SECTOR POLICY – OIL & GAS
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1 Introduction

BNP Paribas has long been committed to fighting climate change. In line with the global target set out in the Paris Agreement in December 2015, it has joined the international effort to keep global warming well below 2°C above pre-industrial levels. Since then, BNP Paribas has continuously strengthened its commitments as sustainability is at the center of its global strategy. It is now fully committed to achieving its goal of contributing to finance a Net-Zero Carbon economy by 2050.

As an international financial institution, BNP Paribas has a strong local anchoring worldwide allowing a holistic view of its clients’ practices. The mission of BNP Paribas, positioned as a long-term partner of the energy sector, is to finance the real economy. Thus, it can support the just and collective transition towards sustainable growth.

The energy sector is a large contributor to global greenhouse gas (GHG) emissions, responsible for almost three-quarters of the emissions produced since the pre-industrial age, according to the International Energy Agency (IEA). But energy is also essential to support economic and social progress as well as to help other sectors decarbonize their activities. The transition to low-carbon sources of energy is at the heart of the global response to climate change.

The NZE scenario\(^1\) developed by the IEA, puts forward that the energy sector must shift from fossil fuels to renewable energy, which means that there is a need to decrease both oil and gas supply and oil and gas demand, and to expand renewable energy sources. According to the IEA’s NZE scenario, investments in existing oil and gas fields will remain necessary for several years\(^2\) and unilateral actions on oil and gas supply, without equivalent action on oil and gas demand, may have significant negative impacts, especially on social and energy independency topics.\(^3\) These contextual elements explain why transition solutions are essential to achieve the final goal of carbon neutrality by 2050. Fossil fuels, especially natural gas, could play a (progressively decreasing) role in the global energy transition, as long as the resources are produced with the best practices in order to limit associated greenhouse gas emissions (especially those related to methane leaks) and other potential adverse impacts while not locking in their use over the long-term.

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\(^1\) Net Zero Emissions by 2050

\(^2\) According to the IEA, « in the absence of any investment in existing oil fields, supply would fall by around 8-9% per year, which is faster than the rate of decline in oil demand even in the NZE. »

\(^3\) According to the IEA, « the fact that no new oil and natural gas fields are required in the NZE does not mean that limiting investment in new fields will lead to the energy transition outcomes in the NZE. If demand remains at higher levels, reduced investment would result in a shortfall in supply in the years ahead, and this would lead to higher and more volatile prices. Therefore, a strong policy push to reduce oil and gas demand in line with the trajectory envisaged in the NZE is key to achieve deep reductions in emissions and to avoid the risk of market tightening. »
Since 2017, BNP Paribas no longer finances unconventional oil and gas projects and no longer finances or invests in companies with significant activities in shale oil or shale gas or in companies with significant oil sands activities.

BNP Paribas’ oil and gas policy is evolving to better integrate climate and environmental issues in activities related to the oil and gas sector. It focuses on the unconventional resources having the most critical environmental impacts such as shale gas, shale oil and oil sands. This policy also covers oil and gas exploration and production from sensitive areas.

This policy complements the commitments taken by BNP Paribas in 2022 within the Net Zero Banking Alliance, Net Zero Asset Owner Alliance (by BNP Paribas Cardif) and Net Zero Asset Manager Initiative (by BNP Paribas Asset Management) frameworks, to align BNP Paribas activities on a pathway to net-zero.

As a long-time partner of the Energy sector, as well as a strong supporter of the transition to a low carbon economy, BNP Paribas will continue to actively support energy companies that are committed to transition.

BNP Paribas will assess energy companies’ (whether clients or investees) climate commitments and transition strategy, based on a range of both quantitative and qualitative criteria.

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Sectorial Policy

2 Objective and scope

2.1 Objective

This policy defines a set of rules and procedures regarding financial products or services provided by, or investments made by, BNP Paribas entities. They aim at addressing social and environmental issues of the oil and gas industry and establishing guidelines for conducting business in the most responsible manner possible.

2.2 Geographic scope

This policy is applicable worldwide.

2.3 BNP Paribas Activities

**BNP Paribas entities**: this policy applies to all business lines, branches, subsidiaries and joint ventures of which BNP Paribas has operational control. When BNP Paribas establishes new joint ventures in which it has a minority stake, it strives to include its standards as part of the joint venture agreement.

**Financial products or services**: this policy applies to all financing activities provided by BNP Paribas (lending, debt and equity capital markets, guarantees and advisory work, etc.). It covers all new projects and companies within the scope of this policy. For financing agreements with oil and gas companies that predate this policy, the rules and standards set out below will be applied as such agreement are due for review.

**Investment and asset management activities**: this policy applies to all BNP Paribas entities managing proprietary assets and third-party assets.
### 2.4 Main definitions

Under the present policy,

**Energy companies** are defined as all companies active in the upstream oil and gas sector, whatever the share of oil and gas produced.

**Unconventional oil and gas** resources encompass shale oil or gas, oil sands as well as extra-heavy oil with a density above 1kg / L corresponding to an API gravity below 10°.

**Arctic region**: BNP Paribas is extending its definition of the Arctic and adopts the Arctic Monitoring and Assessment Program (AMAP) definition, which is the broadest. An exception is made for Norwegian areas based on the fact that Norway has developed the most constraining environmental and operational laws, regulations and monitoring processes in the world.

**Amazon region** covers part of Brazil, Ecuador, Bolivia, Colombia, Guyana, Venezuela and Peru. Amazon Sacred Headwaters area is a sub-region of the Amazon River basin, comprising the Napo, Pastaza, and Marañon River Basins of Ecuador and Peru. Within this policy, restrictions will apply to all IUCN areas from I to IV, RAMSAR and World Heritage areas within the Amazon region as well as to all the Amazon Sacred Headwaters area.

### 3 Common criteria for energy companies’ assessment

#### 3.1 Energy companies’ assessment

#### 3.1.1 Mandatory requirements

As for all sector of activities, BNP Paribas will only consider providing financial products or services to, or invest in, Energy companies that:

- Have their headquarters located in countries that are not under financial sanctions from France, the European Union, the U.S.A., or the United Nations;
- Do not use child or forced labour as defined in the International Labour Organization (ILO) Conventions.

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5 The Arctic Monitoring and Assessment Program (AMAP) is the working group of the Arctic Council [intergovernmental forum including 8 Arctic States (Canada, Denmark, Finland, Iceland, Norway, Russia, Sweden, US) and indigenous peoples’ organizations (Inuit, Aleut, Sami and a few others)].

6 C 138 Minimum Age Convention, 1973; C 182 Worst Forms of Child Labor Convention, 1999; C 29 Forced Labor Convention, 1930
The following points are also mandatory requirements when financing or providing services to corporate clients. In the context of our investment and asset management activities, these reflect our expectation for companies:

- Have a policy in place to protect their workers’ health and safety and disclose or provide their track record regarding health and safety at company level;
- Disclose or provide information at company level on their performance related to water use, waste generation, energy consumption, GHG emissions including scopes 1 & 2 (reporting on scope 3 is highly encouraged), and land reclamation strategy.

For asset management activities, where these expectations are not met, these topics can inform the engagements we undertake with oil and gas companies to encourage them to establish and strengthen long term plans and targets towards sustainable and low carbon business models.

3.1.2 Evaluation and engagement criteria

When financing or providing services to corporate clients, BNP Paribas will also carry out an analysis of Energy companies based on the below criteria. Within its investment and asset management activities, BNP Paribas will use the below criteria to inform the engagements it undertakes with Energy companies.

3.1.2.1 General criteria

- the company has public policies and targets on key environmental, social and governance issues and discloses its related performance;
- whether the company is subject to regular and repeated criticism or controversies about its environmental, social, security (including the use of security forces), or governance performance on material issues, the actions taken by the company to address such issues.

3.1.2.2 Health, Safety, Security and Environment criteria

- the company is involved in research or multi-stakeholders efforts (such as OGCI\(^7\)) to monitor and address key environmental and social issues;
- the company has a convincing environmental, social, health and safety track record;
- the company has a flaring and venting policy in place;
- the company considers biodiversity issues when developing projects;
- the company’s oil and gas activities (existing operations or new projects) are in line with the IFC Performance Standards and the applicable World Bank Group Environmental, Health, and Safety Guidelines (both General and Industry Sector EHS Guidelines\(^8\)).

\(^7\) OGCI: Oil and Gas Climate Initiative https://www.ogci.com/

\(^8\) IFC Performance Standards

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Classification: External
3.1.2.3 Human rights and governance criteria

- The company has committed to respect human rights in the way it conducts business;
- The company has implemented a stakeholder engagement plan, which includes a consultation process for communities affected by the development of new oil and gas projects;
- The company has a grievance mechanism in place through which stakeholders’ concerns can be raised and addressed;
- The company discloses payments made to host governments (such as royalties, taxes and profit sharing);

The company has a policy in place to support the sustainable development of local communities.

3.1.3 Good industry practices

BNP Paribas encourages energy companies to move towards good industry practices regarding environmental, social and governance issues, notably by joining or officially supporting recognized initiatives such as those detailed below.

- Initiatives and standards promoting best practices in terms of responsible business behavior such as:
  - The UN Global Compact\(^8\);
  - The UN Guiding Principles on Business and Human Rights\(^9\);
  - The OECD Guidelines for Multinational Enterprises\(^10\);
  - The 8 core labour standards set out by the International Labour Organization\(^11\);
  - IFC's Performance Standards\(^12\);

- Initiatives set out to improve transparency, accountability, and reporting, in general and in the oil and gas sector in particular, such as:
  - The Global Reporting Initiative (GRI)\(^13\);
  - The Sustainability Accounting Standards Board (SASB)\(^14\);
  - The CDP (Carbon and Water Disclosure Projects)\(^15\);

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\(^8\) The list of all EHS Guidelines is available here: http://www.iucn.org/wps/wcm/connect/topics_ext_content/iucn_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines
\(^9\) https://unglobalcompact.org/what-is-gc/mission/principles
\(^12\) https://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang-en/index.htm#-text=The%20IL0%20 Governing%20body%20had%20forced%20or%20compulsory%20labour
\(^15\) https://www.sasb.org/standards/download/?lang=en-us
- Initiatives set out to improve methane emission management such as the Oil and Gas Methane Partnership (OGMP)\textsuperscript{20}, which defines stringent methane intensity target and measurement-based reporting framework.

- Initiatives set out to ensure the respect of human rights and fundamental freedoms in the context of companies’ safety and security operations, such as the Voluntary Principles on Security and Human Rights\textsuperscript{21}.

- Sector initiatives that aim at improving standards of operations in oil and gas activities that cover specific activities within the oil and gas sector, such as:
  - The World Bank Group Environmental, Health and Safety (EHS) Guidelines for Onshore Oil and Gas Development\textsuperscript{22};
  - The Oil and Gas Climate Initiative (OGCI);
  - The IOGP list of “ISO Standards for use in the oil & gas industry”\textsuperscript{23};
  - International institutions’ recommendations on unconventional oil and gas activities:
    - OGP-IPIECA Good practice guidelines for shale oil and gas\textsuperscript{24};
    - The International Energy Agency Golden Rules on unconventional gas activities\textsuperscript{25}.

### 3.2 Assessment specific to Unconventional Oil and Gas

BNP Paribas will only consider providing financial products or services to, or invest in, Energy companies that derive less than 10\% of their activities from Unconventional Oil and Gas.

Moreover, BNP Paribas will not provide financial products or services to:

- trading companies for which unconventional oil and gas resources represent a significant part of their business,

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\textsuperscript{16} https://www.cdp.net/
\textsuperscript{17} https://eiti.org/
\textsuperscript{18} https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/
\textsuperscript{19} https://www.ipieca.org/our-work/sustainability/performance-reporting/sustainability-reporting-guidance/
\textsuperscript{20} https://www.ogmpartnership.com/
\textsuperscript{21} https://www.voluntaryprinciples.org/the-principles/
companies that own or operate pipelines or LNG export terminals supplied with a significant volume of unconventional oil and gas.

3.3 Assessment specific to the protection of sensitive areas

Some areas appear to be particularly sensitive in terms of biodiversity and deserve specific attention:

- BNP Paribas will not provide financial products and services to, or invest in, companies deriving more than 10% of their exploration and production activities from the Arctic region.
- BNP Paribas will not provide financial products and services to or invest in companies with oil and gas reserves in the Amazon region (as defined in 2.4) as well as the ones actively developing related infrastructure in this area.

4 Criteria applicable for financing and services activities

BNP Paribas has set an increased ambition in terms of energy transition which includes strengthened targets in terms of renewable energy financing and a more stringent management of its oil and gas portfolio. The bank's strategy is detailed in its Climate Analytics and Alignment Report.

Strategic dialogue will be intensified to help oil and gas clients establish and strengthen long term plans and targets towards sustainable and low carbon business models. This will enable BNP Paribas to support its clients in the development of best practices and sound transition strategies.

4.1 Scope

This policy covers:

- Unconventional oil and gas projects: exploration and production of unconventional oil and gas resources, pipelines transporting unconventional oil or gas, as well as LNG export terminals supplied with unconventional gas. It covers both greenfield and brownfield projects;
- Oil and gas projects in the Arctic region and in the Amazon region as defined in 4.2.2. It covers both greenfield and brownfield projects;
- Companies involved in unconventional oil and gas: companies that own or operate unconventional oil and gas exploration and production assets, pipelines transporting unconventional oil or gas, and/or LNG export terminals supplied with unconventional gas. Trading companies involved in unconventional oil and gas are also covered.
- Companies linked to sensitive areas as defined in 4.3.2.
4.2 Project and trade finance

4.2.1 Unconventional O&G projects

BNP Paribas will only provide financial products or services to the greenfield or brownfield projects that are not:

- Exploration and Production of unconventional oil and gas resources;
- Pipelines transporting more than 10% on a 2-year average of unconventional oil and gas;
- LNG export terminals supplied by more than 10% on a 2-year average of unconventional gas.

4.2.2 Projects and trade finance in sensitive areas

BNP Paribas will not finance any oil and gas project and related infrastructure in the Arctic and the Amazon regions (as defined in 2.4).

BNP Paribas also excludes from its trading activities the seaborne exports of oil from the Esmeraldas region in Ecuador.

4.2.3 Assessment specific to sensitive oil and gas production techniques

Some oil and gas production techniques may be controversial as they can have negative impact on the environment in terms of climate and/or biodiversity. BNP Paribas will have a specific attention to those oil and gas production activities and implement in-depth due diligence in its lending activities for any new project or specialized companies. Sensitive production includes heavy oil, coalbed methane and ultra-deep water.26

4.3 Energy companies’ assessment

4.3.1 Energy companies’ assessment linked to unconventional oil and gas production

As described in 3.2, BNP Paribas will only consider providing financial products or services to Energy companies that derive less than 10% of their activities from Unconventional Oil and Gas, unless the

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26 Ultra-deep water is defined as a field below 1500m
exception provided in 4.4 applies. For financing and services activities, such a ratio will be assessed as follows:

- For pure upstream oil and gas players, on the basis of their reserves: BNP Paribas will only finance upstream companies having less than 10% of unconventional reserves.
- For diversified energy companies, on the basis of the Unconventional Ratio (defined as share of total revenues from their upstream activities, multiplied by the share of non-conventional reserves). BNP Paribas will only finance diversified energy companies with an Unconventional Ratio below 10%.

4.3.2 Energy companies’ assessment linked to sensitive areas

As described above in 3.3, BNP Paribas will not provide products and services to companies deriving more than 10% of their exploration and production activities from the Arctic region, with this ratio computed as follows:

- Pure oil and gas players will be assessed based on their reserves in this area as a percentage of their total reserves;
- Diversified oil and gas companies will be assessed based on an Arctic Ratio. Such ratio will be calculated as the percentage of their total reserves in the Arctic multiplied by the share of total revenues from upstream activities.

BNP Paribas will not finance companies with oil and gas reserves in the Amazon region (as defined in 2.4), as well as the ones actively developing related infrastructure in this area.

4.4 Transition plan assessment

The transition strategy of all energy companies shall be assessed.

For companies that are in breach of the criteria listed in paragraphs 4.3.1, a deeper assessment of their climate commitments shall be made, including at least the following:

- Public commitment to align with a 1.5°C or net zero strategy by 2050;
- Board supervision of company’s climate strategy and climate commitments;
- Intermediary GHG reduction targets (2030 as a maximum) if possible a) in absolute value and b) addressing Scope 1, 2 & 3 emissions aligned with NZE pathway;
- GHG emissions measured and reported annually;
- Consistent Capex program to support the Company’s transition strategy towards a low carbon business model.

For those demonstrating highly credible and consistent climate commitments and transition plan, including analysis of controversies (cf. 3.1.2.1), the criteria related to unconventional oil and gas production (cf. 4.3.1) may not be applied.
Whatever the robustness of their transition plan, BNP Paribas will not finance energy companies deriving more than 30% of their activities from Unconventional Oil and Gas (as defined in 4.3.1).

4.5 Implementation

The information related to the above requirements will be obtained from the oil and gas clients by BNP Paribas' client relationship managers and by external data providers.

BNP Paribas will regularly review the performance of Energy companies against this policy. If BNP Paribas becomes aware that a client operates outside the requirements of it, a dialogue will be engaged with the client in order to find an acceptable solution to improve the situation in a timely manner. If this dialogue is unfruitful, BNP Paribas will decide not to pursue any new business with such client and may place existing business under review taking into account existing contractual agreements.

5 Criteria applicable within investment and asset management activities

The business lines of the Group involved in investment and asset management activities have over the years steadfastly increased their levels of commitments to achieving the Paris Agreement goals. It is now universally accepted that reaching global net zero emissions by 2050 is essential to prevent irreversible and massive impacts of climate change, which are imminent if nothing is done.

This is why BNP Paribas Cardif has decided to join the Net Zero Asset Owner Alliance and BNP Paribas Asset Management (BNPP AM) the Net Zero Asset Managers initiative to lend coherence and accountability to our commitments.

5.1 Scope

This policy covers:

- Companies involved in unconventional oil and gas: companies that own or operate unconventional oil and gas exploration and production assets, pipelines transporting unconventional oil or gas, and/or LNG export terminals supplied with unconventional gas. Trading companies involved in unconventional oil and gas are also covered.
- Companies linked to sensitive areas as defined in 5.3.
5.2 Unconventional oil and gas companies

BNP Paribas will only invest in Energy companies that derive less than 10% of their activities in Unconventional Oil and Gas (for those not meeting the criteria, please refer to 5.4). For investment activities, this ratio will be assessed as follows:

- For pure upstream oil and gas players, on the basis of their reserves: BNP Paribas will only invest in upstream companies having less than 10% of unconventional reserves.
- For diversified energy companies, on the basis of the Unconventional Ratio (defined as share of total revenues from their upstream activities, multiplied by the share of non-conventional reserves): BNP Paribas will only invest in diversified Energy companies with an Unconventional Ratio below 10%.

In addition to the above, BNP Paribas will exclude from its investment universe trading companies for which unconventional oil and gas resources represent a significant part of their business as well as companies that own or operate pipelines or LNG export terminals supplied with a significant volume of unconventional oil and gas.

5.3 Sensitive areas

BNP Paribas will not invest in companies deriving more than 10% of their exploration and production activities from the Arctic region, with this ratio computed as follows:

- Pure oil and gas players will be assessed based on their reserves in this area as a percentage of their total reserves;
- Diversified oil and gas companies will be assessed based on an Arctic Ratio. This ratio will be calculated as the percentage of total reserves in the Arctic multiplied by the share of total revenues from upstream activities.

BNP Paribas will not invest in companies with oil and gas reserves in the Amazon region (as defined in 2.4) as well as the ones actively developing related infrastructure in this area.

5.4 Transition plan assessment

Companies that do not meet the criteria in sections 5.2 may be added to BNP Paribas Asset Management’s monitoring list, meaning they are eligible for investment subject to regular review if they have credible climate commitments and realistic transition plans. When assessing whether to add a company to BNP Paribas AM monitoring list, it will be considered whether the company has:

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27 Please also refer to section 5.4

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Classification: External
- Public commitment to align with a 1.5°C or net zero strategy by 2050;
- Board supervision of company’s climate strategy and climate commitments;
- Intermediary GHG reduction targets (2030 at a maximum) if possible a) in absolute value and b) addressing Scope 1, 2 & 3 emissions aligned with NZE pathway;
- GHG emissions measured and reported annually;
- Consistent capex program to support the company’s transition strategy towards a low carbon business model.

Please refer to the BNP Paribas Asset Management Responsible Business Conduct Policy for further information about the creation and maintenance of the monitoring list.

Whatever the robustness of their transition plan, BNP Paribas will not invest in energy companies deriving more than 30% of their activities from Unconventional Oil and Gas (as defined in 4.3.1).

5.5 Implementation

BNP Paribas will implement these requirements within its investment and asset management activities based on the following:

- BNPP AM creates and maintains the monitoring and the exclusion lists and implements them within its investments, in line with their Responsible Business Conduct Policy. BNPP AM will have until 31 Dec 2022 to finalize the exclusion list related to this policy.
- When applied to other activities within BNP Paribas, this list will become the « BNP Paribas investment and asset management activities’ monitoring list »
- BNP Paribas Cardif will implement this policy applying the monitoring and exclusion lists within its investments activities where applicable.²⁶ BNP Paribas Cardif will cease immediately all new direct investments and will exit from existing ones within a reasonable time frame, taking into account solvency and accounting considerations.
- BNP Paribas Wealth Management, BNP Paribas’s private bank, as a distributor, provides clients with BNP Paribas products which align with this policy and encourages external asset managers to adopt the standards set out in this policy.

²⁶ Investment restrictions apply to BNP Paribas Cardif General Funds on directly held assets: equities and corporate bonds. They do not apply to existing General Funds minority joint ventures
6 Disclaimer

In order to comply with regulations and implement the principles defined in its internal procedures and sector policies, BNP Paribas endeavours to source accurate and reliable information, particularly from oil and gas companies, on their sustainability policies and practices. BNP Paribas relies on this information gathered from oil and gas companies and external providers. However, its decision is dependent on the quality, accuracy and up-to-datedness of such third-party information.

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