

Sustainable Development Goals (SDGs) Bond Framework

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Creating Opportunities

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Background

BBVA is committed to the United Nations Global Compact Principles and in 2016 declared its commitment to achieve the targets set by the Paris COP21 (Conference of the Parties) and the United Nations Sustainable Development Goals (the “**SDGs**”). The SDGs is a set of 17 “Global Goals” with 169 targets covering a broad range of sustainable development issues; they call for action by all countries to promote prosperity while protecting the planet. The private sector has been called on to contribute to the realization of the new agenda.

In line with this commitment, in 2018 BBVA approved its new strategy on climate change and sustainable development, which covers comprehensive management of the risks and opportunities deriving from the fight against climate change and the resolve to achieve the SDGs.

In keeping with this strategy, one of the core elements of BBVA’s business model is the integration of opportunities arising from the contribution to global sustainability, thus providing its customers with innovative solutions to fund their investments with positive environmental and social impacts. Its aim is to foster sustainable financing, assess its strategic impact and boost and manage transformation initiatives that best respond to challenges related to climate change and social issues.

Sustainable bonds and loans are effective instruments for channeling funds to finance BBVA’s customers’ projects in sectors such as renewable energies, energy efficiency, waste management, water treatment or access to essential necessities and services such as housing or inclusive finance.

BBVA has developed a Sustainable Development Goals (SDGs) Bond Framework (the “**BBVA SDGs Framework**” or the “**Framework**”) under which it can issue green, social or sustainability bonds (as defined below).

BBVA is committed to sustainability and strives to operate by:

- i. Carrying out its activity in a responsible manner and placing people at the core of its purpose, and
- ii. Maximizing the creation of sustainable and shared value for its shareholders and for other stakeholders and the wider society in which it operates.

By doing business in such a manner, BBVA is convinced it can help achieve the SDGs purpose of ensuring prosperity for all and helping the planet.

A key way BBVA can contribute is by providing funds. It is clear that governments alone cannot finance the \$2.5 trillion gap needed in areas such as climate change, innovation or sustainable consumption, among others; the private sector has a crucial role to play¹, and BBVA is committed to joining the effort.

1: <http://www.un.org/sustainabledevelopment/blog/2016/10/un-private-sector-to-create-platform-for-financing-sdgs/>

The BBVA SDGs Framework aims to finance projects and entities that support the Global Goals and the 2030 Agenda. Therefore, funds will be allocated to a mix of projects that contribute to a sustainable future primarily related to the following SDGs:

- i. Good health and well-being
- ii. Quality education
- iii. Clean water and sanitation
- iv. Affordable and clean energy
- v. Decent work and economic growth
- vi. Industry, innovation and infrastructure
- vii. Sustainable cities and communities
- viii. Responsible consumption and production

There are three types of bonds that can be issued by BBVA under this Framework:

- A. **“Green bonds”**: bond instruments where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing Green Projects (as defined in section “Use of proceeds” below) and which are aligned with the four core components of this BBVA SDGs Framework.
- B. **“Social bonds”**: bond instruments where the proceeds will be exclusively applied to finance or re-finance in part or in full new and/or existing social projects (as defined in section “Use of proceeds” below) and which are aligned with the four core components of this BBVA SDGs Framework.
- C. **“Sustainability bonds”**: bond instruments where the proceeds will be exclusively applied to finance or re-finance in part or in full new and/or existing green projects and social projects (as both terms are defined in section “Use of Proceeds” below) and which are aligned with the four core components of this BBVA SDGs Framework.

Following the ICMA Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines², the BBVA SDGs Framework has the following four core components:

1. Use of proceeds
2. Process for project evaluation and selection
3. Management of proceeds
4. Reporting

2: <https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-social-and-sustainability-bonds/>

Use of proceeds

BBVA is determined to help its clients' transition to becoming more sustainable, while promoting innovation in their sustainability strategies. BBVA finances projects and entities which contribute to the sustainability of our planet and promote positive social outcomes.

For the purpose of this BBVA SDGs Framework, loans, investments and projects financed through a green bond, a social bond or a sustainability bond must fall under the green eligible categories ("green projects"), the social eligible categories ("social projects" and, jointly with the green projects, the "projects", and any of them, a "project") or both of them, respectively, as these categories are described below:

Green eligible categories

Category - SDG	Description*
Energy efficiency 	<ul style="list-style-type: none"> Measures which reduce energy consumption by at least 30%. Includes the financing of retrofitting/improving/upgrading existing assets, as well as of new technology development and manufacture. Energy recovery (waste to energy). Green buildings. In order for green building financing to be included the asset must possess environmental certifications such as LEED (minimum silver), BREEAM (minimum good), HQE (minimum good), DNGB (minimum silver), or GBC España - VERDE among others. Other rigorous green building rating systems may be included and taken into consideration in the criteria
Sustainable transport 	<ul style="list-style-type: none"> Rail infrastructure and public mass transportation systems which contribute to reducing the circulation of cars. Examples include metro, light rails, buses, etc. Development, operation and upgrade of rail transports for goods. Transportation infrastructure. Manufacture of above components.
Water 	<ul style="list-style-type: none"> Water collection, treatment, recycling, re-use, upgrades, technologies and related infrastructure.
Waste management 	<ul style="list-style-type: none"> Non-conventional waste management and disposal activities which include: source reduction, in-process recycling, reuse, resource recovery, and treatment.
Renewable energy 	<ul style="list-style-type: none"> Generation of energy from renewable sources: wind, solar, biogas, biomass, thermal, waste to energy, small hydro (20MW and under). Manufacture of components of renewable energy technology: wind turbines, solar panels, etc. Transmission and distribution projects when connecting to defined renewable energy assets.

* Green Eligible Categories may include other projects in accordance with any update of the ICMA Green Bond Principles at any time.

Social eligible categories

Category - SDG	Description*
Healthcare 	<ul style="list-style-type: none"> Hospitals, medical equipment and technologies
Education 	<ul style="list-style-type: none"> Universities and other centers of tertiary education, primary and secondary schools, technical/vocational training centers and programs, capacity building, entrepreneurship, and literacy and numeracy training centers and programs.
SME financing and microfinancing 	<ul style="list-style-type: none"> Formalization and encouragement of micro, small, and medium sized enterprises. Access to banking and financial services in underserved populations. Financial literacy.
Affordable housing 	<ul style="list-style-type: none"> Access to adequate, safe, and affordable housing for excluded and/or marginalized populations and/or communities.

* Social eligible categories may include other projects in accordance with any update of the ICMA Social Bond Principles at any time.

The Projects include new or future projects, refinance of existing projects and ongoing projects (refinancing) that have been financed within the past 3 years since the relevant bonds are issued.

Additionally, a project shall be considered a green project when 80% of either its principal or the business of the client's green project is dedicated to any of the green eligible categories; and a project shall be considered a social project when 80% of either its principal or the business of the client's social project is dedicated to any of the social eligible categories.

Therefore, an amount equal to the net proceeds of green, social or sustainability bonds issued under this BBVA SDGs Framework will be allocated only and exclusively for green or social projects.

Finally, it is worth to mention that any proceeds from green, social or sustainability bond issued under this Framework will not be used under any circumstance to finance any of the following excluded activities:

- Nuclear power generation
- Large scale (above 20 MW) dams
- Defense
- Mining
- Carbon related
- Oil & Gas

Process for project evaluation and selection

BBVA evaluates those loans, investment and/or projects which could fall under the green or social eligible categories and selects those green or social Projects in accordance with the following procedure:

- **Sustainable Finance Working Group:** It is headed by Responsible Business (Secretariat) and includes members from Global Client Coverage - Global Clients Strategy & Profitability, Sustainable Finance & Reputational Risk - CIB, Fixed Income Origination - DCM, Industry Banker Energy - CIB, Corporate Loans - Global Finance, Sustainable Bond Group - Global Markets, Project Finance - CIB, Communications - CIB, Regulation and Public Policies - BBVA Research and Finance BBVA.

BBVA and each of its subsidiaries which may issue green, social or sustainability bonds under this Framework will elaborate a list of their own loans, investment and/or projects which are considered as potential green or social projects (the “**prospective projects**”). These Prospective Projects will be reviewed by the Sustainable Finance Working Group for their determination or not as green and/or social projects. Finally, the Sustainable Finance Working Group will elaborate and maintain updated a list of green and/or social projects available.

The Sustainable Finance Working Group, when appropriate, will formulate potential indicators for impact. Those indicators should be in line with indicators from the relevant SDGs. Additionally, the Sustainable Finance Working Group will review and approve the SDGs bond Reports (see section “Reporting” below) prepared by the BBVA SDGs Bond Committee.

- **CIB Sustainable Finance and Reputational Risk team:** It shall choose the Projects which are most appropriate for the type of bond being issued (i.e., green, social or sustainability bond). In addition, after carrying out an assessment of the overall sustainability of the projects, it shall assign a label of high or moderate impact to the relevant projects.
- **BBVA SDGs Bond Committee:** It is co-chaired by Finance & Responsible Business and consists of experts from Responsible Business, Fixed Income Origination - DCM, Sustainable Finance & Reputational Risk, Finance, Global Client Coverage - Global Clients Strategy & Profitability, Corporate Loans - Global Finance, Project Finance - CIB, Corporate and Business Banking and Sustainable Bond Group - Global Markets. The BBVA SDGs Bond Committee will meet on regular basis (and at least annually) and hold record of its minutes.

This committee will conduct an additional review on the selected and labeled projects and decide which projects should be finally included in each green, social or sustainability bond. For such additional review, robust discussions will take place in order to ascertain how each project fits the relevant eligible categories, its risks and benefits, transaction’ s overall contribution to sustainability and its alignment with applicable SDGs. Special consideration will be given to projects which have been subject to an Equator Principles³ review and those projects that have been certified or verified as green or social and/or have received a second party opinion by a third expert party in ESG factors.

3: <http://equator-principles.com/>

- **Responsible Business:** This area of BBVA will have final veto over which projects are to be finally financed with the proceeds obtained from the green, social or sustainability bonds.



Management of proceeds

- BBVA will track the use of proceeds of its green, social or sustainability bonds issued under this Framework. In this regard, BBVA ensures that the systems and processes used to track the use of proceeds of its green, social or sustainability bonds issued under this Framework will meet their appropriate requirements during the lifetime of the relevant bonds.
- BBVA will intend to maintain a buffer of projects above the proceeds arising from the issuance of green, social or sustainability bonds to ensure compliance with the “Use of proceeds” under cases of unexpected variations on projects outstanding amount or maturity mismatches.
- The net proceeds of the green, social or sustainability bonds issued under this BBVA SDGs Framework will be used to finance and/or refinance selected green and/or social projects falling under green and/or social eligible categories described in the section “Use of proceeds” above. The proceeds of the outstanding green, social or sustainability bonds will be matched to the green and/or social eligible categories on a portfolio basis.
- The full amount of the net proceeds obtained from any green, social or sustainability bonds is expected to be allocated immediately after the relevant issuance. Nevertheless, if this is not possible, and until such moment, BBVA will hold in its liquidity portfolio the balance of net proceeds not yet allocated to the relevant projects.
- BBVA will make an effort to dedicate a percentage of the proceeds of each green, social or sustainability bond to finance those green or social projects (as appropriate) originated in the current year of the issue date of the relevant bond.
- In the event that any project allocated to any green, social or sustainable bonds issue will cease to or not comply with the green or social eligible categories, BBVA shall substitute it for a fully compliant project.

Reporting

Within 12 months of the issuance date of each green, social or sustainability bond and until the relevant maturity date, BBVA will publish on its website (<https://shareholdersandinvestors.bbva.com/>) a report (each, a “**SDGs bond report**”) which will include at least the following information:

1. Allocation of proceeds in each green or social eligible category. If possible, a list of green or social projects (as appropriate) will be disclosed. If this should not be possible, at least other insights and information will be provided in respect to the portfolio of projects.
2. Share of proceeds used for financing or re-financing purposes.
3. The remaining balance of unallocated proceeds from the relevant green, social or sustainability bond and/or cash equivalents.
4. Indicate which SDGs apply to each green or social eligible category included in the relevant green, social or sustainability bond.
5. Relevant expected environmental or social impacts per green or social eligible category and, if possible, actual impact metrics. Some case studies of specific projects may be provided to illustrate the positive impact.

Examples of relevant quantitative impact indicators that the SDGs bond report will include:

Eligible category (SDG)	Quantitative impact indicators
<p>Renewable energy</p>  	<ul style="list-style-type: none"> • MW capacity • Expected annual generation MWh • Estimated annual GHG emissions avoided • Number of household/residents benefitting from affordable and clean energy • Transmission line miles
<p>Energy efficiency</p>     	<ul style="list-style-type: none"> • Automated meters modules or number of smart meters provided • Amount of energy saved (MW) • Estimated GHG emissions reduced or avoided
<p>Sustainable transport</p>   	<ul style="list-style-type: none"> • Number of passengers • Estimated GHG emissions reduced or avoided (tCO2e) • Length of low carbon tracks built • Number of electric/hybrid/low-emission vehicles provided
<p>Sustainable water and waste water management</p>  	<ul style="list-style-type: none"> • Production capacity • Annual water savings • Annual volume of wastewater treated or avoided • Health metrics (such as water quality) • Number of households delivering to the facility • Number of tones of clean water provided
<p>Education</p> 	<ul style="list-style-type: none"> • Number of educational institutions funded – location and type • Number of students supported • Number of years of education provided which is otherwise not accessible

Eligible category (SDG)	Quantitative impact indicators
Affordable housing  	<ul style="list-style-type: none"> Number of supported affordable housing units financed
Healthcare 	<ul style="list-style-type: none"> Number of hospital and other healthcare facilities built/upgraded Number of beds Number of residents benefitting from healthcare
SME financing and microfinancing  	<ul style="list-style-type: none"> Number of SMEs financed Estimation of the number of employees of the financed SMEs

Each SDGs bond report will be prepared by the SDGs Bond Committee and reviewed and approved by the Sustainable Finance Working Group. Afterwards, it will be published on BBVA's website (<https://shareholdersandinvestors.bbva.com/>).

Each BBVA issuing entity will gather the information to be included in the relevant SDGs bond report for the SDGs Bond Committee review. This information will be included by the SDGs Bond Committee in the correspondent SDGs bond report for the final approval of the Sustainable Finance Working Group.

This same process will be followed for the successive SDGs bond report during the life of each green, social or sustainability Bond.

External review

Framework verification

BBVA has obtained an independent verification assessment from DNV-GL which confirms the validity of the BBVA SDGs Framework. This independent verification assessment is published on the BBVA website.

(<https://shareholdersandinvestors.bbva.com/>)

Bond verification

For each green, social or sustainability bond issuance under the BBVA SDGs Framework, BBVA will obtain an independent verification assessment from an external verifier and will make such verification accessible on the BBVA website.

(<https://shareholdersandinvestors.bbva.com/>)

Reporting assurance

In addition to the independent verification assessment referred to above, BBVA may request, on an annual basis starting one year after issuance and until maturity (or until full redemption), a limited assurance report of the allocation of the proceeds obtained from the relevant green, social or sustainability bond to green or social projects, provided by its external auditor or other suitably qualified provider.

Finally, BBVA will make its best efforts to follow the recommendations ICMA may publish in the future on best practices in the green, social and sustainability bond market.

BBVA sector norms

BBVA has certain standards and criteria for its financings.

BBVA is committed to its strategy around climate change and sustainable development, pledge 2025⁴. The strategy will help the bank meet the United Nations Sustainable Development Goals and is in line with the Paris Agreement on Climate Change. Pledge 2025 will help the bank align its activity to a 2°C Scenario and strike a balance between sustainable energy and fossil fuel investments and is based on three lines of action: financing, management and engagement.

BBVA's sector norms⁵ are a part of this pledge. The norms address four high environmental and social risk sectors: energy, agriculture, mining and infrastructure. They provide guidance on the procedures to follow in the management of customers and transactions in these sectors. These sector norms, in addition to the Equator Principles⁶, help BBVA to reduce the risks these sectors can have on the environment and on society.

These norms embody the Commitment to human rights⁷ that BBVA took on board in 2008 and recently updated. The commitment takes as a reference point the United Nations Guiding Principles on Business and Human Rights and is framed within the Group's CSR policy and is aligned with BBVA's Code of Conduct⁸.

4 <https://www.bbva.com/wp-content/uploads/2018/02/Brochure-Pledge-2025-bbva.pdf>

5 https://shareholdersandinvestors.bbva.com/wp-content/uploads/2018/02/Sector-norms_Final_Feb18.pdf

6 <https://shareholdersandinvestors.bbva.com/wp-content/uploads/2017/03/BBVA-in-2017.pdf>

7 <https://shareholdersandinvestors.bbva.com/wp-content/uploads/2018/02/Commitment-to-Human-Rights.pdf>

8 <https://shareholdersandinvestors.bbva.com/wp-content/uploads/2017/05/RCReportCodeofconduct.pdf>

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