

REPORTING ON EQUATOR PRINCIPLES IMPLEMENTATION

2022



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INTRODUCTION

The Equator Principles (EP) have become the leading financial industry benchmark for determining, assessing and managing Environmental and Social (E&S) risks in projects. They are based on the International Finance Corporation (IFC) 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. As of May 2023, 138 financial institutions in 38 countries have adopted the Equator Principles.

Launched in 2003, the EP enforced its fourth version (EP4) starting October 2020. In its final version, EP4 brought additional requirements for more sensitive projects including dedicated Human Rights and Climate Change Risk Assessments, broader application of the EP standards for both Designated and Non-designated countries and significant changes to the financial instruments and thresholds covered by the EP.



BNP Paribas adopted the EP in October 2008. The Principle 10 of the Equator Principles states that “the EPFI will, at least annually, report publicly on transactions that have reached Financial Close and on its Equator Principles implementation processes and experience”¹. Being an Equator Principles Financial Institution (EPFI), BNP Paribas produced the present report in order to be compliant with the requirements of Principle 10.

While this reporting adheres to the Minimum Reporting Requirements outlined in Annex B of the Equator Principles, the official reporting information can be accessed on the EP Association website².

¹ https://equator-principles.com/app/uploads/The-Equator-Principles_EP4_July2020.pdf

² <https://equator-principles.com/members-reporting/>

GENERAL CONSIDERATIONS

Principle 1 of the EP requires EPFIs to categorize projects based on the associated potential E&S risks and/or impacts. Based on this categorization, the EPFIs assess the projects' E&S risks and/or impacts and, if needed, the borrower will have to implement additional measures to meet E&S requirements in order for the project to be compliant with the framework.

Equator Principles Financial Institutions commit to not providing support to projects in cases where the borrower is unwilling or unable to adhere to the E&S requirements that arise from the implementation of the EP.

Project categorization under the EP is in line with the recommendations of the IFC's environmental and social categorization process 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.



The initial categorization plays a critical role as it determines the extent of due diligence that need to be conducted. It is determined by evaluating the potential environmental and social risks associated with a project, without taking into account any mitigation measures. It is important to emphasize that project categorization (A, B or C) does not serve as rating of the project's E&S performance, not does it act as a means of pre-selecting or excluding projects solely based on E&S considerations. In this regards, a project initially categorized as "A" will require a thorough due diligence process that leads to the implementation of appropriate mitigation measures, ultimately reducing the level of initially assessed E&S risks. 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 worth mentioning that the project categorization can change from the time of mandate signing (or any form of commitment by BNP Paribas) to the credit committee stage (for lending mandates). This change can occur due to the availability of additional information on E&S risks that emerges during the due diligence phase. However, once a transaction is approved internally (e.g. green light from the credit committee), the project categorization is not modified further.

In accordance with the Equator Principles, the client is required to implement mitigation measures in a comprehensive and structured manner, based on the identified project risks and their associated impacts. This is achieved through the implementation of Environmental & Social Management Plans (ESMP) to ensure compliance with the relevant E&S standards throughout the project's lifespan. Additionally, an Action Plan may be negotiated with the borrower to address any identified gaps and ensure adherence to the requirements set by the EP. The project company is also responsible for establishing and implementing and overarching Environmental and Social Management System to oversee the management of actions outlined in the ESMP and AP.

For projects located in Non-Designated Countries and, depending on their particular risks, in Designated Countries³, 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 AP as well as with the relevant laws, regulations and permits, through the inclusion of covenants and other conditions in the project's contractual structure⁴.

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.

³ <https://equator-principles.com/about-the-equator-principles/>

⁴ https://equator-principles.com/app/uploads/Loan_documentation_EP_Dec2020.pdf

IMPLEMENTATION OF THE EQUATOR PRINCIPLES

Environmental and Social due diligence is an integral part of the regular due diligence conducted for project-related transactions and BNP Paribas. The business lines retain the primary responsibility for applying EP process, as they are at the forefront of the business activity.

1. ROLES AND RESPONSIBILITIES

The CIB Corporate Social Responsibility (CIB CSR) team is 13-people strong, is independent from the business lines and systematically reviews projects' E&S impacts and its proposed categorization. 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.

RISK function, in its role as second line of defense on ESG risks as part of the credit process, reviews and can challenge the outcome of the assessment performed by the Business lines and CIB CSR team, including compliance with the EP and Project Category.

2. PROJECT CATEGORIZATION

In order to ensure a consistent categorization of projects based on their E&S risk and impacts, all relevant business lines worldwide must use the Categorization Tool (CAT), a project categorization tool developed internally by BNP Paribas. Based on a project's potential risks and associated impacts, the tool suggests a category (A, B+, B or C).

Projects classified as Category B can encompass a spectrum of potential environmental and social risks and impacts. Generally, higher-risk Category B projects are treated similarly to Category A projects, while lower-risk- Category B projects are subject to a less stringent regime. To address this, BNP Paribas introduced a Category B+ specially designed to cover higher-risk Category B projects. Concerning due diligence obligations, Category B+ projects are expected to strive for compliance with the standards set for Category A projects. However, if a particular Category B+ project cannot fully meet the additional requirements, the business team has the option to consult CIB CSR to explore potential alternatives on a case-by-case basis.

3. E&S CONSIDERATIONS IN THE CREDIT PROCESS

An internal procedure to rule the application of EP in BNP Paribas has been drafted by CIB CSR in collaboration with the business lines concerned and validated by senior management. This procedure is also referenced in the associated credit policies, to ensure that all staff is aware of the associated requirements. To address the changes brought by EP4, the procedure was updated in 2020 and a final version validated by October 1st 2020.

The procedure enables 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.

The E&S risks and associated impacts of Category A (high sensitivity) projects are systematically discussed during the credit committee, with participation of CIB CSR. This ensures that RISK function is involved as second line of defense on ESG matters.

4. TRAINING

In 2020, BNP Paribas developed a new e-learning module on the Equator Principles implementation, scope of application and associated due diligence. This e-learning is available to all staff worldwide, with communications being sent to the regional CSR points of contact, to guarantee it reaches all relevant teams. From January 2022 until May 2023, 16 BNP Paribas employees have completed the module.

PROJECT FINANCE TRANSACTIONS IN 2022

The table below provides a breakdown of the 13 Project Finance transactions that have reached financial close in 2022, 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.

Most of these transactions were initially reviewed by the CIB CSR team in either 2021 or 2022.

It is important to note that the number of Project Finance transactions reviewed by CIB CSR and discussed with the relevant Business Lines in 2022 is significantly larger (i.e. 101, including PRCLs) than the number of Project Finance transactions that closed in 2022 outlined below, as many transactions may be either be lost by BNP Paribas or its clients following a competitive bidding process or abandoned by the our clients or put on hold or delayed until the following year.

	CATEGORY A	CATEGORY B	CATEGORY C	TOTAL
REGION				
Americas	0	7	1	8
EMEA	0	3	0	3
Asia Pacific	1	1	0	2
SECTOR				
Metals & Mining	0	0	0	0
Infrastructure	0	2	0	2
Oil & Gas, Petrochemicals	0	2	0	2
Power	1	5	1	7
Thermal	0	0	0	0
Renewables	1	5	1	7
Others	0	2	0	2
COUNTRY DESIGNATION				
Designated	0	9	1	10
Non Designated	1	2	0	3
INDEPENDENT REVIEW (*)				
Yes	1	9	0	10
No	0	2	1	3
TOTAL	1	11	1	13

(*) 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 TRANSACTIONS IN 2022

During the reporting period, 9 Project-Related Corporate Loans covered by the Equator Principles, reached financial close. All were Export Finance buyer's credit transactions.

The table below provides a breakdown of these transactions by Category (A, B, or C) and then by sector, region, country designation, and by whether an independent review has been carried out.

	CATEGORY A	CATEGORY B	CATEGORY C	TOTAL
REGION				
Americas	1	2	0	3
EMEA	1	4	0	5
Asia Pacific	1	0	0	1
SECTOR				
Metals & Mining	2	0	0	2
Infrastructure	1	1	0	2
Oil & Gas, Petrochemicals	0	0	0	0
Power	0	3	0	3
Thermal	0	3	0	3
Renewables	0	0	0	0
Others	0	2	0	2
COUNTRY DESIGNATION				
Designated	0	2	0	2
Non Designated	3	4	0	7
INDEPENDENT REVIEW (*)				
Yes	3	3	0	6
No	0	3	0	3
TOTAL	3	6	0	9

(*) 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 FINANCE ADVISORY AND BRIDGE LOANS MANDATES AWARDED IN 2022

During the 2022 reporting period, BNP Paribas was awarded 1 Project Finance Advisory mandate and participated in 1 Bridge Loan to which the Equator Principles were applicable.

ADDITIONAL REPORTING ON PROJECT COSTS

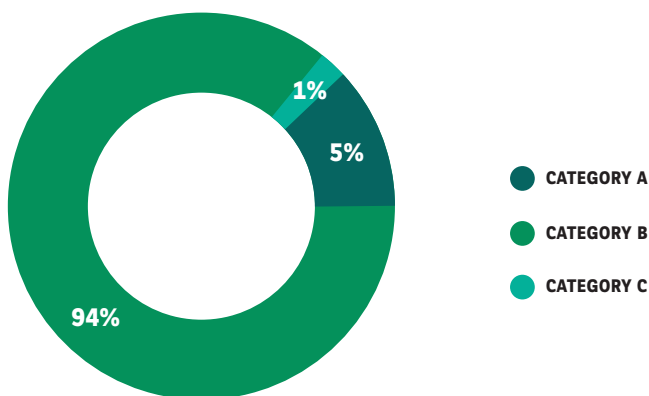
The reporting below, based on total project costs, provides an additional perspective on the influence that EPFIs as a whole, incl. BNP Paribas, can have as 'promoters of good E&S practices' on the global project financing market, which is comprised of both EPFIs and non-EPFIs.

The 24 transactions included in this reporting (i.e. Project Finance, Project-Related Corporate Loans, Finance Advisory and Bridge Loans transactions that have reached financial close in 2022) represent a total of USD 38 billion in total project costs; the total amount of commercial debt raised was USD 13 billion, and BNP Paribas' allocation was USD 3 billion.

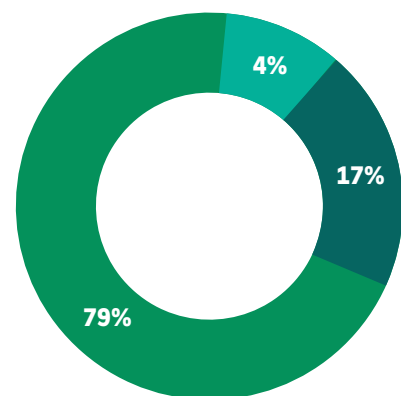
BREAKDOWN BY CATEGORY

The two graphs below show the breakdown of the 24 transactions included in this reporting, by total project costs, compared with the breakdown by number of projects.

TOTAL PROJECT COSTS



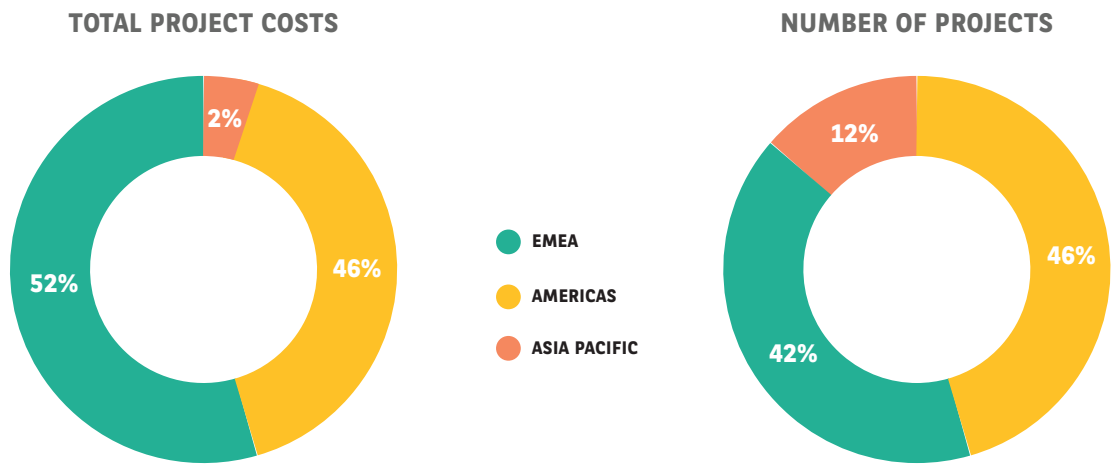
NUMBER OF PROJECTS



Even though Category A projects usually require larger amounts of financing, associated with the bigger scale of the projects (and consequently, more significant environmental & social impacts), most projects financed in 2022 were Category B projects, hence the project costs' breakdown above.

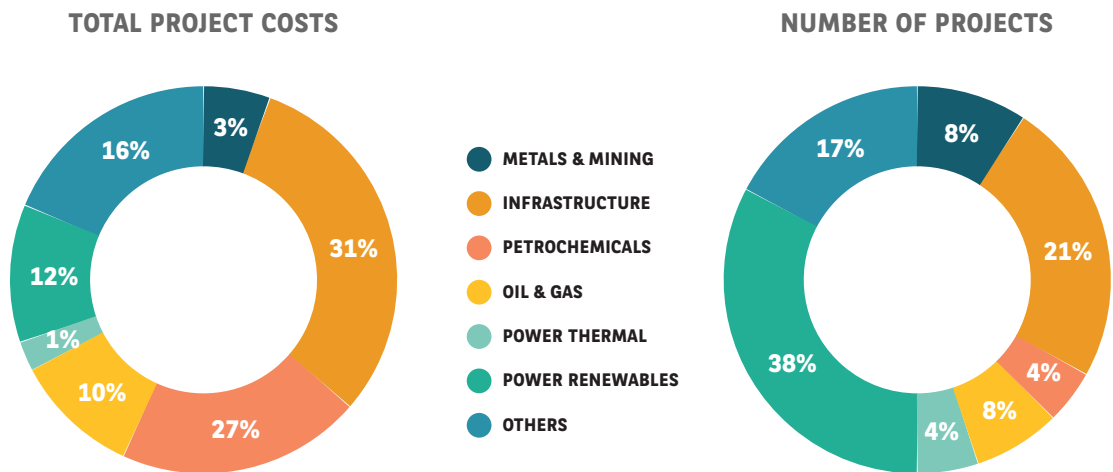
BREAKDOWN BY REGION

The two graphs below show the repartition of total project costs for the 22 transactions included in this reporting, compared with the repartition by number of projects, for the different regions.



BREAKDOWN BY SECTOR

The two graphs below show the repartition of total project costs for the 22 transactions included in this reporting, compared with the repartition by number of projects, for the different sectors.



The above breakdowns show that the size of projects in the Infrastructure sector are significantly larger and more capital demanding than projects in other sectors (e.g. Power Thermal). Regarding the number of projects per sector, Renewables projects standout from the group.

CONTRIBUTION TO THE EQUATOR PRINCIPLES DEVELOPMENT

BNP Paribas has been actively involved in the development of the Equator Principles, either as a steering committee member or as part of various working groups on issues such as climate change, scope of application, and governance. BNP Paribas has notably played an active role in the revision process that led to the third version of the Equator Principles published in June 2013.



In particular, 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.

BNP Paribas was actively involved in the EP IV revision process, notably by participating in the working group of Social Impact and Human Rights and thus taking part of the discussions of the Guidance Notes on Implementation of Human Rights Assessments and Evaluation Projects with Affected Indigenous People. BNP Paribas was one of the EPFIs that requested that the EP Association review the applicable standards in Designated Countries. On that note, BNP Paribas also contributed to the dedicated section in the EP Implementation Note.





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