



## Verification of the Sustainability Quality of the Green Bond Asset Pool for the BNP Paribas SA Green Bond Programme

7 January 2019

### Aim and Scope of this Second Party Opinion

BNP Paribas commissioned ISS-oekom to assist with the issuance of its Green Bond by assessing the sustainable added value of an asset pool, from which assets for Green Bonds will be chosen. The assessment of the asset pool was conducted using the criteria and indicators of the Green Bond KPIs developed by ISS-oekom.

ISS-oekom's mandate included the following services:

- Definition of Green Bond KPIs ("ISS-oekom Green Bond KPIs") containing a clear description of eligible asset categories and the social and environmental criteria assigned to each category for evaluating the sustainability-related performance of the assets (re-) financed through the proceeds of the bond.
- Analysis of the alignment of BNP Paribas' Green Bond Framework procedures and the description of Eligible Sectors with ICMA's Green Bond Principles.
- Evaluation of compliance of the asset pool with the ISS-oekom Green Bond KPIs.
- Review and classification of BNP Paribas' sustainability performance on the basis of the ISS-oekom Corporate Rating

### Overall Evaluation of the Green Bond Asset Pool

ISS-oekom's overall evaluation of the Green Bond Programme by BNP Paribas is positive:

- BNP Paribas has defined a formal concept for its Green Bond Programme regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the Green Bond Principles (Part I of this Second Party Opinion).
- The overall sustainability quality in terms of sustainability benefits and risk avoidance and minimisation is good. (Part II of this Second Party Opinion).
- The issuer itself shows a good sustainability performance (Part III of this Second Party Opinion).

Certain minor aspects could still add to the overall quality of the asset pool: more specific selection or performance criteria would be recommended for the solar power assets, in particular regarding the solar module manufacturers.

## 1) Use of Proceeds

BNP Paribas has defined a Green Bond Framework in which the different use of proceeds categories are defined.

At issuance, the proceeds of the Green Bond will be exclusively used to (re)finance projects falling in the categories of renewable energy (wind power and solar power) and public transportation (transport infrastructures) as defined by the BNP Paribas' Green Bond Framework.

The table below details the shares of each category of the selected asset pool based on committed limits of loans as of 30.09.2018

Asset Category	Number of projects	Share of Portfolio
<b>1. Renewable energy</b>	<b>11</b>	<b>83%</b>
1.1 Wind Power	6 <sup>1</sup>	43%
1.2 Solar Power	5	40%
<b>2. Transport infrastructures</b>	<b>1</b>	<b>17%</b>
<b>Total</b>	<b>12</b>	<b>100%</b>

## 2) Process for Project Evaluation and Selection

BNP Paribas selected assets based on internal guidelines and internal CSR reviews, the sector and geographical location of the assets and narrowed the selection down by applying criteria such as financial performance.

All assets within BNP Paribas' asset pool and therefore all assets that the Green Bond upon issuance will initially (re)finance, underwent a controversy screening by ISS-oekom.

If necessary, additional eligible transactions will be included in the asset pool. To this end, BNP Paribas will maintain a Green Bond status in its loan database. To be marked "selected" for inclusion in the Green Bond Programme, loans should meet sustainability requirements as defined in the BNP Paribas Green Bond Framework. The internal Green Bond Committee, formed by various departments including Corporate Social Responsibility, will review the status twice a year.

<sup>1</sup> One out of six wind projects includes a solar plant accounting for a very limited part of the project. Therefore, the percentages related to the share of portfolio have been calculated only taking into account the wind power category. Nevertheless, the solar part of the project has been assessed by ISS-oekom in the "Solar Power (PV)" KPIs.

### **3) Management of Proceeds**

BNP Paribas has established an internal information system to earmark net proceeds from Green Bond issuances and to track their use. Proceeds will not be managed at bond level but as a single pool for all issuances under the BNP Paribas Green Bond Programme. Regarding unallocated proceeds, BNP Paribas will invest the balance of the net proceeds, at its own discretion, in cash and/or cash equivalent and/or other liquid marketable instruments.

### **4) Reporting**

BNP Paribas intends to report at least annually on the assets (re)financed by the Green Bond Programme in line with the comprehensive and progressive recommendations of the Harmonized Framework for Impact Reporting and to make it publicly available on the BNP Paribas investors' website. BNP Paribas will report on the use of proceeds and on impact indicators as described in the BNP Paribas Green Bond Framework on a consolidated basis by eligible sectors (i.e capacity installed, energy generation and CO2 avoidance for Renewable Energies; and traffic, distance travelled and CO2 avoidance for Mass and Public Transportation).

### **1) ISS-oekom Green Bond KPIs**

The ISS-oekom Green Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of BNP Paribas' Green Bond. It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the Green Bond can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the Green Bond and which can also be used for reporting. Details on the individual criteria and indicators for the categories can be found in Annex 1 „ISS-oekom Green Bond KPIs“.

### **2) Evaluation of the Assets Financed by the Green Bond**

#### **Method**

ISS-oekom has evaluated whether the assets included in the Green Bond match the categories and criteria listed in the ISS-oekom Green Bond KPIs.

The evaluation was carried out using information and documents provided to ISS-oekom on a confidential basis by BNP Paribas (e.g. Due Diligence Reports).

National legislation and standards were drawn on to complement the information provided by BNP Paribas.

Committed limits were used to calculate the share of underlying assets which fulfil an indicator requirement. All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS-oekom or that the information provided did not fulfil the requirements of the oekom Green Bond KPIs.

## Findings

### A. Renewable energy

#### A.1. Wind Power (on and offshore)

##### Sustainability Risks and Benefits of the Asset Category

The environmental benefits of wind power comprise climate protection and the transition towards a low-carbon economy. Further benefits are less environmental intervention (e.g. resource extraction, releases of waste streams to water or soil) in comparison to fossil fuel or nuclear power plants.

The construction and operation of wind power plants can result in negative environmental impacts (e.g. biodiversity, noise) and impacts on local communities. Further risks include potentially poor working conditions during construction and maintenance of power plants as well as in the production processes of wind power equipment. As the construction of these plants requires large amounts of raw materials and equipment, life cycle aspects are an important factor when assessing the overall environmental footprint of related projects.

All wind power projects selected for the Green Bond are located in highly-regulated and developed countries.

- 1. Site selection
  - ✓ 100% of the projects, are not located in key biodiversity areas (Ramsar sites, IUCN protected areas I-IV).
  - ✓ 5 out of 6 projects, accounting for 88% of the asset pool, underwent a full Environmental Impact Assessment. One remaining project, accounting for 12% of the asset pool, received a standard environmental screening.
- 2. Community dialogue
  - ✓ 4 projects, accounting for 100% of the onshore wind projects, have measures to ensure community dialogue (e.g. community advisory panels and dialogue platforms).
  - For the 2 remaining offshore wind parks, community dialogue is not applicable.
- 3. Environmental aspects of construction and operation
  - ✓ 4 out of 6 projects, accounting for 73% of the asset pool, meet high environmental standards during the construction phase (e.g. noise mitigation, minimisation of environmental impact during construction work). No specific information is available for the remaining 2 projects.
  - ✓ 4 out of 6 projects, accounting for 78% of the asset pool, have measures to protect habitat and wildlife during operation of the power plant (e.g. avifauna monitoring). No specific information is available for the remaining 2 projects.
- 4. Working conditions during construction and maintenance work
  - ✓ 100% of the projects are located in countries that provide for high labour and health and safety standards for construction and maintenance work (e.g. ILO core conventions).

**Controversy Assessment**

A controversy assessment on the projects did not reveal any controversial activities or practices that could be attributed to BNP Paribas.

## A.2. Solar Power (PV)<sup>2</sup>

### Sustainability Risks and Benefits of the Asset Category

The environmental benefits of PV power generation projects comprise the contribution to climate protection and to the transition towards a low-carbon economy. Further benefits are less environmental degradation and pollution (e.g. resource extraction, releases of waste streams to water or soil) in comparison to fossil fuel or nuclear power plants. From a social perspective, the transition from fossil fuels to PV power reduces negative human rights impacts of oil, gas and coal production (e.g. land-use conflicts, resettlement). In addition – different from fossil fuels combustion - PV power does not negatively impact air quality.

With respect to potential risks, the manufacturing of PV panels in developing countries such as China can have negative social and environmental impacts. As the production of PV panels requires scarce raw materials and as the panels contain hazardous substances, aspects such as recyclability, management of hazardous substances and conversion efficiency are relevant to evaluate the overall environmental performance of related projects. However, in comparison with other renewable energy sources, social and environmental risks related to PV power are deemed to be low.

All PV assets selected for the Green Bond are located in highly-regulated and developed countries.

- 1. Site selection (not applicable for PV roof systems):
  - ✓ 100%<sup>3</sup> of the projects in the asset pool, are not located in key biodiversity areas (Ramsar sites, IUCN protected areas I-IV).
- 2. Supply chain standards
  - 3 projects out of 5, accounting for 31% of the asset pool, have solar modules manufacturers that provide for high labour and health and safety standards (e.g. ILO core conventions). The other 2 projects, accounting for 69% of the asset pool, have module manufacturers not achieving these high standards.
- 3. Environmental aspects of PV plants

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<sup>2</sup> ISS-oekom assessed a remaining solar plant which is part of one of the 6 wind projects. The project fulfilled all KPI indicators except point 3 “Percentage of assets that provide for high standards regarding the reduction or elimination of toxic substances within solar panels (e.g. in line with RoHS requirements or other relevant standards)”, for which no information is available.

<sup>3</sup> Two solar projects have a very small number of plants located in environmentally protected areas. These represent about 0.007% of the total portfolio.

- ✓ 4 projects out of 5, accounting for 57% of the asset pool, have modules with conversion efficiencies over 15%. The remaining project has solar modules with a conversion efficiency lower than 15%.
- ✓ 100% of the projects have solar module manufacturers that provide for high environmental standards regarding take back & recycling.
- No information is available on high standards regarding the reduction or elimination of toxic substances in solar modules (e.g. in line with RoHS requirements or other relevant standards).
- 4. Working conditions during construction and maintenance work
  - ✓ 100% of the projects are located in countries that provide for high labour and health and safety standards for construction and maintenance work (e.g. ILO core conventions).

## **Controversy Assessment**

A controversy assessment on the projects did not reveal any controversial activities or practices that could be attributed to BNP Paribas.



### A.3. Public Transportation (Transport infrastructures)

#### Sustainability Benefits and Risks of the Asset Category

The construction of public rail transport infrastructure is positive from an environmental point of view as it helps to foster climate protection through lower carbon emissions and optimised transport efficiency when compared to individual mobility, in particular individual road transport as well as when compared to air transport. From a social point of view, construction of additional rail transport infrastructure may contribute to enhanced mobility of the population of remote or rural areas and for those not owning or not able to drive cars. Rail infrastructure maintenance activities are important to improve and/or maintain safety of rail operations.

At the same time, when evaluating public transport projects, certain risks have to be taken into account. Major risks from an environmental point of view stem from the potential negligence of environmental impacts during construction and operation. Social risks concern the health and safety of workers at construction sites, transport safety as well as stakeholder involvement during planning and construction phases.

The project is located in a country for which legislative frameworks set minimum standards, which reduce environmental and social risks. However, these legislations are not always enforced.

- 1. Site selection
  - ✓ The project is excluded from key biodiversity areas (Ramsar sites, IUCN protected areas I-IV).
  - Only one part of the project had a full Environmental Impact Assessment carried out, while the other parts received a standard environmental screening.
- 2. Community dialogue
  - ✓ The project features community dialogue as an integral part of the planning process (e.g. sound information of communities, community advisory panels and committees, surveys and dialogue platforms, grievance mechanisms and compensation schemes).
- 3. Environmental aspects of construction
  - ✓ The project meets high environmental standards during the construction phase (e.g. resource efficiency, renaturation).
- 4. Working conditions during construction and maintenance work
  - ✓ The project provides for high labour and health and safety standards for construction and maintenance work (e.g. ILO core conventions).
- 5. Social aspects of public transport infrastructure
  - ✓ The project provides for measures to reduce transport-related noise emissions (e.g. low-noise tracks).
  - ✓ The project has a transport safety management system in place (i.e. policies, responsibilities, risk assessments and monitoring, training, emergency management).

**Controversy Assessment**

A controversy assessment on the projects did not reveal any controversial activities or practices that could be attributed to BNP Paribas.

## Part III – Assessment of BNP Paribas' Sustainability Performance

In the ISS-oekom Corporate Rating with a rating scale from A+ (excellent) to D- (poor), BNP Paribas was awarded a score of C and classified as "Prime". This means that the company performed well in terms of sustainability, both compared against others in the industry and in terms of the industry-specific requirements defined by ISS-oekom. In ISS-oekom's view, the securities issued by the company thus all meet the basic requirements for sustainable investments.



As of 07.01.2019, this rating puts BNP Paribas in place 6 out of 250 companies rated by ISS-oekom in the Commercial Banks & Capital Markets sector.

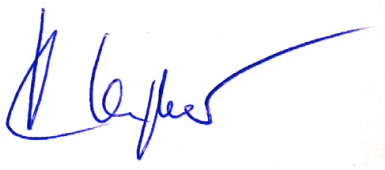
In this sector, ISS-oekom has identified the following issues as the key challenges facing companies in term of sustainability management:

- Sustainability impacts of lending and other financial services/products
- Customer and product responsibility
- Sustainable investment criteria
- Labour standards and working conditions
- Business ethics

In four out of five key issues, BNP Paribas achieved a rating that was above the average for the sector. BNP Paribas under-performed in the "Business ethics" area, while a very significant outperformance was achieved in "Sustainable investment criteria".

The company has a significant controversy level. Severe and very severe controversies relating to weaknesses in anti-money laundering controls, allegations on anti-competitive behaviour and aiding tax evasion in the US have been revealed. However, in comparison to the sector, BNP Paribas' controversy level is comparatively low.

Details on BNP Paribas' rating can be found in Annex 2 "Issuer rating results".

A handwritten signature in blue ink, appearing to read "J. G. ...", is written over a faint, illegible stamp.

ISS-oekom

Munich, 7 January 2019

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## Disclaimer

1. ISS-oekom uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
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ISS-oekom is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries with regard to their environmental and social performance. ISS-oekom has extensive experience as a partner to institutional investors and financial service providers, identifying issuers of securities and bonds which are distinguished by their responsible management of social and environmental issues. More than 100 asset managers and asset owners routinely draw on the rating agency's research in their investment decision-making. ISS-oekom's analyses therefore currently influence the management of assets valued at over 600 billion euros.

As part of our Green Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria. We verify the compliance with the criteria in the selection of projects and draw up an independent second party opinion so that investors are as well informed as possible about the quality of the loan from a sustainability point of view.

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## Annexes

- Annex 1: ISS-oekom Green Bond KPIs
- Annex 2: ISS-oekom Corporate Rating of BNP Paribas

## Annex 1: ISS-oekom Green Bond KPIs

### ISS-oekom Green Bond KPIs

The ISS-oekom Green Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of BNP Paribas' Green Bond. It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the Green Bond can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the Green Bond and which can be used for comprehensive reporting.

### Use of Proceeds

- A. Wind Power
- B. Solar Power (PV)
- C. Public Transportation (Transport infrastructures)

### Sustainability Criteria and Quantitative Indicators for Use of Proceeds

#### A. Wind power

##### 1. Site selection

- Percentage of assets that are not located in key biodiversity areas (Ramsar sites, IUCN protected areas I-IV).
- Percentage of assets that underwent environmental impact assessments at the planning stage.

##### 2. Community dialogue

- Percentage of assets that feature community dialogue as an integral part of the planning process (e.g. sound information of communities, community advisory panels and committees, surveys and dialogue platforms, grievance mechanisms and compensation schemes).

##### 3. Environmental aspects of construction and operation

- Percentage of assets that meet high environmental standards during the construction phase (e.g. noise mitigation, minimisation of environmental impact during construction work).

- Percentage of assets that provide for measures to protect habitat and wildlife during operation of the power plant (e.g. measures to protect birds and bats).

#### 4. Working conditions during construction and maintenance work

- Percentage of assets that provide for high labour and health and safety standards for construction and maintenance work (e.g. ILO core conventions).

### **Controversy Assessment**

Assessment of controversial assets (e.g. due to labour rights violations, adverse biodiversity impacts).

## **B. Solar Power (PV)**

### 1. Site Selection (not applicable for PV roof systems):

- Percentage of assets that are not located in key biodiversity areas (Ramsar sites, IUCN protected areas I-IV).

### 2. Supply chain standards

- Percentage of assets that provide for high labour and health and safety standards in the supply chain of solar modules (e.g. ILO core conventions).

### 3. Environmental aspects of solar power plants

- Percentage of assets that feature a conversion efficiency of at least 15%.
- Percentage of assets that provide for high environmental standards regarding take-back and recycling of solar modules at end-of-life stage (e.g. in line with WEEE requirements).
- Percentage of assets that provide for high standards regarding the reduction or elimination of toxic substances within solar panels (e.g. in line with RoHS requirements or other relevant standards).

### 4. Working conditions during construction and maintenance work

- Percentage of assets that provide for high labour and health and safety standards for construction and maintenance work (e.g. ILO core conventions).

### **Controversy Assessment**

Assessment of controversial assets (e.g. due to labour rights violations, adverse biodiversity impacts).

## **C. Public Transportation (Transport infrastructures)**

### 1. Site selection

- Percentage of assets for which a policy excludes the location in key biodiversity areas (Ramsar sites, IUCN protected areas I-IV).

- Percentage of assets that underwent environmental impact assessments at the planning stage.

## 2. Community dialogue

- Percentage of assets that feature community dialogue as an integral part of the planning process (e.g. sound information of communities, community advisory panels and committees, surveys and dialogue platforms, grievance mechanisms and compensation schemes).

## 3. Environmental aspects of construction

- Percentage of assets that meet high environmental standards during the construction phase (e.g. resource efficiency, renaturation).

## 4. Working conditions during construction and maintenance work

- Percentage of assets that provide for high labour and health and safety standards for construction and maintenance work (e.g. ILO core conventions).

## 5. Social aspects of public transport infrastructure

- Percentage of assets that provide for measures to reduce transport-related noise emissions (e.g. low-noise tracks).
- Percentage of assets that have a transport safety management system in place (i.e. policies, responsibilities, risk assessments and monitoring, training, emergency management).

## **Controversy Assessment**

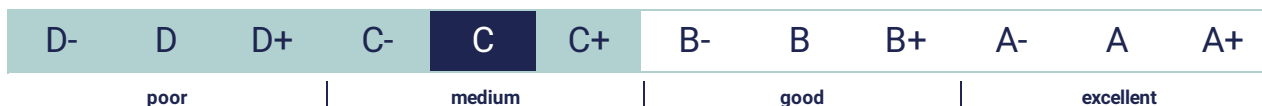
Assessment of controversial assets (e.g. due to labour rights violations, adverse biodiversity impacts).



# ISS-oekom Corporate Rating

## BNP Paribas S.A.

Industry	Financials/Commercial Banks & Capital Markets	Status	<b>Prime</b>
Country	France	Rating	<b>C</b>
ISIN	FR0000131104	Prime Threshold	<b>C</b>



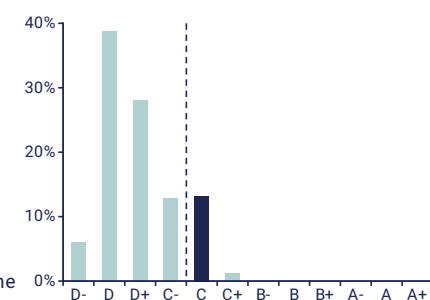
The assessment of a company's sustainability performance is based on approximately 100 criteria, selected specifically for each industry. A company's failure to disclose, or lack of transparency, regarding these matters will impact a company's rating negatively.

### Industry Leaders

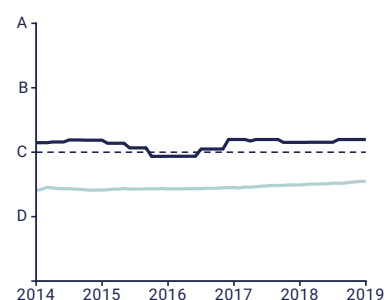
Company name (in alphabetical order)	Country	Grade
ABN AMRO Group N.V.	NL	C+
NIBC Bank N.V.	NL	C+
Raiffeisen Bank International AG	AT	C+

### Distribution of Ratings

250 companies in the industry

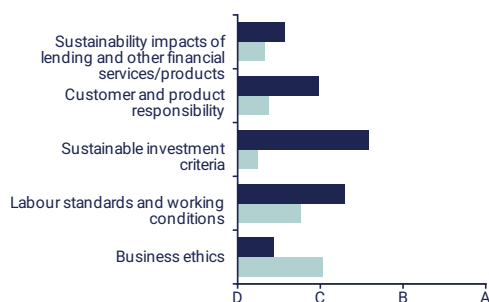


### Rating History



Legend: ■ Industry ■ Company --- Prime

### Key Issue Performance

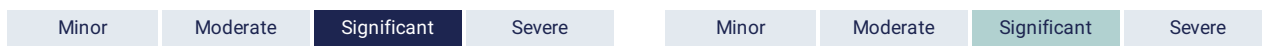


### Strengths and Weaknesses

- + reasonable sector-specific environmental and social guidelines
- + integration of environmental and social aspects into the asset management business
- + reasonable approach concerning the integration of sustainability issues into shareholder advocacy activities
- + reasonable measures taken to guarantee responsible sales practices
- only limited integration of environmental and social aspects into the credit rating process with regard to private clients
- several recent settlements and/or fines in the area of business malpractice and customer and product responsibility

### Controversy Monitor

Company		Industry	
Controversy Score	-16	Maximum Controversy Score	-35
Controversy Level	Significant	Controversy Risk	Significant



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Please note that all data in this report relates to the point in time at which the report was generated.  
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# BNP Paribas S.A.

## Methodology - Overview

**ISS-oekom Corporate Rating** - The ISS-oekom Universe comprises more than 3,900 companies (mostly companies in important national and international indices, but also small and mid caps drawn from sectors with direct links to sustainability as well as significant non-listed bond issuers).

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance criteria, selected specifically for each industry. All criteria are individually weighted and evaluated and the results are aggregated to yield an overall score (rating), in which the key issues account for at least 50 per cent of the total weight. In case there is no relevant or up-to-date company information available on a certain criterion and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the criterion is graded with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company itself as well as information from independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

An external rating committee assists the analysts at ISS-oekom with the content-related design of industry-specific criteria and carries out a final plausibility check of the rating results at the end of the rating process.

**Controversy Monitor** - The Controversy Monitor is a tool for assessing and managing reputational and financial risks associated with companies' negative environmental and social impacts.

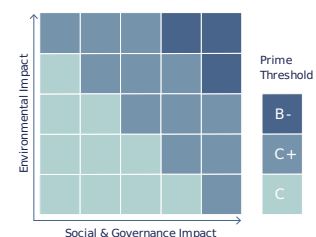
The controversy score is a unit of measurement for the number and severity of a company's current controversies. All controversial business areas and business practices receive a negative score, which can vary depending on the significance, number and severity of the controversies. Both the company's score and the maximum score obtained in the industry are displayed.

For better classification, the scores are assigned different levels: minor, moderate, significant and severe. The industry level relates to the average controversy score.

Only controversies for which reliable information from trustworthy sources is available are recorded. In addition to proven misconduct and activities of companies, alleged misconduct and activities are also assessed when the facts and circumstantial evidence provided by those sources, taking into account the experience of specialised analysts for each topic, is estimated to be sufficiently reliable. It should be noted that large international companies are more often the focus of public and media attention. Thus, the information available on those companies is often more comprehensive than for less prominent companies.

**Distribution of Ratings** - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ISS-oekom Universe (company portrayed in this report: dark blue).

**Industry Classification** - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analysed is classified in a Sustainability Matrix. Depending on this classification, the dimensions of the ISS-oekom Corporate Rating, the Social & Governance Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS-oekom Prime Status (Prime threshold) are defined (absolute best-in-class approach).



**Industry Leaders** - List (in alphabetical order) of the top three companies in an industry from the ISS-oekom Universe at the time of generation of this report.

**Key Issue Performance** - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

**Rating History** - Development of the company's rating over time and comparison to the average rating in the industry.

**Rating Scale** - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

**Status & Prime Threshold** - Companies are categorised as Prime if they achieve/exceed the minimum sustainability performance requirements (Prime threshold) defined by ISS-oekom for a specific industry (absolute best-in-class approach) in the ISS-oekom Corporate Rating. Prime companies rank among the sustainability leaders in that industry.

**Strengths & Weaknesses** - Overview of selected strengths and weaknesses of a company with regard to the key issues of the industry from a sustainability point of view.