

# Annual Monitoring Report on BBVA Mexico's Sustainable Bond

Mexico City, November 2023

## Introduction

BBVA considers that the commitment to [sustainability](#) is not only a challenge that requires an urgent response but also a significant business opportunity. In this context, the [issuance of green and social bonds](#) plays a key role in achieving the Bank's goals. [Sustainable origination](#) enables the Bank to support its clients' transition to a low-carbon economy and contributes to its gradual alignment with the [Paris Agreement goals](#), as well as the [United Nations Sustainable Development Goals \(SDGs\)](#).

This has been an activity that BBVA initiated since 2007 when it participated in the issuance of the [first green bond](#) by the European Investment Bank. Since then, the Bank has led, structured, advised, and placed green and social bonds for its clients in Europe, the United States, and Latin America.

As a notable milestone, [in 2018 BBVA developed a framework for bonds linked to the Sustainable Development Goals](#) (the "BBVA SDG Framework" or the "Global Framework"), under which the Bank can issue green, social, or sustainable bonds. Subsequently, [in 2022, BBVA issued a new Global Framework](#), updating and complementing the guidelines established in the first one. This, with the objective of supporting its clients in their transition to a more sustainable future through financing, advice, and innovative solutions, primarily focusing on two areas:

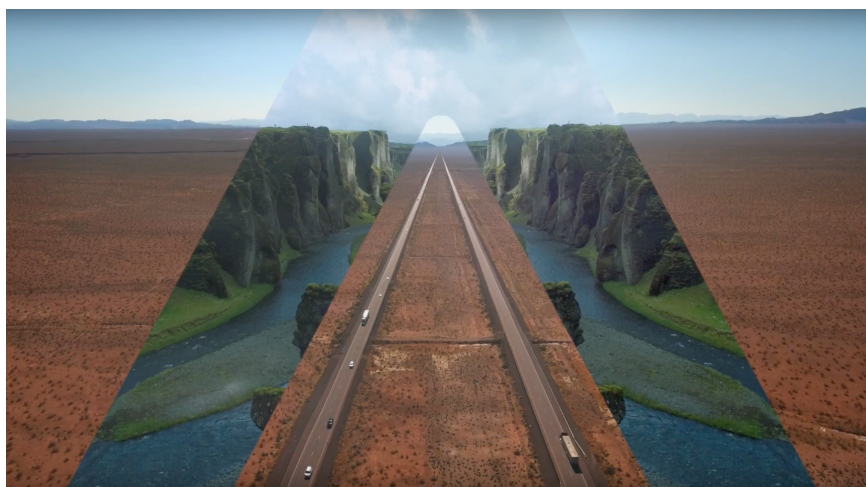
- [Climate action](#): which aims to mobilize the appropriate resources to address the challenge of climate change.
- [Inclusive growth](#): which aims to mobilize the necessary investments and financing in order to support inclusive economic development in an equitable manner.

BBVA's sustainability commitment extends to all the geographies in which it operates. A testament to this is that [BBVA Mexico was the first private bank to issue a Green Bond](#) in the local market for an amount of \$3.5 billion pesos in September 2018, and continued to be a pioneer in June 2022 by conducting the [first issuance of a Social Bond by a private bank](#) in the local market, totaling \$10 billion pesos (both issuances under BBVA's Global Framework).

The funds from this Social Bond aim to finance micro-businesses, entrepreneurs, housing, as well as projects involving hybrid or electric vehicles, and other projects related to energy efficiency and responsible production. In doing so, [it becomes an integral part of BBVA's strategy against climate change and in favor of sustainability](#), enabling the Bank to align its activities with the United Nations' SDGs, as well as the Paris Agreement.

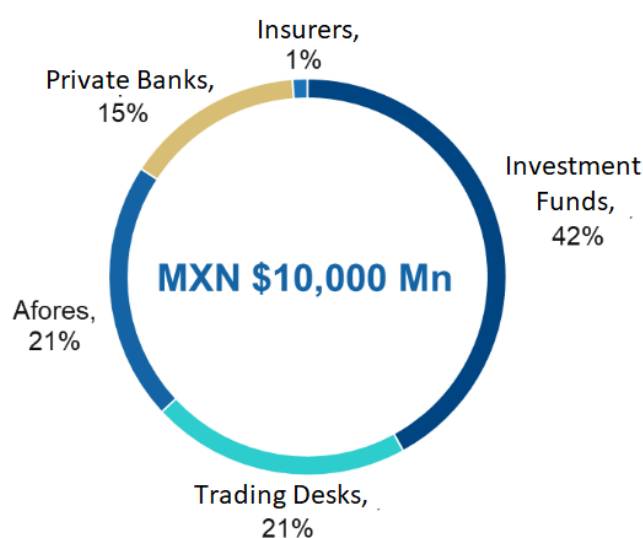
**BBVA Group reaffirms its commitment with the environment and sustainable development, as well as BBVA Mexico's leadership regarding sustainable financing.**

**BBVA is aware of the important role banking has with respect to the transition towards a more sustainable world through financial activities and is willing to play a relevant role.**



## Basic description of BBVA Mexico's Sustainable Bond

<b>Issuer</b>	BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México
<b>Issuer's Local Rating</b>	AAA(mex) / mxAAA / AAA.mx (Fitch / S&P / Moody's)
<b>Status of the Notes</b>	Senior (Bank Stock Certificates)
<b>Nominal Amount (MXN)</b>	\$10 billion mexican pesos
<b>Issue Date</b>	June 23, 2022
<b>Maturity Date</b>	June 18, 2026
<b>Coupon</b>	Overnight Interbank Equilibrium Interest Rate (" <i>TIIE de Fondeo</i> ") + 28 bps
<b>Use of Proceeds</b>	Projects aimed at financing micro businesses, entrepreneurs and housing, as well as hybrid or electric vehicles and green projects.
<b>Independent Opinion</b>	DNV (Det Norske Veritas)



- First sustainable bond placed by a private bank in Mexico..
- First issuance by a private entity to use the "*TIIE de Fondeo*" as a funding reference..
- Proceeds aimed at financing Green and Social projects, in accordance with the *Green and Social Bond Principles* as well as BBVA's *Sustainable Bond Issue Framework* (Global Framework).

## Destination of Proceeds

One of the key pillars of BBVA's business model is the integration of opportunities arising from the commitment to ensure [global sustainability](#). Consequently, the provision of innovative financing solutions for our clients is a priority, capable of generating positive environmental and social impacts.

The issuance of [sustainable bonds](#) involves having a traceable procedure to verify the appropriate use of the proceeds, in order to evaluate the impact of such proceeds, to further boost and manage initiatives that address the challenges posed by climate change. To achieve this, BBVA developed and updated the aforementioned Global Framework which facilitates the issuance of green, social, and sustainable bonds linked to the Sustainable Development Goals. [This Global Framework outlines the selection, verification, approval, and monitoring process of the loan portfolio backing each bond issuance.](#)

The Social Bond issued by BBVA Mexico in June 2022 focuses on five main areas: [Financing for SMEs and Microfinance](#), [Affordable Housing](#), [Energy Efficiency](#), [Waste Management](#), and [Water](#). A year after its issuance, BBVA Mexico reaffirms the commitment to assess the correct use of the proceeds obtained through the bond issuance.

### Financing for SMEs and Microfinance

This axis includes loans granted to entrepreneurs in general, as well as those provided to micro-businesses and SMEs, according to the following guidelines:

- [Entrepreneurs in general](#): Natural persons with a business activity, as well as legal entities, that initiated a productive activity within a period of less than 3.5 years from the issue date.
- [Micro-businesses and SMEs](#): Natural persons with a business activity, as well as legal entities, that initiated a productive activity over a period longer than 3.5 years and with revenue less than MXN 5 million in a year.

## Affordable Housing

This axis includes loans granted for the purchase or rehabilitation of the first home or primary residence of individuals that comply with the following guidelines:

- **Housing Financing:** Natural persons with a maximum monthly income threshold of MXN 20,000 and whose home has a value equal to or less than MXN 1.0 million.

## Energy Efficiency

This axis involves loans granted for the acquisition of electric or hybrid vehicles, according to the following guidelines:

- **Hybrid and Electric Vehicles:** Vehicles with a tailpipe emission intensity of a maximum of 120 g of CO<sub>2</sub>e/km.

## Waste Management, Energy Efficiency and Water: Green Loans Portfolio

In addition to the previously outlined eligible portfolio, at the time of the bond issuance, two projects were identified that met the restriction of not having been granted more than 3 years prior to the issue date, and also complied with the Local Standard criteria, particularly in the categories regarding Circular Economy, as well as Sustainable Agriculture. These projects are focused on the axis of **Waste Management, Energy Efficiency, and Water**, according to the following guidelines:

- **Waste Management:** Financing for the construction, equipment, and installation of two high-density polyethylene (HDPE) recycling plants, capable of processing 40 thousand tons of material per year and generating 30 thousand tons of recycled resin, which will be reintegrated into their production processes.
- **Energy Efficiency, Waste Management and Water:** Financing for the construction, equipment, and establishment of 117 hectares of blueberries in a macro tunnel with inert substrate. Additionally, it includes an automated drip irrigation system, of hydroponic type.


## Alignment with the Sustainable Development Goals


The projects financed through the Social Bond are aligned with the following goals:




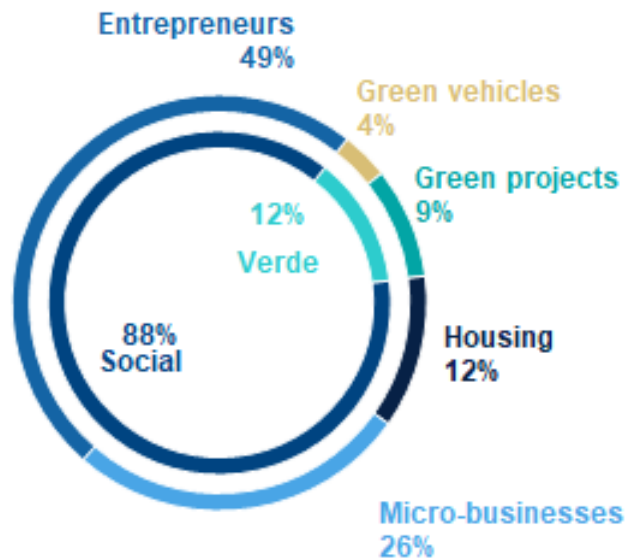
## Amount and distribution of the eligible loan portfolio

As of June 2023, the balance of the loan portfolio backing the Social Bond amounts to MXN 10 billion, therefore covering the entire amount issued.

 88% of the eligible loan portfolio corresponds to financings with a social purpose.

 On the other hand, the remaining 16% corresponds to green projects.

 BBVA Mexico has various loan portfolios and projects that meet the requirements to back the issuance of bonds linked to the Sustainable Development Goals.



## Use and impact of proceeds by SDG category

Selected loan portfolio	Description	Key performance indicators	Amount allocated as of June 2023
<b>8 Decent work and economic growth</b>			
Entrepreneurs in general	Financing to natural persons with a business activity or legal entities that initiated a productive activity within a period of less than 3.5 years from the issue date.	113 funded businesses and/or natural persons with a business activity	\$4,914,649,711
Micro-businesses and SMEs	Loans to natural persons with a business activity or legal entities that initiated a productive activity over a period longer than 3.5 years and with revenue less than MXN 5 million in a year.	2,561 funded micro-businesses	\$2,654,021,644
<b>10. Reduced inequalities</b>			
Housing Financing	Loans to individuals with a maximum monthly income threshold of MXN 20,000 and whose home has a value equal to or less than MXN 1.0 million.	2,543 funded houses	\$1,192,307,714
<b>7 Affordable and clean energy</b>			
Hybrid and Electric Vehicles	Financing for vehicles with a tailpipe emission intensity of a maximum of 120 g of CO <sub>2</sub> e/km.	965 granted loans / funded vehicles	\$374,021,947
<b>12 Responsible consumption and production</b>			
Project 1	Design, construction, equipment, and installation of two high-density polyethylene (HDPE) recycling plants, that produce recycled resin, which will be reintegrated into the company's production processes.	There is no indicator yet, since the company will start operating during the 4Q23 (estimated).	\$538,207,993
<b>11 Sustainable cities and communities / 7 Affordable and clean energy / 12 Responsible consumption and production</b>			
Project 2	Construction, equipment, and establishment of 117 hectares of blueberries in a macro tunnel with inert substrate. Additionally, it includes an automated drip irrigation system, of hydroponic type.	The use of these systems enables to achieve up to 60% of water savings.*	\$327,083,680
<b>Total</b>			<b>\$10,000,292,689</b>

\*According to the Mexican Society of Specialists in Protected Agriculture in Mexico ("Sociedad Mexicana de Especialistas en Agricultura Protegida en México", SMEAP).





# DNV

WHEN TRUST MATTERS

# Independent Limited Assurance Report to the Management of BBVA MEXICO

BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México, ("BBVA MEXICO") commissioned DNV Business Assurance Spain, S.L.U. ("DNV", "us" or "we") to conduct a limited assurance engagement over Selected Information presented in ANNUAL MONITORING REPORT ON BBVA MEXICO'S SUSTAINABLE BOND 2023 (the "Report") for the period from 23 June 2022 to 30 June 2023.



**Our Conclusion:** Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information is not fairly stated and has not been prepared, in all material respects, in accordance with the Criteria.

This conclusion relates only to the Selected Information, and is to be read in the context of this Independent Limited Assurance Report, in particular the inherent limitations explained overleaf.

## Selected information

The scope and boundary of our work is restricted to the key performance indicators included within the Report for the reporting period 23 June 2022 to 30 June 2023 (the "Selected Information"), listed below:

Impact indicators included in the table "Use of proceeds and impact by SDG category"

- Entrepreneurs in general: Nr. of businesses and/or natural persons
- Micro-businesses and SMEs: Nr. of micro-businesses
- Housing Finance: Nr. of houses
- Hybrid and Electric Vehicles: Nr. of loans

To assess the Selected Information, which includes an assessment of the risk of material misstatement in the Report, we have used BBVA Sustainable Debt Financing Framework, and the reporting criteria defined in the mentioned ANNUAL MONITORING REPORT ON BBVA MEXICO'S SUSTAINABLE BOND 2023 (the "Criteria").

We have not performed any work, and do not express any conclusion, on any other information that may be published in the Report or on BBVA MEXICO's website for the current reporting period or for previous periods.

## Basis of our conclusion

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information; our work included, but was not restricted to:

- Conducting interviews with BBVA MEXICO's management to obtain an understanding of the key processes, systems and controls in place to generate, aggregate and report the Selected Information;
- Performing limited substantive testing on a selective basis of the Selected Information to check that data had been appropriately measured, recorded, collated and reported;
- Reviewing that the evidence, measurements and their scope provided to us by BBVA MEXICO for the Selected Information is prepared in line with the Criteria;
- Assessing the appropriateness of the Criteria for the Selected Information; and
- Reading the report and the narrative accompanying the selected information within it in relation to the criteria.

## Our competence, independence and quality control

DNV established policies and procedures are designed to ensure that DNV, its personnel and, where applicable, others are subject to independence requirements (including personnel of other entities of DNV) and maintain independence where required by relevant ethical requirements. This engagement work was carried out by an independent team of sustainability assurance professionals. Our multi-disciplinary team consisted of professionals with a combination of environmental and sustainability assurance experience.

## Inherent limitations

All assurance engagements are subject to inherent limitations as selective testing (sampling) may not detect errors, fraud or other irregularities. Non-financial data may be subject to greater inherent uncertainty than financial data, given the nature and methods used for calculating, estimating and determining such data. The selection of different, but acceptable, measurement techniques may result in different quantifications between different entities. Our assurance relies on the premise that the data and information provided to us by BBVA MEXICO have been provided in good faith. DNV expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Independent Limited Assurance Report.



### Standard and level of assurance

We performed a **limited** assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 revised – ‘Assurance Engagements other than Audits and Reviews of Historical Financial Information’ (revised), issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance.

DNV applies its own management standards and compliance policies for quality control, in accordance with ISO/IEC 17021:2015 - Conformity Assessment Requirements for bodies providing audit and certification of management systems, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and the level of assurance obtained is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. We planned and performed our work to obtain the evidence we considered sufficient to provide a basis for our opinion, so that the risk of this conclusion being in error is reduced but not reduced to very low.

### Responsibilities of the Directors of BBVA MEXICO and DNV

The Directors of BBVA MEXICO have sole responsibility for:

- Preparing and presenting the Selected information in accordance with the Criteria;
- Designing, implementing and maintaining effective internal controls over the information and data, resulting in the preparation of the Selected Information that is free from material misstatements;
- Measuring and reporting the Selected Information based on their established Criteria; and
- Contents and statements contained within the Report and the Criteria.

Our responsibility is to plan and perform our work to obtain limited assurance about whether the Selected Information has been prepared in accordance with the Criteria and to report to BBVA MEXICO in the form of an independent limited assurance conclusion, based on the work performed and the evidence obtained. We have not been responsible for the preparation of the Report.

### DNV Business Assurance Spain, S.L.U

Madrid, Spain.  
24.11.2023



### DNV Business Assurance Spain, S.L.U

DNV Business Assurance Spain, S.L.U Limited is part of DNV – Business Assurance, a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance.  
<https://www.dnv.es/about/supplychain>