May 2014

Reporting on Equator Principles Implementation

For the year 2013

Introduction

The Equator Principles[1] (EPs) have become the financial sector's leading voluntary standards for identifying, assessing, and managing social and environmental risks in relation to projects. They are based on the IFC[2] 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 early May 2014, 78 Equator Principles Financial Institutions (EPFIs) from 35 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[3], following a significant public consultation phase.

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 review and update process, both as co-lead of the Reporting & Transparency task force (made of over 20 banks), and as a participant to various working groups and task forces. BNP Paribas is a Steering Committee member.

A more detailed description of our role within the Equator Principles Association is provided in page 11.

This document constitutes BNP Paribas' EP Implementation report for the year 2013 pursuant to Principle 10 of the 2006 version of the Equator Principles, which states that "e*ach EPFI adopting the Equator Principles commits to report publicly at least annually about its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations*".

In 2015, BNP Paribas will publish an EP Implementation report as per the Principle 10 and Annex B (Minimum Reporting Requirements) of the 2013 version of the Equator Principles, covering transactions closed in 2014 to which the EPs have been applied.

[1] http://www.equator-principles.com/
[2] The International Finance Corporation is the World Bank's private sector arm.
[3] 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 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 social or environmental impacts that are diverse, irreversible or unprecedented;
- Category B for projects with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures; and
- Category C for projects with minimal or no social or environmental 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 mitigations 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 evaluation of such risks 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 arising during the due diligence phase. However, once a transaction is approved internally (e.g. green light from the credit committee), the initial 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 High Income OECD countries[1], the IFC Performance Standards and EHS Guidelines do not apply as the *"regulatory, permitting and public comment process requirements"* in these countries *"generally meet or exceed the requirements of the IFC Performance Standards and EHS Guidelines"*. Local and national laws are therefore considered as an adequate substitute for the IFC Performance Standards, EHS Guidelines and some of the Principles.

One of the major strength 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 and the relevant laws, regulations and permits, through the inclusion of covenants and other conditions in the project's contractual structure[2]. 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 all over the life of the loan.

[1] Refer to the World Bank database: http://data.worldbank.org/about/country-classifications/country-and-lending-groups

[2] A guidance note has been prepared by the EP Association on this subject, and is publicly available: http://www.equator-principles.com/index.php/best-practice-resources/best-practice-a-resources. Note that this version has been updated to reflect the new version of the Equator Principles

Implementation of the Equator Principles

Important: this report covers the 2013 period, during which all transactions were subject to the 2006 version of the Equator Principles, which were only applicable to Project Finance (lending and advisory) transactions.

BNP Paribas considers that the E&S due diligence is an integral part of the regular due diligence conducted for PF transactions which also covers financial, technical and legal aspects. As such, the PF teams which are located within CIB[1] remain essentially in charge of applying the EP process as they are the ones who know best the transactions and the clients.

The role of the CIB Corporate Social Responsibility (CIB CSR) team is to review and monitor the application of the EPs, based on the CIB EP procedure that has been proposed by CIB CSR and validated by senior management. The CIB CSR team is independent from PF teams and acts as a second pair of eyes to review the proposed categorisation and has the ability to challenge or review the EP implementation on any project. Its level of involvement in the overall EP implementation process for a specific project depends on the level and nature of associated risks.

In order to ensure a consistent categorisation, all PF teams must use the Sustainable Assessment Tool (SAT), a categorisation expert system tool licensed from PwC. Such tool has been customised for BNP Paribas. PF teams are requested to identify and assess the potential risks and associated impacts of a project as well as the client performance / track-record using information available to them. The SAT will then suggest a classification of the transaction among the three categories defined in the EP (A, B and C). In case of a disagreement on a project's categorisation proposed by the PF team, CIB CSR has the right to escalate the category to a more sensitive level (e.g. from B to A), leading to increased due diligence and scrutiny.

This procedure enables the early detection of sensitive projects so that they can be brought to the attention of senior management prior to any firm commitment, and allows the PF team to engage with the client as early as possible to put mitigation measures in place.

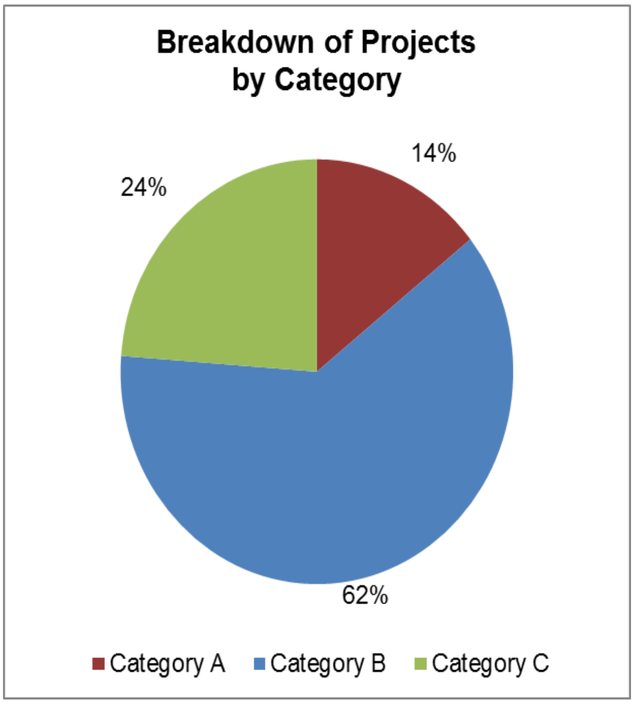
According to the applicable internal procedure, Category A (high sensitivity) projects are systematically subject to a TAC (Transaction Approval Committee)[2]. The TAC is an existing internal process which usually takes place in advance of the credit committee and focuses on some particular and exceptional risks associated to a transaction which have to be validated by CIB senior management. For PF transactions, it is chaired by a senior executive of the regional Corporate Banking division, involves relevant PF officers as well as representatives of Group Risk Management, CIB CSR, Compliance, Legal, and Communication as necessary, and focuses on the E&S risks of the project[3].

[1] Corporate & Investment Banking (one of the three core businesses of BNP Paribas, with Investment Solutions and Retail Banking)
[2] Except in cases where a credit committee at the highest level (i.e. including a representative of the Group senior management) is to take place and where there is very limited time to carry out an additional TAC. In such exceptional situations, a note is prepared by CIB CSR for the consideration of such credit committee.
[3] Some participants (incl. CIB CSR) have an escalation right that can bring E&S issues to the attention of Group senior management.

Project Finance transactions screened in 2013

You will find below statistics related to the numbers of Project Finance (PF) transactions screened by the CIB CSR team[1] during the calendar year 2013, as well as on PF transactions that closed during the same period.

In 2013, 21 PF transactions were screened by the CIB CSR team. Projects screened are defined as those transactions that have been submitted by PF teams to CIB CSR and for which CIB CSR has confirmed the categorisation. The increasing number of transactions screened in 2013, compared to 2012, can be explained in part by the economic recovery following the financial crisis in certain countries and the transformation successfully undertaken by BNP Paribas to address the new regulatory environment.



A large majority of transactions screened (i.e. 62%) was classified as Category B (with potential moderate or limited environmental and social impact), while 24% of them were classified as Category C (with minor or no impacts), and three transactions (14%) were classified as Category A (projects with potential significant negative impacts but for which there are adequate mitigation prospects).

It is important to stress that the 21 PF transactions screened do not represent the actual number of PF transactions that BNP Paribas has closed in 2013. Indeed, out of the 21 transactions screened in 2013, 3 reached financial close in the same year. Other transactions that have closed in 2013 have been reviewed by CIB CSR in previous years.

The remaining transactions that were screened, but not closed, in 2013 are either:

- Ongoing (closing likely to happen in 2014 or later), which is typical of PF transactions where the due diligence process can take a very significant amount of time and span over more than one reporting year, or
- Transactions that have not been pursued (including not winning a bid, or dropping a project due to credit constraints and/or unacceptable financing structure etc.). Indeed, the EP procedure specifically requires that initial categorisation is carried out as early as possible and before any formal engagement with a project developer.

[1] Understood as the CIB CSR teams of both BNP Paribas and BNP Paribas Fortis.

The table below provides a breakdown by status (as of December 31, 2013) of the 21 transactions screened in 2013 by the CIB CSR team.

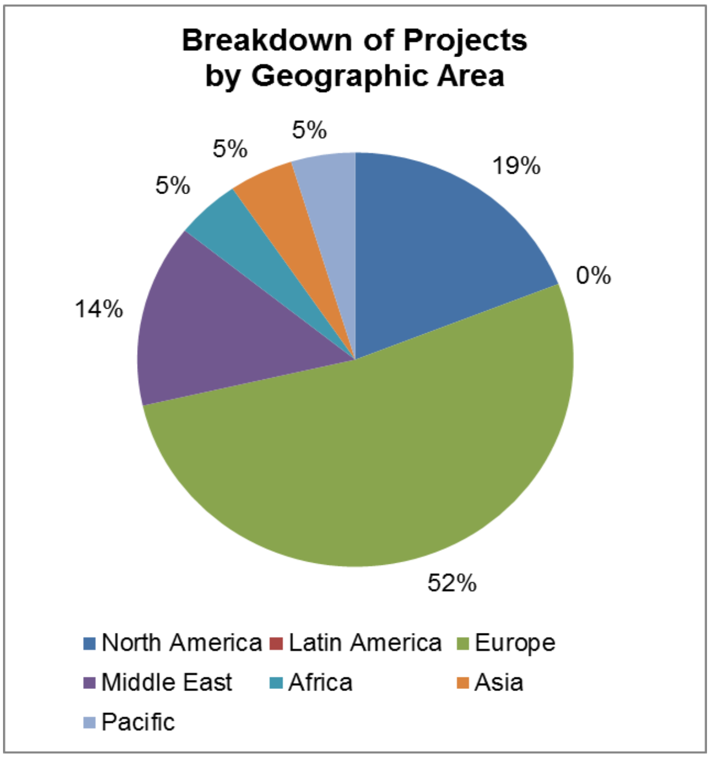
Transactions screened and closed	**3**
Transactions screened and ongoing	**11**
Transactions screened and that did not proceed	**7**
Total	**21**

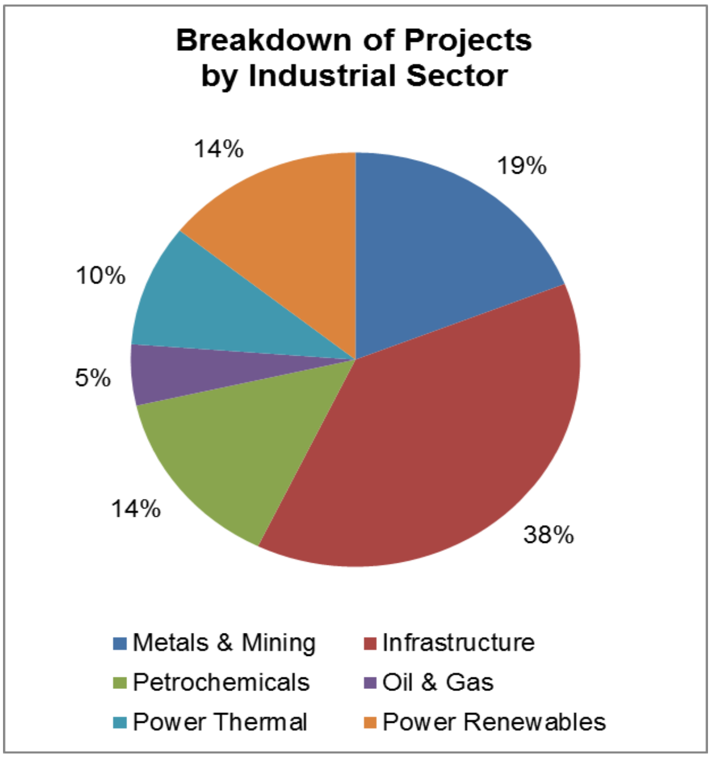
Several remarks can be made on the above table:

- "Transactions closed" covers both lending mandates that have closed and advisory mandates that have been completed.
- "Transactions ongoing" covers all mandates that are still active (financing or advisory).

On the total of 21 transactions considered (regardless of their final status), 3 were advisory mandates, and 18 were transactions where BNP Paribas provided, or looked to provide, financing (either as mandated lead arranger or as participant).

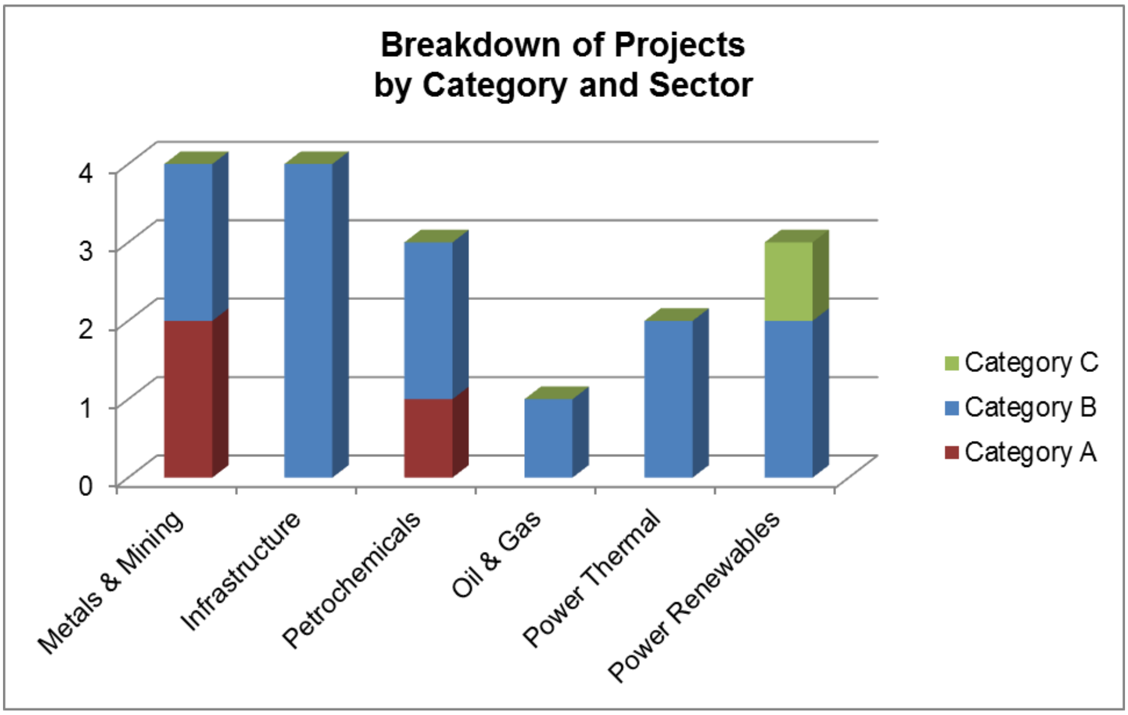
The following pie charts further illustrate the breakdown of the PF transactions screened by CIB CSR in 2013 by geographic area and sector.





May 2014

A breakdown by category and sector is provided is the graph and associated table below:



Category / Projects	A	B	C	Total
Mining	2	2	0	4
Infrastructure	0	4	4	8
Petrochemicals	1	2	0	3
Oil & Gas	0	1	0	1
Power Thermal	0	2	0	2
Power Renewables	0	2	1	3
Total	**3**	**13**	**5**	**21**

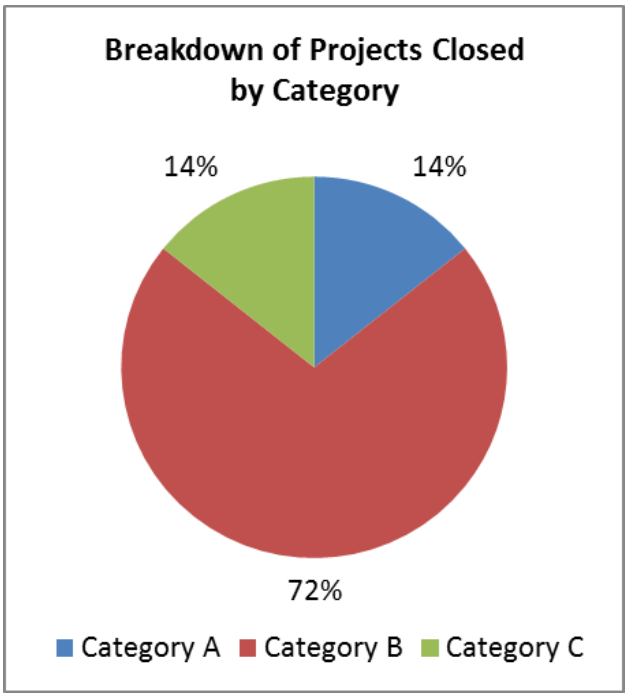
May 2014

The table below shows a detailed distribution of PF transactions screened by region and sector, with a distinction made on the projects' host country classification (whether it is a High Income OECD country or not, as defined in the EPs).

Country classification	Region (EP min requirements)	Sector (detailed)	Reported classification	Total
High Income OECD				
	Americas			
		Oil & Gas		
			B	1
		Power Renewables		
			B	1
			C	1
		Power Thermal		
			B	1
	Americas Total			**4**
	Asia Pacific			
		Metals & Mining		
			B	1
	Asia Pacific Total			**1**
	EMEA			
		Infrastructure		
			B	3
			C	4
		Power Renewables		
			B	1
		Petrochemicals		
			B	1
	EMEA Total			**9**
High Income OECD Total				**14**
Non High Income OECD				
	Asia Pacific			
		Petrochemicals		
			A	1
		Metals & Mining		
			A	1
			B	1
	Asia Pacific Total			**3**
	EMEA			
		Infrastructure		
			B	1
		Power Thermal		
			B	1
		Petrochemicals		
			B	1
		Metals & Mining		
			A	1
	EMEA Total			**4**
Non High Income OECD Total				**7**
Grand Total				**21**

Project Finance transactions closed in 2013

During the year 2013, BNP Paribas participated in 7 transactions that reached financial close (or advisory mandates that were completed) and to which the Equator Principles were applied. These transactions have been screened in 2010-2013, illustrating the usually long lead time of Project Finance transactions. The distribution of these projects by category is shown in the graph below.



Please note that, starting in 2015, our EP implementation reporting will contain more details regarding projects closed, as per the Minimum Reporting Requirements (Principle 10, Annex B of the Equator Principles).

Additional reporting by estimated volume (BNPP allocation, debt, total project costs)

There are limitations associated with a reporting based on the number of projects as contemplated under Principle 10 of the EP. Indeed this type of reporting does not take into account the estimated size of the projects (total project costs) being financed and therefore does not give any indication on the influence that an EPFI, as a "promoter of good E&S practice", would exert on the global PF market, which is comprised of both EPFIs and non-EPFIs. We felt this additional perspective would be interesting.

Financial data (total project costs, amount of commercial debt, and BNP Paribas' allocation) for PF transactions screened by CIB CSR are necessarily estimated as only a part of them eventually closed that same year. We had therefore to estimate the financial data for the other projects that did not reach financial close.

We used the following methodology to gather the financial data associated with each project screened.

For transactions in which BNP Paribas acted as a lender:

- Projects closed during the reporting year: figures on total project costs, amount of commercial debt (i.e. not taking into account loans granted by multilateral institutions and ECAs), and BNP Paribas' allocation, are obtained from the relevant submissions to the major league tables providers.

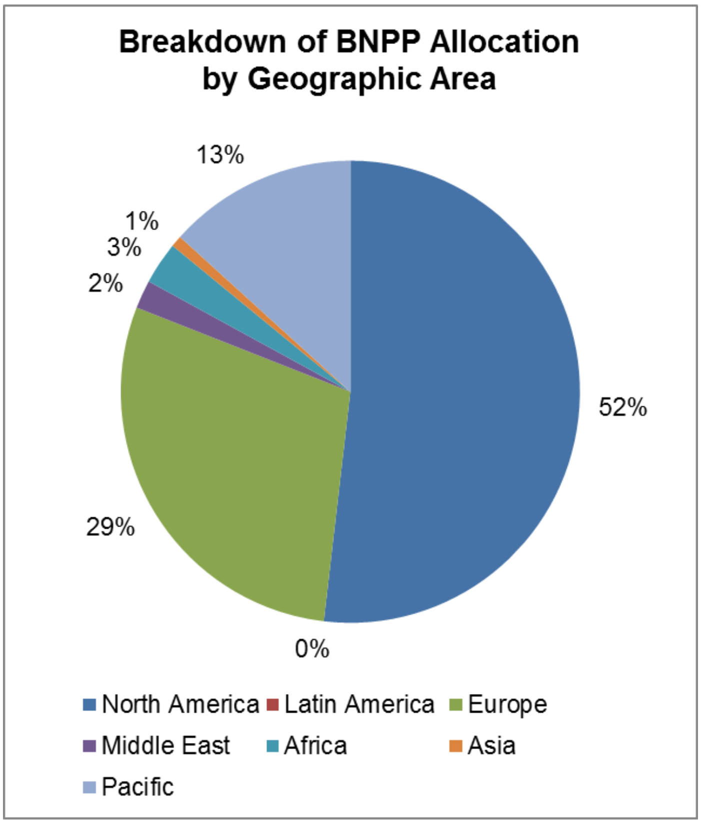
- Ongoing / lost mandates, abandoned transactions: the latest data available is provided by the relevant PF teams (acknowledging that this only reflects the situation at the time the transaction was screened by CIB CSR, before it is abandoned or lost).

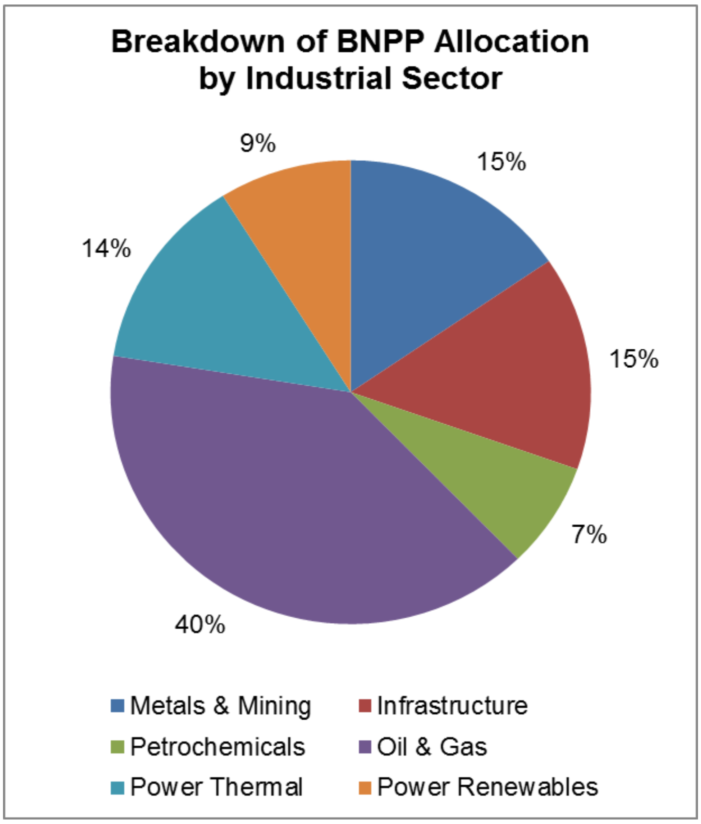
For advisory transactions, the proposed approach is different, and we attributed to the bank (as its allocation) the total amount of debt that was under consideration (if BNP Paribas is the sole financial adviser) which can reflect its influencing role as advisor to the project developer, but also distort the repartition "by BNPP Allocation", particularly when the bank has acted as financial advisor for large projects.

The 21 projects screened by CIB CSR in 2013 represented total costs of USD 65.5bn. The total amount of commercial debt for these projects is estimated at USD 39.2bn (including around USD 1.9bn that correspond to the amount of commercial debt of projects for which we had a pure advisory role). This results in a total of USD 37.3bn of commercial debt for projects in which we acted as lender, which can be compared to the total PF market in 2013, which has been estimated at USD 138bn by IJ Online (does not take advisory mandates into account). We however do recognize the difficulty to compare these two figures, given the fact many transactions screened by CIB CSR in 2013 have not been closed the same year, that other transactions closed in 2013 have been screened by CIB CSR on previous years, and the PF league tables from IJ Online contain numerous transactions to which the Equator Principles are not applicable.

Breakdown by allocation

For these 21 projects, BNP Paribas' allocation is estimated at USD 3.8bn (including around USD 1.9bn that correspond to the amount of commercial debt of projects for which we had a pure advisory role). Various breakdown of BNP Paribas allocation are provided below.

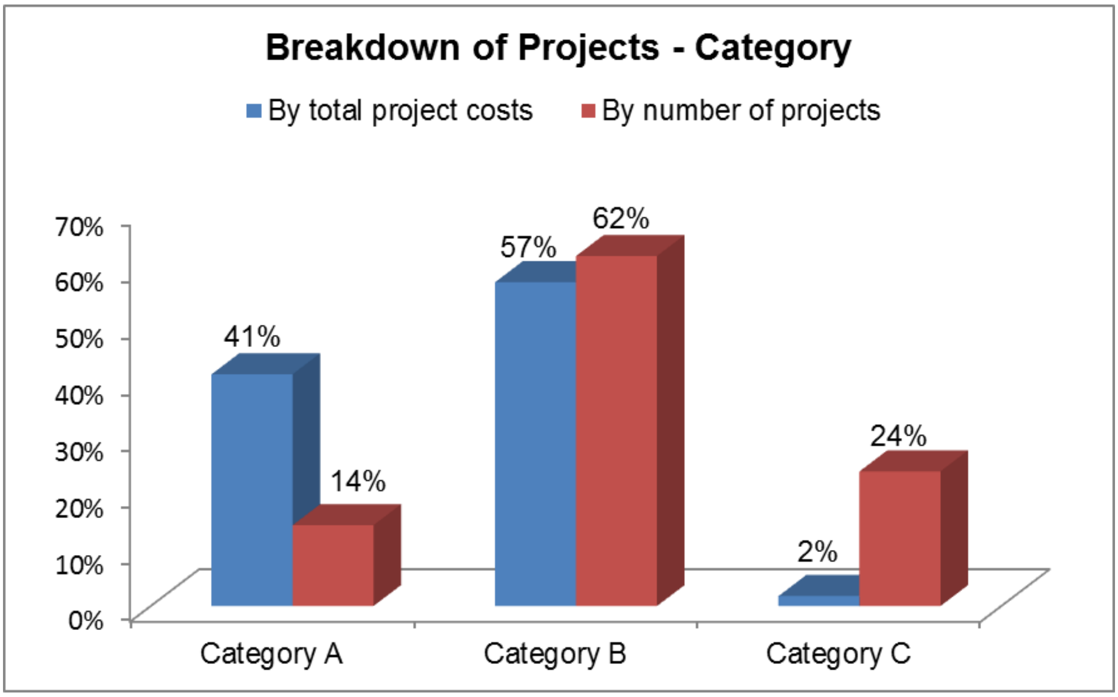




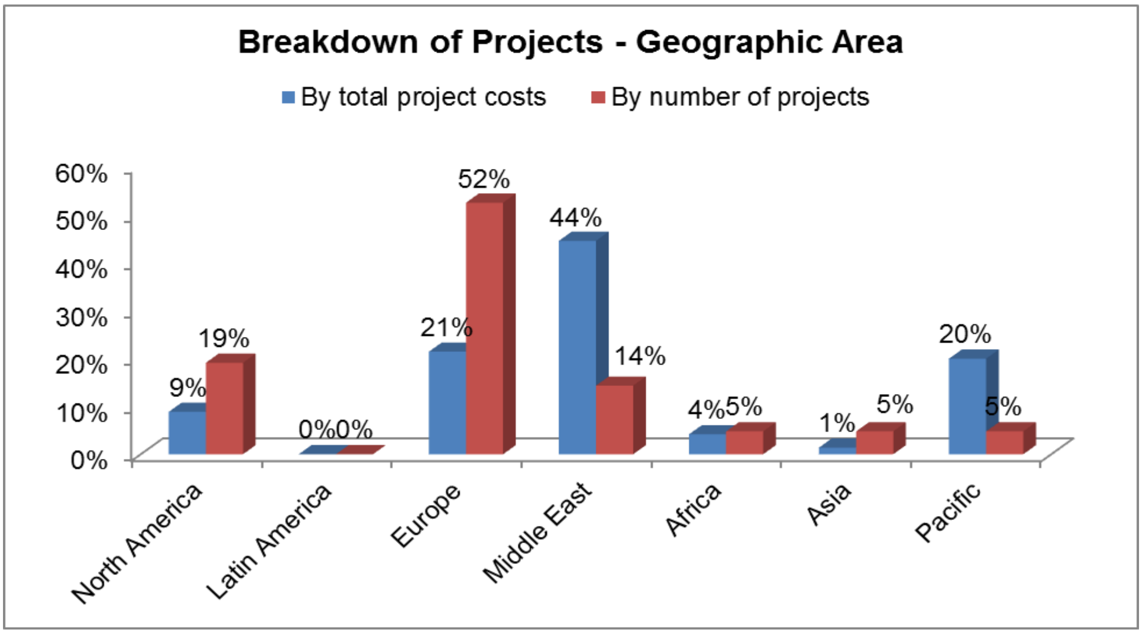
It should be noted that when BNP Paribas had an advisory role, the full amount of commercial debt is attributed to BNP Paribas, which can distort the above breakdowns.

Breakdown by total project costs

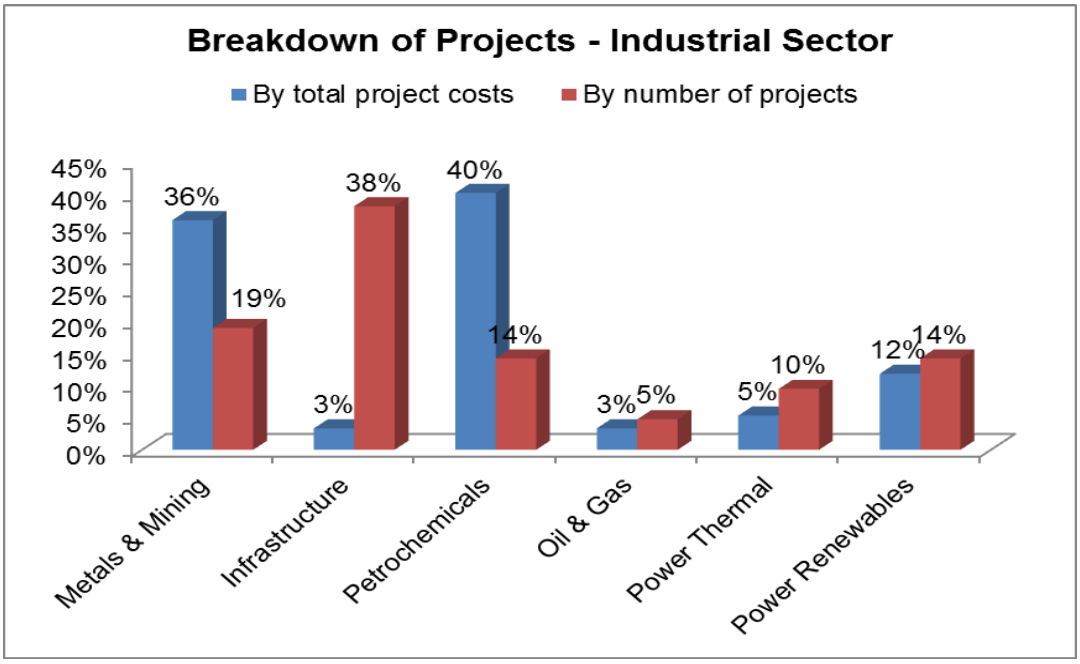
By doing the calculation in terms of total project costs for screened transactions, we obtained a different spread per category, geographic area, and industry sector than the spread obtained based on the number of projects as contemplated in Principle 10. This is illustrated by the charts below where we have also added the traditional reporting (for easy comparison).



The breakdown of total project costs by category shows that projects classified as Category A are generally larger. Conversely, projects classified as Category C 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.



The above breakdown (total project costs by geographic area) shows that the size of projects screened in the Middle East and in the Pacific was comparatively larger than in Europe or in North America.



The above breakdown (total project costs by industrial sector) shows that the size of projects screened in the metals & mining and petrochemicals sectors are comparatively larger than projects in the other sectors.

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.

The very diverging views and priorities among the EPFI community in a wide range of subjects, as well as the expectations from our external stakeholders led to a real and lively debate among the numerous participants. Considerable work has been undertaken in the various working groups and task forces to reach areas of consensus or, when not possible, broad support, on areas where progress was expected from EPFIs.

In 2013, BNP Paribas has also been active in the preparation of implementation guidance for EPFIs. Internally, BNP Paribas has prepared or updated specific procedures to reflect the changes brought by EP III. This process will be finalised in 2014.