

BBVA

Asset Management &
Global Wealth

TCFD | TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES



Report on

TCFD

2023

At BBVA Asset Management, our mission is to help our clients achieve their life goals and, to this end, we offer them a wide range of products and solutions that adapt to their needs.

We firmly believe that sustainability is aligned with this mission because if we invest our clients' assets taking into account the impacts and benefits on the environment and society, we will not only be able to help them achieve their goals, but we will also be an active part in the transformation of society toward a more sustainable future.

In line with this view, in 2023, our teams have continued to develop our Sustainability Plan, improving the metrics used to measure the Environmental, Social and Governance impacts of all its investments, both at the investment level (with the ESG rating) and in society (through the Policy for Managing Principal Adverse Impacts).

We have also improved the criteria set for qualifying an investment as "sustainable" and have worked with our institutional clients to better understand their sustainability priorities, incorporating decarbonization targets into the mandates we manage for many of them.

In this context of sustainable investments, the fight against climate change is one of the

most relevant issues. Therefore, it is essential to manage the physical and transition risks that arise therefrom, as well as to identify the emerging opportunities to finance any investments necessary – so that society as a whole can adapt to this new scenario – and to finance the new business opportunities that will facilitate the decarbonization of the economy.

Our roadmap is clear: in 2021, we joined the Net Zero Asset Managers initiative to achieve net zero emissions by 2050, both from our operations and from the portfolios in which we invest our clients' assets; in 2022, we published our interim decarbonization targets to 2030, after analyzing our investments in detail to define the assets to be included, the appropriate metrics to set the targets, and the data and methodologies to calculate them; and, in 2023, we published our first report on the risks and opportunities of climate change, following the recommendations of the [Task Force on Climate-Related Financial Disclosures](#) (TCFD), with details on our sustainability and climate strategy in particular, the targets we set and the progress made.

In keeping with the transparency policy that guides our sustainability strategy, we are publishing this second report outlining the progress made throughout the year, including the progress of our 2030 decarbonization targets.



Jaime Lázaro
Head of BBVA AM&GW

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TCFD

2023

01.

Governance model

The sustainability governance model at BBVA AM has been structured around the Sustainability Governance Group, which establishes the strategic direction and plans for its execution, as monitored by the Asset Management & Global Wealth Steering Committee and in coordination with BBVA's Global Sustainability area.

BBVA AM created a series of forums to analyze and monitor the lines of work in the sustainability strategy, and developed a series of standards, policies and procedures that establish the lines of action around the pillars of the sustainability strategy.

02.

Strategy

BBVA AM's sustainability strategy is built around four pillars: ESG integration, exclusions, engagement policy and impact investing.

In 2023, it worked on the climate strategy linked to the Net Zero targets, and further developed actions related to each of the four pillars. Special notice should be made of the progress attained in terms of the following: application of ESG analysis, both in the portfolios and in the different countries in which BBVA AM operates; transparency, with the creation of [a section dedicated to sustainability on the website](#); and to incorporate ESG-related metrics and data into the investment process.

03.

Risk management

Climate risk management at BBVA AM is integrated into the general risk management and control processes.

2023 stands out as an intense year in the development of systems and calculations of data and metrics that support climate risk management, and the sustainability strategy in general, such as calculations of the carbon intensity of portfolios, calculations of the principal adverse impacts for issuers, portfolios and management companies, fund metrics from external managers and calculation of alignment paths to the Net Zero targets of the companies in which BBVA AM invests.

04.

Metrics and targets

BBVA AM has set interim targets for the decarbonization of its portfolios by 2030, in its efforts to achieve the Net Zero objectives by 2050.

The scope of these interim targets has been set in terms of the assets included, the metrics used to measure them, the baseline and the 2030 target. This report describes the status of these metrics at the close of 2023, comparing their performance with respect to the baseline and the degree of achievement with respect to the targets set for 2030.

Mention should be made of the good performance of the portfolio of companies, both in terms of emissions and the degree of alignment; and the fact that, in the EU government debt portfolio, the results are not homogeneous, and the diverse country behavior had an impact on the portfolio's aggregate result – positive in terms of the performance of the indicator used, but not in terms of the degree of alignment.

Introduction



BBVA Asset Management & Global Wealth (BBVA AM&GW) is the area of the BBVA Group **that integrates asset management activities** in all the countries in which it operates, which are referred to in this document as BBVA Asset Management (BBVA AM).

BBVA AM has **€ 147 billion in assets under management** in eight countries (Spain, Mexico, Portugal, Luxembourg, Colombia, Peru, Argentina and Türkiye), through independent management companies. This enables BBVA AM to combine the local presence with the global capabilities, not only of BBVA AM's Global area but also of the BBVA Group.

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

BBVA AM, therefore, has global processes for investment, risk analysis and control and product development, to which it adds its local knowledge of the markets, derived from its local presence through its companies, and that of its **more than 700 employees**, of whom **150** are investment professionals, and more than **160** employees who hold internationally recognized asset management and risk management certifications.



PRESENCE IN 8 countries



Spain



Mexico



Portugal



Luxembourg



Colombia



Peru



Argentina



Türkiye



ASSETS UNDER MANAGEMENT

€147 billion



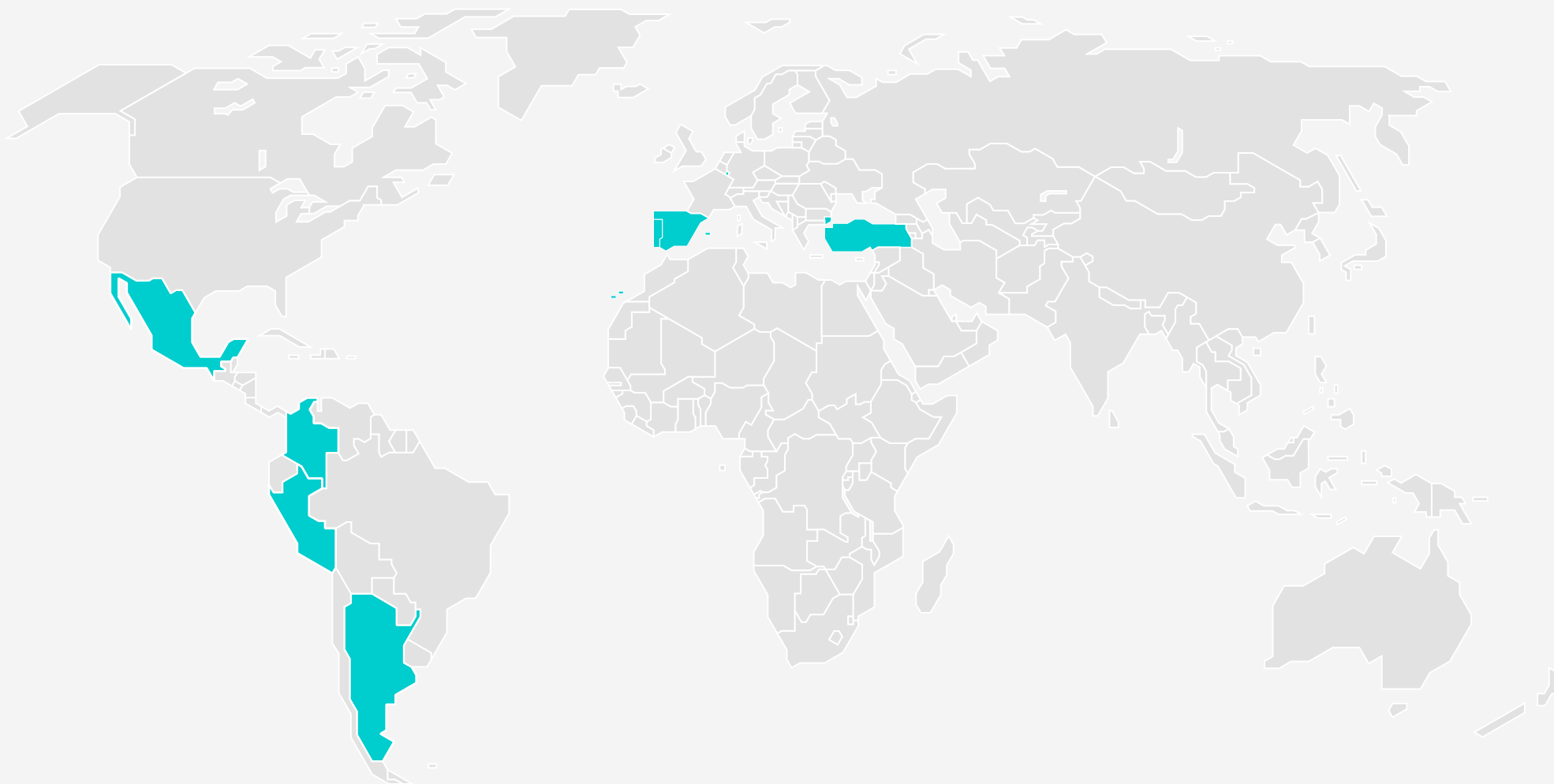
EMPLOYEES +700



+150 investment professionals



+160 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.

Luxembourg

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.

Sustainability and its importance in asset management

Investing with sustainability in mind means taking into account the needs of the present without compromising those of future generations, seeking to generate long-term returns that take into account the protection of the environment and the development of society.

Climate change represents one of the greatest disruptions in history at an economic, social and environmental level. It is crucial that all actors in society, including governments, regulators, businesses, consumers and society at large, adapt quickly. [The Paris Agreement](#), adopted at the Paris Climate Conference (COP21) in December 2015, is the framework of this fight, with 196 governments committed to reducing their emissions and establishing sustainable development strategies.

COP21 • CMP11
PARIS 2015
UN CLIMATE CHANGE CONFERENCE



Scientific evidence underscores the need to limit the increase in global temperature below 1.5 degrees Celsius compared to pre-industrial levels, with the goal of reaching net zero emissions by 2050. [This challenge requires immediate measures to transform the energy model, mobilizing large amounts of capital.](#)

The transition to a low-carbon economy and the protection of biodiversity impact the value chains of many economic sectors, necessitating significant investments. Research and advances in energy efficiency, renewable technologies, mobility and construction offer great investment opportunities. Companies that do not adapt will face risks, while those that lead this transformation will be better able to grow and have a profitable business in the long term.

All this effort must also be made taking into account the impact on society and that existing inequalities do not increase. [The change in the economic model must take into account the whole of society and, when evaluating the activity of the companies in which investments are made, it is important to take into account its impact on clients, employees and society in general.](#)

Another key element to consider in the assessment of the sustainable nature of the investments made is the way in which the companies and entities in which BBVA AM invests engage in their business, rigorously complying with any applicable regulations and incorporating ethical principles in their business conduct.

The sustainability strategy at BBVA and BBVA AM

BBVA AM, like BBVA, is aware of the crucial role of banks and financial actors in this transition. For this reason, it has incorporated sustainable factors (ESG) into its investment process, which can contribute to improving the risk-return ratio of investments.

BBVA AM's duty is to leverage investment opportunities and assess risks, including those linked to these sustainability factors.

BBVA AM has been working for years to incorporate sustainability criteria into its range of products and solutions.

- In **1999** it launched its first socially responsible fund (BBVA Solidaridad, FI), and
- in **2004** the first sustainable fund (BBVA Bolsa Desarrollo Sostenible, FI).
- In **2008** it signed the United Nations Principles for Responsible Investment (UN PRI) for its Spain occupational pension plan manager, Gestión de Previsión y Pensiones (GPP).
- In **2021**, extending this commitment to the entire AM business of the BBVA Group in 2021. Also in 2021, it joined the Net Zero Asset Managers initiative to work together with the industry, companies and governments in the transition to a sustainable production model, promoting the establishment of action plans to reduce carbon emissions and monitoring their implementation.

- In **2022**, BBVA AM published its initial targets to decarbonize its operations, thus advancing on its path to become carbon neutral by 2050
- In **2023**, it reinforced its support for transparency with the publication of its first report on the risks and opportunities of climate change, following the recommendations of the TCFD. And this year, BBVA AM is publishing its second report, which includes the progress of the interim emission reduction targets for 2030.

Adapting to a more sustainable economic model is the greatest challenge and opportunity of our time, and BBVA AM is dedicated to being part of this process. It firmly believes that achieving an economic growth model that considers the environment and social development will enable it to help its clients meet their goals, without compromising future growth.

SECTION 1

Governance model



BBVA AM in the BBVA Group

BBVA Asset Management is the BBVA Group's business area that encompasses the Group's client asset management activities in the countries in which this activity is carried out and which reports to and is integrated into the [Retail Client Solutions](#) area, which reports directly to BBVA's [Chief Executive Officer](#).

Chief Executive Officer Onur Genç		Chair Carlos Torres Vila		
BUSINESS UNITS	GLOBAL FUNCTIONS	TRANSFORMATION	STRATEGY	LEGAL & CONTROL
Sustainability¹ Corporate & Investment Banking Javier Rodríguez Soler	Finance Luisa Gómez Bravo	Engineering Carlos Casas	Strategy & M&A Victoria del Castillo	Legal María Jesús Arribas
Commercial Client Solutions Jaime Sáenz de Tejada	Global Risk Management³ José Luis Elechiguerra	Talent & Culture³ Paul G. Tobin	Communications Paula Puyoles	General Secretary Domingo Armengol
Retail Client Solutions David Puente		Data Ricardo Martín Manjón	Senior Advisor to the Chair Juan Asúa	Regulation & Internal Control⁴ Ana Fernández Manrique
Asset Management & Global Wealth				Internal Audit⁴ Joaquín Gortari
Digital Banks Murat Kalkan				
Country Monitoring² Jorge Sáenz-Azcúnaga				
Country Manager Spain Peio Belausteguigoitia				
Country Manager México Eduardo Osuna				
Country Manager Türkiye³ Mahmut Akten				

(1) Reporting to the CEO and to the Chair (for issues related to strategy and transformation of the Sustainability area).
 (2) Reporting to the CEO for Argentina, Colombia, Peru, Venezuela and Uruguay, as well as monitoring of all countries, including Spain, Mexico and Türkiye.
 (3) Pending regulatory approvals.
 (4) Reporting to the Board of Directors.

BBVA AM&GW Structure

At BBVA AM, the decision-making and management processes are made up of two operational lines: **the global area** and the **business operations** in the countries, each with its own structure.

Thus, the heads of the area's global functions (Investments, Product, Risks, Control & Compliance, Quality Funds, Global Wealth and Strategy & Portfolio management) report to the global head of AM&GW; and the AM business managers in each of the countries report to the local Retail Client Solutions managers in each country.

All of them make up the **global AM 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

Sustainability is one of the BBVA Group's strategic priorities, defined in the [General Sustainability Policy](#) approved by the Board of Directors, which monitors its compliance.

To ensure the correct execution of this priority, the Group created the [Global Sustainability Area](#) (GSA) whose head reports to the highest level, both to the Chief Executive Officer, Onur Genç, and the Group Executive Chairman, Carlos Torres Vila, for strategic issues.

The execution of the sustainability strategy is transversal in the Group, and it is the responsibility of all areas to incorporate it into their strategy and objectives. The GSA shares the Group's principles and objectives in sustainability and advises the different areas in their execution.

BBVA AM, as one of the business areas in the BBVA Group, has incorporated this model by working in line with the GSA guidelines and has included in its governance model strategic decision-making related to sustainability, as well as its execution and monitoring.

Sustainability Governance Group

In 2021, in line with the Group's drive for sustainability, BBVA AM created the Sustainability Governance Group (GGS), [comprising the global heads](#) of Product, Investments, Risks, Control & Compliance and the head of Sustainable Investments.

Therefore, the GGS is the framework within which they are responsible for [designing the sustainability strategy and the plans for its execution](#), and for submitting it to the global head of AM&GW and its Steering Committee for approval.

Sustainable Investments Forum

The Sustainable Investments team, together with the rest of the Investments department, [monitors the integration of sustainability into the investment vehicles](#) managed at BBVA AM. Among other tasks, it reviews the controversies that arise in issuers (companies, governments or quasi-governments) to discuss and agree on the most appropriate action plan, taking account of the interests of the investment teams and other aspects related to the affected issuer. It also analyzes new sustainability vehicles that may be of interest to the teams that select the assets to be included, where appropriate, in the investment solutions.

Sustainability Risks Forum

Representatives from the Sustainable Investments, Product and Risks teams are responsible for overseeing the [implementation of the sustainable strategy](#) and the [decarbonization plan](#) in this forum, among others.

Engagement Forum

Composed of Members from teams such as Sustainable Investments, Investments, Risks and Control & Compliance. The main functions of the Engagement Forum are [to detect situations that may lead to a commitment action](#), and [to monitor](#) the actions already open, whether they are reactive (as a result of a controversy with potential for improvement via commitment) or proactive (raised in line with the sustainable commitments assumed by BBVA AM).

Internal regulation

Finally, to complete the sustainability governance model at BBVA AM, [policies, standards and procedures](#) have been developed in the AM units in Europe and Mexico that establish the lines of action around the pillars that make up the sustainability strategy. (See [ANNEX 2](#), Other documents of interest).



SECTION 2

Strategy



Experience and commitment

BBVA AM has been incorporating ESG criteria into investments for more than 20 years. In 1999, it launched its first fund linked to Socially Responsible Investment (SRI) criteria. Additionally, through GPP (its occupational pension fund manager), it was the first management company in Spain to sign the United Nations Principles for Responsible Investment (UN PRI) in 2008.

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

BBVA AM as a global unit has been part of UN PRI since 2021. UN PRI is a United Nations-backed international network of institutional investors that developed the Principles for Responsible Investment in 2006 in response to the relevance of environmental, social and corporate governance issues for investment practices. By implementing these principles, signatories contribute to the development of a more sustainable global financial system.

BBVA AM adopts the Principles and implements them to the extent that they are consistent with its fiduciary responsibilities. It also works to evaluate their effectiveness and contribute to improving their content and execution over time. And all this results in a better alignment of the investments managed with the broader interests of society.

PRINCIPLE 1

Incorporate ESG issues into investment analysis and decision-making processes.

PRINCIPLE 2

Be active owners and incorporate ESG issues into ownership policies and practices.

PRINCIPLE 3

Seek appropriate disclosure on ESG issues from the entities in portfolio.

PRINCIPLE 4

Promote acceptance and implementation of the Principles within the investment industry.

PRINCIPLE 5

Work collaboratively to improve the effectiveness of the implementation of the Principles.

PRINCIPLE 6

Each of the signatories will report on activities and progress towards the implementation of the Principles.

How BBVA AM integrates sustainability

BBVA AM aims to incorporate non-financial information into the analysis of its investments and, consequently, to be able to include sustainable characteristics in all active investment vehicles for which it has delegated management. The reason for this is that it strongly believes that the integration of sustainable criteria into investment processes offers its clients:

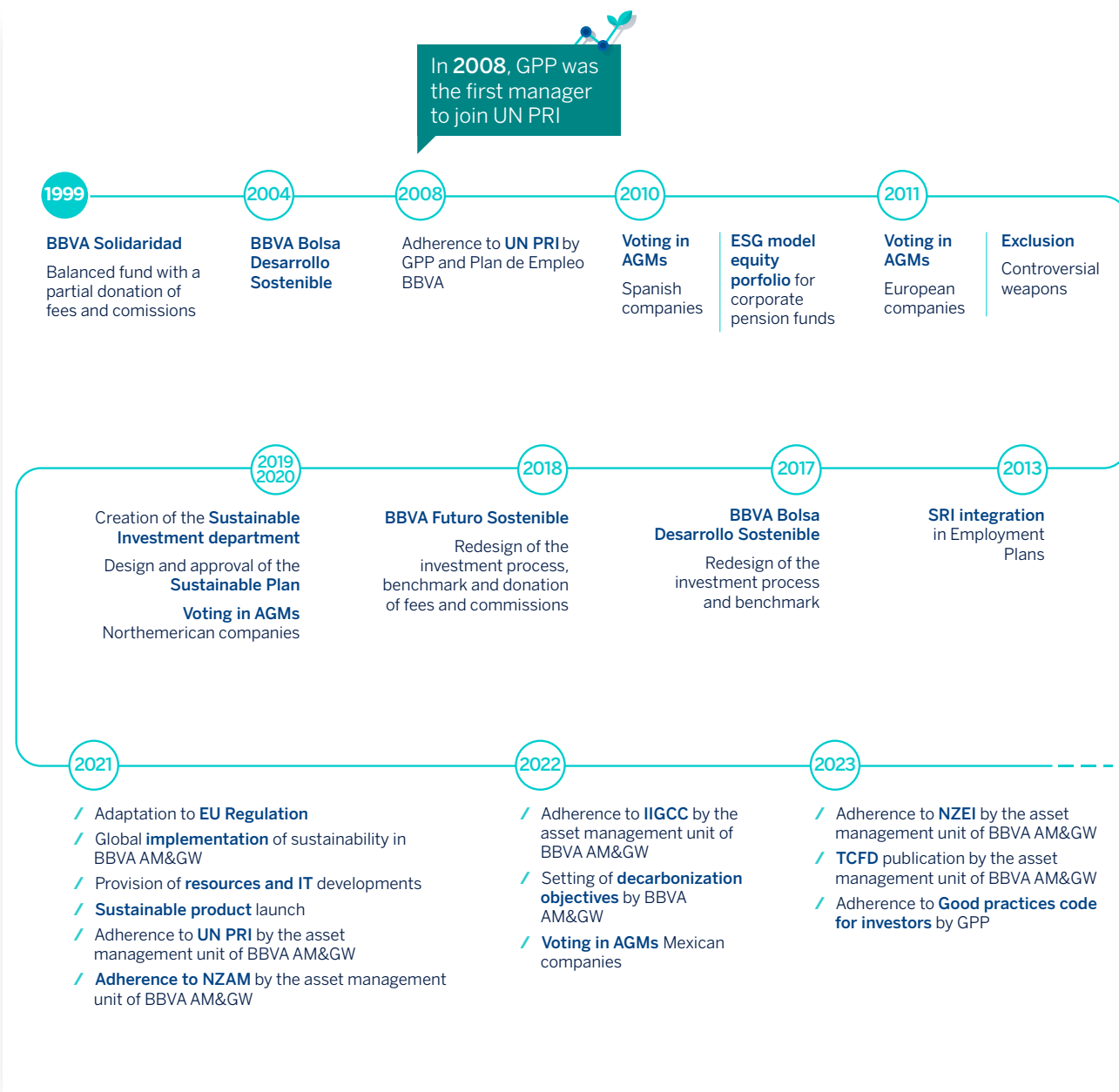
More informed decisions

By adding sustainable aspects to the assessment of investment types, along with purely financial criteria.

Higher quality

Serving as an additional quality filter in portfolios with the aim of reducing risk in the long term.

BBVA AM incorporates sustainability criteria to improve the long-term value of investments, try to mitigate risks and identify growth opportunities. To this end, it has a **Sustainability Plan** based on four pillars, which is complemented by climate objectives aligned with Net Zero by 2050 to shape its sustainable strategy, as detailed below.



PILLAR 1.**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 (human capital management and social responsibility in product creation, etc.) and governance factors (good corporate governance practices) focuses on the [development of an internal rating model for the assets in the portfolio](#).

This rating is available to companies, governments and collective investment institutions (CII) managed by third parties and currently covers a significant percentage of BBVA AM's investment universe.

PILLAR 2.**Exclusion**

At BBVA AM, exclusion is not a main factor in its sustainability strategy. Instead, it reflects the control of compliance with a series of international standards in social, labor and human rights matters. However, as best practices and even regulation in some jurisdictions – such as Luxembourg – dictate, there is a need to exclude certain types of activities and behaviors.

BBVA AM has drawn up the [Exclusion Policy that applies to the direct investment of all vehicles and portfolios that it is entrusted to manage](#), excluding some exceptions set forth in this Policy, such as indexed portfolios.

The Exclusion Policy is revised on an ongoing basis: In recent months, it has been extended on two occasions (December 2023 and June 2024), with an update of the definition of different types of exclusions, as well as their scope and implementation.

PILLAR 3.**Engagement**

BBVA AM is firmly involved with the companies in which it invests [through the exercise of voting rights at general shareholders' meetings and through commitment and engagement activities](#).

Voting rights

BBVA AM, as a shareholder of the companies in which it invests, [may use its voting rights to support or express its disagreement with the policies of the companies](#). This is one of the key aspects of its sustainability strategy. In 2010, BBVA AM&GW's asset management unit in Spain began voting at the general shareholders' meetings of some European companies and, from 2020, it began to vote in companies in the United States and Canada.

To decide on the direction of its vote, BBVA AM's teams use the information provided by external specialist advisors.

BBVA AM's voting procedures and engagement policies are aligned with its values and international best practices. As a new development, in 2023, the asset management unit in Mexico began to actively vote in Mexican and U.S. companies.

Commitment

As part of the engagement pillar, BBVA AM has established a [dialogue with the companies in which it invests, international organizations, regulators, and with the rest of investors and stakeholders in order to create long-term value with its investments](#).

This dialogue and engagement are guided and adapted according to the objectives proposed, for example, improving sustainability metrics or the ESG rating, resolving controversies and improving adverse impacts. These actions also include interaction with third-party companies and managers, participation in regulatory or sustainable forums, or adhering to sustainable standards or principles, such as the UN PRI. In all of them, directly or indirectly, BBVA AM expresses, as a manager, the most important aspects of its beliefs and positions on the subject.

Throughout 2023, special emphasis was placed on achieving sustainability and climate commitments. In addition, GPP adhered to the [Code of Good Investor Practices of the CNMV](#) (Spanish National Securities Market Commission)..

BBVA AM has also participated in numerous forums — INVERCO (Spanish Association of Collective Investment Institutions and Pension Funds), ALFI (Luxembourg Association of Collective Investment Institutions), SpainCap and the Mexican National Banking and Securities Commission, among others – in which it has promoted best market practices in the interest of its investors and, in particular, those related to integrating sustainability into the investment process.

It has also participated in numerous events and media surveys, including BME, MIND, Spainsif and SpainNab. In all of them, it expressed its firm belief in the importance of the role of the financial sector as an enabler of the transition to a more sustainable economy and in the need for further development in the regulation of the requirements for the launch of sustainable products.

Similarly, BBVA AM has advocated the need for published sustainability information to be as complete, clear and accurate as possible. In this regard, BBVA AM defends a prudent approach, in line with the BBVA Group's guidelines, when applying rules – which are not yet fully developed – to avoid increasing confusion among clients in the event of a change.

Finally, throughout 2023, it continued to work very actively on the promotion and implementation of sustainability among the different agents of society, through various training actions.

Information on the voting and commitment actions carried out in the 2023 financial year by BBVA Asset Management Europe can be found on its [website](#).

PILLAR 4.**Impact**

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

BBVA AM has developed an analysis methodology that allows it to establish its investment strategy in companies aligned with the SDGs and to identify and monitor the most appropriate instruments to use for sustainable project finance (green, social and sustainable bonds). It also monitors the adverse impacts of the companies analyzed through the Principal Adverse Impacts (PIAs). In fact, in 2023, it incorporated the PIAs into its definition of sustainable investment.



SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY

2 ZERO HUNGER

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

5 GENDER EQUALITY

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

10 REDUCED INEQUALITIES

11 SUSTAINABLE CITIES AND COMMUNITIES

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

14 LIFE BELOW WATER

15 LIFE ON LAND

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

17 PARTNERSHIPS FOR THE GOALS







INTEGRATION

Rating for most of the assets it invests in.

Assets with a rating:

- Companies
- Governments
- Funds

Rating:

-  **A** Best
-  **B** Medium
-  **C** Worst rating or very severe controversies: no investment



EXCLUSION

Universal

By international standards, for certain economic activities such as controversial weapons and some fossil fuels, by countries.

Additional

For certain economic activities.



ENGAGEMENT

Vote

Exercising the rights to attend and vote in certain circumstances.

Commitment

Value creation in the companies in which it invests.

Dialogue with companies to establish objectives and improvement plans on sustainability issues.



COMMITMENT

Sustainable investing

Companies with a positive impact on environmental and social issues.

Investments by SDGs

Companies with strategies aligned with the SDGs.

Impact bonds

Green, social, sustainable and sustainability-linked.

Sustainable funds

Funds with sustainable investment objectives.

Climate strategy

- In **2021**, BBVA AM&GW's asset management unit joined Net Zero Asset Managers (NZAM), the global initiative of international asset managers committed to supporting the goal of net-zero greenhouse gas emissions by 2050 or earlier, in line with global efforts to limit global warming to 1.5 degrees Celsius above pre-industrial levels, as well as investments aligned with that target. This entailed devising a decarbonization plan for the vehicles that are managed from the unit, setting interim targets to achieve zero emissions by 2050 and actively monitoring compliance with these targets.
- In **2022**, BBVA AM became part of the Institutional Investors Group on Climate Change (IIGCC), the leading European body for collaboration between investors on climate change, whose members can be both owners and asset managers. The IIGCC's mission is to support and encourage investments to make a real and meaningful contribution to achieving the goals of the signatories of the Net Zero initiatives by 2050.
- In **2023**, the IIGCC supported various global climate initiatives and launched its own initiative, the Net Zero Engagement Initiative (NZEI), which focuses on companies that fall outside the scope of other international initiatives, such as Climate Action 100+, and aims to accompany them on their path toward the Net Zero target. BBVA AM&GW's asset management unit joined NZEI as a founding partner in 2023.
- Finally, in **2023**, in line with its support for transparency, it published its first report following the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

How the strategy has evolved in 2023

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, since it is the jurisdiction in which a significant part of its business is located.





European Union (EU)

In 2018, the [European Commission's Action Plan on Sustainable Finance](#) was adopted and published. 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.

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 main measures for the implementation of the Paris Agreement and the EU's agenda for sustainable development.

Sustainable Finance Action Plan (EC) | 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



1. Establishing an EU classification system for sustainable activities.
2. Creating standards and labels for green financial products.
3. Fostering investment in sustainable projects.
4. Incorporating sustainability in financial advice.
5. Developing sustainability benchmarks.
6. Better integrating sustainability in ratings and market research.
7. Clarifying asset managers' and institutional investors' duties regarding sustainability.
8. Introducing sustainability into the prudential rules.
9. Strengthening sustainability disclosure and accounting rule-making.
10. Fostering sustainable corporate governance and attenuating short-termism in capital markets.

The execution of the European Commission's Sustainable Finance Action Plan has taken another step forward during 2023, with:

- the approval of [Regulation \(EU\) 2023/2631](#), which regulates European green bonds (EuGB);
- and progress in the definition of the EU Green Taxonomy, with the publication of [Delegated Regulation \(EU\) 2023/2486](#), which completes the development of non-climate environmental objectives (sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems);
- and in the disclosure of non-financial information by companies under the [Corporate Sustainability Reporting Directive \(CSRD\) and its subsequent developments](#). In particular, with regard to the latter, the EU approved the first European standards on information that companies must disclose about their ESG impacts, risks and opportunities (ESRS), as well as the ESAP (European Single Access Point).

Given all of the above, it is expected that, in the coming years, the information available on sustainability, as well as its quality, will be more extensive and detailed, and that this will contribute to improving the management of portfolios from an ESG perspective.

The proposal for a European regulation on the transparency and integrity of ESG rating activities (which addresses transparency issues in the ESG rating methodology, the prevention and mitigation of conflicts of interest, and the remuneration and authorization of suppliers) is also expected to be a particularly relevant development for the smooth operation of the sustainable investments market.

In parallel, the three European supervisory authorities¹ have devoted significant efforts to greenwashing with the aim of helping market participants to prevent and mitigate this risk. In June 2023, they issued their final reports.

With this same purpose, the ESMA continued to work specifically on the definition of guidelines on the use of ESG terminology for investment fund names. The conclusions of this work can be consulted in its latest [report of recommendations](#).

1. The European Banking Authority (EBA), the European Insurance and Pension Funds Authority (EIOPA) and the European Securities and Markets Authority (ESMA)..

As for the financial industry, it showed a very positive response to the efforts of the European Commission and the three European supervisory authorities to continue clarifying certain key concepts such as "sustainable investments", "environmentally sustainable economic activity", "do no significant harm", "estimates" and "equivalent information."

However, a few years after beginning to implement the sustainable finance regulatory framework, a debate has started in the financial industry about the need for its modification.

The European supervisory authorities, following the mandate of the European Commission, published in 2023 their proposal for the revision of the SFDR², level II regulation, which focuses on improving the definition and expansion of the principal adverse impacts and on the proposal to simplify the information disclosure templates of products with a sustainable bias. And, with greater scope and significance than the above, the European Commission decided to obtain information from the industry and the market players on their experience with the implementation of the SFDR. The European Commission is interested in understanding how we have implemented the SFDR and its potential shortcomings, taking into account the rest of the sustainability regulations, and in exploring possible options to improve the regulatory framework in the future.

2. European Union Regulation on the disclosure of sustainability-related information in the financial services sector..



Mexico

In March 2023, the Ministry of Finance and Public Credit (SHCP) presented **Mexico's Sustainable Taxonomy**, a key financial public policy tool that aims to encourage investment in economic activities that reduce social gaps and protect Mexico's environment.

Mexico's Sustainable Taxonomy is a unique initiative globally, since it is the first to consider social objectives in its design, setting gender equality as a priority objective. With this tool, Mexico is positioned as a global leader in promoting the well-being of people, communities and the environment through the financial sector.

In September 2023, the Ministry of Finance and Public Credit (SHCP) released the Sustainable Finance Mobilization Strategy (SFMS), whose key objective is to promote the mobilization and reorientation of financing from public and private, national and international sources, to carry out activities and projects that generate positive impacts on the environment and society.



Data

The **need for reliable sources and quality data remains one of the major challenges** for mainstreaming sustainability in investments. BBVA AM constantly monitors the data and methodologies it uses with the suppliers with which it collaborates. In addition, it is in permanent contact with the other main international data providers to keep up to date with all the advances and developments applicable to sustainability and, in particular, to climate-related measurements.

In 2023, it increased the number of portfolios and instruments monitored in its Helena in-house application, which offers, after incorporating ESG and climate filters, a more complete view of the characteristics and impacts of its portfolios (See **CLIMATE RISKS** ESG data tool, calculation of metrics and portfolio analysis).



Technology

During 2023, BBVA AM continued to develop **new in-house tools** to improve the management, control, monitoring and disclosure of periodic information on its portfolios with sustainable characteristics.

The most notable advances in the last year have focused on:

- The integration of information from sustainable suppliers into in-house tools, which has helped to develop sustainable metrics for managed portfolios, and the preparation of relevant information for the different areas. This encompasses ESG metrics, controversies, exclusions, as well as regulatory metrics that affect sustainable funds.

- The development of metrics to monitor the unit's climate strategy, such as carbon intensities, metrics for alignment with Net Zero and decarbonization paths of the portfolio assets.
- The integration, development and analysis of PIA metrics, for asset managers and portfolios.

The scope of the project is global and scalable to the different areas of the unit, which allows it to be adapted to each of the countries in which BBVA AM operates.



Product

As at December 31, 2023, BBVA AM manages approximately **7 billion euros in sustainable investment solutions** in all the countries in which it operates, i.e., products that incorporate sustainability characteristics, goals or metrics into their investment policy, and a total of 31 vehicles, including investment funds and pensions plans.

In 2023, the vehicles managed at BBVA AM Europe were still adapted to the developments of European sustainability regulations, ensuring that its product offerings cover different types of assets, risk profiles and sustainability preferences.



Reporting

In 2023, work has been carried out mainly on two specific fronts: **to improve the information that BBVA AM publishes and sends** to supervisors in accordance with the obligations set forth in EU regulation, and the information which it makes available to its clients.

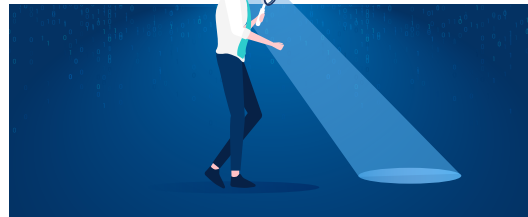
Corporate and product reporting linked to EU regulation on sustainability³ has been one of the most relevant lines of work in 2023. It has required significant efforts in terms of data and methodologies, as well as their processing in the organization's systems.



3. The BBVA Asset Management Europe website provides access to the various types of [regulatory reports](#) and [product reports](#).

In terms of the information made available to clients, throughout this year progress has been made in the automation and level of detail of all the information related to sustainable funds, as well as the level of detail of the portfolios of institutional clients, including occupational pension funds.

With these advances, BBVA AM in Spain facilitates the identification of the most relevant non-financial factors of its investments, responding to the requirements of regulators and the demand of its clients, the sector and society for clearer and more complete information on its portfolios.



Transparency

In line with the previous section, through the release of relevant information on the unit's activity and the process of incorporating sustainable criteria into its investments, beyond regulatory requirements, BBVA AM has reinforced its support for transparency.

Firstly, throughout the year, [all the sustainability-related content](#) available on the websites of [BBVA Asset Management Europe](#) y [Mexico](#) has been improved.

These advances include new sections added to provide clients and the general public with the sustainability strategy, rearranging the information into three blocks (sustainability, sustainable solutions and solidarity), either through articles, infographics, podcasts and interviews in the media, etc.

All the relevant policies and reports required by the sustainability regulations of the countries in which BBVA AM operates have also been made available on the website.

Finally, BBVA AM has been particularly active this year in interacting with its sustainability stakeholders. The following stands out:

- Participation in several forums, meetings with investors and clients, surveys and media roundtables to help disseminate good sustainability practices in investment.
- Active collaboration in consultations with international regulators on sustainability issues.
- Contribution to promote and implement sustainability with a range of actors in society through training activities.





Internationalization

During 2023, BBVA AM Mexico implemented the [ESG Risk Policy Mexico](#), which describes the policy for monitoring ESG risks within its activity as a financial product manager.

It also includes guidelines to manage ESG risks and handle non-compliance and controversies that may arise in the assets that make up the investment portfolios.

The main metrics of the controls on outside-in integration within the investment process is the rating assigned to each of the securities in which the portfolios subject to the policy invest. These ratings are A, B or C depending on the methodology applicable to the various securities and issuers.

Within the inside-out integration, the application of BBVA AM&GW's sustainability policy affects all assets and portfolios under management. Regardless of the existence of a catalog of specifically sustainable funds, with specific sustainable objectives and strategies, BBVA AM Mexico believes in the benefit of including these variables in all its investments. Therefore, it will incorporate integration, exclusion, voting and commitment criteria into all portfolios, except for certain cases as set forth in the policies, such as funds with passive management or client mandates that explicitly exclude the application of these criteria.



Investment process

During 2023, work has been carried out on different lines that complement the progress made in previous financial years and represent new steps in the integration of sustainability into different processes and stages of the investment process. The following aspects have been specifically developed:

- The [reinforcement of technical capabilities, data management and data analysis, needed in the decision-making process and risk control](#). This data and methodologies are applicable to the pillars of the sustainable strategy, including: the exclusion policy, the exercise of voting rights, the engagement activities, as well as the analysis of the impact and the principal adverse impacts (PAI).



- In addition, the Global Investments team at BBVA AM has **incorporated the effects of the climate transition into the economic growth and inflation estimation models for the medium and long term**. The aim is to incorporate relevant information that makes it possible to analyze their effect on the geographical areas and, in turn, enrich the information for the strategic calculation of the capital market estimates used in asset allocation and asset prioritization.



Teams and training

In recent years, the staffing of the Sustainable Investments and Global Risks teams has been reinforced, enabling them **to strengthen their capacities and develop their knowledge, criteria and methodologies** that are particularly relevant for the management and monitoring of their clients' investments and portfolios in the countries in which BBVA AM operates.

Additionally, BBVA AM has been able to promote the incorporation of sustainability

in the organization by **creating unit-wide work groups** made up of members of all its teams, including: Legal, Product, Risks, Control & Compliance, Operations, Engineering, Investments, and Process & Procedures.

This allows BBVA AM's sustainability strategy to be effectively executed and, in addition, it is especially useful when it comes to transmitting specific knowledge to the entire organization.

Also, a significant effort has been made to provide specific and high-level training to the members of the BBVA AM teams. Today, we have more than 90 people who are internationally certified in sustainable matters (Certificate in ESG Investing by CFA Institute, Certified ESG Analyst (CESGA) by EFFAS, EFPA ESG Advisor by EFPA, etc.).



SECTION 3

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 operations:

Transition risks

These are risks 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 1. **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 and regulatory	Sustainability EU regulation	Adapting to current and planned regulations poses a risk for the companies in which BBVA AM invests and for itself, as it has to adapt its business to them.	S/T		
	Sustainable reporting risk	The need to report exposures to economic activities, information on alignment with taxonomy, emissions and, in general, any climatic 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 clients, consumer associations and other stakeholders, as well as sanctions from supervisors in terms of the quality of reporting, sustainable characteristics and, in general, on climatic aspects of the funds and products managed by BBVA AM, which are based on the assessment and metrics from various data providers and, therefore, different interpretations of the standard in the aspects less well defined therein.	S/T		
Technological	Changes in production models	Companies exposed to transition and climate change adaptation risks may see the viability of their business models and investments affected. The different portfolios managed by BBVA AM may be exposed to this risk due to the investment we make in these companies.	S/T		

		The productive infrastructures of the countries where these companies operate will be affected in their assessment and future viability. Technological risk may entail a transition risk and cost 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 decrease in company profits, which may, if necessary, be mitigated by price increases in the final product.	S/T
	Financial risks	The downward revision of the credit rating of clients with exposure to climate change risks is a potential source of adverse effects for BBVA AM.	S/T
Reputation	Climate risk identification and risk management	BBVA AM's climate risk identification and risk management policy may be considered inadequate and/or insufficient by clients, peers and stakeholders.	S/T
	Change in consumer preferences	Consumer preferences may change and focus on those products and services that have adapted to the new economic and production model, which may affect the valuation of investments made.	S/T
	Reformulation of exposure and measurement figures	The difficulty in identifying complete and correct data sources and the developments in measurement methodologies can lead to changes and the recalculation of exposure figures and changes in climate risks and, therefore, generate mistrust in their calculation and management.	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 2. **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.	Reduction in revenues due to a decrease in the output capacity of the companies and issuers that are part of 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 risk of changing weather patterns (agriculture, water and wind energy production).		M/T	
	Rising average temperatures	Changes in output and demographic patterns that can affect the global economic structure.			L/T
	Rising sea levels	Damage to the infrastructure and ability to operate of the businesses in which BBVA AM's portfolios invest.			L/T

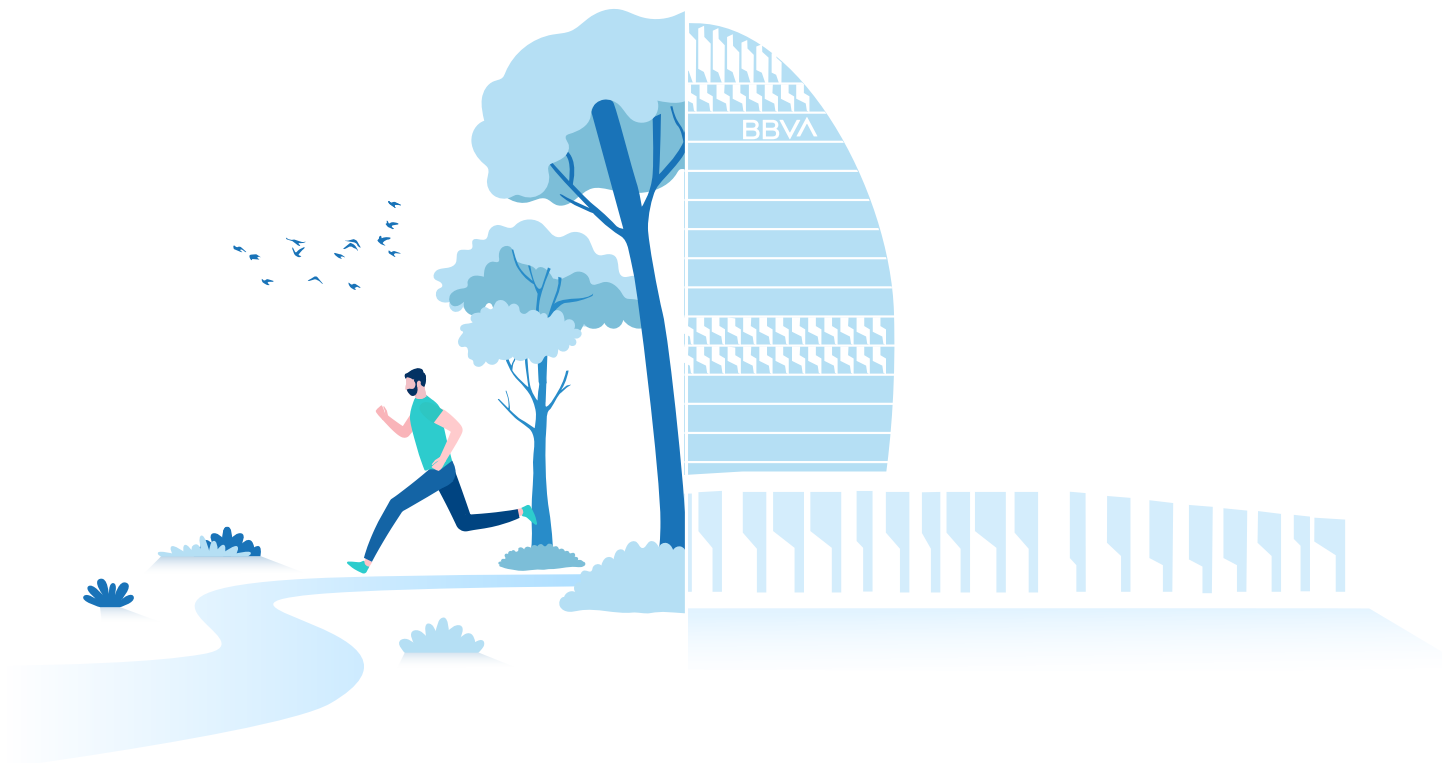
Climate change opportunities for BBVA AM

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 3. 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 companies in the investment universe	As part of its climate project, BBVA AM analyzes and monitors the energy efficiency of the companies in which it invests and the targets that these companies set for their development. 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 different energy sources. This allows BBVA AM to dynamically analyze the trends in their use and production in the investment universe. Monitoring is also used for the implementation of the exclusion policy in the oil&gas-related activities.	S/T		
Macro trends	Incorporating transition effects and climate risks into macroeconomic estimations	The incorporation of growth and inflation in the medium and long term into the estimation models offers a more complete picture of the effects of climate change on growth and inflation, to be able to detect the countries that suffer the most positive and negative effects.		M/T	
Products and Services	Company and technology identification	Within the monitoring of companies, BBVA AM works to identify the exposure they have to technologies that generate energy efficiencies and are the ones that grow the most in the current and future environment. The identification of companies and technologies can in turn be used to create products or investment strategies.	S/T		

Market	Identification of 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
Resiliency	Company and technology identification	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



Description of the impact of climate-related risks and opportunities on the organization's business, strategy, and financial planning

As a result of its climate commitments and its sustainability strategy, BBVA AM establishes sufficient structure and resources to start measuring and managing sustainable risks, including those related to climate. Thus, BBVA AM can:



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 made 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 enable BBVA AM, over the years, to align its portfolios and operations with the objectives of Net Zero in 2050. As previously mentioned, climate objectives have been assumed by BBVA AM as a whole at all stages of our activity and have become one of our strategic objectives.

As explained in the previous sections, BBVA AM recognizes climate change as a critical challenge and an opportunity for sustainable investment. Therefore, the Risk teams continue to make efforts to support this challenge from several perspectives:



RELATIONSHIP BETWEEN GLOBAL UNITS AND COUNTRIES

The geographical characteristics of BBVA AM's structure enable it to promote the process of integrating sustainability risks, particularly those related to climate risk, in those countries where it is less developed.



RESPONSIBILITY FOR SYSTEM DEVELOPMENTS AND DATA MANAGEMENT

Progress has been made in the last year, and BBVA AM has achieved automated monitoring of the progress of the metrics linked to the decarbonization objectives published globally.



GENERATION OF INFORMATION FOR CORPORATE GOVERNING BODIES

The local Risk teams must prepare the recurring information that is submitted to the Executive Risk Committees or to the governing bodies of the entities that make up BBVA AM, with regards to the pillars of exclusion, integration and climate objectives.



CONTACT WITH CORPORATE RISK AREAS

Through reporting to the corporate risk areas, any progress made in climate risk management is shared and, conversely, the possible synergies between the processes established in BBVA and BBVA AM are considered.

During 2023, numerous advances have been made, as explained in this section.

1. **The first** line underlying these advances concerns **regulations**. In Europe, the first deliveries of the calculation of PIAs have been made, with a much more detailed explanation of the calculations. The deliveries linked to climate risk are a key part thereof. In other countries where BBVA AM has a presence, regulations are in a more incipient phase.
2. **The second** line of progress is related to the application of the BBVA Group's **corporate policies** in aspects related to **sustainability** in general, and **climate risk** in particular. The focal points of these regulations include the mitigation of the risk of greenwashing through specific labeling standards following best industry practices.
3. **The third** and final key line of work in 2023 has focused on the **development of data systems** and management to support not only the monitoring of climate and sustainability risks, but also the management of BBVA AM's own strategy.

Based on BBVA AM's activity, there are two sources of risk:



RISK INCURRED BY BBVA AM IN ITS OPERATIONS

This risk is managed according to BBVA's dedicated teams. They therefore apply the criteria established in the BBVA Group and referred to in the TCFD prepared by the BBVA Group.



RISK RELATED TO THE INVESTMENTS OF THE VEHICLES MANAGED BY BBVA AM

Sustainability and climate risks (both transition and physical) incurred through the investments in the funds' portfolios are the responsibility of BBVA AM and are the ones on which the objectives defined according to NZAM membership have been established.

Climate Risks at BBVA AM

Organization and structure

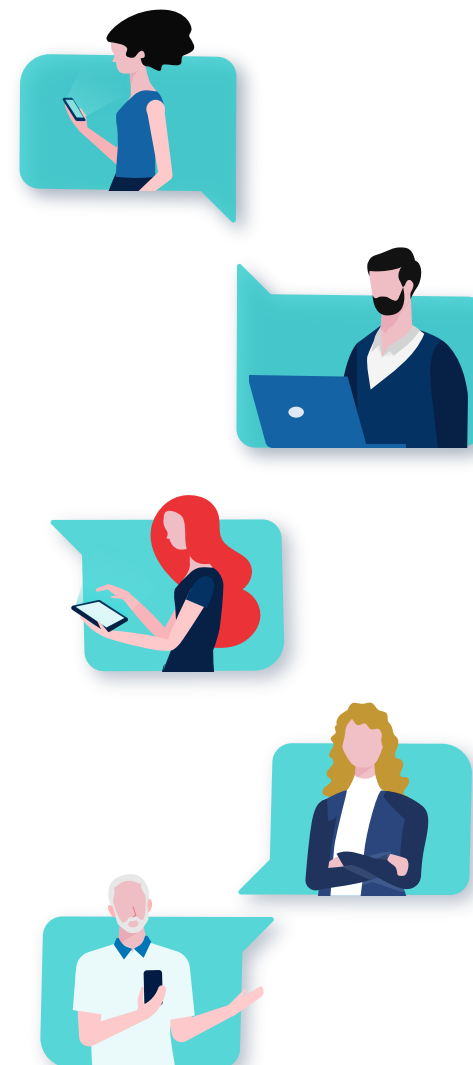
BBVA AM's risk structure follows the guidelines defined by the BBVA Group. Consequently, the risk management functions are divided between the units that cover financial risks (Global Risk) and non-financial risks along with the compliance function (Global Control & Compliance). This same structure is replicated in each of the countries, in which local managers are appointed for these functions.

The global heads of Global Risks and Global Control & Compliance have a dual reporting line to the global head of AM&GW and the heads of the corporate units within the BBVA Group, and participate in the corresponding corporate committees defined in their governance system.

In addition, as previously mentioned, the global heads of Global Risks and Global Control & Compliance are Members of the GGS and are directly involved in decision-making and monitoring related to BBVA AM's climate strategy, so the existing structure generates two-way lines of communication.

This dual structure allows the heads of BBVA AM's Global Risks and Global Control & Compliance to be, on the one hand, the points of contact for the BBVA Group's corporate risk areas with respect to climate risk management, and on the other hand, the point of contact for BBVA AM's Risk teams in each of the countries in which it operates.

Finally, within the Global Risks team there is a team made up of ESG Risk specialists who are responsible for coordinating the development of controls related to the integration of sustainability risks in the countries in which BBVA AM operates, and directly monitors specific developments related to climate risk, specifically those metrics that track the decarbonization objectives expressed in BBVA AM's adherence to NZAM. This team meets every week with the rest of the BBVA AM's teams dedicated to sustainability to monitor the controls set and any developments in progress.



Data and system developments

BBVA AM made the decision to centralize within an internal tool the data and developments related to the risks arising from the implementation of sustainability in its processes. Over the last few years, the teams have developed different features. The Global Risks team is responsible for coordinating execution and validation. Within this project, a specific space has been included for developments related to climate risk in general, and to metrics related to climate objectives in particular.

2023 has been a particularly intense year in terms of these developments. Some of the most important developments are:

■ AUTOMATIC MEASUREMENT OF WEIGHTED AVERAGE CARBON INTENSITY.

Corresponding developments have been made to obtain a detailed measurement of the portfolio's carbon intensity, the main contributors to it and the situation of each company in relation to its sector, among other related metrics. An executive summary of the metric's performance over time can also be generated by type of asset and by country.

■ CALCULATION OF PAI.

In 2023, the final list of adverse impacts was created with data from 2022. The tool used allows the performance of the different PAI to be monitored for any of the managed portfolios in AM Europe.

■ INTEGRATION OF SUSTAINABILITY DATA FROM FUNDS OF OTHER INSTITUTIONS.

One of the basic pillars of BBVA AM's data management is the open architecture. Therefore, the ability to consolidate a large amount of investment fund data from other managers is essential. This year, BBVA AM has significantly increased the information available for this type of asset.

■ PREPARATION OF SPECIFIC REPORTS.

The preparation of information for BBVA AM's main stakeholders is one of the key pieces of its sustainability strategy. For this reason, in 2023 the reports made available to clients have been developed and increased. Also, there has been an increase in the information required by regulators, especially in Europe under the SFDR.

■ DEVELOPMENT OF DECARBONIZATION TARGET PATHWAYS.

A selection, prioritization and scoring process has been developed for the decarbonization targets of the companies in which BBVA AM invests, whether through issuances of bonds or shares. This process generates information to be able to analyze the projection of the portfolio's emissions and, thus, assess the quality of the targets achieved by the companies in which BBVA invests.

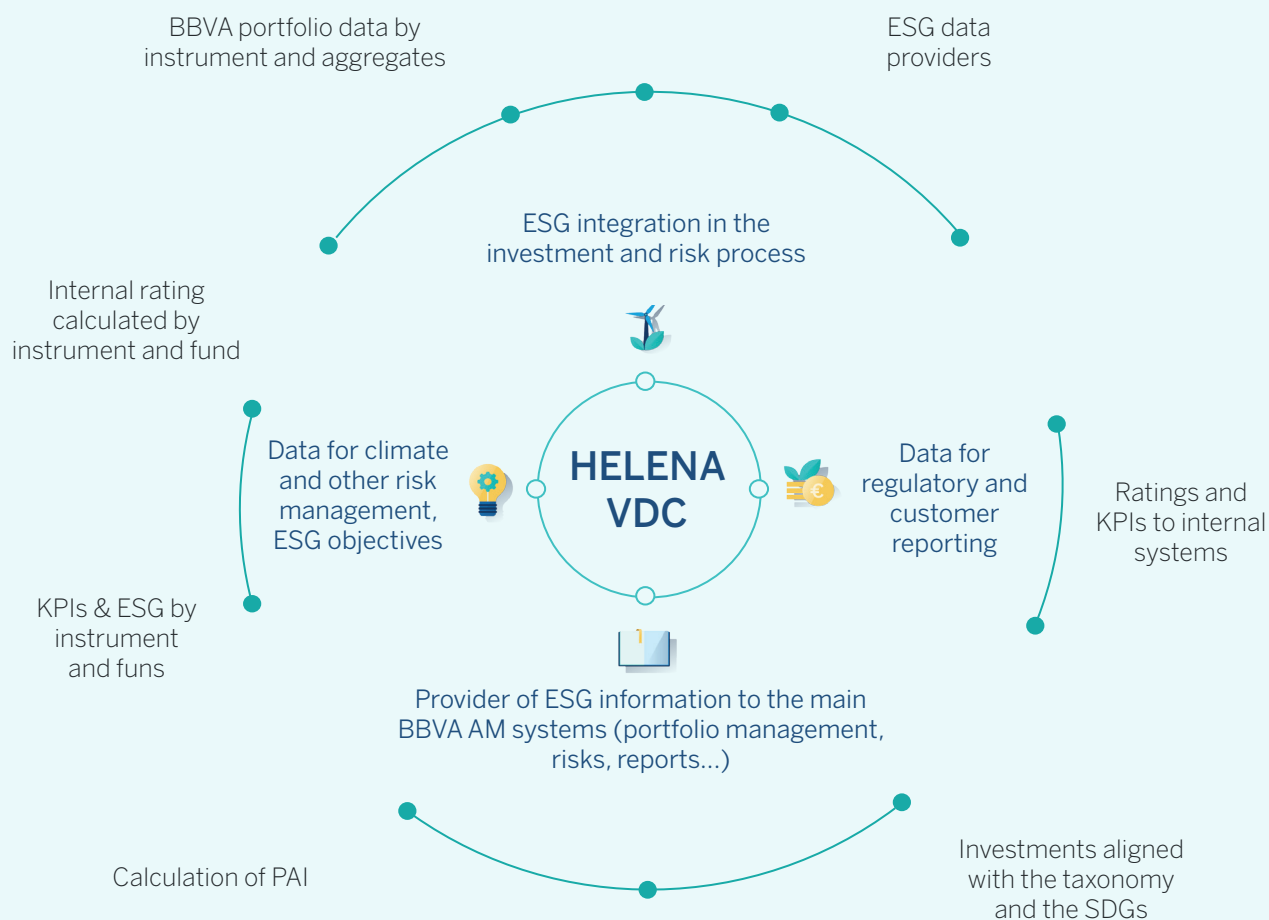
This list of examples of developments must be complemented by the increase in data, both from new suppliers (benchmarks, static data from different suppliers) and from the suppliers with which BBVA AM has been working from the beginning of the project: specific providers of sustainability information and the qualitative and quantitative information collected by the Quality Funds team in its due diligence process for the funds in which it invests.

ESG data tool, metrics calculation and portfolio analysis

As mentioned in the 2022 report, BBVA AM has set a dual goal regarding the development of its internal measurement tool: Helena. The most relevant calculations of information related to sustainability risks are carried out; and an information warehouse is built, and properly validated, and provides the most relevant metrics used by tools of the different teams.

Currently, BBVA AM's teams, in collaboration with the BBVA Group's corporate risk areas specializing in climate risk, are studying the possibility of leveraging the tools they use to follow the same methodology.

Corporate infrastructure (virtual data center) and agile development model



Risk identification and assessment processes

BBVA AM firmly believes in the **importance of correctly identifying and assessing sustainability risks** and, in particular, climate risks.

As mentioned in previous sections, some of the developments carried out during 2023 result in the creation of solid tools for this identification and assessment. Thus, throughout 2023, all PIAs have been measured and a policy related to their management has been developed for BBVA AM in Europe. Through this policy, it is possible to identify the entities that contribute the most to these PIAs.

In the case of climate risks, these indicators can be used to find out which companies have the highest scope 1, 2 and 3 emissions,

among other climate metrics. Also, from the perspective of the current carbon intensity, it is possible to identify the main companies contributing to the portfolio's WACI, those corresponding to sectors with high emissions, and to compare the company's intensity to the average of the sector for a relative assessment of these emissions.

BBVA AM believes that not only current emissions or their intensity are important, but also their expected performance over

time. For this reason, it creates paths for these companies based on their targets, and assesses whether these targets meet the best quality criteria, and defines their degree of alignment with the 2050 net zero targets.

This alignment assessment is another of the metrics on which BBVA AM has set clear objectives for both 2050 and, in the meantime, for 2030. The following table shows the process for assessment of the alignment of the companies in the portfolio:



Company CO₂ emissions decision tree

HIGH-EMITTING COMPANIES

1. 2050 goal consistent with NZ?

NO >

Not aligned

YES
↓

2. Short & medium-term emissions targets?

4. Disclosure of emissions?

NO >

Committed
to aligning

5. Quantified plan to deliver targets?

YES
↓

3. Current emissions performance vs. targets?

NO >

Aligning towards
NZ pathway

6. Company's CAPEX consistent with 2050 NZ?

YES
↓

Current emissions at/ close to 2050 NZ level?

NO >

Aligned to a
NZ pathway

YES >

Achieved
NZ

LOW-EMITTING COMPANIES

< NO

2. Short & medium-term emissions targets?

YES
↓

< NO

4. Disclosure of emissions?

YES
↓

< NO

3. Current emissions performance vs. targets?

YES
↓

< NO

Current emissions at/ close to 2050 NZ level?

< YES <

Climate risk management processes

BBVA AM believes that sustainability and climate risk management must be part of all processes throughout the life of any product it manages. Therefore, these risks are taken into account from the product definition to its approval.

Also, throughout the life of the product, BBVA AM's teams manage specific ESG risks in addition to the product's intrinsic risks, since this type of product is part of the total managed portfolio. Consequently, these risks must be in line with the objectives that BBVA AM has set as an asset management unit.

In addition, incident reporting chains have been defined, both to the management teams and to the different risk management bodies: risk committees, boards of directors of the management companies or equivalent bodies.

In particular, the risk management process at BBVA AM is made up of three layers:

LAYER 1

This layer can be divided into two: The teams that design the products and that consider in their definition the applicable regulation, the internal regulations on labeling to prevent greenwashing risks, the viability of the controls during their life, and their alignment with the objectives set at BBVA AM; and the investment management teams, the main teams responsible for complying with internal policies, product definition and current regulations.

BBVA AM has established the following as the main levers for the management of the investments team in this first layer:

- **DIRECT ACTION ON PORTFOLIOS**, by assessing the best selection of assets with the aim of investing in the most efficient companies and incorporating climatic factors into the investment process.
- **INVOLVEMENT WITH INVESTED COMPANIES DIRECTLY OR THROUGH COLLABORATIVE PLATFORMS**, thus supporting companies in their decarbonization process and considering climate risks within the voting policy when this possibility exists

LAYER 2

The main parties responsible for this layer are the risk management teams of the entities in each of the countries. Their task is to monitor the main metrics for both the funds and the joint portfolio managed by BBVA AM. Additionally, they are responsible for preparing monitoring information for the Risk Committees and the rest of the relevant governing bodies.

LAYER 3

Internal Audit teams are responsible for the execution of the controls of the third layer. To this end, they have established programs both for risks and for the control of the objectives derived from joining initiatives such as NZAM. In the context of these audit programs, specific audits were carried out throughout 2023 on the integration of risks and public memberships by BBVA AM.

SECTION 4

Metrics and goals



Net Zero targets

In 2021, BBVA AM joined the international NZAM initiative and, with this, committed to accompanying the companies and issuers in which it invests in their decarbonization targets to achieve net-zero portfolios by 2050.

BBVA AM, based on the Paris Aligned Investment Initiative (PAII) framework methodology, which allows targets to be set at the global portfolio level and for asset classes, [set an initial target of decarbonizing 22 % of the portfolio of assets under management](#). These assets are part of the managed portfolios in Europe and Mexico and include eurozone sovereign fixed income (10 % of total assets under management) and equity and corporate fixed income (12 %).

For the time being, those asset classes for which there was no reliable data or methodologies have been left out of the scope of the project: investment funds and derivatives, among others.

This criterion was kept in 2023, as no significant progress has been observed in these areas that would allow their inclusion with guaranteed monitoring and control. However, the initial commitment, in line with Net Zero, to incorporating all assets into it was maintained.

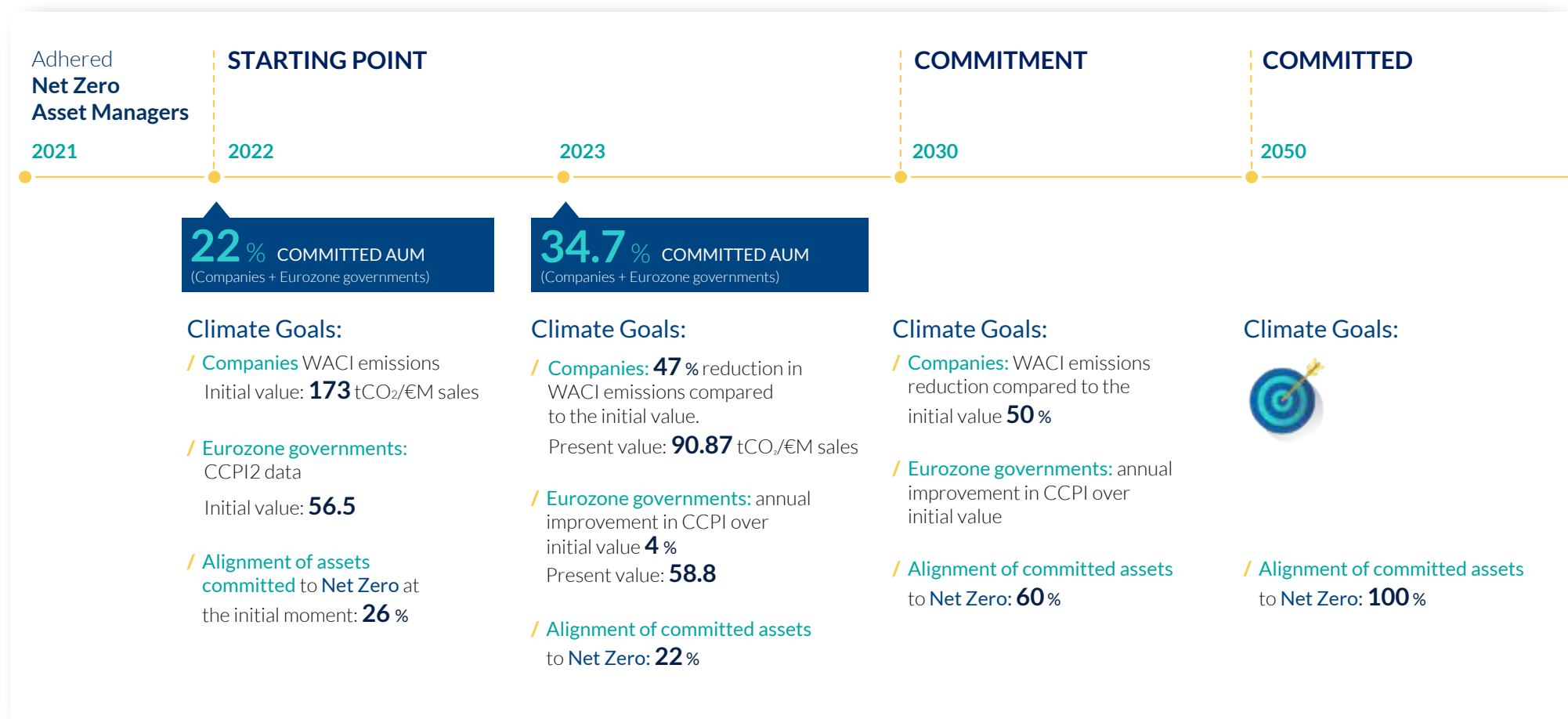
Along with the [decarbonization of portfolios](#), BBVA AM aims to decarbonize its operations. As part of the BBVA Group, the unit is present in eight countries, uses the bank's facilities and carries out its operations under the same [policies and objectives in terms of renewable energy use and the reduction of direct CO₂ emissions](#).

Interim targets for 2030

BBVA AM has the following [interim decarbonization targets for portfolios under management by 2030](#) covering the asset classes listed above:

- For all assets included in the initial target, reach 60 % of assets aligned or aligning with Net Zero.
- A 50 % reduction in emissions from its equity investments and corporate fixed-income assets, measured through the WACI (Weighted Average Carbon Intensity) indicator, which measures how many tons of CO₂ a company generates for every million euros of sales.
- For eurozone sovereign fixed-income, the goal is to improve annually the Climate Change Performance Index (CCPI), an index that monitors climate protection performance by country on an annual basis.

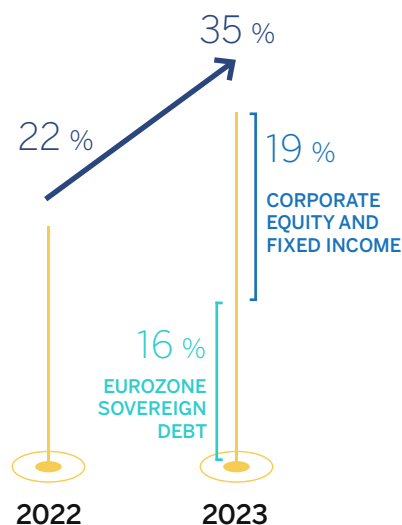
The objectives, therefore, are defined on two different levels: by asset class (government on the one hand and corporate on the other), with metrics and targets adapted to each of them, and at the global aggregate portfolio level, by which alignment with Net Zero is measured and which does not break down information by asset classes.



With respect to the initial targets presented last year, the relevant metrics show the following performances:

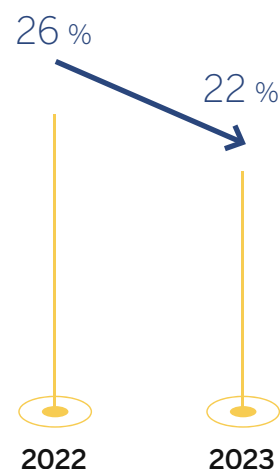
The committed assets under management

have risen from 22 % last year to 35 % at close of 2023 (16 % eurozone sovereign debt and 19 % corporate equity and fixed income).



Assets aligned or aligning with Net Zero.

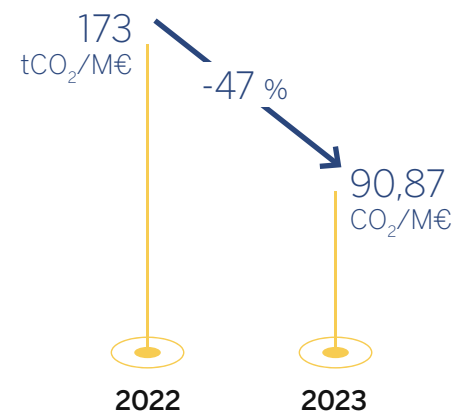
For all the assets included in the initial target, 22 % of assets have been aligned or aligning with Net Zero compared to 26 % in 2022.



Asset emissions measured through the WACI indicator

A 52 % reduction in emissions from its equity and corporate fixed-income assets.

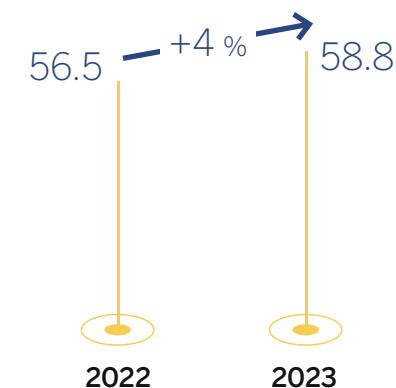
The metric reached 90.87 tCO₂/€M at the end of 2023 versus 173 tCO₂/€M in 2022.



Level of the committed portfolio according to the CCPI indicator

For eurozone sovereign fixed income, the aim is to improve annually the CCPI indicator.

The portfolio committed at the end of 2023 stands at 58.8, compared to 56.5 at the end of the previous year, up by 4 %.



Axes of action

BBVA AM's asset management area has designed a [plan to achieve its decarbonization targets and contribute to reducing emissions](#) in the real economy, the main lines of action of which are as follows:

- Invest in companies and countries that are on the path of transition, with set objectives and action plans.
- Carry out engagement activities so that companies that have not set objectives or do not have action plans can start on the path.
- Work on action and monitoring plans so that companies with the highest emissions contribute to the set goal of decarbonizing portfolios.

OUR LEVORS



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



For companies and countries that **have not set targets** or have no action plans, it will focus on engagement activities to encourage them to follow the path.



For companies with **the highest contributions to emissions**, BBVA AM will work on action and monitoring plans to contribute to the set goal of decarbonizing our portfolios.

During the financial year, BBVA AM's teams have worked on different aspects to create a more faithful and complete picture of the investments they make. They have searched and filtered the objectives of the companies in which investments are made, analyzing whether they are in line with the objectives set for the portfolios. This step is essential to be able to activate the levers listed above.

In addition, BBVA AM has worked to structurally incorporate sustainable characteristics into some of its mandates.



For assets not included in the initial target due to limitations in access to data or lack of defined methodologies, the teams sought to obtain information, in collaboration with the main data provider and highlighting the importance of data availability and quality in BBVA AM's interactions with companies, suppliers, peers and supervisors..



BBVA AM has worked with its main institutional clients and occupational pension funds with the aim of incorporating decarbonization criteria into their mandates. In the latter part of 2023, the benchmarks of the equity markets started to be modified to Carbon Transition Benchmarks (CTB), as defined in the Commission's Delegated Regulation (EU) 2020/1818 of July 17, 2020.



The teams defined an exclusion policy 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 **STRATEGY** / Pillar 2. Exclusion).

CTB climate benchmarks are an investment benchmark that incorporates specific objectives related to the reduction of greenhouse gas (GHG) emissions and the transition to a low-carbon economy through the selection and weighting of the underlying components

The aim is to ensure that the investments made are geared over time toward the decarbonization paths marked by the benchmark indices.

To advance in its commitment to increasing the coverage of assets included in our portfolios, BBVA AM works on various lines of action:



For **assets not included in the initial commitment**, due to data access limitations or lack of defined methodologies, BBVA AM will work in the industry forums to advance in incorporating more assets.



BBVA AM defined an **exclusions policy** 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.



BBVA AM will work on **expanding its sustainable** offer with products that incorporate decarbonization targets aligned with the Net Zero strategy.



BBVA AM will work with its **institutional clients** to incorporate decarbonization targets into their mandates.

Metrics

Portfolio carbon intensity metrics

During 2023, BBVA AM has maintained the recommendations of the Paris Aligned Investment Initiative (PAII) framework, which has set emission reduction targets, as well as their corresponding metrics, for asset types and portfolio alignment targets, with a more qualitative measurement.

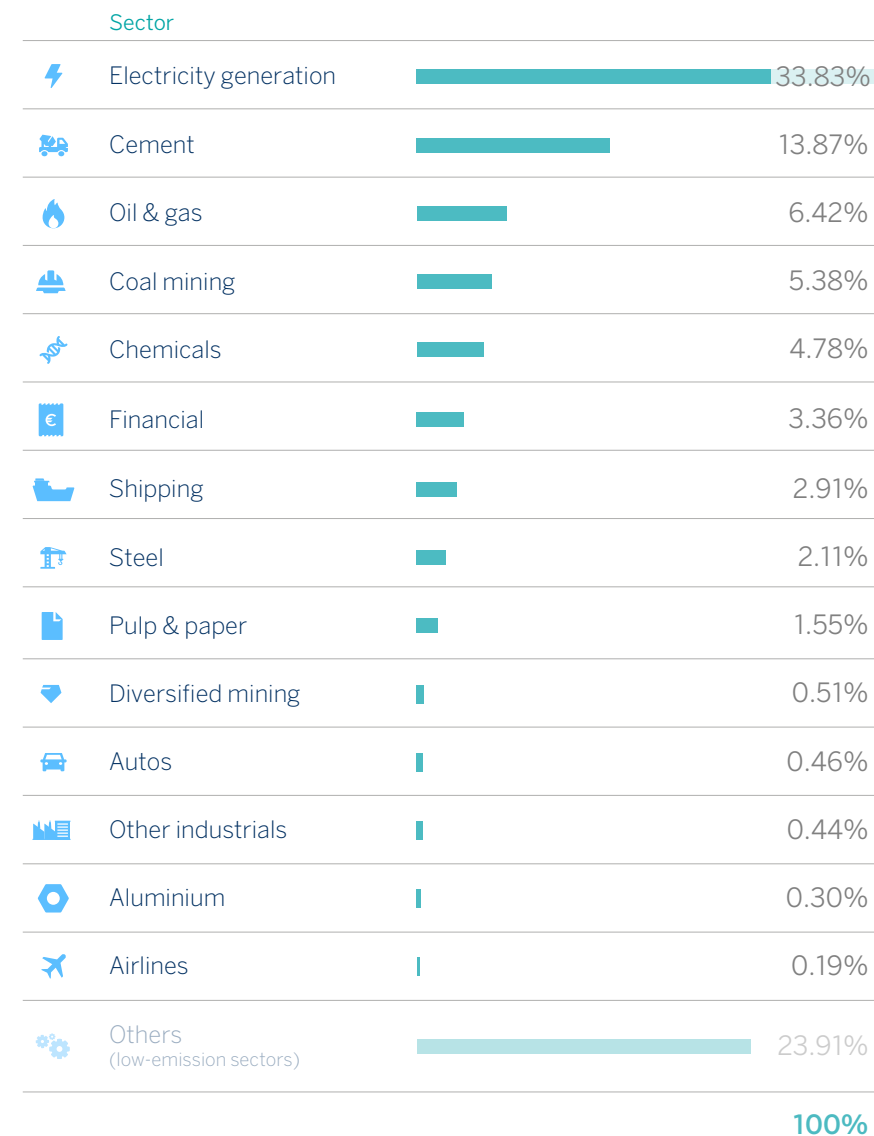
Shares and corporate debt

The metric selected to monitor the emissions of the portfolio's companies is the WACI, following the parameters established in the measurement framework defined by PAII. This metric is defined as the tons of CO₂ emissions generated by a company for every million euros in sales and includes scope 1 and 2 emissions.

As previously mentioned, at close of 2023, WACI's metric stands at 90.87 tCO₂/€M. Regarding this metric, BBVA AM has set the target of reducing 100 % of emissions by 2050 with an interim target of a 50 % reduction in assets initially committed by 2030.











As for the sectoral distribution of WACI, the high-emitting sectors contribute ("High Emitters" according to the PAII methodology) more than 75 % to it.

WACI sector distribution



Data end of 2023

Detail WACI Scope 1 & 2 Other low emitters

Sector		
 Industrial	<div><div></div></div>	8.81%
 Utilities	<div><div></div></div>	3.13%
 Basic consumption	<div><div></div></div>	3.09%
 Communication services	<div><div></div></div>	1.86%
 Real Estate	<div><div></div></div>	1.72%
 Technologies of the information	<div><div></div></div>	1.54%
 Consumer discretionary	<div><div></div></div>	1.53%
 Healthcare	<div><div></div></div>	1.32%
 Materials	<div><div></div></div>	0.80%
 Energy	<div><div></div></div>	0.12%

Data end of 2023

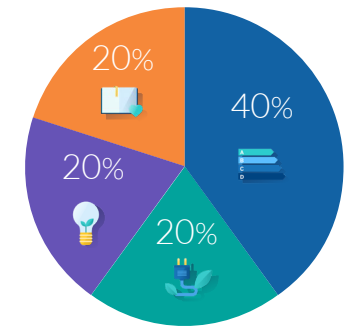
Sovereign issuers

For this type of exposure and also following the methodologies suggested by [PAII](#), the CCPI index was used as a reference. The aim is a YoY improvement of the [CCPI](#) of the eurozone sovereign debt positions in the portfolio.

This indicator is calculated by [Germanwatch](#), an independent non-governmental organization whose work focuses on climate change mitigation and adaptation, global food security, corporate responsibility, education for sustainable development and climate change and development/ food funding.

The indicator measures a country's progress in protecting against climate change, by assessing progress in emissions, renewable energy use, energy efficiency and climate change policies.

Climate change performance is assessed in four categories:



1 GHG Emissions (40% of overall score)



2 Renewable Energy (20% of overall score)



3 Energy Use (20% of overall score)



4 Climate Policy (20% of overall score)

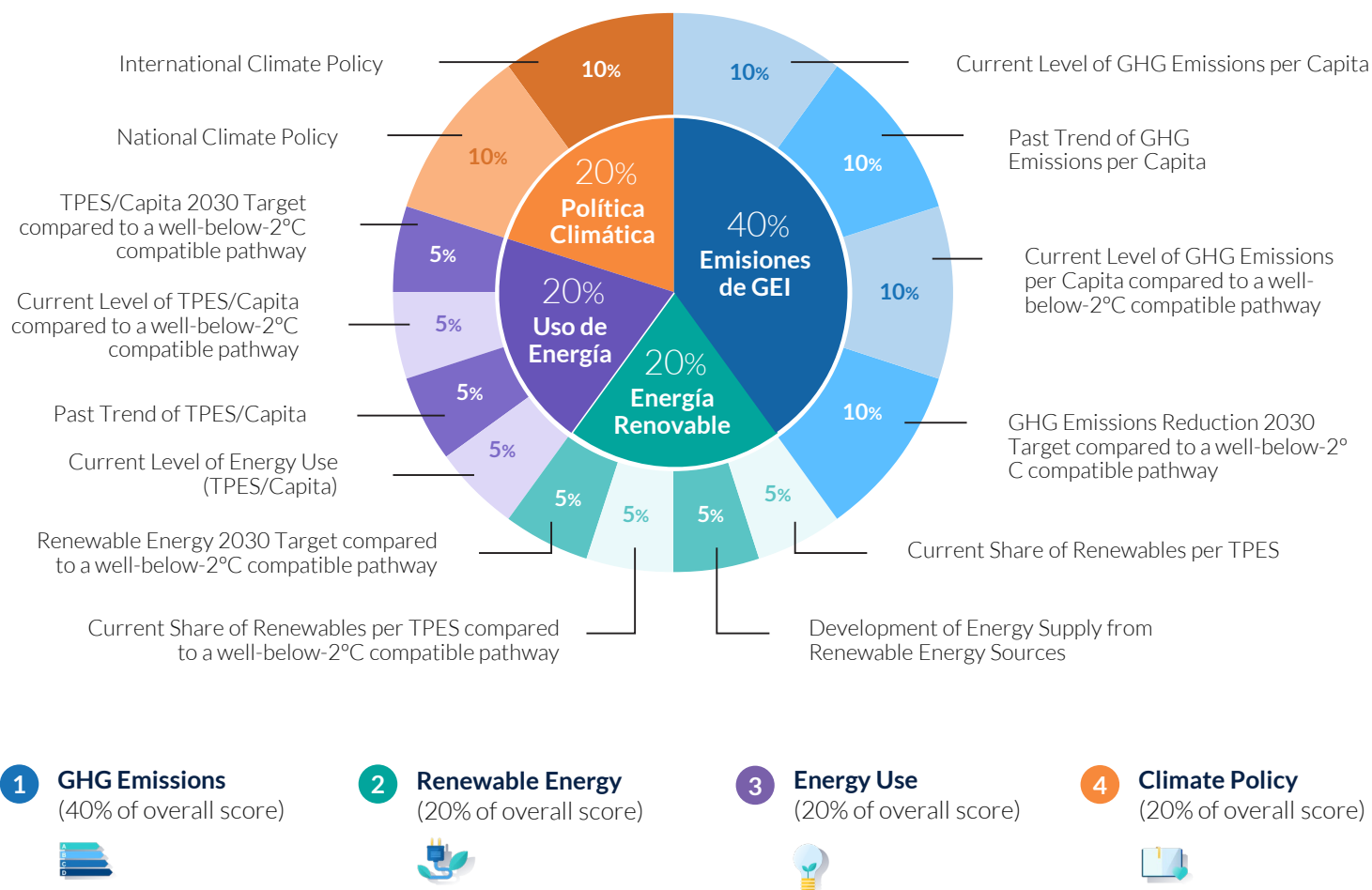


A country's performance in each of categories 1-3 is defined by its performance on four different equally weighted indicators, reflecting different dimensions of the category:

1. "Current Level",
2. "Past Trend (5-Year Trend)",
3. "Current Level Compatibility with well below 2°C", and
4. "2030 Target Compatibility with well below 2°C".

In the case of the "Climate Policy" category, two indicators are used to measure:

1. "the country's performance in relation to its national climate policy framework", and
2. "implementation, as well as international climate diplomacy".



This index rewards policies that aim at climate protection, both at the national level and in the context of international climate diplomacy. Whether countries are stimulating and striving for better performance can be deduced from their scores on the “Climate Policy” Indicators. If these policies are effectively implemented, it can be observed (with a lag of a few years)) in the country’s improved scores in the “Renewable energy” and “Energy Use” categories and, finally, in positive developments in the “GHG Emissions” category.



Following this logic, the index considers progress in the three areas that ultimately show their effect on the GHG emissions performance of a country with a weighting of 20 % each:

- An effective climate policy,
- An expansion of renewable energy,
- Improvements in energy efficiency, energy savings and therefore control over domestic energy use.

This weighting system allows the CCPI to capture recent changes in climate policy and newly achieved improvements on the path to reducing GHG emissions.

Since the reduction of GHG emissions is a very relevant factor for climate change, this category has the highest weight in the index (40 %).

The CCPI prepares a score and an associated rating. The ranking system to calculate both comprises three layers:

1. The classification of individual indicators,
2. The classification of categories, and
3. The general classification.

To calculate them, raw data and scores and classifications derived from relative comparisons between countries are used for comparability, as well as qualitative criteria for consistency in the proposed results.

The level of the portfolio committed at close of 2023 stands at 58.8, up from 56.5 YoY. The main investments of the committed government portfolio are focused on assets of the Spanish, German, Italian and French treasuries, with the first two showing an increase in the CCPI level YoY and the last two showing a decrease. The final result is as mentioned above, which improves on last year's.

Portfolio alignment metrics











Shares and corporate debt

For this type of asset, the PAI framework was chosen to select a decarbonization target together with quantitative emissions metrics.

It is a qualitative metric that measures the proportion of the portfolio aligned with the Paris Agreement. It is described as the proportion of portfolio that falls under the categories defined by PAI, following the assessment against the ten defined criteria. For these purposes, the targets set are based on scope 1 and 2 emissions.

In addition, the commitment also includes that **60 % of investments**, taking into account the companies in which BBVA AM invests and make up its portfolio, **are aligned or becoming aligned** with net-zero emissions policies by 2030. (See **MANAGEMENT OF CLIMATE CHANGE RISKS**).

TABLE 06. Criteria from PAI

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

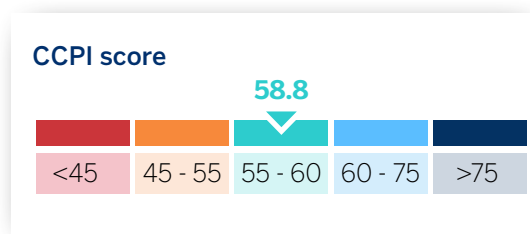
The portfolio's result in this assessment, considering the baseline composed of exposures at close of 2021 and emissions data in 2019 (scenario chosen to avoid the effects of the crisis caused by COVID-19 in 2020), is as follows: The percentage of the portfolio aligned or aligning with Net Zero is **32.2 %** of assets under management in shares and corporate debt (compared to 28.5 % the previous year), with the **2030 alignment target of 60 %**.

Sovereign issuers

Following the methodological framework established by PAII, BBVA AM uses a metric to see the progress of sovereign assets in terms of their alignment with Net Zero.

In this case, the CCPI **indicator prepared by Germanwatch** has been selected: it establishes a ranking in which, according to a country's score, a rating is assigned (*very high, high, medium, low and very low*) for its progress in the fight against climate change. Countries with *very high* and *high* ratings are considered to be aligned or aligning with Net Zero.

While calculating scores and ratings, quantitative factors are given more weight, with the more qualitative components focusing on analyzing the countries' policies of alignment with the Net Zero targets. Additionally, due to the metric standardization carried out to calculate the scores, these should be interpreted as a relative behavior between countries rather than a score in itself.



In 2023, the percentage of the portfolio aligned or aligning with Net Zero (the two best ratings, i.e. *high* and *very high*) stood at 9.9 % of assets under management in eurozone sovereign debt (compared to 23 % the previous year), with a 2030 alignment target of 60 %.

The main reason for the fall in the percentage of alignment of the committed portfolio of government bonds is the downgrade of France's rating, from *high* to *medium* compared to the previous year.

Together, for both types of assets (corporate and government), the percentage aligned or aligning with Net Zero is 22 % as at the date of this report, versus 26 % the previous year. This reduction is mainly due to the change in the alignment of the government bonds portfolio mentioned above, as that of corporate shares and bonds presents better metrics than the previous year.

Appendix



APPENDIX 1

TCFD Recommendations Compliance Table

	TCFD Recommendations for Asset Managers	BBVA AM TCFD Report
Governance model	<ol style="list-style-type: none"> 1. Supervision on the part of the Board of Directors 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: Risks and opportunities of climate change for BBVA AM</p> <ul style="list-style-type: none"> • Organization and structure
Strategy	<ol style="list-style-type: none"> 3. Description of risks and opportunities 4. Impact of risks and opportunities 5. Resiliency 	<p>Section 3: Risks and opportunities of climate change for BBVA AM</p> <ul style="list-style-type: none"> • Transition risks • Physical risks • Opportunities <p>Section 3: Risks and opportunities of climate change for BBVA AM</p> <ul style="list-style-type: none"> • Description of the impact of climate-related risks and opportunities on the organization's business, strategy, and financial planning <p>Section 3: Risks and opportunities of climate change for BBVA AM</p> <ul style="list-style-type: none"> • The resilience of BBVA AM's strategy
Risk management	<ol style="list-style-type: none"> 6. Organization to identify and assess risks 7. Organization for risk management 8. Integration into general risk management 	<p>Section 3: Risks and opportunities of climate change for BBVA AM</p>
Metrics and goals	<ol style="list-style-type: none"> 9. Report on the metrics and targets used 10. Reports on GHG Scope 1, 2 and, if applicable, Scope 3 emissions 11. Objectives and performance report 	<p>Section 4: Targets and metrics</p> <ul style="list-style-type: none"> • Metrics for PIA tracking • NZAM target metrics • Portfolio alignment metrics

APPENDIX 2

Other documents of interest



APPENDIX 3

Glossary

A

ALFI	Luxembourg Association of Collective Investment Institutions
AM	Asset Management

B

BBVA AM	BBVA Asset Management
BBVA AM&GW	BBVA Asset Management & Global Wealth
BBVA	Banco Bilbao Vizcaya Argentaria
BME	Bolsas y Mercados Españoles

C

CCPI	Climate Change Performance Index
CIIs	Collective Investment Institutions
CMU	Capital Markets Union
CNMV	National Securities Market Commission (CNMV, for the Spanish acronym)
CO₂	Carbon dioxide
CTB	Carbon Transition Benchmarks

E

EMFS	Mexico's Sustainable Finance Mobilization Strategy
EQ	Equity
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
EU	European Union

F

FI	Fixed Income
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G

GGs	Sustainability Governance Group
GHG	Greenhouse Gases
GPP	Social Security and Pensions Management, E.G.F.P., S.A.
GSA	BBVA Group's Global Sustainability Area

I

IIGCC	Institutional Investors Group on Climate Change
INVERCO	Spanish Association of Collective Investment Institutions and Pension Funds

N

NZ	Net Zero
NZAM	Net Zero Asset Managers
NZEI	Net Zero Engagement Initiative

P

PAII	Paris Aligned Investment Initiative
PAI	Principal Adverse Impacts

S

SDGs	United Nations Sustainable Development Goals
SFDR	Sustainable Finance Disclosure Regulation
SHCP	Ministry of Finance and Public Credit of Mexico
SRI	Socially Responsible Investment

T

TCFD	Task Force on Climate-Related Financial Disclosures
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U

UN PRI	United Nations Principles for Responsible Investment
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W

WACI	Weighted Average Carbon Intensity
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Report on

TCFD

2023