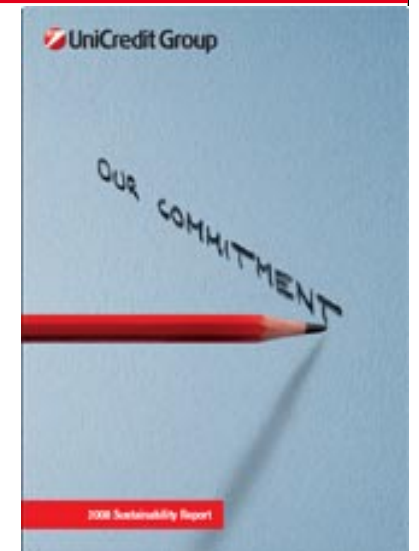

Applying CSR Principles to Project Investing

Karen Wendt – Head of Equator Principles Team CIB Division

Moscow –December 12 - 2012

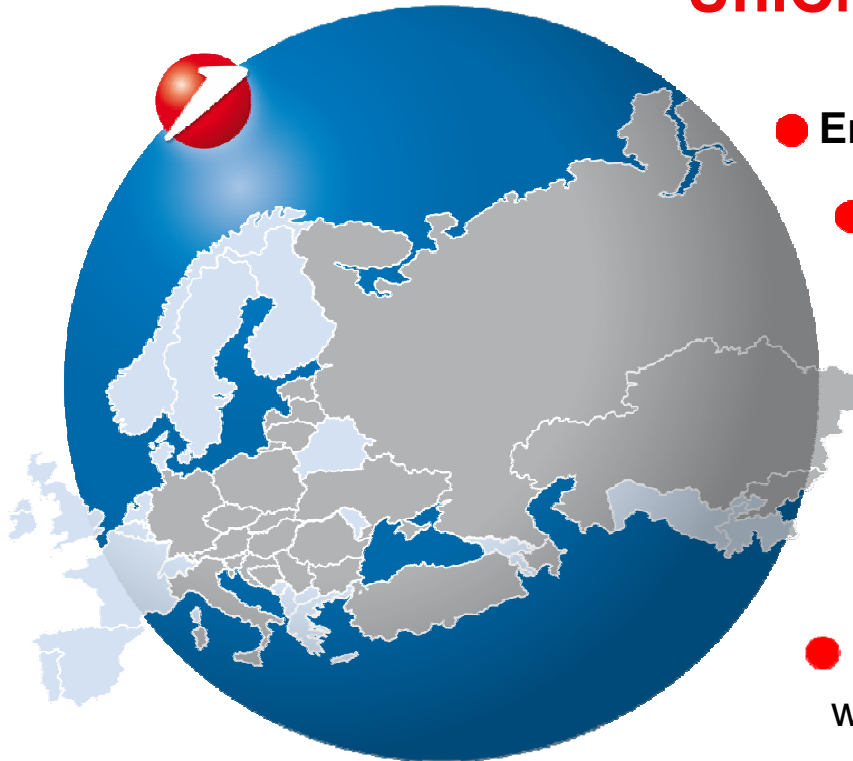


ONE OF THE LARGEST EUROPEAN BANK GROUPS IN TERMS OF SCALE



UniCredit – a Leading Pan European Bank Group

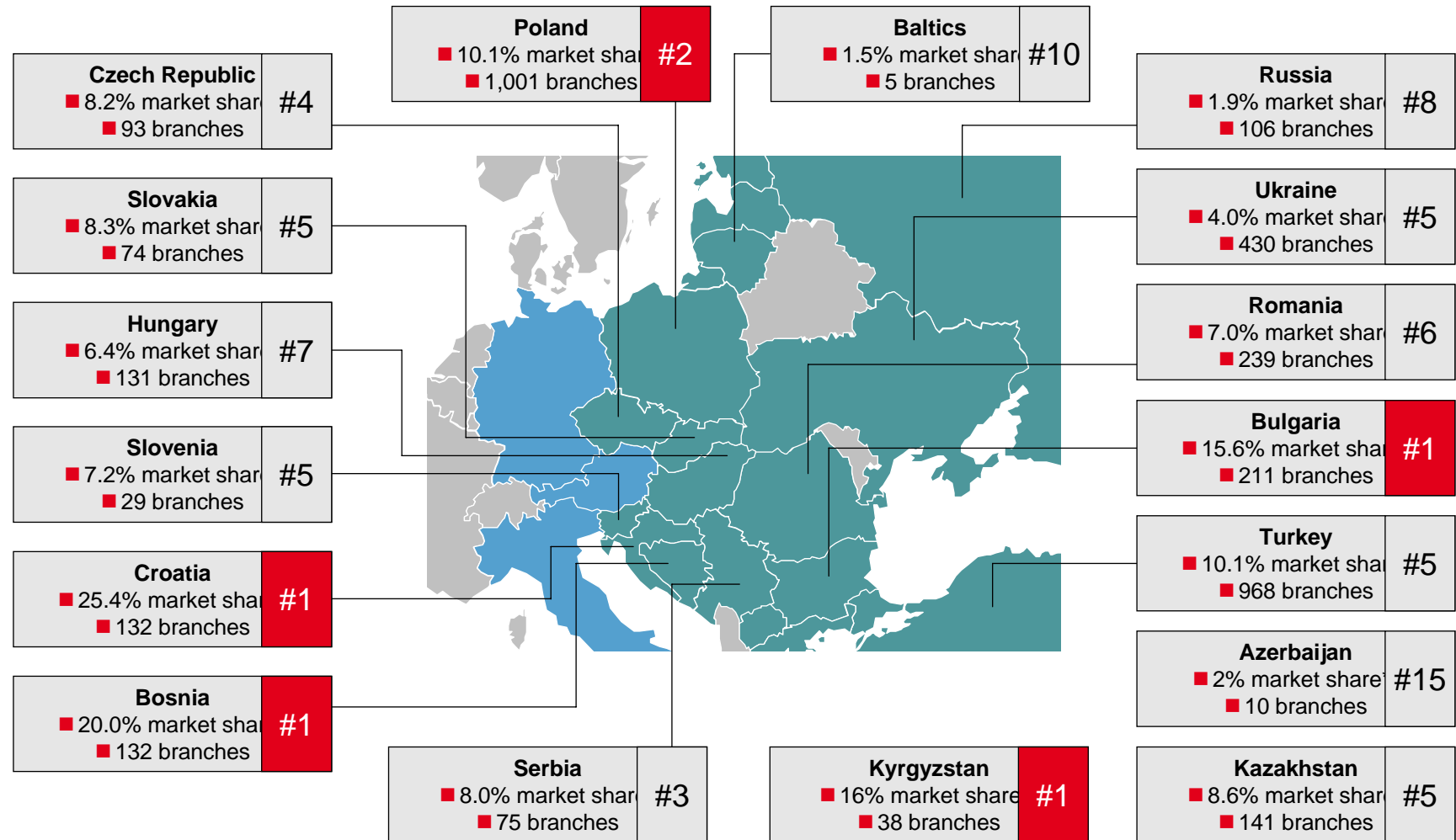
UniCredit Group – at a glance



- **Employees:** ~174,000
- **Customers:** ~ 40 million
- **Branches:** ~ 10,200
- **Total Assets exceeded €1 Trillion**
- **International network** spanning ~50 countries
- **Global player in asset management:**
~ €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

Question 1: Assessment of CSR Efficiency

Assessment of A Company's CSR Efficiency by Potential Lenders



- CSR Efficiency can be identified by using the following Criteria:

Tool 1: Environmental & Social Management System meeting Best Practice installed at Company Level with sufficient capacity?

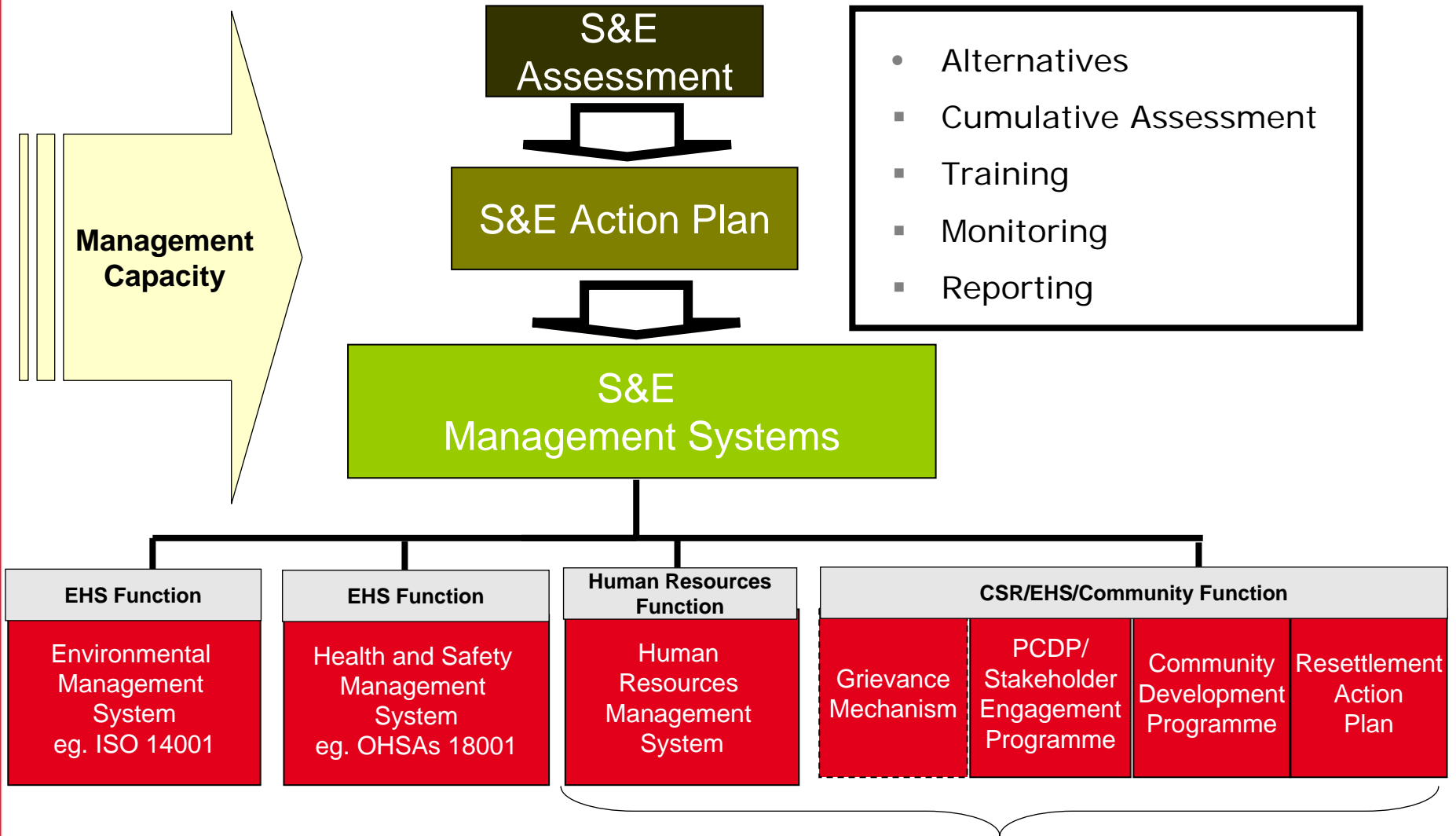
Tool 2: Environmental & Social Impact Assessments (ESIA) produced in accordance with Best Practice International Standards?

Tool 3: Social and Environmental Management Programme/Plan in place in form of procedures and policies addressing risks and impacts ?

Tool 4 : Social and Environmental Action Plan, Change Management Procedures in place with measurable outcomes and use of Key Performance Indicators

Tool 5: Social and Environmental Monitoring of activities and outcomes including contractors and Supply Chain

Social and Environmental Assessment and Management System



Social Management System (includes labour and communities)

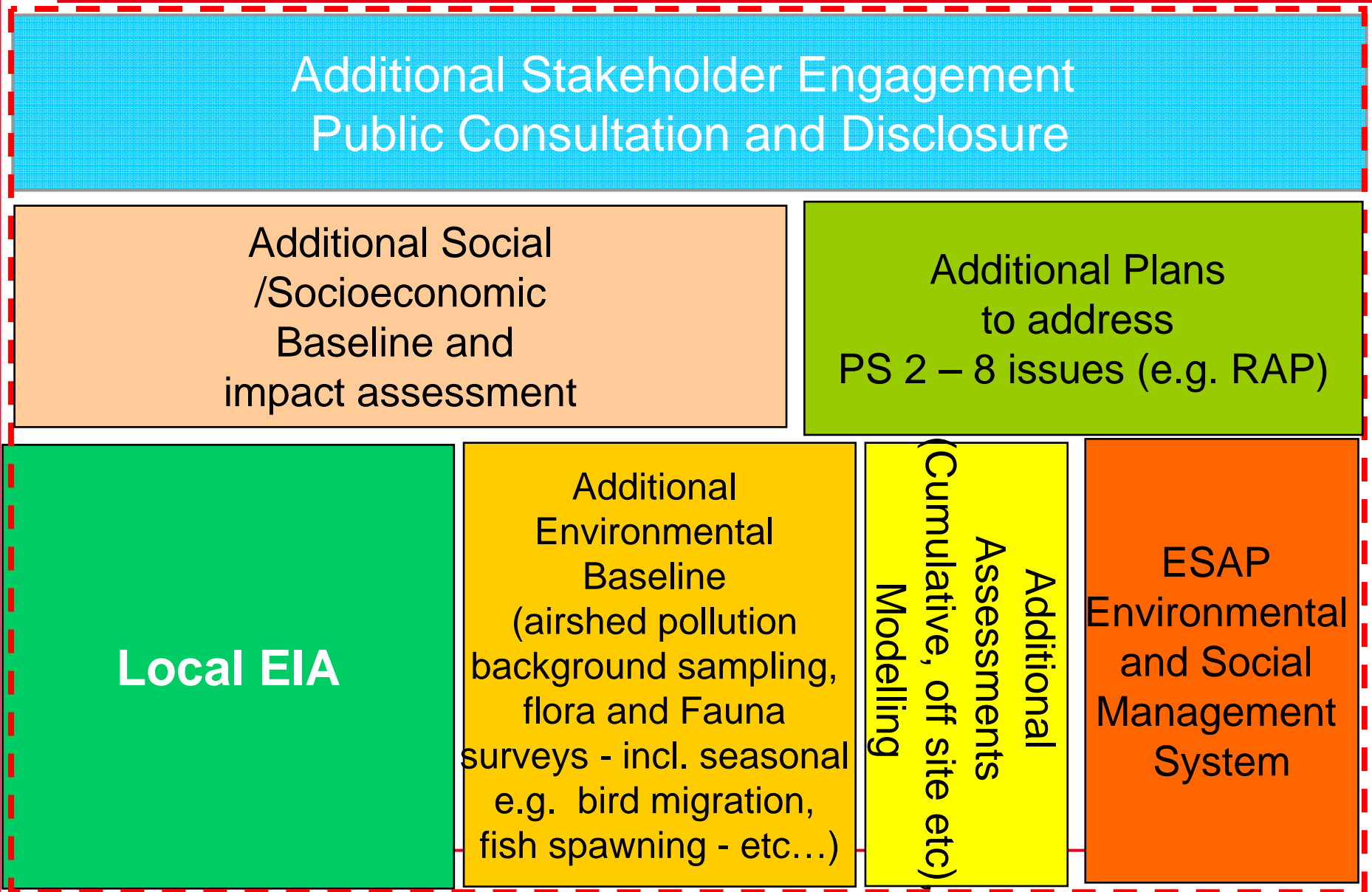
How does ESMS address issues Pre - construction through to Decommissioning

Requirements for management capacity



-
- Clear leadership commitment
 - Organisational Set-up:
Establish/strengthen and maintain an organizational structure sufficient to implement the management programme and Action Plan:
 - Sufficient staff
 - Appropriate knowledge and skills
 - Clear roles and responsibilities
 - Sufficient budget
 - Authority to take decisions
 - Training to enable effective management
 - Communicate the structure within the organisation
 - Clear Reporting lines and system
-

Typical relationship of mandatory local EIA and additional Performance Standards elements



What should a good ESIA address



-
- Commensurate with project risks and impacts
 - Full area of influence should be included:
 - Primary Project Site
 - Associated facilities that the project controls
 - Associated facilities that are NOT funded as part of the project, but whose *viability depend* exclusively on the project, or *whose goods or services are essential* for the operation of the project
 - Considers:
 - full area of influence
 - cumulative impacts
 - transboundary effects
 - global impacts e.g. greenhouse gas emissions role and capacity of third parties
 - supply chains where the resource is ecologically sensitive / low labour cost
 - vulnerable groups
 - Stakeholder Engagement / PCDP
-

What does a good ESIA look like?



Contents should include:

- Non-technical executive summary
 - Policy, legal, and administrative framework
 - Project description
 - Methodology Section
 - Description of Legal Framework
 - Baseline data
 - Social and Environmental impacts
 - Analysis of Alternatives
 - Management Program / Action Plan
 - Analysis of risks and impacts after implementation of mitigation strategy
 - Appendices
 - Public Consultation and Disclosure Results and Project Response
 - Grievance Mechanism
-

**Question 2 : In what ways does
Non Compliance with CSR
Principles increase risks for Banks**

Sometimes Risk outgrows Return



Reputational Risks



UniCredit has faced public exposure in the past ...

- Ilisu Campaign – people protesting in front of branches
- On 13. Oct. 2006 NGOs throughout Europe protested in front of /UniCredit branches against the finance offer for *Beleme 2 NPP* Bulgaria

Considering present environment, increased risk of deposit out-migration to other "more sustainable" banks

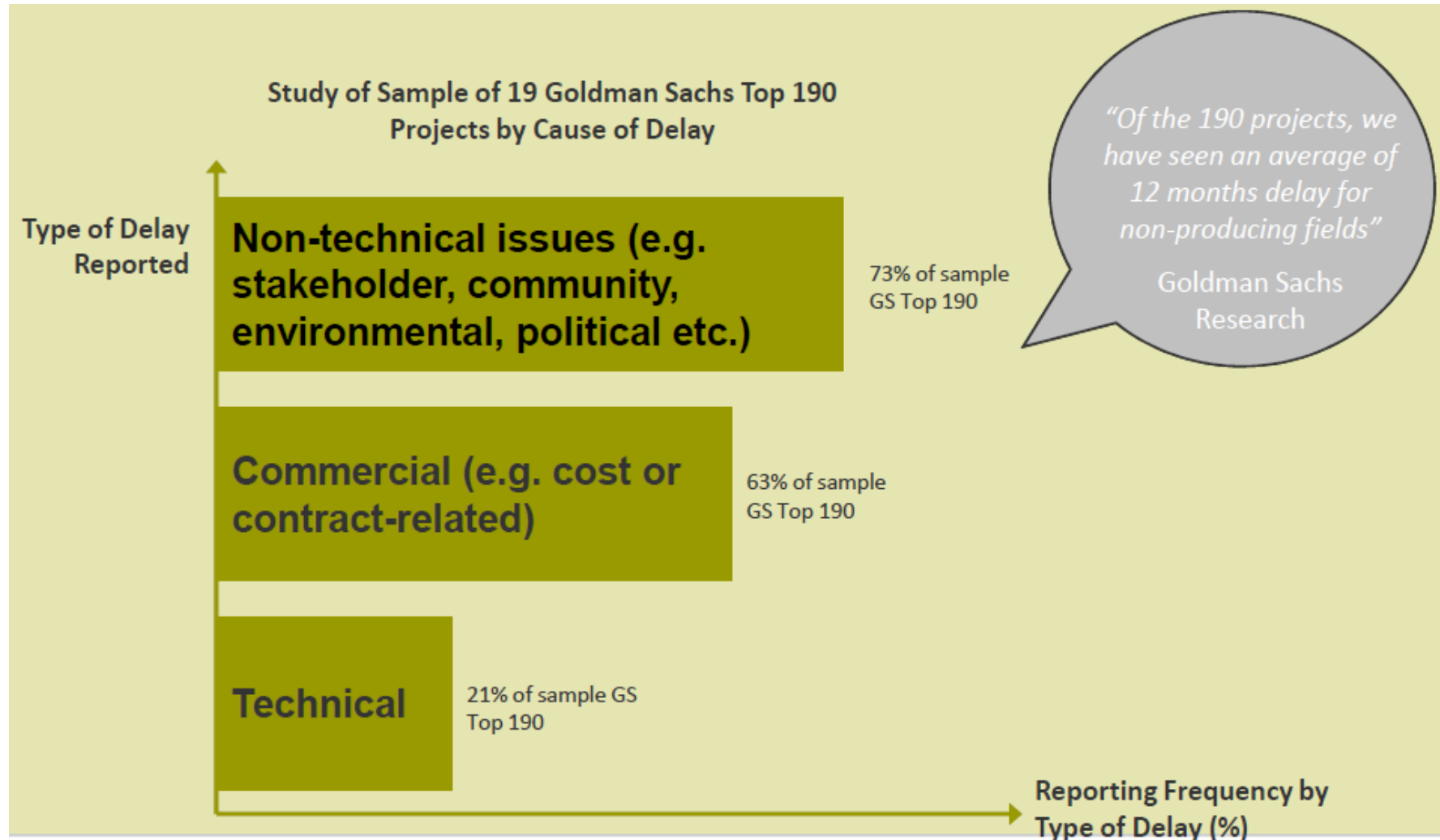
Слайд 13

AB1

I suggest for Illisu and Beleme we take same level of detail in the bullets - either just short as for Illisu or long as for Beleme

Achim.Broenner; 24.11.2011

Major investment projects are being impacted by non-technical risks



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

EP and IFC PS Relationship



Equator Principles:

1. Review & Categorisation
2. Social & Environmental Assessment
3. **Applicable Social & Environmental Standards**
4. Action Plan & Management System
5. Consultation & Disclosure
6. Grievance Mechanism
7. Independent Review
8. **Covenants**
9. Independent Monitoring & Reporting
10. EPFI Reporting

for non high income
OECD countries

IFC Performance Standards:

- PS1: S&E Assessment & Management System
- PS2: Labour & Working Conditions
- PS3: Pollution Prevention & Abatement
- PS4: Community Health, Safety & Security
- PS5: Land Acquisition & Involuntary Resettlement
- PS6: Biodiversity Conservation & Sustainable NRM
- PS7: Indigenous Peoples
- PS8: Cultural Heritage

IFC EHS Guidelines:

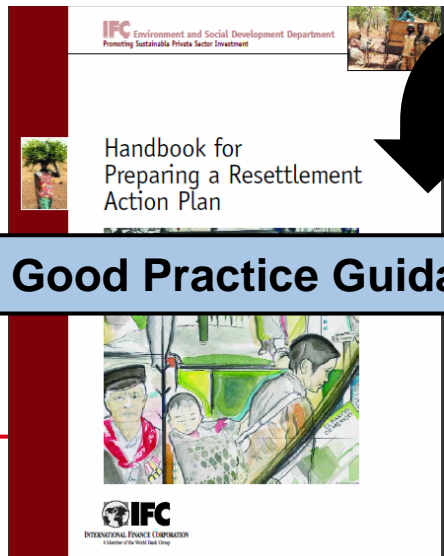
General EHS Guidelines

- Environmental
- Occupational Health & Safety
- Community Health & Safety

Industry Specific Guidelines

- e.g. Wind Energy Projects

EP Best Practice Loan Doc.



Good Practice Guidance Documents

Question 3 :CSR Principles Implementation in Financing

CSR Principles Implementation in Financing



- THE EQUATOR PRINCIPLES
Best Practice Loan Documentation
- Definition of Equator Principles and IFC Standards in the Loan Documentation as **Environmental and Social Requirements**
- **Conditions Precedent to First Drawdown:** Project ESAP and ESMS in place and in form and substance satisfactory to Lenders and –as appropriate : Independent Review by Independent Environmental and Social Advisor
- **Covenants:** Compliance with Environmental & Social Requirements and the Project ESAP
- **Monitoring and Reporting:** Provision of periodic implementation reports on EP Implementation in accordance with the KPI defined in the Project ESAP , where necessary independent review or environmental and social audits
- **Measure in Case of Non-Compliance:** Cure Periods in case of Non Compliance and measures to bring client back to compliance. Use of Dividend Stoppers, Event of Default

The Core Piece of the Loan Documentation : The Environmental & Social Action Plan



- A sound Action Plan:
 - describe the actions necessary to implement mitigation measures and provides an activity based costing scheme
 - prioritise actions
 - defines key performance indicators
 - implementing resources, accountabilities and reporting lines defined
 - includes an implementation schedule
 - includes a schedule and mechanism for external reporting on implementation
 - is technically and financially feasible
 - is disclosed to the affected communities
 - mechanism to report on budget usage
-

Question 4 :Cooperation Model between Financial Institutions and Real Sector

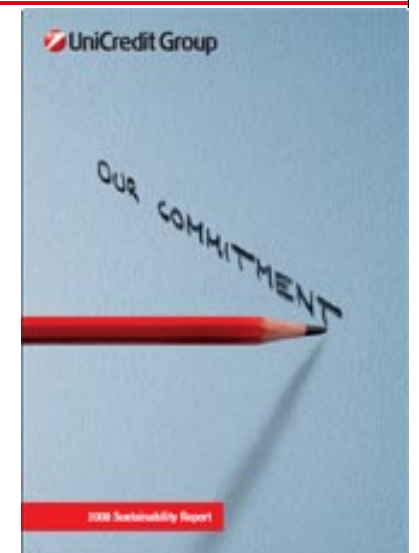
Apply CSR Principles to new opportunities in Russia - a very necessary part of risk management



- 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.

THANK YOU !

Karen Wendt



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 UniCredit Bank AG
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 D-81925 München

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Corporate & Investment Banking
 UniCredit Bank AG, Munich
 as of 18 December 2012

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
-