
PROGRESS REPORT
to Climate Action
//ABANCA

SEPTEMBER 2020

// In ABANCA, we commit ourselves every day to: achieving a more caring society, with greater equal opportunities and especially being sensitive to the most disadvantaged people; protecting the environment and performing an efficient use of natural resources.

#ABANCA sostenible





» ABANCA has taken a further step in its involvement in facing the climate emergency: from joining various international collective commitments, through the creation of a portfolio management service focused on sustainability and support for renewable energy projects, calculation of carbon footprints or reduction of energy consumption, i.e. a fundamental part of the energy and environmental efficiency strategy.

// **Society demands a more sustainable economic model and the financial sector must meet this demand by streamlining resources towards business projects that include sustainability criteria in their governance and operations.**

Mr Juan Carlos Escotet, Chairman of ABANCA.



1. Alignment:
contributing to the SDGs and the Paris Agreement

- ABANCA has a strong will that its activity serves as an impetus for social improvement and sustainable growth, and we are committed to doing so in a transparent manner and in line with the ten principles of the Global Compact.



APOYAMOS
AL PACTO MUNDIAL

- We have been working on aligning the business strategy of the bank with the SDGs, the Paris Agreement and other frameworks to ensure ABANCA's contribution as a provider of financial services and part of the community.



**OBJETIVOS
DE DESARROLLO
SOSTENIBLE**



2. Impact: identify, assess, disclose impact and implement measures



Our goal is always to promote actions that serve as an impetus for social improvement and sustainable growth and that are in line with the ten principles of the Global Compact and with the Sustainable Development Goals approved by the United Nations. As a result, we have not hesitated to join the Principles of Responsible Banking and sign the Collective Commitment for Climate Action, which is consonant with our responsible and sustainable banking model.

Mr Francisco Botas, Chief Executive Officer of ABANCA.

Internal operation: implement energy efficiency and environmental projects

In line with the energy and environmental policy and the sustainability policy, approved in 2018 and 2019 respectively, ABANCA has set new guidelines for action in the coming years. The main working lines are:



Reduction and compensation of the Environmental Footprint

ABANCA is an entity committed to the environment and, therefore, measures, manages and implements measures to reduce its own environmental footprint.

ABANCA has for the first time calculated its carbon footprint with a specially designed tool. The reference documentation to develop the tool is the following:

- » Greenhouse Gas Protocol developed by World Resources Institute and World Business Council for Sustainable Development:
 - The Greenhouse Gas Protocol Revised Edition. A Corporate Accounting and Reporting Standard, 2004.
 - GHG Protocol Scope 2 Guidance. An amendment to the GHG Protocol Corporate Standard, 2015.
 - Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

Supplement to the GHG Protocol Corporate Accounting and Reporting Standard, 2011.

- » ISO 14064-1. Greenhouse Gases (GHG). Part 1: Specification with guidance, at the organization level, for quantification and reporting of greenhouse gas emissions and removals.

The emission factors used are those proposed by different official bodies such as DEFRA (Department for Environment, Food & Rural Affairs - Gov. UK) or MITECO (Ministry for the Ecological Transition and the Demographic Challenge).

Based on the calculation carried out in 2019, a main reduction target for 2020 of 50 % has been established for scope 2, since this is where the entity has the highest level of emissions.

Future steps are to research into the carbon footprint and offsetting its effect through innovative projects that have a positive impact on the protection and sustainable development of the local environment.



Management of electronic waste

Improper treatment of electronic waste poses serious health problems since it contains harmful components that pollute the air, water and soil. Year after year, we are moving towards a circular economy model as a new economic paradigm and alternative to the current production and consumption model. We are seeking after electronic devices to have a second life by repairing them, we can reduce the notable environmental impact that this type of waste generates.



We set annual targets: reduction of energy, waste and consumption.



Zero-paper program: commitment to reduce paper consumption.



In 2019, the energy efficiency management software was launched and implemented in the premises with greater energy expenditure; subsequently a staggered deployment will be carried out to all the bank's properties.

The objective is to have greater control over energy consumption, simplifying their management and being able to identify where they occur.

The result should be a reduction in consumption and emissions, a better analysis of energy efficiency investments, the establishment of optimized procedures for the operation of our facilities. This will allow us to set quantitative targets regarding greenhouse gas reduction.



Intensify recycling measures.



A new model of branches and headquarters that makes them energetically intelligent, thus minimizing climate impact.



'ABANCA Ithium' project started in collaboration with the technology companies GodEnigma and Ecomt, in one of the main branches in La Coruña.

A 'blockchain' node, installed in this center, records energy consumption and CO₂ emissions data in a distributed database system in a securely, immutable, certifiable way and without intermediaries. The energy savings recorded in this ledger become a virtual value or "token" and allow us to assign them economic value.



Photovoltaic energy installation in our data processing centre.



Certification that the sources of energy consumed are renewable.



>> Next steps: define an action plan to decarbonise the portfolio in which we must set goals and define a portfolio monitoring dashboard based on the indicators and/ or methodology identified.



» Climate Change Impacts & Risk Management

In ABANCA, we consider Environmental, Social and Governance aspects (ESG) to be key in risk analysis and decision-making processes in our regular activity. In this regard, the General Management of Corporate Control and Risk department shall implement processes for its identification, analysis and evaluation in order to reduce exposure to risk.



Climate risk management policy

We have defined the Environmental Risk Management Policy, which aims to limit and mitigate the impact of climate change and the potential harmful effects on the environment due to the activity of granting credit to customers.

As stated in ABANCA's Sustainability Policy, Environmental, Social and Governance (ESG) aspects are key in risk analysis and decision-making processes in our ordinary activity.

The risks related to climate change, can materialize through "traditional" risks, such as credit risk, resulting in financial impacts.

As regard to the aforementioned, it is worth highlighting the fundamental role of the financial

sector in the transformation of the economy towards a more sustainable model, i.e., low in carbon emissions, by streamlining financial resources towards projects that are more respectful and beneficial to the environment, promoting its development, and discouraging in activities that are most harmful to it.

In this sense, considering that some sectors where ABANCA operates could have a significant social and environmental impact, and within the framework of an ethical, responsible, environmental and social committed decision-making process, the bank considers essential to identify, evaluate and manage the environmental and climatic risk associated with these exposures.

In order to achieve it, some work has been done in a first stage to identify sectors or activities that entail a greater negative impact on the environment (through the identification of the economic sectors that produce the most intensive CO₂ emissions into the atmosphere). In such cases, a more demanding admission circuit will be applied to customers, their requests will have to be sanctioned in committees with the presence of analysts in the event that the climatic risk is evaluated as "high", and the climatic risk will have to go through an explicit assessment (that will have to be recorded). All data and information must be stated in the impact assessment of the following risks on the client's business model, and therefore, on their ability to repay the transaction:



Physical risks: these risks arise from the physical effects of climate change, and include:

- **acute physical risks**, arising from particular events, especially weather-related events, such as storms, floods, fires, or heat waves that can damage production facilities and disrupt value chains; and
- **chronic physical risks**, arising from longer-term climate changes, such as temperature changes, sea level rise, reduced water availability, loss of biodiversity, and changes in land and soil productivity.



Transition risks: these are risks arising from the transition to a low-carbon, climate-resilient economy, and include both:

- **measures aimed at transforming the economy in a sustainable way** (political, legal, technological risks),
- **changes in consumer behavior and preferences**, motivated by greater environmental awareness (market and reputational risks).



» **These risks could lead** to the reassessment of the value of a wide variety of assets, to changes in energy prices and to a decline in the income and creditworthiness of certain borrowers. In turn, this may imply credit losses for the Entity.





3. Clients and Stakeholders



The activity of the banking sector has a determining role in changing the current socioeconomic model. In ABANCA we have been working in this line for a long time, with measures such as the creation of a portfolio management service, support for renewable energy projects or the reduction of our own energy consumption, which shows our involvement to do facing the climate emergency.

Mr Miguel Ángel Escotet, General Director of CSR, Sustainability and Communication.

» **Our relationship with clients and stakeholders** are a key element of ABANCA’s strategy and corporate culture, which proactively works responsibly to create prosperity, in the growth and construction of its network of alliances to provide solutions, actions and forums that seek sustainable development and contribute to social and economic progress.

Our efforts are aimed mainly at implementing dissemination, training and awareness actions for all our stakeholders, so they can contribute to the cause at all levels and understand the impact of financial activity on the SDGs and the importance of creating a sustainable and inclusive society.



Sustainable finance

In ABANCA, we support sustainable growth by financing renewable energy projects, supporting responsible investment and promoting innovation and the development of new technologies.

The main goal is support our customers by helping them make the climate transition and advance inclusive growth.

Project finance: renewable energy

Historically, ABANCA has been consistently ranked among Top Spanish Lenders in Project Finance Renewable.

Renewable energy projects represent approximately 75 % of ABANCA Project Finance new deals, confirming the

relevance of these green projects into our global portfolio.

As of June 30th 2020, our portfolio of renewable energy project finance (including greenfield and brownfield) totaled € 418 million, mostly related to solar projects (47 % PV + 17 % CSP) and wind projects (26 %), with a total capacity higher than 1.500 MW, 90 % of those located in Spain.

Our goal is to increase the number of projects in renewable energy, which in turn will allow us to reduce the GHG intensity or the portfolio exposure of the total of the portfolio (in relation to project finance).

In terms of growth: now the core goal is year on year growth until specific objectives are established for this project finance segment.

ABANCA, within its active role in creating a sustainable economy, has marketed multiple financing products with the direct purpose of sustainability in the field of:

Retail: improve energy efficiency and low-carbon economy.



Through homeowners' associations: with financing intended to maintain or improve the security of buildings, its accessibility, by installing or renovating elevators, installing energy saving devices and thermal insulation, as well as improving habitability and sanitation of neighbourhood facilities.



Through loans to individuals for home renovations to improve energy efficiency, the use of renewable energy or improvements in sustainability. It is a line within the financial offer of the "Activamos Plan" (collaboration agreement between ABANCA and the four Galician councils, the main objective of which is to contribute to promoting the social and economic development of the community).



Financing the acquisition of efficient vehicles: hybrid, electric, etc.

Fishing & Agricultural Sector

We support the Fishing Sector through financing investment projects of the European Maritime and Fisheries Fund (EMFF), which subsidises, among others, investments that contribute to saving energy or reducing the impact on the environment, including waste processing. And also granting advances for sustainable investments in the fishing field.

ABANCA supports the Agricultural Sector through financing for improvement in energy efficiency, substitution of conventional energy for biomass and other alternative energies, improvement in waste treatment, reduction of CO₂ emissions or energy-efficient vehicles, all in the scope of agricultural activity.

Responsible Investment

The process of analysis and investment of our SRI products combines financial criteria with ESG criteria when selecting the assets in which it invests.

ABANCA launched Alpha Responsible, the first ESG focused discretionary portfolio management service available in Spain. It leverages all of Alpha360 capabilities to implement ABANCA's asset allocation through SRI funds.

Also in 2019, ABANCA launched Alpha Exponential Future, a discretionary portfolio management service focused on 3 megatrends: innovation, demography and sustainability.

We have also participated in syndicated loans with ESG criteria,

Within its support to the local productive framework, ABANCA has capital participation in wind farms of the Norvento group.



>>> Next steps: define an action plan for the decarbonation of the portfolio, in which we should set goals, define the KPIs and a methodology for the analysis.





Including sustainability criteria in contracting suppliers

We always maintain rationality in the consumption of resources and in the acquisition of products and services that respect the environment, as well as proper waste management.

We transmit these principles to our collaborators and suppliers, with whom we have a close and transparent relationship based on the values of reliability, experience, quality certification, connection and degree of concentration.



ABANCA volunteer environmental programme

ABANCA contributes with its volunteer programme to the reforestation of forest that suffered the impact of fires with the annual initiative "Un nuevo árbol" ("a new tree"); cleaning of the coast and cleaning of invading species (a big threat to biodiversity).



Commitment to Climate Action

ABANCA has made clear its commitment to the environment and the Sustainable Development Goals. Supporting these commitments implies ABANCA's participation in the corresponding working groups, which aim to project and implement a series of measures, while in permanent dialogue with its clients, to promote change towards technologies, business models and societies that are low in carbon and climate resilient.



Collective Commitment to Climate Action (CCCA), UNEP-FI – September 2019

One year ago, through the Collective Commitment to Climate Action (CCCA), ABANCA and 36 banks have committed to align their businesses with greenhouse gas (GHG) emissions trajectories that are compatible in the long term with the climate change mitigation objective of the Paris Agreement. The Paris Goal aims to limit global warming to well below 2°C, striving for 1.5°C above pre-industrial levels by 2100.

To that effect, CCCA banks have committed to setting and publishing sector-specific, scenario-based targets for portfolio alignment within three years of signing.

Furthermore, CCCA Signatory banks have committed to, commencing within 12 months since signing, publishing and implementing a set of measures to support and accelerate the shift towards low-carbon, climate-resilient technologies, business models and societies.

We assume responsibility, through our financial activity, for contributing to the future and the economic and social progress and the sustainable development of the environment. We want to contribute to strengthening efforts to mobilize, create and drive solutions to mitigate and adapt to climate change.

ABANCA has committed to this initiative in order to evaluate its starting point and mitigate its negative impacts, as well as to intensify its positive ones within the scope.

Collective Agreement of Spanish Banks with Climate Action – December 2019

On the occasion of the United Nations Conference on Climate Change (COP25), which was held in December 2019 in Madrid, the main Spanish banks, including ABANCA, presented a joint commitment to proceed within a specified period to reduce the footprint of carbon in their credit portfolios, in a way that can be measured with internationally approved criteria and in line with the objectives set in the Paris Agreement.

The signatory banks undertook to develop the necessary methodologies to assess the impact that the activity carried out by their clients may have on their balance sheets from the point of view of preserving the environment

and fighting climate change. In order to ensure that their balances are aligned with the Paris Agreement and with the Spanish agreement on climate. The main objective of both agreements is to keep the global average temperature below 2 degrees Celsius above pre-industrial levels, and to continue efforts to limit the increase to 1.5 degrees Celsius.



>> A year later, we worked to implement the objectives of the commitment and studying the possibility of adapting to best practices and international standards.



4. Governance and transparency

We measure and inform our stakeholders de proactively and regularly. We publish our data on climate change on an annual basis, moving towards alignment with the commitments assumed and future European regulation.

One of the priority elements of ABANCA is the maintenance of a fluent and permanent dialogue with all stakeholders through different communication channels,

We included Non-Financial Information Statements and the ABANCA Group's performance in the SDGs in the annual Sustainability Report. Non-financial KPIs were prepared pursuant to current commercial regulations and following the criteria of the Sustainability Reporting Standards of the Global Reporting Initiative.



» **To mark the annual working-in-progress** on measures to our *Commitment to Climate Action*, ABANCA is sharing its progress and experience in this paper, as the bank has taken the first steps to far-reaching change.

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