

**BBVA** Creating  
Opportunities

# Pledge 2025

Our Strategy on Climate Change and  
Sustainable Development

Madrid, February 2018



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

## Global agenda

Sustainable Development Goals 2030 (SDGs)



Paris Agreement



## Market

**USD 12 TRILLION**

Annual market linked to SDGs in 2030<sup>1</sup>

**Consumers**

Growing sustainability consciousness

**USD 5-7 TRILLION**

Expected annual investment till 2030, 70% in emerging markets<sup>2</sup>

**Competitors**

Starting to develop advanced strategies

## Investors



**1,750**

Institutional investors

**USD 70 TRILLION**

Assets under management

## Regulators

Recommendations on climate change



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

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

# Our proposal

A **strategy** on climate change and sustainable development **for 2025**

“ **To bring the age of opportunity to everyone** ”

## Purpose

## Strategy



New standard in customer experience



Optimize capital allocation



New business models

## Values



Customer comes first



We think big



We are one team

## CSR Policy

Commitments and responsible practices with all stakeholders

Integrated story

Business opportunities

Managing risks

# Pledge 2025

## BBVA strategy on climate change and sustainable development



### To finance

We will help to create the **scale of capital mobilization** to halt global climate change & attain the UN Sustainable Development Goals

**€100 Billion MOBILIZED**

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



### To manage

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

**70% RENEWABLE ENERGY**  
**68% DIRECT GHG EMISSIONS REDUCTION**

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



### To engage

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

**ACTIVE COLLABORATION**

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

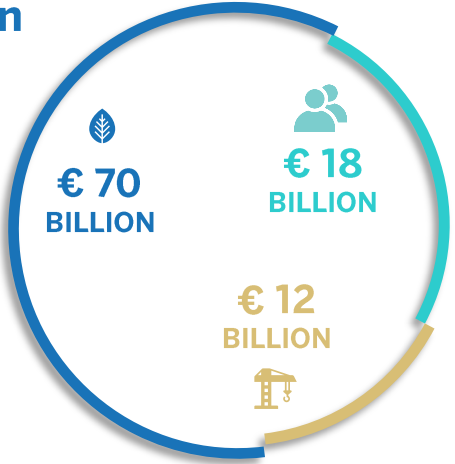
**Our purpose: to bring the age of opportunity to everyone**



# A €100 Billion mobilization between 2018 and 2025

## Transition to a low carbon economy

- Green lending to companies & institutions
- Green bonds intermediated as bookrunner
- Energy efficiency, water & waste management & solutions for SMEs & individuals
- Green investment funds & equity



## Financial inclusion & entrepreneurship

- Lending to underserved
- Lending to vulnerable microentrepreneurs
- Lending to women entrepreneurs
- New digital business
- Impact investment



## Infrastructures & agribusiness

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

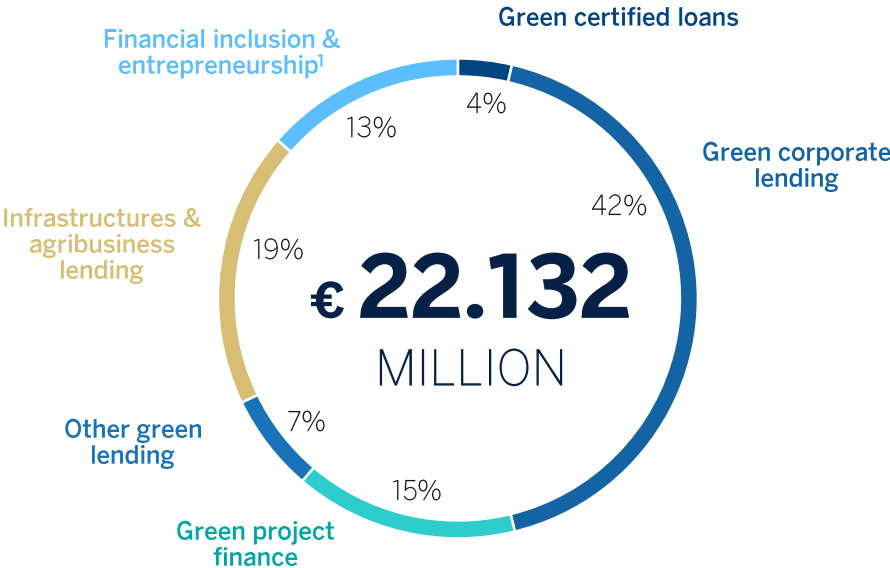




# Current exposure on sustainable finance

## Credit exposure

December 2017



## Sustainable bonds

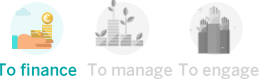
2017

### Sustainable bonds intermediated

€ 10.646 MILLION

€1.517 MILLION as bookrunner

(1) Including BBVA Microfinance Foundation  
 (2) Green criteria aligned with Green Bond Principles. Social criteria aligned with Social Bond Principles



# BBVA SDGs Bonds Framework

## Background

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

## Our solution

BBVA's SDGs Bond Framework follows the ICMA<sup>1</sup> **Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainable Bond Guidelines** which have four requirements:

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

### Environmental

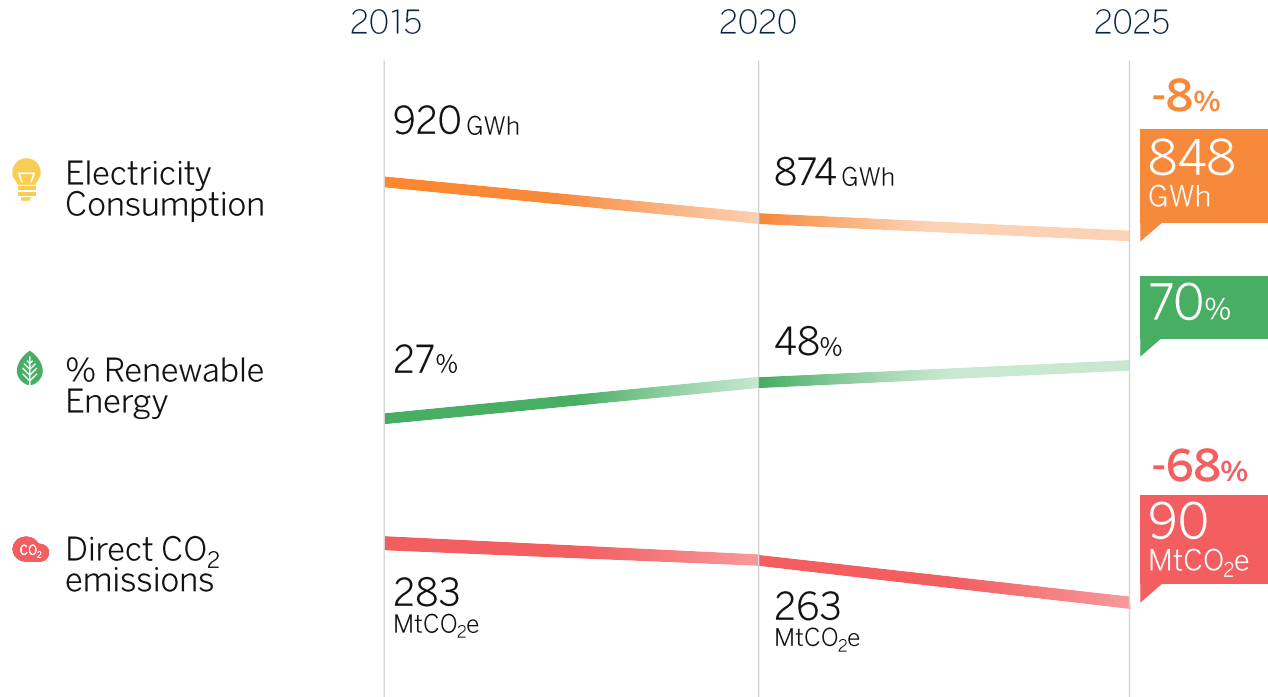


### Social



(1) International Capital Market Association (ICMA)

# Environmental direct impacts targets 2025



**70%**  
renewable energy

**68%**  
direct emissions  
CO<sub>2</sub> reduction  
(2015)

Committed with Science Based Targets Initiative & RE 100 Initiative to achieve 100% renewable energy in 2030





# Transparency in carbon-related assets

## Carbon-related assets exposure<sup>1</sup>

December 2017

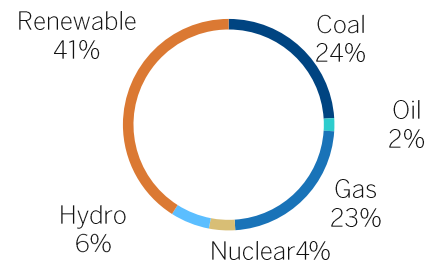
**€23.370** Million

**3,4 %** of total assets

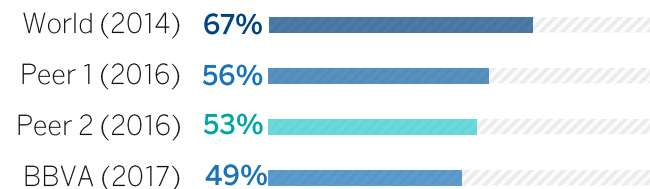
	Utilities	Oil & Gas	Coal Mining	Total
Corporate lending	8.187	12.050	133	<b>20.370</b>
Project finance	416	767	0	<b>1.183</b>
Structured Trade Finance	319	1.473	0	<b>1.792</b>
Equity	0	25	0	<b>25</b>
<b>Total exposure to carbon-related assets</b>	<b>8.922</b>	<b>14.315</b>	<b>133</b>	<b>23.370</b>

## Mix in power generation for utilities

December 2017



### % carbon-related<sup>2</sup>



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

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



# Sector norms

**Purpose**

To address industry-specific sustainable issues and provide clear guidance on the procedures that must be followed during customer management and transactions in these sectors

**Integrating new Human Rights commitment**

**Integrating new environmental commitment**

**Scope**

Corporate & Investment Banking activities carried out by all BBVA Group institutions, businesses lines, branches, subsidiaries and geographies



Energy



Mining



Infrastructure



Agribusiness

**Due diligence processes**

Transactions + Clients + Products

**How we did it?**



Based on international standards



Benchmark analysis



Economic assessment

**Escalation & exceptions**

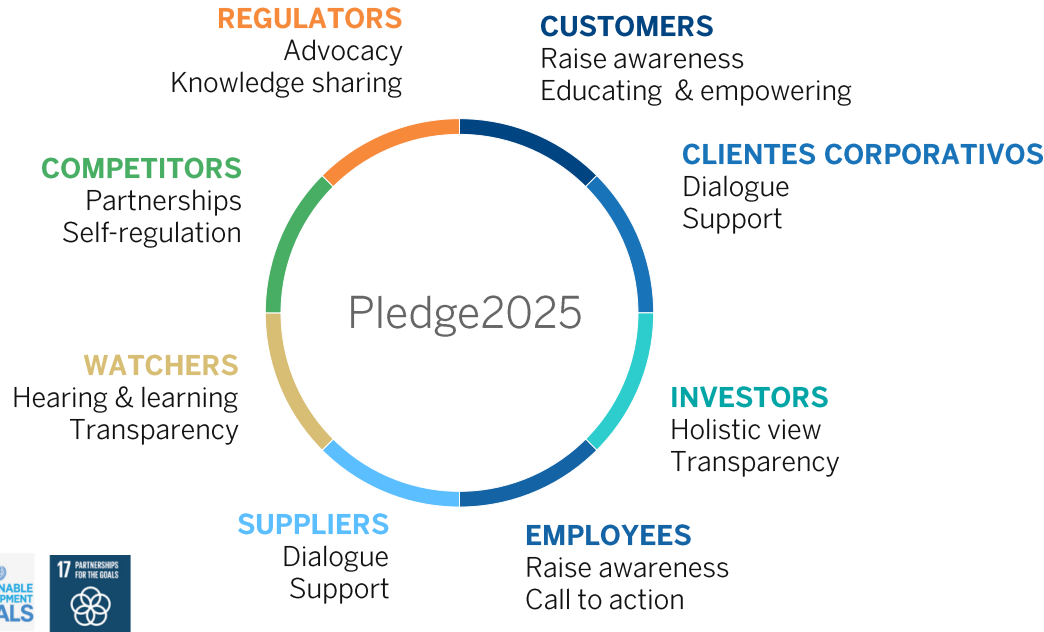
Exemptions will only take place exceptionally and shall only be approved by the CIB Leadership Committee.

Exemption requests must be clearly justified and supported by all decision-making tiers

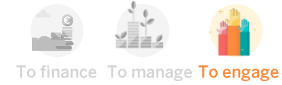
**A set of norms that are best practices within the industry and with a very limited impact in current business. They will be annually reviewed**



# Engagement with all stakeholders and commitment with the main global initiatives

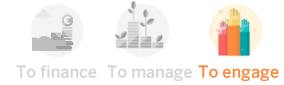


Representing European banking at the Global Steering Committee of United Nations forum for financial institutions. Chair of the Sustainable Finance Working Group at the European Banking Federation



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

Area	Recommendations	Done	Plan 2018
<b>GOVERNANCE</b>	Describe the <b>board's oversight</b> of climate-related risks and opportunities	<ul style="list-style-type: none"> <li>■ Included in the CSR Policy approved by the Board of Directors</li> <li>■ Board of Directors' oversight (3 times in last 12 months)</li> </ul>	<ul style="list-style-type: none"> <li>■ Reporting to the Board of Directors and to the Board Executive Committee</li> </ul>
	Describe <b>management's role</b> assessing and managing climate-related risks and opportunities	<ul style="list-style-type: none"> <li>■ Plans &amp; norms approved and oversighted by the CEO</li> <li>■ Global Leadership Team &amp; Sustainable Finance Working Group as forums to help decision-making</li> <li>■ Responsible Business as specialist function coordinating implementation &amp; monitoring</li> </ul>	<ul style="list-style-type: none"> <li>■ Reporting to the Global Leadership Team meeting</li> </ul>
<b>STRATEGY</b>	Describe the <b>climate-related risks and opportunities</b> the organization has <b>identified</b> over the short, medium and long term	<ul style="list-style-type: none"> <li>■ Quantify credit exposure to carbon-related assets &amp; mix energy generation in utilities</li> </ul>	<ul style="list-style-type: none"> <li>■ Update risks and opportunities definition that are material for BBVA</li> </ul>
	Describe the <b>impact</b> of climate-related risks and opportunities on the organization's businesses, strategy and financial planning	<ul style="list-style-type: none"> <li>■ Pledge 2025. Strategy on climate change and sustainable development</li> <li>■ Product portfolio defined at CIB</li> </ul>	<ul style="list-style-type: none"> <li>■ Strategy implications assessment</li> <li>■ Retail business opportunities</li> </ul>
	Describe the <b>resilience</b> of the organization's strategy, taking into consideration <b>different scenarios</b> , including a 2°C or lower scenario		<ul style="list-style-type: none"> <li>■ Participation in pilot group with UNEP FI</li> <li>■ First impact assessment on credit portfolios</li> </ul>



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

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

# Conclusions

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

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

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

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



## To finance

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



## To manage

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



## To engage

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



*“ We are first generation to be able to end poverty, and the last generation that can take steps to avoid the worst impacts of climate change ”*

**Ban Ki Moon**



# ANNEXES

Sector norms: main exclusions



# Sector norms: main exclusions



## Mining

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



## Energy

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

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

# Sector norms: main exclusions



## Agribusiness

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



## Infrastructure

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

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