



Equator Principles at BCP

Motivation: BCP, the First Peruvian Bank to adopt Equator Principles

As part of its corporate commitment to sustainability and environmental protection, Banco de Crédito del Perú (BCP), the leading Peruvian financial institution, announced on January 22nd 2013, the adoption of the Equator Principles (EP). BCP is the first Peruvian bank and the eleventh in Latin America to adopt the EPs, bringing the number to 79 financial institutions from 33 countries that have committed to applying the principles.

Embracing the Equator Principles fits into BCP's Environmental Credit Policy strengthening the risk analysis and assessment of investment projects.

"We are shaping the way responsible business is conducted in Peru by reconfirming our commitment, and that of the banking industry, to financing environmentally-friendly, socially responsible and community-driven projects. This will encourage our clients to apply measures to minimize, mitigate, and/or prevent negative impacts," stated Walter Bayly, CEO of BCP.

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Summary of the EP adoption process

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**Step 1:
Environmental Credit Policy (April 2012)**

BCP's implementation of an Environmental Credit Policy established a process to analyze significant environmental risks of investment projects and financing above US\$ 10 million in key economic sectors. The policy seeks to prevent negative shocks to client's cash flow, the continuity of their businesses, the value of the assets pledged as collateral and BCP's reputation.

Objectives of the policy:

- ▶ Apply BCP's corporate social responsibility strategy to its core business.
- ▶ Develop an opportunity to assess long-term relationships with clients.
- ▶ Promote corporate environmental accountability of investment projects and operations financed by BCP.

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- ▶ Avoid affecting BCP's reputation due to negative impacts on the environment as a result of clients' operations.

As part of this policy, BCP has adopted the International Finance Corporation's (IFC) Exclusion List and has designed methodology and specific tools for socio-environmental risk management of mining, oil and gas, electricity, hydropower and fishing sectors. These sectors represent 15% of BCP's total portfolio.

The tools developed are based on Peruvian environmental legislation for each sector, the IFC's performance standards and the Global Reporting Initiative's (GRI) performance indicators for each sector. The tools seek to monitor the following activities:

- (i) Evaluation of significant environmental factors of each sector.
- (ii) The borrower's ability to manage related environmental issues.

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- (iii) Implementation of voluntary corporate initiatives to protect the environment.

Critical success factors for Step 1 defined:

- ▶ A participatory process involving our clients has been implemented to develop the tools for each sector.
- ▶ Encourage clients to pursue common commercial objectives and undertake environmental commitments jointly with BCP.
- ▶ Implement continuous training programs for Bank officers responsible for application of the policy.

This policy was developed to monitor compliance of existing environmental standards in the sectors in which clients operate. The main objective is to apply preventive measures to minimize, mitigate and/or avoid negative environmental impacts.

**Step 2:
Equator Principles Adoption (January 2013)**

BCP decided to adhere to the Equator Principles, incorporating a methodology and tools for the analysis of environmental and social risks specific to investment and corporate loan projects. The aim of adopting these principles is to belong to a community of international financial institutions in order to facilitate the development and implementation of best practices.

Guidelines were developed in order to apply first hand a socio-environmental checklist (for category C¹) and then perform due diligence at legal and technical levels to identify related risks and impacts (for category A² and B³). Also the Peruvian legal framework and the IFC's performance standards were reviewed in relation to the Equator Principles.

The guidelines include an outsourcing model, in which independent experts seek to identify risks and social and environmental impacts on the respective economic sector. The review may result in covenants and action plans for clients at the legal level for category B, and legal and technical levels for category A.

Critical success factors for Step 2 are:

- ▶ Continuous training programs for Bank officers responsible for the EP screening process.
- ▶ External communication with clients to promote voluntary implementation of corporate initiatives to protect the environment.
- ▶ Continuous review of methodology and tools as, among others, new laws, international best practices, and standards are introduced.

Category and number of projects reviewed in Year 2013:

There were no transactions screened from any economic sector under the defined scope of EP II.

Training programs developed to ensure EP application

Year	Number of Credit Risk Officers / Corporate Finance Officers
2013	133

¹ Category C.- projects with minimal or non-existing social and/or environmental impacts.
² Category A.- projects with possible significant adverse social and/or environmental impacts; impacts are diverse, irreversible and unprecedented.
³ Category B.- projects with possible limited adverse social and/or environmental impacts; impacts are few in number and generally in specific locations; mostly reversible and easy to address through mitigation measures.

Screening process at BCP under EP III

Areas of BCP involvement:
Credit Division /Department of Corporate Banking/
Department of Corporate Finance/Department of Corporate Affairs

