

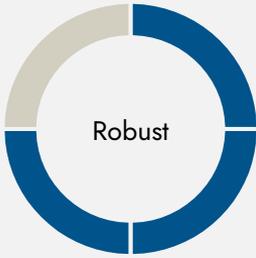
# SECOND PARTY OPINION

Vigeo Eiris is of the opinion that Banco ABC Brasil's Social Bond Framework is **aligned** with the four core components of the Social Bond Principles 2020 ("SBP").



## Issuance

Contribution to Sustainability :



- Advanced
- Limited
- Robust
- Weak

	Weak	Limited	Robust	Advanced
Expected impacts				
ESG risks management				

SDG Mapping



Characteristics	
Social Eligible Categories	4 categories to finance mid-sized and health enterprises negatively impacted by Covid-19 crisis
Target Population	Identified
Project locations	Brazil; North, North-East or Mid-West regions.
Existence of framework	Yes
Share of refinancing	20% maximum
Look back period	6 months

## Issuer

Involvement in Controversial Activities

- |  |   |  |
|--|---|--|
| <input type="checkbox"/> Alcohol               | <input type="checkbox"/> Coal                       | <input type="checkbox"/> Nuclear power           |
| <input type="checkbox"/> Animal welfare        | <input type="checkbox"/> Gambling                   | <input type="checkbox"/> Pornography             |
| <input type="checkbox"/> Cannabis              | <input type="checkbox"/> Genetic engineering        | <input type="checkbox"/> Reproductive medicine   |
| <input type="checkbox"/> Chemicals of concern  | <input type="checkbox"/> High interest rate lending | <input type="checkbox"/> Tar sands and oil shale |
| <input type="checkbox"/> Civilian firearms     | <input type="checkbox"/> Human Embryonic Stem Cells | <input type="checkbox"/> Tobacco                 |
| <input type="checkbox"/> Fossil Fuels industry | <input type="checkbox"/> Military                   |  |

Controversies

Number of controversies	None
Frequency	NA
Severity	NA
Responsiveness	NA

## Coherence

- Coherent
- Partially coherent
- Not coherent

We are of the opinion that the contemplated Bond is coherent with Banco ABC Brasil's strategic sustainability priorities and sector issues, and contributes to achieving the Issuer's sustainability commitments.

## Key findings

### Use of Proceeds

- **Eligible Categories** to be financed are clearly defined.
- **Social Objectives** are clearly defined and relevant with regards to the eligible criteria selected.
- **Expected Social Benefits** are clear.
- The Issuer has provided information on the estimated overall **share of refinancing** at bond level, and a **look back period** has been defined.

### Evaluation and Selection

- **Evaluation and Selection Process** is clearly defined and the process for selection is publicly disclosed in this Second Party Opinion.
- **Eligibility Criteria** (Selection & exclusion) are defined and specific.
- The process for the Identification and Management of **Environmental and Social Risks** is formalized and publicly disclosed.

### Management of Proceeds

- **The Process for the allocation and management** of proceeds is clear and is publicly disclosed.
- **The allocation period** is 24 months or less.
- The net proceeds of the Bond will be placed in the Issuer's **general treasury and tracked by the Issuer in an appropriate manner and attested in a formal internal process**. The information **on the intended types of temporary placement** for the balance of the unallocated net proceeds are publicly disclosed.
- The Issuer has committed that, as long as the bond is outstanding, **the balance of the tracked net proceeds will be periodically adjusted** to match allocations to eligible categories made during that period.
- The Issuer has provided information on the procedure that will be applied in case of **loan divestment or postponement** and it has committed to reallocate divested proceeds to other eligible loans.

### Reporting

- The Issuer has **committed to report annually until Bond maturity**. The report will be disclosed only to investors-bondholders and will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the categories.
- The **process and responsibilities for reporting** on the Bond are clearly defined and will be disclosed to investors.
- The Issuer will report on the **allocation of proceeds and on social benefits** at bond and eligible category level.
- **Tracking and allocation of funds to Eligible Categories will be verified only internally** by the Issuer.
- **Indicators used to report on environmental and social benefits** of the eligible categories will be **verified internally** by the Issuer.

## Scope of External Reviews

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input type="checkbox"/>	Independent verification of impact reporting
<input type="checkbox"/>	Independent verification of funds allocation	<input type="checkbox"/>	Climate Bond Initiative Certification

## Contact

Sustainable Finance Team | [VESustainablefinance@vigeo-eiris.com](mailto:VESustainablefinance@vigeo-eiris.com)

## PART 1: ISSUANCE

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The Issuer has described the main characteristics of the Bond within a formalized Social Bond Framework which covers the four core components of the Social Bond Principles 2020 (the last updated version was provided to Vigeo Eiris on June 2020). The Issuer has committed to make this Second Party Opinion publicly accessible on Banco ABC Brasil's website on the issuance date, in line with good market practices. The Social Bond Framework will only be disclosed to investors.

### Alignment with the Social Bond Principles

Vigeo Eiris is of the opinion that Banco ABC Brasil's Social Bond Framework is aligned with the four core components of the Social Bond Principles 2020:

- **Use of Proceeds**
- **Evaluation and Selection**
- **Management of Proceeds**
- **Reporting**

### Contribution to Sustainability

The potential contribution of the eligible categories to social objectives is expected to be Robust.

#### Expected Impacts

The expected positive impact of the eligible categories on social objectives is expected to be Robust.

#### ESG Risks Management

The identification and management of the environmental and social risks associated with the Eligible Categories is considered Robust.

## Alignment with the Social Bond Principles

### Use of Proceeds



The net proceeds of the Bond will exclusively finance or refinance, in part or in full, loans falling under four Social Eligible Categories (“Eligible Categories”), as indicated in Table 1.

- **The Eligible Categories** to be financed are clearly defined. The Issuer has provided the nature of the expenditures, the description of the loans, eligibility and exclusion criteria, and has communicated the location at country level of all eligible categories.
- **The Social Objectives** are clearly defined and are set in coherence with sustainability objectives defined in international standards for all categories.
- **The Expected Social Benefits** are clear for all eligible categories. The expected social benefits identified are relevant, measurable and will be quantified for all of the eligible categories in the post-issuance reporting.
- The Issuer has provided information on the **estimated share of refinancing**, which will not exceed 20%. Additionally, the Issuer has committed to respect, in case of re-financing, a **look-back period** of maximum 6 months from the issuance date, in line with best practices.

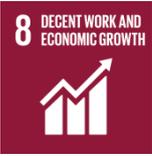
Table 1: Eligible Categories, Sustainability Objectives and Expected Benefits

ELIGIBLE CATEGORIES	TARGET POPULATION	SUSTAINABILITY OBJECTIVES AND BENEFITS	VIGEO EIRIS' ANALYSIS
Loans to midsize enterprises in less developed regions	Midsized enterprises located in less developed regions.	<b>Employment generation</b> Promote the economic growth of SMEs in less developed regions in Brazil and reduce regional inequalities.	The definition of this category is clear. The target population is clearly defined. The intended social objective is clearly defined. The Issuer has identified measurable social benefits for the eligible category. The expected benefits will be quantified in the post-issuance reporting.
Loans to midsize enterprises negatively impacted by Covid-19 crisis	Midsized enterprises affected by the Covid-19 crisis.	<b>Job preservation</b> Prevent job losses and promote job preservation in SMEs affected by the Covid-19 crisis.	The definition of this category is clear. The target population is clearly defined. The intended social objective is clearly defined. The Issuer has identified measurable social benefits for the eligible category. The expected benefits will be quantified in the post-issuance reporting.

Loans to midsize enterprises that support employment generation	Midsized enterprises in Brazil that generate employment.	<b>Employment generation</b> Create jobs in Brazil's middle segment by financing midsize enterprises.	The definition of this category is clear. The target population is clearly defined. The intended social objective is clearly defined. The Issuer has identified measurable social benefits for the eligible category. The expected benefits will be quantified in the post-issuance reporting.
Loans to enterprises in the health sector to respond to Covid-19 crisis	Enterprises in the health sector responding to Covid-19 crisis.	<b>Access to health services in the context of Covid-19 crisis</b> Increase financing for the fight against Covid-19.  <b>Job preservation</b> Prevent job losses in the health sector by financing midsize enterprises.	The definition of this category is clear. The target population is clearly defined. The intended social objective is defined and relevant. The Issuer has identified measurable social benefits for the eligible category. The expected benefits will be quantified within reporting.

### SDG Contribution

The Eligible Categories are likely to contribute to two of the United Nations' Sustainable Development Goals ("SDGs"), namely: Goal 3. Good Health and Well-being; Goal. 8 Decent work and economic growth.

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Loans to enterprises in the health sector to respond to Covid-19 crisis		3.8 - Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.
Loans to midsize enterprises in less developed regions  Loans to midsize enterprises negatively impacted by Covid-19 crisis  Loans to midsize enterprises that support employment generation  Loans to enterprises in the health sector to respond to Covid-19 crisis		8.3 - Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.

## BEST PRACTICES

- ⇒ Social Benefits: Relevant social benefits are identified and measurable for all eligible categories.
- ⇒ Share of refinancing: The Issuer has provided information on the share of refinancing which will not exceed 20%.
- ⇒ Look-back period: The Issuer has committed that, in case of re-financing, a look-back period of a maximum of 6 months from the issuance date.

## Project Evaluation and Selection



The governance and the process for the evaluation and selection of the Eligible Categories are formalized in the Social Bond Framework and in internal policy documents.

- The process for **Evaluation and Selection** has been clearly defined and detailed by the Issuer and will be publicly disclosed. Additionally, the roles and responsibilities for project evaluation, selection and monitoring are clearly defined and include relevant internal expertise.
- **The Eligibility Criteria** for loan selection, including exclusion criteria, are clearly defined and detailed for all eligible categories (Refer to Appendix 1).
- The Issuer reports that it will **monitor continued compliance** of selected categories with eligibility and exclusion criteria specified in the Framework throughout the life of the Bond, as well as ESG controversies associated with the loans, and has provided details on content, frequency and procedures adopted in case of non-compliance. In addition, the Issuer has transparently communicated on how it will ensure traceability of decisions taken regarding project evaluation, selection and monitoring.
- Information on the process applied to identify and manage potentially material **E&S risks** associated with the eligible categories is publicly disclosed in this Second Party Opinion.
- The Issuer's commitment and measures related to **the management of material E&S risks** combine monitoring, identification and corrective measures. Material E&S risks are identified for all Eligible Categories.

### Evaluation and Selection Process

The evaluation and selection of Eligible Loans is based on ABC Brasil standard credit analysis process which involves six steps: Origination, Scoring, Credit Approval, Closing and disbursement, Monitoring, and Refinancing.

- In the **Origination Step**, the Customer Relationship Management and the Market Intelligence and Commercial teams are responsible for originating leads by ensuring that leads meet all eligibility criteria as described in Appendix 1 and the Social Bond framework.
- Leads that meet such criteria undergo a **credit scoring process** based on behavioral and financial data.
- After an initial commercial approach, a proposal with those leads are submitted to a **formal credit approval process**, which defines a credit limit.
- Finally, **a loan is disbursed if the proposal is approved**, and a **constant monitoring process** is conducted afterwards to identify changes on customer behavior, and triggers further action depending on the nature and severity of the issues raised.

- During the Covid-19 crisis, this process was reinforced, by creating a **Refinance Committee** to assess and approve the selection of eligible categories to refinance mid-sized companies affected by the pandemic.

#### Verification and Traceability

Verification and traceability are internally guaranteed throughout the entire process:

- The Credit Committee approves each loan on a weekly basis. Approval is recorded on each credit presentation, which contains all information about the company or project to be financed and is available on the Bank's internal network. An area for improvement is to have an independent external auditor to annually verify the compliance of the Eligible Categories with the eligibility criteria and processes.

#### Eligibility Criteria Selection

The process relies on explicit eligibility criteria, relevant to the social objectives defined for the Eligible Categories.

- The selection is based on the Eligible Categories defined in the Use of Proceeds section of the Framework. Refer to Appendix 1 to consult the detailed selection criteria.

The Back-Office department is responsible for ensuring the continuity and traceability of the selection and evaluation process including the monitoring of the continued compliance of selected loans with eligibility and exclusion criteria throughout the life of the loans.

The Business Department is responsible for following up and monitoring customer information and news through media-screening tools and restrictive access lists to identify potential increase in environmental and social risks. Additional monitoring is conducted by the Compliance Department to ensure customers comply with socio-environmental covenants.

#### Transparency of the Environmental and Social Risks Mitigation Process

The E&S risks identification and mitigation process is publicly disclosed in the SPO and is considered robust (see detailed analysis on page 11).

#### BEST PRACTICES

- ⇒ Eligibility Criteria: Eligibility and exclusion criteria for asset selection are clearly defined and detailed for all eligible categories.
- ⇒ Internal verification of continued compliance of selected categories with eligibility and exclusion criteria: The Issuer reports that it will monitor compliance of selected assets with eligibility and exclusion criteria specified in the Framework throughout the life of the instrument and has provided details on content and on procedures adopted in case of non-compliance.
- ⇒ Internal monitoring of potential controversies on loans throughout the life of the bond: The Issuer reports that it will monitor potential ESG controversies associated with the assets throughout the life of the instrument and has provided details on frequency, content and procedures in case a controversy is found.

## Management of Proceeds



The rules for the management of proceeds are clearly defined. We consider that they would enable a documented and transparent allocation process. The net proceeds of the Bond will be deposited on Banco ABC Brasil's general treasury account and **the Issuer will periodically adjust the balance of the tracked proceeds to match allocation to eligible loans** in accordance with the Issuer's Social Bond Framework.

- **The Process for the allocation and management** of proceeds is clearly defined and is publicly disclosed.
- **The allocation period** is 24 months or less.
- The net proceeds of the Bond will be placed in the Issuer's general treasury and **tracked by the Issuer in an appropriate manner and attested in a formal internal process.**
- The **information on the intended types of temporary placement** for the balance of the unallocated net proceeds are publicly disclosed.
- The Issuer has committed that, as long as the Bond is **outstanding**, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible categories made during that period.
- The Issuer has provided information on the procedure that will be applied in case of **asset divestment or postponement** and it has committed to reallocate divested proceeds to loans that are compliant with the bond framework within 24 months.

## Management Process

The Treasury team and Financial institution team will be responsible for the allocation of the net proceeds to Eligible Categories.

- The Issuer commits to allocate the proceeds within a maximum period of 24 months from the date of issuance.
- Pending allocation or reallocation of the net proceeds, will be deposited in the Bank's treasury account in the form of liquidity reserve consisting of cash and highly liquid market securities, including Brazilian Sovereign Bonds and Reverse Repurchase Agreements.
- In case loans are no longer eligible (postponement or replacement), Banco ABC Brasil intends to replace the no longer Eligible Categories within 12 months.

## Traceability and Verification

Traceability and verification of both the tracking method and allocation of the proceeds are ensured throughout the process:

- The Treasury team and Financial Institution team will be responsible for monitoring the allocation of proceeds using Banco ABC Brasil's internal system.
- In addition, an internal tracking process will be established within Banco ABC Brasil's Refinancing Committee to tag eligible loans for refinancing, which will be tracked in a separate the Eligible Loan Portfolio and monitored regularly in order to ensure that risks are appropriately managed.
- Once a year, the Treasury team and Financial Institution team monitor the amount and composition of the bond's asset portfolio to account for new drawdown and/or repayments of assets, and to monitor compliance with the use of proceeds policies and sectorial policies.

## BEST PRACTICES

⇒ The Issuer has provided information on the procedure that will be applied in case of project/asset divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework within 12 months.

## Monitoring & Reporting



The reporting process and commitments appear to be good, covering both the funds allocation and the social benefits of the Eligible Categories.

- The Issuer has **committed to report annually until the Bonds' maturity**. The report will be disclosed only to investors-bondholders and will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the categories. The Issuer has also **committed to report on material development** related to the categories, **including potential ESG controversies**.
- The **process and responsibilities for reporting** on the Bond are clearly defined and detailed and disclosed to investors.
- The Issuer will report on the **allocation of proceeds and on social benefits** at bond and eligible category level. The **indicators selected** by the Issuer to report on the allocation of proceeds and on social benefits of the eligible categories are clear and relevant. **The reporting methodology and assumptions** used to report on social benefits of the Eligible categories will be disclosed only to investors.
- **Tracking and allocation of funds to Eligible Categories will be verified only internally** by the Issuer. An area for improvement is to commit to an external verification of the tracking and allocation of funds to Eligible Categories.
- **Indicators used to report on social benefits of the eligible categories will be verified internally** by the Issuer. An area for improvement is to commit to an external verification of the indicators used to report on social benefits of the eligible categories.

### Process for controlling, monitoring & reporting

The processes for monitoring, data collection, consolidation, validation and reporting are clearly defined by the Issuer in the framework and in internal documentation.

The processes and responsibilities for reporting on the Social Bond are clearly defined and detailed in the framework. The process is structured and based on relevant internal expertise and involves relevant departments of the Issuer.

The Issuer has committed that in case of using key methodologies and assumptions to calculate the benefits of Eligible Categories, these will be disclosed to investors in Banco ABC Brasil's annual reporting.

The information of the report will be reviewed annually by IDB Invest, until the full maturity of the loan.

### Indicators

The Issuer has committed to transparently communicate at Eligible Category level, on:

- Allocation of proceeds: The Issuer has committed to report on all relevant information on allocation of proceeds (Refer to Appendix 2 to consult the detailed allocation indicators).

## REPORTING INDICATORS

- ⇒ The list of Eligible Categories (re)financed, including a brief description
- ⇒ The aggregated amount of (re)allocated net proceeds to Eligible Categories
- ⇒ The proportion of financing vs refinancing (%)
- ⇒ The balance of the unallocated proceeds

- Social benefits: the indicators selected by the Issuer to report on the social benefits of the eligible categories are clear and relevant. We have identified the following areas of improvement:
  - i. Measure of the total number of SMEs which received a loan for the first time in less developed regions in order to understand how the Issuer contributes to the sustainability objective on access to financial services.
  - ii. Measure of the total number of SMEs that received financing.
  - iii. Measure of the total number of enterprises in the health sector that received financing.
  - iv. Commitment to report on social impact indicators.

ELIGIBLE CATEGORIES	SOCIAL BENEFITS INDICATORS
	OUTPUTS AND OUTCOME
Loans to midsize enterprises in less developed regions	<ul style="list-style-type: none"> <li>• Number of employees in less developed regions at approval.</li> <li>• Number of employees in less developed regions at reporting.</li> <li>• Number of employees in midsize enterprises in the north, northeast or mid-west regions at loan approval</li> <li>• Number of employees in midsize enterprises in the north, northeast or mid-west regions at reporting.</li> </ul>
Loans to midsize enterprises negatively impacted by Covid-19 crisis	<ul style="list-style-type: none"> <li>• Number of employees in financial distress enterprises at approval.</li> <li>• Number of employees in financial distress enterprises at reporting.</li> <li>• Number of employees in midsize enterprises negatively impacted by Covid-19 crisis at loan approval.</li> <li>• Number of employees in midsize enterprises negatively impacted by Covid-19 crisis at reporting.</li> </ul>
Loans to midsize enterprises that support employment generation	<ul style="list-style-type: none"> <li>• Number of employees in enterprises financed at approval.</li> <li>• Number of employees in enterprises financed at reporting.</li> <li>• Number of employees in midsize enterprises that support employment generation at loan approval.</li> <li>• Number of employees in midsize enterprises that support employment generation at reporting.</li> </ul>

Loans to enterprises in the health sector to respond to Covid-19 crisis	<ul style="list-style-type: none"> <li>• Number of employees in enterprises in the health industry financed, at approval.</li> <li>• Number of employees in enterprises in the health industry financed, at reporting.</li> <li>• Number of employees in enterprises in the health sector to respond to Covid-19 crisis, at approval.</li> <li>• Number of employees in enterprises in the health sector to respond to Covid-19 crisis, at reporting.</li> </ul>
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#### BEST PRACTICES

⇒ Reporting indicators: The Issuer has committed to transparently communicate on the allocation of proceeds and on social benefits at Eligible Category level, which is relevant to assess the achieved social performance

## Contribution to sustainability

The potential contribution of the eligible categories to social objectives is expected to be Robust.

### Expected Impacts

The expected positive impact of the project on social objectives is expected to be Robust.

ELIGIBLE CATEGORIES	LEVEL OF EXPECTED IMPACT
Loans to midsize enterprises in less developed regions	ADVANCED
Loans to midsize enterprises negatively impacted by covid-19 crisis	ROBUST
Loans to midsize enterprises that support employment generation	ROBUST
Loans to enterprises in the health sector to respond to COVID-19 crisis	ROBUST
<b>OVERALL</b>	<b>ROBUST</b>

### Relevance of ESG Risks Identification and Management systems in place at project level

#### ESG Risks Materiality of and management

The identification and management of the environmental and social risks associated with the Eligible Categories are considered robust for all material risks. Banco ABC Brasil has a formalized Environmental and Social Risks Manual in line with the Equator Principles, which outlines the due diligence process for identifying and manage ESG risks.

	ELIGIBLE CATEGORIES			
	Loans to midsize enterprises in less developed regions	Loans to midsize enterprises negatively impacted by Covid-19 crisis	Loans to midsize enterprises that support employment generation	Loans to enterprises in the health sector to respond to Covid-19 crisis
Environmental performance assessment of the applicant SMEs	X	X	X	X
Social performance assessment of the applicant SMEs	X	X	X	X
Non-discrimination (Access to financing available to all)	X	X	X	X
Customers over - indebtedness prevention	X	X	X	X
Mechanisms & systems to deal with dispute/litigation	X	X	X	X
Business ethics & Governance controls	X	X	X	X
Overall Assessment	Robust	Robust	Robust	Robust

The Issuer's ESG risk identification and management is structured as follows:

- The Business Department is the first area responsible for identifying potential social and environmental associated with the eligible loans, and for informing customers about the Bank's E&S policy. During the stage of Origination process, the Business Department performs an initial KYC screening which requires customers to complete an E&S questionnaire in accordance to the Bank's E&S policy that covers: customer's ESG strategy and management; human, health and labour rights; environmental reports and certifications; restrictive environmental and social lists; contaminated or embargoed areas as well as information on legal actions and fines. For specific industries or products, the assessment is expanded to include sector related due diligence. In addition, the Business Department is responsible for monitoring customer information and news through media screening tools and restrictive access lists to identify potential increase in environmental and social risks. To ensure customers comply with socio environmental requirements, additional monitoring is conducted by the Compliance Department through internal research by collecting information regarding: news which discredit customers by using key words in a specific system; customers listed in the Employer Register which have links to slavery or conditions of hard labour; and the Brazilian Institute of Environment and Renewable Natural Resources (IBAMA) list of embargoes. This information is consolidated and forwarded to the Credit Analysis Department responsible for integrating this information into the analysis and for the evaluation of the socio-environmental risk assessment. A customer socio-environmental report and a socio-environmental rating are generated from the socio-environmental risk assessment which are used by the Credit Committee to decide whether to approve the customer's proposal. The customer's environmental and social risk assessment in the

process of granting Middle, Corporate and Large Corporate Credit is categorized in: High Socio-environmental Risk (A); Medium Socio-environmental Risk (B); and Low Social and Environmental Risk (C). Cases of high risk must be approved by the Credit Committee and additional information may be requested from the customer in order to provide clarity.

- As for risks on **non-discrimination** in access to financing, Banco ABC Brasil reports to grant financing to all prospective customers, regardless of their origins, as long as customers fits the Bank's segment of activity, meets all the credit criteria and the Bank's offering are suitable and adequate to the customers need.
- The identification and management of the risks related to **over-indebtedness** are included in the credit evaluations carried out to customers, regulated by the Issuer's policies in terms of granting credits. The credit process includes due diligence, product suitability, and a comprehensive credit profile assessment of the customers, which helps to adjust the value proposition to what is adequate to the customer. In addition, the Bank's Credit Monitoring Area is responsible for constant monitoring of customers credit after credit approvals, which allows the Bank to identify potential risks of over-indebtedness. In such cases, the Bank may negotiate different conditions with customers on a case by case basis to ensure their ability to pay.
- In order to tackle risks related to **disputes or litigation with customers**, the template contracts of the Bank have specific dispute resolution provisions, in line with regulatory and market requirements.
- Regarding **business ethics and governance**, Banco ABC Brasil has an SME Governance Guidebook used for internal controls and best practices for the KYC process. In addition, an Anti-Money Laundering (AML) area is in place to analyse and research customers involvement in lawsuits, corruption files, conflicting interests, etc. A low, medium or high risk is defined on the customer based on the collected information. Additional information may be requested from the customer and cases of high risk must be approved by the Credit Committee.
- Concerning the **monitoring and management of controversies**, the Litigation and Legal Department are responsible for managing potential social and environmental controversies by analysing and assessing their materiality depending on the level of gravity of the issue. A controversy is considered as highly material in cases where legal decisions are involved regarding breaches to covenants on the exclusion lists (refer to Appendix 1). If the controversy is linked to unfavourable information found during the Bank's monitoring process, the Commercial teams will engage directly with the customer and revert to the Legal or Risk departments. The Socio-Environmental Risk area may also engage in the assessment of controversies with the assistance of the Legal department, by incorporating socio-environmental contract obligations to be complied by the customer in order to mitigate the bank's social and environmental risk in its relations with its stakeholders. In addition, Banco ABC Brasil reports that loans that are no longer eligible according to the criteria in the framework will be replaced.

## PART 2: ISSUER

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Banco ABC Brasil is a commercial bank specialised in lending and services to medium and large-sized companies. The Bank's main activity is financial intermediation for transactions involving analysis and assumption of credit risks. Banco ABC Brasil was founded in 1989 and is headquartered in Sao Paulo, Brazil.

### Management of ESG Controversies

As of the date of publication, the review conducted by Vigeo Eiris did not reveal any ESG controversy against Banco ABC Brasil over the last three years.

### Involvement in Controversial Activities

As of the date of publication, the Issuer is not involved in any of the 17 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Gambling, Genetic engineering, High interest rate lending, Human Embryonic Stem Cells, Military, Nuclear power, Pornography, Reproductive medicine, Tar sands and oil shale, and Tobacco.

The controversial activities research provides screening on companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

## PART 3: COHERENCE

Coherent	We are of the opinion that the contemplated Bond is coherent with Banco ABC Brasil's strategic sustainability priorities and sector issues and contributes to achieving the Issuer's sustainability commitments.
Partially coherent	
Not coherent	

The financial sector plays a key role in promoting innovative financial instruments and mechanisms that effectively channel new financing towards initiatives that contribute to sustainable development. This is particularly important in Latin America where public financing sources are not sufficient enough to finance the accomplishment of the United Nations Sustainable Development Goals, which is estimated at between 3.3 and 4.5 trillion dollars a year in less developed countries<sup>1</sup>.

The financial sector also contributes to promoting inclusive and sustainable growth by supporting small and medium-sized enterprises (SMEs) as well as large enterprises, which in turn contribute to national economies by generating employment and advancing sustainable industrialisation and innovation.

The major challenges for the financial sector include developing socially and environmentally responsible financial products and services and promoting local economic and social development.

Banco ABC Brasil has a formalized Environmental and Social (E&S) Policy, based on Brazilian legislation<sup>2</sup> which sets guidelines and standards for financial institutions on establishing and implementing socioenvironmental policies. In line with this policy, Banco ABC Brasil takes a holistic approach to promoting environmental and social responsibility as an organization, as well as integrating it as part of its operations, such as by supporting companies, NGOs and institutes social responsibility loans and voluntary practice initiatives<sup>3</sup>.

In addition, the Bank provides financing to different productive sectors in regions of Brazil in order to foster the development of the country. In particular, within Banco ABC's Brasil business lines and company's strategy, the Bank provides access to finance to SMEs and enterprises in the health sector through loans.

With the issuance of this Social Bond, the company seeks to expand its portfolio within the SMEs and Health enterprises segments while at the same contribute to the alleviation of socio-economic challenges, particularly by targeting enterprises that have been negatively impacted by Covid-19.

By creating a Framework to issue a Social Bond intended to finance and refinance SMEs and Enterprises in the health sector affected by the Pandemic, Banco ABC Brasil coherently responds to its mission as well as it aligns with the main issues of its sector in terms of social responsibility.

<sup>1</sup> ECLAC (2017) - The rise of green bonds: financing for development in Latin America and the Caribbean [https://repositorio.cepal.org/bitstream/handle/11362/42230/1/S1700985\\_en.pdf](https://repositorio.cepal.org/bitstream/handle/11362/42230/1/S1700985_en.pdf)

<sup>2</sup> Brazilian Central Bank Resolution 4327/14 and Febraban SARB Framework N° 14/14 (Self-Regulation).

<sup>3</sup> Banco ABC Brasil website: <https://www.abcbrazil.com.br/en/social-responsibility/>

## SCOPE

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Vigeo Eiris was commissioned to provide an independent opinion on the sustainability credentials and management of the Social Bond<sup>4</sup> to be issued by Banco ABC Brasil in compliance with the Social Bond Framework (the “Framework”) created by the Issuer to govern its issuances.

Our opinion is established according to Vigeo Eiris’ Environmental, Social and Governance (“ESG”) exclusive assessment methodology and to the ICMA’s Social Bond Principles (“GBP”) voluntary guidelines, edited in 2020.

Our opinion is built on the review of the following components:

1. Issuer: we assessed the Issuer’s management of stakeholder related ESG controversies and its involvement in controversial activities<sup>5</sup>.
2. Issuances: we assessed the Framework, including the coherence between the Framework and the Issuer’s social commitments, the Bond potential contribution to sustainability and its alignment with the four core components of the SBPs 2020.

Our sources of information are multichannel, combining data from (i) public information gathered from public sources, press content providers and stakeholders, (ii) information from Vigeo Eiris exclusive ESG rating database, and (iii) information provided by the Issuer through documents and interviews conducted with Issuer’s managers, held via a telecommunications system.

We carried out our due diligence assessment from June 16<sup>th</sup>, 2020 to July 22<sup>nd</sup>, 2020. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. We consider that the information made available enables us to establish our opinion with a reasonable level of assurance on its completeness, precision and reliability.

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<sup>4</sup> The “Social Bond” are to be considered as the Bonds to be potentially issued, subject to the discretion of the Issuer. The name “Social Bond” has been decided by the Issuer: it does not imply any opinion from Vigeo Eiris.

<sup>5</sup> The 17 controversial activities screened by Vigeo Eiris are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Gambling, Genetic engineering, High interest rate lending, Human Embryonic Stem Cells, Military, Nuclear power, Pornography, Reproductive medicine, Tar sands and oil shale, and Tobacco.

## APPENDIX 1 – ELIGIBLE CATEGORIES

CLIENT'S FRAMEWORK		
ELIGIBLE CATEGORY	DEFINITION AND ELIGIBILITY CRITERIA	OBJECTIVES AND BENEFITS
Loans to midsize enterprises in less developed regions	Midsized enterprises with total annual revenues between R\$30 million and R\$250 million located in the North, North-East or Mid-West regions of Brazil	<p><b>Employment generation</b></p> <p>Promote the economic growth of SMEs in less developed regions in Brazil and reduce regional inequalities.</p>
Loans to midsize enterprises negatively impacted by Covid-19 crisis	Midsized enterprises with total annual revenues between R\$30 million and R\$250 million in financial distress due to the Covid-19 Crisis	<p><b>Job preservation</b></p> <p>Prevent job losses and promote job preservation in SMEs affected by the Covid-19 crisis.</p>
Loans to midsize enterprises that support employment generation	Midsized enterprises with total annual revenues between R\$30 million and R\$250 million with expansion plans	<p><b>Employment Generation</b></p> <p>Create jobs in Brazil's middle segment by financing midsize enterprises.</p>
Loans to enterprises in the health sector to respond to Covid-19 crisis	Companies in the health industry (i.e. Drug Distributors; Hospitals and Clinics or Pharmaceutical industry) which already receive a loan from ABC and also new companies.	<p><b>Access to health services in the context of Covid-19 crisis</b></p> <p>Increase financing for the fight against Covid-19.</p> <p><b>Employment generation</b></p> <p>Create jobs in the health sector by financing midsize enterprises.</p>

In addition, exclusion criteria apply:

- Enterprises must be compliant with local law.
- Enterprises must be compliant with Banco ABC Brasil's exclusion list outlined in Annex I of the Social Bond Framework and embedded in its E&S Policy, which excludes: production or sale of products, or activities, considered illegal or banned in Brazil and internationally; production or activities involving harmful or

exploitative forms of labor, including child labor, and trade in animals/plants threatened with extinction; predatory fishing; gambling; sexual exploitation; depredation of the cultural or environmental heritage.

- Enterprises must be compliant with the IDB Invest exclusion list outlined in Annex II of the Social Bond Framework, which excludes financing companies involved in the production, trade, or use of the products, substances or activities in: illegal under host country laws, regulations or ratified international conventions and agreements; weapons and ammunitions; tobacco; gambling, casinos and equivalent enterprises; wildlife or wildlife products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES); Radioactive materials; unbonded asbestos fibres; forestry projects or operations that are not consistent with the Bank's Environment and Safeguards Compliance Policy; polychlorinated biphenyl compounds (PCBs); pharmaceuticals subject to international phase outs or bans; pesticides/herbicides subject to international phase outs or bans.

## APPENDIX 2 – ALLOCATION OF PROCEEDS INDICATORS

ELIGIBLE CATEGORIES	OUTPUT & OUTCOME INDICATORS
Loans to midsize enterprises in less developed regions	<ul style="list-style-type: none"> <li>• Value of proceeds allocated to the eligible categories in less developed regions.</li> <li>• The value of proceeds allocated to midsize enterprises in the north, northeast or mid-west regions.</li> <li>• Percentage of proceeds allocated to refinance eligible assets in less developed regions.</li> <li>• Percentage of proceeds allocated to refinance midsize enterprises in the north, northeast or mid-west regions.</li> </ul>
Loans to midsize enterprises negatively impacted by Covid-19 crisis	<ul style="list-style-type: none"> <li>• Value of proceeds allocated to the eligible assets in financial distress enterprises.</li> <li>• The value of proceeds allocated to midsize enterprises negatively impacted by Covid-19 crisis.</li> <li>• Percentage of proceeds allocated to refinance eligible assets in financial distress enterprises.</li> <li>• Percentage of proceeds allocated to refinance midsize enterprises negatively impacted by Covid-19 crisis.</li> </ul>
Loans to midsize enterprises that support employment generation	<ul style="list-style-type: none"> <li>• Value of proceeds allocated to the eligible midsize enterprises financed.</li> <li>• The value of proceeds allocated to midsize enterprises that support employment generation through investments that are expected to generate at least one job.</li> <li>• Percentage of proceeds allocated to refinance eligible midsize enterprises financed.</li> <li>• Percentage of proceeds allocated to refinance midsize enterprises that support employment generation through investments that are expected to generate at least one job.</li> </ul>
Loans to enterprises in the health sector to respond to Covid-19 crisis	<ul style="list-style-type: none"> <li>• Value of proceeds allocated to enterprises in the health industry.</li> <li>• The value of proceeds allocated to enterprises in the health sector to respond to Covid-19 crisis.</li> <li>• Percentage of proceeds allocated to refinance enterprises in the health industry.</li> <li>• Percentage of proceeds allocated to refinance enterprises in the health sector to respond to Covid-19 crisis.</li> </ul>

# METHODOLOGY

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In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation, activity or transaction. In this sense, Vigeo Eiris provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Vigeo Eiris' methodology for the definition and assessment of the corporation's ESG performance is based on criteria aligned with international standards, in compliance with the ISO 26000 guidelines, and is organised into 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance. Our evaluation framework of the material ESG issues has been adapted on the basis of the specificities of the Issuer's business activity.

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, and internal review by the Issuers Business Unit for Second Party Opinions) complemented by a final review and validation by the Director of Methods. Our Second Party Opinions (SPOs) are also subject to internal quality control at three levels (consultants in charge of the mission, Project Manager, Quality Reviewer and final review and validation by the Director of Methods and the Director of Issuers or the Sustainable Finance Senior Advisor. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company, then the Director of Methods, and finally Vigeo Eiris' Scientific Council.

All employees are signatories of Vigeo Eiris' Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

## PART 1. ISSUANCE

### Alignment with the Green and/or Social Bond Principles

**Scale of assessment:** Not aligned, Partially aligned, Aligned, Best Practices

*The Framework has been evaluated by Vigeo Eiris according to the ICMA's Green Bond Principles - June 2018 ("GBP") and/or the Social Bond Principles - June 2020 ("SBP"), and/or the Loan Market Association's Green Loan Principles - May 2020 ("GLP"), the TEG proposal for a Green Bond Standard, and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.*

#### Use of proceeds

The definition of the Eligible Projects and their sustainable objectives and benefits are a core element of Green/Social/Sustainable Bonds and Loans standards. Vigeo Eiris evaluates the clarity of the definition of the Eligible Categories, as well as the definition and the relevance of the primary sustainability objectives. We evaluate the descriptions of the expected benefits in terms of relevance, measurability and quantification. In addition, we map the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

#### Process for evaluation and selection

The evaluation and selection process has been assessed by Vigeo Eiris on its transparency, governance and relevance. The eligibility criteria have been assessed on their clarity, relevance and coverage vs. the intended objectives of the Eligible Projects.

#### Management of proceeds

The process and rules for the management and the allocation of proceeds have been assessed by Vigeo Eiris on their transparency, traceability and verification.

#### Reporting

The monitoring and reporting process and commitments defined by the Issuer have been assessed by Vigeo Eiris on their transparency, exhaustiveness and relevance, covering the reporting of both proceeds' allocation and sustainable benefits (output, impact indicators).

## Contribution to sustainability

Scale of assessment: Weak, Limited, Robust, Advanced

For Vigeo Eiris, the potential positive impact of an activity on environmental and/or social objectives cannot be decoupled from the management of the associated potential negative impacts and externalities. Our assessment of expected positive impacts and of identification and management of ESG risks is therefore consolidated into the activity's overall contribution to sustainability.

### Expected positive impact of the activities on environmental and/or social objectives

This section assesses the potential/expected positive impact of the activities to be financed by the Issuer or Borrower on environmental and/or social objectives.

The expected positive impact of activities on environmental objectives is assessed on the basis of:

- i) the relevance of the claimed environmental objective for the sector of the activity and location/context;
- ii) the scope of the expected impact (value chain, local and global stakeholders);
- iii) the magnitude and durability of the potential impact of the proposed activity on the environmental objectives (capacity to not just reduce, but to prevent/avoid negative impact);
- iv) the extent to which the activity is adopting the best available option.

The expected impact of activities on social objectives is assessed on the basis of:

- i) the relevance of the claimed social objective (social need) at local/country level;
- ii) the extent to which the activity is targeting of a population in need;
- iii) the magnitude and durability of the potential impact of the proposed activity on the social objective (capacity to provide a structural/long-term improvement to the social issue in question).

### Project ESG risk management

The identification and management of the potential ESG risks associated with the eligible projects/activities are analysed on the basis of Vigeo Eiris' ESG assessment methodology, international standards and sector guidelines applicable in terms of ESG management and assessment.

## PART 2. ISSUER

### Management of stakeholder-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation based on unproven facts.

Vigeo Eiris reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

Vigeo Eiris provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Frequency:** reflects for each ESG challenge the number of controversies that the Issuer has faced. At corporate level, this factor reflects on the overall number of controversies that the Issuer has faced and the scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- **Severity:** the more a controversy is related to stakeholders' fundamental interests, proves actual corporate responsibility in its occurrence, and have caused adverse impacts for stakeholders and the company, the higher

its severity is. Severity assigned at the corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).

- **Responsiveness:** ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, Vigeo Eiris' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

### Involvement in controversial activities

17 controversial activities have been analysed following 30 parameters to screen the company's involvement in any of them. The company's level of involvement (Major, Minor, No Involvement) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the company.

## PART 3. COHERENCE

This section analyses whether the activity to be financed through the selected instrument is coherent with the Issuer's sustainability priorities and strategy, and whether it responds to the main sustainability issues of the sector where the Issuer operates.

### Scale of assessment: not coherent, partially coherent, coherent

#### VIGEO EIRIS' ASSESSMENT SCALES

Scale of assessment of Issuer's ESG performance or strategy and financial instrument's Contribution to sustainability		Scale of assessment of financial instrument's alignment with Green and/or Social Bond and Loan Principles	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of sustainability. Reasonable level of risk management and using innovative methods to anticipate emerging risks.	Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles by adopting recommended and other best practices.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.	Aligned	The Instrument has adopted all the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.
Limited	Commitment to the objective of sustainability has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.	Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles, but not all of them.
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of assurance of risk management is weak to very weak.	Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.

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