

# REPORTING ON EQUATOR PRINCIPLES IMPLEMENTATION



CORPORATE AND INSTITUTIONAL BANKING

2018



**BNP PARIBAS**

The bank  
for a changing  
world



The Equator Principles (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 July 2019, 96 Equator Principles Financial Institutions (EPFIs) from 37 countries have adopted the Equator Principles.

The Equator Principles, launched in 2003, were updated in 2006 and then in June 2013. They are an evolving initiative, which has adapted over time to address the growing expectations from a wide range of stakeholders. The third version of the Equator Principles (i.e. EP III) came into force on January 1<sup>st</sup>, 2014. It brought about important changes to the application scope (beyond pure Project Finance), on transparency and accountability of both EPFIs and their clients, as well as on climate change and human rights.

At the 2017 Annual Meeting, the EP Association decided to launch the fourth update of the Equator Principles (EP IV). The aim of this update is a targeted review by building from the experience of implementing EP III as well as reflecting the evolving and high expectations from the bank stakeholders. Various working groups including representatives of EPFIs have been formed during the course of 2018 in order to put forward proposals for changes in the EP text, around four key themes: 1) Social impacts and human rights; 2) Climate change; 3) Designated countries and applicable standards; and 4) Scope of applicability of the EPs. EP IV is due to be launched in late 2019.

## ■ BNP PARIBAS' EQUATOR PRINCIPLES IMPLEMENTATION REPORTING FOR 2018



This document constitutes BNP Paribas' EP Implementation report for the year 2018 (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"*. While this reporting is in line with the Minimum Reporting Requirements detailed in Annex B of the Equator Principles, the official reporting information is publically available on the webpage dedicated to BNP Paribas, on the EP Association website<sup>2</sup>.

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

<sup>2</sup> <http://www.equator-principles.com/index.php/members/bnp-paribas>



## ■ 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.

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**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.





The initial categorisation is crucial because it triggers the level of due diligence to be undertaken. It 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 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://equator-principles.com/best-practice-resources/>



## ■ IMPLEMENTATION OF THE EQUATOR PRINCIPLES

BNP Paribas considers that 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 10-people strong, 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.

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 the type of environmental and social risks associated to such projects.

In 2015, BNP Paribas has developed an e-learning module covering key aspects of Equator Principles implementation, including the internal process to be followed. This e-learning is made available to all staff within the teams potentially working on transactions subject to the Equator Principles. So far, 547 BNP Paribas employees have completed the module.



## PROJECT FINANCE TRANSACTIONS THAT HAVE REACHED FINANCIAL CLOSE IN 2018

The table below provides a breakdown of the 15 Project Finance transactions that have reached financial close in 2018, 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 2017 or 2018.

It is important to note that the number of Project Finance transactions reviewed by CIB CSR and discussed with the relevant Business Lines in 2018 is significantly larger (i.e. 59 including PRCLs) than the number of Project Finance transactions that closed in 2018 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.

Breakdown by...	CATEGORY A	CATEGORY B	CATEGORY C	TOTAL
<b>REGION</b>				
Americas	0	5	0	5
EMEA	0	8	0	8
Asia Pacific	0	2	0	2
<b>SECTOR</b>				
Metals & Mining	0	1	0	1
Infrastructure	0	3	0	3
Oil & Gas, Petrochemicals	0	0	0	0
Power	0	11	0	11
<i>Thermal</i>	0	1	0	1
<i>Renewables</i>	0	10	0	10
Others	0	0	0	0
<b>COUNTRY DESIGNATION</b>				
Designated	0	11	0	11
Non Designated	0	4	0	4
<b>INDEPENDENT REVIEW (*)</b>				
Yes	0	14	0	14
No	0	1	0	1
<b>TOTAL</b>	<b>0</b>	<b>15</b>	<b>0</b>	<b>15</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 2018

During the reporting period, 6 Project-Related Corporate Loans to which the Equator Principles were applicable reached financial close. Both 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.

Breakdown by...	CATEGORY A	CATEGORY B	CATEGORY C	TOTAL
<b>REGION</b>				
Americas	0	1	0	1
EMEA	2	2	0	4
Asia Pacific	0	1	0	1
<b>SECTOR</b>				
Metals & Mining	0	0	0	0
Infrastructure	0	0	0	0
Oil & Gas, Petrochemicals	2	3	0	5
Power	0	1	0	1
<i>Thermal</i>	0	1	0	1
<i>Renewables</i>	0	0	0	0
Others	0	0	0	0
<b>COUNTRY DESIGNATION</b>				
Designated	1	0	0	1
Non Designated	1	4	0	5
<b>INDEPENDENT REVIEW (*)</b>				
Yes	2	3	0	5
No	0	1	0	1
<b>TOTAL</b>	<b>2</b>	<b>4</b>	<b>0</b>	<b>6</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 FINANCE ADVISORY MANDATES AWARDED IN 2018

During the 2018 reporting period, BNP Paribas was not awarded any Project Finance Advisory mandate to which the Equator Principles were applicable.

## ■ ADDITIONAL REPORTING 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.

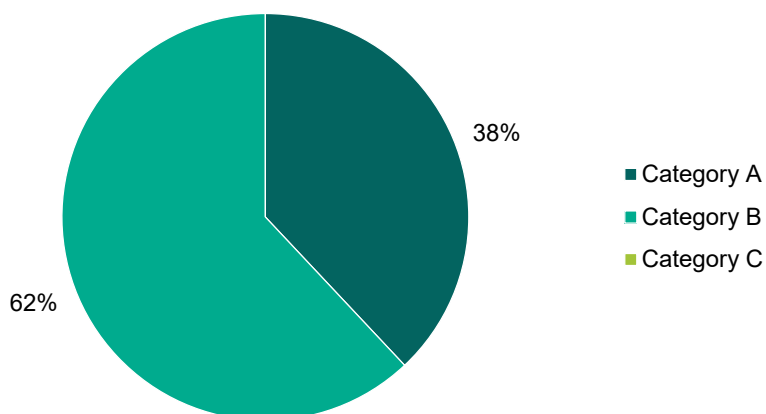
The 21 transactions included in this reporting (i.e. Project Finance transactions and Project-Related Corporate Loans that have reached financial close in 2018) represent a total of USD 37,2 billion in total project costs.

For the 21 Project Finance and Project-Related Corporate Loans transactions included in this reporting, the total amount of commercial debt raised was USD 21,6 billion, and BNP Paribas' allocation was USD 2,4 billion.

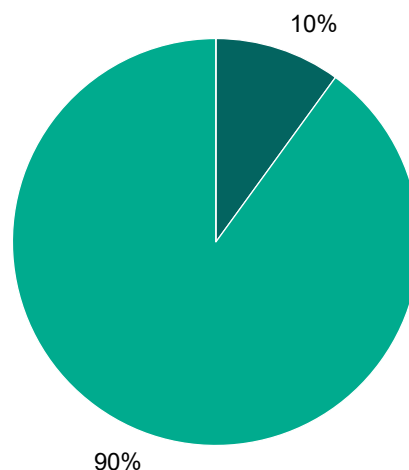
## ■ BREAKDOWN BY CATEGORY:

The two graphs below show the breakdown of the 21 transactions included in this reporting, by total project costs, compared with the breakdown by number of projects.

**Breakdown of total project costs  
by category**



**Breakdown of the number  
of projects by category**



The above breakdowns show that Category A projects are generally larger than Category B projects, which is consistent with their bigger potential environmental & social impacts.

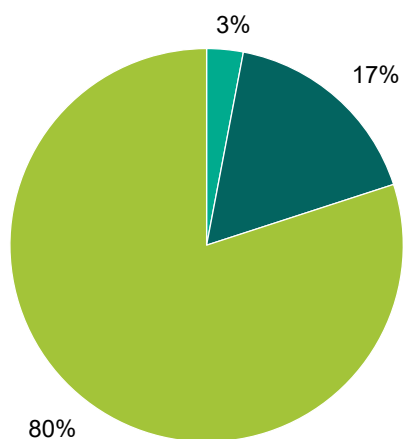




## ■ BREAKDOWN BY REGION:

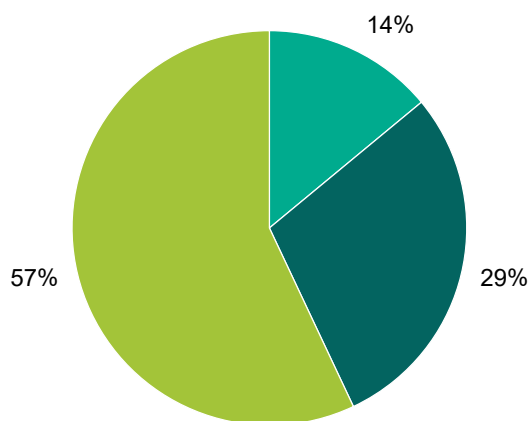
The two graphs below show the repartition of total project costs for the 21 transactions included in this reporting, compared with the repartition by number of projects, for the different regions.

**Breakdown of total project costs by region**



■ Asia Pacific  
■ Americas  
■ EMEA

**Breakdown of the number of projects by region**

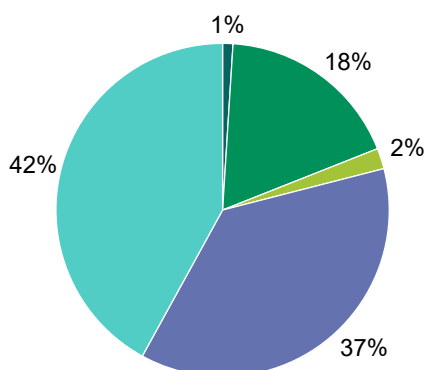


The above breakdowns show that the size of projects in Europe, Middle East and Africa (EMEA) was considerably larger than in Asia Pacific and in the Americas.

## ■ BREAKDOWN BY SECTOR:

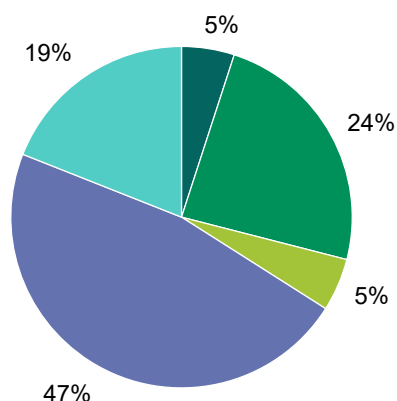
The two graphs below show the repartition of total project costs for the 21 transactions included in this reporting, compared with the repartition by number of projects, for the different sectors.

**Breakdown of total project costs by sector**



■ Metals & Mining  
■ Infrastructure  
■ Power Thermal  
■ Power Renewables  
■ Petrochemicals

**Breakdown of the number of projects by sector**



The above breakdowns show that the size of projects in the petrochemicals sector are comparatively larger than projects in other sectors (e.g. infrastructure).

## 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 is now actively involved in the EP IV revision process, notably by participating in the working group of Social Impact and Human Rights. BNP Paribas was one of the EPFIs that requested that the EP Association review the applicable standards in Designated Countries. We will keep our endeavor to help the association to adopt stringent environmental and social standards in both Designated and Non-Designated Countries







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