

EQUATOR PRINCIPLES AND ESG

Applying ESG in private sector lending



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London, September 2014

One of the largest European Bank Groups in terms of scale

UniCredit – a Leading Pan European Bank Group

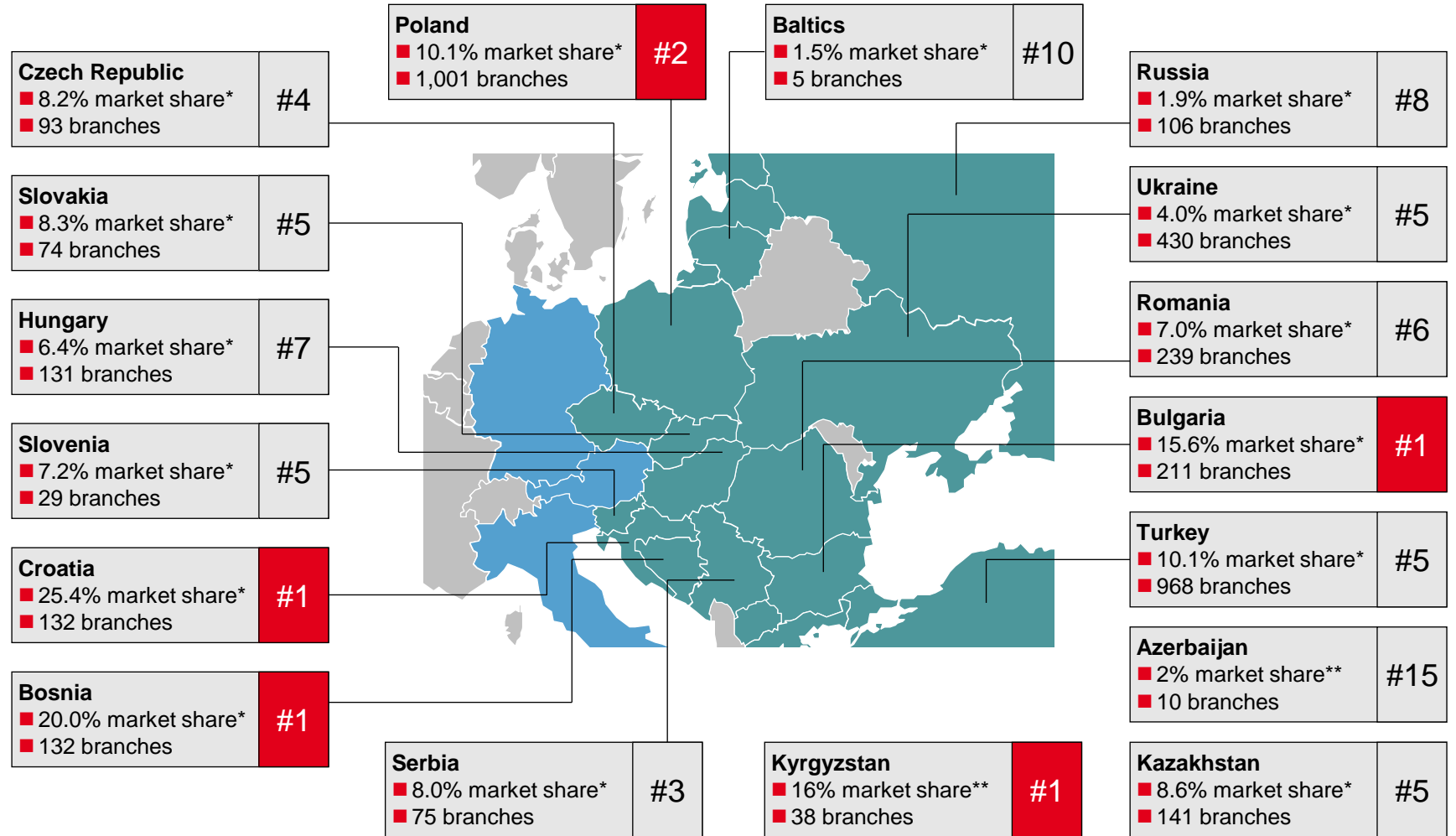


UniCredit Group – at a glance

- **Employees:** ~174,000
- **Customers:** ~ 40 million
- **Branches:** ~ 10,200
- **Total Assets exceeded EUR 1 Trillion**
- **International network** spanning ~50 countries
- **Global player in asset management:**
~ EUR 200 billion in managed assets¹
- **Strong regional player in Investment Banking**
with leading position in Emerging Europe
- **Ratings:** BBB+/Baa2 long-term ratings
(S&P, Moody's)

Note¹: Figures as November 2011

Unrivalled network in CEE



* Market shares in terms of total customer loans as of December 2011

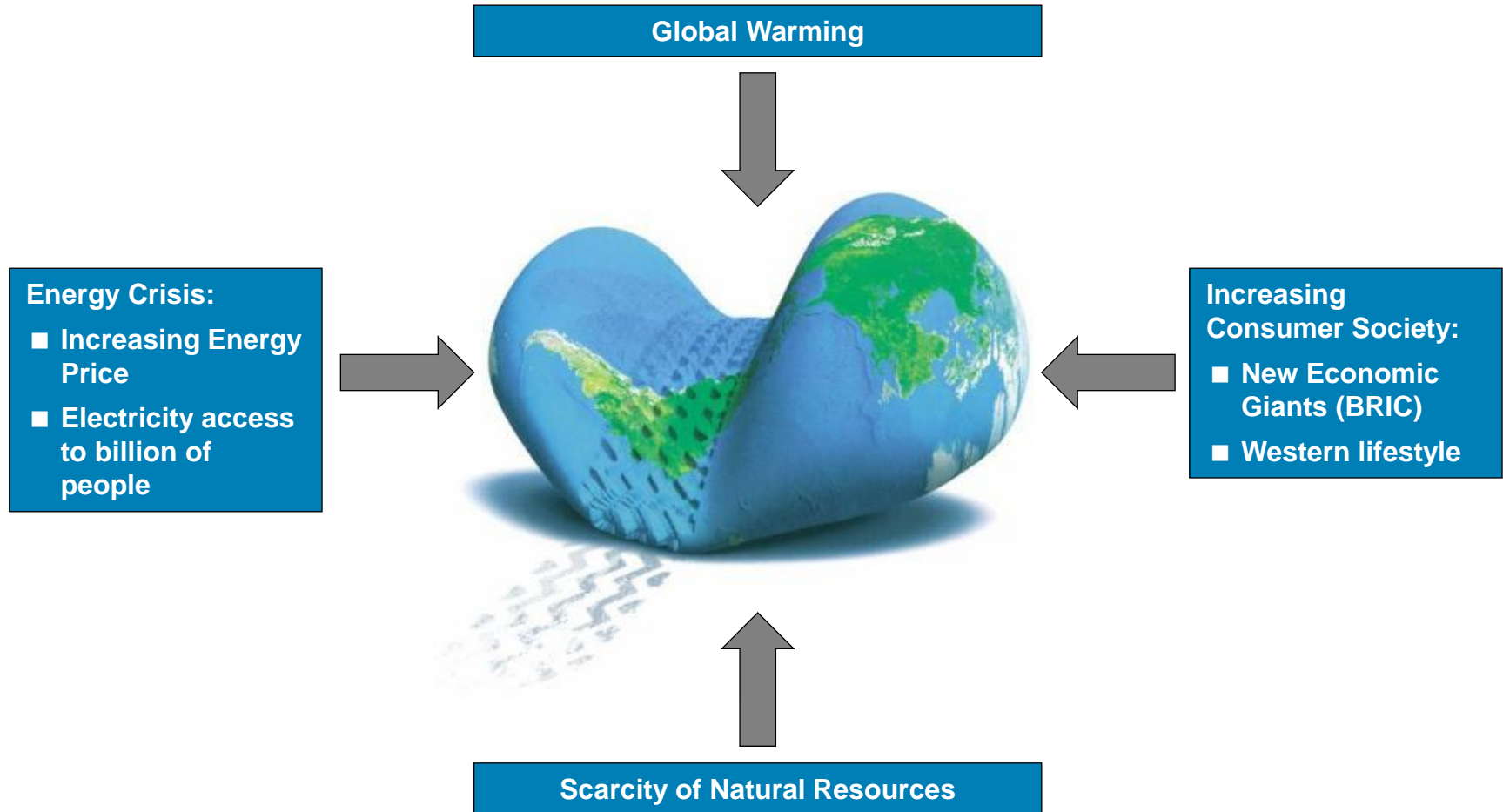
** Market shares in terms of total assets as of December 2011

Source: CEE Identity & Communications

Why are context factors like
environmental and social issues important?

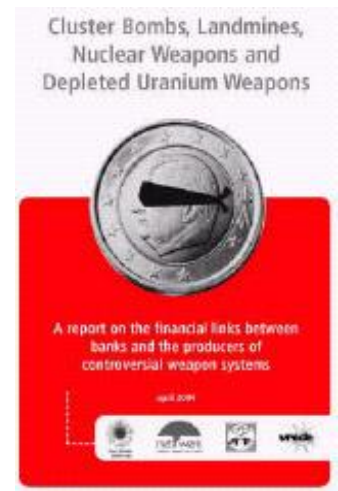
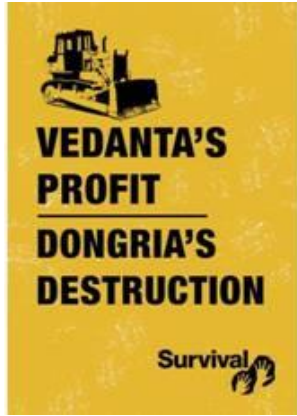
Mankind is increasing from 2.5 bn to 9.5. bn in just 100 years

creation unsustainable pressure on earth Climate change as an accelerating factor.



Business as usual is unsustainable.

NGO campaigns against the banking industry



Sometimes Risk outgrows Return

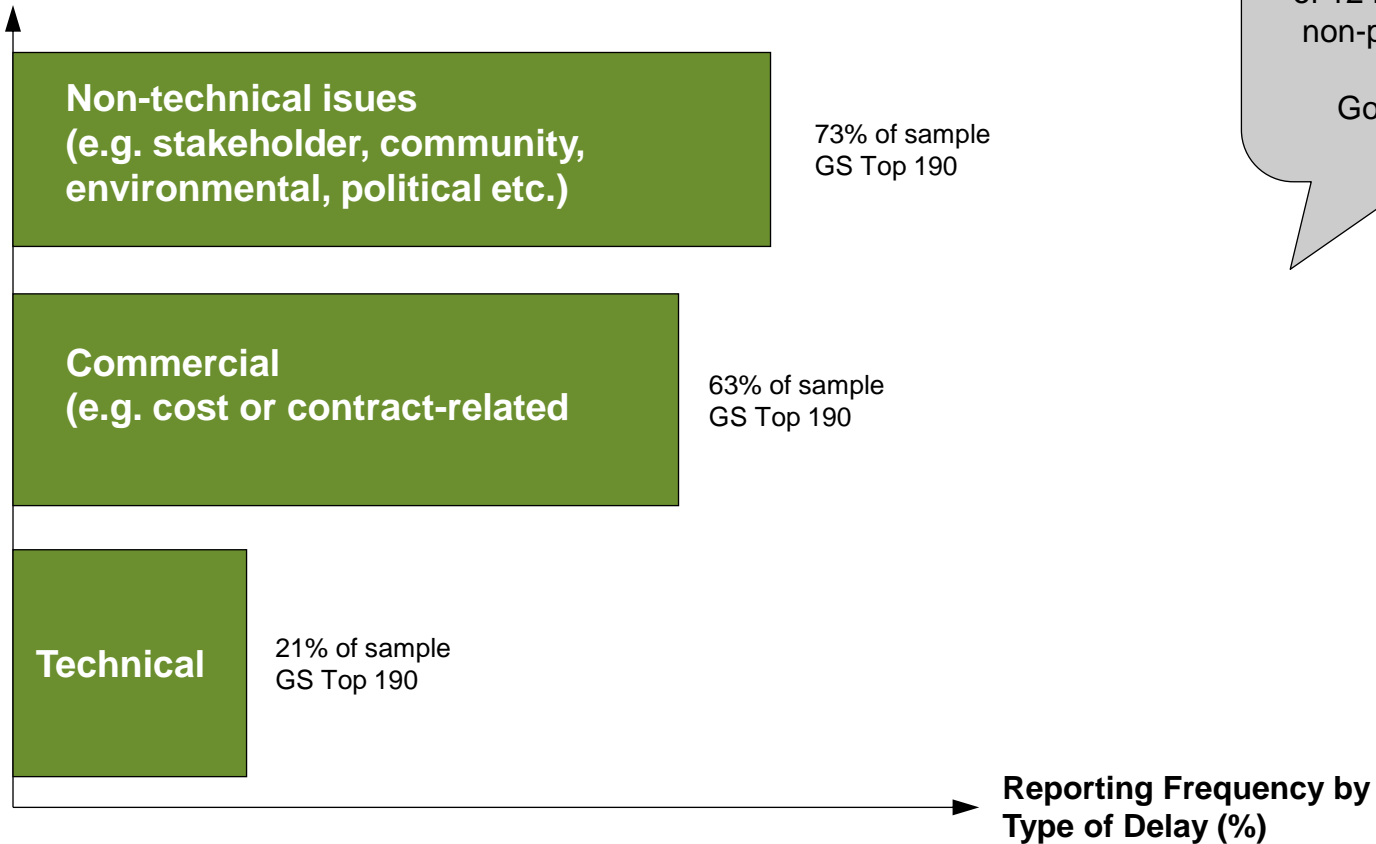


Major investment projects are being impacted

by non-technical risks

Study of Sample of 19 Goldman Sachs Top 190 Projects by Cause of Delay

Type of Delay Reported

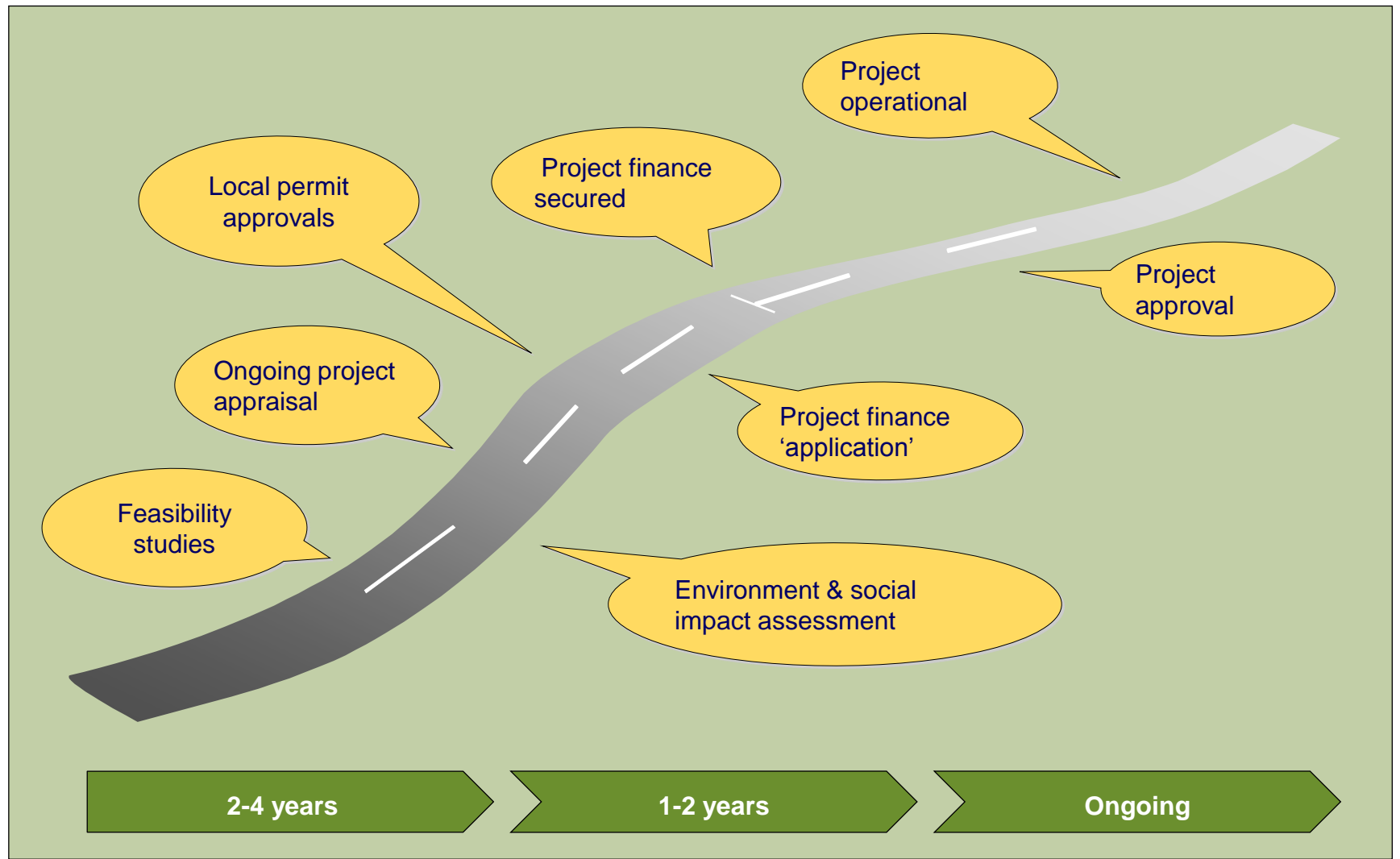


“Of the 190 projects, we have seen an average of 12 months delay for non-producing fields”

Goldman Sachs Research

E&S risks originate early in the project life-cycle

but may not manifest themselves until operational phases



CSR not just Best Practice

but robust risk management

risks in project financing.

Community protests cause project shutdowns and infrastructure damage



Dead vultures cause energy production loss



Toxic waste dumping by third party supplier results in \$250m fine



Asia-Pacific:
Project finance – Gunning for Gunns
Australian bank ANZ is having second thoughts about financing the controversial Gunns pulp mill in Tasmania.
Now institutional investors are reported to be unhappy with the project, while its primary banker, ANZ, has stated its determination to finish an independent technical review before agreeing to arrange vital project financing.
12 Nov 07

Poor management of extra-financial risks results in financing difficulty

Not just best practice, but part of a robust risk management approach

Challenges in Implementing Environmental and Social Risk Management and Cooperation Model between Financial Institutions and Real Sector

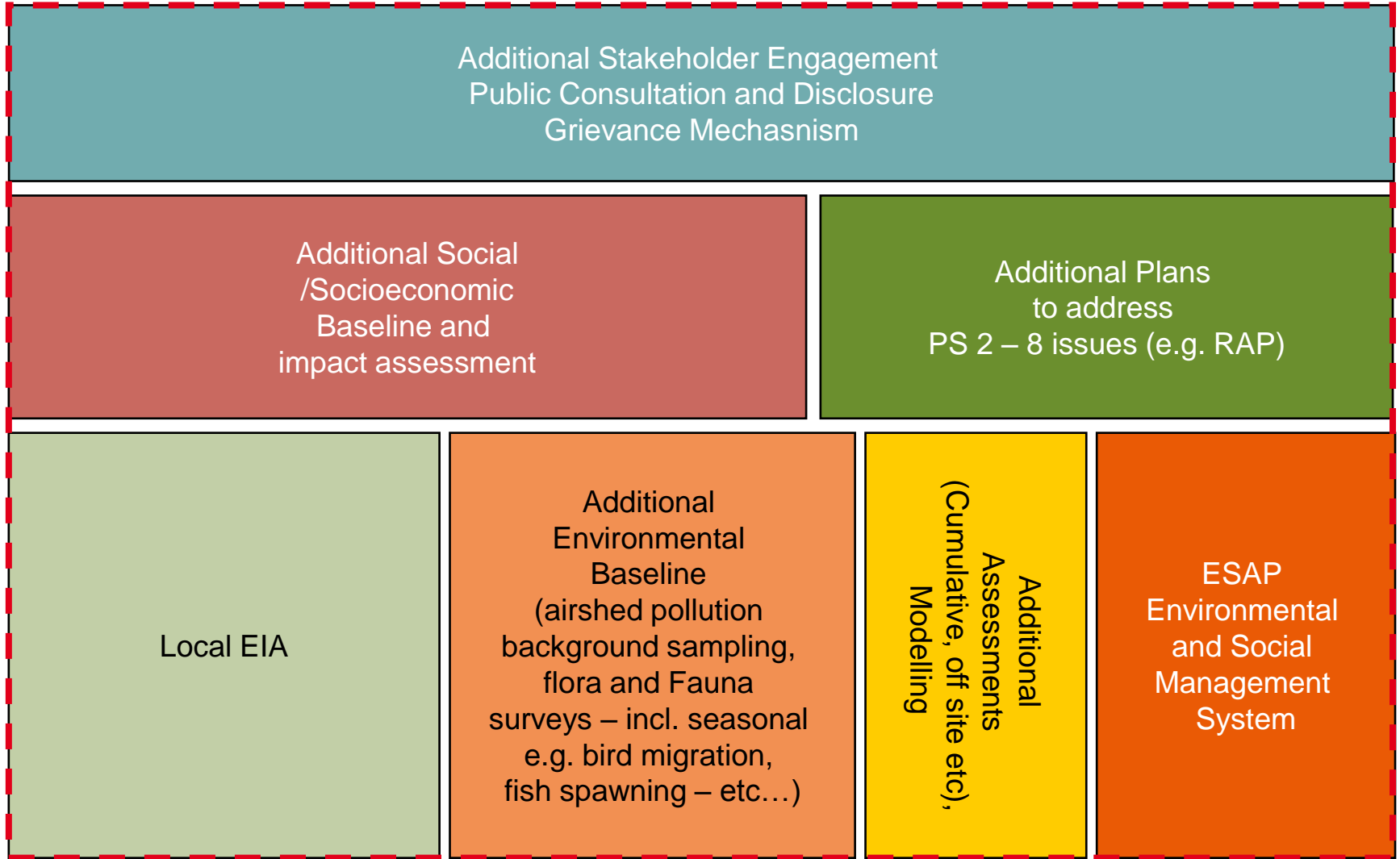
Apply CSR Principles to new opportunities in

Emerging Markets -necessary part of risk management



- Development in emerging markets often involves joint venture arrangements with national governments, who can have limited experience, resources or understanding of the need to manage extra-financial risk
- Development in emerging markets is often in the context of less well developed or inconsistently implemented regulation
- Consequently there are often conflicts between the requirements of host governments and international best-practice. The intent of CSR principles is to close gaps and ensure implementation of relevant local laws (or a higher standard).
- Understanding the risks well can help to provide certainty about the level of risk and therefore provide flexibility in risk management
- Clients not understanding extra financial risks may go down the food chain over the next 5-10 years.

Typical relationship of mandatory local EIA and additional Performance Standards elements



Applying ESG Principles to Lending

What is ahead

The Emergence of Global Administrative Law



- Emerging patterns of global governance are being shaped by a little-noticed but important and growing body of global administrative law. This body of law is not at present unified.
- Current Internationally used Soft Law Standards like Equator Principles, OECD Common Approaches, OECD MNE Guidelines, IFC Standards, ILO, Aarhus Convention and UN Guiding Principles for Human Rights however show some patterns of commonality and connection sufficiently deep and farreaching as to constitute an embryonic field of global administrative law and point to some factors encouraging the development of common approaches and to a degree of integration in this field.
 - Development in emerging markets is often in the context of less well developed or inconsistently implemented regulation
 - Consequently there are often conflicts between the requirements of host governments and international best-practice. The intent of CSR principles is to close gaps and ensure implementation of relevant local laws (or a higher standard).

Question 4
How does the current set of International Practices impact on private banks

Banks have to adjust their procedures to

integrate Global Administrative Law



- In order to fulfill OECD MNE Guidelines private banks apply Equator Principles , Sector Policies and Human Rights Due Diligence
- Equator Principles Financial Institutions are working with Multilaterals and ECAs on common approaches to address environmental and social issues in finance
- At the same time same banks are active in national and international Banking Associations which leads to the need of alignment with national and EU policies.
- Implementation procedures still vary from bank to bank or to ECAs and Multilaterals which makes leveling the playing field sometimes difficult.

From Risks to Opportunities

From Risks...

- Reputational risks
- Loss of competitiveness
- Loss of attractiveness & client base
- Dealing with NGO attacks is time consuming



...to Opportunities

- Develop a positive image by doing business in a responsible manner (CSR Policies)
- Promote greater transparency
- Help strengthening existing businesses (renewable energy, infrastructure, carbon finance, etc.)
- Help identifying and developing new business & products to address climate change (e.g. green bonds)
- Ultimately, favour responsible companies (indices, ETF, pricing grid)

→ Develop a competitive advantage

Your contacts

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UniCredit Bank AG
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List of frequently used Abbreviations

- EP – Equator Principles
- EPFI – a finance Institution that has adopted the EP
- EIA – Environmental Impact Assessment
- ESIA – Environmental and Social Impact Assessment
- ESAP – Environmental and Social Action Plan
- ESMS – Environmental and Social Management System
- EHS – Environmental Health and Safety
- IFC – International Finance Corporation
- ILO – International Labour Organisation
- Natura2000 – EU Nature Conservation Programme
- OECD – Organisation for Economic Co-operation and Development
- PS – Environmental and Social Performance Standards of the IFC for Project Finance
- PCDP – Public Consultation and Disclosure Plan
- TOR – Terms of Reference