Equator Principles Implementation

Green Investment Group

October 2019

The Equator Principles are adopted by financial institutions to assess, monitor and report environmental and social risk in project finance, project finance-related corporate loan investments and bridge loans.

UK Green Investment Bank plc (GIB) formally adopted the Equator Principles (EP) on 2nd December 2013. In December 2017, following the acquisition of GIB by Macquarie Group and subsequent renaming of the business to Green Investment Group (GIG)[1], the Equator Principles Financing Institution (EPFI) was changed to Green Investment Group Limited. From this adoption date, GIG has applied the current applicable version of the EP[2].

We report annually to the EP Secretariat and in our Annual Report on those applicable projects which have reached Financial Close[3] over the period from 1 April until 31 March. Details of our most recent reporting are available from the EP website[4] and GIG website[5] respectively.

Each year an independent assurer reviews our EP project data and implementation reporting[6]. The EP Reporting Criteria (the Criteria) presented here supports the assurance by providing a summary of how we apply the EP.

Specifically, these Criteria describe the way we:

- Assess projects in line with the requirements of the EP; and
- Report on the implementation of the EP within our Annual Report.

Methodology

Basis of Reporting Criteria

GIG has taken reasonable endeavours to ensure that the data reported within the Annual Report, as described in these Criteria, are complete and accurate in all material respects and that there is no data reported or omitted that would make the Annual Report untrue or misleading.

Scope of these Criteria and GIG's reporting

We assess all projects presented to investment committee against the applicability criteria requirements of the EP[7]. This includes the following loan types:

- Project finance loans;
- Project related corporate loans; and
- Bridge loans.

Implementation of the EP

The Green Investment Policy[8] and Macquarie Group's Environmental and Social Risk (ESR) Policy[9], together with our Green Investment Handbook[10], set out our approach to assessing, monitoring and reporting of environmental and social risk, including the incorporation of EP requirements.

Our in-house Green Investment Ratings team works with the Investment Banking team to analyse every proposed investment in line with the requirements of the EP (in addition to our Green Investment and ESR Policies).

Working alongside colleagues from the Investment Banking, Risk, Compliance, Legal, and Project and Portfolio Management teams, this integrated team ensures that the projects are appropriately categorised, assessed, covenanted and monitored.

The process implemented by the teams to ensure alignment with the EP is summarised over the page.

[1] http://www.greeninvestmentgroup.com/about-us/
[2] The most recent version of the Equator Principles (EP III, June 2013 https://equator-principles.com./wp-content/uploads/2017/03/equator_principles_III.pdf) has been applied for all transactions after GIG's Adoption Date.
[3] Defined Terms provided here have the same meaning as provided in Exhibit I: Glossary of Terms, EP III, June 2013.
[4] https://equator-principles.com/reporting-green-investment-group-limited-2017-2018/
[5] www.greeninvestmentgroup.com/corporate-governance/governance-documents/annual-reports/
[6] The full scope of the assurance and the assurer's opinion is provided in the Annual Report.
[7] The EP apply to financial products when supporting a new Project: 1. Project finance with total project capital costs of US$10 million or more; 2. Project-related corporate loans (where all four of the following criteria are met: i. The majority of the loan is related to a single Project over which the client has effective operational control (either direct or indirect). ii. The total aggregate loan amount is at least US$100 million; iii. GIG's individual commitment (before syndication or sell down) is at least US$50 million; iv. The loan tenor is at least two years); or 3. Bridge loans with a tenor of less than two years that are intended to be refinanced by project finance or a project-related corporate loan, (as set out on pg 3 of the Equator Principles III, June 2013).
[8] Available from www.greeninvestmentgroup.com/green-impact/
[9] https://static.macquarie.com/dafiles/Internet/mgl/global/shared/about/company-profile/esg/esr-policy-summary_97_2003.pdf?v=6
[10] Available from www.greeninvestmentgroup.com/green-impact/green-investment-handbook

Project Categorisation (Principle 1)
When an applicable project is proposed for financing, as part of internal environmental and social review and due diligence, we categorise it based on the magnitude of its potential environmental and social risks and impacts (Project Categorisation). To help with this process we review and consider independent technical advisors' reports, Environmental Statements produced from the Environmental Impact Assessment process, together with other information requested from our clients. Where appropriate, GIG will conduct site visits and hold discussions with our clients to consider the environmental and social issues associated with the project.

Project Categorisation is conducted using the environmental and social criteria provided in *Equator Principles III, June 2013*, as the benchmark for guidance:

Category A: Project with potentially significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented;

Category B: Project with potentially limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; and

Category C: Project with minimal or no adverse environmental or social risks and/or impacts.

The Project's Categorisation and rationale are included within papers presented to our investment committee. Investment decisions are made after full consideration of environmental and social risks and/or impacts of the project.

E&S Assessment and Applicable Standards (Principles 2, 3, 4, 5, 6)
Designated countries (as listed on the EP website) are deemed to have robust environmental and social governance, legislation systems and institutional capacity designed to protect its people and the natural environment. In such countries, if a project is in compliance with law (Principle 3), it also meets the requirements[11] of: Environmental and/or Social Assessments (Principle 2); Management Systems and Plans (Principle 4); Stakeholder Engagement (Principle 5); and Grievance Mechanisms (Principle 6).

Projects located in non-designated countries will be subject to full consideration and application of Principles 2-6.

We require our clients to comply with the requirements of our Green Investment Policy and ESR Policy. Depending on the Project's Categorisation, we may require our client or the project sponsor to provide periodic reports that confirm compliance with management system.

Independent Review (Principle 7) – All Category A and as appropriate, Category B Projects:
For all project finance transactions[12] classed as Category A and, as applicable, for Category B Projects, an independent environmental and social consultant (not associated with the client) carries out an Independent Review of the assessment documentation in order to assist in our due diligence, and assess compliance with the EP and propose suitable actions to bring the project into compliance if required.

We assess the Independent Review to ensure the client's adherence to the EP and whether the Categorisation remains appropriate. Findings are discussed with the client, as appropriate.

Covenants (Principle 8):
For all Projects, the client or project sponsor covenants to comply with all relevant environmental and social laws, regulations and permits in all material respects. Furthermore, for all Category A and Category B Projects, the client or project sponsor covenants to provide periodic reports that confirms compliance with any EP management plans and/or action plans.

In addition to EP covenants, GIG typically requires those covenants as set out in our Green Investment Policy which may include covenants such as to:

- Deliver, as a condition precedent, estimates of the key operating parameters and green impact performance figures for each year during the life of the project;
- Provide, at least annually, reports on such operating parameters and green impact performance and other material environmental matters in a format agreed with us;
- Comply with all relevant environmental laws, regulations and permits in all material respects;
- Implement and maintain suitable environmental management systems and policies and ensure key project parties have similar arrangements in place;
- Give GIG prompt notice of any materially adverse environmental issues arising in connection with the investment and, so far as possible, to implement an action plan to remedy the issue; and
- Comply with other project or sector-specific covenants designed to ensure delivery of anticipated green impacts and to minimise specific adverse environmental impacts.

[11] As defined in the Equator Principles (EP III, June 2013)
[12] Based on guidance provided by Equator Principles (EP III, June 2013), an Independent Review of a Corporate Loan is only required for projects with "high risk impacts" or if deemed appropriate by GIG

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

Independent Monitoring and Reporting (Principle 9) – All Category A and as appropriate, Category B Projects:
GIG requires ongoing monitoring and reporting after Financial Close and over the life of the loan, for all Category A and, as applicable, Category B Projects, by the appointment of an independent environmental and social consultant, or we require that the client retains qualified and experienced external experts to verify its monitoring information. This is not required for Category C projects or lower risk Category B projects.

Some of the factors that we take into account when considering either the appointment of a consultant or the consultant's scope of work may include elements such as: the magnitude of environmental and social risks and impacts and applicable mitigation measures; the project's environmental and social regulatory monitoring requirements; the local sensitivity of the project's location; and the commitment, capacity and track-record of the client/project sponsor. After the investment, GIG monitors the number and nature of adverse material events reported to us.

Reporting (Principle 10)
Our Annual Progress Report presents those transactions to which the EP apply that have reached Financial Close during the financial year ending 31st March. This includes the totals for each product type broken down by Category (A, B or C) and by sector, and details of whether an Independent Review (Principle 7) has been carried out.

GIG's implementation reporting is contained within this document.

GIG is also obliged to report annually to the EP Secretariat: the name of each Project, year of financial close, sector and host country. This information is available from the EP website[13].

Furthermore, for all Category A and, as appropriate, Category B Projects, our clients have an obligation to:

- Ensure that the summary of the Environmental and Social Impact Assessment Documentation is available online; and
- Report publically on GHG emissions for operational projects emitting over 100,000 tonnes of CO_2e. GIG notes that in the UK, this obligation is typically already met through regulatory permit requirements. However if Project non-alignment to this obligation is brought to GIG's attention, we will offer to publish such data on the client's behalf, after discussions with our client as appropriate.

[13] https://equator-principles.com/reporting-green-investment-group-limited-2017-2018/

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