



BANK OF THE WEST
BNP PARIBAS

UNCONVENTIONAL OIL AND GAS – SECTOR POLICY

POLICY OVERVIEW

Bank of the West (BOTW) has strongly committed to energy transition and already launched various actions to lower the carbon intensity of its portfolio and improve the impact of its activities on the environment.

As a contribution to this objective, Bank of the West has developed a consistent policy regarding its financial products and services for the unconventional oil and gas industry.

Fossil fuels, especially natural gas, could play an important part in the global energy transition, as long as the resources are produced with the best possible practices in order to limit associated greenhouse gases emissions and other potential adverse impacts.

The transportation and power sectors, originally built upon fossil resources, still need to rely partly on oil and natural gas during the necessary transition period. Unconventional oil and gas production currently represents around 10% of global oil and gas production. This share is expected to grow as unconventional oil and gas now respectively account for 55% and 44% of recoverable resources.¹

Oil and gas are defined as unconventional if the oil or gas resource is spread out diffusely over a large area and is unlikely to migrate throughout the sedimentary layers, which such formations may require the need for unconventional extraction (and sometimes processing) techniques.²

The rapid increase in the number of unconventional oil and gas projects has generated a higher level of risks resulting from inadequate control on companies' practices. However, the impact of these unconventional activities can be mitigated by implementing best practices that are being developed over time. Bank of the West will therefore assess the various unconventional resources and projects according to the best industry practices to be able to judge their actual specific impacts. This policy focuses on the unconventional resources accounting for the highest production volumes and/or the most critical environmental impacts (i.e. shale gas, shale oil and oil sands).

This policy also covers oil and gas exploration, and production from the Arctic region as defined by oil and gas resources located onshore and offshore in the Arctic Circle, including in the Arctic National Wildlife Refuge. This definition recognizes the extreme environment in which such activities would take place, and the additional risks these would create in case of accidents, especially oil spills.

Bank of the West will continue to actively support clients in the energy sector. However, based on the risks identified for the unconventional oil and gas industry, the Bank will no longer provide products or services to the projects with the highest environmental and social adverse impacts, and will favor clients who are committed to take an active role in the energy transition and who apply the highest industry standards.

¹ Source: IEA World Energy Outlook 2016

² Source : Petroleum Resources Management System by American Association of Petroleum Geologists (AAPG), Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), Society of Petroleum Evaluation Engineers (SPEE)

CONTENTS

1. INTRODUCTION	3
1.1. Purpose	3
1.2. Scope	3
1.2.1. Geographical	3
1.2.2. Definition of Unconventional Oil and Gas	3
1.2.3. Activities	3
1.2.4. Bank of the West Activities	3
2. Definitions	4
3. Rules and standards of the policy.....	6
3.1. Unconventional Oil and Gas Projects	6
3.2. Companies involved in Unconventional Oil and Gas activities	6
3.2.1. Mandatory Requirements	7
3.2.2. Evaluation criteria	7
4. Good industry practices	8
5. Implementation Mechanisms	9
5.1. Financial products or services.....	9
5.2. Asset Management	10
6. Disclaimer	10

1. INTRODUCTION

1.1. Purpose

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

1.2. Scope

1.2.1. Geographical

Worldwide

1.2.2. Definition of Unconventional Oil and Gas

Under the present policy, unconventional oil and gas resources cover shale oil or gas, oil sands as well as oil and gas resources located onshore and offshore in the Arctic Circle, including in the Arctic National Wildlife Refuge.

1.2.3. Activities

This policy covers:

- Unconventional oil and gas projects: exploration and production of unconventional oil and gas resources³, pipelines transporting unconventional oil or gas, as well as LNG export terminals supplied with unconventional gas. It covers both greenfield and brownfield projects.
- Companies involved in unconventional oil and gas: companies that own or operate unconventional oil and gas⁴ 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.

1.2.4. Bank of the West Activities

Bank of the West entities: this policy applies to all business lines, branches, subsidiaries and joint ventures of which Bank of the West has operational control. When Bank of the West 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 Bank of the West (lending, debt and equity capital markets, guarantees and advisory work, etc.). It covers all new projects and companies within the scope of this policy (cf. 1.2). For financing agreements with unconventional 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.

Asset Management: this policy applies to all Bank of the West entities managing proprietary assets and third-party assets, with the exception of index-linked products. External asset managers are actively monitored and encouraged to implement similar standards.

³ As defined in 1.2.2

⁴ Ibid

2. DEFINITIONS

Alliance for Zero Extinction (AZE)	The AZE is a joint initiative of worldwide biodiversity conservation organizations, which aims to prevent extinctions by identifying and safeguarding key sites, each one of which is the last remaining refuge of one or more Endangered (EN) or Critically Endangered (CR) species. AZE sites contain >95% of the known global population of a given EN or CR species, or >95% of the population for one life history segment (e.g. breeding or wintering) of the EN or CR species. It also has distinctive features and definable boundaries. For the above reasons, the loss of an AZE site would result in the extinction of a species in the wild. https://zeroextinction.org/the-alliance/about-the-alliance/
Arctic region	The Arctic region is defined by the onshore and offshore areas of the Arctic Circle, including in the Arctic National Wildlife Refuge.
Carbon and Water Disclosure Projects	CDP, formerly the Carbon Disclosure Project, is an independent not-for-profit organization working to drive greenhouse gas emissions reduction and sustainable water use by business and cities. The CDP works with companies to establish methodologies and encourage disclosure and management of climate and water data (e.g. greenhouse gas emissions, water use and pollution), and with investors to assess risks and opportunities related to climate change and water scarcity, flooding, and pollution. https://www.cdp.net/en https://www.cdp.net/en/water
Extractive Industries Transparency Initiative (EITI)	The EITI is a global standard ensuring transparency of payments from natural resources companies. It is a coalition of governments, companies, civil society groups, investors, and international organizations. http://eiti.org/
Forced Labor	Forced labor means work or service exacted from a person under threat or penalty, which includes penal sanctions and the loss of rights and privileges, where the person has not offered him/herself voluntarily (Forced Labor Convention n°29, ILO 2001a)
Global Compact	The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and is endorsed by chief executives of the member businesses. BNP Paribas has been a signatory of the UN Global Compact since 2003. http://www.unglobalcompact.org/
GRI	The Global Reporting Initiative (GRI) is a non-profit organization that promotes economic, environmental and social sustainability. GRI provides all companies and organizations with a comprehensive sustainability reporting framework that is widely used around the world. https://www.globalreporting.org/
International Finance Corporation (IFC) Environmental, Health, and Safety (EHS) General Guidelines	Designed jointly by the IFC and the World Bank Group, the EHS Guidelines are technical reference documents with general and industry-specific examples of Good International Industry Practice. They contain the EHS performance levels and measures that are generally considered to be achievable in new facilities by existing technology at reasonable costs. www.ifc.org/ehsguidelines
International Finance Corporation(IFC) Performance Standards in terms of Environmental and Social sustainability	The IFC requires its clients (in case of direct investment) complies with the 8 IFC standards that help avoid, mitigate, and manage environmental and social risks and impacts. https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards

International Labor Organization (ILO)	The International Labour Organization (ILO) is a UN specialized agency which seeks the promotion of social justice and internationally-recognized human and labor rights. http://www.ilo.org/global/lang-en/index.htm
ISO Standards	The International Organization for Standardization develops and publishes standards internationally recognized that are followed by all sectors of activities. https://www.iso.org/home.html
International Union for Conservation of Nature (IUCN)	The IUCN is a global conservation network gathering governments as well as non-governmental organizations. One of the missions of the IUCN is to help countries and communities designate and manage protected areas on land and in the oceans. Protected areas are divided into six categories: I – Strict Nature Reserve (Ia) / Wilderness Area (Ib); II – National Park; III – Natural Monument or Feature; IV – Habitat / Species Management area; V – Protected Landscape / Seascape; VI – Protected area with sustainable use of natural resources; http://www.iucn.org/about/work/programmes/pa/pa_products/wcpa_categories/
IPIECA's Oil and Gas Industry Guidance on voluntary sustainability reporting	The "Oil and Gas Industry Guidance on voluntary sustainability reporting" was published in 2015 by IPIECA, the global oil and gas industry association for environmental and social issues, the American Petroleum Institute (API), and the International Association of Oil & Gas producers (IOGP) in 2015. This Guidance represents industry consensus on the most prevalent sustainability issues and indicators, and aims at sharing good practice across the industry. http://www.ipieca.org/media/2849/og_industry_guidance_on_voluntary_sustainability_reportnig_3rd_ed_2016.pdf
Oil sands	Oil sands are characterized by their medium to high viscosity. They are recovered through soil mining at shallow depth, or through steam-assisted gravity drainage at higher depth.
Organization for Economic Cooperation And Development (OECD) Guidelines for Multinational Enterprises	These recommendations are an annex to the OECD Declaration on International Investment and Multinational Enterprises. They provide voluntary principles and standards for responsible business conduct for multinational corporations operating in or from adhering countries (the OECD members, Argentina, Brazil and Chile). http://www.oecd.org/corporate/mne/
UNESCO World Heritage Sites	Designated cultural and natural heritage areas around the world that are considered of outstanding value to humanity and which are listed under the World Heritage Convention. http://whc.unesco.org/en/list
United Nations Guiding Principles on Business and Human Rights	The 31 principles were adopted in 2011 by the United Nations Human Rights Council in order to implement United Nations "Protect, Respect and Remedy" framework. They address issues related to infringements of human rights due to business activities.
Voluntary Principles on Security and Human Rights	Established in 2000, the Voluntary Principles are an initiative by governments, NGOs, and companies to provide guidance to extractives companies on maintaining the safety and security of their operations within an operating framework that ensures respect for human rights and fundamental freedoms. The Voluntary Principles (VPs) are the only human rights guidelines designed specifically for oil, gas, and mining companies. www.voluntaryprinciples.org
Shale oil and shale gas	Shale oil and shale gas are formed in the same source rock than conventional oil and gas, but did not migrate upwards to be trapped into a porous and permeable formation that can be produced using conventional methods. The very low permeability of the source rock requires the need to artificially fracture the rock.
Sustainability Accounting Standards Board (SASB)	The Sustainability Accounting Standards Board (SASB) is an independent non-profit organization that develops sector- specific Key Performance Indicators (KPIs) for sustainability. www.sasb.org/

Wetlands on the Ramsar list	These wetlands are defined as “Sites containing representative, rare or unique wetland types” or “Sites of international importance for conserving biological diversity” listed in the Convention on Wetlands adopted in Ramsar, Iran in 1971 (Ramsar convention - https://ramsar.org/)
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Definitions above are likely to change over time. We will monitor international developments and continue to follow internationally-recognized conventions where possible.

3. RULES AND STANDARDS OF THE POLICY

Bank of the West requires companies involved in unconventional oil and gas to comply with applicable local laws and regulations as well as with international conventions ratified by their operating countries. This policy also sets additional criteria to be respected by these companies.

These criteria are split in two categories: mandatory requirements and evaluation criteria.

The mandatory requirements are to be understood as sine qua non: those have to be met without exception before Bank of the West considers providing financial product or services to oil and gas companies or projects involved in unconventional activities and resources.

In addition to these mandatory requirements, the **evaluation criteria** have been identified to develop the analysis performed by Bank of the West. Based on the results of such complementary due diligence, Bank of the West reserves its right to request additional requirements or decline its involvement even if the mandatory requirements are met.

3.1. Unconventional Oil and Gas Projects

Bank of the West will not provide financial products or services to the following greenfield or brownfield projects:

- Exploration and Production of unconventional oil and gas resources⁵;
- Pipelines transporting a significant volume of unconventional oil and gas;
- LNG export terminals supplied by a significant volume of unconventional gas.

3.2. Companies involved in Unconventional Oil and Gas activities

Bank of the West will not provide financial products or services to a company that falls under one of the following activities:

- Exploration and production companies for which unconventional oil and gas represent a significant part of their total reserves
- Diversified⁶ companies for which unconventional oil and gas exploration and production represent a significant share of their total revenues
- Trading companies for which unconventional oil and gas resources represent a significant part of their business
- Companies that own or operate pipelines or LNG export terminals supplied with a significant volume of unconventional oil and gas

For companies involved in unconventional oil and gas that are not subject to the above exclusions, Bank of the West applies the following mandatory requirements and evaluation criteria.

⁵ As defined in 1.2.2

⁶ i.e. companies with exploration, production as well as midstream and/or downstream activities.

3.2.1. Mandatory Requirements

Bank of the West will only provide financial products or services to companies involved in unconventional oil and gas resources 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 labor as defined in the International Labor Organization (ILO) Conventions⁷
- 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, and land reclamation strategy.

3.2.2. Evaluation criteria

Bank of the West will also carry out an analysis of companies involved in unconventional oil and gas based on the following evaluation criteria:

General criteria

- Whether 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, and how it is taking actions to address such issues.

Health, Safety, Security and Environment criteria

- Whether the company is involved in research or multi-stakeholders efforts to monitor and address key environmental and social issues (such as OGCI⁸)
- Whether the company has a convincing environmental, social, health and safety track record
- Whether the company has a flaring and venting policy in place
- Whether the company considers biodiversity issues when developing projects
- Whether the company is developing new unconventional oil and gas projects on the following areas:
 - UNESCO World Heritage Sites;
 - Wetlands on the Ramsar list;
 - Alliance for Zero Extinction sites
 - IUCN Category I-IV areas;
 - Legally protected areas.
- Whether the company's unconventional 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 Guidelines⁹).

Human rights and governance criteria

- The company has implemented a stakeholder engagement plan, which includes a consultation process for communities affected by the development of new unconventional oil and gas projects
- The company has a grievance mechanism in place through which stakeholders' concerns can be raised

⁷ C 138 Minimum Age Convention, 1973 ; C 182 Worst Forms of Child Labor Convention, 1999 ; C 29 Forced Labor Convention, 1930

⁸ OGCI : Oil and Gas Climate Initiative

⁹ The list of all EHS Guidelines is available here:

http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines (the Offshore and Onshore Oil and Gas Development Guidelines are particularly relevant)

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

4. GOOD INDUSTRY PRACTICES

Bank of the West encourages companies involved in unconventional oil and gas 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 set out to support and enact a set of core values in various areas (e.g. human rights, labor conditions, environmental performance, combat against corruption), either general or specific to the oil and gas sector, such as:
 - The UN Global Compact
 - The UN Guiding Principles on Business and Human Rights
 - The OECD Guidelines for Multinational Enterprises
 - IFC's Performance Standards
- 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)
 - The Carbon and Water Disclosure Projects
 - The Extractive Industries Transparency Initiative (EITI)
 - IPIECA's Oil and Gas Industry Guidance on Voluntary Sustainability Reporting
 - The Sustainability Accounting Standards Board (SASB)
- 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 Safety and Human Rights.
- 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;
 - The Oil and Gas Climate Initiative (OGCI);
 - The IOGP list of "ISO Standards for use in the oil & gas industry"¹⁰
 - International institutions' recommendations on unconventional oil and gas activities:
 - OGP-IPIECA Good practice guidelines for shale oil and gas¹¹;
 - The International Energy Agency Golden Rules on unconventional gas activities¹²;
- National or regional institutions' recommendations on unconventional oil and gas activities:

¹⁰ <http://www.iogp.org/wp-content/uploads/2016/12/Standards-Issued-2017.pdf>

¹¹ <http://www.ipieca.org/news/new-ogp-ipieca-good-practice-guidelines-for-the-development-of-shale-oil-and-gas/>

¹² http://www.worldenergyoutlook.org/media/weowebsite/2012/goldenrules/WEO2012_GoldenRulesReport.pdf

- In the United States:
 - The standards promoted by the environmental protection agencies (Coast Guard, EPA, FTC) that refer to unconventional oil and gas activities;
 - The API (American Petroleum Institute) Petroleum Industry Practices:
 - The Safety Data Sheet;
 - The API RP-100 standard specific to unconventional oil and gas activities;
 - The General Duty Clause of the Occupational, Safety and Health Act.
 - In Canada, the Guiding Principles and Operating practices published by the Canadian Association of Petroleum Producers (CAPP);
 - In Europe, the Minimal Principles published by the European Commission in the 2014/70/EU recommendation;
 - The development of best practices and standards in other regions of the world is not as advanced as in Europe and North America. However, certain countries have initiated an evaluation process such as China under the “US- China Strategic and Economic Dialogue” or Algeria through the AIG¹³.
- The IOGP, Cefic¹⁴ and IOSCA recommendations on the use of chemicals in oil and gas activities.
 - Best practices certifications by third-party organizations specific to unconventional oil and gas sectors:
 - DNV GL¹⁵ independent verification system covering shale oil and gas activities¹⁶;
 - The Center for Responsible Shale Development certification on shale gas activities, validated by Clean Air Task Force, the Environmental Defense Fund, and the Pennsylvania Environmental Council

5. IMPLEMENTATION MECHANISMS

As necessary, Bank of the West will engage an external expert to undertake the analysis required by this policy.

Result of the evaluation according to the present policy will provide elements for decision making by Bank of the West. As and when necessary, an ad hoc senior management committee shall examine these results. If required, Bank of the West may request complementary assessment before concluding on the acceptability of a transaction.

Operational tools and awareness trainings are rolled out to ensure that the Bank’s staff is able to implement this CSR sector policy.

5.1. Financial products or services

The information related to the above requirements will be obtained from the oil and gas clients by Bank of the West client relationship managers. Bank of the West will review regularly the performance of oil and gas companies against this policy. If Bank of the West 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, Bank of the West may decide not to pursue any new business with such client and may place existing business under review taking into account existing contractual agreements.

¹³ Association Algérienne de l’Industrie du Gaz

¹⁴ European Chemical Industry Council

¹⁵ Det Norske Veritas Germanischer Lloyd

¹⁶ <https://www.dnvgl.com/rules-standards/>

5.2. Asset Management

Bank of the West entities managing third-party assets will progressively implement all the relevant requirements of this policy. A transition is indeed necessary due to the fact that existing and potential investors have to be informed of the existence and implications of this policy.

6. DISCLAIMER

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