The Equator Principles (the Principles) are a global framework 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.

GIB formally adopted the Equator Principles on 2nd December 2013. From this adoption date, GIB has applied the current applicable version of the Principles. We report annually to the Equator Principles Association and in our Annual Report on those applicable projects which have reached Financial Close over the period from 1 April until 31 March. Details of our most recent reporting are available from the Equator Principles website and GIB website respectively.

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

Specifically, these Criteria describe the way we:

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

Methodology

Basis of Reporting Criteria

GIB 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 GIB’s reporting

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

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

Implementation of the Equator Principles

Our environmental and social risk appetite is considered as an integral part of GIB’s risk framework, which is reviewed and approved by the Audit and Risk Committee of the Board. Details of GIB’s risk framework can be found in the Audit and Risk Committee report in our full Annual Report.

The Green Investment Policy and the Responsible Investment Policy, together with our Green Investment Handbook, set out our approach to assessment, monitoring and reporting of environmental and social risk, including the incorporation of Equator Principles.

Our in-house Sustainable Finance team works with the Investment Banking team to analyse every proposed investment in line with the requirements of the Equator Principles (in addition to our Green and Responsible Investment Policy suite). The Sustainable Finance team comprises five environmental and sustainability specialists. Each team member is allocated responsibility for specific investment sectors – these include offshore wind, waste, bioenergy, energy efficiency, onshore renewables, and international.

Working alongside colleagues from the Investment Banking, Risk, Compliance, Legal, and Portfolio Investment 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 Equator Principles is summarised over the page.

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1 The most recent version of the Equator Principles (EP III, June 2013 www.equator-principles.com/index.php/ep3) has been applied for all transactions after GIB’s Adoption Date.

2 Defined Terms provided here have the same meaning as provided in Exhibit I: Glossary of Terms, EP III, June 2013.

3 www.equator-principles.com/index.php/members/uk-green

4 www.greeninvestmentbank.com/governance/governance-documents/annual-reports

5 The full scope of the assurance and the assurer’s opinion is provided in the Annual Report.

6 The Equator Principles 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. GIB’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).


Project Categorisation (Principle 1)
When a 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, GIB 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)
All investments by UK Green Investment Bank and our appointed fund managers are into projects located in the UK. Therefore, if a project is in compliance with law as applied within the UK (Principle 3), it also meets the requirements of: Environmental and/or Social Assessments (Principle 2); Management Systems and Plans (Principle 4); Stakeholder Engagement (Principle 5); and Grievance Mechanisms (Principle 6). Investments by the UK Climate Investments (UKCI) joint venture are made into projects in certain selected emerging market countries. However, such investments by UKCI are equity investments only, to which the Equator Principles do not apply.

Nevertheless, we require our clients to comply with the requirements of our Green Investment Policy and Responsible Investment Policy. Depending on the Project’s Categorisation, we may require our client or the project sponsor to covenant 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, 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 to the Equator Principles 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 Equator Principles 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 Equator Principles management plans and/or action plans.

In addition to Equator Principles covenants, GIB typically requires those covenants as set out in our Green Investment Policy and Responsible 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 GIB 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.

9 As a designated country (as listed on the Equator Principles website) the UK is deemed to have robust environmental and social governance, legislation systems and institutional capacity designed to protect its people and the natural environment

10 As defined in the Equator Principles (EP III, June 2013)

11 For details please see www.greeninvestmentbank.com/funds/international/

12 Based on guidance provided by Equator Principles (EP III, June 2013), for Corporate Loans an Independent Review is only required for projects with “high risk impacts” or if deemed appropriate by GIB
Where a borrower is not in compliance with its covenants, GIB 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:
GIB requires on-going 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, GIB monitors the number and nature of adverse material events reported to us.

Reporting (Principle 10)
Our Annual Report presents those transactions to which the Equator Principles 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.

GIB’s implementation reporting is contained within this document.

GIB is also obliged to report annually to the Equator Principles Association: the name of each Project, year of financial close, sector and host country. This information is available from the Equator Principles website.

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 CO₂e. GIB 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 GIB’s attention, we will offer to publish such data on the client’s behalf, after discussions with our client as appropriate.

13 www.equator-principles.com/index.php/members/uk-green
UK Green Investment Bank Limited (the “Company”) is a public limited company which is wholly owned by The Secretary of State for Business, Energy and Industrial Strategy. The Company is registered in Scotland with registered number SC424067 and has its registered office at Atria One, Level 7, 144 Morrison Street, Edinburgh EH3 8EX. The Company is not authorised or regulated by the Financial Conduct Authority or the Prudential Regulation Authority. A wholly owned subsidiary, UK Green Investment Bank Financial Services Limited, is authorised and regulated by the Financial Conduct Authority. The information in this communication, which does not purport to be comprehensive, has been provided by the Company to you for information only and on the express understanding that you shall use it on a non-reliance basis. This communication has been prepared in good faith. No representation or warranty, express or implied, is or will be made and no responsibility or liability is or will be accepted by the Company or any of the Company’s subsidiaries or by any of their respective officers, employees or agents in relation to the accuracy or completeness of the information or any other written or oral information made available to you and any such liability is expressly disclaimed. In particular, but without prejudice to the generality of the foregoing, no representation or warranty is given as to the achievement or reasonableness of any future projections, management estimates, prospects or returns contained in this communication or in such other written or oral information. No information set out or referred to in this communication shall form the basis of any contract. The Company will not act, and has not acted, as your legal, tax, accounting or investment adviser. This communication does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase, any investment and the Company does not arrange investments for/introduce parties as a result of sharing the information set out in this communication. By accepting and using this communication you agree that any dispute relating to the communication shall be governed by English law. Any dispute arising out of or in connection with this communication shall be referred to and finally resolved by arbitration in London under the Rules of the London Court of International Arbitration by one arbitrator appointed in accordance with those Rules. The language of the arbitration shall be English.