

BBVA

Asset Management &
Global Wealth

TCFD | TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES

Report on **TCFD** 2022



At BBVA Asset Management, we are determined to be part of society's transformation towards a sustainable future by creating long-term value for our investors and positively contributing to society.

Our mission is to be the leading provider of investment solutions for our distributors and customers, offering the product range that best suits their needs, regardless of the vehicle through which the investment is channelled. To achieve this, we have set the goal of incorporating sustainability criteria in all our processes and solutions.

Sustainability is an essential part of the future of society and the planet. Furthermore, we are also convinced that it represents an excellent opportunity for our customers because by incorporating it into our investment processes; we improve the quality of the products we offer, identify new investment ideas, reduce risks, make more complete decisions and generate more consistent long-term results while contributing to a development that does not compromise future generations and allows them to meet their needs.

One of the most relevant issues within sustainability is the fight against climate change, and, to reinforce our public commitment, in 2021, we joined the Net Zero Asset Managers initiative; we published our initial commitments to decarbonise our portfolios in 2022, and now in 2023, in line with our commitment to transparency, we have published our first report following the recommendations of [Task Force on Climate-Related Financial Disclosures](#).



Jaime Lázaro

Head of BBVA AM&GW

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Report on

TCFD

2022

01.

Governance model

The governance model for sustainability in BBVA AM is structured around the Sustainability Governance Group, which establishes the strategic direction and plans for its execution. This is monitored by the AM&GW management committee and coordinated by BBVA's global Sustainability area.

02.

Strategy

Our strategy is built around four pillars: ESG integration, exclusions, engagement policy and impact investing.

Over the last year, we have worked on each of these pillars: extending the scope of our ESG integration policy to more countries in our business; developing a new exclusions standard; publishing our initial emissions reduction targets under the Net Zero Asset Managers (NZAM) commitment; and expanding our definition of sustainable investment as required by Article 2.17 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability disclosures in the financial services sector (SFDR).

03.

Risk management

Climate risk management at BBVA AM is integrated into the general risk management and control processes, and the work carried out in 2022 on the calculation and automation in systems of the main metrics for monitoring these risks, such as the Principal Adverse Impacts, ESG scores and ratings and emissions metrics, is noteworthy.

04.

Metrics and targets

We have published our initial decarbonisation targets, which cover 22% of the assets we manage. We define the methodologies and metrics to be used, the types of assets included and the interim targets for 2030. We have worked on calculating the Principal Adverse Impacts, with the publication of those initially selected as relevant and in the policy for managing them, following the regulatory requirements approved during the year.

Introduction



BBVA Asset Management (BBVA AM) is the BBVA Group unit that encompasses its mutual and pension fund and portfolio management companies at the global level and is a benchmark in the world of asset management with leading positions in both Spain and Latin America.

Thanks to a solid international presence, we operate through multiple management centres, with an extensive product range and under the strictest risk control standards.

At BBVA AM, we manage **€124 billion** in assets under management in eight countries (Spain, Mexico, Portugal, Luxembourg, Colombia, Peru, Argentina and Turkey), through independent management companies, and this allows us to combine local presence with global capabilities, not only of BBVA AM's global area but also the BBVA Group.

Our business is focused on offering investment products and solutions and portfolio management services to all BBVA Group customers, whether individuals, companies or institutions, and customers from other financial institutions through distribution agreements.

PRESENCE IN 8 countries

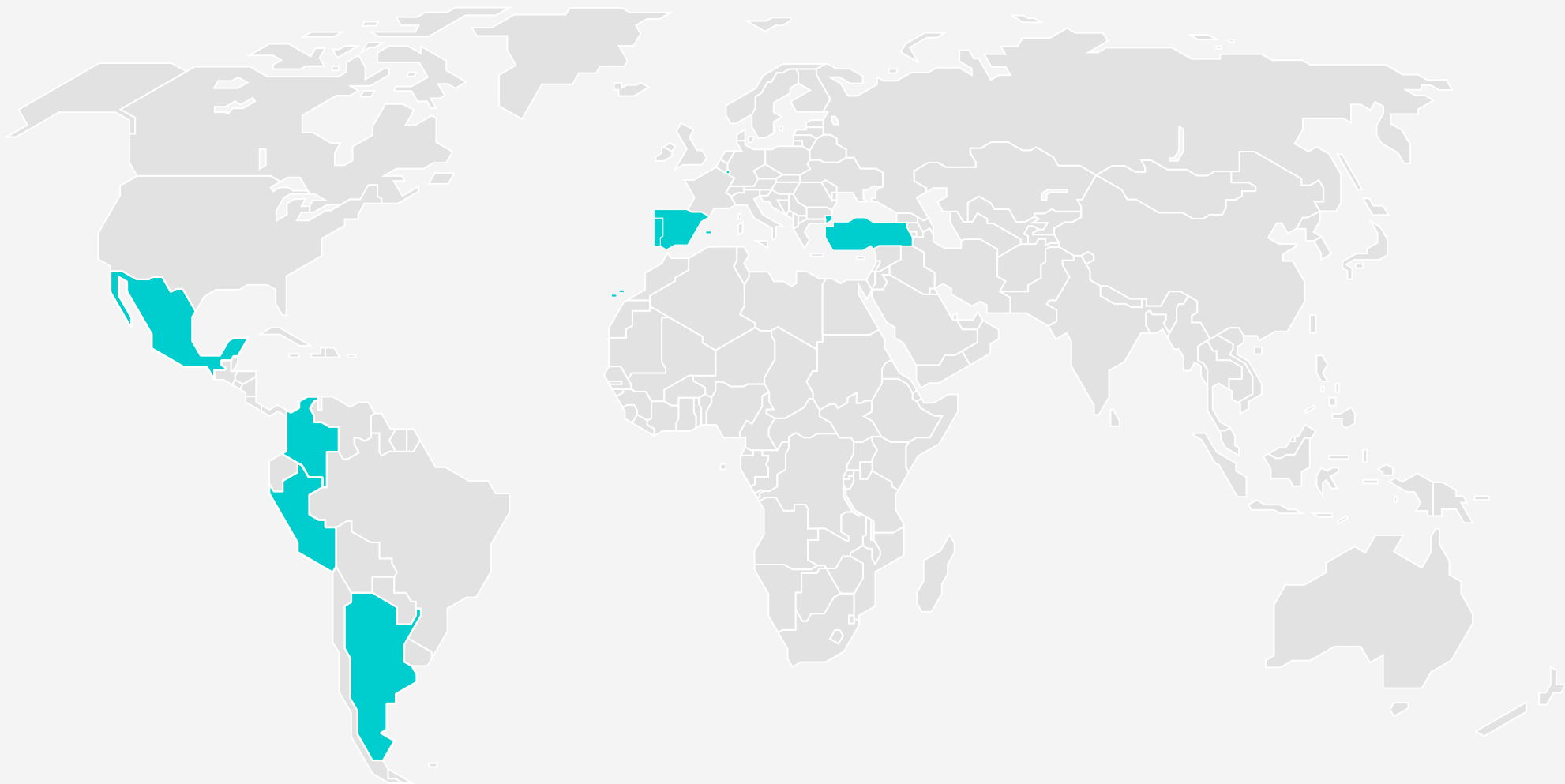
- Spain
- Mexico
- Portugal
- Luxemburgo
- Colombia
- Peru
- Argentina
- Türkiye

ASSETS UNDER MANAGEMENT €124 billion

EMPLOYEES +700

150 investment professionals with internationally recognised asset management and risk management certifications.

We, therefore, have global processes for investment, risk analysis and control and product development, to which we add our local knowledge of the markets, derived from our local presence through our companies, and that of our **more than 700 employees**, of whom 150 are investment professionals with internationally recognised asset management and risk management certifications.



North America

Mexico

BBVA Bancomer
Gestión S.A. de C.V.



South America

Argentina

BBVA Asset Management, Argentina, S.A.
Sociedad Gerente de Fondos Comunes
de Inversión

Colombia

BBVA Asset Management, S.A.
Sociedad Fiduciaria

Peru

BBVA Asset Management, S.A. S.A.F.



Europe

Spain

BBVA Asset Management S.A.,
S.G.I.I.C.

BBVA Pensiones, S.A., E.G.F.P.

Gestión de Previsión
y Pensiones, E.G.F.P., S.A.

Luxemburgo

Luxembourg companies
are managed from the
Spanish company, as
allowed by European
regulations.

Portugal

BBVA Fundos, Sociedade
Gestora de Fundos
de Pensões S.A.

Türkiye

Garanti Portföy
Yönetimi A.Ş.

Global context

The fight against climate change is one of the most significant disruptions in history, both economically as well as socially and environmentally, meaning that all players in the society in which we live (governments, regulators, companies, consumers and society at large) must adapt as quickly as possible.

The signing of the Paris Agreement, adopted at the Paris Climate Conference (COP21) in December 2015 under the United Nations Framework Convention on Climate Change, put the fight against climate change centre stage in international politics.

One hundred and ninety-six governments joined the Agreement and committed to establishing plans to reduce greenhouse gas emissions and develop long-term development strategies aligned with this goal.

It is well known that scientific evidence has established the need to limit emissions of polluting gases in order to keep the increase in global temperature below 1.5 degrees Celsius compared to pre-industrial levels, setting a path of specific targets for reducing these emissions until net zero emissions are achieved by 2050.

Achieving these ambitious objectives requires measures to change the energy model on which our society is based to be implemented immediately by mobilising large amounts of capital.

The transition to a low-carbon economy and the promotion of biodiversity protection directly affects the value chains of most economic sectors and will require significant investments to adapt. Likewise, research and technological advances in energy efficiency improvements, the promotion and development of existing and new renewable technologies, and improvements in mobility and construction, among others, represent major investment opportunities.

Rethinking our reality and society as a whole so as to move towards a more sustainable model represents the greatest challenge we face and, at the same time, the greatest opportunity.

We are facing a situation that implies greater risk in the investments made in those companies and entities that are unable to adapt to the new production model. Moreover, the effects of climate change that have already occurred have an impact and generate risk in certain geographical areas and productive sectors.

But there will also be great opportunities for investment in the transformations necessary to carry out this adaptation since, in the end, those sectors and companies that are capable of adapting and leading this transformation process will be the ones that generate long-term profitability.

BBVA and BBVA AM, committed

In this context, at BBVA AM, as well as at BBVA, we are aware of the role of banking and financial players at this time of change through our activity. We are determined to play a relevant role and help our clients transition towards this sustainable future.

We believe that investing by incorporating sustainable factors improves the risk/return trade-off and contributes to a better world.

As asset managers for our customers, our duty is to take advantage of the investment opportunities that are generated, facilitate plans for companies and governments to make the necessary investments, and assess the risk of those who do not have plans to adapt. All of this, moreover, while complying at all times with the sustainability regulations applicable in each of the countries in which we operate.

At BBVA AM, we have been committed to sustainable investment for years and have been a pioneer in applying ESG criteria to investments:

- in **1999** we launched our first socially responsible fund (BBVA Solidaridad);
- in **2004** our first sustainable fund (BBVA Bolsa Desarrollo Sostenible).

Since then, we have been reinforcing our commitment to sustainable investment principles:

- **2008**
Signing of the United Nations Principles for Responsible Investment (UNPRI) by Gestión de Previsión y Pensiones, E.G.F.P., S.A. (GPP), one of our pension fund management companies, which was extended to all of BBVA Asset Management in 2021.
- **2021**
We joined the Net Zero for Asset Managers initiative, as we understand that it is part of our commitment to work together with the rest of the industry, companies and governments to make this transition of the production model possible by encouraging the establishment of ambitious plans of action and monitoring their implementation.

- **2022**
Along these lines, in October, we published our interim targets for 2030 to decarbonise our activities to become carbon neutral by 2050, for which we have established a series of commitments and plans of action to achieve them, which we will detail below (See [METRICS AND GOALS](#)).

- **2023**
Finally, reinforcing our commitment to transparency with the market and customers, in line with the recommendations of the Task Force on Climate-Related Financial Disclosures, and to provide the most complete information possible to help our customers make informed decisions, we are publishing our first report on the risks and opportunities of climate change for BBVA AM.

SECTION 01

Governance model



BBVA AM in BBVA Group

BBVA AM is the BBVA Group business area that encompasses the Group’s customer asset management activities in the various countries where this activity takes place. It reports to and is integrated into the **Client Solutions** unit, which reports directly to BBVA’s **Chief Executive Officer**.



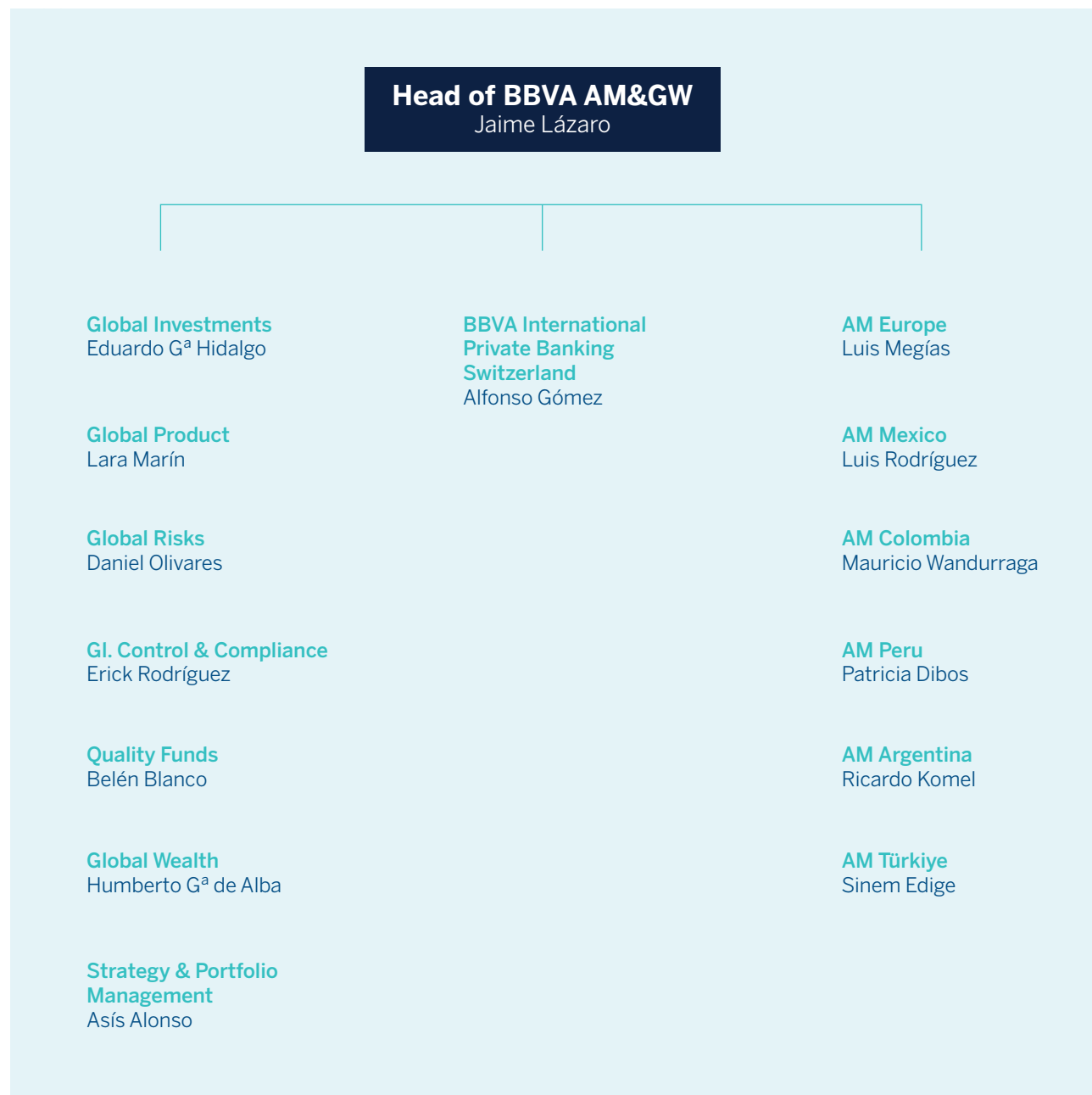
AM&GW Structure

At BBVA AM, the decision-making and management process is made up of two operational lines: [the global area](#); and the [individual country business units](#), with its own structure in each of them.

The heads of the global functions of the area (Global Investments, Global Product, Global Risks, Global Control & Compliance, Quality Funds, Global WEalth, and Strategy & Portfolio Management) and the heads of the AM business in each country report to the global head of Asset Management & Global Wealth (BBVA AM&GW). The latter also report to the local heads of Client Solutions in each country.

They are all members of the [AM&GW global steering committee](#) and, at their regular meetings, they monitor the business and the main strategic lines, including sustainability.

In each of the countries, there are also local heads of the global functions mentioned above, who are co-dependent on the AM head in each country and the global head of the function in question.



Sustainability governance model

Following a strategic reflection on the business and seeking its transformation and adaptation to the major trends that will change society and the financial industry, BBVA decided to establish sustainability as one of its six strategic priorities in 2019 and raise it to the highest executive level of the organisation in 2021 through the creation of the **Global Sustainability Area (GSA)**, as the new global area in charge of designing the agenda and leading the lines of work in this area, reporting to the Chief Executive Officer, Onur Genç, and, given the highly strategic and transformational nature of the area, also to the Group Executive Chairman, Carlos Torres Vila.

The global head of the Sustainability area reports to BBVA's corresponding corporate bodies on the execution of the sustainability strategy and the distinct lines of work, including Asset Management.

Sustainability Governance Group

In 2021, in line with the BBVA Group's sustainability drive, BBVA AM created the Sustainability Governance Group (GGG), **comprising the global heads** of the Product, Investments, Risks and Control & Compliance departments as well as the head of Sustainable Investments.

Therefore, the GGG is the framework within which they are responsible for **designing the sustainability strategy and plans for its implementation** and submitting it to the global head of AM&GW and its steering committee for approval.



Among others, the decision-making scope of the ESG includes:

- I the definition of the model for incorporating sustainability into the investment process and the risk and control process;
- II the adoption of strategic decisions regarding exclusions or investment criteria in certain sectors;
- III the involvement and commitment policies;
- IV the approval of the Principal Adverse Impacts (PAI) management policy;
- V the approval of the ESG data providers (Environmental, Social and Governance) and the necessary technological developments;
- VI the identification of training needs and plans;
- VII the definition of the criteria for the design and launch of sustainable products;
- VIII and supporting, guiding and monitoring the implementation of the sustainability strategy in each geography.

SECTION 02

Strategy



Experience and commitment

At BBVA Asset Management, we are pioneers in Spain in the application of ESG criteria in investments, with more than 20 years of experience. We have led the development of products linked to Socially Responsible Investment (SRI) criteria, as well as being, through GPP, the first management company in Spain to sign the UNPRI in 2008.

All of this is part of the BBVA climate change and sustainable development strategy, which aims to contribute to achieving the United Nations Sustainable Development Goals (SDGs) and is based on three lines of action: fostering new businesses through sustainability; achieving the goal of zero net emissions by 2050; and generating a positive impact.

How we integrate sustainability

Our mission is to become the benchmark sustainable investment manager in the markets where we operate, and we aim to incorporate sustainable features in all the investment vehicles we manage because we firmly believe that adopting SRI criteria in the investment process offers our clients:

Profitability

Empirical and academic evidence shows that the integration of sustainable criteria improves the long-term risk-return trade-off.

Quality

It serves as an additional quality filter in portfolios with the objective of reducing risk over the long term.

More comprehensive decisions

Adding the valuation of intangible assets to purely financial criteria.

Embracing sustainability as an essential part of our strategy and the way we conduct our business enables us to improve customer financial performance and support the development of a more sustainable economy in the long term through active dialogue with the societies in which we operate, with regulators and by collaborating in the development of sustainable initiatives.



Our path to sustainability

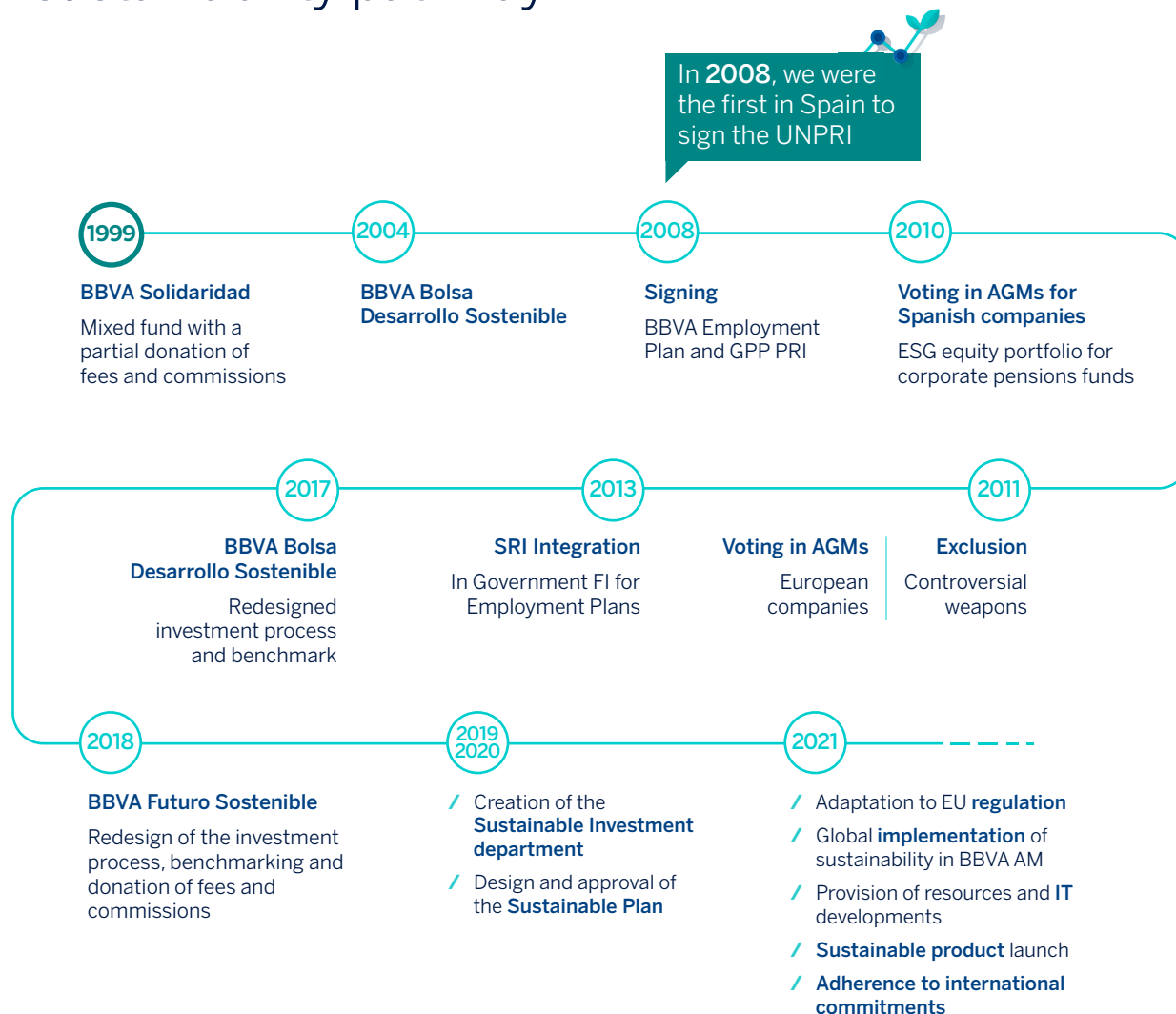
International context

The path to sustainability has not always been unanimous. Until the 2000s, it was a path explored mainly in the private sphere, depending on the values and beliefs of asset managers, customers and asset owners. The signing of the Paris Agreement in 2015 marked the almost unanimous start of the current international movement towards sustainability and public, private and regulatory initiatives in this regard.

BBVA AM

At BBVA AM, we began our journey towards sustainability **over 20 years ago**; since then, we have been developing a whole range of strategies, policies, tools and products to advance the integration of sustainability in our day-to-day business.

BBVA AM's sustainability pathway



Regulatory context

In order to understand the development of BBVA AM's sustainable strategy, it is essential to understand the development of the global regulatory framework in this area, especially in Europe, as this is the jurisdiction in which a significant part of our business is located.

Background on the EU sustainable finance plan

We have already mentioned that the increasingly numerous and conclusive publications of scientific evidence on the effect of human activity on the planet's climate¹ led to the signing of the [Paris Agreements in 2015](#) and the firm objective of keeping the increase in global temperature below 1.5°

From that moment on, [authorities began to incorporate environmental and sustainable considerations into their strategic and regulatory plans](#) to address this major challenge. At the European level, it is worth highlighting the creation in 2016 of a Working Group made up of high-level experts in this field to help outline the strategy to be followed.

This culminated in 2018 with the adoption and publication of the [European Commission's Sustainable Finance Action Plan](#).

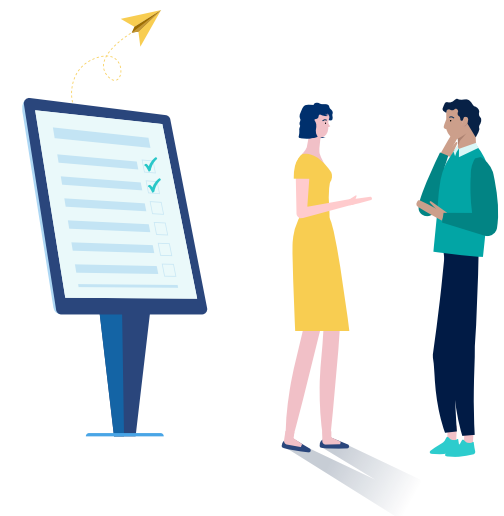
This is a key milestone in understanding the development of sustainability policies, not only at a global level but also within the framework of the development of BBVA AM's sustainability strategy.

This is why, based on recommendations made by the High-Level Expert Group on Sustainable Finance, the Commission is presenting a roadmap to enhance the role of finance in delivering a well-functioning economy that also achieves environmental and social objectives.

The Action Plan is part of the Capital Markets Union's (CMU) efforts to connect finance to the specific needs of the European economy for the benefit of the planet and our society. It is also one of the key steps in the implementation of the Paris Agreement and the EU sustainable development agenda.

Specific objectives of the Action Plan include redirecting capital flows towards sustainable investments, promoting transparency and a long-term approach, and integrating sustainability into risk management.

The Action Plan consists of ten interrelated actions that affect many subjects and aspects relevant to the world of asset management, advice, identification of economic activities, transparency and information and corporate governance.



¹ 5th Assessment Report of the Intergovernmental Panel on Climate Change (IPCC)

Summary of the EU Sustainable Finance Action Plan. Objectives and content

3 objectives

1. Redirecting private capital flows towards sustainable investments.
2. Promoting transparency and a long-term approach.
3. Integrating sustainability into risk management.

10 actions. For BBVA AM, the initiatives 1, 4 and 7 are particularly relevant

1. Establishing a classification system for sustainable activities = Taxonomy

- ⤵ Defining the criteria under which economic activity is environmentally sustainable for any public measures, standards or labels that establish requirements for Financial Market Participants or issuers concerning financial products or private fixed-income issues.

2. Creating standards and labels for green financial products.

3. Fostering investment in sustainable projects.

4. Incorporating sustainability in financial advice. MiFID II Objectives and content.

- ⤵ Integrating sustainability into:
 - the organisational requirements of entities;
 - product governance; and
 - the assessment of suitability for discretionary portfolio management and advice.

5. Developing sustainability benchmarks.

6. Better integrating sustainability in ratings and market research.

7. Clarifying asset managers 'and institutional investors' duties. Disclosure Regulations (SFDR), objectives and duties:

- ⤵ Reducing asymmetries in the information disclosed with regard to:
 - integrating sustainability risk and adverse impact analysis into investment processes
 - sustainability of financial products
 - duties at two levels: entity and product

8. Introducing sustainability into the prudential requirements.

9. Strengthening sustainability disclosure and accounting rule-making.

10. Fostering sustainable corporate governance and attenuating short-termism in capital markets.

2022 has been a key year in the implementation of the European Commission's Sustainable Finance Action Plan. In particular, it has been the moment from which financial institutions have been definitively forced to integrate sustainability into their corporate governance and risk management system. They have also had to add customers' sustainability preferences to the suitability assessment that they must make when providing them with advisory or discretionary portfolio management services.



This, together with the adoption of the technical standards supplementing Regulation (EU) 2019/2088 on sustainability disclosures in the financial services sector, has contributed to the further development of financial products with a sustainable bias and to the improvement of information on the environmental, social and good governance aspects of these products.

Notwithstanding the above, the financial industry still faces significant obstacles to developing sustainable products, such as the lack of available quality sustainability data and the delay in scaling up the EU taxonomy.

In this respect, the industry is waiting for the resolution of several consultations with the European regulator on the interpretation of certain relevant aspects of the rules in force.

At BBVA AM, like the rest of the sector, we are awaiting future regulatory developments in this field, specifically the advances in the European taxonomy and the Corporate Sustainability Reporting Directive (CSRD), to continue adapting our internal processes (policies, procedures, tools, metrics, criteria, etc.) to current legislation and best practices at all times, while complying with and improving our strategic plan.

BBVA AM Sustainability Strategy

As we briefly mentioned in the **INTRODUCTION**, BBVA AM's commitment to sustainability was reinforced in 2019 by the approval and launch of the BBVA Group's new strategy, including sustainability as one of its main pillars, in 2020 by the creation of the Global Sustainability Office, and in 2021, by the creation of the GSA, creating teams dedicated to sustainability in the rest of the business areas.

Similarly, in 2019 we published our global integration strategy, which builds on the skills and knowledge developed over these years, with much greater scope and ambition.

BBVA AM's sustainable strategy is structured around **four pillars** that help us to identify sustainability risks and impacts (essential elements for building and controlling risks of our investments), as a tool for monitoring our investments and interacting with our investors, peers, regulators and competitors, as well as helping us to identify the activities and behaviour of the issuers and companies that form part of our investment universe.

Pillars of the Sustainable Investment Plan



INTEGRACIÓN

An internal rating to classify assets:

- Companies
- Governments
- Funds



EXCLUSION

A harmonised exclusion policy:

- Universal/Additional
- International standards, geographies and activities



INVOLVEMENT POLICY

A way of highlighting commitments:

- Proprietary voting policy
- Collaborative commitments
- Engagement actions



IMPACT STRATEGY

Strategies aligned with the UN SDGs:

- Sustainable investment
- Analysis tools
- Financing sustainable projects

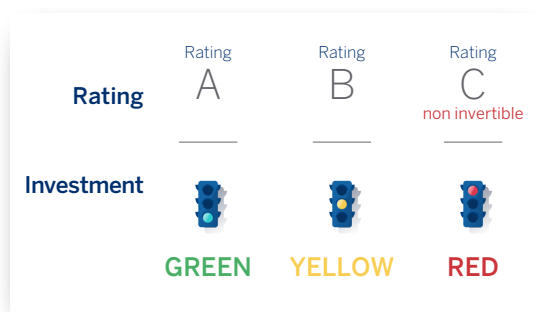
INTEGRATION



BBVA AM’s model for integrating environmental factors (e.g. climate change, pollution, waste management and good practices for the preservation of the ecosystem), social factors (e.g. human capital management and social responsibility in product creation) and good governance (good corporate governance practices) focuses on [developing an internal rating model for the assets in the portfolio](#).

To generate the rating, we apply our own methodology and rely on information from external providers, thus providing an ESG rating for each company.

This rating is available for equities, corporate bonds, governments and third-party managed funds and currently covers a significant percentage of BBVA AM’s investment universe.



EXCLUSION



At BBVA AM, we use exclusion not as the main factor in our sustainability strategy but as a reflection of the control of compliance with a series of international social, labour and human rights minimums. However, as best practices and even regulations in some jurisdictions, such as Luxembourg, dictate, there is a need to exclude certain types of entities.

We have published an Exclusion Policy that applies to the direct investment of all vehicles and portfolios that we are entrusted to manage. In this respect, it includes all the particularities, regulations and characteristics of the specific products under management. In addition, it benefits from the analysis and coordination work of BBVA AM’s GGS and the strategic positioning of the Group as a whole with respect to sustainability.

The latest expanded version of our Exclusion Policy was published in the second half of 2022, with significant advances in the definition of the various classes of exclusions and their scope.

We have several [exclusions in place that apply to all the vehicles and portfolios we manage](#) and focus on companies that are in breach of international treaties and standards relating to labour rights, anti-corruption policies and human rights, as well as companies that engage in activities that

are considered inherently harmful to society (such as controversial weapons; coal mining, for companies with an exposure of more than 25% of their business; and oil and gas exploration and production in the Arctic and tar sands, for companies with an exposure of more than 10% of their business). We also exclude investments in countries with UN arms embargoes and money laundering sanctions and exclude companies in the tobacco, alcohol and gambling sectors from our investment universe for sustainable products.

This policy currently applies to all assets under management in Europe and Mexico.

2021

- ✓ Controversial weapons

▼

4th QUARTER 2022

- ✓ Controversial **weapons**
- ✓ Companies that seriously fail to **comply with global standards** (serious violations of human rights, poor environmental practices, etc.)
- ✓ Products or portfolios with **specific exclusions** (sustainable funds may have exclusions for sectors such as tobacco, alcohol or gambling)
- ✓ **Countries** with a UN arms embargo
- ✓ Non-conventional coal, oil and gas

Exclusions are not the focus of our sustainability policy but are necessary for certain activities or severe human or labour rights violations

COMMITMENT: ENGAGEMENT



By commitment, at BBVA AM, we refer to how we interact with the companies in which we invest, with international bodies and regulators, with other investors and other stakeholders or interested parties. In practice, commitment is expressed in two ways: voting at shareholders' meetings and involvement or engagement.

At BBVA AM, we have been voting at the shareholders' meetings of the European companies in which we have invested since 2010 and North American companies since 2020, using information from external advisors. In this regard, in 2022, as part of our Engagement Policy, we developed our voting criteria aligned with our values and international best practices.

Engagement consists of proactive actions to influence and involve companies and funds in which we invest to adopt sustainability practices. It includes actions such as interaction with third-party companies and managers, participation in regulatory or sustainability forums and adherence to sustainability standards or principles, such as the UNPRI. In all of them, we directly or indirectly express, as a management company, the prominent aspects of our beliefs and positions on the matter.

In 2022, we placed particular emphasis on developing the definition and extension

of sustainability commitments, which resulted in signing explicit commitments in international initiatives, mainly on climate issues. (See [How our strategy evolved in 2022 / International Commitments](#)).

We have also participated in numerous forums, including INVERCO (Spanish Association of Collective Investment Institutions and Pension Funds), ALFI (Luxembourg Association of Collective Investment Institutions), ASCRI (Spanish Association of Capital, Growth and Investment), the Mexican National Securities Commission, etc., in which we have promoted best market practices in the interest of our investors and, in particular, those related to integrating sustainability into the investment process.

We have also contributed to the debate around the forthcoming Code of Best Practice for Institutional Investors, Asset Managers and Proxy Advisors promoted by the Comisión Nacional del Mercado de Valores (CNMV).

In addition, we have participated in numerous media forums and surveys, including MSCI, European Financial Planning Association (EFPA), Mercer, Spain Nab and Funds People. In all of them, we have expressed our firm belief in the importance of the financial sector as an enabler of the transition to a more sustainable economy and the need for further development in the

regulation of the requirements for the launch of sustainable products.

Similarly, we have advocated the need for published sustainability information to be as complete, clear and accurate as possible. In this regard, we advocate a prudent approach, in line with BBVA Group guidelines, in applying the standards, as they are not yet fully developed, to avoid increasing the confusion that possible changes or amendments may entail for customers.

To complement the above, during 2022, we actively worked on promoting and implementing sustainability among the various stakeholders through training actions.

Finally, we would like to highlight the improvements made to our internal voting procedures and circuits, in line with the new EU requirements for involvement and in response to the incorporation of our management companies in other countries to the Involvement and Voting Policy, and to the integration of sustainable criteria in the management of their assets (as in the case of Mexico).

Countries prepared for the exercising of voting rights



Spain



Portugal



Mexico



Luxembourg

IMPACT STRATEGY



At BBVA AM, we use our impact strategy to **identify activities and investments and assess their positive or negative impact on social and/or environmental aspects**. This allows us to check whether a company in our investment universe has an impact on any of the 17 SDGs set out by the United Nations.

We have developed an analysis methodology to select investment strategies aligned with the SDGs and to identify and monitor instruments for financing sustainable projects (green, social or sustainable bonds).

In addition, during 2022, based on this analysis methodology, we have developed our own definition of sustainable investment, which is particularly relevant for compliance with the requirements of EU sustainability regulations.

In short, to check that an investment meets our definition of sustainable we check that companies' activities contribute positively to one or more SDGs by meeting several minimum safeguards in applying ESG criteria.

How our strategy progressed in 2022

Beyond the aforementioned development of the pillars during 2022, which are the basis of our sustainable plan, we also worked on all the various lines of work that we will detail below and which complement integrating sustainability throughout all the processes and stages of our investment process.

We have increased our technical and analytical capabilities and the quantity and quality of the information we use in our decision-making process; we have improved the information we provide to our customers and stakeholders on sustainability; we have strengthened the sustainability skills and knowledge of our teams; we have defined a robust and coherent governance structure to manage progress unanimously; we have expanded our portfolio of sustainable products for our customers; and we have worked to integrate sustainability in all areas of the organisation and in all the countries in which we operate.

DATA



One of the major challenges of mainstreaming sustainability in the investment world is the **need for reliable sources and quality data** for the analysis and measurement of sustainable risks, including climate risks, monitoring the impact of our investments and identifying economic activities.

To this end, this year we have been in contact with the main international data providers in order to monitor their screening and capabilities. (See **MANAGEMENT OF RISKS**).

TECHNOLOGY



We have worked on **developing tools** that allow us to improve the management, control and reporting of our portfolios from a sustainable point of view.

Among all the lines of work included in this respect, we would like to highlight the progress made in integrating information on sustainable suppliers, information on managed portfolios and the preparation of relevant information for the various departments.

We have achieved these advances within the framework of a global and transversal project, which is also scalable, meaning that we will be able to adapt it to each of the countries in which we operate. So far, we have been able to install this project in our two main markets/countries: Spain and Mexico. (See **MANAGEMENT OF RISKS**).



TRANSPARENCY



For our customers and the general public, in 2022, we boosted our commitment to transparency by publishing relevant information about our activity and the incorporation of sustainable criteria in our investments, beyond regulatory requirements, on our [website](#).

BBVA AM has also been particularly active this year in interacting with our stakeholders on sustainability issues. Along these lines, we would like to highlight among our activities during the year:

- Participation in a multitude of forums, investor and client meetings, surveys and media roundtables to help [disseminate good sustainability practices](#) in investment.
- Active collaboration in [consultations with international regulators](#) on sustainability issues.
- Contribution to the promotion and implementation of sustainability with different stakeholders through [training actions](#).

REPORTING



Another of our lines of work in 2022 consisted of [improving the specific information we make available](#) to investors in the sustainable funds we manage and to our institutional clients.

With these advances, we facilitate the identification of the most relevant extra-financial factors of our investments, thus responding to the expectations and need for greater transparency in the information of our portfolios.

Example of reporting for unitholders:



TEAMS AND TRAINING



Over the last twelve months, in order to cover all the lines of work generated by the incorporation of sustainability in our investment process, we have strengthened the Sustainable Investments and Global Risks teams.

This has enabled us to **strengthen our capabilities and develop knowledge, criteria and methodologies** that are particularly relevant for managing and monitoring our clients' investments and portfolios in the countries in which we operate.

In addition, we have been able to drive the incorporation of sustainability in the organisation by **creating cross-functional teams** comprising of members from all BBVA AM teams, including Legal, Product, Risks, Control & Compliance, Operations, Engineering and Investments.

This helps us not only to execute BBVA AM's sustainability strategy effectively but is also particularly useful when it comes to transmitting specific knowledge throughout the organisation.

In addition to the above, we have made a major effort to provide specific, high-level training for the people who make up our teams. Today, among all of them, we have more than 80 people internationally certified in sustainable matters (CFAs, CESGA, EFPA ESG, etc.).

GOVERNANCE MODEL



In 2022, and since its creation, the global heads of Investments, Control & Compliance, Risks and Product have met weekly, within the established GGS framework, to coordinate, review and steer progress on sustainability issues within the organisation. (See **GOVERNANCE MODEL**).

PRODUCT



As of 31 December 2022, we have 7,020 million Euros in sustainable investment solutions i.e. products that incorporate sustainability objectives or metrics in their investment policy and a total of 33 vehicles between Mutual Funds and Pension Plans.

During 2022, we would like to highlight the work done in expanding and adapting the offer of sustainable products in Spain to changes in regulations so that we have a product offer that covers a wide range of assets, risk profiles, sustainability preferences and vehicles available to our customers.

Also of particular significance is the launch in Mexico of the industry's first ETF to replicate an index that incorporates ESG criteria along with smart beta criteria. To this end, we made a change to the index of the Mextrac Mexican equity ETF, working with the index provider to incorporate sustainability criteria in its construction and attracting new clients.

MAINSTREAMING AND INTERNATIONALIZATION



Our sustainable strategy involves **developing implementation and execution capabilities in all areas of our business**, and, during 2022, we have consolidated the structure to do this. Among the initiatives that have been carried out to this end, we would like to highlight the following:

GLOBAL FOCUS

We have paid special attention to implementing the strategy in the various countries in which we operate. This has required an analysis of the characteristics of each domestic market, including the regulatory aspects, the investment universe and the availability of required sustainable data, the existing product range and the technology platform. By the end of 2022, the aforementioned sustainable pillars were applicable in the two main areas in which we are present: the European Union and Mexico, which account for a large majority of the AUMs of BBVA AM. The process of analysis and assessment in the remaining markets is ongoing.

MAINSTREAMING SUSTAINABILITY

In addition to the geographical implementation and developing all the characteristics that this implies and which we have just mentioned, BBVA AM's structure in the various countries needs, in turn, to adapt to it. It is, therefore, an important element the transformation of the structure of BBVA AM's local teams in the countries involved.

INTERNATIONAL COMMITMENTS



In addition to expanding our sustainable strategy management and implementation capabilities to integrate ESG criteria into our processes, we also wanted to be ambitious in terms of our international presence and commitments. Therefore, in recent years we have joined important international initiatives, among which we would like to highlight the following:

UNPRI

Signatory of:



As previously mentioned, the BBVA Employees' Fund in Spain and the pension fund manager GPP (Gestión de Previsión y Pensiones) were pioneers in being the first signatories of the commitment in Spain. Additionally, in 2021, consistent with our sustainability ambition, BBVA AM, as the BBVA Group's global asset management unit, signed up to the initiative.

NET ZERO ASSET MANAGERS (NZAM)

The Net Zero Asset Managers initiative

Furthermore, giving a new dimension to our sustainable strategy, and in line with the BBVA Group's commitment to climate change, in 2021, we extended our international commitments by signing up to this initiative (See [Net Zero targets](#)).

THE INSTITUTIONAL INVESTORS GROUP ON CLIMATE CHANGE (IIGCC)



Finally, in 2022, we joined this European investor collaborative body to develop methodologies for climate measurement and alignment, share knowledge and expertise and lay the foundations for effective engagement. All of this with the aim of supporting and enabling the investment community to drive the decarbonisation of the economy and achieve a resilient, net-zero emissions future.



SECTION 03

Management of risks associated with climate change



Climate Change Risks and Opportunities for BBVA AM

There are two types of risks that impact BBVA Asset Management's businesses

Transition risks

Those associated with the transition to a low-carbon economy in response to climate change, arising from changes in legislation, the market, consumers, etc., to mitigate and address the requirements of climate change.

TABLE 01. **Transition risks**

Risk subtype	Risk	Description of the risk	Time Horizon		
			S/T <4 years	M/T 4-10 years	L/T >10 years
Legal & Regulatory	Sustainable EU regulation	Adapting to current and planned regulations is a risk for the companies we invest in and ourselves, as we have to adapt our business to them.	S/T		
	Sustainable reporting risk	The need to report exposures to economic activities, taxonomy alignment information, emissions and, in general, any climate aspect faces the challenge of obtaining recurrent, homogeneous and comparable quality information. This is difficult to obtain and poses a risk to the interpretability and reliability of the reporting produced.	S/T		
	Risk of legal claims	There is the possibility of receiving complaints from customers, consumer associations and other stakeholders, as well as sanctions from supervisors, regarding the quality of reporting, sustainable characteristics and, in general, on climate aspects of the funds and products managed by BBVA AM, which are based on the assessment and metrics of various data providers and, therefore, different interpretations of the standard in the aspects less well defined by the standard.	S/T		
Technological	Changes in production models	Companies exposed to climate change transition and adaptation risks may see the viability of their business models and investments affected. The various portfolios managed by BBVA AM may be exposed to this risk due to the investments we make in these companies.	S/T		
		The productive infrastructures of the countries where these companies operate will be affected by their valuation and future viability. Technological risk may entail a risk and cost of transition due to the change in the production models of the companies and economies in which they operate.		M/T	

Market	Rising cost of commodities	Abrupt changes in the price of commodities, resulting in changes in procurement or energy costs, can lead to a deterioration in liquidity and a decrease in company profits, which may, in any case, be mitigated by price increases in the final product.	S/T
	Financial risks	The downward revision of customers' credit rating with exposure to climate change risks is a potential source of adverse impact for BBVA AM.	S/T
	Change in consumer preferences	Consumer preferences may change and focus on those products and services that have been adapted to the new economic and production model, which may affect the valuation of investments made.	S/T
Reputation	Risk identification and management of climate risks	BBVA AM's climate risk identification and management policy may be considered inadequate and/or insufficient by customers, peers and stakeholders.	S/T
	Restatement of exposure and measurement figures	The difficulty in identifying complete and accurate data sources and the developments in measurement methodologies can lead to changes in and recalculation of exposure figures and changes in climate risks, thus generating mistrust in the calculation and management of climate risks.	S/T

Physical risks

Those resulting from climate change, which may be caused by more frequent and severe extreme weather events or long-term weather changes, may lead to physical damage to business assets, disruptions in the supply chain or increased costs to cope with them.

TABLE 02. **Physical risks**

Risk subtype	Risk	Description of the risk	Time Horizon		
			S/T <4 years	M/T 4-10 years	L/T >10 years
Acute risks	Increased severity of extreme weather events	Reduced revenues due to reduced production capacity of the companies and issuers in our portfolios.		M/T	
		Direct losses due to damage to assets of the companies in which our portfolios invest.		M/T	
Chronic risks	Changes in weather patterns	Loss of value of assets of companies and issuers exposed to the risk of changing weather patterns (agriculture, water and wind energy production)		M/T	
	Rising average temperatures	Changes in production and demographic patterns that may affect the overall economic structure.			L/T
	Rising sea levels	Damage to the infrastructure and ability to operate of the businesses in which our portfolios invest.			L/T

Climate change opportunities for BBVA Asset Management

There are a number of opportunities associated with climate change that BBVA Asset Management is well aware of in order to be able to take advantage of and position itself correctly in the face of the significant disruption posed by climate change.

TABLE 03. Climate change opportunities for BBVA Asset Management

Risk subtype	Risk	Description of the risk	Time Horizon		
			S/T <4 years	M/T 4-10 years	L/T >10 years
Resource efficiency	Analysis and monitoring of the energy efficiency of the companies in the investment universe	As part of its climate project, BBVA AM analyses and monitors the energy efficiency of the companies in which it invests and the targets that these companies set for their performance. The progress over time of these indicators is also monitored in order to assess the credibility and execution of the objectives set.	S/T		
	Identifying trends	Monitoring companies in the investment universe serves to identify trends in industries and sectors, focus the dialogue with them and potentially generate business and product ideas that can benefit from them.		M/T	
Energy sources	Identification of energy sources	BBVA AM monitors the use of the different energy sources. This allows us to dynamically analyse the trends in their use and production in the investment universe. Monitoring is also used for the implementation of the exclusion rule of BBVA AM in the field of oil & gas-related activities.	S/T		
Products and Services	Identification of companies and technologies	<p>Within the monitoring of companies, we work to identify the exposure they have to technologies that generate energy efficiencies, given their potential growth in the current and future environment.</p> <p>The identification of companies and technologies can in turn be used to create products or investment strategies.</p>	S/T		
Market	Identifying leaders	Trends in the changing use of current energy sources and the development of new technologies create opportunities when trying to identify leading companies and incorporate them into investment portfolios.	S/T		
Resilience	Identification of companies and technologies	By monitoring the transition risks mentioned above, it is possible to detect business models that are less exposed to these risks and monitor and manage portfolio risks to reduce them.	S/T		

Impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning

The climate commitments and our sustainability strategy allow us to put in place sufficient structure and resources to be able to start measuring and managing sustainable risks, including those related to climate. In particular, it allows us to:



Identify relevant data and sources of information, cross-check its quantity and quality, and be able to update measurements as it improves;



Develop relevant metrics to classify and measure the sustainability and climate characteristics of investments in product portfolios;



Develop sectorial policies defining exposure to specific sustainable and climate risks;



Prioritise the measurement and management of risks according to expected timeframe and severity;

Set priorities for managing the levers of the Net Zero strategy (engagement, tilting and divestment). See **CLIMATE RISKS**



Generate knowledge to build portfolios aligned with Net Zero or more aggressive decarbonisation pathways. See **CLIMATE RISKS**



Generate relevant and necessary information to comply with the regulatory requirements of the various countries in which we operate;

Generate relevant information to incorporate sustainability and climate factors in customer reporting.

The resilience of BBVA AM's strategy

The commitments acquired in climate matters by adhering to the Net Zero Asset Managers commitment have led to the launch of control metrics, analysis of measurement methodologies and data sources that will enable us, over the years, to align our portfolios and operations with the Net Zero objectives in 2050. As previously mentioned, the climate commitment has been incorporated by BBVA AM as a whole at all stages of our activity and has become one of our strategic objectives.

Climate Risks at BBVA AM

As explained in previous sections, **ESG risk management, and in particular climate risk, is integrated into BBVA AM's frameworks, processes and governance.** Therefore, over the last few years, we have included this risk as an additional risk in the unit's existing risk management processes.

This integration has several aspects, starting with compliance with the regulatory obligations of each of the countries in which we operate and which, to date, has had much more specific developments in the case of Europe.

Far beyond these regulatory obligations (See **STRATEGY**), **the risk function aims to support the various pillars that make up BBVA AM's sustainability strategy and, in particular, in relation to the management and control of the climate risks that impact the managed portfolios.** Through this support, the Risk team seeks to integrate its processes into its decision-making, develop measurement and control solutions, and subsequently verify both the established objectives and regulatory obligations.

The Risk team's commitment to climate risk management **is part of the BBVA Group's strategy and is adapted to the particularities of the asset management business, both from a regulatory and methodological point of view.**

Though in terms of assets under management, most of our business is in Europe, where there is more exhaustive legislation and greater implementation of sustainability in the industry, the global nature of the BBVA Group allows us to be present in other countries.

This leads to important differences in regulatory requirements in each of the markets. However, in this document, we place particular emphasis on the Sustainable Finance Disclosure Regulation (**SFDR**), as it is the regulation to which companies located in Europe are subject and, in addition to applying to the most relevant percentage of assets under management, the one that establishes the most specific and demanding requirements in terms of sustainability.

We have therefore considered it appropriate to implement the same sustainability and climate risk standards and policies established in Europe for BBVA AM units in the various countries in which we operate.

The various BBVA AM Risk teams, as departments involved from the outset

in defining the unit's strategy, actively participated in the projects that led to establishing the specific commitments that form part of **NZAM** during the 2022 financial year: first, by establishing policies in the different countries in which we operate to integrate sustainability risks, including climate risks, and second, by being responsible for verifying compliance with them.

The analysis of climate risk in the case of BBVA AM is divided into two sections:

- **RISK INCURRED BY BBVA AM** in performing its functions. This risk is managed jointly with the BBVA Group's global Risk team. BBVA AM does not manage its risks independently and fully applies the corporate processes established for this purpose.
- **RISK FINANCED THROUGH THE INVESTMENTS** of the vehicles managed by BBVA AM. The relevant BBVA AM teams are responsible for managing this risk.

Organisation and structure

The risk management functions within BBVA AM are divided between financial risks (Global Risks) and non-financial risks (Global Control & Compliance). Both global heads report to the global head of AM&GW and the heads of BBVA Group's various corporate areas. Both raise BBVA AM's climate strategy to the Group through their participation in the corporate committees corresponding to each area.

In addition, our global structure favours the existence of global specialists related to the two disciplines mentioned above and local managers in each of the geographies.

The Global Head of Risks and the Global Head of Control & Compliance are members of the GGS. They are, therefore, actively involved in defining BBVA AM&GW's sustainability strategy and supervising its implementation.

It should be noted that in each of the countries in which BBVA AM operates, there are local heads of Financial Risks and local heads of Control & Compliance who report to their global head in Madrid (member of the GGS) and the head of BBVA AM in that country.

This dual dependency system allows the main initiatives, policies and controls related to sustainability and climate risk in BBVA AM to reach all teams.

Data and system developments

In recent years, BBVA AM has developed a series of functionalities related to the calculation of sustainability metrics for managed portfolios. The development of these functionalities is the direct responsibility of the Global Risks team, which coordinates both their execution and validation.

These developments are carried out in an internal tool in which the data on the positions of the managed vehicles, the characteristics of the various instruments and their issuers and data from different providers are consolidated. The purpose of this tool is twofold: firstly, to be a specific sustainability risk management tool for the various teams involved in this task, and secondly, to be an information repository to be made available to the different BBVA AM systems (mainly those used by the Investments, Reporting and Control teams).

The dependence of entities with portfolio positions on available sustainability and climate data is critical.

In this regard, at BBVA AM, we have carried out a long process in which we have included new information providers to improve their quality and the total coverage of the positions. At present, depending on the

information and data management needs, we work with different providers within the tools developed. This process has been and continues to be led by the Risk teams.

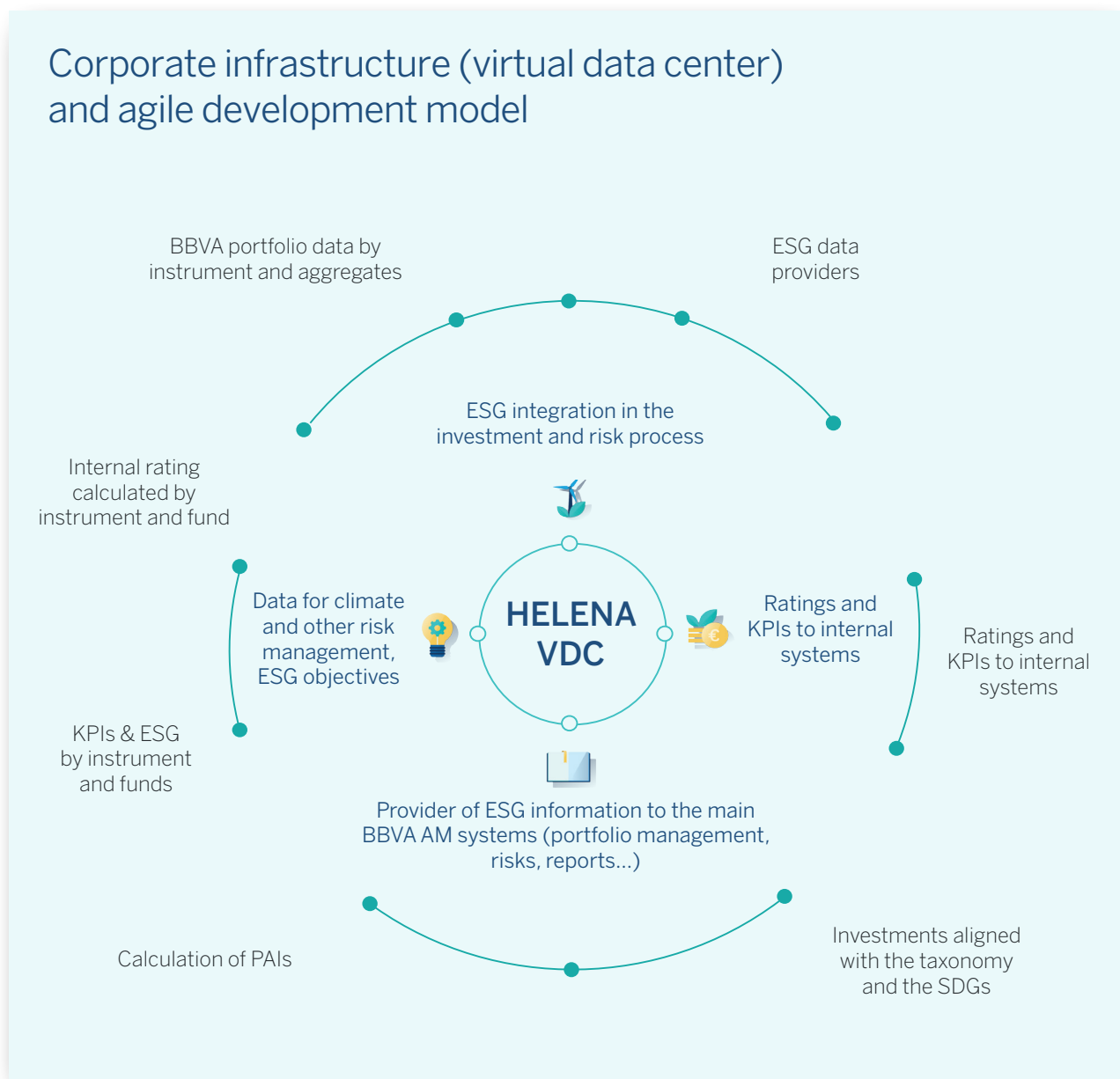
These very sensitive data include those corresponding to the PAIs collected in the SFDR for the different types of assets, including:

- I those relating to the emissions of the companies in the portfolio;
- II the emissions projections for the various corporate issuers in the portfolio;
- III the emissions data of the mutual funds that form part of the managed vehicles, either directly or by mandate;
- IV indicators regarding the climate policy of the sovereign issuers in the portfolio;
- V environmental scorings;
- VI the existence of climate commitments by different issuers;
- VII and many other variables necessary for climate risk management.

In addition, our Risk teams also use qualitative information, both on the mutual funds in which the AM vehicles invest and the entities that manage them.

This information has a dual origin: firstly, the information that these management companies provide through the reporting obligations in the jurisdictions where the regulation requires them to generate such information, and, secondly, the information that Quality Funds collects as part of the Due Diligence process and monitoring, which includes certain aspects related to climate risk management both from the individual point of view of each fund, as well as that of the fund managers and the public commitments they have made, such as their membership of NZAM.

ESG data, metrics and portfolio analysis tool



Risk identification and assessment processes

At BBVA AM, we believe in the **importance of correctly identifying and assessing the risks associated with sustainability** in a broad sense, particularly with climate change, whether physical or transitional.

As mentioned above, we are developing a tool to monitor this type of risk, especially transition risk.

With regard to physical risks, we are currently analysing the available external data providers in relation to the sensitivity of the various positions in the portfolio to a series of established scenarios and to be able to contrast this with BBVA AM's portfolios in the medium term.

Since 2020, BBVA AM teams have been performing daily calculations of the environmental, social and corporate governance scorings for each of the positions in our portfolios, as well as the possible existence of very severe incidents that could apply to the investments within the managed vehicles.

In terms of the current emissions of the respective companies, since 2020, we have calculated the emissions intensity for the various managed portfolios and their aggregation. In addition, we calculate them for all investments and the various

portfolios through the PAIs. Among the different indicators calculated, the following are linked to emissions:

Greenhouse gas emissions 1;

Greenhouse gas emissions 2;

Greenhouse gas emissions 3;

Total greenhouse gas emissions;

Carbon footprint;

Greenhouse gas emissions intensity of invested companies.

By analysing the contribution of these impacts on the portfolios, we can identify, in all cases, those companies or mutual funds that contribute most to the aggregate calculated impact.

Regarding compliance with the NZAM targets, at BBVA AM, we have identified, in a similar way to the BBVA Group, the scenario established by the International Energy Association (IEA) convergence to a 1.5° increase in 2050, which implies zero net emissions by 2050.

For each of the portfolio companies, we have established a Scope 1 and 2 emissions projection pathway to 2050, checking whether:

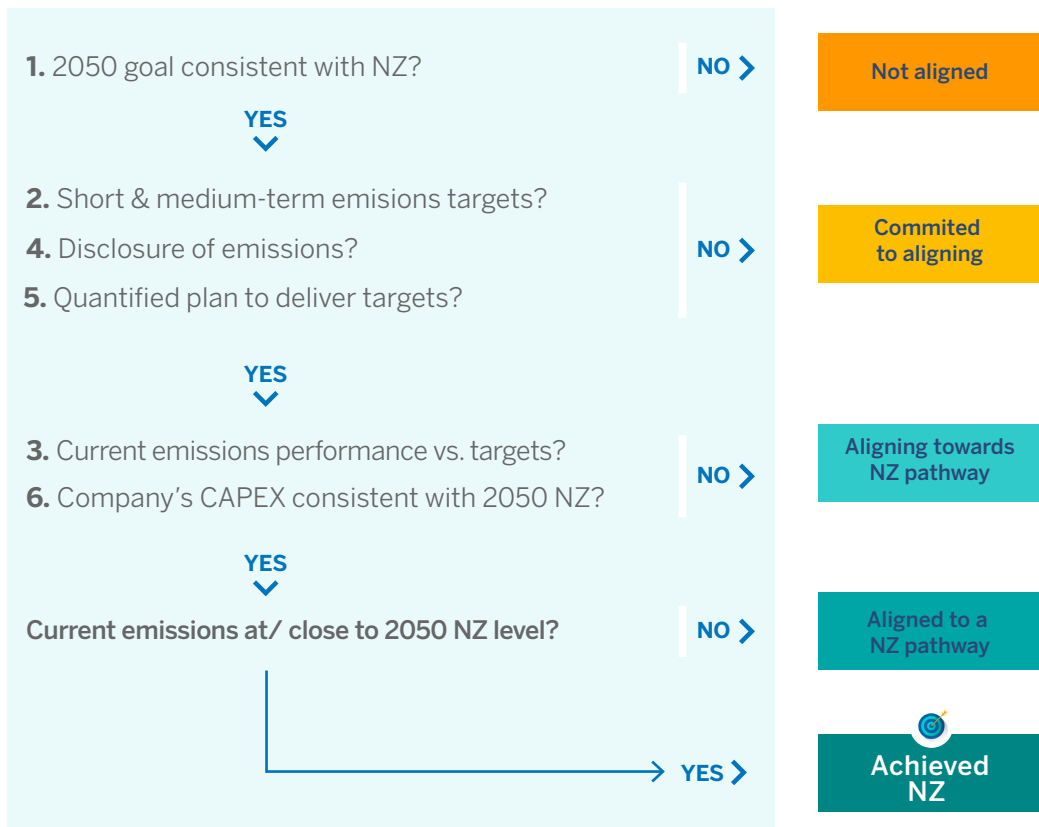
- the company has zero emissions targets for that year;
- the path of each of these companies up to that date with the aim of meeting the interim targets.



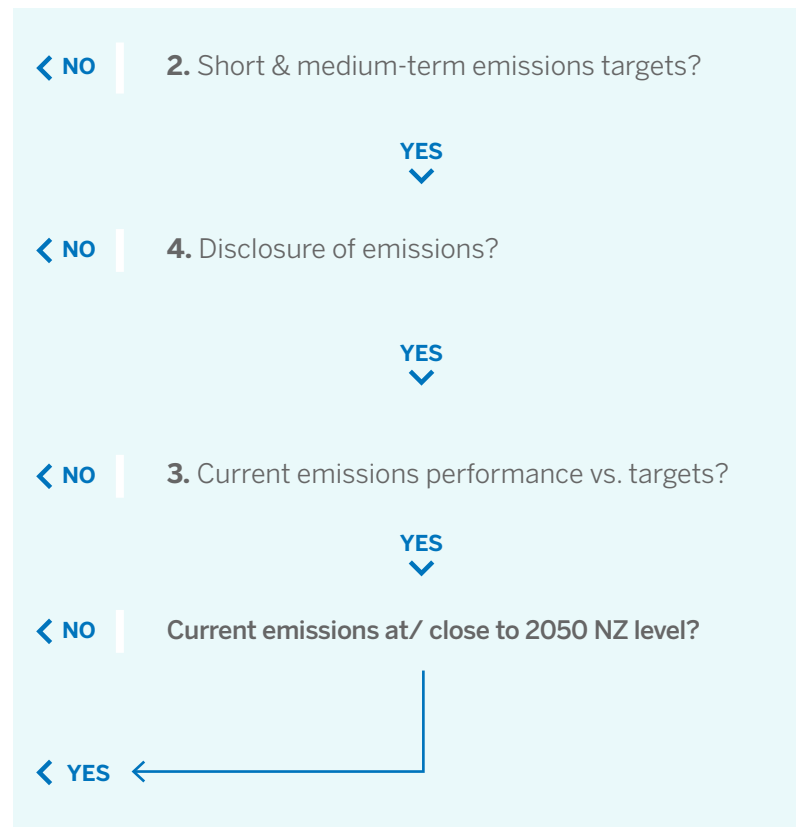
In this way, we can identify and assess at five different levels the companies in which we invest directly in terms of their alignment:

Company CO₂ emissions decision tree

HIGH-EMITTING COMPANIES



LOW-EMITTING COMPANIES



Subsequently, on an aggregate basis, we compose the different paths for the portfolios and compare them to the scenario discussed above. Thus, we can observe the state of convergence to the targets defined at the interim level in 2030 and 2050.

Finally, our Exclusion Policy includes the exclusion of investments in coal, oil and gas linked to exploration in the Arctic and tar sands. The process of extracting, processing, refining and distributing these fossil fuels is associated with significant environmental and climate impacts, according to scientific evidence and the position of key international organisations. Companies with a share of their total activity of more than 25% in the case of coal and 10% in the case of oil and gas exploitation, transport and production activities in the Arctic and in the case of oil sands are excluded from portfolio investments.

Climate risk management processes

Risk management at BBVA AM covers the different phases of the products managed by the various companies that comprise the unit: from the approval of the products in the corresponding committees to the monitoring of the investments and the escalation of their results to the related decision-making bodies.

In particular, our risk management is divided into three tiers:

TIER 1

Within the product areas in the design of the products, as well as by Investments within the investment and involvement process itself.

TIER 2

The various local and global risk teams at BBVA AM are responsible for this tier. It consists of establishing independent monitoring and measuring the portfolio's main sustainability characteristics

TIER 3

This last tier of oversight is carried out by Internal Audit teams and reviews both Tier 1 management and Tier 2 controls and their performance.



TIER 1

BBVA AM has identified a series of levers to manage convergence to the climate targets set:

■ DIRECT ACTION ON PORTFOLIOS:

Adapt and enhance the range of products and services to help to achieve the objectives.

Redirect portfolio investments towards more energy-efficient companies by incorporating climate factors into the investment process.

Develop a consistent decision-making process that considers the various sectorial and geographical characteristics related to emissions.

■ ENGAGEMENT (DIRECT OR COLLABORATIVE):

Assist portfolio companies with their energy transition plans with the aim of adopting zero-emission targets by 2050.

Collaborative engagement initiatives Supporting customers in their move to investment portfolios with lower emissions.

In order to carry out the aforementioned engagement activities, BBVA AM has an engagement policy whose annual report includes the main collaborative initiatives in which it has been involved, as well as summaries of the initiatives it has directly carried out with the different entities in its portfolio, both public and private.

See [STRATEGY](#).

TIER 2

The risk teams are responsible for supervising compliance with regulatory obligations and the public documentation of the products and monitoring the progress of compliance with the commitments acquired.

Regarding the first point, BBVA AM has designed a series of controls in relation to the obligations corresponding to SFDR, including the follow-up and monitoring of the PAIs, in relation to product information in Europe and controls to ensure compliance with the sustainability integration policies by the businesses in Europe and Mexico.

These same teams are responsible for ensuring that the necessary means are in place to control the sustainable characteristics included in the various products we manage.

To streamline the execution of these controls and their integrity, the tools designed to manage sustainability risks include developments to manage risks directly (Tier 1) and control them (Tier 2).

When additional controls are required, this same tool provides the necessary data to the rest of the systems in order to safeguard their integrity, but taking advantage of BBVA AM's systems so that new ex-ante and ex-post controls can be carried out.

TIER 3

Responsibility for this last layer of control lies with the BBVA Group's Internal Audit teams. As part of its work plans, this area establishes specific programmes to supervise compliance with existing regulatory obligations in each of the countries where BBVA AM operates and monitor the public commitments acquired by BBVA AM.

These same programmes are applied in the rest of the BBVA Group, which ensures coherence of the standards and the Group's Sustainability areas' familiarity with them.

SECTION 04

Metrics and goals



Net Zero targets

The relevance of climate change in the sustainable strategy of BBVA and BBVA AM culminated in our joining the international Net-Zero Asset Managers initiative in October 2021.

With this, in BBVA AM, we are committed to accompanying the companies and issuers in which we invest in their decarbonisation targets to achieve net zero portfolios by 2050.

During 2022, in BBVA AM, we conducted an [analysis of climate data providers](#) calculation and alignment methodologies and their own investments to establish a first decarbonisation commitment. Following a thorough analysis of our portfolios, we were able to set interim decarbonisation targets for 2030, as required by the NZAM commitment, which we made public in October 2022.

Thus, in BBVA AM, we have [set an initial commitment to decarbonise 22% of the assets-under-management](#). These assets form part of the portfolios managed in

Europe and Mexico and comprise Eurozone sovereign fixed income (10% of total assets under management) and equities and corporate fixed income (12%).

For the time being, asset classes for which there are no reliable data and methodologies, such as mutual funds and derivatives, are outside the scope of the project. However, this is an initial commitment, which will be reviewed in the coming years to increase its scope.

Along with the [decarbonisation of portfolios](#), at BBVA AM we are also committed to [decarbonising our operations](#).

As part of the BBVA Group, we are present in seven countries, use the bank's facilities and carry out our activity under the same policies and objectives regarding the [use of renewable energies and the reduction of direct carbon dioxide emissions](#).

Our Net Zero path

Our objectives are set at the global portfolio and asset class level, prioritising the methodology of the Paris Aligned Investment Initiative (PAII)¹ framework.

ROAD MAP NET ZERO

Commitment
to decarbonize
in 2050

22%
AUM

Sovereign
fixed income

10%
AUM



Listed corporate
equities and
fixed income

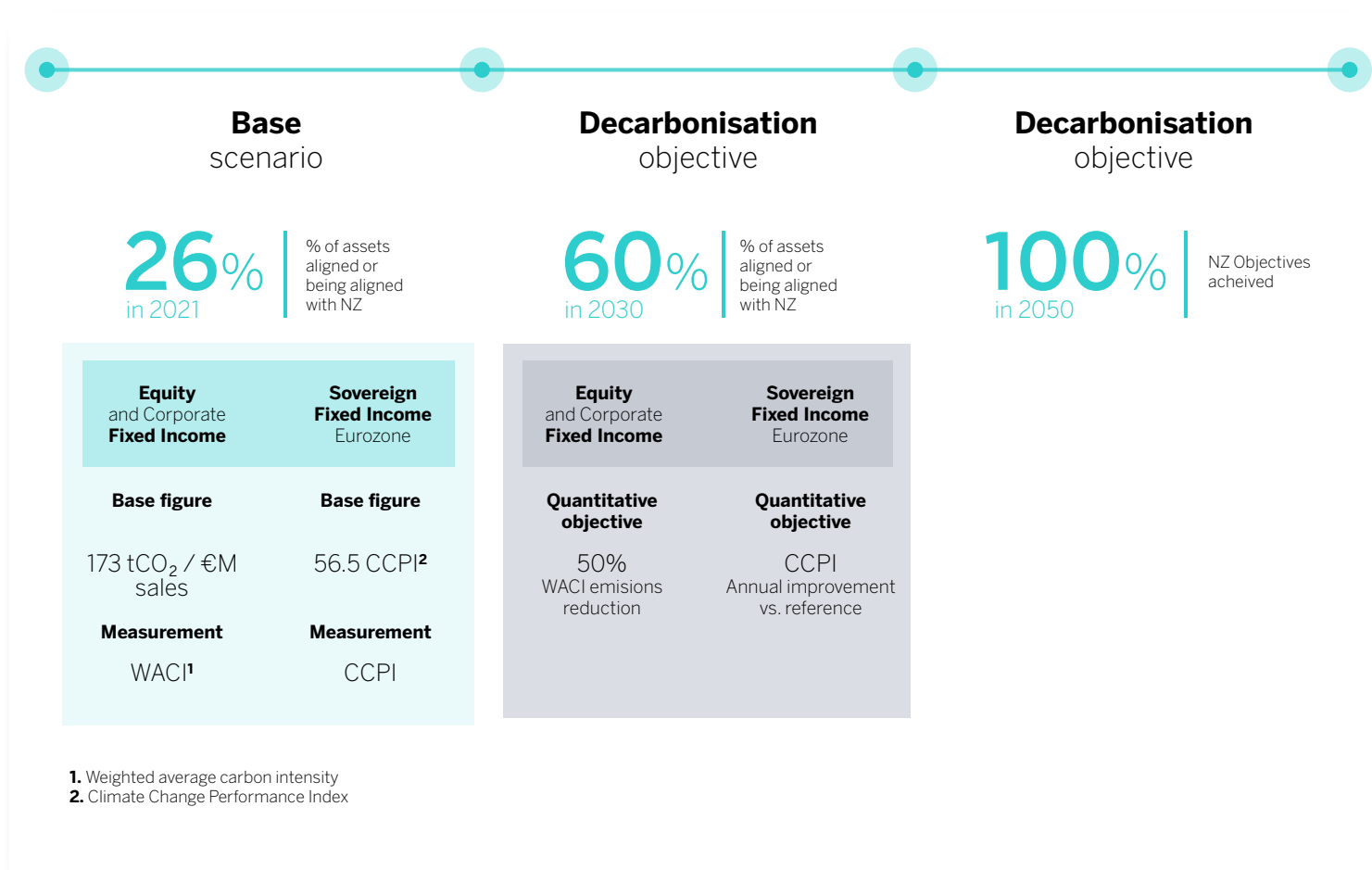
12%
AUM

1. Additional methodology used for the listed corporate equity and fixed income portfolio: GHG scopes 1 and 2. IEA 2050 Net Zero

Interim commitment for 2030

In BBVA Asset Management, we have announced an interim commitment to decarbonise the portfolios under management by 2030, with the following objectives:

- For all assets included in the initial commitment, achieve 60% of assets aligned or becoming aligned with Net Zero.
- 50% reduction in emissions from its equity and corporate fixed-income assets, measured by the Weighted Average Carbon Intensity (WACI) indicator, which measures how many tonnes of CO₂ a company generates per million sales.
- For euro area sovereign fixed income, the objective is to improve annually the CCPI (Climate Change Performance Index), an index that monitors climate protection performance by country on an annual basis.



Axes of action

BBVA AM’s investments department has designed a plan to achieve its decarbonisation targets and contribute to reducing emissions in the real economy, the main lines of action of which are as follows:

OUR LEVERS



Investing in companies and countries that are on the **path to transition** with set targets and action plans.



Engagement activities to get companies that **have not set targets** or have no action plans started on the journey.



Working on action and monitoring plans to ensure that the companies with the **highest emissions contribute** to the set goal of decarbonising portfolios.

To advance in our commitment to increasing the coverage of assets included in our portfolios, BBVA AM has also established various lines of action:



For **assets not included in the initial commitment**, due to data access limitations or lack of defined methodologies, we will work in the various industry forums to make progress to incorporate more assets.



We have defined a **rule of exclusions** for coal-related activities and those linked to oil and gas from tar sands and the Arctic. This policy is linked to the percentage of activity above a certain level: 25% for coal and 10% for tar sands and the Arctic (see exclusions under sustainable pillars).



We will **expand our sustainable offering** with products that incorporate decarbonisation targets aligned with the Net Zero strategy.



Finally, we will work with our **institutional clients** to incorporate decarbonisation targets into their mandates.

Other levers for moving forward towards our objectives



We will work together with other industry players to promote investment alignment with Net Zero objectives, through the **various initiatives** that we have adhered to:

- / UNPRI
- / Net Zero AM
- / IIGCC



We will offer **transparency** of the compliance to our objectives by annually publishing a report regarding our climate risk strategy which will include our portfolio alignment objectives and the rate of alignment achieved with the TCFD recommendations.

Metrics

2022 was a challenging year in terms of defining and monitoring metrics related to both sustainable variables in general and climate variables in particular. One of the most relevant conditioning factors has been European regulators' change in the definition of PAIs. The other, specific to BBVA AM, was the exercise to define the methodologies to measure the climate commitments corresponding to NZAM membership.

Metrics for monitoring PAIs

From the point of view of calculating regulatory metrics, BBVA AM committed to measuring a series of PAIs on 10/03/2021. This commitment was made public after an analysis that took into account different factors:

1st FACTOR

The degree of possible change in the regulatory definition included in the SFDR Implementing Regulations. As the regulatory text was still in draft form at the time, BBVA AM decided to focus the measurement of these impacts on the metrics we considered most relevant, including the main climate-related metrics.

2nd FACTOR

The impact on the choice of these metrics of the coverage offered by the various providers of data necessary to calculate them is extremely significant. We have been constantly monitoring the percentage coverage of the metrics on the portfolios of the vehicles we manage. It is also worth mentioning the impact of the high exposure that BBVA AM manages through third-party funds. This has meant that obtaining the portfolio data for these funds has been a challenge in measuring these potential adverse impacts.

The PAIs selected in 2021 are the following:

- **IN THE CLIMATE DOMAIN** we have monitored the carbon intensities (scope 1 and 2) for the total portfolio for corporate bonds, equities and third-party managed funds in these asset classes. In addition, we monitored scope 1, 2 and 3, but only for direct investment in corporate bonds and equities. Finally, we have monitored the biodiversity and ecosystem conservation practices of the companies we invest in.
- **IN THE SOCIAL AND GOVERNANCE MODEL AREA** we have monitored gender diversity on boards of directors and the separation of roles between the chairman and the chief executive officer.

3rd FACTOR

Regulatory developments, the improvement of information coverage for the different companies and the developments of third-party fund information providers allowed BBVA AM to publish the [PAI management policy](#) for managers located in Europe on 13/12/2022.

NZAM target metrics

As discussed above (See **Climate risks**), during 2022, we performed an exercise on selecting the methodology with which we aim to define and monitor the decarbonisation targets in BBVA AM. Following the recommendations of the PAII framework, we have set emission reduction targets and corresponding metrics at the asset class level and portfolio alignment targets with a more qualitative measurement.

Equities and Corporate Debt

The metric selected to monitor the emissions of the different portfolio companies is **WACI** (Weighted Average Carbon Intensity), following the parameters established in the measurement framework defined by PAII. This metric is defined as the tonnes of CO2 emissions a company makes per million euros in sales and captures Scope 1 and 2 emissions.

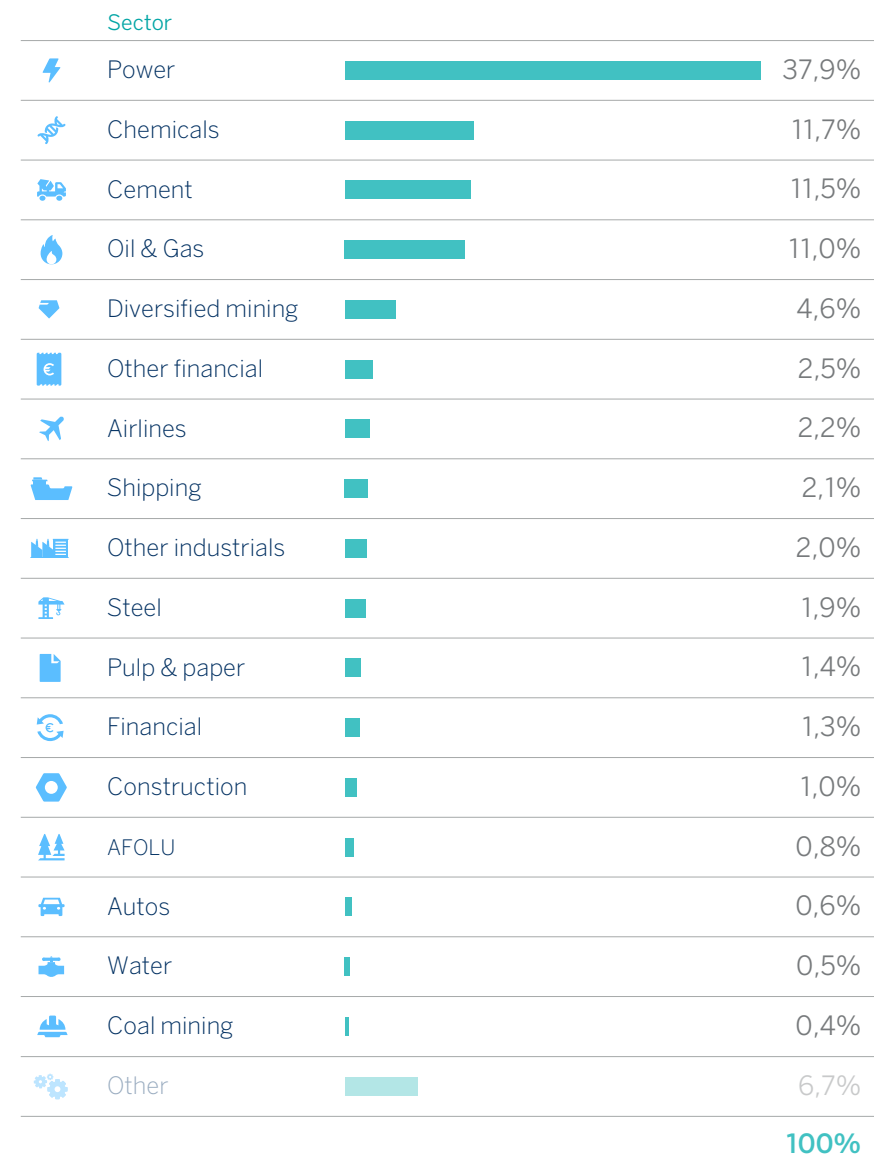
On this metric, BBVA AM is committed to a 100% reduction in emissions by 2050, with an interim target of a 50% reduction by 2030.

Sovereign Issuers

For this type of exposure and also following the methodologies suggested by PAII, we have used the **CCPI** index as a benchmark and with the commitment to improve the Eurozone sovereign debt positions against the previous year’s benchmark annually.

This indicator is calculated by Germanwatch and measures a country’s progress in climate change protection by assessing progress in emissions, renewable energy use, energy efficiency and climate change policies.

Sector contribution to WACI considering scope 1&2



Data end of 2021

Portfolio alignment metrics

Equities and Corporate Debt











For this type of asset, we have established the following steps:

CHOICE OF THE PAII FRAMEWORK for the selection of a decarbonisation target together with quantitative emission metrics.

This qualitative metric measures the proportion of the portfolio aligned with the Paris Agreement. It is described as the proportion of the portfolio that falls under the categories defined by PAII, following the assessment against the ten defined criteria. For this purpose, commitments are based on Scope 1 and 2 emissions.

Additionally, the commitment also includes that **60% OF INVESTMENTS, CONSIDERING THE COMPANIES IN WHICH WE INVEST IN OUR PORTFOLIO**, are aligned or in the process of being aligned with net zero emissions policies by 2030 (See **MANAGEMENT OF RISKS**).

TABLE 06. Criteria from PAII

Alignment criteria	Description
 01. Ambition	Long term 2050 goal consistent with achieving global Net Zero
 02. Targets	Short and medium term emissions reduction targets
 03. Emissions performance	Current emissions intensity performance relative to targets
 04. Disclosure	Disclosure of emissions
 05. Decarbonisation strategy	A quantified plan defining the measures deployed to deliver emission targets
 06. Capital Allocation Alignment	Evidence that company's capital expenditures are consistent with achieving NZ by 2050
 07. Climate Policy Engagement	Company has a Paris-Agreement-aligned climate lobbying position and demonstrated alignment of its direct and indirect lobbying activities
 08. Climate Governance	Clear oversight of net zero transition planning and executive remuneration linked to delivering targets and transition
 09. Just Transition	Company considers the impacts from transitioning to a lower-carbon business model units workers and communities
 10. Climate risk and accounts	Company discloses on transition risks through TCFD Reporting and incorporates such risks into its financial accounts

To be used if data is available



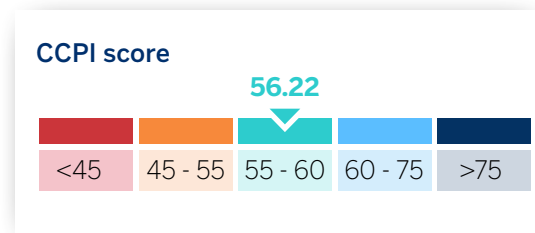
The result of the portfolio with respect to this assessment considering the baseline comprised of the exposures at the end of 2021 and the emissions data in 2019 (scenario chosen to avoid the effects of the COVID crisis in 2020) is as follows:

The percentage of the portfolio aligned or becoming aligned with Net Zero is **28,5%** of assets under management in equities and corporate debt, with a target alignment by **2030 del 60%**.

Sovereign Issuers

Following the methodological framework established by PAII, we use a metric that allows us to see the progress of sovereign assets in terms of their alignment with Net Zero. In this case, we have selected the **CCPI indicator developed by Germanwatch**, which establishes a ranking in which, according to the score obtained by a country, a rating is given (very high, high, medium, low or very low) for progress made in the fight against climate change. Countries with very high and high ratings are considered to be aligned or becoming aligned with Net Zero.

In the particular case of our Eurozone sovereign bond portfolio, the result of this indicator is 56.22, corresponding to a “medium” rating.



The percentage of the portfolio aligned or becoming aligned with Net Zero is 23% of the assets under management in Eurozone sovereign debt, with a target alignment by 2030 of 60%.

Combined for both asset classes (corporate and government), the percentage aligned or becoming aligned to Net Zero is 26% as of the date of this report.

Appendix



APPENDIX 1

Compliance table of TCFD recommendations

	TCFD recommendations for asset managers	BBVA AM TCFD Report
Governance model	<ol style="list-style-type: none"> 1. Oversight by the Board 2. Role of management 	<p>Section 1: Governance Model</p> <ul style="list-style-type: none"> • AMGW Structure • Sustainability governance model • Sustainability Governance Group <p>Section 3: Climate Risks at BBVA AM</p> <ul style="list-style-type: none"> • Organisation and structure
Strategy	<ol style="list-style-type: none"> 3. Description of risks and opportunities 4. Impact of risks and opportunities <p>Resilience</p>	<p>Section 3: Climate Change Risks and Opportunities for BBVA AM</p> <ul style="list-style-type: none"> • Transition risks • Physical risks • Opportunities <p>Section 3: Climate Change Risks and Opportunities for BBVA AM</p> <ul style="list-style-type: none"> • Description of the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning <p>Section 3: Climate Change Risks and Opportunities for BBVA AM</p> <ul style="list-style-type: none"> • The resilience of BBVA AM's strategy
Management of risks	<ol style="list-style-type: none"> 6. Organisation to identify and assess risks 7. Risk management organisation 8. Integration into overall risk management 	<p>Section 3: Climate Risks at BBVA AM</p>
Metrics and goals	<ol style="list-style-type: none"> 9. Report on metrics and targets used 10. Scope 1, 2 and, if applicable, Scope 3 GHG Emissions Report 11. Report on targets and performance 	<p>Section 4: Targets and Metrics</p> <ul style="list-style-type: none"> • Metrics for monitoring PAIs • NZAM target metrics • Portfolio alignment metrics

APPENDIX 2

Other relevant documents



-  TCFD
-  General Sustainability Policy
-  Sustainability Strategy
-  BBVA decarbonisation targets



-  Sustainability Plan
-  NZ Commitments
-  PAI policy
-  Involvement policy
-  Annual engagement policy report
-  Exclusions rule

APPENDIX 3

Glossary

A

ALFI	Association of the Luxemburg Fund Industry
ASCRI	Spanish Association for Capital, Growth and Investment
AUMs	Assets under Management

B

BBVA AM	BBVA Asset Management
BBVA AM&GW	BBVA Asset Management & Global Wealth

C

CCPI	Climate Change Performance Index
CEO	Chief Executive Officer
CESGA	European Federation of Financial Analysts Societies Certified ESG Analyst
CFA	Chartered Financial Analyst
COP21	Paris Climate Conference 2021
CSRD	Corporate Sustainability Reporting Directive

E

EFPA	European Financial Planning Association
EFPA ESG	European Financial Planning Association - Environment, Social & Governance
ETF	Exchange Traded Funds
EQ	Equity
ESG	Environmental, Social and Good Governance
ETF	Exchange Traded Funds
EU	European Union

F

FI	Fixed income
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G

GGS	BBVA AM Sustainability Governance Group
GPP	Gestión de Previsión y Pensiones, E.G.F.P., S.A.
GSA	BBVA's global Sustainability area

I

IEA	International Energy Agency
IIGCC	Institutional Investors Group on Climate Change
INVERCO	Spanish Association of Collective Investment Institutions and Pension Funds
IPCC	Intergovernmental Panel on Climate Change

K

KPIs Key Performance Indicators

N

NZ Net Zero

NZAM Net Zero Asset Managers

P

PAII Paris Aligned Investment Initiative

PAIs Principal Adverse Impacts

Q

QF Quality Funds, BBVA AMGW area

S

SDGs United Nations Sustainable Development Goals

SFDR EU Regulation on sustainability disclosures in the financial services industry

T

TCFD Task Force on Climate - Related Financial Disclosures

U

UMC Capital Markets Union

UN United Nations

UNPRI United Nations Principles for Responsible Investment

V

VDC Virtual Data Center

W

WACI Weighted Average Carbon Intensity

A group of birds is flying in a teal sky, leaving a trail of white smoke or vapor behind them. The birds are silhouetted against the sky.

Report on **TCFD** 2022