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## Second Party Opinion

# Banco do Brasil S.A.'s Sustainability-Linked Finance Framework

Feb. 28, 2024

Editor's note: This SPO report is based on S&P Global Ratings' "[Analytical Approach: Second Party Opinions and Transaction Evaluations](#)" dated Dec. 7, 2022, which was partly superseded by S&P Global Ratings' "[Analytical Approach: Second Party Opinions: Use of Proceeds](#)," dated Jul. 27, 2023, following the launch of our integrated use-of-proceeds SPOs.

Banco do Brasil (BB) provides banking products for the retail, corporate, and public sectors; and investment banking, fund management, insurance, and payments directly and indirectly through its subsidiaries. BB has market-leading positions in the agribusiness and payroll lending segments, with 53% and 21% market shares, respectively. The bank is controlled by the Brazilian federal government, which holds 50.1% of shares. The remaining shares are publicly traded.

In our view, BB's Sustainability-Linked Finance Framework, published in February, is aligned with:

- ✓ Sustainability-Linked Bond Principles, ICMA, 2023
- ✓ Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023

## Issuer's Sustainability Objectives

As a state-owned Brazilian bank, BB plays a significant strategic role for the government in providing accessible and long-term financing to small- and mid-size enterprises and the agricultural sector. The bank has published its public sustainability objectives, "BB 2030 Commitments for a More Sustainable World", to expanding its offering of self-labelled sustainable credit and responsible investment funds, reducing greenhouse gas (GHG) emissions across all scopes by increasing financing for renewable energy and energy efficiency, afforestation across Brazil, and other initiatives. Social commitments encompass financial and digital inclusion targets for low-income communities, as well as fostering diversity across the bank's workforce. BB has developed a sustainability-linked Finance Framework to further align its funding strategy with its corporate sustainability targets and commitments.

## Selected Key Performance Indicators (KPIs) And Sustainability Performance Targets (SPTs)

KPI	SPT	Baseline	2023 performance
Sustainable loan disbursements	Disbursement of R\$320 billion for sustainable loan portfolio by 2030	R\$127.84 billion (2020)	R\$207.27 billion

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## Second Party Opinion


Sustainable agribusiness credit	Sustainable agribusiness credit of R\$200 billion by 2030	R\$149 billion (2022)	R\$152.7 billion (September 2023)
GHG emissions intensity of the corporate credit portfolio (for corporates with over R\$200 million in annual net revenues)	A 25% reduction in the GHG emissions intensity for the corporate loan portfolio (for corporates with over R\$200 million in annual net revenues) by 2031 from a 2021 baseline	0.1033 million tons of CO2-equivalent (tCO2e) per R\$1 billion in corporate loans (2021)	0.1005 million tCO2e per R\$1 billion in corporate loans (2022)
Gender and racial diversity in senior leadership positions	A 30% representation of women and 30% representation of black, brown, indigenous, and other underrepresented ethnicities in senior leadership roles by 2030	A 23.2% representation of women and 22% representation of black, brown, indigenous, and other underrepresented ethnicities in senior leadership (2022)	A 25% representation of women and 23.6% representation of black, brown, indigenous, and other underrepresented ethnicities in senior leadership (September 2023)

# Second Party Opinion Summary

## Selection of KPIs

<b>Alignment</b>		BB's Sustainability-Linked Finance Framework is aligned with this component of the Sustainability-Linked Bond Principles (SLBP) and Sustainability-Linked Loan Principles (SLLL).				
<b>KPI 1</b>	Sustainable loan disbursements	Not aligned	Aligned	<b>Strong</b>	Advanced	
<b>KPI 2</b>	Sustainable agribusiness credit	Not aligned	Aligned	<b>Strong</b>	Advanced	
<b>KPI 3</b>	GHG emissions intensity in the corporate credit portfolio (for corporates with over R\$200 million in annual net revenues)	Not aligned	<b>Aligned</b>	Strong	Advanced	
<b>KPI 4</b>	Gender and racial diversity in senior leadership positions	Not aligned	Aligned	<b>Strong</b>	Advanced	

## Calibration of SPTs

<b>Alignment</b>		BB's Sustainability-Linked Finance Framework is aligned with this component of the SLBP and SLLL.				
<b>SPT 1</b>	Disbursement of R\$320 billion for sustainable loan portfolio by 2030	Not aligned	<b>Aligned</b>	Strong	Advanced	
<b>SPT 2</b>	Sustainable agribusiness credit of R\$200 billion by 2030	Not aligned	<b>Aligned</b>	Strong	Advanced	
<b>SPT 3</b>	A 25% reduction in the GHG emissions intensity reduction in the corporate loan portfolio (for corporates with over R\$200 million in annual net revenues) by 2031	Not aligned	<b>Aligned</b>	Strong	Advanced	
<b>SPT 4</b>	30% representation of women and 30% representation of black, brown, indigenous, and other underrepresented ethnicities in senior leadership roles by 2030	Not aligned	Aligned	<b>Strong</b>	Advanced	

BB's Sustainability-Linked Finance Framework commits to define and disclose annual intermediary targets for each SPT on each respective documentation of loans issued under the Framework.

## Instrument characteristics

**Alignment**  BB's Sustainability-Linked Finance Framework is aligned with this component of the SLBP and SLLL.

Depending on the performance of SPTs by the target observation date, the instruments issued under BB's Framework will be exposed to variations in the financial and/or structural characteristics in the form of either a coupon step-up or step-down. Such variations will be detailed in each respective transaction documentation. Furthermore, the bank defines a fallback mechanism if the performance of the SPT against each KPI can't be calculated or observed in a satisfactory manner.

## Reporting

**Alignment**  BB's Sustainability-Linked Finance Framework is aligned with this component of the SLBP and SLLL.

**Score** Not aligned Aligned **Strong** Advanced

BB commits to disclose on an annual basis updates on KPIs and any information relevant to monitoring the SPT progress on its website. Information on the impacts of the SPT performance on the instrument's economic characteristics will also be published on an annual basis.

## Post-issuance review


**Alignment**  BB's Sustainability-Linked Finance Framework is aligned with this component of the SLBP and SLLL.

BB commits to having an independent external verification of its performance against the selected SPTs at least annually.

# Framework Assessment

## Selection of KPIs

The Principles make optional recommendations for stronger structuring practices, which inform our relevancy opinion as aligned, strong, or advanced. For each KPI, we consider how relevant the KPI is for sustainability by exploring the clarity and characteristics of the defined KPI; its significance for the issuer’s sustainability disclosures; and how material it is to the issuer’s industry and strategy.

 BB’s Sustainability-Linked Finance Framework is aligned with this component of the SLBP and SLLL.

**KPI 1**    Sustainable loan disbursements    Not aligned    Aligned    **Strong**    Advanced

We consider BB’s selected KPI to have strong features given that the scope, objective, and criteria for selecting sustainable projects are clearly articulated. Financial institutions have an important role in financing environmental and social projects in the real economy through lending, including sustainable products and services. The bank’s KPI reflects BB’s commitment to advance the sustainable development of the Brazilian economy.

The bank clearly states the rationale behind the KPI with a clear methodology (to be made public) and its objective. Although we acknowledge the challenges behind the definition of sustainable loans for banks globally, we consider that BB has put in place a robust process for evaluation and selection that strengthens the KPI’s credibility, measurement, and verifiability. The bank performed an evaluation with a third-party verifier to assess and classify its sustainable loan portfolio based on social and environmental additionality across four levels. Projects are selected based on their alignment with local and international standards such as ICMA’s Principles, the European Union Taxonomy, and Febraban Green Taxonomy, which in our view, set high market standards. The KPI only incorporates projects that are classified at the highest additionality category, which considers economic activities with low social and environmental risks and that are automatically eligible for labeled debt issuance. For example, the bank’s sustainable loan disbursements will include projects such as the Fundo de Financiamento Estudantil (FIES) program. This initiative aims to finance higher education courses, aligning with the government’s strategy to expand access to education in Brazil. According to the Brazilian Ministry of Education, only 23% of the population aged 25 to 34 has a university degree, which is below the 48% average for OECD member countries.

We believe the KPI is in line with the bank’s strategy of advancing the development of sustainable businesses in Brazil. Moreover, the KPI is reported in BB’s sustainability reporting for the past three years, which we view positively.

**KPI 2**    Sustainable agribusiness credit    Not aligned    Aligned    **Strong**    Advanced

We also assess this KPI as strong, given that the scope, objective, and criteria for selecting sustainable agriculture projects are clearly articulated. BB’s sustainable agribusiness credit is composed of loans to agricultural activities that either comply with the Brazilian Ministry of Agriculture’s Program for Financing Sustainable Agricultural Production Systems (RenovAgro; formerly the ABC plan), have a specific affordability consideration and target population, such as small-scale farmers with gross maximum income of R\$500,000 over the last 12 months, or require at least one environmental improvement to existing agricultural practices, such as the need for farmers to implement no-tillage production to improve soil health. We consider positively that the methodology is publicly available since 2020. However, we note that there may be a potential overlap between KPI 2 and KPI 1, given that sustainable agribusiness loans are included in the broader sustainable loan portfolio.

Even though the bank’s criteria for sustainable agriculture does not fully match more robust climate bond labelling standards such as the Climate Bond Initiative’s Agriculture Criteria, which excludes agricultural areas where land was converted after 2010—we view it as an adequate screening for enhancing the sustainability practices of Brazil’s agriculture sector. Furthermore,

## Second Party Opinion

we believe the ongoing evolution of BB's agricultural financing policies, and the Brazilian central bank's regulation of agricultural financing (such as the recent establishment of Green Rural Credit Bureau [resolution BCB 140] to enhance the verification of socioenvironmental criteria of Brazilian banks' financing of agribusiness) provide assurance of the additionality of BB's sustainable agriculture financing. The latter also supports the comparability of the KPI. With the establishment of the bureau, Brazilian banks now must report on their sustainable agriculture financing to the regulator. We therefore consider that the bureau's verification of what consists sustainable agricultural financing, together with BB's use of external references for selecting sustainable agriculture loans, makes the KPI benchmarkable, in our view. We note, however, that the benchmarking is tailored to accommodate regional nuances, given that the definition of sustainable agriculture tends to vary among countries in the global South and North.

Finally, given the high socioenvironmental risks in the agriculture sector and the fact that it represents the highest exposure in the bank's credit portfolio (approximately 30% of total loans as of September 2023), the KPI addresses a sustainability issue identified by the bank as highly material to its business. We also consider it highly significant for a state-owned bank operating in a country where 20% of the population depends on agriculture as a source of income or livelihood (according to Brazil's national statistics agency's latest agriculture census), and at least 30% of the country's GHG inventory (according to the latest national inventory of anthropogenic emissions submitted by the federal government to the UNFCCC). We view this as a strength in the selection of the KPI.

**KPI 3** GHG emissions intensity of the corporate credit portfolio (for corporates with over R\$200 million in annual net revenues).

Not aligned

**Aligned**

Strong

Advanced

In our view, KPI 3 is aligned with the Principles given its clear scope, objective, and calculation. The KPI does not cover all of BB's activities, focusing only on the banking activities, which we view as still relevant given the size of BB's banking services compared with that of its other services (for example, credit loans are two times larger than BB's total AUM from its asset management business). We consider that the KPI addresses one of the most relevant sustainability challenges for the banking sector and one of BB's public sustainability priorities: reducing financed emissions. While the KPI doesn't include all emissions from BB's loans, we believe it's effective in addressing the problem by concentrating on businesses with annual revenue exceeding R\$200 million. BB estimates this subgroup could make up more than 50% of its total financed emissions.

In line with those of sector peers, the KPI for BB is calculated using the Partnership of Carbon Accounting Financials (PCAF) methodology for quantifying emissions associated with commercial loans. Consequently, the KPI follows an international standard, which we view as a strength. We would consider a more extensive application of the KPI to the bank's entire credit portfolio (or at least to asset classes that methodology exists) as a more relevant metric but note that this is relatively comprehensive given current data availability constraints. The narrow scope of the KPI (approx. 10% of the loan portfolio) restricts its strength, in our view. We note that BB has not yet included the KPI in its public GHG inventory report or calculated the financed emissions of its entire credit portfolio. The bank plans on completing these steps soon, along with securing verification for its financed emissions inventory.

For the corporate loans' emissions calculation, BB collects verified and unverified reported emissions, which is the most accurate option according to PCAF. The bank does not disclose the share of verified versus unverified reported emissions. We note that under current voluntary GHG reporting schemes, banks can face challenges in collecting verified emissions data from the credit portfolio in certain jurisdictions as Brazil.

**KPI 4** Gender and racial diversity in senior leadership positions

Not aligned

Aligned

**Strong**

Advanced

We assess KPI 4 as strong, considering the Framework articulates the KPI's scope, objectives, and calculation methodology. BB considers senior leadership as the positions across the top one to three management levels, according to the nature of its units: strategic, tactic, and supporting. In line with BB's public disclosures, based on GRI Standards, the KPI does not cover BB's entire

## Second Party Opinion

structure, focusing only on the banking activities. However, we view it as material, given that banking activities accounted for around 70% of BB's workforce.


The KPI's objective is to foster diversity and inclusion measures in BB's banking activities, as stated in its strategic agenda (BB's 2030 Commitments for a More Sustainable World). Diversity and inclusion were determined as one of the most material topics under its materiality assessment.

We view KPI 4 as one of the most material for the sector, given that diversity gaps are significantly wider across senior positions in financial institutions. In Brazil, less than 15% of senior positions in the publicly listed financial companies are occupied by women and, in general, black individuals represent 0.4%. Additionally, the KPI addresses workforce issues common among state-owned institution, where reliance on public and standardized career plans can increase the challenges to fostering diversity at all levels, impairing the rise to senior positions.

Although we acknowledge that the use of self-reported data may bring challenges to data collection, we believe this risk is mostly mitigated by regulatory requirements in Brazil and will be further addressed by awareness campaigns that BB plans to carry out. Furthermore, we note the challenges around benchmarking diversity data given the different definitions of senior leadership across banks, depending on their business model. That said, we believe BB has a clear definition of what senior management includes for the bank. The bank has yet to publish this KPI but expects to do so and reference the Global Reporting Initiative reporting standard upon publication.

### Calibration of SPTs

The Principles make optional recommendations for stronger structuring practices, which inform our ambition opinion as aligned, strong, or advanced. We consider the level of ambition for each target by assessing its clarity and characteristics, how the issuer defines the target with reference either to its past performance, or to external or competitor benchmarks, and how it explains what factors could influence future performance.

 BB's Sustainability-Linked Finance Framework is aligned with this component of the SLBP and SLLL.

**SPT 1** Disbursement of R\$320 billion for the sustainable loan portfolio by 2030

Not aligned

**Aligned**

Strong

Advanced

We believe the ambition, clarity, and characteristics of BB's sustainable loan disbursements target are aligned with the Principles.

BB outlines the baseline year (2020) and expected observation date (December 31 of each year, until 2030). The disbursement for R\$320 billion represents a 15% annual average increase in relation to a 2020 baseline of R\$127.8 billion. However, the annual average increase from 2023 to 2030 (7.7%) is lower than during the first years of reporting (18% in 2020-2023). The bank discloses the cause of this within the framework, stating that the revisions to its methodology allowed it to incorporate more business lines into the sustainable portfolio, generated a larger increase in volumes than those expected for the SPT. In our view, the level of ambition is difficult to assess based on historical performance.

Despite BB's efforts to use external references and definitions to facilitate the assessment of the SPT's level of ambition, peer benchmarking remains challenging. That said, we view the strong level of scrutiny by BB of what factors its sustainable loans consist as supportive of the SPT's ambition. When compared to the sustainable loan disbursement targets of the peers shown in its framework, BB's sustainable portfolio consists of loans that can only be eligible for labeled debt issuance, while for its peers that's not the case, which supports stronger standards for BB's targets. In its framework, BB notes that possible changes and different definitions on the Brazilian Sustainable Taxonomy may cause misalignment of the sustainable portfolio and could result in a SPT restatement.

The bank commits to define annual SPTs per KPI for loans issued under the framework.

## Second Party Opinion

Baseline	Sustainable loan credit of R\$320 billion by 2030	
2020	2023	2030
R\$127.84 billion	R\$207.27 billion	R\$320 billion
	Equivalent to a 62.13% or R\$79.43 billion increase	Equivalent to a 154.31% or R\$112.73 billion increase

**SPT 2** Sustainable agribusiness credits of R\$200 billion by 2030

Not aligned

**Aligned**

Strong

Advanced

We believe the ambition, clarity, and characteristics of BB's sustainable agriculture credit target are aligned with the Principles. The Framework provides information on the bank's past performance and describes BB's strategy for achieving the target as well as external factors that may impact its performance, which could include changes to the bank's strategic directions through political cycles. The Framework highlights BB's leading position in agriculture financing in Brazil, which supports the ambition of the target, in our view.

The sustainable agriculture credit of BB increased by R\$20 billion from 2015 to 2020, slower than the R\$52 billion rise between 2020 and 2022. From our perspective, the latter period appears to be an outlier compared to the historical performance, largely due to the substantial amount of subsidized financing for sustainable agriculture provided during the pandemic. We observe an annual growth projection of R\$10 billion for 2020-2030, a 7.5% annual increase. This compares to a R\$3.8 billion or 3.3% annual increase for 2015-2020. However, when comparing the entire past against future performance, we observe R\$10.1 billion or 10% annual average growth for 2015-2022, versus a R\$6.25 billion or 4% expected annual average growth for 2022-2030. Along with the weaker performance, the ambition is also tempered by inflation adjustments to the credit portfolio that should take place throughout the SPT. Therefore, as in SPT1, the level of ambition is difficult to assess based on historical performance.

That said, we believe the target's ambition is justified by BB's market leadership in agriculture financing in Brazil. Given BB's status as the country's largest agriculture financier, the target will further solidify BB's role in supporting the transition from traditional to more sustainable agriculture in Brazil. The bank anticipates leveraging its agribusiness technical assistance division to initiate additional sustainable agriculture financing projects and to offer more training for bank agents serving the sector. The bank mentions that failure to renew short-term sustainable agriculture loans or weaker macroeconomic conditions, could prevent them from achieving the target.

Baseline	Sustainable agribusiness credits of R\$200 billion by 2030
2022	2030
R\$149.5 billion	R\$200 billion
	Equivalent to a 33% or R\$50.5 billion increase

**SPT 3** A 25% reduction in the GHG emissions intensity in the corporate loan portfolio (for corporates with over R\$200 million in annual net revenues) by 2031

Not aligned

**Aligned**

Strong

Advanced

We consider the ambition, clarity, and characteristics of the SPT 3 to be aligned with the requirements of the Principles given that the bank clearly outlines the target's timeline, the observation date, the trigger events, and the strategy to reach the target.

In terms of the historic performance, the bank only provides two years of information. Despite the limited historical information, we believe the target's ambition is supported by the peer comparison of the Framework. The comparison reveals that other peers have not yet established a corporate-wide emissions reduction target for their loans. Instead, as of year-end 2023, their financed emissions targets are limited to the coal and power generation sectors. Consequently,



## Second Party Opinion

we interpret the broader scope of BB's financed emissions target as reinforcing the SPT's ambition. On the other hand, being an intensity-based target, we note a lack of comparability between the SPT and Brazil's Nationally Determined Contribution, which we view as a limitation.

Between 2021 and 2022, the bank reported a 2.7% decrease in the GHG emissions intensity in the corporate loan portfolio. BB anticipates an annual decrease of 2.5% over the next few years. The bank expects challenges to reduce financed emissions across harder-to-abate sectors in the coming years. The bank's focus for achieving the target consists of increasing the electrification (either industrial or transportation) and the share of renewable energy procurement financing for corporate clients.

### Baseline **A 25% reduction in the GHG emissions intensity in the corporate loan portfolio (for corporates with over R\$200 million in annual net revenues) by 2031**

2021	2031
0.1033 million tons of tCO2e per R\$1 billion in corporate loans	0.077 million tons of tCO2e per R\$1 billion in corporate loans
Equivalent to 25% reduction	

**SPT 4** A 30% representation of women and 30% representation of black, brown, indigenous, and other underrepresented ethnicities in senior leadership roles by 2030

Not aligned

Aligned

**Strong**

Advanced

We believe the ambition, clarity, and characteristics of BB's diversity target are aligned with the Principles. SPT 4 is benchmarked against the bank's historical performance. Between 2021 and 2023, BB increased the participation of women and underrepresented ethnicities at an annual average rate of 0.9% and 0.8% respectively, in leadership roles. To achieve the proposed SPT, the representation of these groups in such positions must increase at an annual average rate of 0.7% and 0.9% between 2024 and 2030. Despite the lower annual average rate of increase for women representation of the SPT, we view the inclusion of women and underrepresented ethnicities, such as indigenous people, that have a low starting point for senior representation in banks, supportive of the SPT's ambition.

BB's diversity program will be the main vehicle to promote actions to achieve SPT 4. The program fosters affirmative recruitment strategies as well as talent identification actions, career acceleration programs, and mentoring initiatives especially designed for these groups. The bank also plans to develop campaigns to foster the diversity culture and support, but not incentivize, self-reporting of gender and racial data. Besides, we view positively that BB has integrated a diversity pillar to its most recent strategic plan, with interim targets to be achieved by 2025.

BB has selected Brazilian peers pertaining to the same regulated financial segment for peer benchmarking. However, most of them have not set comparable targets. As a state-owned bank with restrictions on its recruiting and hiring process, BB mainly relies on internal mobility to achieve the target, aiming at the top three tiers represents a significant effort, especially when compared to peers' targets, which includes lower tiers or aim at the entire workforce. Therefore, BB's SPT differentiates from peers in addressing gaps that are enlarged in higher levels of the organizational hierarchy.

### Baseline **A 30% representation of women and 30% representation of black, brown, indigenous, and other underrepresented ethnicities in senior leadership roles by 2030**

2022	2030
A 23.2% representation of women and 22% representation of black, brown, indigenous, and other	30% for both

## Second Party Opinion

underrepresented ethnicities in senior leadership (2022)

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Equivalent to a 7%-8% increase

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### Instrument characteristics

The Principles require disclosure of the type of financial and/or structural impact involving trigger event(s), as well as the potential variation of the instrument's financial and/or structural characteristics.


 BB's Sustainability-Linked Finance Framework is aligned with this component of the SLBP and SLLL.

Sustainability-linked instruments issued under the Framework will be subject to impacts on their economic characteristics, depending on whether SPTs are achieved or not. Potential variations may include a benefit (step down) and/or penalty (step up). The bank also clarifies that a trigger event will take place if it fails to calculate, observe, or report information on the performance against the targets for each KPI by the observation dates. The Framework states that regulatory changes, M&A, or extreme events could lead to the restatements of the SPTs. For example, the bank specifies that the publication and mandatory use of the Brazilian Sustainable Taxonomy for sustainable debt labelling, expected for 2026, could lead to criteria changes for KPI 1.

Moreover, BB will annually disclose the performance verification related to SPTs, along with the respective impact on the instrument's financial and/or structural characteristics, on its website.

### Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 BB's Sustainability-Linked Finance Framework is aligned with this component of the SLBP and SLLL.

### Disclosure score

Not aligned

Aligned

**Strong**

Advanced


We consider BB's overall reporting practices to be strong.

BB commits to publishing annual updates on KPIs and SPTs in its ESG Databook, including sufficient information to allow investors and lenders to monitor the progress of SPTs. The SPTs' performance by the target observation date as well as the corresponding impact, and the timing of such impact (periodicity of the interest rate adjustment), on the instrument's economic characteristics will be reported annually.

We view positively that BB commits to disclose illustration of the positive sustainability impacts deriving from the performance improvement. Moreover, the bank's commitment to report on any reassessments and/or pro forma adjustments of KPIs as well as any potential restatements of SPTs represents a stronger feature.

### Post-issuance review

The Principles require post-issuance review commitments including the type of post-issuance third-party verification, periodicity and how this will be made available to key stakeholders. Our opinion describes whether the documentation is aligned or not aligned with these requirements. Please note, our second party opinion is not itself a post-issuance review.

 BB's Sustainability-Linked Finance Framework is aligned with this component of the SLBP and SLLL.

## **Second Party Opinion**

BB commits to obtaining an independent qualified external post-issuance verification of its performance against SPTs at least annually, following ICMA's and LSTA's official guidelines for External Reviews. The performance verification will be published on BB's website.

## Second Party Opinion

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