Bank Austria
UniCredit Group

UEFA CHAMPIONS LEAGUE
UniCredit
official sponsor

Evaluation and Management of Environmental and Social Risks in Lending, Investment and Insurance Practices

Experiences in Environmental and Social Risk Analysis in Banking - International

UNEP Finance Initiative
Innovative financing for sustainability

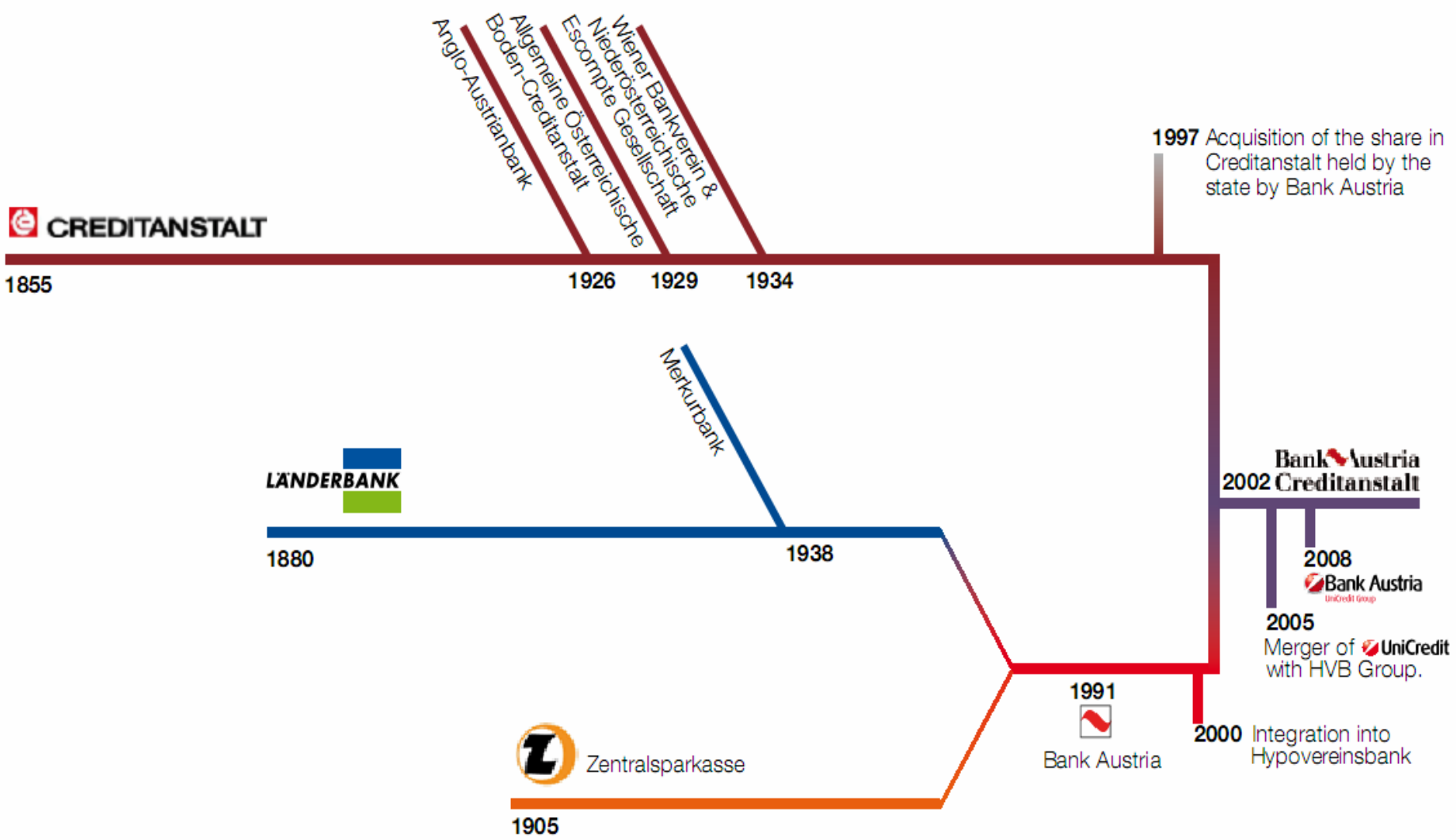
Sultana Gruber, Environmental Risk Management

Athens, 28 May 2010

Experiences in Environmental and Social Risk Analysis in Banking - International

- Unicredit Bank Austria at a glance
- Economic externalities and banks' responsibilities
- Environmental risk management in Bank Austria
- Examples from sector specific information and questionnaire for the environmental risk management

BANK‘S HISTORY DATING BACK TO 1855



BANK AUSTRIA AT A GLANCE

- Member of UniCredit Group, **one of the leading banking groups in Europe**
- **Best-capitalised bank in Austria**
  As of 31 March 2010, of all Austrian banking groups, **Bank Austria** had the largest shareholders' equity
- **One of the market leaders in the Austrian banking sector**
  - About **1.8 million customers** in Austria
- **Leading banking group in CEE** with a presence throughout the region
  - presence in **18 CEE** countries
  - over **2,700 outlets**
  - over **51,000 FTE (Full Time Equivalent)**
- With about **72,300 FTE** *) in over **3,800 outlets in 19 countries**, **UniCredit Group** serves retail and corporate customers
- **€ 116 bn total assets of UniCredit Group in CEE**

UNICREDIT GROUP NETWORK IN CENTRAL & EASTERN EUROPE (AS OF DEC. 2009)

	Ranking	Total Assets (€ m)	Market Share	Offices
Turkey	5	13,602	8%	901
Poland [1]	2	30,924	12%	1,041
Croatia	1	13,151	25%	136
Russia	7	11,177	2%	112
Czech Republic	4	9,996	n.a.	58
Hungary	7	6,424	6%	133
Bulgaria	1	5,853	16%	234
Kazakhstan	2	4,917	9%	192
Romania	6	4,827	6%	241
Ukraine	3	4,480	6%	504
Slovakia	5	3,185	6%	81
Slovenia	4	3,267	6%	20
Bosnia	2	2,081	20%	144
Serbia	6	1,411	n.a.	70
Latvia [2]	9	1,061	2%	1
Azerbaijan	16	54	1%	5
Kyrgyzstan	2	95	9%	41
Estonia	9	n.a.	2%	1
Lithuania	10	n.a.	n.a.	3
Rep. Offices				
Belarus [3]				
Macedonia				
Montenegro				
CEE Region	-	116,356	-	3,872

Note: Ranking as of 2Q09

[1] Poland (Bank Pekao) and its subsidiary in Ukraine (UniCredit Bank Ukraine) under management of UniCredit
[2] Total Assets including Estonia and Lithuania
[3] Rep. Office of UniCredit Russia

Experiences in Environmental and Social Risk Analysis in Banking - International

- Unicredit Bank Austria at a glance
- Economic externalities and banks' responsibilities
- Environmental risk management in Bank Austria
- Examples from sector specific information and questionnaire for the environmental risk management

Economic externalities and banks' responsibilities

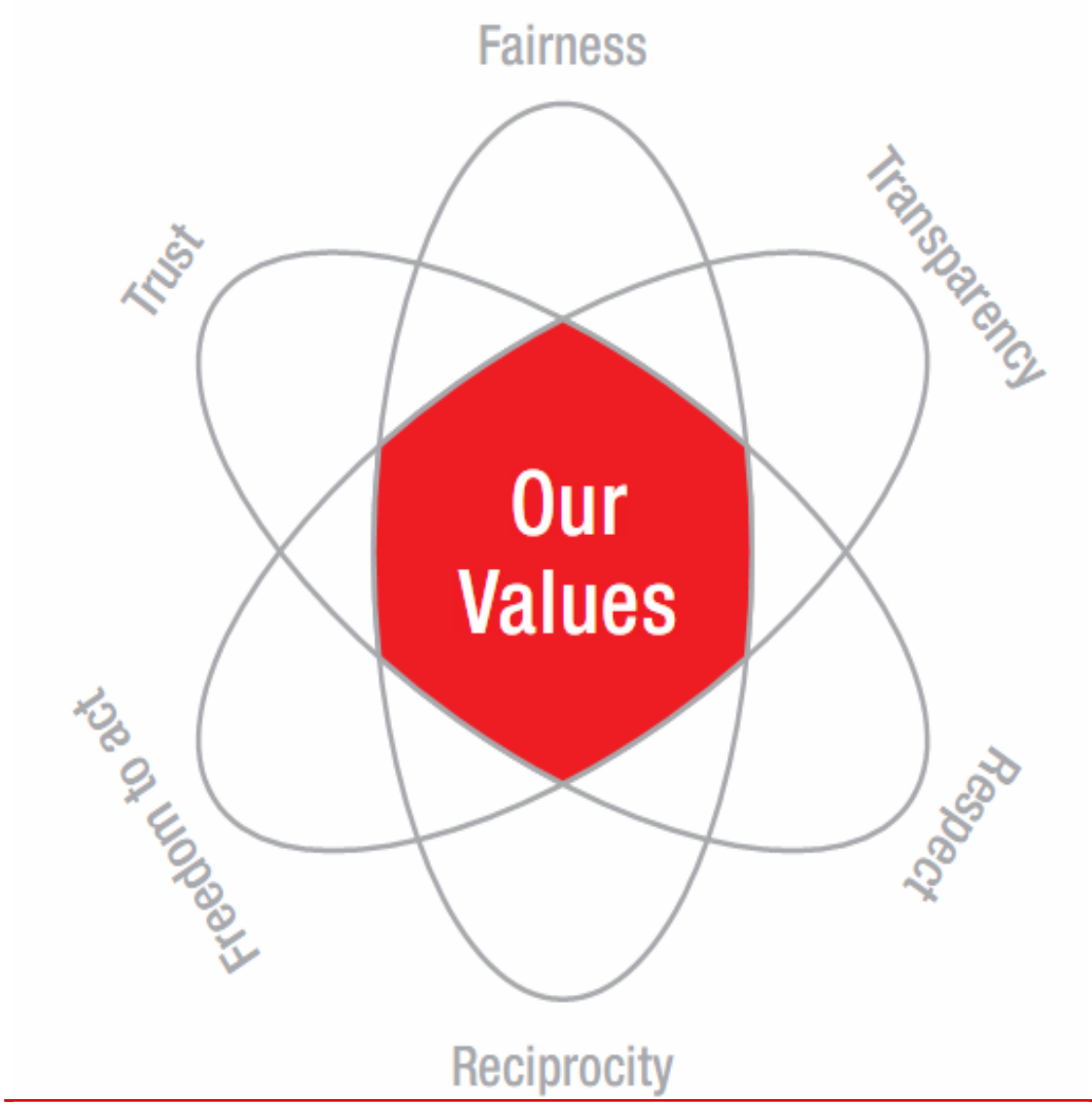
" The do's and don'ts of Sustainable Banking

A Bank Track manual"

Redefine your mission

- A crucial landmark on the road towards sustainability, although not necessarily at the start, is the redefinition of the bank's long term mission. This **demands a profound rethinking of the reason of existence of your bank**, **what you have to offer to this world**. A truly sustainable bank's **mission cannot be purely defined from the perspective of the maximization of shareholder value** and **client satisfaction**. It needs to incorporate wider sustainability goals.
- As a start, review the *Universal Declaration of Human Rights, Agenda 21, the Millennium Development Goals, and ask yourself: how can the financial skills and know-how of our bank contribute to achieving these goals? How can our funds be used most effectively to foster social and environmental sustainability?* ***How can we integrate the considerations of ecological limits, social equity and economic justice in all our activities****? What type of world do we want to create and how can we as a bank help shape our collective future? In short:* ***what is our mission****?*

OUR VALUES



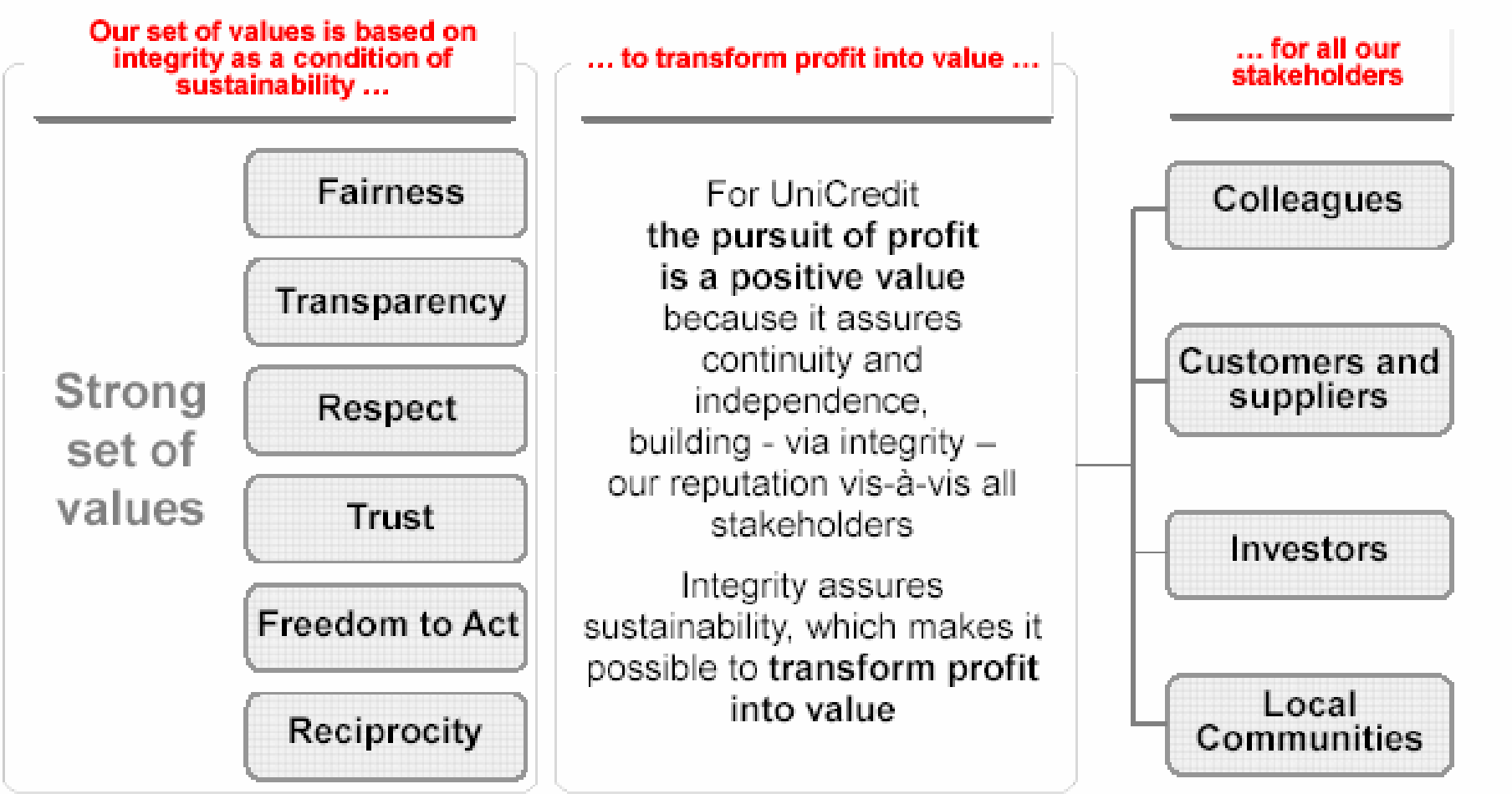
For UniCredit Group, generating profit is an essential, but not sufficient, condition for success and growth over time. **To ensure the sustainability of profits**, the latter must be pursued with integrity, thereby **building our reputation** both internally and externally.

The Group created the **Integrity Charter** to reflect the shared values that form the basis of our identity. It guides us in our daily professional life and it sets forth our values: **Trust, Transparency, Fairness, Freedom to act, Respect and Reciprocity.**

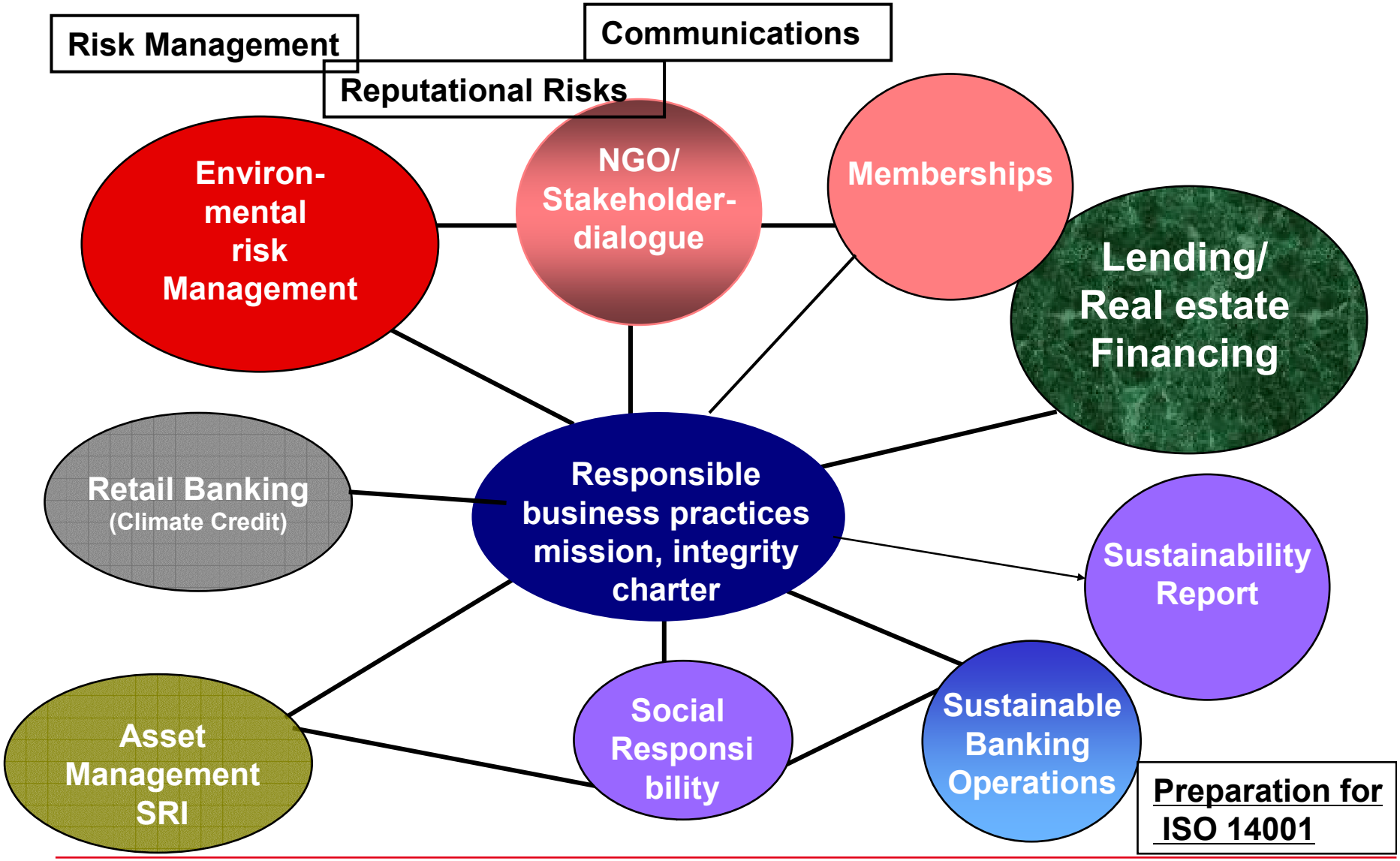
The Integrity Charter is the **framework** upon which our daily professional conduct is based. It determines our actions when we are faced with both routine and unexpected challenges at work and it helps us make consistent **and responsible working decisions**.

Integrity Charter of the UniCredit Group

- It sets out the **principles** that should **direct and guide us in our daily business**
- It provides a **framework of values and responsible working decisions**



Environmental Risk Management in the Context of Responsible Business Practices (Sustainability)



Conceptual framework of environmental and social risks
Bank Austria: voluntary and legal commitments

- ***Sustainability/ERM***
- ***Project financing***
  - **World Bank Standards**
  - **Equator Principles**
- ***Export Financing***
  - **OECD**
  - OeKB (Austrian ECA)
- ***Global Compact***
  (UniCredit)
- ***Environmental Risk=***
  Credit Risk –soft facts
- ***Reputational risk***
  (UniCredit
  Reputational Risk guidelines)

UNEP Finance Initiatives
Innovative financing for sustainability

Subgroup (CEE) of the European Task Force

The Equator Principles
A framework for banks to manage environmental and social issues in project financing

OECD

OECD Common Approaches on Environment and Officially Supported Export Credits

THE GLOBAL COMPACT

Basel II

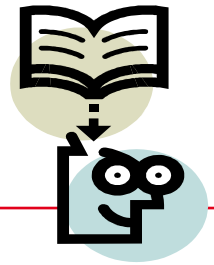
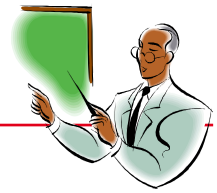
Sector Policies:
- **Nuclear √**
- **Arms √**
- **Extractive industries – Draft**
- **Dams –in preparation**

Integrity Charter

AGENDA

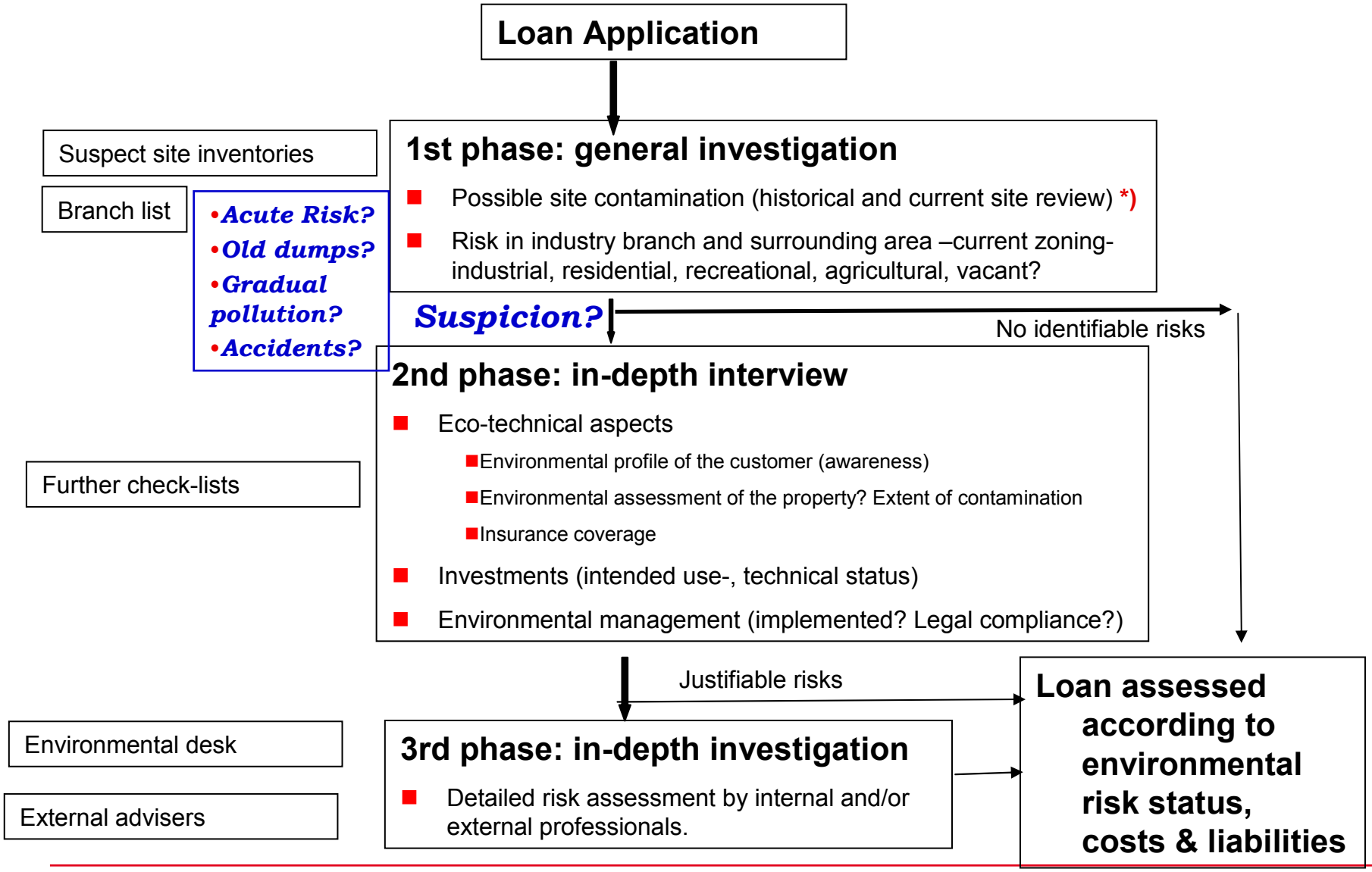
- Unicredit Bank Austria at a glance
- Economic externalities and bank's responsibilities
- Environmental risk management in Bank Austria
- Examples from sector specific information and questionnaire for the environmental risk management

Risk Identification and Assessment Tools in Unicredit Bank Austria

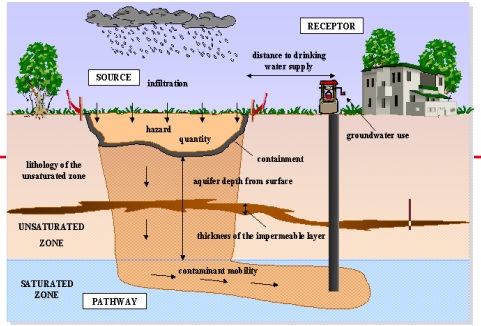




- **Information –obtain, dissemination**
  - *External* (Internet research, technical journals –**environmental, legal** and market research)
  - *Internal* (provide credit officers with gained information, sector specific questionnaire, **checklists**. These checklists are updated as required to reflect changing regulatory requirements and regional operating contexts.)
- **Education –obtain, dissemination**
  - *External* (Courses like **ESRA**, **Climate Change, Equator Principles** and **national Law**)
  - *Internal* (Environmental Desk provides **Training** & awareness raising programmes to the risk managers and credit officers)
- Consideration in the **credit application form**
- **Integrate environmental risk into credit appraisal processes (internal RATING)** –Credit worthiness- also in accordance with **BASEL II:**
  - Warning signals→ environmental credit risk
  - In overruling →EMAS, ISO 14001 (positive aspects, upgrading)
- **Site inspection, interview** with key site personnel owners and operators, review of **permits and licences,** review of **public and private records** of the local physical environment**, geographic studies, worker health issues, suspect site inventories…**
- Co-operation with **external experts, lawyers and consultants: ** physical sampling and analysis to confirm or deny the existence and if any the degree of contamination or pollution, Environmental Due Diligence, Environmental Impact Assessment, feasibility survey…
- **Policies:** Environmental issues is part of the credit policies (ethical values)

How to check out environmental risks e.g. contamination



Costs and Risks in case of Contamination



- **Costs:**
  The **mere suspicion** can increase the loan transaction **costs: Information, EDD, environmental site assessment, removal of the contaminated soil, ornamental planting-backfill, demolition or renovation,…**
- **Risks (legal and financial):**
  - **Liability risk**
  - **Claims by third parties**, restriction of the rights of use
  - **Cleanup costs liability (even if borrower is not the polluter)**
  - **Collateral risk:** if we have to foreclose at a later date: lower value of our collateral or lose the full collateral value
  - Will the full **economic potential** of site reuse be **achieved**?
  - **Market risk**: Demand of properties, **viability of the revitalisation project** (in case of brownfield redevelopment)

AGENDA

- Unicredit Bank Austria at a glance
- Economic externalities and bank's responsibilities
- Environmental risk management in Bank Austria
- Examples from sector specific information and questionnaire for the environmental risk management

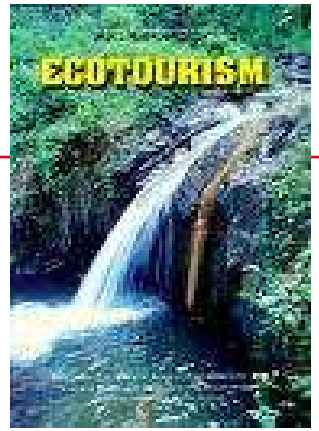
EDD (environmental Due Diligence) and Risk management e.g. Renewable Energy Projects

- **Regulatory framework** including national regulations, international standards, and good practice guidelines
  - **Existing laws** and regulations that currently affect the project
  - **Anticipated laws** and regulations that may change the conditions of the project
- Environmental **appraisal of the project**
  - Assessing the **environmental risk**
  - Determining **mitigation measures;**
  - estimating the **cost of risk**
  - **management**; and reporting the results
- **Monitoring** the project after approval
  - to ensure that the **project sponsor complies** with the applicable environmental **standards** included in legal **agreements**;
  - to keep track of ongoing environmental impacts associated with project operations and of the **effectiveness of any mitigation measures**

Checklist for Environmental and Social Risk Assessment of a Wind Energy System

- **Effluent emissions, on-site contamination, hazardous materials issues**
- **Biodiversity protection issues**
  - Habitat damage from plant-construction activities
  - Bird strikes and disturbance
  - Habitat damage from generation activities
- **Worker health and safety issues**
  - Accidents from plant construction activities
  - Accidents from generation activities
- **Environmental issues sensitive to public opinion**
  - **Land use**
  - **Noise emissions**
  - **Visual impacts**
  - **Electromagnetic interference**
  - **Accidents involving the public**
  - **Local community approval**
  - **Air traffic safety**
  - **Shadow casting and shadow flickering** (proximity to roads and residences)

Sector specific (tourism) – voluntary commitments



Can help to identify good practices of our customers

Sustainable travel, ecotourism

- **Eco-Certification**
- **The Global Partnership for Sustainable Tourism Criteria** (initiated by Rainforest Alliance, UNEP, the United Nations Foundation, and the United Nations World Tourism Organization (UNWTO) www.SustainableTourismCriteria.org
  - maximizing tourism's social and economic benefits to local communities
  - reducing negative impacts on cultural heritage
  - reducing harm to local environments
  - planning for sustainability
- **Voluntary Initiative for Sustainability in Tourism** (VISIT) was created within the frame of an EU funded LIFE project in tourism eco-labelling.
- **Sustainable Tourism Stewardship Council**

Agriculture

- **Processes:**
  Concerns are focused on **farm buildings, ancillary processes, storage areas** and **intensive livestock** units (such as **piggeries, dairies, battery chicken plants** and **fish farms**).
- **Pollutants:**
  - **slurry**, silage, organic **manures, fertilisers** (nitrogen, phosphorus), fuels and agrochemicals such as **pesticides**
- Further issues:
  - **Water**
    Irrigated areas may be affected by **salinisation, water-logging, desertification, erosion**
    The highest increase in **irrigation water demand** is projected in the **Mediterranean** and some parts of **Central and Eastern Europe.**
  - **Climate Change** and **greenhouse gases** to the atmosphere:
    - **methane -** from livestock digestion processes and stored animal manure
    - **nitrous oxide -** from organic and mineral nitrogen **fertilisers.**

Agriculture: Solutions and opportunities

- **modernise** farms (e.g. via energy-efficient equipment and buildings)
- **training** and advisory services
- providing support for **biogas**
- offering **compensation** for the extra costs incurred by farmers who voluntarily help protect the environment **(agri-environmental schemes)**

To cope with projected climate changes, **farmers** can further

- change their **crop rotation** to make the best use of available water,
- adjust **sowing dates** according to temperature and rainfall patterns,
- use **crop varieties** better suited to new weather conditions (e.g. more resilient to heat and drought),
- plant **hedgerows or small wooded areas** on arable land that reduce water run-off and act as wind-breaks

Agriculture further issues risks and opportunities (incl. social issues)

- Agricultural **energy subsidies**, such as **bio-fuels** (biodiesel, bio-ethanol) present both opportunities and risks Further issues
  The outcome would depend on the specific context of the country and the policies adopted
  - **Positive**—>non carbon emitting energy and fuel creation
  - **Negative**-→ prices, and also for nature and biodiversity conservation
- **Factory Farms**: high stocking density
  Diseases like **BSE, e.coli**, **swine flu, avian flu or bird flu**, welt **Nile virus**, **bluetongue,** and **foot and mouth disease**
  Antibiotics used are create a major public health issue.

Regulation

- General **waste storage** and processing
- Waste combustion and animal carcass **incineration**
- Processing and **treatment of animal and vegetable matter**
- **Chemical application** – **pesticides**, etc.)
- **Climate change** issues
- **Water** issues

Agriculture: EU regulation

- **IPPC: EU –Integrated Pollution Prevention and Control (IPPC) directive**
  a wider variety of farm types need authorisation from the regulatory authorities
- **EIA Environmental impact assessment**
  - Projects for the restructuring of rural land holdings;
  - Projects for the use of uncultivated land or semi-natural areas for intensive agricultural purposes;
  - Water management projects for agriculture, including irrigation and land drainage projects;
  - Initial afforestation and deforestation for the purposes of conversion to another type of land use;
  - Intensive livestock installations (projects not included in Annex I);
- **Water Framework Directive**
- **Common Agricultural Policy (CAP)**
- **Good Farming Practice (GFP**)
- **The Regulation** (EC) No 1829/2003 on **genetically modified food and feed**
- **Legislation on plant protection products (Pesticides) EC No 396/2005**

Agriculture: questionnaire

- Does the customer operate an intensive agricultural facility (e.g. fish farm, battery chickens)?
- Are chemicals or fuels used or stored?
- Has the farmer been prosecuted for pollution incidents?
- Does the customer potentially face significant capital costs to upgrade storage facilities on site to meet regulatory requirements?
  → if yes→ financing opportunity
- Is the customer affected by one of the above mentioned regulations?

Construction -Real estate, property: Regulatory framework

- **Urban development projects** are subject to the provisions on **EIA Environmental Impact Assessment Directive 85/337/EEC** e.g. **shopping centers, car parks**
- **Sustainable buildings with a minimal impact on the environment during their construction, operation and demolition** by minimising energy and water consumption, recycling used materials, increasing their use of renewable energy and by performing **life cycle assessments** (LCAs) when developing new property.
- **European Energy Performance of Buildings Directive** (EPBD) **2002/91/EC** ensure the **certification of their energy** performance and require the regular **inspection of boilers and air conditioning systems** in buildings.
  Energy performance certificate
  Energy certificates also called **Energy Passports** are documents that profile the energy performance of existing and new buildings within the European Union.
- **Contamination issues**, **Liability** of the owner, the form of contract (rights/liability of buyer-seller, impact on market value
  quantification and **evaluation→** assistance of **multi-disciplinary consultants – environmental lawyers and technical environmental consultants is required**
  Insurance?
  State funds??
- **Brownfields regeneration→ a sustainable issue**

Questionnaire: property – real estate, construction

- **Use of property and adjoining properties, contamination issues**
  - information on **historical and current property uses**, **the existence, storage and/or maintenance of hazardous materials and waste,**
  - Is there a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility?
  - Are there currently, or have there been previously, any registered or unregistered **storage tanks** (above or underground) located or any **stained soil** on the property
  - Are there any **flooring, drains, or walls** stained by substances other than water or are emitting **foul odours**?
  - Are there any damaged or discarded automotive or **industrial batteries,** or **pesticides, paints**?
  - Are there currently, or have there been previously, any **industrial drums or sacks of chemicals** located on the Property or at the facility?
  - If there is a contamination→ are there any **state funds** for the clean-up?
- Water
  - Does the property discharge waste water on or adjacent to the property other than storm water or into a sanitary sewer system?
- **Waste/hazardous substances**
  - Have any hazardous substances or petroleum products, unidentified waste materials, tires, automotive or industrial batteries or any other waste materials been dumped above grade, buried and/or burned on the property?
- **Is there any environmental consultant's report? (soil – groundwater investigation)**

Questionnaire property – real estate, construction

- **Environmental due diligence, licences, legal requirements and orders**
  - Are there reviews of borrowers' **business plans and/or management systems** to ensure **compliance with applicable legal and regulatory requirements;**
  - Does the owner or occupant of the property know of any past, threatened, or pending lawsuits or administrative proceedings concerning a release of any hazardous substance or petroleum products involving the property by any owner or occupant of the property?
- **Is there any insurance coverage for environmental clean-up and third party liability?**
  (Insurance maps or consultation with the local fire department serving the property)
- Do any of the following **government record systems** list the property or any property within the circumference of the area noted below:
  - **Register of contaminated sites** and register of suspected contaminated sites
  - **Register of protected areas** e.g. **NATURA 2000** Areas
  - Register of **danger zones of flood areas**.
- Is there any **energy certificate**?