BBVA
Creating Opportunities

Towards the Next Level in Sustainable Finance

Sustainable Finance Day
27 December 2023

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Agenda

01 Investment gap and growth of sustainable finance

02 Scaling up sustainable finance in emerging markets and developing economies

01.

Investment gap and growth of sustainable finance

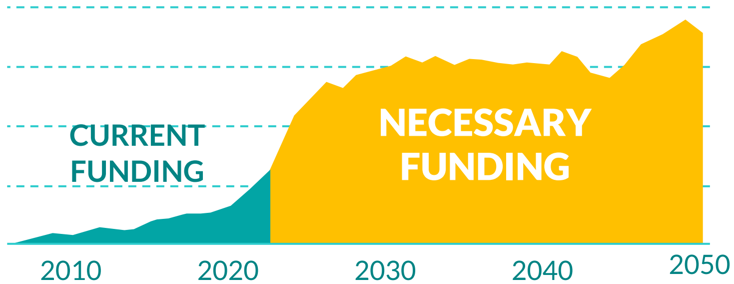
The world is living in an era of unprecedented change and sustainability is a significant and long-term opportunity

Banks have a key role
to play in financing the transformation by allocating funds to decarbonization technologies that offer long-term growth

Only on climate it is necessary global investments in sustainability imply a great potential incremental business

$275 TRILLION

~8 % WORLD GDP
Annual Average
30 Years

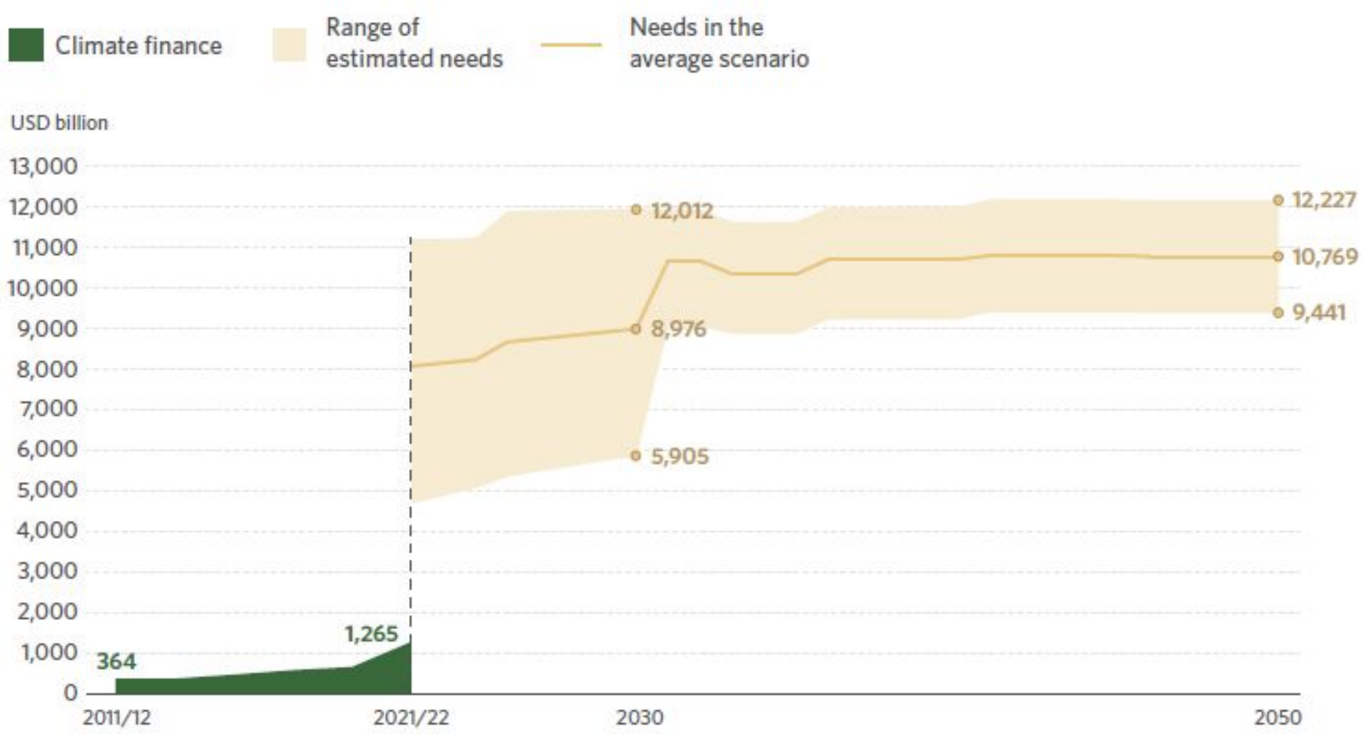


Source: BNEF, McKinsey

Climate finance must increase by at least fivefold annually

The annual climate finance needed through **2030 increases steadily to $9 trillion**. Then, estimated needs jump to over $10 trillion each year from 2031 to 2050

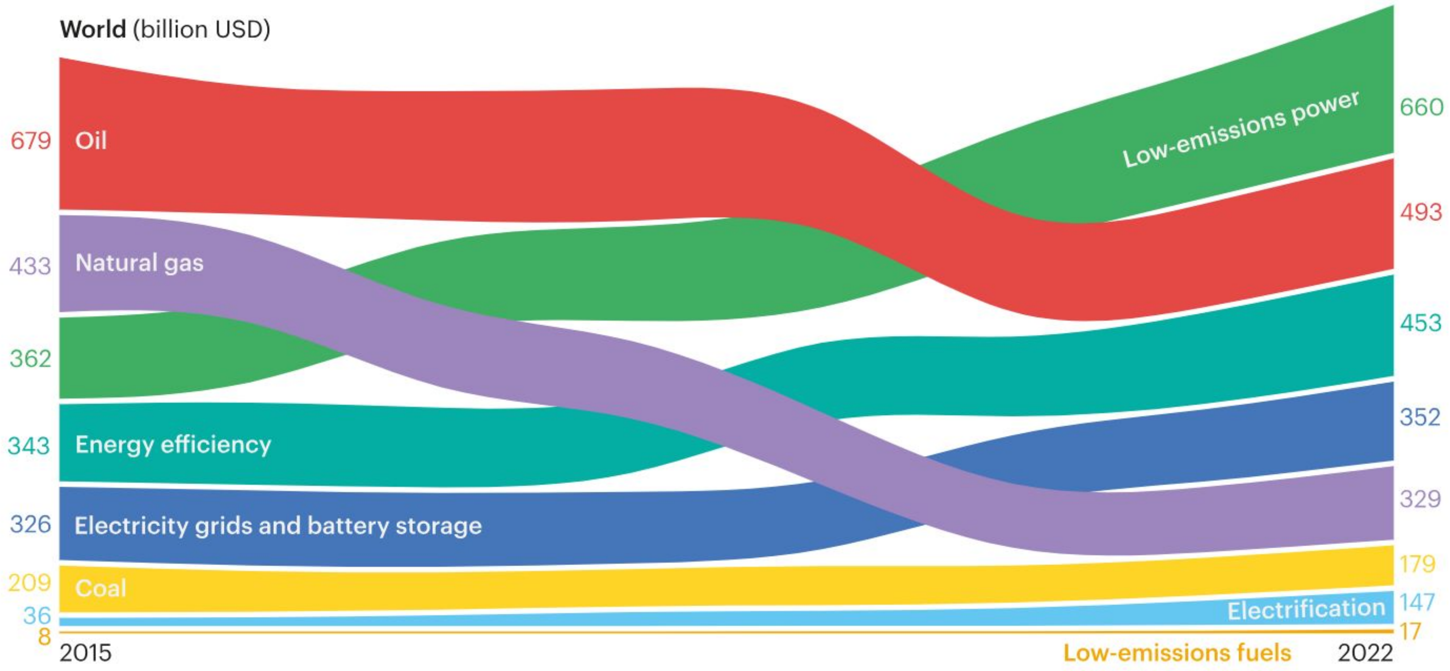
Figure ES3: Global tracked climate finance and average estimated annual needs through 2050[3]



Source: Climate Policy Initiative.. Global Landscape of Climate Finance 2023

The pattern of investments in energy in recent years has started to shift the world towards a more electrified, renewables-rich energy system

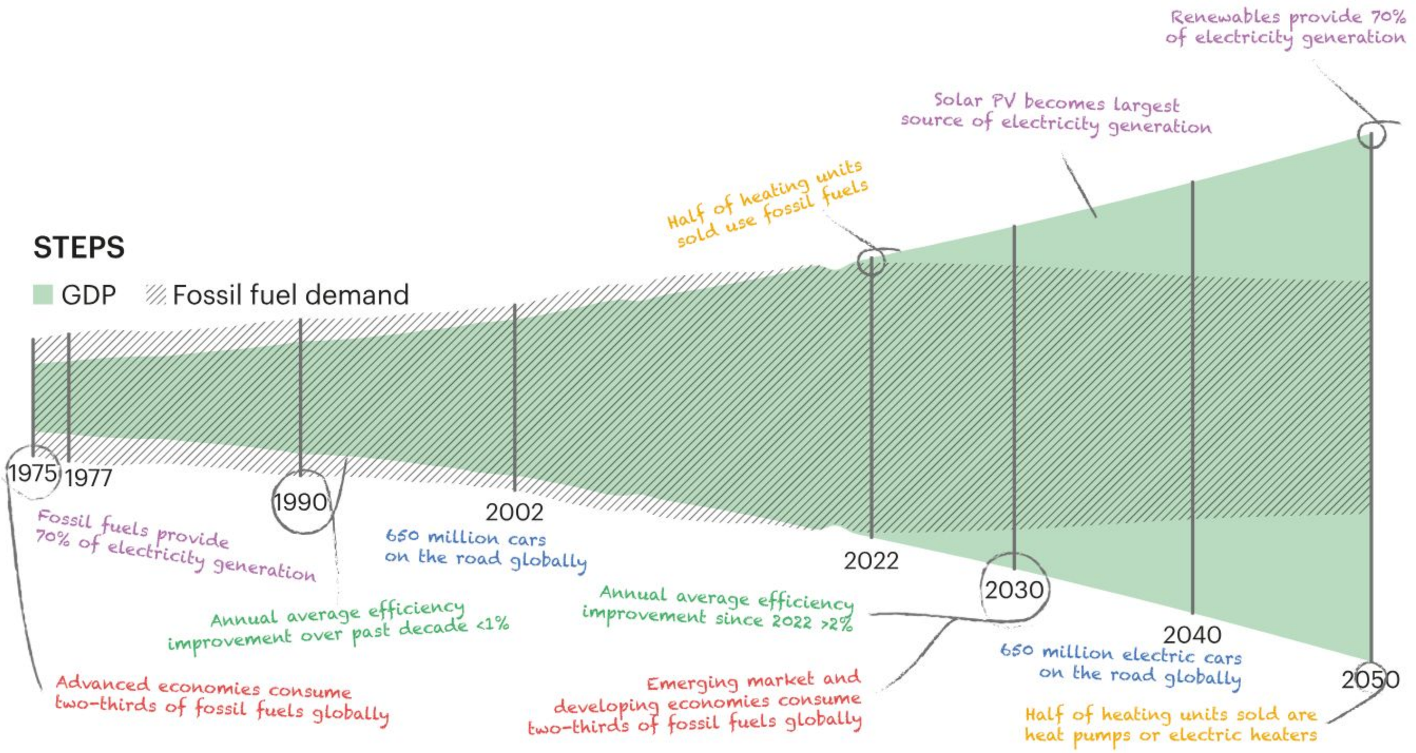
The **ratio of clean energy investment to fossil fuels** is about 1.8/1, but we need to see that **shift rapidly to 5/1** and more in the coming years



Source: IEA. World Energy Outlook 2023

The close historic relationship between global economic growth & fossil fuel demand is being loosened by the emergence of a new clean energy economy

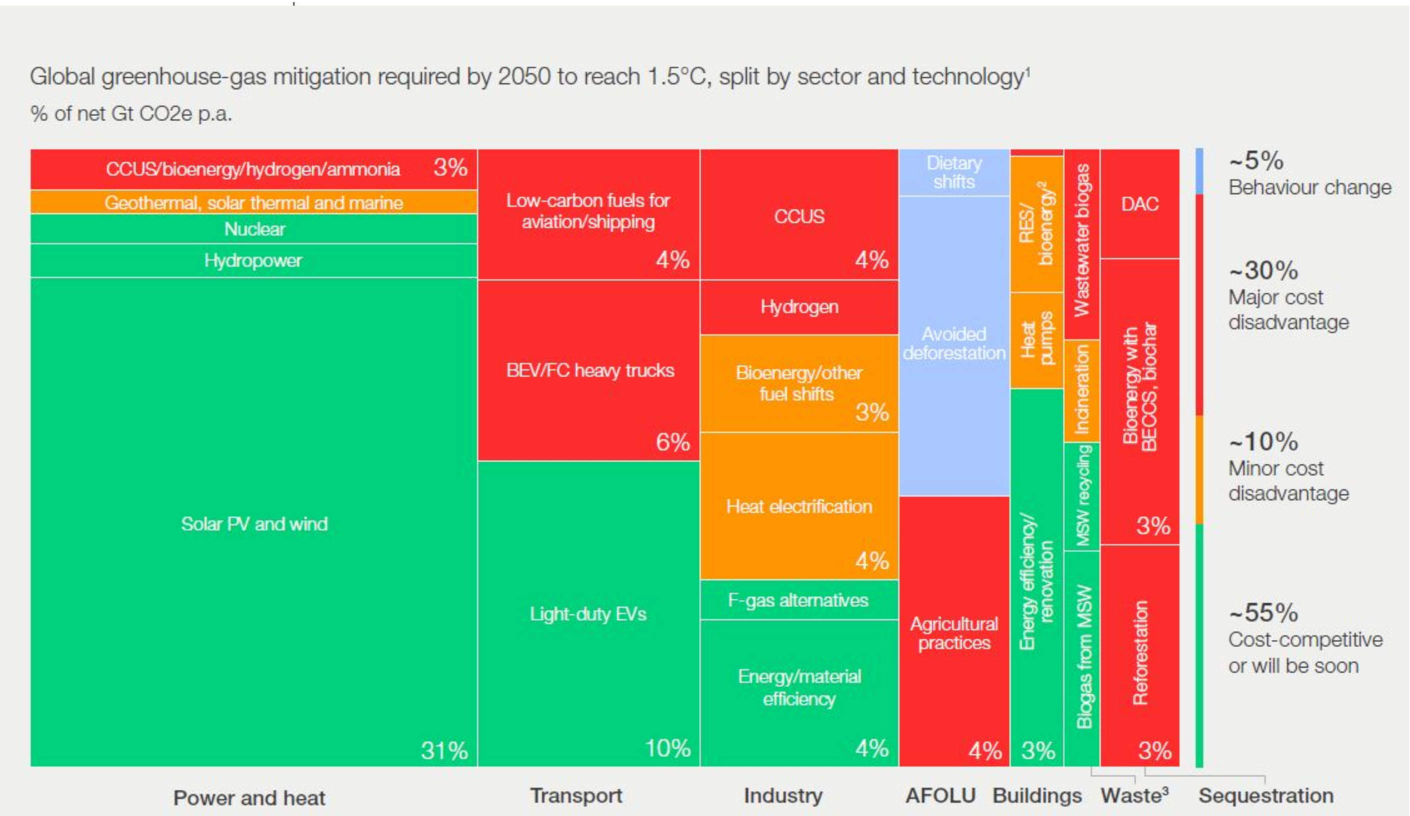
Based on **today's policy** settings, each of **the three fossil fuels see a peak before 2030**



Source: IEA. World Energy Outlook 2023

We need (1) to deploy faster cost-competitive technologies at scale and (2) we to invest in innovation in those activities difficult to abate

Most required green technologies exist, but **only about 55% are or will soon be cost competitive**



Source: WEF & BCG. The State of Climate Action. December 2023

ESG debt issuance slowed to some $630 billion in H1 2023—over 15% lower than in H1 2022 .While ESG bond issuance remained robust, ESG loan issuance was softer in H1 as global rates continued to rise

Chart 2: In tough market conditions in Q2, ESG bond issuance was on par with Q1, but ESG loans were weaker

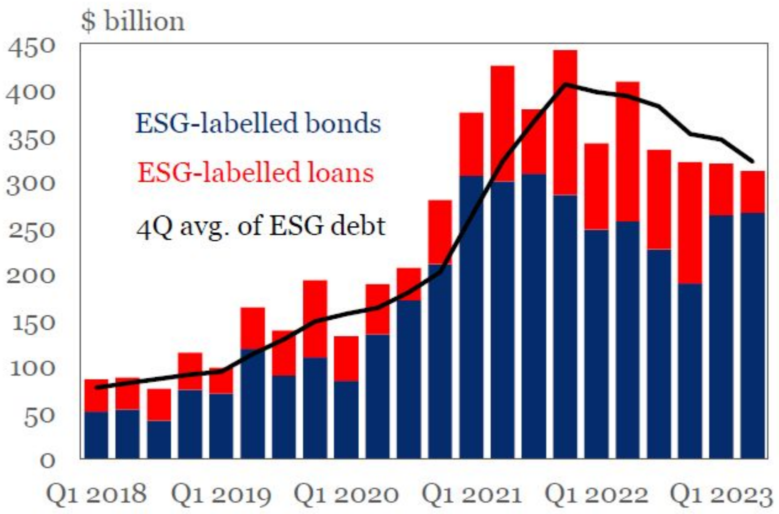
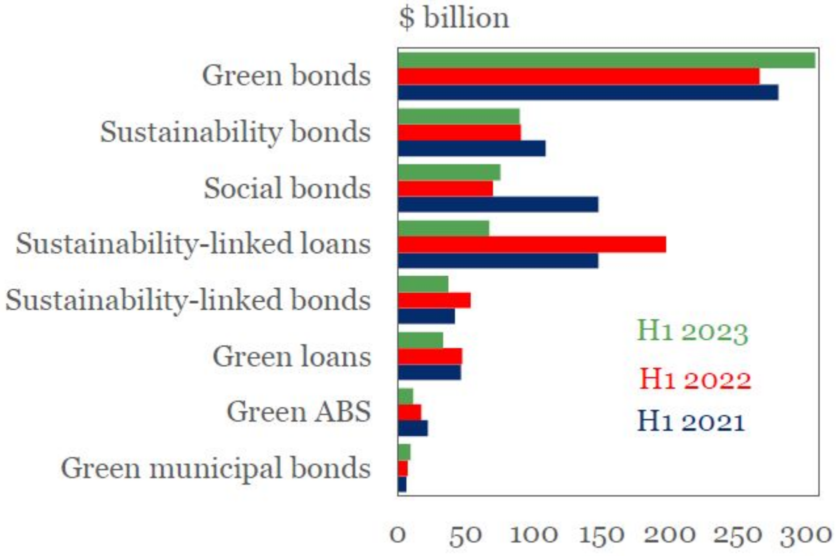


Chart 6: Green bond sales surpassed $300 billion this year—a new mid-year record



Source: Bloomberg, BNEF, IIF July 2023

We need greater governments' ambition: national commitments and policies are still widely insufficient

As of mid-2023, the share of total global emissions covered by national net-zero targets exceeded 80%, but very **few countries are currently on track to achieve 1.5°C**

Source: WEF & BCG. The State of Climate Action. December 2023

The deep and global transformation required will only happen if it has two preconditions: it makes economic sense and it is fair

Banks are the "middle man". We have a key role to play in the transition but we are not the ones doing the investment to decarbonize. An enabling policy framework is needed

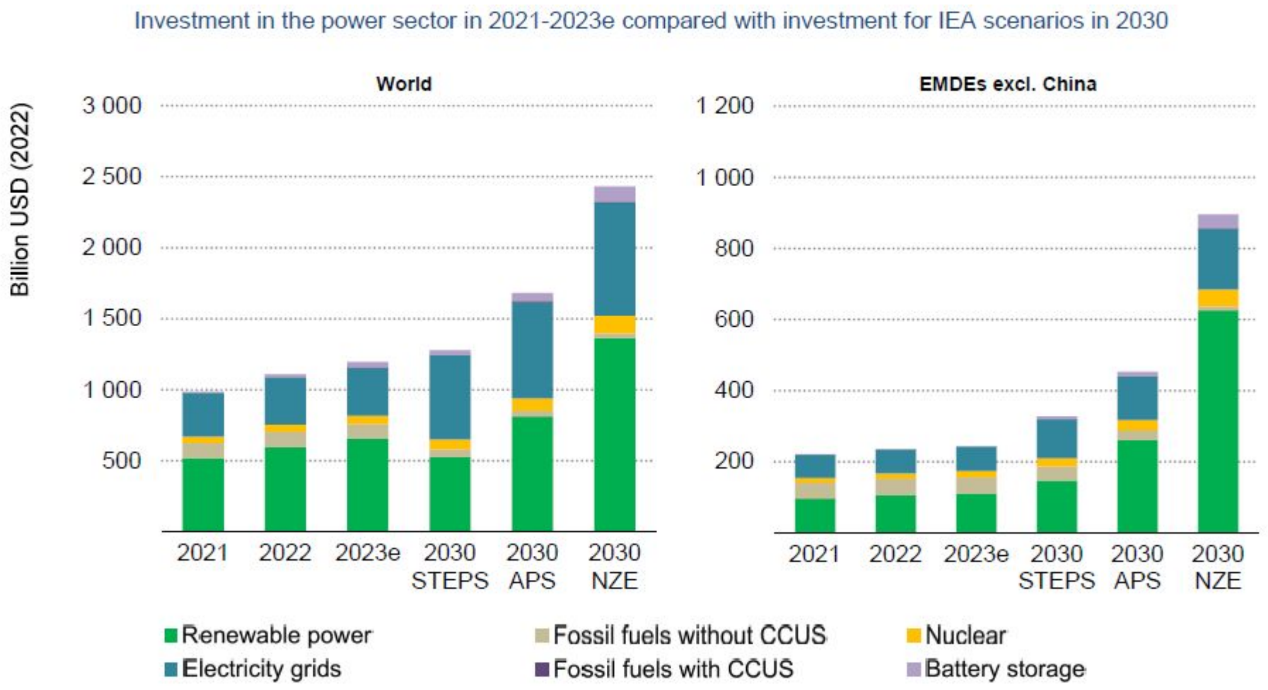
We need to help the whole economy to transition. Investments are critical not only in pure green activities but also to those more challenging sectors. Transition finance is critical

02.

Scaling up sustainable finance in emerging markets and developing economies

According to the IEA we need to more than triple from USD 770 to USD 2.8 trillion per year by the early 2030 in emerging economies to reach net zero

At present, some USD **770 billion is invested** each year in clean energy in EMDEs, **but most of this is in a handful of large economies.** China accounts for two-thirds of this total and the top three countries – China, India and Brazil – for more than three-quarters



Source: IEA. Scaling up Private Finance for Clean Energy in EMDEs. October 2023

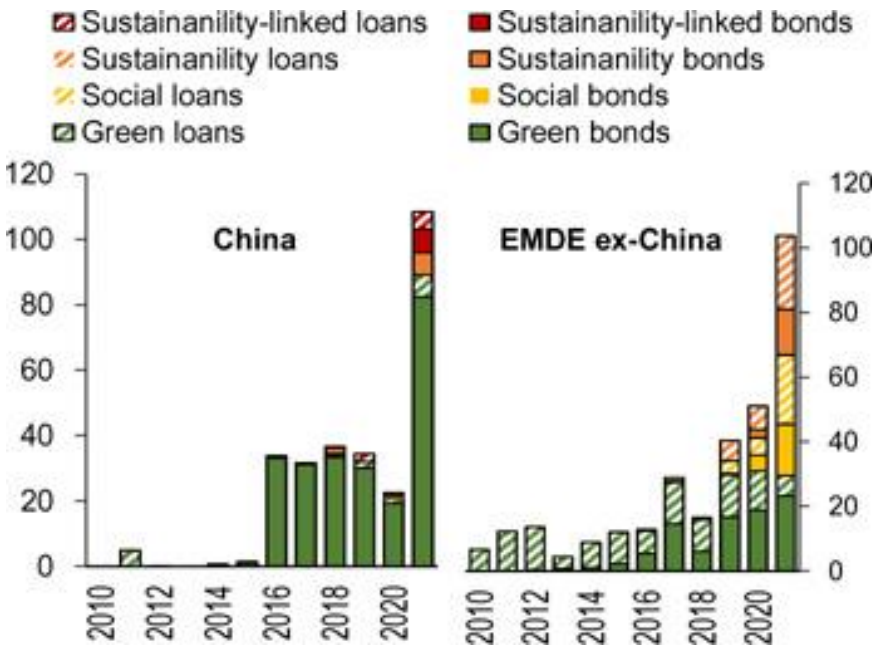
Considering not only climate, but also nature and inclusive growth, the investment needs increase from 11.3% of GDP in 2019 to 15.1% in 2025 and 18.2% in 2030

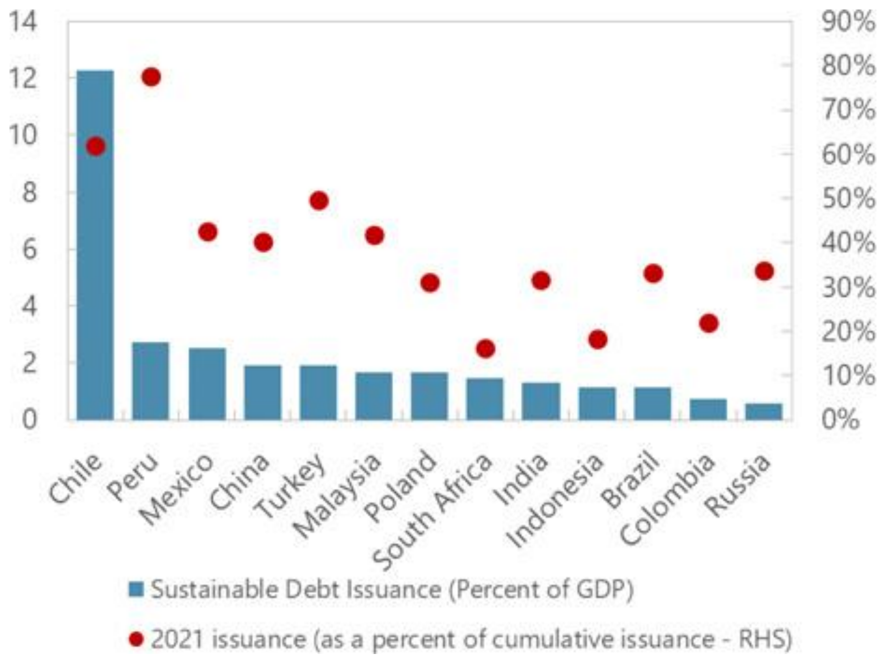
Table S1. Investment and development spending targets (excluding China)

	Gross spending 2019		Spending target 2025		Spending target 2030	
	US$bn	% GDP	US$bn	% GDP	US$bn	% GDP
Human capital	1,470	7.0%	2,000	8.2%	3,065	9.5%
Sustainable infrastructure	730	3.5%	1,160	4.8%	1,840	5.7%
AFOLU (agriculture, food, land use, nature)	150	0.7%	355	1.4%	650	2.0%
Adaptation and resilience	35	0.2%	180	0.7%	325	1.0%
Total	2,385	11.3%	3,695	15.1%	5,880	18.2%

Source: Financing a big investment push in emerging markets and developing countries for sustainable, resilient and inclusive recovery and growth. Grantham Research Institute on Climate Change and the Environment, and Center of Sustainable Development at Brookings. 2022

There is a quite range of ESG debt instruments also in developing economies. Excluding China, bonds and loans are equally represented

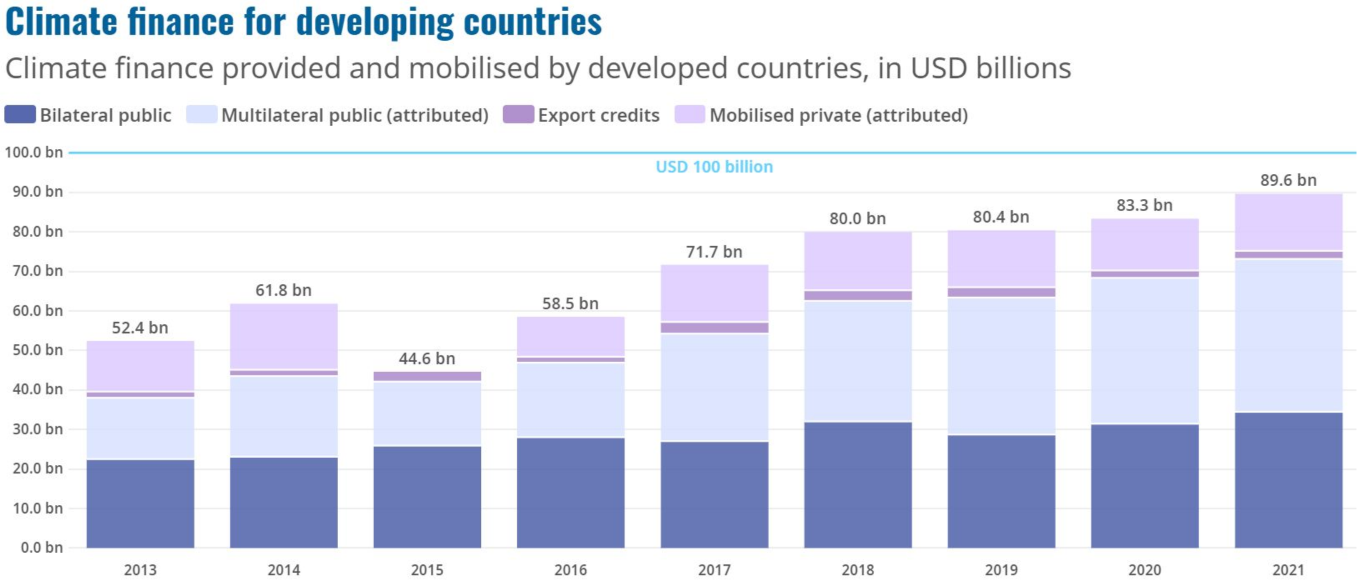




Source: Sustainable Finance in Emerging Markets: Evolution, Challenges, and Policy Priorities. IMF 2022

Much more blended finance will be needed as private capital is expected to finance 70% of the clean energy investments

Mobilising capital on a much larger scale will require **a dramatic increase in the role of the private sector**, and an enhanced role for international and development finance institutions will be critical to catalyse this investment



The gap in the private finance series in 2015 is due to the implementation of enhanced measurement methodologies. As a result, private flows for 2015-18 cannot be directly compared with private flows for 2013-14.
Source: OECD (2023), Climate Finance Provided and Mobilised by Developed Countries in 2013-2021.

Source: Climate Finance Provided and Mobilised by Developed Countries in 2016-2022. OECD. 2023

Barriers to climate finance in developing economies

- The **cost of capital is generally higher** in emerging markets compared to advanced economies
- **High up-front costs and long time horizons** associated with mitigation and adaptation projects can act as a significant deterrent for private investment
- Climate solution projects suffer from **regulation uncertainty**
- **DFI risk mitigation tools are being deployed at too small a scale**
- **Lack of price signalling**, in the form of effective carbon markets (among others)
- Scarce public funding is being directed at **subsidizing the fossil fuel industry** in many emerging countries
- **Lack of local currency instruments** poses risks to foreign currency denominated investment
- **Institutional reform takes time**

Source: Global Landscape of Climate Finance. Climate Policy Initiative. 2022

Fundamental enabling factors to promote climate private finance in developing economies

There are **a set of enabling environment factors that cut across sectors and require whole-of- government and whole-of-industry efforts to address.**

1. Macroeconomic stability, economic growth prospects and currency stability
2. Policy stability and rule of law. Political will and execution capacity
3. Government commitment to stable and predictable investment incentives
4. Financial market depth and willingness of local investors
5. Clear and predictable licensing and permitting procedures
6. Standardization and sustainability frameworks

Source: Adapted from Unlocking Private Climate Finance in Emerging Markets. Cli,mate Finance Leadership Initiative Bloomberg, EDFi and Global Infrastructure Facility. 2021

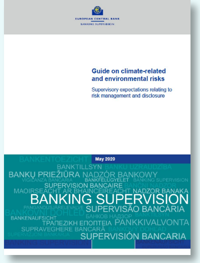
Sustainable standards and sustainable finance regulation is moving globally

TRANSPARENCY
From recommendations to regulation

EU Non-Financial Reporting Directive

TAXONOMY
Towards science-based sustainable standards

SUPERVISION
Sequential but fast and deep integration



Voluntary initiatives on net zero are also mobilizing change in EMDEs

The **industry-led, UN-convened Net-Zero Banking Alliance (NZBA)** brings together a global group of banks committed to aligning their lending & investment portfolios with net-zero emissions by 2050

The Alliance **reinforces, accelerates and supports the implementation of decarbonisation strategies, providing an internationally coherent framework and guidelines** in which to operate, supported by peer-learning from pioneering banks.

138
Members

44
Countries

US$74 Trn
Total assets

41%
Global banking assets

Sustainability is at **the core of BBVA's Strategy**

Foster new business through sustainability

Channeling sustainable business

2025 GOAL

€ 300 Bn

FROM 2018 TO SEP'23

€ 185 Bn

Achieve **Net Zero 2050**

Setting and managing 2030's decarbonization targets

SECTORS

Oil & Gas
Power Generation
Auto
Steel
Aviation
Cement
Coal
Shipping

AS OF SEP'23

76%

of lending portfolio

with clients progressing in their transition[1]

(1) % calculated in terms of portfolio lending amount that includes drawn and undrawn financing (such as Lending, Revolving Credit Facilities unused, Guarantees, ECA facilities, among others). Data as at Sep'23. Corresponds to high-emitting sectors that include Oil & Gas, Power, Auto, Steel and Cement at Grupo level. The % of portfolio does not include the coal sector for which BBVA has defined a phase out plan 2030 in developed countries and 2040 in the rest of the geographies where it operates. Clients are progressing in their transition when they are considered"Advanced", "Strong" or "Moderate" according to internal transition assessment tools, such as Transition Risk indicator (TRi), considering medium-term emission reduction targets, the identification of levers for the emissions management and the commitment of capital investments to execute its transition plan. See annex for details.

Some proposals to scale up sustainable finance in EMDEs

I. We need **to increase financial support from developed economies** up to annual $200/300 billions, multiplying country platforms and creating the right conditions for credible NBS

II. We need **to improve the pipeline of projects and activities** through capability building, including big projects and SMES/households, and also in new technologies

III. We need **to reimagine blended finance** to create the right incentives to multiply public finance through private finance at scale, mobilising international and local financing for green and transition activities

IV. We need **to define sustainable finance frameworks and standards** to develop local capital markets and provide international confidence thank you