNEP FI steering committee and represents European banking in that partnership. BBVA also holds the chair of the sustainable finance working group in the European Banking Federation and is a member of the Equator Principles steering committee.
Sustainability is an important part of BBVA’s strategy

“We wish to help our clients transition towards a sustainable future”

At BBVA, we are aware of the remarkable role of banks in the transition to a more sustainable world, through our financing operations and advisory services.

The future of banking is financing the Future, with a capital F

Following a strategic reflection in 2019, BBVA has defined six strategic priorities that seek to accelerate and deepen the Group’s transformation and the achievement of its purpose (to bring the age of opportunity to everyone).

These strategic priorities are of great relevance since the strategic plan sets out the Bank’s medium and long-term strategy as well as the guidelines and lines of action by which the Group intends to achieve its objectives.

These strategic priorities include helping our clients in the transition to a sustainable future.

Section 03 of this report describes how BBVA will gradually align its activity with the Paris Agreement.

**OUR PURPOSE**

“To bring the age of opportunity to everyone”

**OUR STRATEGIC PRIORITIES**

- Improving client’s financial health
- Helping our clients transition towards a sustainable future
- Reaching more clients
- Driving operational Excellence
- The best and most engaged team
- Data and Technology

**OUR VALUES**

- Customer comes first
- We think big
- We are one team
BBVA’s corporate governance

BBVA’s corporate governance bodies have devised and promoted a sustainability and climate change strategy for the Bank, approving its basic elements and regularly monitoring its implementation across the Group. This task is carried out by the Board of Directors, BBVA’s highest representation, administration, management and surveillance body, with the assistance of its specialized committees.

The Executive Committee and the Risk and Compliance Committee specifically play the most active role in assisting the Board on sustainability and climate change issues, as detailed below.

Board of Directors

- Executive Committee
- Risk and Compliance Committee
- Remunerations Committee
- Audit Committee
- Appointments and Corporate Governance Committee
- Technology and Cybersecurity Committee

Executive level
Board of Directors

BBVA’s Board of Directors has long considered the progress and main impacts of sustainable development and the fight against climate change as important matters, and these have become even more important issues to monitor in recent years.

The Board of Directors approved the Group’s Corporate Social Responsibility policy in 2008, subsequently amending it to adapt to any new developments over the years. This policy reflects the Group’s commitment to drawing up and implementing a climate change and sustainable development strategy for the achievement of the SDGs, in line with the Paris Climate Agreement, among other considerations.

To this end, the Board fostered the Group’s commitment to sustainability with the “2025 Pledge” described in this report. Its progress and development have been regularly monitored by the Board of Directors, at least on an annual basis, and by its Executive Committee, at least on a biannual basis.

In 2019, BBVA’s Board of Directors led the strategic reflection process carried out within the Group, which identified the need to make sustainability one of the pillars of its strategy for the coming years.

This strategic reflection performed in 2019 had a special implication of the corporate governance bodies, in particular the Board and the Executive Committee who directly participated in the drafting and approval of the Group’s new strategic plan (in several meetings throughout the year). A process to monitor the plan’s implementation and execution was defined with measures including holding specific meetings focused on strategy or the establishment of KPIs to implement the strategic plan.

As a result the Board approved at the end of 2019 such Group’s strategic plan, which defines as one of its priorities “to help our clients transition toward a sustainable future.”

An essential element of this strategic approach determined by the Board is the integration of sustainability and the fight against climate change into the Group’s business. They are considered as medium and long-term development opportunities which will be managed by establishing objectives to facilitate their implementation, oversight and monitoring of progress.

In addition, in 2020, the Board, with the prior analysis of the Executive Committee, approved the Group’s Sustainability Policy, which defines and sets out the general principles and the main management and control objectives and guidelines to be followed by the Group on sustainable development.

The Board of Directors will oversee the policy’s implementation directly or through the Executive Committee, on the basis of periodic or ad-hoc reports received by the Global Sustainability Office (described in this report), the Head of Corporate & Investment Banking (who is responsible for this policy at the senior management level), the Bank’s areas that will incorporate sustainability into their day-to-day businesses and operations and, where appropriate, the Heads of BBVA’s control functions.
At least once a year, or in the event of any event requiring changes to this Policy, the Global Sustainability Office will revise and submit to the Bank’s corporate governance bodies any updates and modifications deemed necessary or appropriate at any time.

The above approach allows the corporate governance bodies to define the basic lines of action for the Group as regards the management of opportunities and risks arising from sustainability in their businesses. It also allows the execution to be overseen by the executive areas in all spheres of the entity’s operations.

In addition to the above and in order to achieve the best performance of its duties in this matter, the Board considered it necessary to strengthen its own knowledge and experience in sustainability. This is being done by onboarding people with extensive knowledge and experience and by a continuous training program to include sustainability-related subjects (such as sustainable finance or main trends that are being developed in the market on this matter).

Executive Committee

Consisting of a majority of non-executive directors, over the years the Executive Committee has assisted the Board in defining and monitoring the development and implementation of the Group’s sustainability policies and initiatives and in regularly reviewing compliance with the corporate social responsibility (CSR) policy. In this regard, the Executive Committee has reviewed such matters at least on a biannual basis, including: the evolution of the volume and type of sustainable finance mobilized by the Group, the environmental impacts of the Group and action plans performed by the Group’s business and support areas regarding sustainable finance, among others.

Additionally, as regards its role in supporting the Board in strategic decision-making, in 2019 the Executive Committee had an active role (as described in the previous paragraphs) in monitoring and overseeing the strategic reflection process, later establishing the basis and finally building-up the new strategic plan. It is also worth noting the Executive Committee in 2020 reviewed the Group’s new sustainability policy prior to its approval by the Board.

Finally, the Executive Committee tracks, on a regular basis, the integration of sustainability into the Group’s business processes, according to its role of monitoring and analyzing the progress of the Group’s strategic key performance indicators, operations and P&L.
Risk and Compliance Committee

Composed of a large majority of independent directors and including only non-executive directors, the Risk and Compliance Committee’s duties include analyzing and escalating to the Board any proposals on Group strategy, control and risk management specified, in particular, in the Risk Appetite Framework. To this end, the Risk and Compliance Committee must work from the strategic foundations established by the Board of Directors or the Executive Committee.

In addition, the Risk and Compliance Committee sets out the policies for monitoring and managing the Group’s various risks, oversees internal information and control systems and, as regards controlling the Group’s risk development, monitors its adjustment to the Risk Appetite Framework and defined policies. It performs its monitoring and control duties regularly enough and with sufficient granular information to ensure their correct fulfillment.

As part of its duties, BBVA’s Risk and Compliance Committee is monitoring the executive team’s progress toward integrating sustainability into the Group’s risk analysis and management, both from a risk planning and a risk management point of view. As regards the former, the Group’s risk appetite statement already includes a reference to the commitment to sustainable development as one of the elements which defines BBVA business model; as regards the latter, this risk has been added to the Sectoral Frameworks which the executives specifically report to the Committee.
Transversal integration of sustainability at the executive level

BBVA considers sustainability in all its day-to-day operations and everything else it does, both in relation to its clients and its internal processes.

As such, devising and executing the sustainability strategy is an organization-wide effort, and all Group areas must include it progressively in their strategy agenda and work dynamics.

Taking into account the two main sustainability focal points of action described in the previous section, the Group will have specific sustainability goals (the “Group’s Sustainability Goals”), which are the following at the date this Policy was drawn up:

- TO PROMOTE THE DEVELOPMENT OF SUSTAINABLE SOLUTIONS: identify opportunities, develop sustainable products and offer advice to individual and business clients.

- TO INTEGRATE SUSTAINABILITY RISK INTO ITS PROCESSES: integrate risks associated with climate change (physical or transition) into the Group’s risk management processes.

- TO ESTABLISH A SINGLE AGENDA WITH STAKEHOLDERS: promote transparency about our commitments and performance, reduce our direct impact and foster the active involvement with all our stakeholders to promote sustainability in the financial sector.

- TO DEVELOP NEW SKILLS IN SUSTAINABILITY: leverage the Group’s data and technology capacities to foster the development of the sustainability strategy within the organization, and to promote related training for employees.

These goals materialize in various lines of work\(^2\), to be executed by the areas under the oversight of the appointed supervisor.

Also, the Global Sustainability Office (GSO) has been created, a unit responsible for promoting and coordinating the Group’s sustainability initiatives, with the support of the senior managers in the Group’s global and local areas. The GSO has scheduled regular meetings with these managers to review the lines of work with a view to accelerating their execution and guaranteeing the alignment across Group units.

Finally, a network of experts has been created with sustainability specialists from the Group areas (Client Solutions, Corporate & Investment Banking, Global Risk Management, Communications & Responsible Business, etc.) and under the GSO’s coordination. These experts must generate knowledge in the field of sustainability within the Group so as to offer advice to clients and support the areas in developing new sustainability value propositions, integrate climate risks into risk management, draw up a public sustainability agenda and set sustainability standards.

2. For more details on the lines of work see Section 3 about “Strategy”.
Remuneration system

As set out in the BBVA Directors’ Remuneration Policy, approved by the General Shareholders’ Meeting, the remuneration system of executive directors includes fixed remuneration, which will consider the level of responsibility and functions performed, and variable remuneration.

Variable remuneration for each executive director is based on an annual incentive. This reflects the directors’ performance through the fulfillment of objectives set to assess each financial years’ earnings, based on the strategic priorities set by the Group and considering the risk incurred.

Annual financial performance indicators are aligned with the Group’s most relevant management metrics. Non-financial indicators will be related to Group-level strategic objectives and, where applicable, to indicators specific to each executive director, which may include economic, social and environmental aspects, as well as other indicators relating to diversity and inclusion.

In turn, the remuneration model applicable to all BBVA Group employees consists of fixed remuneration and variable remuneration. The corporate variable remuneration model aligns variable remuneration with the Group’s strategic objectives.

In 2021, we have set up a new KPI related to Sustainability (Origination of sustainable financing), directly related to the activity carried out by the Group to comply with the commitments assumed with the market in terms of climate change, with a specific weight of 10% that reinforces the commitment of both the Chairman and the CEO, so that BBVA achieves its sustainable development objectives, in line with the Bank’s strategic priority of Helping customers in the transition to a sustainable future, and thus incorporating a metric ESG (Environmental, Social, Governance) to the variable remuneration scheme for executive directors.

Variable remuneration is associated with the degree of achievement of preset financial and non-financial objectives. Within the non-financial KPIs, since 2021 we have also set up a new Sustainability KPI (Sustainable financing origination) in the corporate variable remuneration model that is applicable to all employees.
As noted in the previous chapters, BBVA takes into account the major challenges derived from climate change and is, therefore, acting to address them.

Climate change entails a number of risks and opportunities for the banking business which need to be identified and managed to minimize negative impacts on our environment, while taking advantage of all the associated positive aspects.

**Defining climate change risks and opportunities for BBVA**

**Climate change risks**

As a financial institution, BBVA has an impact on the environment and society directly through the consumption of natural resources and its relationship with stakeholders; and indirectly (and most importantly) through its credit activity and the projects it finances.

There are two type of risks that impact the business:

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

- **PHYSICAL RISKS**, which arise from climate change and can originate from increased frequency and severity of extreme weather events or long-term weather changes, and which may imply physical damage to companies’ assets, disruptions in supply chains or increase in the expenses needed to face such risks.
### TABLE 01: Transition Risks

<table>
<thead>
<tr>
<th>Risk subtype</th>
<th>Risks associated with climate change</th>
<th>Risk description</th>
<th>Time horizon</th>
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<tr>
<td><strong>LEGAL AND REGULATORY</strong></td>
<td>Increase in the cost of CO₂ emissions</td>
<td>Financial risk to BBVA clients whose liquidity or earnings could be harmed from having to face higher costs or, alternatively, higher investments in emission neutralization, resulting from regulatory changes</td>
<td>ST</td>
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<td>Increased cost of direct emissions from the Bank in its operations</td>
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<td></td>
<td>Increase in monitoring and tracking requirements</td>
<td>Increased staffing and economic resources for the study and monitoring of the Group’s clients, and tracking of their compliance with environmental requirements</td>
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<td></td>
<td>Changes in the regulation of existing products and services</td>
<td>Uncertainty for financial agents regarding changes and their implementation</td>
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<td></td>
<td></td>
<td>Impairment of client asset positions due to the generation of stranded assets (assets that prior to the end of their economic life are no longer able to earn an economic return)</td>
<td>MT</td>
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<td>Sales drop due to adjustments to offerings, to align with new legal specifications for a product</td>
<td>MT</td>
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<td></td>
<td>Increase in regulatory capital requirements due to risk associated with climate change</td>
<td>Possibly different prudential treatment of financial assets in terms of risk-weighted assets based on their exposure to physical and transition risks</td>
<td>MT</td>
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<td>Adverse regulatory changes that may cause certain exposures on BBVA’s climate change balance sheet to have higher capital consumption</td>
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<td></td>
<td>Risks of environmental lawsuits</td>
<td>Possible lawsuits against BBVA for not complying with environmental regulations in its business or supply chain</td>
<td>ST</td>
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<td></td>
<td>Risk of lawsuits against third parties</td>
<td>Potential lawsuits for environmental crimes against BBVA clients. BBVA could be impacted by its clients’ loss of solvency resulting from an increase in litigation costs</td>
<td>ST</td>
</tr>
<tr>
<td><strong>TECHNOLOGICAL</strong></td>
<td>Replacement of existing products and services with lower-emission alternatives</td>
<td>BBVA clients with a position in sectors that are outperformed by alternative technologies could suffer solvency problems and their ability to cope with their credit commitments could be diminished</td>
<td>ST</td>
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<tr>
<td></td>
<td>Failed investment in new technologies</td>
<td>Clients that invest in failed technology may go through solvency difficulties and be unable to meet their credit commitments</td>
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</tbody>
</table>
### Cost of transitioning to low-emission technology

The investments which BBVA clients need to make to change their production models can be an opportunity but they can also negatively impact the balance sheet structure or profitability of said clients if not done properly. On the other hand, the necessary R&D investments could undermine the clients’ ability to meet their commitments.

Costs of investing in remodeling and adapting BBVA-owned buildings

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<th>MARKET</th>
<th>Changes in (market) trends, financial agent and consumer preferences</th>
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<td>Changes in demand caused by changes in consumer preferences can lead to falls in sales for BBVA clients and result in loss of profits and solvency</td>
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<td></td>
<td>Reduction in demand for certain products can cause price falls that affect the valuation of companies’ assets (crude oil reserves, fossil fuel cars, etc.)</td>
</tr>
<tr>
<td></td>
<td>Increased demand for certain products or services may impact on the price of certain raw materials. While this may be reflected in prices, it may lead to lower profits or the loss of BBVA’s clients’ market share</td>
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<tr>
<td></td>
<td>Risk of change in the Bank’s client preferences for not considering the Bank well positioned in the sustainable segment</td>
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<tr>
<th>Uncertainty in market signals</th>
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<tbody>
<tr>
<td>Difficulty or impediments to proper price formation or allocation of financing or investment sums</td>
</tr>
<tr>
<td>Forecasts made by research agencies or services to dictate the strategy of entities may not be fulfilled due to abrupt changes in the market caused by changes in regulations or demand</td>
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<table>
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<tr>
<th>Increased cost of raw materials</th>
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<tbody>
<tr>
<td>Sharp changes in the price of raw materials, resulting in changes in supply or energy cost, can lead to deteriorating liquidity and declining profits for clients. It can be mitigated with end-product price increases</td>
</tr>
<tr>
<td>BBVA’s energy supply cost could also be affected</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk of a significant increase in the cost of financing clients with higher exposure to climate risks, in a way that affects their solvency by making it more difficult for them to cope with their credit commitments</td>
</tr>
<tr>
<td>Risk of worsening the credit rating of clients with exposure to climate change risks, with the associated adverse effects for BBVA</td>
</tr>
</tbody>
</table>
### REPUTATIONAL

| Change in consumer preferences | Direct risk of client loss for not meeting what various stakeholders expect from BBVA as regards the climate change challenge and fostering a more inclusive world | ST |
| Indirect risk of our clients losing business, which affects their solvency, because they engage in an activity that is not considered sustainable | ST |
| Demand from clients to limit our operations’ direct impacts | ST |
| Stigmatization of a sector | Risk of assets stranded by a sharp change in the perception of a sector, with significant loss of sales | ST |
| Investment exclusions in certain sectors due to market pressures | Withdrawal from profitable deals due to reputational risk or a sectoral ban | ST |

### TABLE 02: Physical Risks

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

In addition to the existing risks described above, BBVA is also very aware of the number of climate change-associated opportunities and seeks to leverage them to position itself for the significant disruption caused by climate change and our response to it.

**TABLE 03** Opportunities

<table>
<thead>
<tr>
<th>Sector</th>
<th>Opportunity</th>
<th>Time horizon</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Oil &amp; Gas</strong></td>
<td>Liquefied Natural Gas (LNG) as an alternative to other fossil fuels as it has a much lower level of emissions</td>
<td>ST</td>
</tr>
<tr>
<td></td>
<td>Possibility of reusing oil &amp; gas transport assets for biofuels and hydrogen</td>
<td>MT</td>
</tr>
<tr>
<td><strong>Chemicals</strong></td>
<td>Carbon capture and storage through chemical separation of carbon dioxide for later reuse</td>
<td>ST</td>
</tr>
<tr>
<td><strong>Electricity</strong></td>
<td>Strong boost to renewable energy, electricity storage</td>
<td>ST</td>
</tr>
<tr>
<td></td>
<td>Energy efficiency services and hydrogen development</td>
<td>MT</td>
</tr>
<tr>
<td><strong>Construction &amp; infrastructures</strong></td>
<td>Renovation of buildings (headquarters, housing, premises, etc.) as well as industrial plants in need of energy-efficiency improvements because of the increased regulatory impact</td>
<td>ST</td>
</tr>
<tr>
<td></td>
<td>Infrastructures to improve climate change adaptation: changes in cities, development of a smart grid, charging infrastructure for electric vehicles</td>
<td>ST</td>
</tr>
<tr>
<td><strong>Transportation</strong></td>
<td>Efficient low-emission and mobility services (electrical, LNG and hydrogen)</td>
<td>ST</td>
</tr>
<tr>
<td><strong>Mining &amp; metals</strong></td>
<td>Production of metals to manufacture electric vehicles (copper, lithium, cobalt and nickel among others)</td>
<td>ST</td>
</tr>
<tr>
<td><strong>Agriculture</strong></td>
<td>Efficient irrigation systems, use of waste as a source of biogas</td>
<td>ST</td>
</tr>
<tr>
<td></td>
<td>Development of new anti-drought products</td>
<td>MT</td>
</tr>
<tr>
<td><strong>Other sectors</strong></td>
<td>Circular economy, recycling, waste and water treatment, tree planting, food industry, tourism industry conversion to carbon neutrality (Fossil fuel change, etc.)</td>
<td>ST</td>
</tr>
</tbody>
</table>
Implementing the strategy

As mentioned in the introductory chapter, one of BBVA’s six strategic priorities is to assist our clients in their transition to a sustainable future, minimizing risks while maximizing any opportunities that may arise.

To this end, BBVA initially focuses on those SDGs in which the Group can have a greater positive impact by harnessing the multiplier effect of banking.

**CLIMATE CHANGE**

Originating the investments needed to manage the challenge of climate change, in alignment with:

- **ENERGY EFFICIENCY**
  Technologies that reduce energy use per product unit
- **CIRCULAR ECONOMY**
  Recycling, new materials, responsible use of natural resources, etc.
- **CO₂ REDUCTION**
  Renewables and other clean energy sources, electric mobility

**INCLUSIVE DEVELOPMENT**

Originating the investments needed to build inclusive infrastructures and support inclusive economic development, in alignment with:

- **DIGITAL SOLUTIONS**
  Providing financial services to the population without banking services
- **INCLUSIVE INFRASTRUCTURES**
  with a focus on basic services and affordable and sustainable transport
- **Support for ENTREPRENEURS**
  and promotion of economic growth and productive employment
Considering the above areas of action, and to further develop this strategic priority, four major objectives are set, which are laid out in workstreams.

<table>
<thead>
<tr>
<th>OBJECTIVES</th>
<th>WORKSTREAMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>01 Encourage sustainable business growth</td>
<td>Currently, this objective consists of 5 workstreams:</td>
</tr>
<tr>
<td></td>
<td>• Clients retail</td>
</tr>
<tr>
<td></td>
<td>• Clients enterprise</td>
</tr>
<tr>
<td></td>
<td>• Clients CIB (Corporate &amp; Investment Banking)</td>
</tr>
<tr>
<td></td>
<td>• Communications &amp; marketing</td>
</tr>
<tr>
<td></td>
<td>• Social</td>
</tr>
<tr>
<td>02 Integrate sustainability risk in the processes</td>
<td>Currently, this objective is composed of 2 workstreams:</td>
</tr>
<tr>
<td></td>
<td>• Risk management</td>
</tr>
<tr>
<td></td>
<td>• Sustainability Standards</td>
</tr>
<tr>
<td>03 Establish a unique sustainability agenda with stakeholders</td>
<td>Currently, this objective consists of 3 workstreams:</td>
</tr>
<tr>
<td></td>
<td>• Reporting &amp; transparency</td>
</tr>
<tr>
<td></td>
<td>• Direct impact</td>
</tr>
<tr>
<td></td>
<td>• Public engagement</td>
</tr>
<tr>
<td>04 Develop the necessary sustainability capabilities</td>
<td>Currently, this objective consists of 2 workstreams:</td>
</tr>
<tr>
<td></td>
<td>• Data &amp; technology</td>
</tr>
<tr>
<td></td>
<td>• Talent</td>
</tr>
</tbody>
</table>

Each of the four objectives are discussed in more detail below, except for Integrate sustainability risk in the processes, which is discussed in the Section 04.
Encourage sustainable business growth

Specifically, the solutions promoted by BBVA focused on identifying opportunities arising from climate change and developing sustainable products, as well as creating value propositions and offering advice to individual and corporate customers that can be highlighted are:

**Sustainable solutions for corporate and institutional customers as well as businesses**

**BROKERED SUSTAINABLE BONDS**

Throughout 2020, BBVA has led 43 green, social and sustainable bond issuances for customers in the United States, Latin America and Europe, with a volume of more than 21,760 million euros and a disintermediated volume of 4,180 million euros. This activity has strengthened BBVA’s position as the most active Spanish institution in the disintermediation of this type of asset for the fifth consecutive year. The participation in the inaugural operations carried out in Europe in the automotive, energy and telecommunications sectors stands out; and in the United States in the energy sector. During 2020, BBVA has actively worked in the advice and placement of social COVID-19 bonds (whose funds are aimed at mitigating the negative effects of the pandemic). Thus, BBVA has led to the disintermediation of the ICO social bond and the 52 million euros health social bond of the Community of Madrid. On the other hand, and also in Spain, BBVA has supported the 700 million euros inaugural issuance of the green bond of the Community of Madrid, which has been the first green bond issuance of a public administration in Spain.

Lastly, BBVA continues to support the development of the green bond market in other regions, such as Mexico or Argentina.

In Mexico it has led two sustainable issuances of the Fondo Especial de Financiamientos Agropecuarios (FEFA, Special Fund for Agricultural Financing): a green bond that it placed in June and a social gender bond that it placed in October, which is a major milestone as it has been the first bond with a focus on gender equality to be issued in the country. BBVA has also led the inaugural bond of a real estate investment trust issued in Mexico. The resources from this bond will be used for financial inclusion and to provide access to financing for women in the agricultural sector.

In Argentina, BBVA has led the first green bond of an entity mainly dedicated to the distribution of materials for construction and the exploration and production of oil and gas, amounting to 500 million US dollars, which has been aimed at wind energy projects.
SUSTAINABLE CORPORATE LENDING

In 2020, the Bank participated in 68 financial operations linked to environmental and social indicators (KPI-linked) and linked to the customer’s ESG rating (ESG-linked), amounting 4,893 millions of euros, including pioneering operations in the pharmaceutical and steel sector. Furthermore, BBVA has been also a pioneer in closing the first sustainable financing with the backing of the ICO. As such, BBVA has consolidated its position as the leading institution as a sustainable coordinator/structuralist in syndicated and bilateral operations for the fourth consecutive year.

Outside Spain, BBVA has Led several landmark operations, including the first sustainable financing in Colombia, and one of the main syndicated loans in Germany and two in Italy. Avenues were also opened in Argentina through closing the first social operation in the country. BBVA continues to work with its customers to develop new and demanding formats to link its long-term commitment to sustainability and to the objectives set by the European taxonomy and the Paris Agreement respectively.

Furthermore, in 2020 BBVA remained active in the financing of sustainable projects throughout 2020, participating in 20 operations which has involved BBVA mobilizing more than 1,184 millions of euros of sustainable financing in three main areas:

• FINANCING OF RENEWABLE PROJECTS, in which BBVA has consolidated its position as one of the world’s leading banks, having closed operations, including the financing to one of the first offshore wind farms in the world, and that shows the support of BBVA to new sustainable technologies, and the funding of the biggest wind energy project contracted under a Power Purchase Agreement (hereinafter PPA) in Spain.

• SOCIAL PROJECTS: BBVA has continued its activity in the health sector. It has also been particularly active in financing telecommunications projects, given the key role they play from a societal perspective as facilitators in accessing new technologies, digitalization and their contribution to economic development. BBVA has participated as a leading bank in the financing of 8 operations in this sector, focused on the field of health and the deployment of optical fiber networks.

• SUSTAINABLE INFRASTRUCTURE PROJECTS, where BBVA is a pioneer both in operations related to sustainable transport and in buildings that reduce the environmental impact.

Additionally, BBVA has mobilized 4,895 millions of euros of corporate financing to customers that take part in green classified sectors, in accordance with the Green Bond Principles (renewable energies, waste management, sustainable transport and energetic efficiency), or in social sectors, in accordance with the Social Bond Principles (health, education, social assistance and social housing).

Likewise, BBVA took part in 27 operations, which means a 762 millions of euros mobilization in fixed-purpose loans certified by an accredited independent third party, where the purpose of the funding has positive environmental and social impacts.

Likewise, under its sustainable transactional banking framework, BBVA has signed 41 operations amounting 961 millions of euros. Furthermore, new products (such as confirming lines and deposits) have been launched under this framework, which includes a new approach to certifying products as linked to sustainability. The market for financial products linked to sustainability is relatively new and it is growing rapidly, thereby allowing companies and sectors searching for ways to start or expand their sustainable trajectory to gain access to sustainable financing. Products linked to sustainability are intended to facilitate and support economic activity and growth in both environmental and social spheres. This new approach allows BBVA to actively support its customers in the transformation toward more sustainable business models.
Sustainable solutions for retail customers

BBVA wants to support its retail customers in adopting more sustainable habits that help them to reduce their emissions. It wants to do so proactively, by investing in data-based tools and solutions that help customers to control their consumption and emissions. To this end, it is working on making a wide range of products available to customers, both for investment and financing, to help them in this transition, adapting to the situation in each of the regions in which it operates.

In Spain, following the expansion of the catalog of sustainable solutions available in 2019, financing lines for businesses are already being offered for purchasing hybrid and electric vehicles, installing renewable energies and improving energy efficiency in buildings.

As such, a specific funding line was launched for SMEs for the renewal of their vehicle fleet with electric or hybrid plug-in models. Furthermore, with regard to housing, a line of loans to property developers was launched, specifically aimed at developments with high energy certifications, which includes the innovative possibility that retail customers who purchase these homes will be able to benefit from an interest rate subsidy on their mortgage.

At the individual level, the aim is also to promote low emission mobility through granting loans for electric cars and providing insurance relating to this type of vehicle. Likewise, a green offering has been launched for mortgages for homes with energy rating A.

On the investment side, BBVA has a range of sustainable funds, such as the conservative multi-asset fund BBVA Futuro Sostenible ISR (BBVA SRI Sustainable Future), BBVA Bonos sostenibles ISR (BBVA sustainable SRI Bonds) and the international equity fund BBVA Bolsa Desarrollo Sostenible (BBVA Sustainable Development Fund). The Bank launched its first individual pension plan managed with SRI criteria, the BBVA Plan Sostenible Moderado ISR (BBVA ISR Moderate Sustainable Plan) in 2019.

In other geographical areas, BBVA’s offering in Turkey includes green mortgages, marketed within the framework of an agreement with the IFC, and lines of credit for electric and hybrid vehicles on the financing side. It also offers its customers the possibility of investing in a pension plan formed by shares of listed companies “BIST Sustainability Index” as a result of their awareness of global warming and social inclusion.

In Peru, BBVA is also committed to increase its mortgage offering for homes with good energy ratings. It currently offers “Mi vivienda verde” (“My green home”), a state-subsidized mortgage loan granted for purchasing a home certified as a green project that includes sustainability criteria in its design and construction. A line of sustainable financing for electric and hybrid cars was launched in 2020.

In Mexico, advances in equipment leasing linked to sustainability are notable, whereby an agreement was also signed with the IFC to promote this product in 2019. It also offers individuals products for financing low-emission cars and insurance for such vehicles.

In 2020, BBVA Mexico has joined the C Solar program, an initiative coordinated by the Secretariat of Energy, with the aim of fostering the energy transition of SMEs in the country through NAFIN-secured financing to generate photovoltaic solar energy. Agreements have also been reached with the main distributors of solar panels to finance the installation of this type of energy in private homes, and BBVA is participating in the Cofinavit mortgage program with the aim of granting mortgages to homes that include energy efficiency improvements.

In the United States, financing lines for purchasing hybrid and electric vehicles are being offered to individuals and work is underway to launch a green offering for homes with sustainable certifications before the end of the year.
Along the same lines, a line of financing has been launched aimed at SMEs, the purpose of which is to improve energy efficiency in buildings or the acquisition of properties with good energy ratings. In the last quarter of 2020, a line of financing aimed at this segment for purchasing electric and hybrid vehicles has been launched.

In Argentina, in addition to offering consumer loans aimed at improving energy efficiency in homes, BBVA focused on promoting electric mobility by offering different products for financing cars, bicycles and electric scooters.

Lastly, Colombia has provided a boost to sustainability by launching a line of financing for electric and hybrid cars and a certified sustainable home mortgage with differentiated rates and conditions in the last quarter of 2020. Insurance for this type of car and home is also included in its product portfolio.

As far as the circular economy is concerned, BBVA is committed to ensure that all of its cards are made from recycled material. The first of these has been launched in Spain, using 76% recycled plastic for the young-customer segment, while work is underway to extend this to the rest of the cards in Spain and the rest of geographical areas.

### ESG Advisory

Furthermore, to complete the sustainable portfolio, the ESG Advisory service was created in 2020 to assist global customers in their transition toward a sustainable future.

This involves data-driven assessments and guidance to assist customers in undertaking commitments, each from a different starting point, to align with the Paris Agreement and make progress in terms of the United Nations’ 2030 Sustainable Agenda.

BBVA offers value-added information on regulation, best practices and the challenges and opportunities faced in their sectors on their journey toward sustainability.

It also provides an overview of the whole range of sustainable products and services that can be offered from CIB, both in terms of debt and equity.

Efforts are being focused on specific sectors such as oil & gas, utilities, automotive and infrastructure along with cross-cutting issues such as energy efficiency.

### Socially responsible investment

In the area of socially responsible investment (SRI), BBVA assumed its commitment to SRI in 2008 when it joined the United Nations Principles for Responsible Investment (PRI) through the employee pension plan and one of the Group’s main asset managers, Gestión de Previsión y Pensiones (Social Security and Pensions Management) in Spain. The goal then was to start building BBVA’s own responsible investment model from the ground up, with the initial implementation focused on employment pension funds, to then be extended to the rest of the Group’s managers.

In 2020, BBVA Asset Management (BBVA AM), the Group’s investment management unit that brings together all its asset management activities around the world, developed its sustainable investment plan, which marks a significant leap in the goal of integrating sustainability, setting itself the target of incorporating sustainability practices into all investment portfolios and products. This plan will be developed over the next few years, and its implementation and deliverables will materialize in BBVA’s various asset management businesses over several phases. The pillars of action for incorporating sustainability into the business are as follows:
• INTEGRATING ESG CRITERIA INTO THE INVESTMENT PROCESS, carried out through the development of its own model that integrates extra-financial criteria into management. To this end, BBVA AM will create an internal ESG measurement rating for all instruments in the portfolio, whether issuances of government debt, corporate debt or equity, and mutual funds; this part will be carried out with the support of Quality Funds, BBVA’s department of analysis and selection of third-party funds.

• EXCLUSIONS POLICY: Development of an exclusion policy that will affect companies facing severe controversies, companies that do not comply with the United Nations Global Compact, and sectors that are considered intrinsically harmful to society. In relation to the latter point, the Defense Performance Standard applies to all units and subsidiaries of the BBVA Group, and therefore to all vehicles that are managed within the BBVA AM business in all geographical areas. For its application, BBVA uses exclusion lists of companies and countries, drawn up and updated periodically, with the help of an independent expert advisor. These lists include companies and countries related to defense equipment, military, police and security armaments, ammunition, explosives, etc., which are automatically excluded from the list of companies in which BBVA can invest.

Engagement and voting policy

• Development of its own voting policy based on BBVA’s best practices and beliefs on how to promote the sustainable creation of long-term value for companies.

• In 2020, BBVA AM exercised its political rights through attending 151 general shareholders’ meetings (of Spanish companies and European and US foreign companies whose securities are held in the portfolios of the various investment vehicles managed by BBVA AM).

• BBVA AM will make use of dialog with the companies in which it invests to encourage them to incorporate the most important sustainability issues into their strategic plans.

• Likewise, it is committed to gradually joining agreements and collaborating with organizations that promote the principles of responsible investment.

Communications & marketing

BBVA’s goal is to support the development of the Bank’s strategic priority of Sustainability, and specifically the workstreams described above, by increasing the presence of Sustainability in the Bank’s internal and external communication, and in specific marketing campaigns. To this end, a communication and marketing framework has been developed that defines the governance and editorial line for everything related to Sustainability.
Other activities

Additionally, it is worth noting the Group’s own green and social issuances. BBVA has become one of the most active banks in the issuance of green bonds since the publication of its Sustainable Development Goals Bonds framework in 2018. That same year the Bank issued its first green bond for 1 billion of euros, the largest up to that date by a eurozone bank. In 2019 the first structured green bond was issued using “blockchain” technology, a private placement in which MAPFRE invested 35 millions of euros.

These issuances have avoided a total of 724,000 tons in CO₂ atmospheric emissions which is equivalent to 285,000 cars emit in one year.

In May 2020, BBVA was the first private financial institution in Europe to issue a COVID-19-related social bond and, two months later, the Bank was the first financial institution to issue contingent convertible perpetual bonds (CoCos) classified as green bonds, for 1 billion of euros. The funds will be used to finance eligible green assets in BBVA’s portfolio. The portfolio is diversified into assets from different green sectors: energy efficiency, renewable energy, sustainable transportation, waste management and water management.

By subsidiaries, BBVA has also been pioneer in Mexico with the first green bond issued by 3,500 millions of mexican pesos in 2018, Turkey with the first gender bond issued in emerging markets for 75 millions of US dollars and one year later with a green bond for 50 millions of US dollars, and Uruguay with the first ESG bond from a bank in this country for 15 millions of US dollars in 2021.
Integrate sustainability risk in our processes

**Reporting & transparency**

BBVA seeks to publish environmental information on its strategy and impact management measures, so that external agents which interact with the Bank (analysts, investors, rating agencies, etc.) are able to internalize BBVA’s current approach to these matters and the path it will take in the coming years.

**Direct impact**

This line of work focuses on reducing direct emissions from the BBVA Group itself and setting ambitious medium-term targets for renewable energy use and direct emission reduction. All while addressing the SDGs within BBVA’s reach (sustainable and affordable energy, sustainable cities and communities, responsible consumption and production, and climate action).

**Public engagement**

BBVA is actively involved in various supranational environmental initiatives and aspires to hold a leadership position in the international climate change agenda. To this end, it is important to ensure the fulfillment of its commitments by monitoring their development on an ongoing basis.

Establish a unique sustainability agenda with stakeholders

**Data & technology**

Data is a key part of sustainability because (i) it is critical to identify, manage and track the risks associated with climate change, and (ii) it makes it possible to identify sustainability opportunities for our clients. For this reason, BBVA is conducting a comprehensive exercise to incorporate BBVA’s Sustainability Standards (aligned with the European Union Taxonomy) in its management policies.

Furthermore, the Group has launched a project to gather environmental data from its clients in collaboration with external information providers and by creating industry-specific sustainability questionnaires. The aim is to increase our knowledge of the Group’s portfolio’s environmental performance and to be able to make better data-driven decisions.

**Talent**

Sustainability is a pillar of the BBVA Group and one of the priorities of the Strategic Plan announced in 2020, which entails “Helping our clients in the transition to a sustainable future.”

For this reason, sustainability has been identified as one of the key competencies in all areas of the Group. This has led to a global effort to identify and properly assess the reskilling needs of the workforce in this regard.
In response to this challenge, BBVA has worked on the launch of specific training itineraries in sustainability structured around three levels of knowledge and a focus on the two main aspects of the new sustainability strategy: climate action and inclusive growth.

We should highlight some of the progress made in 2020:

- **APRIL 2020**
  A specific Sustainability portal for all Group employees was unveiled.

- **AT THE END OF SEPTEMBER**
  An express course on sustainability for all the Group’s employees was launched. This mandatory course includes specific content on the fight against climate change and BBVA’s direct and indirect impacts on the environment.

- **AS OF DECEMBER 31, 2020**
  More than 38,000 employees have received training on sustainability, with an average of almost two hours of training per employee, showing a very significant increase compared to 2019.

In addition, throughout 2020 work has been done to identify advanced and specific training programs according to the function of the respective business areas. As a result, multiple training sessions have been given, including:

- Course on BBVA SUSTAINABILITY STANDARDS with company managers.
- Other AD-HOC TRAINING for employees in the respective business segments, such as Enterprise and retail (with a special focus on SMEs).
- Selecting a partner and designing the SUSTAINABLE FINANCE LEADERSHIP ACADEMY program in Corporate and Investment Banking (CIB).

Sustainability training for BBVA is a continuous effort. Therefore, in 2021 BBVA is focusing on strengthening the training offer already launched and developing new content with a focus on the expert level, where several dozen employees have already enrolled in sustainability courses at top-level and highly recognized institutions such as Oxford, Cambridge, and Yale.

### Strategic resilience to climate risks

Climate resilience involves developing adaptive capacity to respond to climate change to better manage the associated risks and seize opportunities, including the ability to respond to transition risks and physical risks. TCFD recommends organizations to describe how resilient their strategies are to climate related risks and opportunities, taking into consideration a transition to a lower-carbon economy consistent with a 2°C or lower scenario and, where relevant to the organization, scenarios consistent with increased physical climate-related risks.

As mentioned in the section “Defining climate change risks and opportunities for BBVA”, BBVA’s strategy may be affected by climate-related risks and opportunities. Therefore, BBVA is working on measuring the impact of the different climate scenarios on its strategy and business. While these analyses are not finalized, early assessments point to a resilient strategy, given the relatively low exposure to clients and sectors with higher climate-related risks. In fact, BBVA’s Transition-Sensitive and Carbon-Related wholesale exposures represent below less than 20% of total wholesale EAD (exposure at default), or well below 10% of the Group’s EAD. The resilience of BBVA’s strategy in terms of the different climate related scenarios is reinforced by the establishment of sustainability as one of the Group’s six strategic priorities. This priority has a special focus on the fight against climate change where it has committed to aligning its financing portfolio with scenarios compatible with the Paris Agreement. More detail on the risk assessment and scenarios analysis can be found in the “Integrating climate change into risk planning” section.
Climate-change related risks (transition and physical risks) are considered an additional factor impacting those risk categories already identified and defined in the BBVA Group. These are managed through the risk management frameworks of the Group (credit, market, liquidity and operational, and other non-financial risks).

As a result, the integration of climate-change related risks into the risk management framework of the BBVA Group is based on their incorporation into the governance and processes currently in place, taking into account regulation and supervisory trends.

Risk management in the BBVA Group is based on two large blocks described below: risk planning and day-to-day risk management.

**Integrating climate change into risk planning**

**Risk Assessment**

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

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4. Particularly noteworthy is the European Central Bank’s public consultation on its guidance on climate and environmental risks published in May 2020. It explains how it expects credit institutions to safely and prudently manage climate-related and environmental risks and disclose such risks transparently under the current prudential framework.
As part of its General Risk Management and Control Model, the Group develops periodic risk identification and assessment processes to, among other things, identify material risks that could have a negative impact on its risk profile and to manage those risks actively and proactively. These processes cover all types of risks faced by the Group in its daily activity, including those risks that are more difficult to quantify.

Through the **Risk Assessment** process, which is updated at least once a year, a global assessment by type of risk and business area is carried out to identify both the strengths and main vulnerabilities of the BBVA Group, with a forward-looking view. The matrix of events of the assessment carried out in 2020 is included below (see Chart 04). Risk Assessment exercises are used to set the risk appetite. The events are ordered according to their severity, which is estimated on the basis of the likelihood allocated to each event and their estimated impact on the BBVA Group.

The 2020 Risk Assessment has deepened the analysis, incorporating a first qualitative assessment of the climate change factor materiality for those risks where it could be relevant.

In 2020, the Group has identified the risk events as follows:

**CHART 03. 2020 Identification of risk events**

<table>
<thead>
<tr>
<th>Impact</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Medium - Low</td>
<td>Medium - Low</td>
</tr>
<tr>
<td>Medium - High</td>
<td>Medium - High</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

The analysis carried out distinguishes between the impacts that physical and transition risks have at different time horizons (short, medium and long term) on the main types of risks (financial and non-financial) (see Chart 05).

The main risks are focused, first on credit portfolios, especially the wholesale portfolio and, secondly, the retail mortgage and auto portfolios. The most relevant risks, in a first phase, are transition risks, affecting fossil fuels from a triple point of view: regulation, technological change and market factors. Market portfolios are hardly affected given the low volume in relative terms of the trading portfolio, its daily management and the high diversification of the portfolios (see Chart 05).

In terms of liquidity risk, the high quality of the liquidity buffer leads to an immaterial risk of a decline in the volume of liquid assets resulting from central bank restrictions on the eligibility of certain securities due to environmental reasons; the risk of loss of value of available collateral as a result of potential negative impacts on the market price of securities is also considered immaterial. The risk of physical climate events is considered low in terms of outflows of client resources or instability of wholesale resources (companies).
BBVA, within the scope of preparing and defining its industry frameworks governing the credit admission process, has developed an **Internal taxonomy of transition risk** in order to classify industries according to their sensitivity to transition risk. In addition, metrics are identified at the client level to assess their vulnerability and to integrate this aspect into risk and client support decisions.

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

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

As a result of this exercise, with data at 31 December 2020, 17.1% of the exposure measured by EAD (equivalent to 9.1% of the Group’s EAD) of the wholesale portfolio has been identified as corresponding to sectors defined as “transition risk sensitive”, with a very high, high or intermediate level of exposure to this risk. This calculation was made on a portfolio of EUR 223,620 million, corresponding to the EAD of the wholesale lending portfolio (EUR 422,494 million of the Group’s EAD).

### TABLE 04. Risk transition assessment for carbon-related sectors

<table>
<thead>
<tr>
<th>Risks</th>
<th>Market</th>
<th>Technological</th>
<th>Regulatory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>HIGH</td>
<td>MODERATE</td>
<td>MODERATE</td>
</tr>
<tr>
<td>Utilities</td>
<td>MODERATE</td>
<td>MODERATE</td>
<td>HIGH</td>
</tr>
<tr>
<td>Autos</td>
<td>MODERATE</td>
<td>HIGH</td>
<td>MODERATE</td>
</tr>
<tr>
<td>Steel</td>
<td>LOW</td>
<td>MODERATE</td>
<td>LOW</td>
</tr>
<tr>
<td>Transportation</td>
<td>LOW</td>
<td>MODERATE</td>
<td>HIGH</td>
</tr>
<tr>
<td>Cement</td>
<td>LOW</td>
<td>MODERATE</td>
<td>HIGH</td>
</tr>
<tr>
<td>Coal Mining</td>
<td>HIGH</td>
<td>HIGH</td>
<td>HIGH</td>
</tr>
</tbody>
</table>

---

**Note:** Definition of time horizons: ST: short term up to 4 years (planning horizon); MP: medium term from 4 to 10 years and LP: long term more than 10 years.

Source: BBVA, internal development.
The chart below shows the percentage of exposure measured by EAD of the sectors sensitive to the transition risk of the wholesale portfolio over the EAD of the same portfolio as of December 31, 2020:

**CHART 05. Transition risk sensitive sector**

Source: BBVA, internal development. It includes the percentage of exposure (exposure at default) of activities internally defined as "transition risk sensitive" over the EAD of the wholesale portfolio at 31 December 2020 (not included Paraguay, Uruguay, Chile and Venezuela). The "transition risk sensitive" portfolio includes activities that generate energy or fossil fuels (energy, utilities - excluding renewable generation and water and waste treatment, coal mining), basic industries with emission-intensive processes (steel, cement) and activities that generate emissions through their products or services (automobile manufacturers, air and sea transportation), with a very high, high or intermediate level of sensitivity to this risk.

**Analysis of potential transition risk paths in the automotive manufacturers sector**

One of the sectors with a relevant potential transition risk impact in the near future is automotive manufacturers, with risk transmission through regulation, technology and demand.

- **REGULATORY RISK**: the sector is in the spotlight of emission reduction policies. The main reduction lever is regulation governing consumption efficiency and the reduction of average emissions. 80% of current automobile sales are subject to these regulations. Regulatory targets have required significant investments in automotive manufacturers to meet standards and avoid penalties. Europe stands out as the geography with the most stringent targets and with penalties of EUR 95 for every g/km exceeded. Manufacturers must comply with an average emissions target of 95 gCO$_2$/km by 2021, with further reductions in 2025 and 2030. The industry faces the risk of high fines for non-compliance with emission levels from 2021.

- **TECHNOLOGICAL RISK**: the difficulty in predicting the degree and speed of adoption of electric vehicles (EV) is a significant risk, since the manufacturing transition to EVs from current internal combustion engine (ICE) models requires not only a change in propulsion systems, but also the redesign of models and different auto parts. These factors in turn require a fundamental change in production platforms and greater active coordination with suppliers. On the other hand, automotive electrification presents different technological alternatives, from 100% battery electric vehicles (BEV), to different types of hybrids and fuel cell electric vehicles. It is likely that during the next few years these technologies will coexist alongside the gasoline engine. The investment effort and industrial complexity of maintaining such a varied technological offer is probably not within the reach of all manufacturers, driving sector consolidation.
DEMAND RISK: despite the global growth of electric vehicle sales of more than 50% in 2018, the market share of electric vehicles and plug-in hybrids is still only 2%. The development of EV must still overcome bottlenecks to achieve a widespread adoption: higher acquisition cost, limited range, development of recharging points and reduced charging times. The EV is growing faster in those countries such as China or Norway where there is a public policy of subsidies that reduce the price gap. Therefore, there is no solid demand at the moment to support a rapid adoption of the EV. On the other hand, given the consumer uncertainty about which technology to adopt, there is a high risk of delaying the decision to buy or to opt for the purchase of used cars. This would severely impact sales levels, already damaged by the macro environment. Similarly, the residual values of automobiles financed by branded finance companies could be affected.

### Demand Risk

<table>
<thead>
<tr>
<th>Climate-related driver</th>
<th>Financial impact</th>
<th>Time frame</th>
<th>Potential impact on risk procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy - increasingly demanding GHG emissions standards</td>
<td>Potential penalties</td>
<td>Costs</td>
<td>Short</td>
</tr>
<tr>
<td>Increasing compliance costs</td>
<td>Costs</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Technology - shift to AFVs (Alternative Fuel Vehicles)</td>
<td>Simultaneous investment in different alternatives</td>
<td>Capex</td>
<td>Short</td>
</tr>
<tr>
<td>Market - uncertainty about maturity of AFVs⁵</td>
<td>Consumers postpone car renewal</td>
<td>Revenues</td>
<td>Medium</td>
</tr>
<tr>
<td>Consumers postpone car renewal</td>
<td>Revenues</td>
<td>Medium</td>
<td>Medium</td>
</tr>
</tbody>
</table>

⁵ AFVs: Alternative Fuel Vehicles.

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

To this end, a Climate Vulnerability Index (hereinafter, the CVI) has been created for more than 190 countries, which captures the physical risk and, to a lesser extent, the transition risk of each country, based on international indicators (e.g., Global Adaptation Index of the University of Notre Dame, ND-GAIN, and the Energy Transition Index, ETI, produced by the World Economic Forum). Subsidiarily, vulnerability indices issued by other international organizations and by the three rating agencies are also taken into account.

The methodology establishes 5 climate vulnerability levels, which are a comparative classification, as all countries have a certain level of vulnerability given the global nature of this phenomenon.

The CVI has been integrated into risk management by including a specific section in country risk reports, so it is a factor that is taken into account when establishing risk limits (particularly in the most vulnerable countries). It is also taken into account in setting country ratings and outlooks.
In 2020 a methodology has also been launched to determine climate vulnerability at the sub-national level (regions, provinces, cities). To this end, indicators developed by internationally renowned institutions such as the Andean Development Corporation (CAF), the EU or BBVA Research.

**Risk Appetite Framework (RAF)**

The **Risk Appetite Framework** of the BBVA Group, approved by the corporate governance bodies, determines the risk levels that BBVA is willing to assume to achieve its targets, considering the business’ organic evolution. The Framework has a general statement that sets out the general principles of the risk strategy and the target risk profile. The current statement includes the commitment to sustainable development as one of the elements defining BBVA’s business model. This statement is complemented and detailed with an appetite quantification through metrics and thresholds that provide clear and concise guidance on the defined maximum risk profile. In the case of climate change risk, a new metric called “High Transition Risk” has been incorporated in 2021 that measures the EAD, in relation to capital, of activities defined internally as “transition risk sensitive” with ‘high’ intensity or ‘very high’, according to the BBVA taxonomy.

Regarding this metric, the Board of Directors has approved thresholds at the Group level and geographic business area that establish the maximum appetite for the risk of climate change transition.

**Scenario Analysis**

**Scenario analysis** enables the assessment of the risk factors’ impact on the metrics defined in the Risk Appetite Framework. In this regard, and within climate change and environmental risk management, alternative scenarios are being defined, based on those laid out by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). The objective is to try to capture the uncertainty around the different types of transition (ordered, disordered) towards a low carbon economy and/or the effects derived from the physical risk of potential climate events in certain geographies.

BBVA uses the Sustainable Development Scenario (SDS) and the Stated Policies Scenario (SPS) of the International Energy Agency, to analyze how regulatory, technological or demand changes in those sectors particularly sensitive to transition risk, may affect the Bank’s portfolio. This analysis allows BBVA to include in the industry frameworks information on the possible behavior of the sector, and to determine which clients may be better prepared in environmental terms to face the coming years.

**Integrating climate change into risk decision-making**

Once climate risk is incorporated into the Risk Appetite Framework and the business strategy, it also must be included in the day-to-day risk management, which is a part of the risk decision-making that supports the Bank’s clients.

For that purpose, the integration of this risk into existing management frameworks and processes is required, including the adaptation of policies, procedures, tools, risk limits and risk controls in a consistent manner. **In a first phase, adaptation is focused on the integration of this risk in the Industry Frameworks, a basic tool in the definition of our risk appetite in wholesale credit portfolios, and in the Mortgage and Auto Operating Frameworks in retail credit.**
Wholesale Banking

The need to decarbonize the economy, as a consequence of climate change, requires a reallocation of resources between more emission-intensive activities and those less affected. This dynamic between sectors can be further accelerated in those industries where transition risk brings the time horizon impact closer, or where regulatory measures or technological developments set the implementation schedule.

In wholesale banking, the prevailing analysis dimension is the sectoral, detailing sub-sectors or specific activities, combined with the geographic consideration, especially in regulated sectors.

The combination of these two factors results in the integration of climate factors into credit risk management processes through the wholesale credit industry frameworks of those sectors most strongly impacted.

In 2020, sustainability factors have been incorporated as one of the dimensions of the analysis in the Operating Frameworks of Autos, Energy, Utilities, Steel and Cement. All these sectors are included in the taxonomy as transition risk-sensitive.

In these frameworks, the impact of decarbonization on the sectors is analyzed based on long-term scenarios aligned with the objectives of the Paris Agreement. To this end, the sectoral impact of factors such as energy demand, investment or technological transformation (change of the generation mix in Energy/Utilities, or electrification in the case of Autos) is analyzed. The Industry Frameworks take into account the transition strategies developed by the Bank’s main client in each sector. Based on the analysis, individual risk policies have been reviewed with some of the main groups of these industries.

The following chart shows an anonymized example of sustainability strategies analysis of the main clients in BBVA’s auto manufacturer portfolio.

Together with the integration into the Industry Frameworks, the systematic integration of sustainability factors into the client analysis processes for credit origination purposes has begun in 2020, thus allowing their incorporation in credit decision making.

<p>| CHART 07: Autos Industry Framework: sustainability strategies analysis of companies in the sector |</p>
<table>
<thead>
<tr>
<th>Client 1</th>
<th>Client 2</th>
<th>Client 3</th>
<th>Client 4</th>
<th>Client 5</th>
<th>Client 6</th>
<th>Client 7</th>
<th>Client 8</th>
<th>Client 9</th>
<th>Client 10</th>
<th>Client 11</th>
<th>Client 12</th>
<th>Client 13</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU emissions compliance risk</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Current proportion of AFV production</td>
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<tr>
<td>Medium-term proportion of AFV production</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D efforts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy in batteries and Autonomous Driving</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustainability / Transformation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
As part of the climate change strategy, BBVA has committed to aligning its loan portfolio with scenarios compatible with the global warming targets set out in the Paris Agreement. This commitment was formalized by the signing of the Katowice agreement together with four other European banks (Standard Chartered, ING, BNP Paribas and Société Générale). Together with these four banks, and with the support of the think tank 2 Degree Investing Initiative (2DII), a methodology called PACTA (Paris Agreement Capital Transition Assessment) has been adapted to the banking sector.

The alignment concept aims to transform those activities that are considered particularly CO\textsubscript{2} intensive and therefore contrary to the Paris agreements. This alignment implies encouraging companies to change their production model towards greener activities.

The methodology focuses on those sectors with the greatest climate impact and within them, on the production chain phase whose reduction can have the greatest impact on the overall reduction of emissions. The sectors under analysis are the following:

- Oil & Gas
  - Upstream
  - Midstream
  - Downstream
- Coal
  - Mining
  - Separation and Preparation
  - Storage
  - Trade
- Power
  - Generation
  - Transformation
  - Transmission
  - Distribution
- Automobile
  - Suppliers, contractors
  - Car manufacturers
  - Parts distributors & dealerships
  - Workshops
- Marine transportation
  - Suppliers
  - Ship manufacturers
  - Shipowners & operators
  - Traders
- Cement
  - Limestone quarrying
  - Manufacturing
  - Construction
  - Construction Industry
  - Concrete
  - Masonry
  - Construction
  - End products
- Steel
  - Manufacturing
  - End products

The objects of the Paris Agreement can be translated into specific indicators using climate scenarios. These scenarios show a technological transformation path at a sector level, representing a benchmark to measure the alignment level of a portfolio.

The alignment degree of an asset or client is calculated using a specific indicator for each activity. In some sectors the indicator focuses on measuring technology substitution (for example, the generation mix in the power generation sector), while in other industries, without a mature technological alternative, the indicator focuses on capturing improvements in production processes (for example, the emissions intensity in the cement sector).

The values calculated in the indicators at an individual level are allocated to a lending portfolio based on the weighting of each client’s exposure in the portfolio.

Alignment can be used as a risk management tool in the sense that a portfolio aligned with a transition path would a priori be less impacted by transition risk than a misaligned portfolio, long as a reference scenarios are close to the real decarbonization path.

BBVA reinforces its commitment to reducing the risks of climate change and joins PCAF (Partnership for Carbon Accounting Financials), an alliance that enables financial institutions to assess and disclose the greenhouse gas (GHG) emissions of loans and investments.
Retail banking

Climate change risk affects retail portfolios through two dimensions. The first is through its role as a financing facilitator to address the investments required for climate change mitigation and adaptation, generating business opportunities in the financial sector. Second, through the financial risks that climate change and its mitigation pose to their balance sheet.

In retail banking the predominant focus of analysis is the type of risk and the affected portfolio, together with the geographical dimension.

- **TRANSITION RISK** mainly affects the auto portfolio due to the CO₂ emissions of the vehicles, the mortgage portfolio due to the CO₂ emissions of real estate/households that are pledged as collateral, and the SME portfolio depending on the concentration in activities more exposed to CO₂ emissions.

- **PHYSICAL RISK** is that derived from climate events and changes in the balance of ecosystems. The location of the properties is the main key to address, measure and manage this risk. The location of the collateral in areas with a greater environmental impact relating to natural disasters such as hurricanes or floods make up the block called “location matters”.

**Transition risk treatment in the retail portfolio**

Within the financing activity, the main target is to identify and support customers who contribute to the decarbonization process. In BBVA’s retail portfolio, the most exposed portfolios to transition risk and therefore to CO₂ emissions are Autos and Mortgages, which account for more than 59% of the total retail portfolio, which in terms of exposure corresponds to around EUR 118,529 million according to data as of 31 December 2020. The main geographical areas impacted are Spain, USA and Mexico.

As in the wholesale area, in the case of retail, risk appetite is developed through the annual development of Operating Frameworks, which explain and integrate the risk criteria under which the retail portfolios must be originated and managed in the BBVA Group. In 2020, climate change and environmental risk has been incorporated into the Operating Frameworks for the Autos and Mortgage portfolios.

**Chart 07: Composition of BBVA’s retail portfolio by exposure at default**

December 2020. Source: BBVA, internal development.
AUTOS PORTFOLIO
Incorporating the “fuel type” indicator as an analysis dimension allows a monthly monitoring of the origination, in the Group’s main autos portfolios.

CHART 08. Auto loans origination by fuel type
December 2020. Source: BBVA, internal development.

<table>
<thead>
<tr>
<th>Country</th>
<th>Gasoline</th>
<th>Diesel</th>
<th>Electric + Hybrid</th>
<th>Not reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>68%</td>
<td></td>
<td>3%</td>
<td>96%</td>
</tr>
<tr>
<td>Mexico</td>
<td>100%</td>
<td></td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>USA</td>
<td>48%</td>
<td>18%</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Chile</td>
<td>4%</td>
<td>11%</td>
<td>1%</td>
<td>96%</td>
</tr>
</tbody>
</table>

MORTGAGES PORTFOLIO
In this portfolio, a detailed analysis with regard to the energy efficiency of housing financed by BBVA is being carried out, with a focus on Spain in 2020, due to its relevance.

The main purpose of the analysis is to verify the existing relationship between the energy efficiency of housing (buildings) financed by BBVA, and the clients’ behavior in terms of default (PD/probability of default). Thus, the aim is to identify whether, ceteris paribus, housing with greater energy efficiency has a lower probability of default than housing with less energy efficiency. In addition, the analysis includes a study of the relationship between the collateral value and the coverage variation in relation to the energy efficiency of housing, and consequently, how this affects the LGD (loss given default) / Severity of the mortgage loan.

In addition, BBVA actively participates in the working group of the Energy Efficiency Financial Institution Group (EEFIG). This group consists of more than 40 institutions at a European level and one of its targets is to deepen risk assessment through the quantitative relationship between the energy efficiency ratings of properties and the associated probability of default and the valuation of the underlying assets. All this with the aim of issuing the relevant recommendations at European level that guarantee homogeneity in the analysis between participating countries and the former institutions.

At the management level, work is underway to refine the admission model with sustainability factors as a fundamental step to support green products. A commercial plan has been defined for the creation of green products for the main geographies and segments of both individual customers and SMEs, with the defined operational and advertising channels.

Physical risk treatment in the retail portfolio
Regarding physical risk, the risks derived from the location of properties in the zones of hurricanes, floods or eruptions is one of the risks that must be assessed and incorporated in credit processes, in particular during collateral valuation in transactions with collaterals.

The Group’s portfolio with the greatest exposure to this type of risk is the mortgage portfolio, which accounts for 54% of the total retail portfolio, with a special focus on Spain, Mexico and USA.

Using geolocation maps and analytical algorithms, work is being done to identify the location of the buildings financed by BBVA, in order to create a heat map, identifying the areas most exposed to adverse weather events (e.g. in Spain housing on coasts impacted by flooding or in Mexico the areas exposed to hurricanes). The analysis of the need to adjust the collateral value, and therefore the severity of the mortgage loans, in such areas, will allow us to give an adequate and prudent treatment in terms of credit risk management.
Example of severity impact calculation of the Hurricane Harvey/Irma in the USA

The BBVA Group has historically had to carry out impact estimates due to adverse weather effects. As an example, during the third quarter of 2017, BBVA USA was affected by two major hurricanes, which caused catastrophic flooding and many deaths. As a result of the hurricanes, BBVA USA conducted a comprehensive assessment of its portfolio and customers located in the affected states.

Data provided by the Federal Emergency Management Agency (FEMA), related to damage assessment, including flood locations and severity, was used to identify the specific loan portfolio that could be affected.

Loss estimates were developed based on the level of damage, the estimated change in market value, LTV (loan to value), FEMA’s assistance grants, and the borrower’s estimated disposable liquid assets. Therefore, probabilities of default (PD) and loss given default (LGD) were adjusted and, as a result, BBVA USA’s provisions were adjusted.

Environmental and social framework

In sectors that are particularly relevant due to their potential social and environmental impact, the Group has specific guidelines for action, complementary to the risk appetite perspective, which restrict participation in certain activities. These guides were included in the so-called “Sector Standards”, launched in 2018. In 2020, BBVA has developed the so-called Environmental and Social Framework (hereinafter Framework) for due diligence in the mining, agro-industry, energy, infrastructure and defense sectors, which replaces the Sectoral Standards and the Standard of action in defense matters.

The development of the Framework has taken into account market trends in sustainability, international regulation, international standards (including the SDGs, the Paris Agreement, the United Nations Guiding Principles on Business and Human Rights, and the recommendations TCFD), the best practices and the demands of our stakeholders.

The new features of the Framework include the following:

01. The exceptions contemplated in mining and energy for countries with high energy dependence, will apply only in cases of clients or projects already existing or under construction. Additionally, we have committed not to increase global exposure in these countries.

02. For the mining and energy sector, the threshold for the exclusion of clients with high exposure to coal has been lowered from 35% to 25%, applicable both in extractive activity and in energy generation.

03. The exclusion in tar sands has been extended to clients involved in this activity without a diversification strategy and where this activity represents more than 10% of their total production.

04. Finally new activities have been added prohibited related to projects, such as:

- In the mining sector, seabed mining projects.
- In the energy sector, the transportation of oil and gas in the Arctic (in addition to the already existing prohibited activities of “exploration and production of oil and gas in the Arctic) and large dams that are not built under the framework of the World Commission on Dams.

Finally, this Framework includes BBVA’s commitment to reduce its exposure to coal-related activities to zero, ceasing to finance companies in these activities, before 2030 in developed countries and before 2040 in the rest of the countries in which that is present. This decision is in line with the proposal of the Intergovernmental Group of Experts on Climate Change (IPCC), consisting of limiting the rise in temperatures to a maximum of 1.5°C and with the ambition of achieving a neutral economy in carbon in 2050.
Equator Principles

Energy, transport and social service infrastructures, which drive economic development and create jobs, can have an impact on the environment and society. BBVA’s commitment is to manage the financing of these projects to reduce and avoid negative impacts and enhance their economic, social and environmental value.

All decisions to finance projects are based on the criterion of principle-based profitability. This implies meeting stakeholders expectations and the social demand for adaptation to climate change and respect for human rights.

In line with this commitment, since 2004 BBVA has adhered to the Equator Principles (EP), which include a series of standards for managing environmental and social risk in project financing. The EPs were developed on the basis of the International Finance Corporation’s (IFC) Policy and Performance Standards on Social and Environmental Sustainability and the World Bank’s General Guidelines on Environment, Health and Safety.

The analysis of the projects consists of subjecting each operation to an environmental and social due diligence process, starting with the allocation of a category (A, B or C), which reflects the project’s level of risk. Reviewing the documentation provided by the customer and independent advisers is a way to assess compliance with the requirements established in the EPs, according to the project category. Financing agreements include the customer’s environmental and social obligations. The application of the EPs at BBVA is integrated into the internal processes for structuring, acceptance and monitoring of operations, and is subject to regular checks.

These principles have set the benchmark for responsible finance.
Business origination metric

Banks play a crucial role in combating climate change and achieving the SDGs through their unique position to mobilize capital through investments, loans, issuances and advisory functions. The concept of business origination is a more inclusive approach than pure financing, by including sustainable value propositions beyond bank financing activity.

Since the launch of the 2025 Pledge, in which BBVA committed to a mobilization of EUR 100,000 million between 2018 and 2025 (70% of which will be for green financing), BBVA has mobilized a total of EUR 50,155 billion in sustainable activities, distributed as (as of December 2020):

<table>
<thead>
<tr>
<th>TABLE 05: 2025 Pledge, Business origination (Millions of Euros)</th>
<th>Target</th>
<th>Accumulated 2018-2019-2020</th>
<th>Year 2020</th>
<th>Year 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green financing</td>
<td>30,119</td>
<td>10,635</td>
<td>11,502</td>
<td></td>
</tr>
<tr>
<td>Certified fixed-purpose green loans</td>
<td>2,791</td>
<td>655</td>
<td>403</td>
<td></td>
</tr>
<tr>
<td>Loans linked to green indicators (KPI-linked)</td>
<td>4,460</td>
<td>1,773</td>
<td>2,687</td>
<td></td>
</tr>
<tr>
<td>Corporate green financing</td>
<td>13,350</td>
<td>4,203</td>
<td>4,440</td>
<td></td>
</tr>
<tr>
<td>Green project finance</td>
<td>2,679</td>
<td>902</td>
<td>1,165</td>
<td></td>
</tr>
<tr>
<td>Brokered green bonds</td>
<td>6,539</td>
<td>2,932</td>
<td>2,719</td>
<td></td>
</tr>
<tr>
<td>Green retail financing</td>
<td>299</td>
<td>170</td>
<td>87</td>
<td></td>
</tr>
<tr>
<td>Social infrastructure and agribusiness</td>
<td>6,166</td>
<td>2,920</td>
<td>1,634</td>
<td></td>
</tr>
<tr>
<td>Certified fixed-purpose social loans</td>
<td>106</td>
<td>106</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Loans linked to social indicators (KPI-linked)</td>
<td>220</td>
<td>182</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>Corporate social finance</td>
<td>4,253</td>
<td>1,653</td>
<td>1,569</td>
<td></td>
</tr>
<tr>
<td>Social infrastructure project finance</td>
<td>487</td>
<td>282</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Brokered social bonds</td>
<td>1,094</td>
<td>697</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Social retail financing</td>
<td>5</td>
<td>0</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Financial inclusion and entrepreneurship</td>
<td>6,581</td>
<td>2,148</td>
<td>2,325</td>
<td></td>
</tr>
<tr>
<td>Financial inclusion</td>
<td>1,999</td>
<td>776</td>
<td>686</td>
<td></td>
</tr>
<tr>
<td>Loans to vulnerable entrepreneurs(1)</td>
<td>3,653</td>
<td>944</td>
<td>1,426</td>
<td></td>
</tr>
<tr>
<td>Loans to vulnerable women entrepreneurs</td>
<td>609</td>
<td>267</td>
<td>96</td>
<td></td>
</tr>
<tr>
<td>Impact investment</td>
<td>319</td>
<td>161</td>
<td>116</td>
<td></td>
</tr>
<tr>
<td>Other sustainable mobilization</td>
<td>7,289</td>
<td>4,602</td>
<td>2,687</td>
<td></td>
</tr>
<tr>
<td>ESG-linked loans</td>
<td>2,625</td>
<td>1,509</td>
<td>1,116</td>
<td></td>
</tr>
<tr>
<td>Loans linked to sustainable indicators (KPI-linked)</td>
<td>1,172</td>
<td>1,172</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Loans linked to ESG rating and sustainable indicators</td>
<td>258</td>
<td>258</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Sustainable structured deposits</td>
<td>257</td>
<td>206</td>
<td>51</td>
<td></td>
</tr>
<tr>
<td>Brokered sustainable bonds</td>
<td>1,048</td>
<td>551</td>
<td>497</td>
<td></td>
</tr>
<tr>
<td>Socially responsible investment</td>
<td>1,928</td>
<td>906</td>
<td>1,022</td>
<td></td>
</tr>
<tr>
<td>Total new business origination</td>
<td>100,000</td>
<td>50,155</td>
<td>20,306</td>
<td>18,147</td>
</tr>
<tr>
<td>Total accumulated from 2018</td>
<td>50,155</td>
<td>29,849</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) 98.8% of vulnerable entrepreneurs.
Green and social corporate finance

In 2020, BBVA granted a total of EUR 5,856 billion in green and social corporate finance. This financing is based on the client classification set out by the Green Bond Principles and Social Bond Principles. The percentage of corporate finance of each client is calculated according to the proportion of their operations in line with these standards.

Sustainable loans

In 2019, the Bank granted a total of EUR 4,245 billion in Sustainable Loans, to which another 5,655 billion have been added in the year 2020 totaling EUR 11,633 billion mobilized since 2018. These loans include certified fixed-purpose loans, loans linked to environmental and social indicators (KPI-linked) and loans linked to the clients’ ESG rating (ESG-linked).
BBVA’s deals in 2019 and the first half of 2020 include:

**SSE PLC**

The largest producer of renewable energy in the UK and Ireland assigned BBVA the role of sustainable coordinator, in a syndicated revolving credit facility (RCF). This deal, amounting to 1.3 billion pounds (around EUR 1.5 billion), was the first sustainable finance transaction led by BBVA in the United Kingdom and was the first deal carried out under the new LMA (Loan Market Association) standards on “Sustainability Linked Loan Principles” (SLLPs), whereby the economic conditions of this credit facility are linked to the company’s ESG rating as well as its credit ratings.

**ACCIONA**

BBVA acted as a sustainable agent in the company’s first sustainable syndicated loan for a total amount of EUR 675 million. It was one of the first finance transactions also governed by the SLLPs, incorporating interest rate adjustments according to the company’s performance in sustainability parameters.

**FIBRA UNO (FUNO)**

BBVA acted as the single sustainable agent of the first credit facility in sustainable RCF format signed in Latin America, amounting to 21,350 billion Mexican pesos. This was the first sustainable transaction of a real estate company in the region and the first syndicated transaction made under the SLLPs in Latin America. Its margin is linked to the company’s credit rating and the performance of an environmental indicator: the intensity of power consumption of managed assets expressed in kWh per m² occupied.
BBVA and EDF signed a EUR 300 million revolving credit facility that incorporates a price adjustment based on the company’s performance in sustainability aspects. In particular, this credit facility links the margin to three sustainability KPIs for EDF: direct CO₂ emissions; customer use of consumption control online tools; and electrification of the corporate fleet of vehicles.

COFCO INTERNATIONAL

BBVA had its first experience as a sustainable coordinator in Asia with COFCO International (agribusiness sector) in the first syndicated sustainable finance transaction of a Chinese corporate client amounting to USD 2.1 billion and in which conditions are subject to the company’s ESG rating and soybean traceability in Brazil.

ACERINOX

BBVA and Acerinox signed an agreement for the first sustainable loan in the steel sector in Spain, for EUR 80 million. The deal links financial costs to two KPIs: one environmental, where the main firm in the sector is committed to reducing its direct and indirect emissions; and another governance related, in which they commit to reduce their workplace accidents. A deal that demonstrates how the Bank follows clients in their transition to a more sustainable model.
**ENBW**

Amounting to EUR 1.5 billion, this deal was the first sustainable finance transaction closed since the COVID-19 crisis began, where BBVA acts as the sole sustainable coordinator, and in which the economic conditions are linked to the performance of three sustainability indicators for the company (two environmental and one social), in addition to the company’s credit rating.

**GMP**

Fixed-purpose green loan amounting to EUR 525 million, linked to the GLPs (Green Loan Principles), where BBVA acted as coordinator and sustainable agent.

**BORGES**

This food company assigned BBVA the role of sustainable structuring agent in its bilateral loan amounting to EUR 15.7 million, which incorporates a price adjustment based on the reduction of hexane hydrocarbon consumption for the extraction of seed oil, and the reduction of diesel use for heating.
INVITATION HOMES

BBVA acted as the sole sustainability agent and coordinator of the first sustainable credit facility in the form of a revolving credit facility for a US real estate investment group (REIT). The price adjustment for the line was based on Invitation Homes’ GRESB score, an aggregated ESG metric that is independently measured and validated by “The Global ESG Benchmark for Real Assets”.

PUBLIACQUA

BBVA, as sole sustainability coordinator, advised Publiacqua, one of the leading public water management companies in Italy, on how to link its basic bank financing to environmental objectives. The operation consisted of a loan linked to sustainability objectives with two purified water management indicators. With this loan, Publiacqua became the first public water company to incorporate sustainability into its financing instruments.
Other clients such as GESTAMP, REDEXIS, GRUPO PIÑERO or MELIÁ continued to rely on BBVA to incorporate sustainability criteria into their bank financing, where BBVA acted as a sustainable coordinator/structuring agent. All of them were characterized by the use of an ESG score as a sustainability mechanism, issued by an independent consultant such as Vigeo-Eiris for the first three and RobecoSAM for Meliá.

BBVA participated in the first sustainable deals guaranteed by ICO in Spain, in particular those led by BBVA as sustainable coordinator/structuring agent, such as Intermás and Grupo Piñero. BBVA also participated in the ICO guaranteed sustainable syndicated loan in favour of El Corte Inglés.

Sustainable projects

In 2019, the Bank financed sustainable projects totaling EUR 1,187 million, mainly in the renewable energy sector. During 2020, this figure increased by EUR 1,184 million, reaching EUR 3,166 million since 2018.

Deals in the year include the financing of three wind farms in Italy, eleven in Spain and France’s first offshore wind farm.

During 2020, BBVA has continued to maintain its sustainable project finance operations, participating in a total of 20 new origination deals. Our activity in the following sectors is particularly relevant:

- **Green projects**: BBVA is one of the world’s leading banks in sustainable finance for renewable projects. In 2020, we continued our financing operations with a total of four closed deals, two of which are particularly remarkable:
  - **KINCARDINE**: Financing for the construction and operation of a 50MW wind farm located in Scotland in which the sponsor is Cobra (ACS Group) and where BBVA has participated as one of the three leading banks. Kincardine is one of the world’s first offshore floating wind farms and is a sign of BBVA’s support for new sustainable technologies.

### Table 08: Sustainable projects (Millions of Euros)

<table>
<thead>
<tr>
<th>Description</th>
<th>Target</th>
<th>Accumulated 2018-2019-2020</th>
<th>Year 2020</th>
<th>Year 2019</th>
<th>Year 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Green project finance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project finance in renewable energy activities, waste and water management, sustainable transportation, and energy efficiency</td>
<td>2,679</td>
<td>902</td>
<td>1,165</td>
<td>612</td>
<td></td>
</tr>
<tr>
<td><strong>Social infrastructure project finance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financing of infrastructure projects with special social impact</td>
<td>487</td>
<td>282</td>
<td>22</td>
<td>183</td>
<td></td>
</tr>
<tr>
<td><strong>Total sustainable project finance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,166</td>
<td>1,184</td>
<td>1,187</td>
<td>795</td>
<td></td>
</tr>
</tbody>
</table>

**MONEGROS:** Financing of a portfolio of wind projects in Spain with 487MW of capacity, purchased by the Danish fund Copenhagen Infrastructure Partners. BBVA acts as the only structuring bank, holding all the leadership roles in the transaction, including that of Green Loan Coordinator. In addition, Monegros is one of the largest investments in renewable assets in Europe and is the largest renewable energy project arranged with a PPA in the Iberian Peninsula to date. When the project enters into operation, it is expected to generate more than 1.5 TWh of renewable energy per year, sufficient to meet the electricity demand of 430,000 households in Spain.

**DOGGER BANK:** The project represents the first phase of the largest offshore wind site in the world, being the sponsors the British service company SSE and the Norwegian energy company Equinor. The project will be equipped with 95 13MW Haliade-X turbines (the largest in the world at the moment) that will start operating in 2023 supplying electricity to 3 million British homes.

**Social projects:** BBVA is particularly active in financing telecommunications projects; it acted as a leading bank in the financing of three deals in this sector in 2020.

On the other hand, BBVA is focusing on increasing its activity in telecommunications infrastructures, given the social importance they have as facilitators of access to new technologies (“narrowing the digital divide”), digitization and contribution to economic development:

- **ADAMO:** Acquisition by the Swedish fund EQT of the fastest growing independent fiber supplier in Spain, whose main focus is rural communities.
- **SAINT MALO:** Financing the Joint Venture composed of Cellnex and Bouygues for the construction of a fiber optic network in France.
- **JOINDER:** Acquisition of Portugal’s largest fiber network (which serves nearly 4 million households) by a subsidiary of Morgan Stanley Infrastructure.
- **ASTERIX:** Financing to the JV composed of Vauban and Bouygues dedicated to co-investing in the fiber optic network in the moderately dense areas of France.
Brokered green, social and sustainable bonds

In 2019, BBVA was the coordinator of 29 green, social and sustainable bond issuances, generating a total volume of EUR 3,216 million. In 2020 BBVA has added a further EUR 4.180 million to the portfolio bringing the total since 2018 to EUR 8,682 million.

Some were pioneering transactions, such as the world’s first green bond by a telecom and the first structured green bond using blockchain technology. These deals have positioned BBVA as the tenth bank by volume placed of green bonds in euros.

The most prominent deals in the PRIVATE SECTOR were:

- The first issuance of EUR 1 billion by Telefónica, the first by a company in the telecommunications sector.
- ESB’s green bond of EUR 500 million, the first by a corporate issuer in Ireland.
- The first green issuance by a hotel group, Pestana Group, amounting to EUR 60 million.
- Two green bond issuances of EUR 1 and 1.5 billion by energy company Engie.
- The first issuance of a green bond by La Banque Postale for EUR 750 million.

And in the PUBLIC SECTOR:

- The issuance of sustainable bonds by the regional government of Navarra amounting to EUR 50 million.
- The issuance of a sustainable bond by the Basque regional government amounting to EUR 600 million.
- The issuance of a sustainable bond by ADIF amounting to EUR 600 million.
Throughout 2020, BBVA has led 43 green, social and sustainable bond issuances for customers in the United States, Latin America and Europe, with a volume of more than 21,760 millions of euros and a disintermediated volume of 4,180 millions of euros. This activity has strengthened BBVA’s position as the most active Spanish institution in the disintermediation of this type of asset for the fifth consecutive year.

The participation in the inaugural operations carried out in Europe in the automotive, energy and telecommunications sectors stands out; and in the United States in the energy sector.

During 2020, BBVA has actively worked in the advice and placement of social COVID-19 bonds (whose funds are aimed at mitigating the negative effects of the pandemic).

Thus, BBVA has led to the disintermediation of the ICO social bond and the 52 millions of euros health social bond of the Community of Madrid. On the other hand, and also in Spain, BBVA has supported the 700 millions of euros inaugural issuance of the green bond of the Community of Madrid, which has been the first green bond issuance of a public administration in Spain.

### Socially responsible investment

As refers to socially responsible investment, in 2020, EUR 906 million was raised through sustainable funds.

### Financial inclusion and entrepreneurship

BBVA believes that greater financial inclusion has a favorable impact on the welfare and sustained economic growth of countries. The fight against financial exclusion is therefore consistent with BBVA’s ethical and social commitment, as well as its medium-term and long-term business objectives. In 2020, BBVA generated EUR 2,148 million in the field of financial inclusion and entrepreneurship.

### Sustainable retail finance

Green and social retail finance reaches the 304 million euros accumulated.

#### TABLE 10. Green and social retail finance (Millions of Euros)

<table>
<thead>
<tr>
<th></th>
<th>Target</th>
<th>Accumulated 2018-2019-2020</th>
<th>Year 2020</th>
<th>Year 2019</th>
<th>Year 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Green retail finance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Green finance for retail customers related to any of the categories mentioned above</td>
<td>299</td>
<td>170</td>
<td>87</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td><strong>Social retail finance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social finance for retail customers related to any of the categories mentioned above</td>
<td>5</td>
<td>0</td>
<td>4</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Total sustainable retail finance</strong></td>
<td></td>
<td></td>
<td>304</td>
<td>171</td>
<td>91</td>
</tr>
</tbody>
</table>
Measuring indirect impacts

For the purpose of comparability of portfolio exposures to carbon economy sectors, the TCFD proposes a definition of carbon-related activities as those linked to the energy and utilities sectors, excluding water distribution utilities and renewable generation. Following this criterion, BBVA’s carbon-related exposure accounts for 10.3% of the wholesale lending portfolio which as of December 2020 amounts to EUR 224 billion.

The utility sector is especially relevant for BBVA. BBVA uses emission intensity per Kwh produced to track the sector, as this indicator is key to improving efficiency and reduce emissions.
Portfolio alignment

BBVA’s commitment to alignment involves establishing a framework composed of objectives and commitments established over the next 20 years, for the different sectors within the methodology chosen.

To set these objectives the methodology establishes sectoral indicators, identifies the scenarios of climate change against which to compare, makes an analysis of the portfolio of each financial institution, compares the portfolio with external databases and analyzes clients with the possibility of carrying out an active dialog process (“engagement”) with them.

One of the methodology’s characteristics is that it provides for the creation of sector-specific indicators. Each bank is committed to setting its own objectives for these indicators and ensuring they are monitored.

The following is the detail of the metrics chosen by BBVA to measure the alignment of these sectors within the framework of the Katowice group:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Sector Scope</th>
<th>Metric</th>
<th>Emissions Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>Combustibles Fósiles</td>
<td>Emission intensity (KgCO₂/BOE®)</td>
<td>1&amp;2&amp;3</td>
</tr>
<tr>
<td></td>
<td>Upstream</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Upstream + Total power generation</td>
<td>Energy financing mix</td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>Power Generation</td>
<td>Emission intensity (gCO₂/kWh)</td>
<td>1&amp;2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Technology mix</td>
<td></td>
</tr>
<tr>
<td>Automotive</td>
<td>Car manufacturers</td>
<td>Emission intensity KgCO₂/v-km</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mix EV/PHEV Combustion</td>
<td></td>
</tr>
<tr>
<td>Steel</td>
<td>Steel manufacturers</td>
<td>Emission intensity KgCO₂/Tonne Steel</td>
<td>1&amp;2</td>
</tr>
<tr>
<td>Cement</td>
<td>Cement manufacturers</td>
<td>Emission intensity KgCO₂/Tonne Cement</td>
<td>1&amp;2</td>
</tr>
<tr>
<td>Marine transportation</td>
<td>Owners &amp; Operators</td>
<td>Emission intensity KgCO₂/Nautical Mile</td>
<td>1&amp;2</td>
</tr>
</tbody>
</table>

8. BOE. Barrel of Oil Equivalent.
Managing environmental direct impacts (emissions scope 1 & 2)

BBVA has a clear commitment to both society and the environment. In 2020, this commitment has been bolstered through the creation of the GSO and its various workstreams. One of these is the Direct Impact Workstream, which is transversal across all geographies and focuses on reducing the direct environmental impacts of BBVA’s activity.

Global Eco-Efficiency Plan

The “Global Eco-efficiency Plan” is included in the line of work to reduce direct impacts. The first plan was launched during the 2008–2012 period, and the plan for the 2016–2020 period was completed in 2020.

The Global Eco-Efficiency Plan sets impact reduction targets through metrics and monitoring indicators. These objectives are framed within BBVA’s climate change strategy, “2025 Pledge,” which on the one hand includes a 68% reduction in Scope 1 and 2 CO₂ emissions, and on the other, to obtain 70% of energy consumption from renewable sources in 2025, reaching 100% in 2030. In line with the latter objective, BBVA has been a member since 2018 of the RE100 initiative, through which the world’s most influential companies undertake to make their energy 100% renewable by 2050.

To ensure continuation, the objectives and targets for the next Global Eco-Efficiency Plan 2021-2025 have already been set. The new Global Eco-Efficiency Plan will address the objective already set out in the 2025 Pledge and will also include other new objectives aimed at reducing and neutralizing the environmental footprint. As in previous plans, regular monitoring will be carried out to ensure proper performance across its entire scope.

In addition to the objectives of “2025 Pledge,” at the UN Conference on Climate Change (Conference of Parties, COP25) held in Madrid in 2019, BBVA announced the incorporation of a domestic price for CO₂ emissions from 2020 onward, along with the goal of becoming carbon neutral that same year. BBVA is therefore committed to offsetting all the direct environmental impacts it is unable to reduce.

<table>
<thead>
<tr>
<th>Strategic line</th>
<th>Target 2020</th>
<th>Status 2020</th>
<th>Status 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental management and sustainable construction</td>
<td>% people in certified buildings(1)</td>
<td>46%</td>
<td>48%</td>
</tr>
<tr>
<td>Energy and climate change</td>
<td>Consumption per person (kWh/person)</td>
<td>-5%</td>
<td>-17%</td>
</tr>
<tr>
<td></td>
<td>% renewable energy</td>
<td>48%</td>
<td>65%</td>
</tr>
<tr>
<td></td>
<td>CO₂e emissions per person (tCO₂ eq/person)(2)</td>
<td>-8%</td>
<td>-65%</td>
</tr>
<tr>
<td>Water</td>
<td>Consumption per person (m³/person)</td>
<td>-5%</td>
<td>-24%</td>
</tr>
<tr>
<td></td>
<td>% of people in properties with alternative water sources</td>
<td>9%</td>
<td>16%</td>
</tr>
<tr>
<td>Paper and waste</td>
<td>Consumption per person (kg/person)</td>
<td>-5%</td>
<td>-58%</td>
</tr>
<tr>
<td></td>
<td>% of people in properties with sorted waste collection</td>
<td>30%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Note: These indicators are calculated on the basis of building occupants. Base year: 2015. 2015 data have been restated in Argentina, Colombia and Mexico in order to make the historic series homogenous and comparable due to modifications on the perimeter.

(1) Including ISO 14001 and LEED certifications and Energy Star.
(2) It includes scope 1, scope 2 market-based, scope 3 business trips. The business trips thresholds for the calculation of the footprint have been modified in 2020 in order to adapt them to DEFRA thresholds.
(3) These data include the following countries: Argentina, Colombia, Spain and Portugal, Mexico, Peru, Turkey, the United States and Uruguay. Certain 2020 data are estimates as at the closing of this report the complete information for 2020 was not available.
(4) Updated data with the real consumptions after the closing of 2019.
The lines of actions of the Global Eco-efficiency Plan are:

**Environmental management in buildings:**
1,034 branches and 80 corporate buildings have certification of their Environmental Management Systems under the ISO 14.001: 2015 Standard in Argentina, Colombia, Spain, Peru, Uruguay, Mexico and Turkey. In addition, 3 buildings in Spain also have a Management System of Energy certified by an independent third party under the ISO 50.001: 2018 Standard. For their part, 21 buildings and 10 offices of the Group have the prestigious LEED certification of sustainable construction, among which are the main headquarters of the Bank in Spain, Mexico, the United States, Argentina and Turkey. And 2 buildings and 12 branches this year have achieved the Energy Star certification in the United States, a program of the United States Environmental Protection Agency created in 1992 to promote efficient electricity consumption, thus reducing greenhouse gas emissions.

**Energy and climate change:** As part of BBVA’s pledge to reduce its environmental footprint, the reduction of its energy consumption, and therefore associated impacts, has been set as a priority. To this end, it is essential that emissions are properly monitored, so that the reduction target set for 2025 can be met.

BBVA’s total emissions consist of:

- **Scope 1** greenhouse gas emissions, including direct emissions from stationary combustion plants installed in buildings and branches under the operational control of BBVA;
- **Scope 2** greenhouse gas emissions, including indirect emissions related to electricity production, purchased and consumed by buildings and branches under BBVA’s operational control;
- **Scope 3** greenhouse gas emissions, including indirect emissions not covered under Scope 2. At BBVA, this scope covers emissions from business travel.

Both Scope 1 and 2 emissions and Scope 3 emissions are calculated according to the GHG Protocol standard established by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD).

**Levers for footprint reduction:**

- Implementing **energy saving measures** (ESMs) when operating premises in such a way that consumption is controlled by establishing baselines.
- Promoting **renewable energy** consumption through PPA agreements or purchasing renewable energy certificates (RECs, iRECs, GdO). As such, 100% of the energy consumed in Spain and Portugal is of renewable origin, and in Mexico, the United States, Argentina, Colombia, Peru and Turkey it has already reached a significant percentage, thus contributing to the Group’s figure of 65% renewable consumption.
- Furthermore, several countries such as Turkey, Uruguay and Spain have also committed to **self-generate** renewable energy in their buildings by installing solar photovoltaic and solar thermal panels.
- **Compensation** of the residual carbon emissions that could not be reduced with everything described above. To meet the target of being a carbon neutral company in 2020, BBVA has offset the whole footprint that it has not been able to reduce during the year through the purchase of carbon credits from various projects within the Voluntary Carbon Market. All projects are certified under the VCS standards (Verified Carbon Standard) of Verra and Gold Standard.
**Water:** Water, which is one of the resources that has a major impact, is another priority indicator for BBVA. In order to reduce this impact, the headquarters of Spain and Mexico are equipped with gray water recycling systems and rainwater recirculation for irrigation.

**Paper and waste:** Waste generation is becoming a major global problem. BBVA has spent many years working to reduce this impact as much as possible through sustainable construction standards or through implementing ISO 14001-certified Environmental Management Systems. In order to ensure the proper separation and subsequent recycling of waste, facilities feature clearly differentiated and signposted areas in order to minimize the amount of waste that ends up in landfills.

**Extension of the pledge - awareness campaigns:** One of the ways in which BBVA can instill its concern about its environmental impact is by raising awareness among employees and providing training to them. The Bank is working in the creation of the new website for sustainability training, (“The Camp”), which will enable employees to become specialized to various different levels in this area, one of which is related to direct impacts. Some of these training itineraries are already mandatory throughout the Group in order to ensure that employees at least have a basic knowledge so that they can apply it in their day-to-day work.

Furthermore, in 2020, as in previous years, BBVA joined the “Earth Hour” initiative, during which 114 buildings and 183 Bank offices in 113 cities in Spain, Portugal, Mexico, Colombia, Argentina, Turkey, Peru, Uruguay and the United States turned off their lights to support the fight against climate change.
Environmental performance in 2020

The year 2020 has been an exceptional year in terms of direct impacts management, BBVA has taken all the necessary measures so that, since the beginning of the crisis resulting from the COVID-19 both its buildings and branches have been safe places that protect the health and safety of its employees and customers, all while ensuring business continuity throughout the Group.

Among the measures adopted in the field of direct impact management, and in line with the recommendations of the World Health Organization (WHO) and the corresponding health authorities of each country, the implementation of a hybrid remote work model that enforced the maximum distances and capacity permitted was particularly notable.

These measures have had a positive impact on BBVA’s environmental footprint:

- Reduction of employees commuting to their workplace;
- Reduction of business travels not only due to restrictions but also due to a change in employees’ habits with the increased use of corporate video conferencing platforms;
- Reduction of waste generation at facilities; and
- Reductions in all consumption as a result of concentrated use of space and efficient capacity.

Regardless of the impact that the COVID-19 crisis may have on environmental indicators, the Group’s environmental footprint shows very positive data compared to the previous year, with reductions of 58% in CO₂ emissions (according to the market-based method), 9% in electricity consumption, 6% in water consumption and 42% in paper (all per person). The percentage of renewable energy consumption has reached 65%, which far exceeds BBVA’s target for this year, and the percentage of people working in buildings with environmental certification reached 48%. All of the above means that 2020 will close the current Global Eco-Efficiency Plan having achieved its objectives in all indicators.
### Table 13. Environmental footprint (BBVA group)

#### Consumption

<table>
<thead>
<tr>
<th>Item</th>
<th>2020</th>
<th>2019*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public water supply (cubic meters)</td>
<td>2,806,101</td>
<td>2,966,426</td>
</tr>
<tr>
<td>Paper (tons)</td>
<td>3,661</td>
<td>6,272</td>
</tr>
<tr>
<td>Energy (Megawatt hour)</td>
<td>826,831</td>
<td>921,130</td>
</tr>
</tbody>
</table>

#### CO2 emissions

<table>
<thead>
<tr>
<th>Type</th>
<th>2020</th>
<th>2019*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1 emissions (tons CO2e)</td>
<td>12,467</td>
<td>17,092</td>
</tr>
<tr>
<td>Scope 2 emissions (tons CO2e) market-based method</td>
<td>100,589</td>
<td>221,405</td>
</tr>
<tr>
<td>Scope 2 emissions (tons CO2e) location-based method</td>
<td>286,936</td>
<td>325,116</td>
</tr>
<tr>
<td>Scope 3 emissions (tons CO2e)</td>
<td>7,506</td>
<td>56,700</td>
</tr>
<tr>
<td>Business trips</td>
<td>7,506</td>
<td>42,635</td>
</tr>
<tr>
<td>Employees commuting</td>
<td>-</td>
<td>14,065</td>
</tr>
</tbody>
</table>

#### Waste

<table>
<thead>
<tr>
<th>Type</th>
<th>2020</th>
<th>2019*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hazardous waste (tons)</td>
<td></td>
<td>31</td>
</tr>
<tr>
<td>Non-hazardous waste (tons)</td>
<td>5,516</td>
<td>5,464</td>
</tr>
</tbody>
</table>

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1. It includes the consumption of electricity and fossil fuels (diesel oil, natural gas and LP gas), except fuels consumed in fleets.
2. Emissions from direct energy consumption (fossil fuels), calculated based on the emission factors of the 2006 IPCC Guidelines for National Greenhouse Gas Inventories. The IPCC Fifth Assessment Report and the IEA were used as sources to convert these to CO2e.
3. Emissions from electricity consumption, calculated based on the latest emission factors available from the IEA for each country.
4. Emissions from electricity consumption and calculated in accordance with the energetic mix and based on the latest 2006 IPCC Guidelines for National Greenhouse Inventories. For its conversion to CO2e IPPCC Fifth Assessment Report and IEA emission factors have been used as source.
6. Emissions from employees commuting to the workplace have not been calculated this year, as more than 3/4 of the year the employees have been working remotely.
7. 2019 data have been updated with respect to those published in previous reports due to post-2019 adjustments.
8. These data include Argentina, Colombia, Spain and Portugal, Mexico, Peru, Turkey, The United States and Uruguay. 2020 last quarter data are estimates as the real consumptions are not known until the first quarter of 2021.
Banks are of key importance as finance providers for all sectors involved in this change and BBVA wants to play a forward-looking and leading role.

BBVA’s commitment to sustainability has a long history, beginning with its adherence to the United Nations Global Compact in 2002. The Bank has played a differential and leading role in defining a new, more sustainable banking model. In line with this, in 2020 BBVA has strengthened its sustainability strategy, by making it one of its strategic priorities. This entails minimizing risks while maximizing any opportunities that may arise.

For BBVA, sustainability is a strategic priority, helping clients in their transition to a sustainable future in environmental and social terms. The Bank is internalizing sustainability risks and opportunities, both in client transactions and in the direct impacts of its operations.

As of March 31, 2021, the Group has originated around EUR 59,000 million in sustainable finance, more than half of the EUR 100,000 million committed between 2018 and 2025 to fight against climate change and promote inclusive growth.

By publishing this Report in line with TCFD recommendations, BBVA is taking an additional step and evidencing its commitment to transparency. Additionally, BBVA also commits to continue to publish the Group’s progress in sustainability.

“We wish to help our clients transition toward a sustainable future”
This report contains forward-looking statements that constitute forward-forward projections within the meaning of article 27A of the Securities Act 1933, as amended (the “Securities Act”), article 21E of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the safeguard provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include words such as “believe,” “expect,” “estimate,” “project,” “anticipate,” “duty,” “intend,” “likelihood,” “risk,” “VaR,” “purpose,” “goal,” “target,” and similar expressions or variations of those expressions, and include statements regarding future growth rates. Forward-looking statements are not guarantees of future results and involve risks and uncertainties, and actual results may differ materially from those of forward-looking statements due to various factors. Readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this document. No obligation is assumed to make public the outcome of any revision of these forward-looking statements that may be made to reflect events or circumstances after the date of this document, including but not limited to changes in the business, procurement strategy, expected capital expenditures, or to reflect the occurrence of unforeseen events.