



Reporting on Equator Principles Implementation For the year 2012

Introduction

The Equator Principles¹ (EPs) have become the financial sector's leading voluntary standards for identifying, assessing, and managing social and environmental risks related to Project Finance (PF) transactions². They are based on the IFC³ 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 can be found under the client requirements section of the [IFC Sustainability webpage](#). As of early April 2013, 78 financial institutions from 33 countries have adopted the Equator Principles, accounting for a majority of the PF activity worldwide.

The Equator Principles, launched in 2003 and updated in 2006, is an evolving initiative which has to adapt to address growing expectations from a wide range of stakeholders. Following the EP Strategic Review launched in 2010, the EP III Update process⁴ was initiated in July 2011.

A first draft of the new Equator Principles was released for public consultation in August 2012, and all the feedback received has been carefully considered. At the time of writing, the new Equator Principles draft is in the final stages of finalization and voting.

BNP Paribas has been actively involved in the review and update process, both as a participant to various working groups and task force, as co-lead of the Reporting & Transparency task force (made of over 20 banks). BNP Paribas has been re-elected to the Steering Committee in December 2012.

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

This document constitutes BNP Paribas reporting of the EP implementation for the year 2012 pursuant to Principle 10 of the EPs, which states that *"each 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"*.

¹ http://www.equator-principles.com/documents/Equator_Principles.pdf

² **Project finance** is "a method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure. This type of financing is usually for large, complex and expensive installations that might include, for example, power plants, chemical processing plants, mines, transportation infrastructure, environment, and telecommunications infrastructure. Project finance may take the form of financing of the construction of a new capital installation, or refinancing of an existing installation, with or without improvements. In such transactions, the lender is usually paid solely or almost exclusively out of the money generated by the contracts for the facility's output, such as the electricity sold by a power plant. The borrower is usually an SPE (Special Purpose Entity) that is not permitted to perform any function other than developing, owning, and operating the installation. The consequence is that repayment depends primarily on the project's cash flow and on the collateral value of the project's assets." Source: *Basel Committee on Banking Supervision*, International Convergence of Capital Measurement and Capital Standards ("Basel II"), November 2005. <http://www.bis.org/publ/bcbs118.pdf>.

³ The International Finance Corporation is the World Bank's private sector arm.

⁴ <http://www.equator-principles.com/index.php/ep3>



General Considerations

A financial institution adopting the EPs, such as BNP Paribas, undertakes not to provide loans to 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 (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 Income¹ OECD countries, 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. More information can be found on the [Equator Principles official website](#).

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 structure². 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 <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/bestpractices.shtml>



Implementation of the Equator Principles

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 CIB¹ 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 the 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 tool licensed from the consulting company Sustainable Finance Limited, a subsidiary of 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 Global Risk Management, CIB CSR, Compliance, Legal, and Communication as necessary, and focuses on the E&S risks of the project³.

The entire EP process and tools available are detailed in length in the 2009 EP Reporting, which is available [online](#).

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 such credit committee's consideration.

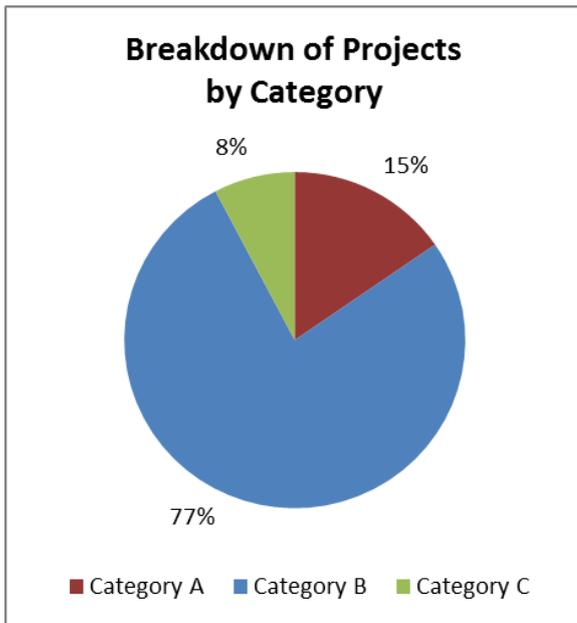
³ Some participants (incl. CIB CSR) have an escalation right that can bring E&S issues to the attention of Group senior management.



Project finance transactions screened in 2012

You will find below statistics related to the numbers of Project Finance (PF) transactions screened by the CIB CSR team¹ during the calendar year 2012, as well as on PF transactions that closed during the same period.

In 2012, 13 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 decreasing number of transactions screened in 2012, compared to 2011, can be explained in part by the effects of the global financial crisis and by the need for BNP Paribas to adapt to the new regulatory and economic environment.



A large majority of transactions screened (i.e. 77%) was classified as Category B (with potential moderate or limited environmental and social impact), while 8% of them were classified as Category C (with minor or no impacts), and two transactions (15%) 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 13 PF transactions screened do not represent the actual number of PF transactions that BNP Paribas has closed in 2012. Indeed, out of the 13 transactions screened in 2012, only 3 reached financial close in the same year. Other transactions that have closed in 2012 have been reviewed by CIB CSR in previous years.

The remaining transactions that were screened, but not closed, in 2012 are either (i) ongoing (closing likely to happen in 2013 or later), or (ii) 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.). The former case 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. The latter case is not surprising since the EP procedure specifically requires that initial categorisation is carried out as early as possible and before any formal engagement with a project developer. The table below further details the breakdown by status (as of December 31, 2012) of the 13 projects screened in 2012 by the CIB CSR team.

Transactions screened and closed	3
Transactions screened and ongoing	4
Transactions screened and that did not proceed	6
Total	13

Several remarks can be made on the above table:

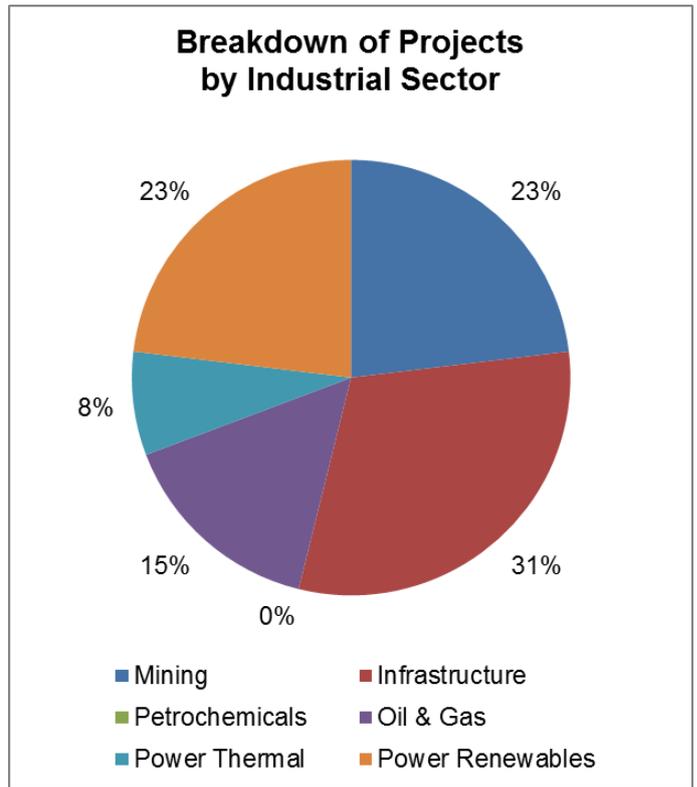
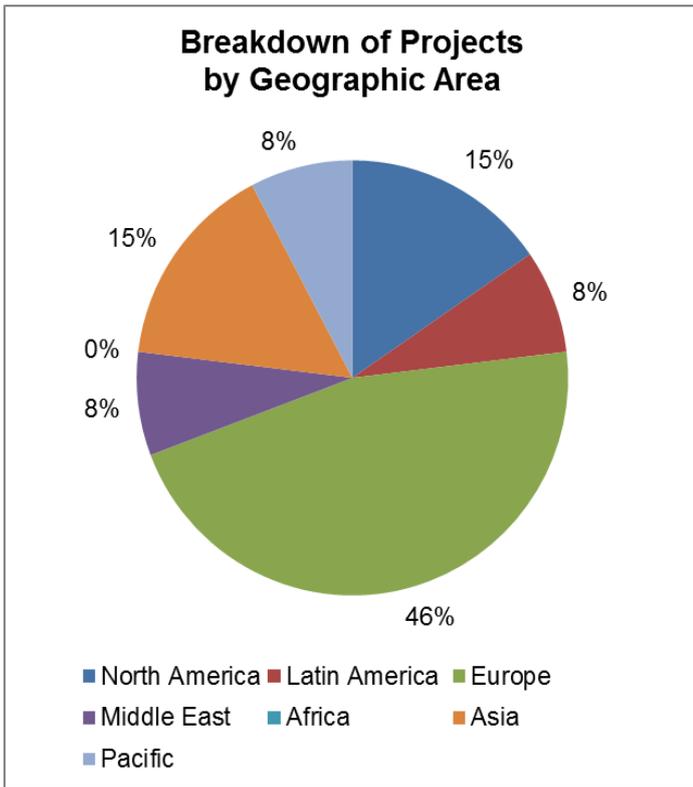
- ◆ “Transactions closed” covers both lending mandates that have closed and advisory mandates that have been completed.
- ◆ “Transactions ongoing” covers all mandates that are still active (financing or advisory).

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

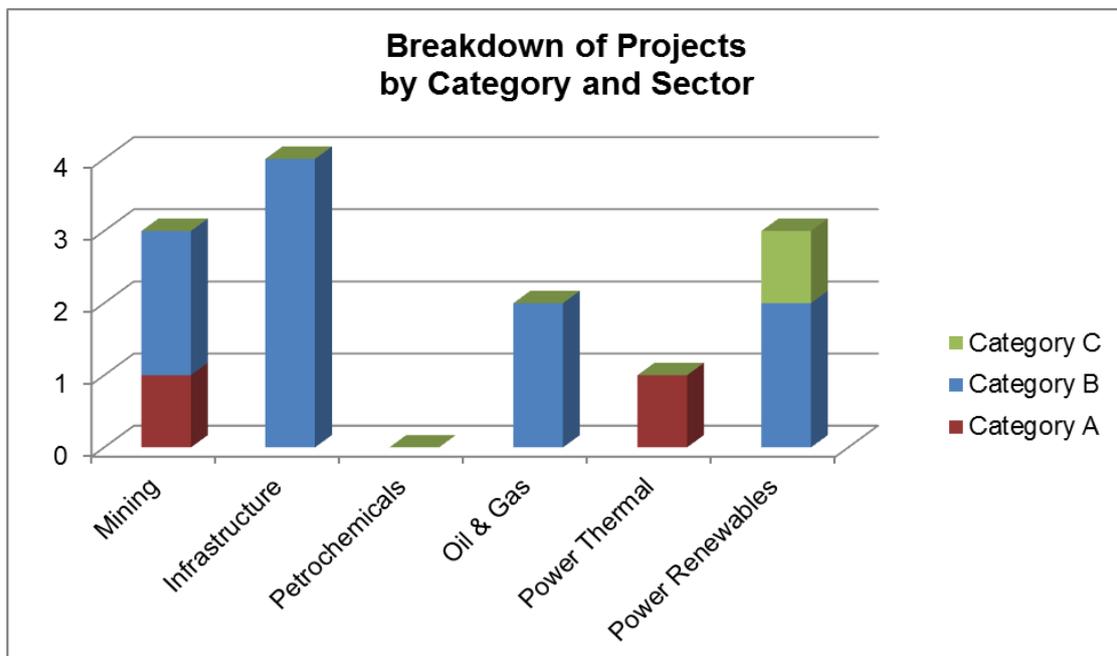


On the total of 13 transactions considered (regardless of their final status), 4 were advisory mandates, and 9 were transactions where BNP Paribas provided, or looked to provide, financing (either as mandated lead arranger or as participant).

The following pie charts further illustrate the breakdown of the PF transactions screened by CIB CSR in 2012 by geographic area and sector.



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





Category Projects	A	B	C	Total
Mining	1	2	0	3
Infrastructure	0	4	0	4
Petrochemicals	0	0	0	0
Oil & Gas	0	2	0	2
Power Thermal	1	0	0	1
Power Renewables	0	2	1	3
Total	2	10	1	13

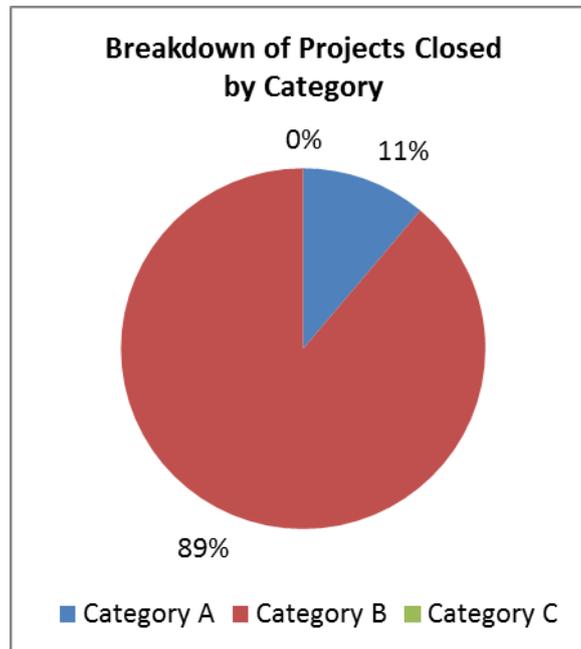
The table below shows a detailed distribution of PF transactions screened by region and sector, with a distinction made on the projects' host country classification (whether it is a High Income OECD country or not, as defined in the EPs).

Country classification	Region	Sector	Reported classification	Total
High Income OECD				
	Americas	Power Renewables	B	1
			C	1
	Total Americas			2
	Asia Pacific	Mining	B	1
	Total Asia Pacific			1
	EMEA	Infrastructure	B	3
		Oil & Gas	B	1
		Power Renewables	B	1
	Total EMEA			5
Total High Income OECD				8
Non High Income OECD				
	Americas	Infrastructure	B	1
	Total Americas			1
	Asia Pacific	Mining	A	1
		Oil & Gas	B	1
	Total Asia Pacific			2
	EMEA	Mining	B	1
		Power Thermal	A	1
	Total EMEA			2
Total Non High Income OECD				5
Total général				13



Project Finance transactions closed in 2012

During the year 2012, BNP Paribas participated in 9 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 2010-2012, illustrating the usually long lead time of Project Finance transactions. The distribution of these projects by category is shown in the graph below.



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 close¹.

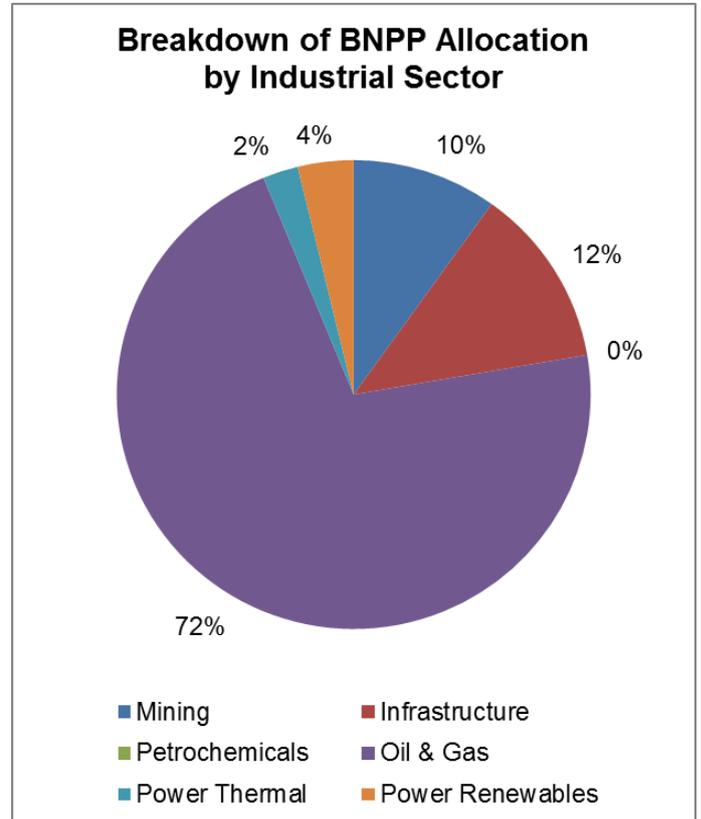
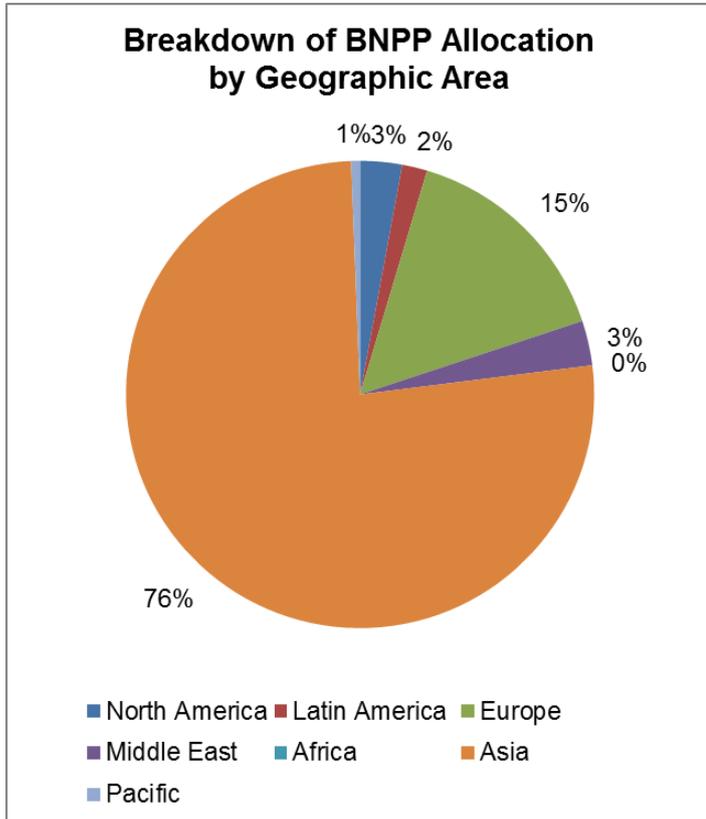
The 13 projects screened by CIB CSR in 2012 represented total costs of USD 35.1bn. The total amount of commercial debt for these projects is estimated at USD 11.2bn (including around USD 3.9bn that correspond to the amount of commercial debt of projects for which we had a pure advisory role). This figure can be compared to the total PF market in 2012, which has been estimated at USD 99bn 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 2012 have not been closed the same year, and that other transactions closed in 2012 have been screened by CIB CSR on previous years.

¹ The methodology used is described at the end of this section.



Breakdown by allocation

For these 13 projects, BNP Paribas' allocation is estimated at USD 4.8bn (including around USD 3.9bn 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.

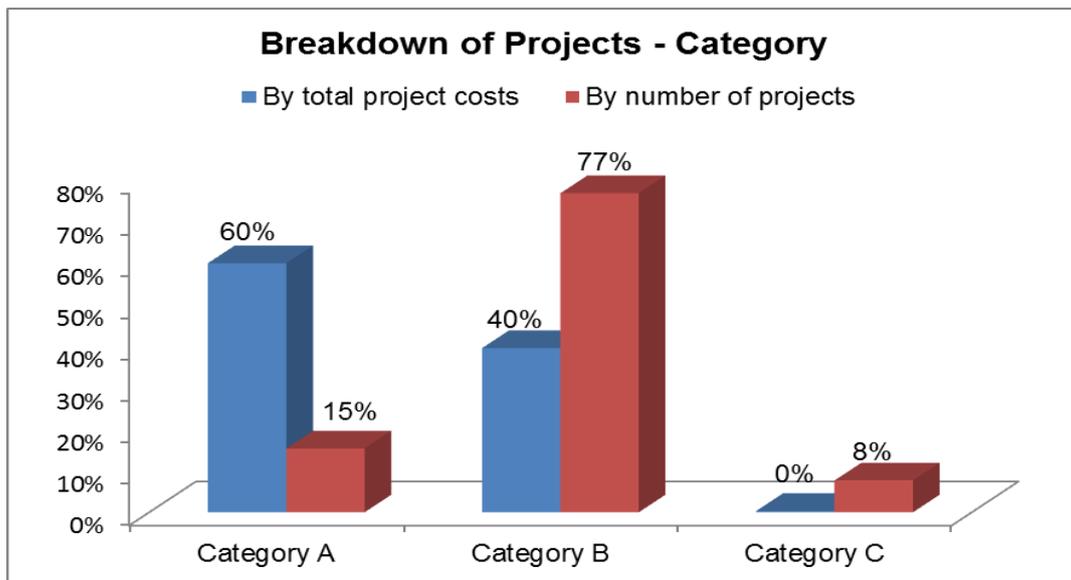


It should be noted that when BNP Paribas had an advisory role, the full amount of commercial debt is attributed to BNP Paribas, which can distort the above breakdowns.

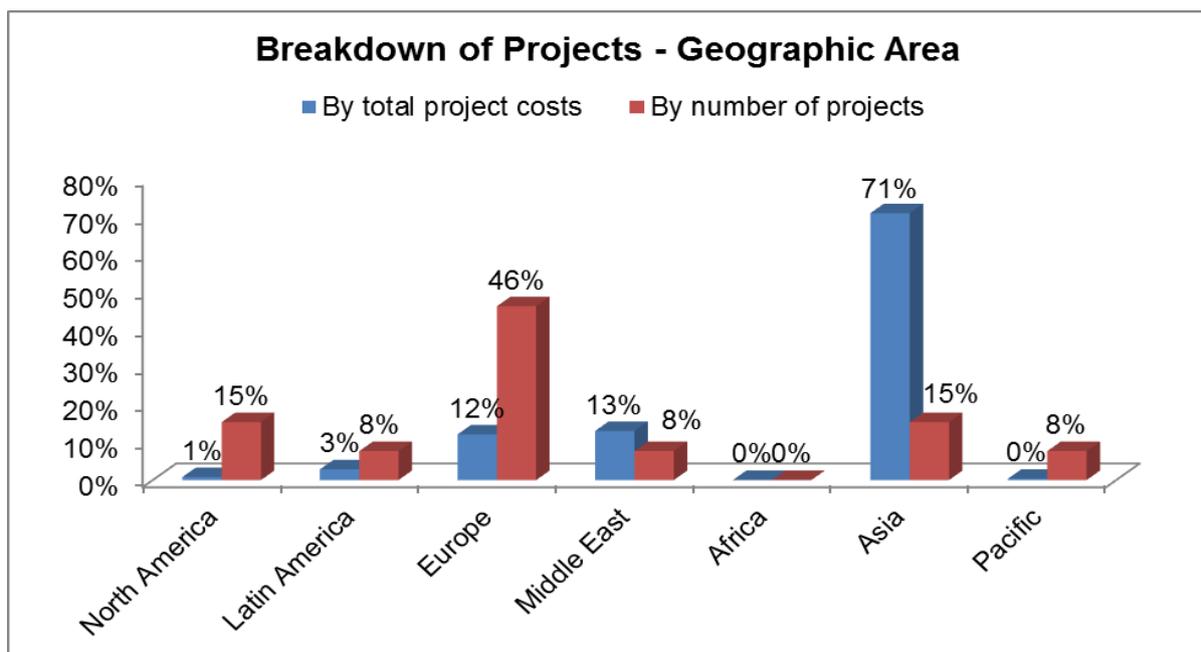


Breakdown by total project costs

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).

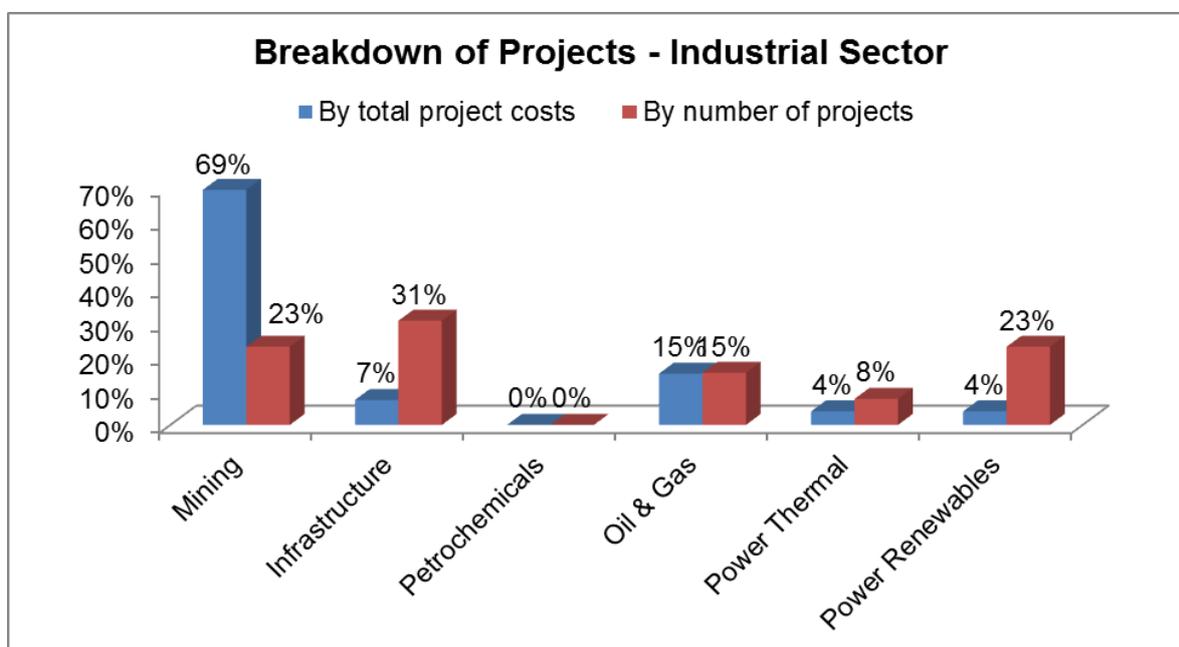


The breakdown of total project costs by category shows that projects classified as Category A are generally larger. Conversely, projects classified as Category C are of a much smaller scale (small infrastructure and renewable energy projects), which is consistent with the very limited nature of their potential environmental & social impacts.





The breakdown of total project costs by geographic area shows that the size of projects screened in the Middle east and in Asia was comparatively larger than in Europe or in the Americas.



The breakdown of total project costs by industrial sector shows that the size of projects screened in the mining and oil & gas sectors are larger than projects in the other sectors.

Methodology for the reporting on estimated volumes (BNPP allocation, debt, total project costs)

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



Contribution to the Equator Principles development

EP III Update

BNP Paribas has been actively involved in the EP III Update process that started in 2011 and continued over the year 2012. It is expected to continue also in the first half of 2013 with the release of the final text tentatively scheduled for June 2013. BNP Paribas is participating 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.

In addition, BNP Paribas acted as co-lead in the reporting & transparency task force (comprising representatives of over 20 EPFIs), which is closely looking at improving EP reporting quality and consistency among EPFIs (Principle 10), as well as enhancing project-level transparency. Following the October 2011 Annual General Meeting, further work has been carried out to finalize a draft text that was made publicly available in August 2012 (with a 60 days consultation period). The numerous comments and feedback received were taken into account to finalize EP III text, which is due to be validated and published in 2013¹.

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.

EP Steering Committee

In December 2012, BNP Paribas stood for re-election to the Steering Committee, and has been re-elected for a period of three years.

Participation in EP working groups

BNP Paribas remains involved and committed to the other working groups (on outreach, governance, scope, stakeholder engagement, climate change and biodiversity), however most of the work in such groups has been carried out as part of the EP III Update process.

¹ <http://www.equator-principles.com/index.php/ep3/process-and-timeline>