BBVA

PRUDENTIAL RELEVANCE REPORT

Pillar 3/Jun23 ESG

Environmental, social and governance risks

The English language version of this report is a free translation from the original, which was prepared in Spanish. All possible care has been taken, to ensure that the translation is an accurate presentation of the original. However, in all matters of interpretation, views or opinion expressed in the original language version of the document in Spanish take precedence over the translation.

1. Introduction

The Pillar III report of the BBVA Group (hereinafter, the "Bank", "BBVA" or "Group") summarizes the quantitative and qualitative information on the environmental, social and governance risks at the end of June 2023, as required by the European Banking Authority in its Implementing Technical Standards (ITS[1]). For more detailed information, the 2022 year-end Pillar III Report is available on our website, which includes further information on the integration of ESG risks into internal risk management. The qualitative information on the business strategy and processes, the governance model, and risk management remains in force and adequately reflects the Group's management model as of the date of this report.

1.1. Applicable regulatory framework

According to the Regulation (EU) No 575/2013 of the European Parliament the Council of 26 June 2013 on prudential requirements for credit institutions, BBVA, as a Spanish credit institution, is subject to prudential requirements that are binding and directly applicable in all EU member states.

Regulation (EU) No 575/2013 has been further developed by the Commission Implementing Regulation (EU) 2021/637, and by the Commission Implementing Regulation (EU) 2022/2453 that establish, in addition to the existing uniform disclosure formats and associated instructions, additional and uniform disclosure formats, and associated instructions for ESG risks.

Therefore, ESG risk disclosure should take into account the criteria, classifications and definitions set out in such Union legislation including in particular, the criteria for the identification and classification of environmentally sustainable economic activities as set out in Regulation (EU) 2020/852 of the European Parliament and of the Council and in the Commission Delegated Regulation (EU) (commonly referred to as the EU Taxonomy).

1.2. Regulatory developments

In June 2023, the European Commission published a new set of measures to promote and consolidate the regulatory package for sustainable finance in the European Union, which includes the technical eligibility criteria to determining whether an economic activity is aligned with the European Taxonomy in terms of the environmental objectives: sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.

The planned date of enforcement of the European Taxonomy for the aforementioned environmental objectives will be January 1, 2024, allowing financial institutions to disclose only the eligibility of their activities on the basis of this Taxonomy until December 2025. As the regulation develops, BBVA will disclose the sustainability information required at each stage of the process.

Furthermore, in Spain, the draft Royal Decree implementing article 32.5 of Law 7/2021 on Climate Change, which regulates, for financial institutions, listed companies and other large companies, the content of the reports on the estimation of the financial impact of risks associated with climate change, has been submitted for public consultation. As of the date of writing this report, the final version has not yet been published.

[1] On January 24, 2022, the European Banking Authority published its final draft Implementing Technical Standards (ITS) amending the CRR on Pillar III reporting relating to environmental, social and governance (ESG) risks.

2. Business processes and strategy

2.1. Sustainable business

BBVA has the objective to channeling sustainable business to reach 300 billion euros by 2025. Between 2018 and June 2023 it has been mobilized[2] a total of approximately 169 billion euros in sustainable business, of which approximately 77% correspond to the area of promoting the fight against climate change, and the remaining 23% to promote inclusive growth. The channeled amount includes financing, intermediation, investment, off-balance sheet or insurance operations. During the first half of 2023, around 33 billion euros have been mobilized

The sustainable business "channeling" referred to above is a metric that may differ from other regulatory metrics. In particular, this metric differs from the sustainable business exposure figure disclosed under the Implementing Technical Standards ITS on Environmental, Social, and Governance (ESG) risk disclosures in this report, which is intended to measure exposure to climate change mitigation and adaptation actions. The reasons for these differences stem from different calculation criteria used in the two concepts, the most important of which are as follows:

(i) while channelling includes mobilization of financial flows that may not be recorded on the balance sheet (e.g. transactional banking activity, investment funds, investment or bonds in which BBVA acts as bookrunner, etc), the regulatory metric only includes exposures within the balance sheet assets;

(ii) while the concept of channelling is cumulative (reflects accumulated balances since 2018), the regulatory metric only includes exposure for the year in question;

(iii) while the channelling reflects the total mobilization of flows, the regulatory metric only includes outstanding balances on the balance sheet in the fiscal year in question;

(iv) while the concept of channelling also includes the mobilization of flows that contribute to a purpose of a social nature such as inclusive growth and other environmental objectives, the regulatory metric only includes the contribution to a climate objective.

The loans and bonds considered environmentally sustainable included in table ESG10 below correspond to all of the operations that BBVA has determined to meet the criteria set forth pursuant to internal standards for climate change mitigation. The standards are inspired by the EU taxonomy up to date and considers local taxonomies, standards, and best practices of the market where the Group operates.

Furthermore, the BBVA Group has developed internal sustainability standards beyond the European Taxonomy in order to complement it in those areas where the regulation is not yet fully developed (e.g., social objectives), as well as in geographical areas outside the EU where, although not applicable, comparable analogous regulations may exist. The internal standard has also been inspired by other market standards such as SDGs or the principles for green and social loans and bonds of the Loan Market Association (LMA) and International Capital Market Association (ICMA).

[2] A sustainable business channel is considered as any mobilization of financial flows, in a cumulative manner, towards activities or customers considered as sustainable in accordance with existing internal and market regulations and best practices . The above is understood without prejudice to such mobilization, both at its initial moment and at a later time, it may not be recorded within the balance sheet. For the determination of the amounts of sustainable business channeled, internal criteria will be used based on both internal and external information.

Table 55. ESG10. Climate change mitigating actions (Million euros. 6-30-2023)

Type of financial instrument	Type of counterparty	Gross carrying amount (million EUR)
Bonds (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	153
	Non-financial corporations	508
	Other counterparties	0
Loans (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	1,457
	Non-financial corporations	16,644
	Of which Loans collateralised by commercial immovable property	2,065
	Households	2,885
	Of which Loans collateralised by residential immovable property	2,222
	Of which building renovation loans	55
	Other counterparties	717

(*) Book portfolios: "At amortised cost", "Fair Value through Other Comprehensive Income (FVOCI)", "Fair Value through P&L", "Non-tradable at Fair Value through Profit or Loss" and "Trading". Instruments: loans and fixed income, and additionally loans secured by commercial and residential real estate. Sectors: Central banks and governments have been included as "other counterparties", credit institutions and other financial institutions as "financial corporations". Exposures include both transactions aligned with the European Taxonomy and those under the institution's internal standard. Fixed Income issues that comply with widely accepted environmental market standards. The detail of these actions is developed in the following sections of the report. So far, BBVA focuses all its efforts on supporting the client in mitigation measures related to transition risk, although they have also been developed initial standards for certain activities to mitigate adaptation risks for activities related to the sector primary mainly. such as agriculture efficient, eco schemes or seeds resistant to drought.

2.2. Paris Agreement alignment of the loan portfolio

BBVA has the objective[3] to aligning its activities to a scenario of net zero emissions by 2050. To achieve this, BBVA supports its clients with financing, advice, and innovative solutions, in addition to monitoring its clients decarbonization strategies and incorporating them into its risk transformation to obtain a prospective and individualized view of the clients.

During this first semester of 2023, the Bank has published the progress in its objective to decarbonize its credit portfolio, providing details of the sectoral plans in which alignment objectives have been set: oil and gas[4], power generation, automotive, steel, and cement; or progressive phase-out objectives, as is the case for the coal sector.

In the oil and gas sector, according to the recommendations of the Net Zero Banking Alliance (NZBA), the progress must be communicated 12 months after the date on which the goal is set. BBVA set them in October 2022. Thus, in this sector the monitoring has not been published yet. Regarding the emissions intensity metric in the Aviation sector, it is in process of internal review, and will be updated once completed.

The following table shows, for the sectors in which alignment targets have been defined, the summary of the emission intensity metrics, the exposure amount, the detail of the metrics and the expected distance with respect to the 2030 scenario. BBVA sets the 2030 portfolio alignment targets in line with industry practices, and prepares a year-by-year Net Zero scenario to meet these targets. One of the requests of the ITS is to draw up short-term targets (3 years). In this regard, there is a roadmap to Net Zero each year that could represent the aforementioned target, but this is internal information that does not constitute a target officially communicated by the Group.

[3] The attainment of the decarbonization objectives in various sectors will largely depend on the actions of third parties, such as clients, governments, and other stakeholder groups, and, therefore, can be materially affected by their actions, or lack thereof, as well as by other external factors that are beyond BBVA´s control. Thus, these objectives may be subject to future revisions.

[4] The metric for the fossil fuel sector (Oil and Gas) has been defined based on financed absolute emissions. It includes the three scopes (1, 2, and 3) of upstream companies (with exploration, drilling, extraction activities) and sectoral matrices. Also, emission reduction targets have been established. According to the above, 14 million tons of CO_2e have been financed, and the emission reduction target for 2023 is 30%.

Table 52. ESG3: Banking book - Climate change transition risk: Alignment metrics

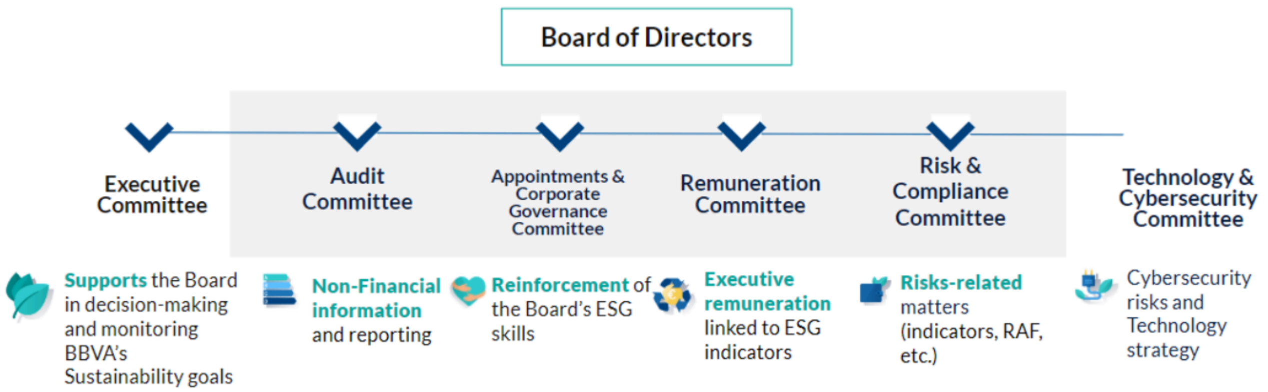
Sector	NACE Sectors	Portfolio gross carrying amount (Million euros)	Alignment metric	Description	Year of reference	Distance to IEA NZE2050 in the year 2030
Power	See Annex for detail	8,673	0.198243	Average tonnes of CO2 per MWh	2023	53 %
Automotive	See Annex for detail	817	0.000171	Average tonnes of CO2 per passenger-km	2023	71 %
Cement, clinker and lime production	See Annex for detail	870	0.714476	Average tonnes of CO2 per tonne of output	2023	47 %
Iron and steel, coke, and metal ore production	See Annex for detail	1,923	1.270613	Average tonnes of CO2 per tonne of output	2023	40 %

(*) Accounting portfolios: "At amortised cost", "Fair Value through Other Comprehensive Income (FVOCI)", "Fair Value through P&L" and "Non-tradable at Fair Value through Profit or Loss". Instruments: loans and advances, fixed income and equities. Sectors: non-financial corporations. Special features: principal activity code (NACE) information used for internal management and reporting purposes. The figures may vary slightly from the calculations made on the PACTA portfolio alignment, because this methodology takes into account the committed available while the figures shown in the table above correspond to transactions with a gross book balance.

3. Governance Model

The corporate bodies of BBVA have defined and promoted a strategy that incorporates sustainability as one of its priorities, as reflected in the Group's strategic plan. The Board considers the integration of sustainability into the Group's businesses and activities to be an essential element of this approach. In this sense, the definition and execution of the strategy in this area is of a cross-sectional nature, and all areas of the Group are responsible for progressively incorporating it into their strategic agenda and work dynamics.

In order to exercise the management and supervision functions of the Board of Directors in this area, the Board is assisted by its Committees on the matters within their respective authorities.



Thus, the Board Committees have been assigned with specific functions related to sustainability. Firstly, the Executive Committee supports the Board of Directors in decision-making and recurrent monitoring of BBVA's objectives and strategy in matters of sustainability. The Risk & Compliance Committee supports the Board in integrating sustainability into the analysis, planning and management of the Group's risks, and in supervising their execution. The Audit Committee oversees the sustainability information published as part of the Group's financial and non-financial reporting. The Appointments & Corporate Governance Committee ensures that sustainability-related competencies are taken into account when assessing the composition of the Board of Directors, while the Remuneration Committee analyzes issues related to remuneration aspects linked to environmental, social and governance indicators.

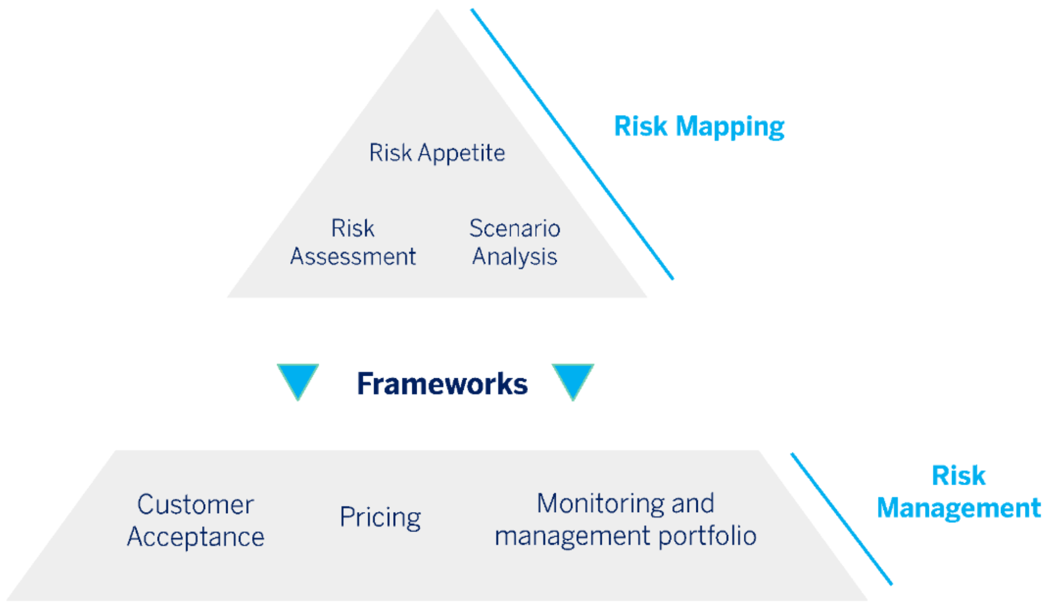
Furthermore, in order to implement the strategy approved by BBVA's corporate bodies, the Group has a Global Sustainability Area, the head of which reports directly to both the CEO and the Chair in matters of transformation and sustainability strategy. At the same time, all the business development teams report to the Global Sustainability Area.

In this way, the governance model for sustainability in the Group integrates a sound structure of the corporate bodies with a solid executive structure that respond to them and combines the cross-sectional nature of the Global Sustainability Area with the execution of the strategic priority in the different business areas which provides the Board and its Committees with the necessary information to make decisions in an appropriate manner and to carry out their supervisory and control function.

Finally, the main decisions to be highlighted in this field during the first half of 2023 include, among others, the approval of the incorporation of indicators linked to sustainability in the BBVA Directors' Remuneration Policy and in the Group's General Remuneration Policy (applicable to the variable remuneration of executive directors, members of Senior Management and those employees with a significant impact on the entity's risk profile).

4. Sustainability risk management

The management of climate change risk in the BBVA Group is integrated into its risk planning process, which is guided by the Risk Appetite Framework (RAF) and is further detailed in the management frameworks that dictate their treatment.



First of all, a self-assessment of how the different climate-change related risk factors impact on the main types of risk currently existing (credit, market, liquidity, etc.) is provided; 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 relevant geographic areas 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.

As part of its General Risk Management and Control Model, the Group develops periodic risk identification and assessment processes to 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. The General Risk Management and Control Model specifically considers sustainability as an essential part of the Group's strategy. The results of the assessment are submitted to the highest executive risk committee (GRMC), as well as the corporate bodies, as this assessment is integrated in key corporate processes such as the Risk Appetite Framework and the Internal Capital Adequacy Assessment Process (ICAAP).

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

It is therefore necessary to identify this risk type for subsequent integration into the existing management processes, including the adaptation of policies, procedures, tools, parameterization, risk limits and risk controls in a consistent manner. Currently, BBVA is developing the methodologies and tools it needs to identify and measure the different components of climate change risk, and the financial impact analysis of each of them for their subsequent integration into the management.

5. Transition risk

These are risks associated with the transition to a low-carbon economy in response to climate change, stemming from changes in legislation, the market, consumers, etc., to mitigate and address the demands arising from climate change.

	Spain			Rest of geographical areas		
	ST < 4 years	MT 4 - 10 years	LT > 10 years	ST < 4 years	MT 4 - 10 years	LT > 10 years
TRANSITION RISK						
Credit	M-	M+	M+	L	M-	M+
Liquidity and funding	L	M-	M-	L	M-	M-
Equities	L	L	L	L	L	L
Credit spread	L	L	L	L	L	L
Markets (trading)	L	L	L	L	L	L
Insurance	L	L	L	L	L	L
Operational	M-	M-	L	M-	M-	M-
Reputational	M-	M-	M-	M-	M-	M-
TOTAL	**M-**	**M-**	**M+**	**L**	**M-**	**M-**

High risk	H
Moderate-high risk	M+
Moderate-low risk	M-
Low risk	L

Sustainability factors continued to be included as one of the analysis axis in the Action Frameworks of all the sectors included in the internal taxonomy as High transition risk. In these Action Frameworks, the risks and opportunities of the climate transition are incorporated as an additional factor in the definition of the risk portfolio view, which is carried out annually and where the risk appetite is defined at sector level.

In sectors classified as High transition risk, transition risk assessment criteria have begun to be defined at customer level based on their alignment with the objectives of the Paris Agreement or the ambition and credibility of their transition plans. In some cases, this analysis leads to the definition of specific risk policies with the customer or to the definition of credit risk mitigants.

In addition to the integration into the sectoral frameworks, in 2022, sustainability factors also continued being systematically integrated into the customer analysis processes for credit origination, enabling their incorporation into decision making. This analysis is performed in an environment integrated in BBVA's systems, called ESG Client Toolkit, which presents a common interface for the Risk and Business teams where the customers' sustainability information is viewed. This interface provides insight into climate transition strategies, governance and climate change risk and opportunity management practices, decarbonization metrics and targets, as well as progress in the management of other ESG aspects material to the customer's sector of activity, its compliance with BBVA's Environmental and Social Framework, existence of social, environmental and ethical controversies and its level of alignment with the objectives of the Paris Agreement and level of emissions financed. This environment integrates the calculation of the transition risk scorecard, known as the Transition Risk indicator. For those sectors classified as high transition risk, an advanced transition risk scorecard has been developed to incorporate transition risk dimensions in the customer's profile. The scorecard evaluates the company's current low-carbon profile; the levels of regulatory pressure in the geographic areas where it is present; its level of disclosure on climate management taking as a reference the TCFD recommendations; and the ambition and maturity of its decarbonization objectives. The result of the scorecard is a valuable tool to better identify the strengths and weaknesses of customers and to define concrete products to help them in the transition to low-carbon business models.

In March 2023, BBVA updated its Environmental and Social Framework, which outlines reference standards, general exclusions applicable to certain sectors, and prohibitions regarding specific clients and projects within those sectors. The main update is the alignment of the Framework with the coal sector plan. BBVA has set the goal of eliminating exposure to coal clients by 2030 in developed countries and by 2040 globally, as outlined in the Framework[5].

[5] Coal clients are defined as those, both new and existing, with revenues greater than 5 percent coming from thermal coal mining for power generation or clients with revenues derived from power generation with more than 5% of installed capacity for the generation of electric power from thermal coal. For clarification purposes, other indirect activities associated with the above , such as the trading activity or auxiliary services for mining, are excluded.

5.1. Financed emissions calculation

Financial entities are indirectly responsible for emissions occurring within their value chain, also known as Scope 3 emissions. The Implementing Technical Standards (ITS) for ESG risk disclosures in Pillar 3 establish that entities should disclose their Scope 3 emissions to the extent possible, covering the most relevant sectors in line with the Partnership for Carbon Accounting Financials (PCAF).

Thus, BBVA has adopted the PCAF (Partnership for Carbon Accounting Financials) methodology to measure the emissions financed in retail and wholesale portfolios. This methodology allows for the application of an attribution principle, wherein financed emissions are computed as a percentage of customer emissions. This percentage is then attributed to the Bank based on the relationship between the funding extended and the economic value of the supported company or financed activity.

Countries and portfolios subject to measurement, as well as those for which the methodology has been defined, are gradually expanding. This gradual expansion enables a comprehensive view of financed emissions and facilitates the identification of portfolios and sectors with the highest emissions. Subsequently, mitigation plans can be developed, along with a cross-sectional assessment of data quality available for these calculations.

The calculation of emissions financed by the Bank encompasses loan portfolios, advance loans to companies, project financing, commercial real estate, mortgages, and automotive financing. Efforts are underway to include the main portfolios and geographic areas during 2023 and 2024. Currently, the results of financed emissions include information from the business in Spain of BBVA SA and the business in Mexico, corresponding to 43.4 million tonnes of CO_2 for the former and 30.1 million tonnes of CO_{2e} for the latter for the perimeter considered in Pillar 3.

Sector	Annual financed emissions at 06-30-2023 (MtCO2e)
Manufacturing	39.0
Electricity, gas, steam and air conditioning supply	6.2
Mining and quarrying	12.7
Transportation and storage	2.2
Agriculture, forestry and fishing	4.5
Other sectors	8.8
Total perimeter Pillar 3	**73.5**
Sectors outside the scope of Pillar 3	5.5
Mortgages	2.1
Other retail portfolios	1.8
Total	**82.8**

Measuring the quantity of greenhouse gasses emitted by BBVA's clients is a challenge due to the lack of publicly available information and the complexity of the methodology. The primary source of information used for emissions and fossil fuel production data of clients is Trucost, a subsidiary of S&P Dow Jones Indices LLC. In cases where emissions information at the client level is not available, the PCAF database has been used to obtain emission factors.

Among the main metrics used in the analysis of the results are: (i) the volume of investment financed by the entity subject to PCAF, (ii) the emissions in metric tons of carbon dioxide or equivalents produced by the financed activity, (iii) Economic intensity, which measures the financed emissions relative to the investment volume, and (iv) The quality score defined by PCAF, which refers to the level of granularity and data quality.

PCAF offers several levels of quality scores when calculating financed emissions. The criterion considers the availability and reliability of the data used in the calculation by financial entities and is measured on a scale from 1 to 5. In other words, lower data quality (estimates by sector or industry trends, for example) results in a higher score, which tends to be 5. On the contrary, the best score is obtained when the calculation of financed emissions is based on reported and verified emission data at the individual counterparty level (score 1).

The difficulties resulting from the lack of good information and its quality for the assessment of financed emissions are a concern that the BBVA Group and other entities in the financial sector address during quarterly meetings with the PCAF Global Core Team. These meetings serve as a platform for discussing challenges, difficulties, and sharing best practices between the financial industry and the PCAF team, with the goal of increasing the consistency, comprehensiveness, and comparability of financed emissions calculations within the financial system.

Below are the figures associated with transition risk broken down by sectors.

Table 50. ESG1. Banking book - Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity (BBVA Group. Million euros. 6-30-2023)

Sector/subsector	Gross carrying amount	Of which excluded from Paris Agreement [2]	Of which stage 2 exposures	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	Of which Stage 2 exposures	Of which non-performing exposures	GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)	Of which Scope 3 financed emissions	GHG emissions percentage derived from company-specific reporting [3]	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
Exposures towards sectors that highly contribute to climate change [1]	**145,585**	**13,874**	**10,633**	**4,982**	**(3,740)**	**(702)**	**(2,732)**	**73,530,253**	**41,210,763**	**1.13 %**	**113,433**	**20,872**	**6,401**	**4,879**	**3**
A - Agriculture, forestry and fishing	**4,794**	**2**	**571**	**171**	**(136)**	**(48)**	**(76)**	**5,735,111**	**902,245**	**—**	**3,662**	**939**	**105**	**88**	**3**
B - Mining and quarrying	**5,535**	**3,179**	**92**	**165**	**(66)**	**(5)**	**(56)**	**12,492,944**	**5,668,299**	**—**	**4,868**	**483**	**110**	**74**	**2**
B.05 - Mining of coal and lignite	122	52	—	—	—	—	—	300,755	9,786	—	112	9		1	2
B.06 - Extraction of crude petroleum and natural gas	2,441	2,381	17	—	(2)	—	—	7,068,141	5,370,291	—	1,943	353	109	36	3
B.07 - Mining of metal ores	1,645	29	32	128	(35)	(2)	(32)	249,758	60,064	—	1,641	2		2	1
B.08 - Other mining and quarrying	356	5	16	12	(7)	(1)	(6)	106,066	47,231	—	272	77	1	6	3
B.09 - Mining support service activities	971	712	27	25	(22)	(2)	(18)	4,768,224	180,927	—	900	42		29	2
C - Manufacturing	**47,604**	**3,118**	**2,456**	**992**	**(736)**	**(123)**	**(542)**	**39,222,952**	**28,774,661**	**1.86 %**	**41,132**	**4,735**	**335**	**1,402**	**3**
C.10 - Manufacture of food products	8,774	—	524	190	(133)	(23)	(96)	8,096,729	7,314,125	—	7,562	891	63	258	2
C.11 - Manufacture of beverages	1,884	—	101	18	(15)	(6)	(7)	1,329,358	1,089,423	—	1,643	163	14	64	3
C.12 - Manufacture of tobacco products	443	—	—	—	—	—	—	131,505	70,329	—	390	53			3
C.13 - Manufacture of textiles	1,782	—	142	37	(39)	(19)	(16)	297,917	233,243	—	1,667	87	11	17	2
C.14 - Manufacture of wearing apparel	619	—	53	41	(30)	(5)	(22)	172,923	115,988	—	557	41	4	17	2
C.15 - Manufacture of leather and related products	341	—	43	26	(20)	(2)	(16)	95,513	77,731	—	315	19	1	6	2
C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	399	—	52	16	(14)	(2)	(11)	203,608	102,941	—	349	29	7	14	3
C.17 - Manufacture of pulp, paper and paperboard	1,532	—	81	15	(11)	(2)	(7)	823,912	334,231	4.29	1,292	205	4	31	3
C.18 - Printing and service activities related to printing	339	—	47	29	(16)	(3)	(12)	72,928	44,812	—	273	35	10	21	4
C.19 - Manufacture of coke oven products	2,306	2,227	39	45	(28)	—	(27)	4,110,491	2,602,442	—	1,510	617	15	164	4
C.20 - Production of chemicals	4,884	443	126	36	(30)	(3)	(21)	3,058,236	1,763,153	—	4,320	352	88	124	3

Sector/subsector	Gross carrying amount	Of which excluded from Paris Agreement [2]	Of which stage 2 exposures	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	Of which Stage 2 exposures	Of which non-performing exposures	GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)	Of which Scope 3 financed emissions	GHG emissions percentage derived from company-specific reporting [3]	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
C.21 - Manufacture of pharmaceutical preparations	1,625	—	68	15	(16)	(4)	(10)	787,978	442,301	5.00 %	1,176	422	3	24	3
C.22 - Manufacture of rubber products	1,749	2	74	37	(28)	(2)	(22)	735,770	585,425	—	1,485	185	23	56	3
C.23 - Manufacture of other non-metallic mineral products	2,829	—	188	36	(39)	(13)	(23)	3,385,279	548,537	—	2,386	388	9	46	3
C.24 - Manufacture of basic metals	3,629	93	110	79	(31)	(3)	(23)	2,272,242	1,051,199	0.59	3,417	171	4	37	1
C.25 - Manufacture of fabricated metal products, except machinery and equipment	2,136	—	177	180	(132)	(5)	(119)	917,623	740,158	—	1,723	289	29	95	3
C.26 - Manufacture of computer, electronic and optical products	2,323	—	22	26	(21)	(2)	(19)	1,492,163	1,343,386	—	2,155	159	5	4	1
C.27 - Manufacture of electrical equipment	2,099	94	131	12	(19)	(10)	(6)	807,835	690,305	—	1,924	109	13	53	3
C.28 - Manufacture of machinery and equipment n.e.c.	2,285	259	135	46	(39)	(6)	(30)	7,778,638	7,591,820	22.08	2,146	89	9	41	2
C.29 - Manufacture of motor vehicles, trailers and semi-trailers	3,242	—	149	24	(21)	(4)	(13)	1,930,022	1,554,282	6.54	2,739	274	2	227	4
C.30 - Manufacture of other transport equipment	951	—	95	7	(6)	(2)	(3)	250,268	158,496	—	865	16		70	3
C.31 - Manufacture of furniture	313	—	30	31	(20)	(2)	(17)	166,604	101,945	—	235	56	9	13	4
C.32 - Other manufacturing	741	—	42	31	(20)	(4)	(15)	172,803	116,653	—	661	61	5	14	3
C.33 - Repair and installation of machinery and equipment	379	—	27	15	(8)	(1)	(7)	132,607	101,736	—	342	24	7	6	2
D - Electricity, gas, steam and air conditioning supply	**16,463**	**6,577**	**1,224**	**381**	**(432)**	**(133)**	**(289)**	**8,075,677**	**1,403,538**	**1.66 %**	**11,463**	**2,719**	**1,201**	**1,080**	**4**
D35.1 - Electric power generation, transmission and distribution	13,817	4,253	1,153	375	(426)	(132)	(285)	6,474,394	935,306	1.66 %	9,678	2,268	809	1,062	4
D35.11 - Production of electricity	11,076	3,852	1,111	258	(330)	(129)	(193)	5,826,914	617,464	8.34	7,945	2,083	753	295	3
D35.2 - Manufacture of gas; distribution of gaseous fuels through mains	2,640	2,324	69	5	(5)	(1)	(3)	1,591,320	467,098	1.68 %	1,782	448	392	18	5
D35.3 - Steam and air conditioning supply	6	—	2	1	(1)	—	(1)	9,963	1,134	—	3	3	—	—	5

Sector/subsector	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)		GHG emissions percentage derived from company-specific reporting [3]	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
		Of which excluded from Paris Agreement [2]	Of which stage 2 exposures	Of which non-performing exposures		Of which Stage 2 exposures	Of which non-performing exposures		Of which Scope 3 financed emissions						
E - Water supply; sewerage, waste management and remediation activities	**1,003**	**5**	**40**	**16**	**(10)**	**(1)**	**(8)**	**546,912**	**228,381**	**—**	**615**	**218**	**108**	**62**	**6**
F - Construction	**10,096**	**41**	**933**	**764**	**(515)**	**(56)**	**(425)**	**1,520,966**	**1,290,733**	**0.23 %**	**7,053**	**944**	**1,763**	**336**	**5**
F.41 - Construction of buildings	6,825	39	703	552	(376)	(44)	(306)	601,175	498,093	0.34 %	4,551	550	1,558	166	6
F.42 - Civil engineering	1,711	2	85	92	(71)	(7)	(61)	385,549	336,468	—	1,263	216	158	74	2
F.43 - Specialised construction activities	1,560	—	145	120	(68)	(5)	(58)	534,242	456,172	—	1,239	178	47	96	4
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	**31,275**	**703**	**2,504**	**1,063**	**(851)**	**(140)**	**(605)**	**2,384,134**	**1,375,529**	**—**	**27,250**	**2,209**	**361**	**1,455**	**3**
H - Transportation and storage	**11,262**	**240**	**1,103**	**369**	**(269)**	**(91)**	**(150)**	**2,368,669**	**1,250,000**	**4.06 %**	**7,869**	**2,464**	**647**	**282**	**4**
H.49 - Land transport and transport via pipelines	4,636	206	388	175	(121)	(20)	(83)	806,950	626,435	—	4,024	445	44	123	3
H.50 - Water transport	503	—	19	58	(44)	—	(43)	401,814	104,657	—	378	119	4	2	3
H.51 - Air transport	569	—	9	20	(6)	(1)	(4)	620,501	66,947	—	353	211	—	5	5
H.52 - Warehousing and support activities for transportation	5,404	34	681	112	(96)	(70)	(18)	533,263	447,062	8.46 %	2,980	1,677	597	150	4
H.53 - Postal and courier activities	150	—	6	4	(2)	—	(2)	6,141	4,899	—	134	12	2	2	2
I - Accommodation and food service activities	**8,003**	**—**	**1,169**	**438**	**(274)**	**(58)**	**(197)**	**559,212**	**281,636**	**—**	**4,460**	**2,801**	**687**	**55**	**5**
L - Real estate activities	**9,550**	**9**	**541**	**623**	**(451)**	**(47)**	**(384)**	**623,676**	**35,741**	**—**	**5,061**	**3,360**	**1,084**	**45**	**5**
Exposures towards sectors other than those that highly contribute to climate change [1]	**24,965**	**24**	**2,072**	**561**	**(844)**	**(191)**	**(490)**				**18,604**	**2,955**	**744**	**2,662**	**5**
K - Financial and insurance activities	**2,367**	**4**	**98**	**12**	**(15)**	**(6)**	**(7)**				**2,151**	**111**	**61**	**44**	**2**
Exposures to other sectors (NACE codes J, M - U)	**22,598**	**20**	**1,974**	**549**	**(829)**	**(185)**	**(483)**				**16,453**	**2,844**	**683**	**2,618**	**5**
TOTAL	**170,550**	**13,898**	**12,705**	**5,543**	**(4,584)**	**(893)**	**(3,222)**	**73,530,253**	**41,210,763**	**1.13 %**	**132,037**	**23,827**	**7,145**	**7,541**	**4**

(*.1) Accounting portfolios: "At amortised cost", "Fair Value through Other Comprehensive Income (FVOCI)", "Fair Value through P&L" and "Non-tradable at Fair Value through P&L". Instruments: loans and advances, fixed income and equities. Sectors: non-financial corporations.

(*.2) Specific details:

- Information on customers' economic activities has been used based on the local economic classifications of each geography, in the case of Spanish companies, the National Classification of Economic Activities (CNAE), or other equivalent standards in the other geographies where the Group operates. These local classifications by activity are equivalent to the Statistical Classification of Economic Activities of the European Community (NACE). In addition, information provided by risk analysts who review the NACE for individual customers is being used when it does not accurately reflect the main economic activity. This information on customer economic activity is used for the BBVA Group's internal risk management.
- Calculation of GHG emissions only for scope BBVA S.A. (excluding Portugal branches, whose emissions have not been measured due to low materiality) and BBVA Mexico loans and advances. For a better understanding of the figures, the appendix includes the same table only for scope BBVA S.A., as well as for scope BBVA Mexico.
- Operational marking excluded from the Paris Agreement(1). The thresholds considered for exclusion from the Paris Agreement on the basis of the Delegated Regulation (EU) 2020/1818 are:
  - Companies deriving 1 % or more of their revenues from the exploration, mining, extraction, distribution or refining of anthracite, hard coal and lignite.
  - Companies deriving 10 % or more of their revenues from the exploration for, extraction, extraction, distribution or refining of liquid fuels.
  - Companies deriving 50 % or more of their revenues from the exploration for, extraction, production or distribution of gaseous fuels.
  - Companies deriving 50 % or more of their revenues from the generation of electricity with a GHG emission intensity exceeding 100 gCO2/kWh.

(*.3) Revenues from customer activities are obtained from S&P data. Revenues from activities indicated in the supplier's "S&P Paris-Aligned & Climate, Transition (PACT) Indices Methodology" are considered. For those cases where no information is available on the client's activity revenues, it is assumed that its revenues come from the main activity (NACE) used for internal management and reporting.

(*.4) Companies engaged in electricity generation take into account the emissions intensity estimated under the PACTA methodology in the logic to be considered as companies excluded from the Paris Agreement.

(*.5) Exposures computed in the numerator of column k ("GHG emissions") are estimated under the PCAF methodology with approach 1a or 1b.

[1] In accordance with the Commission delegated regulation EU) 2020/1818 supplementing regulation (EU) 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks -Climate Benchmark Standards Regulation - Recital 6: Sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006.

[2] Exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation

[3] GHG emissions (column i, "GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty)"): gross carrying amount percentage of the portfolio derived from company-specific reporting

5.2. Exposure to top carbon-intensive firms

The main global companies with the highest volume of greenhouse gas emissions have a responsibility to reduce their impact on the environment and must contribute to the transition to more sustainable activities. BBVA Group has analysed its exposure to the world's most carbon-intensive companies, which is used as a complement to the sectoral analysis (NACEs) in other sections of this report. To analyse exposure to the top 20 most polluting companies, the financing granted to any of the companies belonging to their group is taken into account. The relationship between corporate groups and companies belonging to them is based on the data that the Group uses to prepare other supervisory reporting.

Reporting on the world's top 20 carbon-intensive companies, according to the ITS, should be based on accurate and publicly available information. Examples of data sources for identifying the top carbon-emitting companies include the Carbon Majors database, which includes reports from the Carbon Disclosure Project (CDP) and the Climate Accountability Institute, as well as Thomson Reuters.

However, these reports use different criteria to determine the most polluting companies, as they are based on different perimeters within the value chain to measure greenhouse gas emissions. One of the public lists uses annual Scope 1 and 2 emissions to establish the ranking of the most polluting companies, while another one adds Scope 3 emissions to the above. Therefore, the results are not equivalent, due to the different emission perimeter considered by each of them..

BBVA has information from several recognised data providers in the sector with which it collaborates in order to have the best information on climate issues. This information is based on the questionnaires sent to companies by the Carbon Disclosure Project, an organisation that the ITS mentions as valid for determining a list of the most polluting companies.

Based on this information, a list of the most polluting companies has been drawn up, whose emissions perimeter includes the three scopes (1, 2 and 3 upstream). BBVA understands that this scope is the one that companies themselves can directly manage within their value chain, where they can carry out mitigation actions,accelerate their transition to production processes or improve energy efficiency.

Of the 20 most carbon-intensive firms worldwide selected according to the previously stated, BBVA Group has an exposure as of June 30, 2023 to 5 of them for an amount of €870 million, which represent 0.49% of the exposure to non-financial corporations and whose weighted average maturity is less than one year.

Below are the Group's exposure data compared to the 20 most carbon-intensive companies worldwide, where it can be seen that there are 5 clients with a grouped balance of €870 million, which represent 0.49% of the exposure to non-financial corporations and whose weighted average maturity is less than one year.

Table 53. ESG4. Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms (Million euros. 6-30-2023)

Gross carrying amount (aggregate)	Gross carrying amount towards the counterparties compared to total gross carrying amount (aggregate) (*)	Of which environmentally sustainable (CCM)	Weighted average maturity	Number of top 20 polluting firms included
870	0.49 %		0.41	5

(*) For counterparties among the top 20 carbon emitting companies in the world, exclusively considering non-financial corporates in the investment portfolio of the entity

(**) Accounting portfolios: "At amortised cost", "Fair Value through Other Comprehensive Income (FVOCI)", "Fair Value through P&L" and "Non-tradable at Fair Value through Profit or Loss". Instruments: loans, fixed income and equities. Sectors: non-financial corporations.

5.3. Energy efficiency of the collaterals

BBVA continues making progress in collecting real Energy Performance Certificates (EPC) data for the real estate assets used as collateral. The EPC involves the classification of properties based on their energy efficiency and must be calculated in accordance with the methodology adopted by Directive 2010/31/EU - Energy Performance of Buildings Directive (EPBD), which is currently under review.

Much of the energy efficiency information available within the BBVA Group comes from properties used as collateral in the Spanish business, where BBVA is working on integrating the Energy Performance Certificate (EPC) into mortgage origination as a document to be considered in collateral valuation, pricing processes, decarbonization planning, and risk management. To achieve this, BBVA is actively participating in various industry forums with the goal of eliminating barriers that currently hinder the inclusion of EPCs in 100% of operations in order to standardize collateral transition risk valuation methodologies at the European level, thereby enabling the comparability of this risk impact among financial institutions operating in Europe. Similarly, BBVA is collaborating with other entities in working groups and forums to share best practices on how to estimate the energy performance when real data is not available.

In other regions where there is no legislative framework comparable to that of the European Union regarding building energy efficiency, BBVA is undertaking projects aimed at data collection for the development of tools for estimating energy consumption and financed emissions as accurately as possible that would allow to integrate such data into the risk admission and management process as in the EU.

Table 51. ESG2. Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral (Million euros. 6-30-2023)

	Total gross carrying amount amount															
		Level of energy efficiency (EP score in kWh/m² of collateral)						Level of energy efficiency (EPC label of collateral) [1]							Without EPC label of collateral	
		0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500	A	B	C	D	E	F	G		Of which level of energy efficiency (EP score in kWh/m² of collateral) estimated
Total EU area	**81,305**	**10,157**	**28,022**	**18,941**	**4,126**	**1,143**	**1,179**	**1,064**	**1,417**	**1,989**	**5,892**	**34,479**	**5,276**	**8,697**	**22,488**	**21 %**
Of which Loans collateralised by commercial immovable property	10,777	1,334	1,813	1,172	331	103	54	234	392	684	677	1,501	325	407	6,557	9%
Of which Loans collateralised by residential immovable property	69,892	8,779	26,125	17,707	3,784	1,037	1,124	830	1,025	1,296	5,203	32,911	4,936	8,266	15,424	27 %
Of which Collateral obtained by taking possession: residential and commercial immovable properties	636	44	84	62	11	3	1	—	—	9	12	67	15	24	507	15
Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	4,754	1,487	1,602	1,327	296	34	8								4,754	100 %
Total non-EU area	**40,197**	**—**	**—**	**—**	**—**	**—**	**—**	**4**	**117**	**265**	**8**	**2**	**—**	**—**	**39,799**	**—**
Of which Loans collateralised by commercial immovable property	15,355	—	—	—	—	—	—	4	72	128	1	—	—	—	15,149	_
Of which Loans collateralised by residential immovable property	24,528	—	—	—	—	—	—	—	45	137	7	2	—	—	24,336	—
Of which Collateral obtained by taking possession: residential and commercial immovable properties	314	—	—	—	—	—	—	—	—	—	—	—	—	—	314	—
Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	—	—	—	—	—	—	—								—	—

(*) Accounting portfolios: "At amortised cost", "Fair Value through Other Comprehensive Income (FVOCI)", "Fair Value through P&L" and "Non-marketable at Fair Value through Profit or Loss". Loans secured by real estate are in the "At amortised cost" portfolio. Instruments: loans secured by residential real estate, commercial real estate and foreclosed real estate collateral. Sectors: non-financial corporations and households. Data on the Group's prudential perimeter, where energy efficiency information is available mainly in the Spanish and Turkish business.

[1] The EPC labels included are the certified labels obtained from the client, from the registry, provided by the appraiser and estimated by methodology based on certified homes belonging to the same building.

6. Physical risk

BBVA is working to measure the impact of different climate scenarios, both transition and physical risks, on its strategy and business.The latter can be caused by more frequent and severe extreme weather events or by long-term climate changes, which can lead to physical damage to company assets, disruptions in the supply chain or increased expenses required to deal with them.

The physical risks arising from climate change may affect other risks (credit, liquidity, reputational, etc.) over different time horizons and with varying degrees of probability. Regarding the impact of physical risk on credit portfolios, the higher frequency/severity of extreme weather events and structural changes in climate patterns explains the deterioration shown in the assessment over longer time horizons. Also noteworthy is the increase in medium-term insurance risk associated with the rebound observed in reinsurance premiums that may have an impact in the medium term, although the risk level remains medium-low.

	Spain			Rest of geographical areas		
	ST	MT	LT	ST	MT	LT
	< 4 años	4 - 10 años	> 10 años	< 4 años	4 - 10 años	> 10 años
PHYSICAL RISK						
Credit	L	M-	M+	L	M-	M+
Liquidity and funding	L	M-	M-	L	M-	M-
Equities	L	L	L	L	L	L
Credit spread	L	M-	M-	L	M-	M-
Markets (trading)	L	L	L	L	L	L
Insurance	L	M-	M-	L	M-	M-
Operational	L	L	M-	M-	M+	M+
TOTAL	**L**	**M-**	**M+**	**L**	**M-**	**M+**

High risk	H
Moderate-high risk	M+
Moderate-low risk	M-
Low risk	L

The analysis of physical risk is structured around three pillars: hazard, exposure and vulnerability. In terms of threat, the World Bank's ThinkHazard methodology has been followed. This tool indicates the risk levels of different natural hazards, both acute and chronic, at a global level and provides a different level of detail depending on the geographic area of the planet. These risk levels are calculated using historical data based on the frequency of occurrence and intensity of different natural hazards. For this initial evaluation of physical risks, four acute hazards (extreme heat, cyclone, flood and fire) and two chronic hazards (sea level rise and drought) have been considered.

For the vulnerability component, the sectoral granularity of the analysis for the different business segments is particularly relevant, where the advances in Wholesale Banking and SMEs stand out. This analysis is based on 8 indicators that capture the level of vulnerability of assets and processes, labor productivity, energy supply, transportation routes, and natural resources, as well as indirect vulnerability due to the use of raw materials and changes in demand as a result of physical risks. In this way, the sensitivity of each sector to climate hazards is evaluated indirectly by analyzing its sensitivity to these indicators, obtaining a vulnerability score for each subsector. This methodology is based on the best practices identified by the Taskforce on Climate related Financial Disclosure (TCFD) and UNEP-FI. As a result, a qualitative classification of (sub)sectors is generated according to the potential impact on their business model and incidence of chronic or acute changes in climate.

It is important to highlight that the information used is provided by private, academic, and public organizations. In addition, work has been done to increase the granularity of the risk levels offered by ThinkHazard, using scientific and technical criteria, for the most relevant hazards in Argentina, Colombia, Spain, Peru and Mexico.

During the first half of 2023, BBVA has continued to make progress in the evaluation of the materiality of chronic and acute risks in the different portfolios; to this end, an improvement has been made in the granularity of the analysis by optimizing the relationship between the administrative levels of the ThinkHazard tool and the postal codes available in the different BBVA portfolios.

The table below shows the figures of exposures subject to potential physical risk associated with climate change, with additional detail broken down by geography in the corresponding annex.

Table 54. ESG5. Banking book - Climate change physical risk: Exposures subject to physical risk (Million euros. 6-30-2023)

	Gross carrying amount													
		of which exposures sensitive to impact from climate change physical events												
		Breakdown by maturity bucket										Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
Total		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity	of which exposures sensitive to impact from chronic climate change events	of which exposures sensitive to impact from acute climate change events	of which exposures sensitive to impact both from chronic and acute climate change events	Of which Stage 2 exposures	Of which non-performing exposures		of which Stage 2 exposures	Of which non-performing exposures
A - Agriculture, forestry and fishing	4,794	2,469	593	9	80	3	985	884	1,282	440	77	(85)	(38)	(40)
B - Mining and quarrying	5,535	2,066	369	108	42	2	438	1,754	393	51	134	(43)	(3)	(37)
C - Manufacturing	47,604	8,734	1,230	113	263	2	6,551	2,141	1,648	384	122	(89)	(8)	(69)
D - Electricity, gas, steam and air conditioning supply	16,463	7,722	1,386	476	214	3	1,752	6,758	1,288	298	59	(47)	(6)	(38)
E - Water supply; sewerage, waste management and remediation activities	1,003	1	—	—	—	5	1	—	—	—	1	—	—	—
F - Construction	10,096	449	60	53	17	—	85	372	122	34	38	(29)	(1)	(27)
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	31,275	279	47	35	—	3	54	233	74	57	36	(29)	(4)	(26)
H - Transportation and storage	11,262	56	9	8	1	4	9	62	3	34		(4)	(3)	—
L - Real estate activities	9,550	709	487	169	6	5	331	732	308	34	15	(14)	(2)	(9)
Loans collateralised by residential immovable property	94,420	349	978	5,288	2,627	17	2,957	4,848	1,437	947	471	(143)	(22)	(112)
Loans collateralised by commercial immovable property	26,131	1,970	1,268	452	21	5	1,055	1,856	800	284	157	(119)	(14)	(97)
Repossessed colalterals	950	—	—	—	115	20	29	74	12	—	—	—	—	—
I - Accommodation and food service activities	8,003	1,192	899	169	8	5	953	872	443	119	81	(51)	(7)	(38)
J - Information and communication	10,602	2	—	—	—	—	—	2	—	1	—	—	—	—
K - Financial and insurance activities	2,367	—	—	1	—	9	—	1	—	—	—	—	—	—
Other relevant sectors	11,996	161	104	23	9	5	123	154	20	57	13	(11)	(1)	(10)

(*) Accounting portfolios: "At amortised cost", "Fair Value through Other Comprehensive Income (FVOCI)", "Fair Value through P&L" and "Non-tradable at Fair Value through Profit or Loss". Instruments: loans, fixed income and equities. In addition, loans secured by residential real estate, commercial real estate and foreclosed real estate collateral. Sectors: non-financial corporations and households (only for the part of loans secured by residential real estate). Specific details: Main activity code (NACE) information used for internal management and reporting purposes. In other relevant sectors all other NACE activities are included until the perimeter is complete.

7. Social risk

7.1. Mitigation of social risk on wholesale banking

BBVA addresses the social risk prevention and mitigation from the perspective of the client´s ability to manage its own social issues and applying different tools and methodologies to have a good analysis and evaluation of the risks.

The Environmental and Social Framework, which is reviewed annually, provides a series of rules and exclusions in relation to transactions and clients operating in sectors such as mining, agribusiness, energy, infrastructure and defense. The Framework is public and available on the BBVA shareholders and investors website. The Framework is in line with BBVA's General Sustainability Policy and aims to contribute and support the achievement of the United Nations Agenda 2030 of the Sustainable Development Goals (SDGs) (hereinafter "SDGs"), promote the fight against climate change and strengthen the commitment to human rights.

To carry out its effective implementation, BBVA carries out the identification, evaluation and monitoring of the social risks foreseen therein, and these are integrated into the standard risk, compliance and operations processes and tools. Decisions are based on internal information or, where appropriate, the advice of an independent external expert who conducts due diligence on clients covered by the Framework in order to mitigate the risks mentioned in these sectors.

In relation to the measures adopted to identify social risks, the sustainability questionnaires that risk managers and specialists receive from clients belonging to different industries stand out. Our clients provide us with more information about their social performance that is integrated into the preparation of the client's Financial Program. In this way, information is available for decision-making in the origination or renewal of risks.

Additionally, during the first half of 2023, the Human Rights Action Plan has been updated, which details the Due Diligence Process carried out at a global level with the objective of preventing, mitigating and remedying the potential impacts on human rights of the operations. The Plan uses the guidelines of the United Nations Guiding Principles on Business and Human Rights as references. This update includes, on the one hand, an assessment of the degree of compliance of the plans proposed until 2022 (25 plans) and, on the other hand, the inclusion of new plans in 2023.

7.2. Mitigation of social risk on retail banking

BBVA identifies, accredits and documents the activity carried out by our customers through the Know Your Customer process known as KYC. This KYC process, which is renewed periodically, has been designed and implemented through a risk approach and allows a better knowledge of customers, their transactions and segmentation, channels, jurisdictions and transaction monitoring.

The retail segment is also promoting the inclusive growth line, mobilizing resources for the investment needed to build infrastructure and support inclusive economic development. This line includes financing (via cards, loans, credits or mortgage financing) to individuals who meet the income thresholds and/or vulnerability criteria established for each country. The social mortgage, which is aimed at segments of the population with lower purchasing power and in which the State subsidizes part of the total amount of the mortgage financing, stands out.

Lastly, as mentioned in previous sections, the BBVA Group is committed to sustainable development, which is one of the defining elements of BBVA's business model. In this regard, the General Retail Credit Risk Policy establishes that one of the general principles governing retail credit risk management in the BBVA Group is respect for equality and diversity, avoiding unfair bias in access to financial products for reasons such as gender, color, ethnic origin, disability, religion, sexual orientation or political opinion.

Additionally, the General Risk Management Model Policy establishes that in order to avoid unfair bias in access to financial products based on gender, color, ethnic origin, disability, religion, sexual orientation or political opinion, none of these variables will be included in the admission and pricing models. BBVA also has financing formulas for entrepreneurs, individuals or legal entities, including micro-enterprises, that meet certain conditions, such as deadlines for starting up economic activity or certain turnover thresholds. In this segment, BBVA's program for financing women entrepreneurs in Turkey is relevant, so that women with small and medium-sized businesses can access loans under preferential conditions subject to the terms set out in the program.

7.3. Equator Principles

Since 2004 BBVA has adhered to the Equator Principles (EP), which include a range of standards for managing environmental and social risk in project finance, which 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 Equator Principles apply globally to all industrial sectors and to five financial products under the terms set forth in the principles: (I) project finance advisory; (II) project finance; (III) project-related corporate loans; (IV) project related bridge loans; and (V) project-related refinancing and project-related acquisition.

Project assessment consists of subjecting each transaction to an environmental and social due diligence process, including potential human rights impacts. The first step is the allocation of a category (A, B or C), which reflects the project's level of risk.

– Category A: projects with potentially significant adverse social or environmental impacts that are irreversible or unprecedented.

– Category B: projects with potentially limited adverse social and environmental impacts that are few in number, site-specific, reversible and readily addressed through mitigation measures.

– Category C: projects with minimal or no social or environmental impacts.

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. Finance agreements include the client's environmental and social obligations. The application of the EPs at BBVA is integrated into the internal processes for structuring, acceptance and monitoring of transactions.

8. Governance risk

The governance-related risks related to our counterparts encompass various types of controversies that our clients may face, highlighting the following, although this is not an exhaustive list: (i) Ethical considerations, such as conduct integrity, values and ethics, anti-bribery and anti-corruption measures, accountability, and compliance with the rule of law and regulatory framework; (ii) Strategy and risk management: implementation of strategies, operational execution and monitoring, internal controls, and political risks and management policies and procedures. (iii) Diversity and inclusion: gender gap, wage gap, and representation of minority groups in management. (iv) Transparency: disclosures on discrimination, tax commitments and payments, disclosure of lobbying activities. (v) Conflict of interest management: any conflicts of interest affecting governance bodies. (vi) Internal communication regarding critical concerns: inadequate communication of critical internal issues and difficulties in escalating them to the highest governance bodies.

BBVA evaluates the corporate governance performance of its clients by assessing their compliance with management practices. In other words, controversies affecting clients are analyzed and taken into consideration as a qualitative variable in the credit rating calculation, alongside other indicators of internal risk management that contribute to determining the risk appetite associated with each client.

8.1. Frameworks

Among the frameworks considered in the governance risk analysis, the following declarations, agreements and initiatives stand out:

– Universal Declaration of Human Rights

– United Nations Agenda 2030 of the Sustainable Development Goals (SDGs)

– Paris Agreement of the United Nations Framework Convention on Climate Change (UNFCCC)

– Conventions of the International Labour Organisation (ILO)

– UN Global Compact

– UN Guiding Principles on Business and Human Rights

– OECD Guidelines for Multinational Enterprises

– Global Reporting Initiative

– Carbon Disclosure Project (CDP)

– UNEP FI Statement on Sustainable Development and Positive Impact Initiative

– IFC Performance Standards and Environmental, Health and Safety Guidelines

– Equator Principles

– Principles for Responsible Investment (PRI)

– Recommendations of the Task Force on Climate-related Financial Disclosures

– Principles for Responsible Banking promoted by UNEP-FI

– Financial Sector Collective Commitment to Climate Action

– Science-Based Targets Initiative

– 2 Degrees Investing Initiative

8.2. Risk management

The identification, evaluation and monitoring of client risks and their operations are integrated into BBVA's standard risk, compliance and operations processes and tools. Decisions are based on internal information or, where appropriate, on information provided by independent external analysts. Specifically, the Governance and Management module of the credit rating model for the corporate segment evaluates the following aspects:

– Strategy, quality, and skills of the management team to execute the company's strategy.

– Risk management standards and risk tolerance including the ability to take a long-term view of the perspectives of different stakeholders.

– Operational performance standards, existence of robust internal controls and an independent process and policy oversight structure including processes to ensure the quality of financial and non-financial reporting.

– Independence, experience, and skills .

When the existence of sufficient evidence is found that any of the following cases related to governance risk occur in the mining, energy, agribusiness and infrastructure sectors of corporate clients, a specific analysis of the situation will be carried out, which may imply the non-existence of initiation of the relationship, or the adoption of a plan for dialogue and support of the client with measures aimed at understanding and trying to correct the situation.

– Clients for whom BBVA has sufficient evidence that they incur in material violations of applicable laws and regulations regarding Human Rights, or participate in abuse thereof, regardless of whether said participation does not violate the provisions of the local legislation of each country.

– Clients subject to financial sanctions from the European Union, United States, and United Nations.

– Clients of whom BBVA has sufficient evidence that they are using child or forced labor, as these concepts are defined in the ILO Conventions.

– Projects that involve the resettlement or violation of the rights of indigenous or vulnerable groups without their free, prior and informed consent.

In the case of clients (i) in the defense sector, it will entail not providing financial services to the customer and (ii) in the remaining sectors (mining, energy, agribusiness, and infrastructure), a specific analysis of the situation will be conducted, which may result in not initiating the relationship, or in adopting a communication plan with the customer with measures aimed at understanding and trying to correct the situation.

Additionally, the corporate & Investment Banking (CIB) area relies on the work of various internal teams (onboarding, bankers, Sustainable Finance) and external ESG services provided at request to carry out Due Diligence on corporate clients from some of the most relevant sectors (the sectors mentioned above: mining, energy, agribusiness, infrastructure, defense). During the first half of 2023, a periodic review of existing clients has been conducted, which is done at least biannually.