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Socio-Environmental Corporate Governance

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Project Finance & Equator Principles Compliance Framework

About The Equator Principles
Social & Environmental Sustainability Ratings
Project Appraisal Scheme

The Equator Principles
A benchmark for the financial industry to manage social and environmental issues in project financing

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Summary

1 - About The Equator Principles

Project Finance, a method of funding in which the lender looks primarily to the quality of revenues generated by a single project both as the source of repayment and as security for the exposure, plays an important role in financing development throughout the world. Project financiers may encounter social and environmental issues that are both complex and challenging, particularly with respect to environment-intensive and natural sourced projects.

In June 2003, a group of major financial institutions adopted a set of voluntary guidelines known as the 'Equator Principles' with the intention of creating an industry benchmarking for assessing and managing environmental and social issues in the project finance sector.

The Equator Principles are based on the policies and guidelines of the International Finance Corporation (***IFC***), the private-sector development arm of the World Bank. Their genesis was partially an acknowledgment by financiers of their responsibility to promote responsible social and environmental practices, particularly in emerging markets.

It was also recognition that responsible development makes commercial sense – environmental and social controversies have the potential to affect the profitability of projects, increase political risk and tarnish the reputations of those who promote and finance them.

The Equator Principles adopting Financial Institutions (EPFIs) have consequently incorporated these Principles in order to ensure that the Project Finance processes are developed in a manner that is socially responsible and reflect sound environmental management practices. By doing so, negative impacts on project-affected ecosystems and communities should be avoided where possible, and if these impacts are unavoidable, they should be reduced, mitigated and/or compensated for appropriately. EPFI believes that adoption of and adherence to the Equator Principles offers significant benefits to lenders, borrowers and local stakeholders through borrowers' engagement with locally affected communities.

These Principles are intended to serve as a common baseline and framework for the application by each EPFI of its own internal social and environmental policies, procedures and standards related to its project financing activities. EPFIs won't provide loans to projects where the borrower will not or is unable to comply with the Equator Principles standards.

1.1 - Equator Principles Financial Institutions (EPFI)

Argentina	Banco Galicia
Australia	ANZ National Australia Westpac Banking
Chile	CORPBANCA
Belgium	Dexia Group Fortis KBC Bank N.V.
Brazil	Bradesco Brasil Itaú Unibanco Real
Canada	BMO Canadian Imperial Manulife Royal Bank Scotiabank TD Bank Financial
China	Industrial Bank
Costa Rica	CIFI
France	BNP Paribas Calyon Societe Generale
Denmark	Eksport Kredit
Germany	Dresdner Bank HypoVereinsbank KfW IPEX-Bank WestLB AG
Italy	Intesa Sanpaolo MCC
Japan	Mizuho SMBC Tokyo-Mitsubishi
The Netherlands	ABN AMRO Bank FMO ING Group Rabobank Group
Norway	DnB Nor
Oman	BankMuscat
Portugal	Espírito Santo Millennium BCP
Spain	BBVA Caja Navarra La Caixa
Sweden	Nordea SEB
S. Africa	Nedbank Group
Switzerland	Credit Suisse
United States	Bank of America Citigroup Inc. JPMorgan Chase Wells Fargo
United Kingdom	Barclays plc HBOS HSBC Group Lloyds TSB Standard RBS
Uruguay	República Oriental
Togo	Financial Bank

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1.2 - The Equator Principles Management Structure

Steering Committee
ABN Amro, Banco Itau, Barclays, Calyon, Citi, HSBC, HVB, ING, Mizuho, RBS, Societe Generale, WestLB

Equator Principles Financial Institutions Chair
Banco Itau
Marcelo Battisti

IFC Engagement

WORKING GROUPS

Adoption
ING
Leonie Schreve
Banco Real
Calyon
HSBC
RBC

Best Practice
Citi
Courtney Lowrance
Societe Generale
Cecile Rechatin
ABN Amro
Banco Itau
Barclays
Calyon
Dexia
EDC
FMO
JP Morgan
RBS
Wachovia
WestLB

Climate Change
Barclays
Chris Bray
ABN Amro
Banco Itau
Banco Real
Bank of Tokyo-Mitsubishi UFJ
Citi
Fortis
HSBC
HVB
ING
Mizuho
RBS

Governance
HSBC
John Laidlow
ABN Amro
Barclays
Fortis
RBS
Societe Generale
TD Bank Financial Group

Outreach
HVB
Karen Wendt

Scope Review
JP Morgan
Mark Eadie
HVB
Karen Wendt
Banco Itau
Bank of Tokyo-Mitsubishi UFJ
Barclays
Calyon
Citi
Credit Suisse
EDC
FMO
Fortis
HSBC
ING
KBC
Mizuho
RBS
Societe Generale
Standard Chartered
WestLB
Westpac

Stakeholders
Calyon
Citi
HVB

NGOS
HVB
Jens Kubusch
Banco Real, Calyon, Dresdner, Nedbank Societe Generale, WestLB

SRIs
Calyon
Eric Cochard
Banco Real, Citi, HVB, Societe Generale

CLIENTS
Citi
Shawn Miller
Banco Real, Calyon HVB, Scotiabank

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1.3 - The 10 Equator Principles

Principle I	**Review and Categorization**
Principle II	**Social and Environmental Assessment**
Principle III	**Applicable Social and Environmental Standards**
Principle IV	**Action Plan and Management System**
Principle V	**Consultation and Disclosure**
Principle VI	**Grievance Mechanism**
Principle VII	**Independent Review**
Principle VIII	**Covenants**
Principle IX	**Independent Monitoring and Reporting**
Principle X	**EPFI Reporting**

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Principle I — Review and Categorization

When a project is proposed for financing, the Equator Principle Financial Institution (EPFI) will, as part of its internal social and Environmental review and due diligence, categorize such project based on the magnitude of its potential impacts and risks in accordance with the environmental and social screening Criteria of the International Finance Corporation (IFC).

The first path of the EPFI is to categorize the proposed project in one of the three socio-environmental risk level groups:

(A) significant,

(B) limited and

(C) minimal potential impacts.

Principle II Social and Environmental Assessment

For each project assessed as being either Category A or Category B, the borrower has to conduct a Social and Environmental Assessment process to address, as appropriate and to the EPFI's satisfaction, the relevant social and environmental impacts and risks of the proposed project.

The assessment should also propose mitigation and management measures relevant and appropriate to the nature and scale of the proposed project. If the impact analysis confirms potential impacts and risks, clients should develop measures and actions to avoid, minimize, mitigate, compensate for, or offset potential adverse social and environmental impacts, or, in case of positive or beneficial impacts, to enhance them. As a general principle for adverse social and environmental impacts, the Assessment should focus on measures to prevent these from occurring in the first place, as opposed to minimization, mitigation, or compensation.

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Principle III Applicable Social & Environmental Standards

The Assessment will refer to the then applicable IFC Performance Standards and the then applicable Industry Specific Environmental, Health and Safety (EHS) Guidelines. The Assessment will establish to a participating EPFI's satisfaction the project's overall compliance with, or justified deviation from, the respective Performance Standards and EHS Guidelines.

The Assessment will consider all relevant social and environmental risks and impacts of the project, including the issues identified in Performance Standards 2 through 8, and those who will be affected by such risks and impacts. Applicable laws and regulations of the jurisdictions in which the project operates that pertain to social and environmental matters, including those laws implementing host country obligations under international law, will also be taken into account.

Principle IV Action Plan and Management System

For all Category A and Category B projects, the borrower has prepared an Action Plan (AP) which addresses the relevant findings, and draws on the conclusions of the Assessment. The AP will describe and prioritize the actions needed to implement mitigation measures, corrective actions and monitoring measures necessary to manage the impacts and risks identified in the Assessment.

Borrowers will build on, maintain or establish a Social and Environmental Management System that addresses the management of these impacts, risks, and corrective actions required to comply with applicable host country social and environmental laws and regulations, and requirements of the applicable Performance Standards and EHS Guidelines, as defined in the AP.

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Principle V Consultation and Disclosure

For all Category A and B projects, the government, borrower or third party expert has consulted with project affected communities. The process will ensure their free, prior and informed consultation and facilitate their informed participation.

Assessment documentation and AP will be made available to the public by the borrower for a reasonable minimum period. The borrower will take account of and document the process and results of the consultation, including any actions agreed resulting from the consultation. For projects with adverse social or environmental impacts, disclosure should occur early in the Assessment process and in any event before the project construction commences, and on an ongoing basis.

Principle VI — Grievance Mechanism

For all Category A and B projects, to ensure that consultation, disclosure and community engagement continues throughout construction and operation of the project, the borrower will, scaled to the risks and adverse impacts of the project, establish a grievance mechanism as part of the management system. This will allow the borrower to receive and facilitate resolution of concerns about the project's social and environmental performance raised by individuals or groups from among project-affected communities.

The borrower will inform the affected communities about the mechanism in the course of its community engagement process and ensure that the mechanism addresses concerns promptly and transparently, in a culturally appropriate manner, and is readily accessible to all segments of the affected communities.

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Principle VII

Independent Review

For projects with issues that may pose significant adverse impacts and risks, clients should consider retaining external experts to assist in the conduct of all or part of the Assessment. These experts should have relevant and recognized experience in similar projects and operate independently from those responsible for design and construction. They should be engaged early in the project's development phase and, as necessary, in the various stages of project design, construction, and commissioning.

In some high-risk cases, IFC may require a panel of external experts to advise the client and/or IFC. In addition, external experts are required in certain defined circumstances, on issues concerning biodiversity (Performance Standard 6), Indigenous Peoples (Performance Standard 7) and cultural heritage (Performance Standard 8).

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Principle VIII Covenants

An important strength of the Principles is the incorporation of covenants linked to compliance. For Category A and B projects, the borrower will covenant in financing documentation: (i) to comply with all relevant host country social and environmental laws and regulations; (ii) to comply with the AP during the construction and operation of the project; (iii) to provide periodic reports in a format agreed with EPFIs, prepared by in-house staff or third party experts; (iv) to decommission the facilities.

Where a borrower is not in compliance with its social and environmental covenants, EPFIs will work with the borrower to bring it back into compliance to the extent feasible, and if the borrower fails to re-establish compliance within an agreed grace period, EPFIs reserve the right to exercise remedies, as they consider appropriate.

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Principle IX Independent Monitoring and Reporting

As an element of its Management System, the client will procedure to monitor and measure the effectiveness of the management program. In addition to recording information to track performance and establishing relevant operational controls, the client should use dynamic mechanisms, such as inspections and audits, where relevant, to verify compliance and progress toward the desired outcomes. For projects with significant impacts that are diverse, irreversible, or unprecedented, the client will retain qualified and experienced external experts to verify its monitoring information. The extent of monitoring should be commensurate with the project's risks and impacts and with the project's compliance requirements. Monitoring should be adjusted according to performance experience and feedback. The client will document monitoring results, and identify and reflect the necessary corrective and preventive actions in the amended management program. The client will implement these corrective and preventive actions, and follow up on these actions to ensure their effectiveness.

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2 - Social & Environmental Sustainability Rating

Corporate Sustainability rating paradigm is a business approach to create long-term shareholder value by integrating opportunities and managing deriving-risks from economic, environmental and social factors. Corporate strategists call this approach *the triple bottom line* whose paradigm has been internationally broadened by both The Equator Principles and The Global Compact initiatives.

Announced as new self-regulation mechanism to guide project finance decisions, ***The Equator Principles***, come to benchmark the financial industry on managing social and environmental issues in project financing. Since then banks are conditioning industrial credit to a specific *triple-bottom-line* compliance framework adoption by its clients.

The United Nations ***Global Compact*** is also a strategic policy initiative for businesses that are committed in aligning their operations and strategies with ten universally self-regulatory accepted principles in the areas of human rights, labor, environment and anti-corruptiom. By doing so, business, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere.

2.1 - Sustainability Market-Rating and Company Value Increase

In 1999, Before *Equator Principles* and *Global Compact* launching, the *Down Jones Sustainability Group Index (DJSGI)* was created, from a partnership between the Swiss-based SAM Sustainability Group and The New York Securities Exchange (NYSE). It has brought a new paradigm called *the first wave of sustainability*.

The DJSGI then established a global benchmark in corporate sustainability by upgrading the stock valuation methodology from the traditional economic value added to the *triple bottom line* approach: rating from the economic, social and environmental perspectives.

DJSGI has also firstly frameworked a performance-oriented corporate governance key-indicators for sustainability's market-rating. It has made possible visualizing the investors' willingness to diversify their portfolios, by investing in companies committed to the concept of corporate sustainability. It clearly evidenced the investors' choice to pay a premium for the responsible companies' stocks as well.

Graphic 1 provides an unequivocal tracking-view that increasingly institutional investors such as pension funds and the outperforming ones, have shifted towards adopting environmental and social investment policies as making investment decisions. The 2003-2007 periods has clearly demonstrated the *Down Jones Sustainability Group Index* effectiveness to incentive market maturity reaching, as compared to the *Dow Jones Industrial Average Index* (*DJI*).

Graphic 1 – Benchmarking

Dow Jones Sustainability Europe Composite Index (E1SGI) *versus* Dow Jones Industrial Average Index (DJI)

Source: Yahoo! Finance - http://finance.Yahoo.com

2.2 – Equator Principles' Social & Environmental Rating Framework

The Equator Principles' Social & Environmental Rating Framework integrally derives from the ***International Finance Corporation Performance Standards*** witch was developed to manage social and environmental risks and impacts and to enhance development opportunities. Chart 1 shows the IFC's Performance Standards on Social and Environmental Sustainability. Together, they establish standards that the client is to meet throughout the life of an investment an project financing by each Equator Principles Financial Institution (EPFI).

A set of other publicized management tools accompany Performance Standards on Social and Environmental Sustainability. EPFI's clients most useful are: (i) The *Guidance Notes*, corresponding to the Performance Standards, offers helpful guidance on the requirements to help clients improve project performance; (ii) The *Environment & Social Review Procedure* (ESRP) outlines the process through which EPFI staff implement the Corporation's commitment to promoting projects that are socially and environmentally sustainable; (iii) The *Environmental, Health and Safety General Guidelines* (EHS) offers technical references with general and industry-specific examples of Good International Industry Practice (GIIP). .

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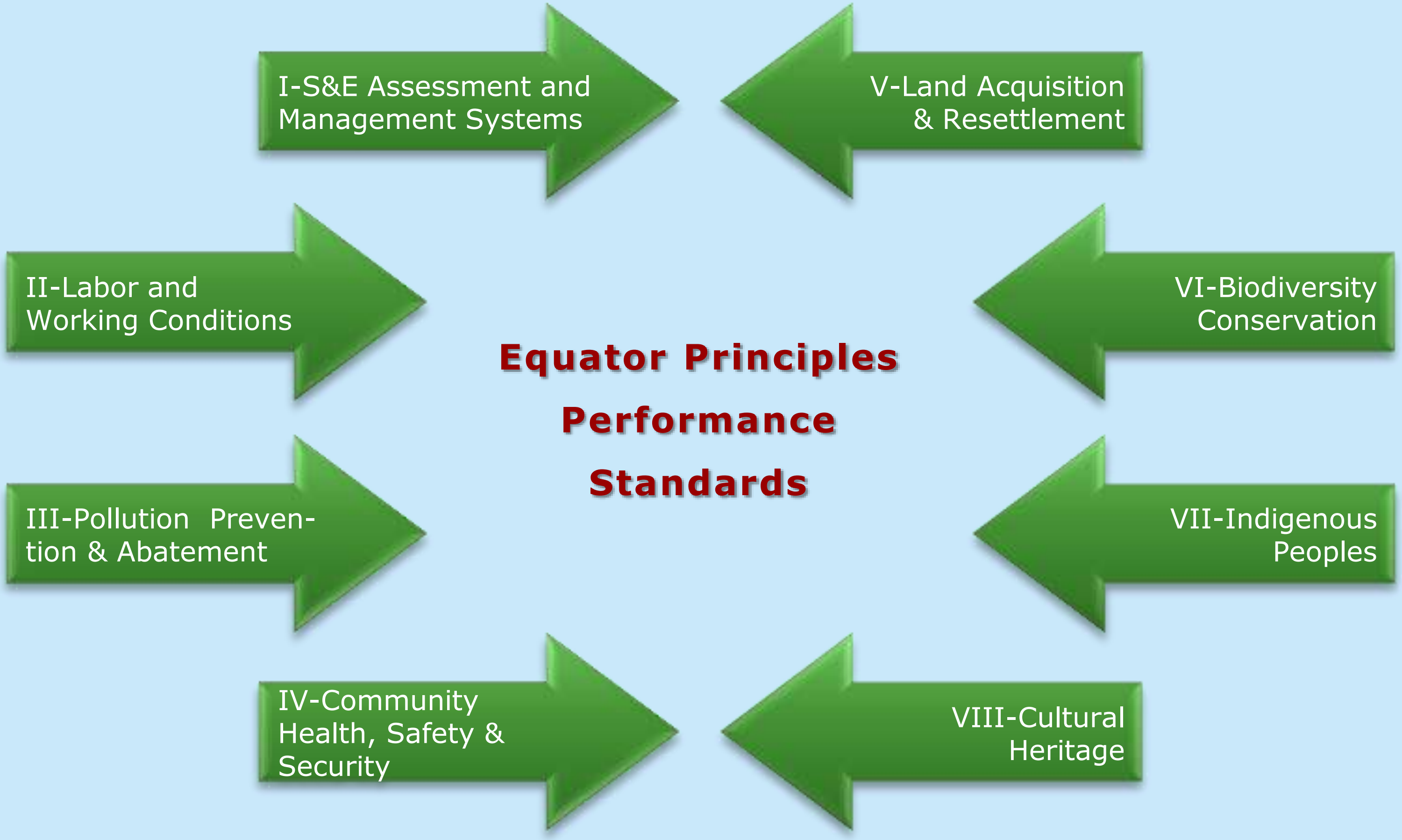

Chart 1
The IFC's Performance Standards on Social & Environmental Sustainability
Source: IFC, April 30, 2006

3 - Project Appraisal Scheme

3.1- Early Project Review and Risk Categorization

Project Identification

Company's Legal & Finance Screening

Financial Preliminary Feasibility Study

Project Social & Environmental Risk Categorization

Category A

Projects with potential significant impacts : Forestry; Oil & Gas; Mining & Metals; Port Facilities; Energy Generation & Transportation; Waste Management Facilities; Utilities; etc.

Category B

Projects with potential limited impacts Pulp & Paper; Cement; Food and Beverage Processing; Tourism and Hospitality Development; Textile; Hospitals; etc.

Category C

Projects with minimal or no social or environmental impacts: Banking; Software; etc.

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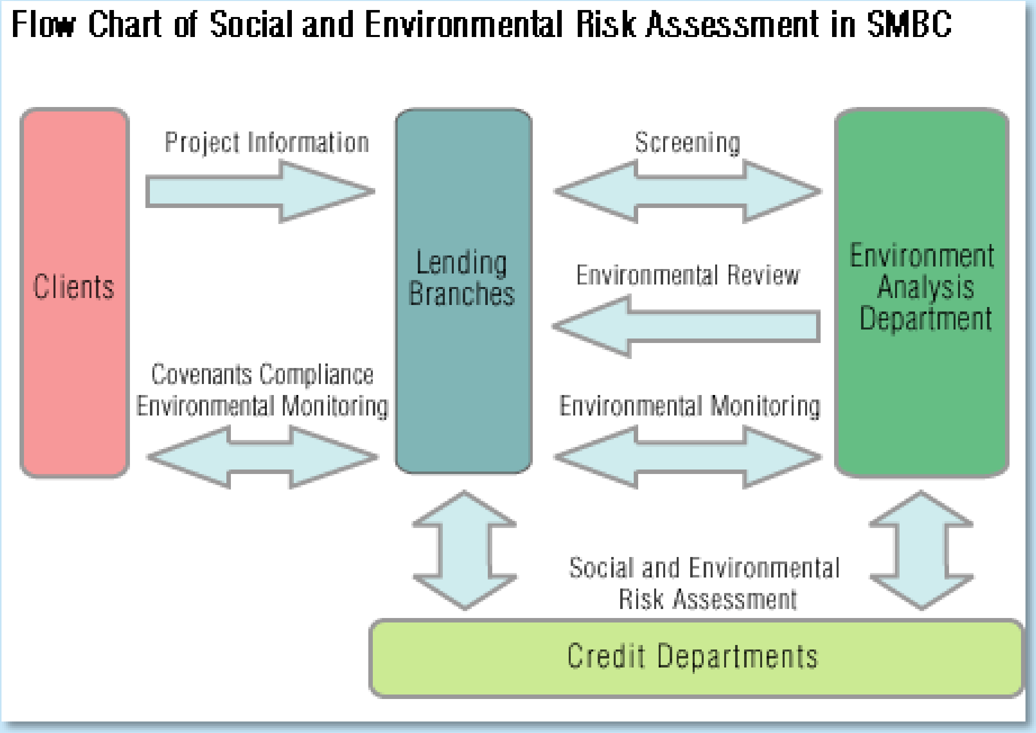
3.2 - Project Social & Environmental Risk Assessment

When considering an over US$ 10 million Category A or B project, EPFI's credit department will submit a detailed screening from the S&E Analysis Department – see SMBC below example.

During this process independent S&E consultants are normally contracted for the project social & environmental assessment and rating.

Assessment report will indicate high legal, community and material risks to be managed or mitigated. Borrower would prepare an *Action Plan* which addresses the relevant findings, and draws on the conclusions of the Assessment.



Source: Sumitomo Mitsui Financial Group Equator Principles procedures

3.3 - Action Plan

Where the client identifies specific mitigation measures and actions necessary for the project to comply with applicable laws and regulations and to meet the requirements of Performance Standards, the client will prepare an Action Plan. These measures and actions will reflect the outcomes of consultation on social and environmental risks and adverse impacts and the proposed measures and actions to address these, consistent with the requirements. The Action Plan* may range from a brief description of routine mitigation measures to a series of specific plans.

The Action Plan will: (i) describe the actions necessary to implement the various sets of mitigation measures or corrective actions to be undertaken; (ii) prioritize these actions; (iii) include the time-line for their implementation; (iv) be disclosed to the affected communities ; and (v) describe the schedule and mechanism for external reporting on the client's implementation of the Action Plan.

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* For example: Resettlement Action Plans, Biodiversity Action Plans, Hazardous Materials Management Plans, Emergency Preparedness and Response Plans, Community Health and Safety Plans, and Indigenous Peoples Development Plans.

3.4 - Social & Environmental Management Program

Taking into account the relevant findings of the Social and Environmental Assessment and the result of consultation with affected communities, the client will establish and manage a program of mitigation and performance improvement measures and actions that address the identified social and environmental risks and impacts. Management programs consist of a combination of operational policies, procedures and practices. It may apply across the client's organization, or to specific sites, facilities, or activities. The measures and actions to address identified impacts and risks will favor the avoidance and prevention of impacts over minimization, mitigation, or compensation, wherever technically and financially feasible.

The management program will define desired outcomes as measurable events to the extent possible, with elements such as performance indicators, targets, or acceptance criteria that can be tracked over defined time periods, and with estimates of the resources and responsibilities for implementation. Recognizing the dynamic nature of the project development and implementation process, the program will be responsive to changes in project circumstances, unforeseen events, and the results of monitoring.

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