

# REPORTING ON EQUATOR PRINCIPLES IMPLEMENTATION

YEAR 2014



**BNP PARIBAS**

The bank  
for a changing  
world

The Equator Principles<sup>1</sup> (EPs) have become the leading financial industry benchmark for determining, assessing and managing environmental and social (E&S) risk in projects. They are based on the International Finance Corporation Performance Standards (PS) and the World Bank Group Environmental, Health & Safety (EHS) Guidelines, which are comprised of both general and industry specific sets of documents. More information on these standards and guidelines can be found on the IFC Sustainability Framework [webpage](#). As of May 2015, 80 Equator Principles Financial Institutions (EPFIs) from 37 countries have adopted the Equator Principles.

The Equator Principles, launched in 2003, updated in 2006, and most recently in 2013, is an evolving initiative which has adapted over time to address growing expectations from a wide range of stakeholders. Following the EP Strategic Review launched in 2010, the EP III Update process was initiated in July 2011, culminating in the release in June 2013 of the third version of the Equator Principles, following a significant public consultation phase. The revised Equator Principles<sup>2</sup> came into force on January 1<sup>st</sup>, 2014.

The new version of the Equator Principles brings about important changes to its application scope, on transparency and accountability of both EPFIs and their clients, as well as on climate change and human rights. Importantly, in addition to Project Finance (lending and advisory), the EPs now apply to certain Project-Related Corporate Loans and Bridge Loans.

## **BNP Paribas has been actively involved in the Equator Principles review and update process, and is also a Steering Committee member.**

This document constitutes BNP Paribas' EP Implementation report for the year 2014 (January 1<sup>st</sup> to December 31<sup>st</sup>) pursuant to Principle 10 of the 2013 version of the Equator Principles, which states that *"the EPFI will report publicly, at least annually, on transactions that have reached Financial Close and on its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations"*. This reporting is in line with the Minimum Reporting Requirements detailed in Annex B of the Equator Principles.

---

<sup>1</sup> <http://www.equator-principles.com/>

<sup>2</sup> <http://www.equator-principles.com/index.php/ep3>

# GENERAL CONSIDERATIONS

A financial institution adopting the EPs, such as BNP Paribas, undertakes not to support projects where the borrower will not or is unable to comply with the environmental and social (E&S) requirements arising from the application of the EPs. The first step is to categorise projects based on the associated potential E&S risks and/or impacts.

**Project categorisation under the EPs is in line with the recommendations of the IFC and is defined as followed:**

## CATEGORY A

For projects with potential significant adverse E&S risks and/or impacts that are diverse, irreversible or unprecedented.

## CATEGORY B

For projects with potential limited adverse E&S risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.

## CATEGORY C

For projects with minimal or no E&S risks and/or impacts.

As such, the initial categorisation is crucial because it triggers the level of due diligence to be undertaken. This initial categorisation is based on a preliminary assessment of the potential environmental and social risks of a project without considering mitigation measures. It is worth insisting on the fact that project categorisation (A, B or C) does not constitute a rating of the project's E&S performance nor a way of pre-selecting or excluding projects based on E&S concerns. In that sense, a project initially categorised as "A" will trigger a high level of due diligence resulting in the implementation of adequate mitigation measures that will eventually lower the level of E&S risks initially assessed. In addition, projects with E&S risks that BNP Paribas would deem unacceptable, or for which there would be no satisfactory mitigation prospects, will not be pursued.

It is also important to note that the project categorisation may evolve between mandate signing (or any form of commitment by BNP Paribas) and the credit committee stage (for lending mandates), as a result of additional information on E&S risks becoming available during the due diligence phase. However, once a transaction is approved internally (e.g. green light from the credit committee), the project categorisation is not modified further.

Based on the identified project risks and the extent of related impacts, the Equator Principles require the client to carry out mitigation measures, in a comprehensive and structured manner, through the implementation of Environmental & Social Management Plans (ESMP), in order to comply with the applicable E&S standards throughout the life of the project. An Action Plan (AP) may also be negotiated with the borrower to address gaps identified and ensure compliance with EP requirements. An overarching Environmental and Social Management System is also defined and implemented by the project company to address the management of the actions described in the ESMP and AP.

For projects located in Non-Designated Countries<sup>1</sup>, in addition to host country laws, regulations and permits, the assessment process evaluates compliance with the IFC Performance Standards and World Bank Group EHS Guidelines, considered as good international industry practices.

One of the major strengths of the Equator Principles is the contractual obligation for the client under the financing documents to regularly demonstrate its compliance with the proposed Action Plan as well as with the relevant laws, regulations and permits, through the inclusion of covenants and other conditions in the project's contractual structure<sup>2</sup>. For the most sensitive projects, an independent consultant is mandated by the lenders to review and monitor the project's E&S documentation and performance, during the planning, design, construction and operation phases, over the life of the loan.



<sup>1</sup> <http://www.equator-principles.com/index.php/ep3/designated-countries>

<sup>2</sup> A guidance note has been prepared by the EP Association on this subject, and is publicly available: <http://www.equator-principles.com/index.php/ep3>

# IMPLEMENTATION OF THE EQUATOR PRINCIPLES

BNP Paribas considers that the environmental & social (E&S) due diligence is an integral part of the regular due diligence conducted for project-related transactions. Business lines therefore remain essentially in charge of applying the EP process as they are the ones who know best the transactions and the clients.

The CIB Corporate Social Responsibility (CIB CSR) team reviews and monitors the application of the EPs (among other tasks). The CIB CSR team is independent from the business lines and acts as a second pair of eyes to systematically review the proposed categorisation. Its level of involvement in the overall EP implementation process for a specific project depends on the type of E&S risks and associated impacts.

In order to ensure a consistent categorisation, all relevant business lines worldwide must use the Sustainability Assessment Tool (SAT), a categorisation expert system licensed from PwC, and customised for BNP Paribas. Based on a project's potential risks and associated impacts, the tool suggests a category (A, B, or C).

Internal Equator Principles application procedures, validated by senior management, have been drafted by CIB CSR, in collaboration with the business lines concerned. These procedures are also referenced in the associated credit policies, to ensure that all staff is aware of the associated requirements.

These procedures enable the early detection of sensitive projects (i.e. that present significant E&S risks) so that they can be brought to the attention of senior management prior to any firm commitment. Business lines are then able to engage with the client on environmental & social aspects early in the financing process.

Category A (high sensitivity) projects are systematically subject to an ad-hoc committee, building on the existing internal processes. This committee involves representatives from the relevant business lines, functions (risk, compliance, legal, etc.), and from CIB CSR, and is intended to obtain senior management approval on EP-related matters.

In 2014, BNP Paribas teamed up with the IFC to provide day-long training sessions on extra-financial risk management, based on the IFC Performance Standards, and on Equator Principles application. With sessions in Paris, Geneva, Brussels, London and New York, more than 300 staff were trained and could benefit of IFC's expertise in handling environmental & social due diligence.



# PROJECT FINANCE TRANSACTIONS THAT HAVE REACHED FINANCIAL CLOSE IN 2014

The table below provides a breakdown of the 22 Project Finance transactions that have reached financial close in 2014, and to which the Equator Principles were applicable. Breakdowns are provided by Category (A, B, or C) and then by sector, region, country designation, and by whether an independent review has been carried out.

Note that these 22 transactions were reviewed by the CIB CSR team either in 2014 (for 15 transactions) or in previous years (5 transactions reviewed in 2013, 1 in 2012 and one in 2010).

<i>Breakdown by...</i>	Category A	Category B	Category C	Total
<b>Region</b>				
Americas	1	4	2	7
EMEA	1	6	0	7
Asia Pacific	1	7	0	8
<b>Sector</b>				
Mining	3	6	0	9
Infrastructure	0	2	0	2
Oil & Gas	0	4	0	4
<i>O&amp;G production</i>	0	1	0	1
<i>Petrochemicals</i>	0	3	0	3
Power	0	5	2	7
<i>Thermal</i>	0	2	1	3
<i>Renewables</i>	0	3	1	4
Others	0	0	0	0
<b>Country Designation</b>				
Designated	0	10	2	12
Non Designated	3	7	0	10
<b>Independent Review (*)</b>				
Yes	3	17	2	22
No	0	0	0	0
<b>Total</b>	<b>3</b>	<b>17</b>	<b>2</b>	<b>22</b>

(\*) It should be noted that the Independent Review can be performed either by a dedicated environmental & social consultant, or by the technical consultant, when its environmental & social expertise was considered acceptable given the characteristics of the project.



# PROJECT-RELATED CORPORATE LOANS THAT HAVE REACHED FINANCIAL CLOSE IN 2014

BNP Paribas started to apply the revised version of the Equator Principles in January 2014. Some Project-Related Corporate Loans were therefore reviewed in 2014, however none of these transactions reached financial close as of December 31<sup>st</sup>, 2014<sup>1</sup>.

As a result, BNP Paribas has no Project-Related Corporate Loan to report on in 2014.

<sup>1</sup> Apart from one Export Finance transaction with a Project Finance component, which was counted as Project Finance.

## PROJECT FINANCE ADVISORY MANDATES AWARDED IN 2014

The following table provides a breakdown of the 7 Project Finance Advisory transactions that were awarded to BNP Paribas in 2014, by region, sector, and country designation.

<b>Breakdown by...</b>	<b>Number</b>
<b>Region</b>	
Americas	1
EMEA	4
Asia Pacific	2
<b>Sector</b>	
Mining	2
Infrastructure	0
Oil & Gas	0
Power	5
<i>Thermal</i>	1
<i>Renewables</i>	4
Others	0
<b>Country Designation</b>	
Designated	0
Non Designated	7
<b>Total</b>	<b>7</b>

### Breakdown by category:

In several cases, at the time of mandate signing, information about the environmental & social aspects of the project was very limited and did not allow for the categorisation process to be performed. As a result, it is not possible to provide a meaningful breakdown of advisory mandates by Category.

### Breakdown by whether independent review has been carried out:

Similarly, for several mandates, an independent review had not yet been carried out when the reporting period ended. As a result, it is not possible to provide such breakdown for advisory mandates.

# ADDITIONAL REPORTING ON VOLUME

The reporting below, based on total project costs, provides an additional perspective on the influence that EPFIs as a whole, incl. BNP Paribas, can have as 'promoters of good E&S practice' on the global project financing market, which is comprised of both EPFIs and non-EPFIs.

The 29 transactions included in this reporting represent a total of USD 87.9 billion in project costs.

The total amount of commercial debt raised for the 22 Project Finance transactions that have reached financial close in 2014 was USD 30.8 billion, and BNP Paribas' allocation was USD 2.3 billion.

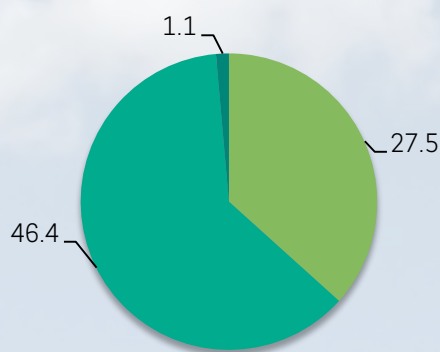
The total amount of commercial debt expected to be raised for the 7 Project Finance Advisory mandates that were awarded to BNP Paribas in 2014 is estimated at USD 6.1 billion.

## Breakdown by category:

The two graphs below show the breakdown of the 22 Project Finance transactions that have reached financial close in 2014, by total project costs, compared with the breakdown by number of projects. It does not take into account the 7 PF Advisory mandates that were awarded to BNP Paribas in 2014, as the information was not available for all these transactions.

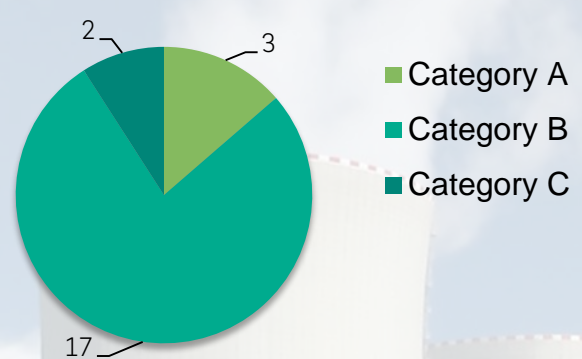
### Total project costs (US\$ billion)

by category



### Number of projects

by category



The above breakdowns show that Category A projects are generally larger. Conversely, Category C projects are of a much smaller scale (small infrastructure and renewable energy projects), which is consistent with the very limited nature of their potential environmental & social impacts.

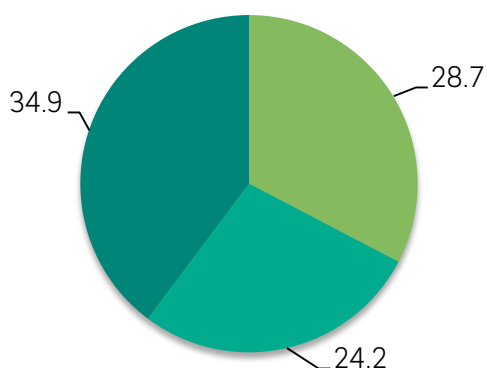


## Breakdown by region:

The two graphs below show the repartition of total project costs for the 29 transactions included in this reporting, compared with the repartition by number of projects, for the different regions.

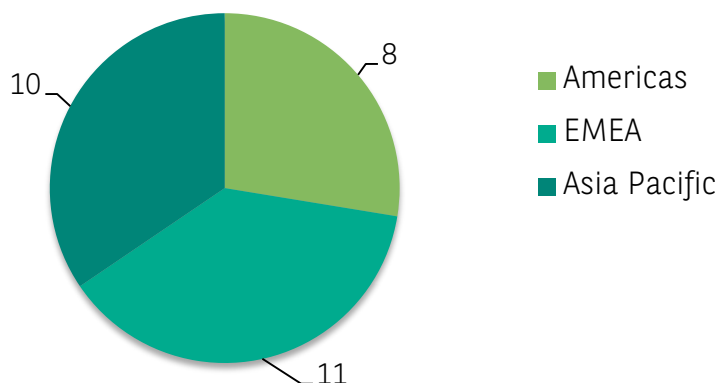
### Total project costs (US\$ billion)

by region



### Number of projects

by region



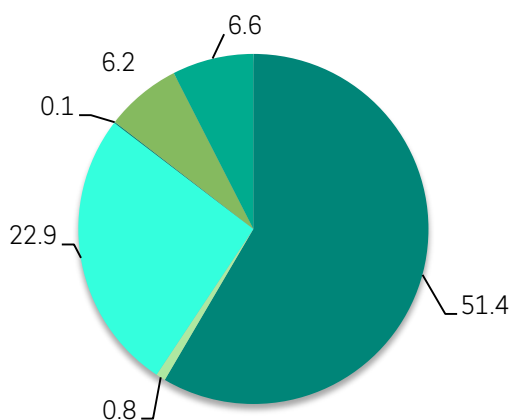
The above breakdowns show that the size of projects in the Americas and in Asia Pacific was comparatively larger than in Europe, Middle East and Africa (EMEA).

## Breakdown by sector:

The two graphs below show the repartition of total project costs for the 29 transactions included in this reporting, compared with the repartition by number of projects, for the different sectors.

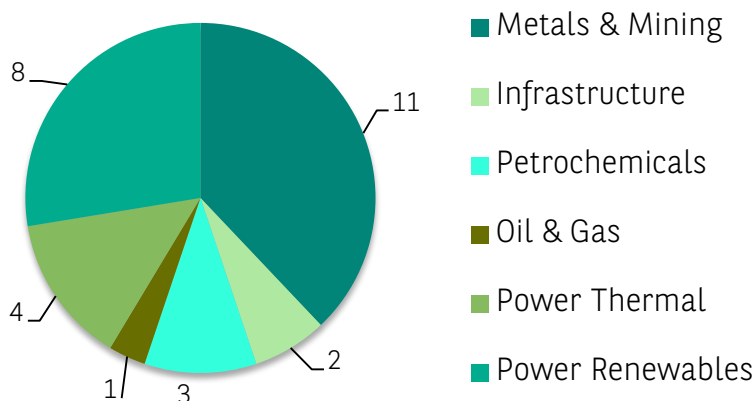
### Total project costs (US\$ billion)

by sector



### Number of projects

by sector



The above breakdowns show that the size of projects in the metals & mining and petrochemicals sectors are comparatively larger than projects in other sectors (e.g. infrastructure, power and in particular renewable energy projects).

# CONTRIBUTION TO THE EQUATOR PRINCIPLES DEVELOPMENT

BNP Paribas has been actively involved in the EP III Update process that started in 2011 and continued until the official publication of the revised version of the Equator Principles on June 4, 2013. BNP Paribas participated to various task forces and working groups that have been set up to address the specific issues identified by the EP Strategic Review, including on issues such as climate change, scope of application, and governance.

BNP Paribas acted as co-lead in the reporting & transparency task force (comprising representatives of over 20 EPFIs), which worked on improving EP reporting quality and consistency among EPFIs (Principle 10), as well as enhancing project-level transparency.

As a Steering Committee member, BNP Paribas remains actively involved in the work performed by the Equator Principles Association.





**BNP PARIBAS**

The bank  
for a changing  
world