Environmental and Social Risk in Lending

Introduction
Barclays has a strong and longstanding commitment to managing the environmental and social risks associated with commercial lending. We recognise that a bank’s major environmental impacts tend to be indirect, via business relationships, arising from the provision of financial services to business customers operating in sensitive sectors. We also believe that appropriate risk management of these environmental and social impacts is not only the right thing to do, but also makes good business sense.

Environmental and Social Risks Assessment Process

Environmental and Social Risk Structure
There are established lines of communication between Barclays lending managers, the credit teams, and the central Environmental and Social Risk Policy team and business level reputation risk committees. Initially, the lending manager will liaise with the credit teams and, if a proposed transaction is judged to have material environmental or social sensitivities, guidance can be obtained from the central Environmental and Social Risk Management Team. Further escalation to the Conduct and Reputation Risk Reputation Committee, a sub-committee of the Board Reputation Committee is recommended in cases where the sensitivities are likely to remain significant.

Environmental and Social Risk Management Team
This is a dedicated team advising on complex transactions where there are environmental and/or social sensitivities. Based in London and Johannesburg, The Team advises on all types of transactions, in all environmentally sensitive sectors globally. It is supported by a network of Environmental Champions across the world tasked with the dissemination of information, raising environmental and social risk awareness, providing guidance, as well as acting as a referral point in their regions.

Conduct and Reputation Risk Committee (CRRC)
This is a sub-committee of the Board Reputation Committee. The main purpose of the CRRC is to review and monitor the effectiveness of Barclays’ management of conduct and reputation risk. Its key responsibilities in respect of reputation risk are to:
• Review and recommend reputation risk tolerances and appetite to the Board Reputation Committee (via review of the Reputation Key Risk Framework and associated policies)
• Review and approve performance against appetite via review of reputation risk reports and other quantitative and qualitative information
• Review, challenge and approve self-assessments from business units on adherence to the Reputation Key Risk Framework and associated policies
• Escalate reputation risk issues, at its discretion, to the Board Reputation Committee

Implementation of the Equator Principles into Barclays Policy for project finance

In 1997, Barclays adopted and implemented a lending policy structuring our consideration of environmental issues into project finance transactions. This has evolved into our current Environmental Risk Standard, which is designed to ensure that project related financing is rigorously assessed to identify, quantify and, where appropriate, mitigate and monitor environmental and social risks.

Equator Principles
The Environmental Risk Standard is the mechanism by which Barclays applies the Equator Principles (EPs); a voluntary framework to manage the environmental and social risks in project related financing.

Barclays was one of four banks to collaborate with the International Finance Corporation (IFC), part of the World Bank, in drafting the EPs, which are based on internationally recognised IFC standards. The EPs were launched in June 2003 and formally adopted at that time by Barclays and nine other banks. The number of adopting financial organisations had risen to over 80 as at January 2016.

The Equator Principles were re-drafted in June 2013 to adopt the new IFC Performance Standards. The Equator Principles apply globally and to all sectors in the following ways:

• The Principles apply to all project financing with capital costs above USD 10 million.
• The Principles now also apply to project finance advisory activities; corporate loans where there is a known use of proceeds; and bridge loans that are expected to be refinanced by project finance.
• The revised Principles now specifically cover upgrades or expansions of existing projects where additional environmental or social impacts are
significant.
- There is a streamlined approach for projects located in countries with existing high standards for environmental and social issues.
- The Principles now contain an explicit commitment to respect human rights in due diligence processes and enhanced due diligence relating to climate change impacts, including alternatives analysis and revised carbon reporting.
- There are stronger social and environmental standards, including more robust public consultation standards, including FPIC for Indigenous Peoples.
- Each EPFI is required to report on the progress and performance of Equator Principles’ implementation on an annual basis, including disclosing, to the Equator Principle Association, the Equator deals in which they have participated.

The Equator Principles have prompted other sectors besides banking to take account of Equator-related criteria, e.g. law firms, environmental consultants and construction/engineering companies, all of which are associated with aspects of project development. This “ripple effect” has broadened awareness of the environmental and social implications of projects and the need to manage these effectively if access to the maximum number of potential financiers is to be achieved.

For further information on this initiative see the Equator Principles website.

Scope of Barclays Environmental Risk Standard
The Barclays Environmental Risk Standard covers our business worldwide when considering financing, advising or other roles related to projects, and applies in the following circumstances:

- Where there is a legal requirement for an environmental and social impact assessment, and/or
- Where Equator Principles apply, and/or
- Where there is a known application of funds to a potentially sensitive project.

There is no minimum financial threshold for the application of Barclays Environmental Risk Standard.

Policy Process – Project Assessment
Barclays requires an Environmental and Social Impact Assessment (ESIA) to be undertaken for all transactions that fall within the scope of our Environmental Risk Standard. This must comply with Barclays minimum requirements for an ESIA and be undertaken by an independent consultant that appears on our preferred panel.
If an ESIA has already been undertaken in connection with the relevant project, but does not meet the above requirements, then Barclays may require a second opinion of the ESIA be commissioned and undertaken by an independent consultant that appears on our preferred panel, in accordance with our minimum requirements for a second opinion of an ESIA.

Our aim is to ensure we have access to an objective, comprehensive and professional report on the environmental and social risks associated with the project.

Post ESIA process
The independent consultant will confirm whether the project currently meets the requirements of our Environmental Risk Standard and the Equator Principles. They are required to highlight areas where full compliance is not clear, alongside recommended actions that will need to be taken in order for the project to work towards compliance. The consultant is also expected to provide guidance on the associated costs and timescales. Barclays will then work with the consultants and our client (the borrower) to understand whether the recommended actions to attain Equator compliance are achievable in the project and commercial context. If this is so, the actions will be incorporated into an Environmental and Social Action Plan. The implementation and monitoring of such plans is covenanted in the loan documentation i.e. it becomes a condition of the loan agreement.

If we feel that that the required action may prove too challenging to implement, or the client is unwilling to proceed, we will decline to participate in the project. However, as a general rule, we prefer to collaborate to improve project standards rather than simply step aside to allow a potentially less environmentally or socially inclined financial institution to support the transaction.

Barclays Minimum Requirements for an ESIA
Barclays sets out a minimum scope for an ESIA and has a separate scope for a second opinion of an existing ESIA. These contain details of our requirements in relation to aims, data collection and assessment, baseline assessment, treatment of subcontractors, risk assessment, monitoring/mitigation plan, environmental and social management, and training and reporting. The scope includes a review of the following (as relevant):

- An assessment of the project against the IFC Policies and World Bank Guidelines as prescribed by the Equator Principles (for non designated countries, as defined in the Equator Principles).
• An assessment of the financial impact on the project of applicable, currently foreseeable and reasonably anticipated environmental legislation (both national and international) relevant to the proposed scheme.

• The level and adequacy of public consultation, including consultation with vulnerable groups and Indigenous Peoples. This should include details of:
  - public meetings/hearings and attendance,
  - press releases; a list of questions asked and the project responses to these;
  - notifications/consultation with the principal community/interest groups,
  - timing of consultation and whether it would constitute prior, informed consultation, (or Free, Prior and Informed Consent in the case of Indigenous Peoples)

• A review of material relating to the assessment of project alternatives

• Commentary on whether the proposed standards are considered appropriate and to what degree the project design incorporates scope for improvement or upgrading to meet higher standards which may be imposed upon the project sponsor in the future.

• Confirmation the project is working to recognised best practice, (e.g. the World Commission on Dams guidelines, Voluntary Principles on Security and Human Rights)

• Commentary on current and reasonably foreseeable government policies which may affect this sector, including sector-specific policies, e.g. forestry, water infrastructure, which are proposed/supported by internationally recognised non-governmental organisations

• The materiality of impacts should reflect relevant assumptions on shifts in weather patterns affecting the project site, and the impact of the project on GHG emissions.

• Physical resources - landscape, topography, soils, air quality and climate (including global warming/Kyoto Protocol), surface water, ground water, geology/seismology.

• Ecological resources - flora, fauna, habitats and species, fisheries, aquatic biology, wildlife, forests, rare/endangered species, wilderness or protected areas.

• Marine issues – bathymetry, currents, waves, tides, sediment transfer, sea level rise, marine water quality, sediment quality, marine archaeology.

• Human and economic development - including, but not necessarily limited to, population and communities (numbers, locations, composition, resource dependency, employment); industries; infrastructural facilities (including water supply, sewage, flood control, drainage); transportation (roads, harbours, airports, navigation) and traffic (particularly during construction); land use planning (including dedicated area uses); power sources and transmission; agricultural development; mineral development; tourism resources.
Quality of life values - including, but not necessarily limited to, socio-economic values; public health; noise disturbance; recreational resources and development; aesthetic values; archaeological or historical treasures; cultural values.

Policy Governance
The Environmental Risk Standard has been in existence since 1997 (under a different name) and is reviewed on an annual basis to ensure it remains fit for purpose, user friendly and value adding. The policy is owned by the Group Credit Risk Director and managed by the Environmental Risk Team.

Preferred independent consultants
Barclays has a panel of preferred independent consultants for undertaking ESIA reviews. The panel consists of consultants who have been selected on a global basis for their environmental and social risk expertise, industry and geographical strengths and experience of working with financial institutions. The consultants’ ongoing suitability is assessed on a periodic basis.

To support the implementation of the Environmental Risk Standard, the process is fully documented with a policy statement, process document, a categorisation tool, ESIA scoping documents, and the topical record of preferred consultants. These documents are available to all our employees electronically.

Additional Environmental Risk Review – outside of project finance
In addition to the referral process described above, all clients operating in environmentally sensitive sectors and which are subject to sanction by the Group Senior Credit Officer, are referred to the Environmental and Social Risk Policy team for assessment (every two years as a minimum). This ensures that banking relationships, in addition to particular lending transactions, are included in the risk assessment process.

The environmental Risk team also advises on a wide range of banking products for clients that operate in environmentally or socially sensitive sectors, such as corporate loans, trading facilities, and bonds.

Environmental and Social Risk Training
As part of Barclays’ ongoing commitment to sustainability, we continue to focus on raising the awareness of environmental and social risk issues among employees across our global operations. Training frontline employees helps us ensure environmental and social risks are considered alongside more traditional business risks when lending decisions are made.
Industry Specific Guidance

Our industry specific risk guidance covers over 50 environmentally and socially sensitive sectors, which span 10 broad industry headings. The content of these guidance notes has been considerably expanded to include an overview of each industry’s regulatory situation, and guidance about the sort of measures we would expect companies in that sector to be taking to identify their risks and implement the appropriate actions and controls. For example, an issue that may not be immediately obvious with health care companies is the disposal of surgical waste. The revised guidance also places far greater emphasis on aspects of social issues and human rights – an area of increasing concern for the NGO community. The guidance is updated on an annual basis.

This guidance now covers the following sectors, and a number of sub-sectors within them:

- Agriculture and fisheries
- Metals and mining
- Oil and gas
- Power generation, supply and distribution
- Chemicals, pharmaceuticals manufacturing and bulk storage
- General Manufacturing
- Utilities and waste management
- Infrastructure
- Service industry
- Forestry and logging