2024

Methodology to assess the level of responsibility of structured products

BNP PARIBAS
WEALTH MANAGEMENT

The bank for a changing world

Comparing the responsibility of structured products

The structured products' sustainability rating is based on the weighted average of the sustainability ratings of the two main components of a structured product:

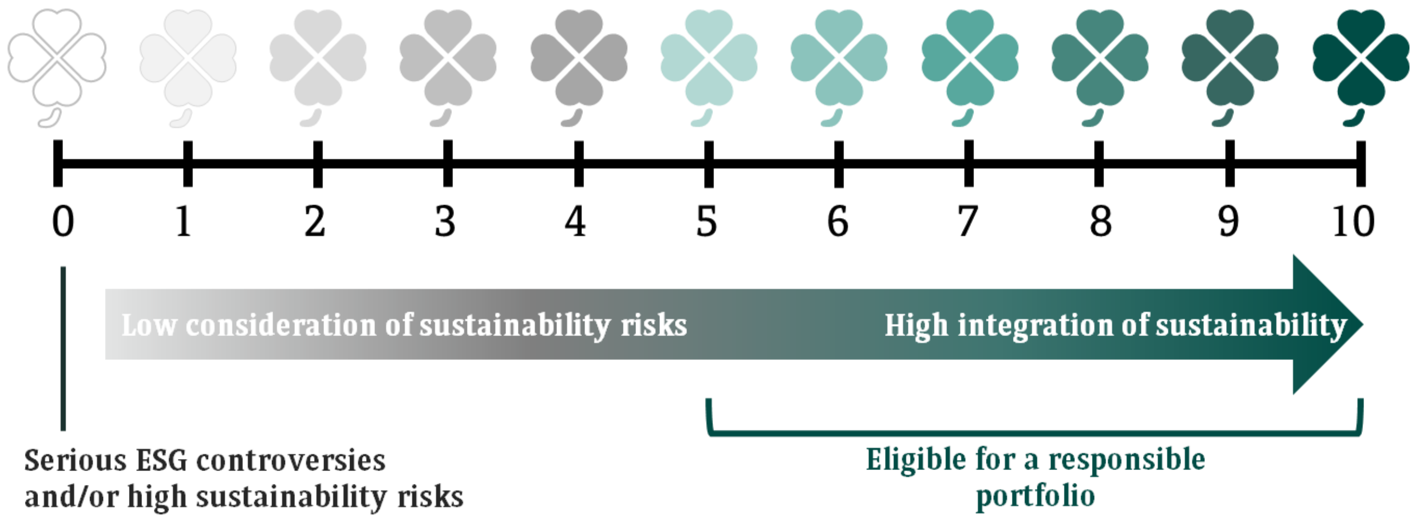
- **The issuer;**
- **The underlying(s).**

The issuer and the underlying(s) are rated according to existing WM sustainability rating methodologies for funds, ETFs, bonds, equities and indices.

To determine the weights to be allocated to the issuer and the underlying, we follow the principle of the tracking of investment proceeds in the structured product and exposures generated by the product.

We identify **3 types of structured products**: structures with call/put options (bullish, bearish or outperformance structures), delta 1 structures and structures with a neutral ESG underlying (e.g. forex or interest rates)

A scale of 0 to 10 clovers



A rating dependent of the features of the product

Bullish, bearish and outperformance structures	Delta 1 structures	Structures with a neutral ESG underlying (ie forex or interest rates)
The issuers and underlying(s)' sustainability ratings weights equally 50% each, with caps on rating implemented in some cases (cf. p.3)	The underlying's sustainability rating weight equals 100% in the final rating, with caps in rating implemented in some cases (cf. p.3)	The issuer's sustainability rating weight equals 100% in the final rating

A 4-step methodology

The aim is to assess all structured products, whether sustainable or not.

 # 1

The ratings of the issuer and of the underlying are retrieved from existing BNP Paribas Wealth Management sustainability rating methodologies for funds, ETFs, bonds, equities and indices. These methodologies follow the same logic and a common approach across all asset classes.

Interest rates, forex or commodities exposures are not rated sustainability-wise (except oil - Brent & WTI rated 0).

 # 2

An initial clover rating is assigned according to specific calculation rules depending on the structure of the product (bullish, bearish and outperformance structures / delta 1 structures / structures with a neutral ESG underlying)

 # 3

The final number of clovers assigned to a structured product is subject to our mandatory criteria. If these criteria are not met, the number of clovers corresponding to the final score is reduced. The mandatory criteria depend on the structure of the product :

- **Bullish, bearish and outperformance structures / Delta 1 structures / Structures with a neutral ESG underlying) :**
  - Cap at 4 clovers if the issuer or one of the underlyings is rated below 5 clovers
  - Cap at 1 clover if the issuer or more than 50% of the underlying is rated 0 clover
  - Bearish structures are capped at 1 clover
  - Cap at 0 clover if the issuer and 100% of the underlying are rated 0 clover
- **Delta 1 structures :**
  - Cap at 1 clover when the issuer is rated 0 clover

 # 4

The final clover rating is assigned to the structured product and is unique throughout WM.

Key points

- This methodology measures the sustainability level of all recommended structured products, whether responsible or not. It is a proprietary and exclusive methodology.
- It rates and compares, in an objective way, the sustainability of structured products of various authorized issuers.
- Structured Products with a maturity of less than one year are not integrated in this sustainability rating.

GLOSSARY

ESG
In the financial community, these initials refer to the Environmental, Social and Governance (ESG) criteria, which are used to complete the traditional financial analysis of issuers. ESG criteria assess the extent to which issuers are responsible for the environment and their stakeholders (employees, customers, suppliers, subcontractors, partners, local community, etc.).

Structured product
A structured product, also known as a market-linked investment, is a pre-packaged investment product composed of a Zero coupon Bond and one or more options. It can be structured on a single security, a basket of securities, options, indices, commodities, debt issuance or foreign currencies, and to a lesser extent, derivatives.

Issuer
A financial institution, which issues the structured product. One of the main risks in a structured product is the investor's exposure to the issuer creditworthiness

Underlying
Structured products are financial instruments whose performance or value is linked to that of an underlying asset, product, or index. These may include market indices, individual or baskets of stocks, bonds, and commodities, currencies, interest rates or a mix of these.

Option
An option is a contract, which conveys its owner, the holder, the right, but not the obligation, to buy or sell an underlying asset or instrument at a specified strike price prior to or on a specified date, depending on the form of the option.

Bullish structure
A Bullish Structure offers a positive return when the price of the underlying asset rises.

Bearish structure
A bearish structure offers positive return when the price of the underlying asset drops.

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