

Best Practice in Sustainable Finance: The Experience of Bank Austria Creditanstalt



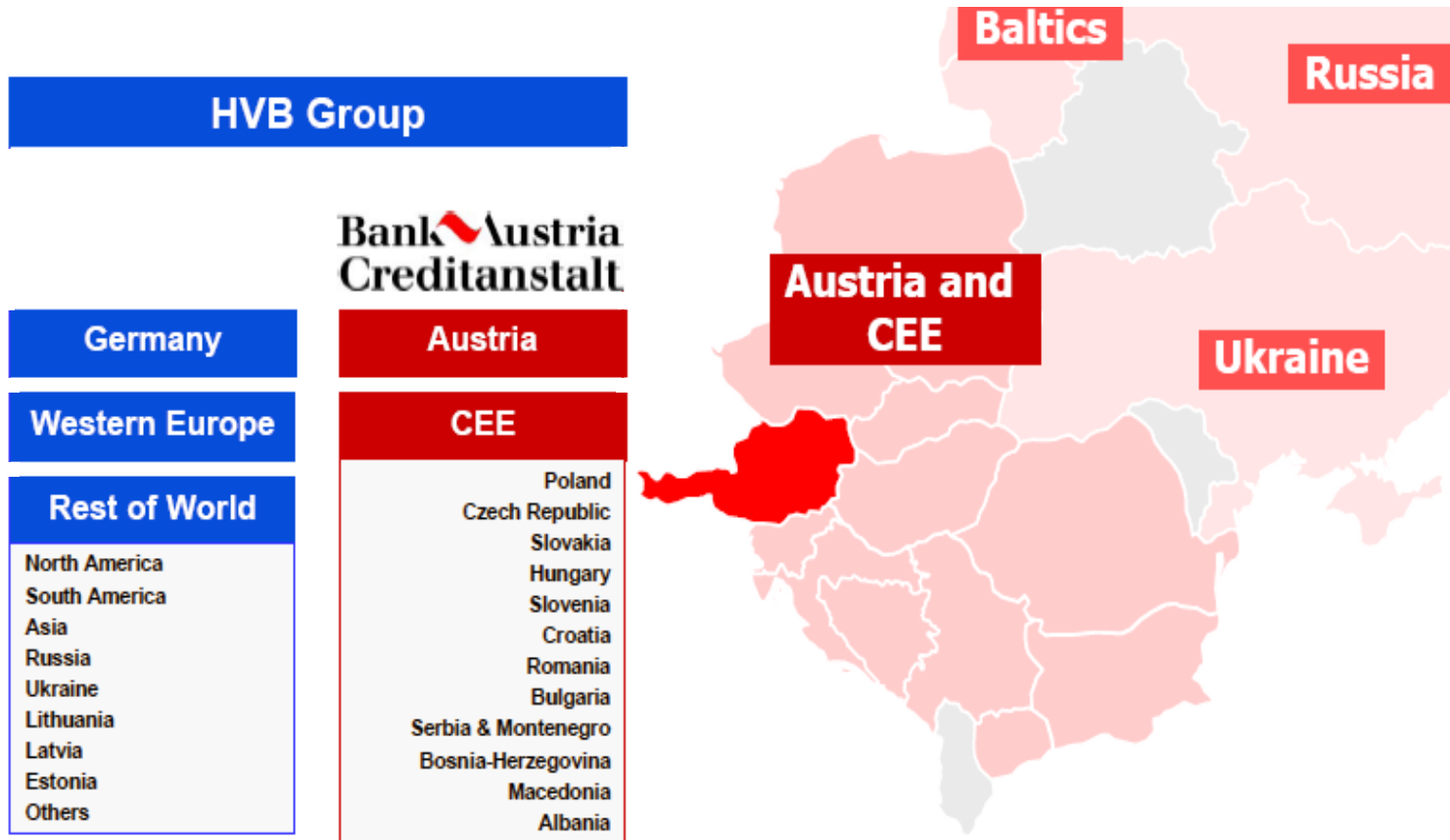
Warsaw, March 16th, 2005

BA-CA Corporate Finance & Public Sector

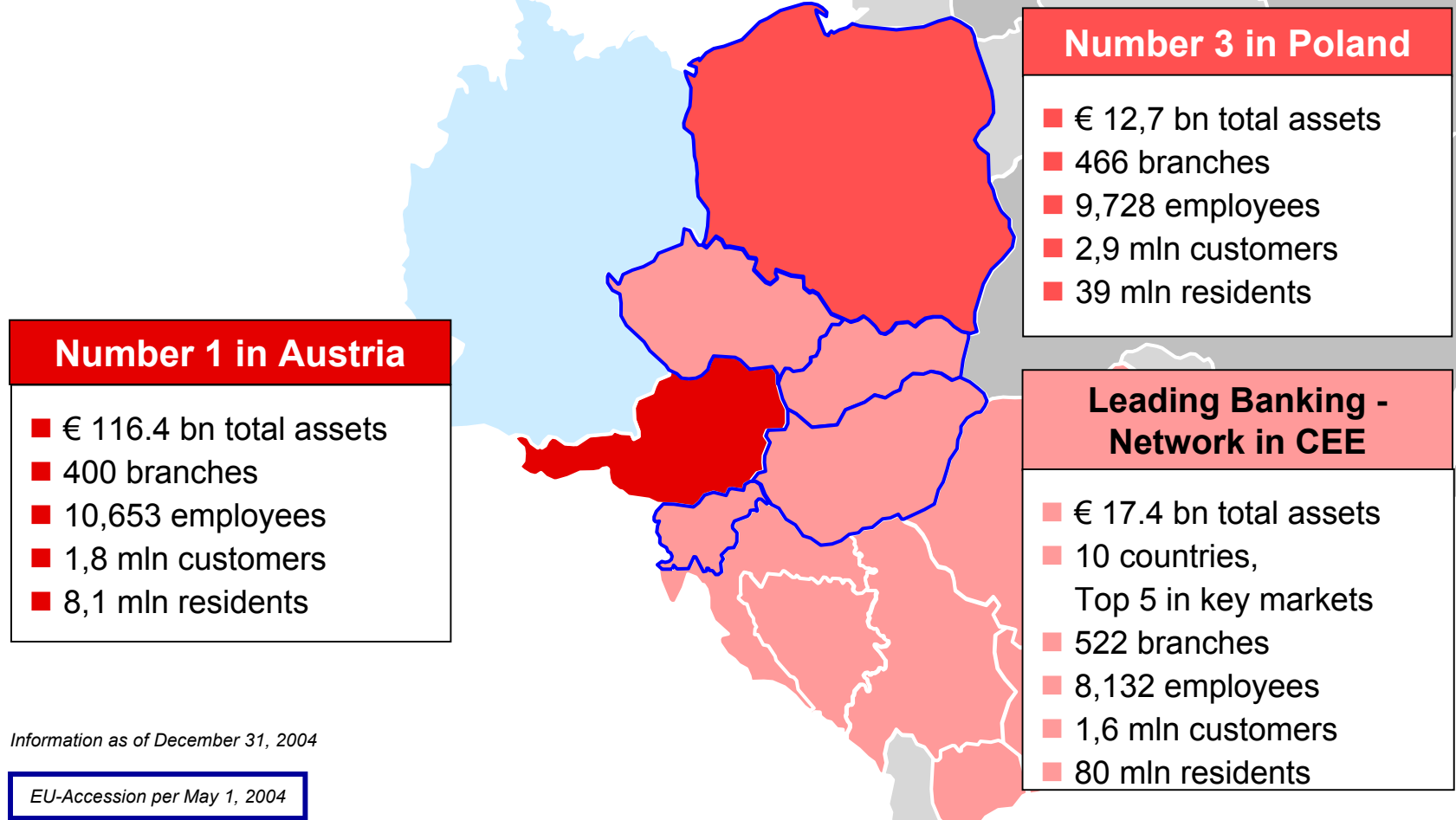
Agenda

- Bank Austria Creditanstalt AG
- Sustainability
- Principles & Guidelines for BA-CA
- Social Sustainability
- BA-CA and UNEP
- Risk Management
- Equator Principles
- Renewable Energy Financing
- Sustainable Asset Management
- Shareholder Value & International Ranking

BA-CA: Center of Competence for CEE

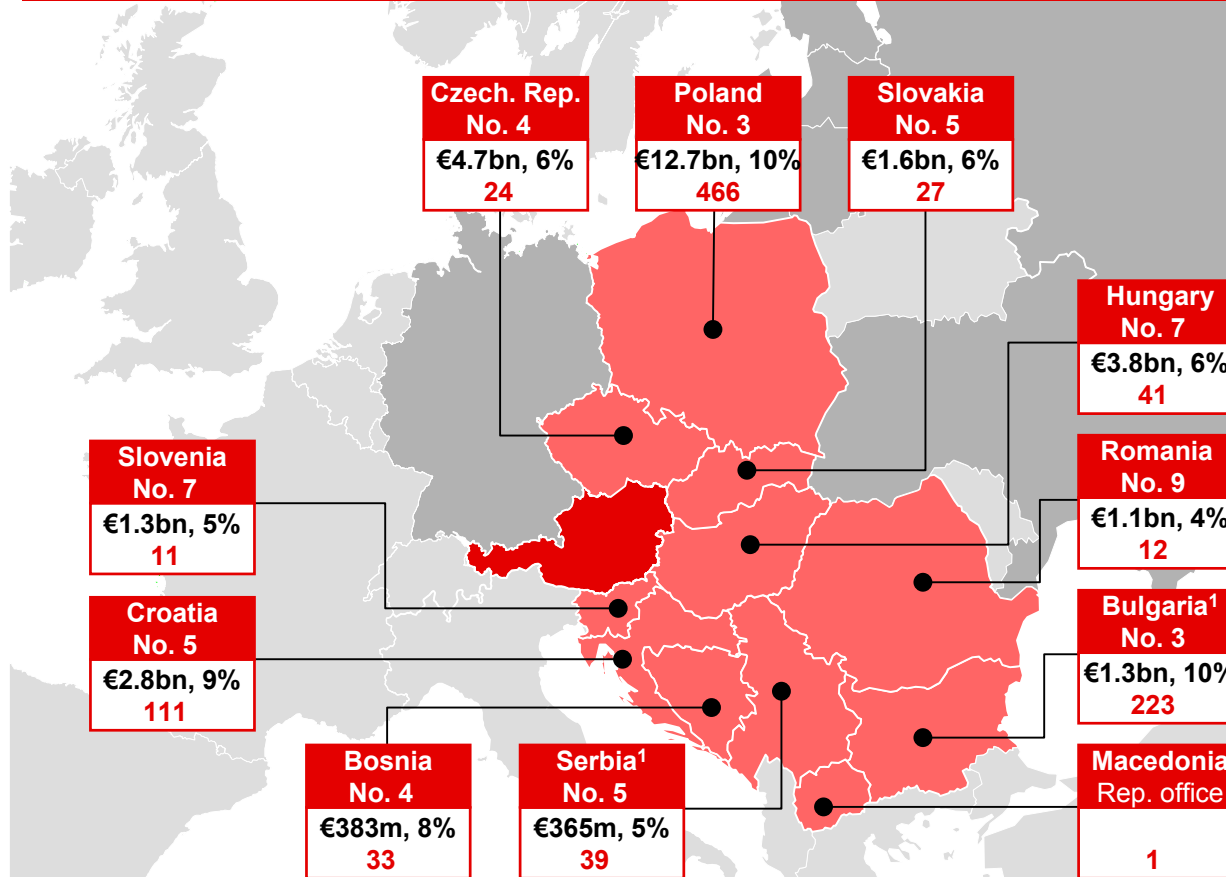


BA-CA: Center of Competence in CEE (cont'd)



BA-CA Footprint in CEE

Ranking, total assets, market share by total assets as of Sept. 2004 and number of offices as of 31 December 2004



CEE region¹

€30.1bn
total assets

988
offices

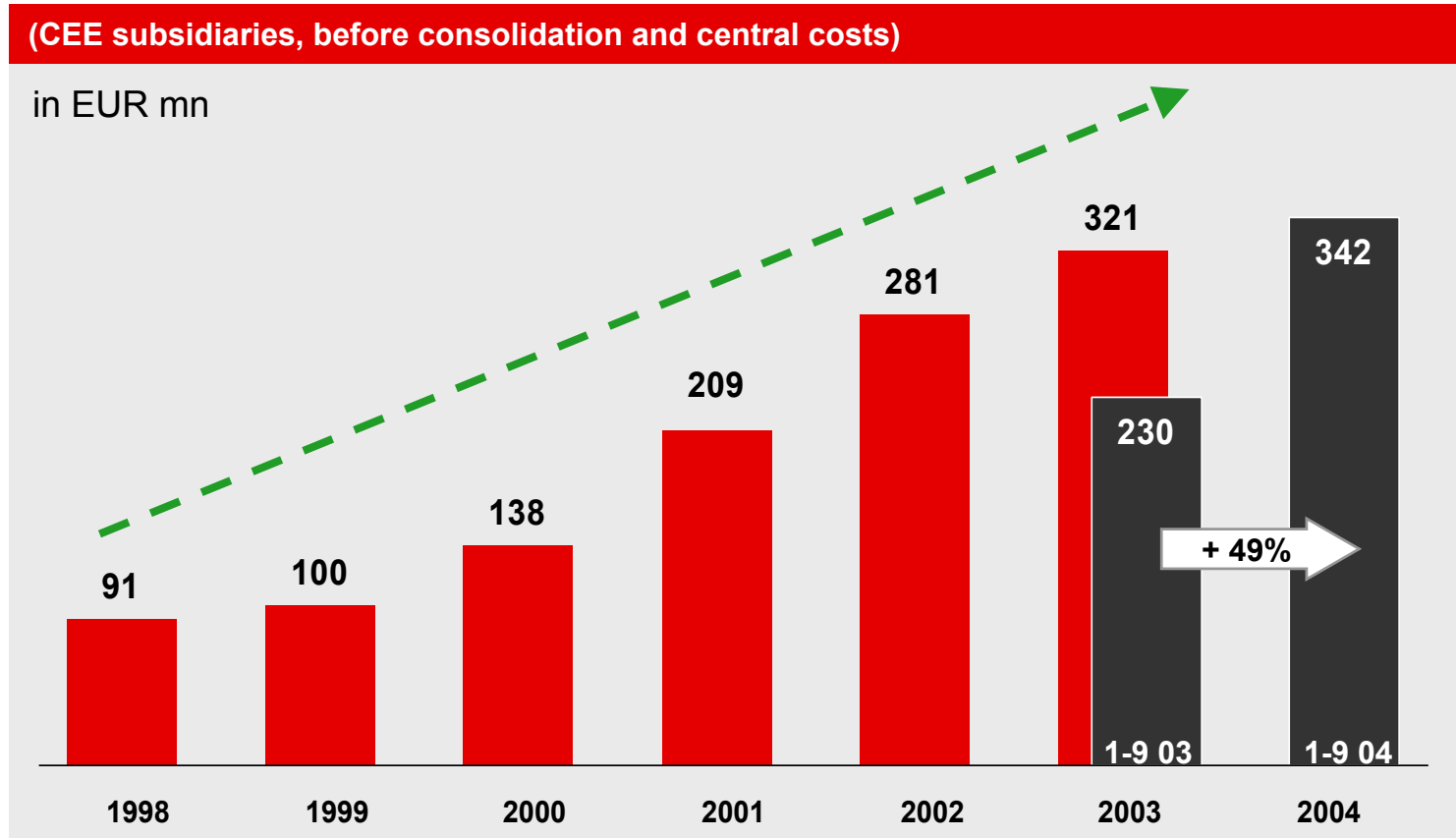
17,860
employees

4.5m
customers

population
117m

¹ incl. Eksimbanka
(Serbia)
and Hebros Bank
(Bulgaria)

Bank Austria Creditanstalt Group: Net income before taxes



Progress on the Road to Sustainable Development

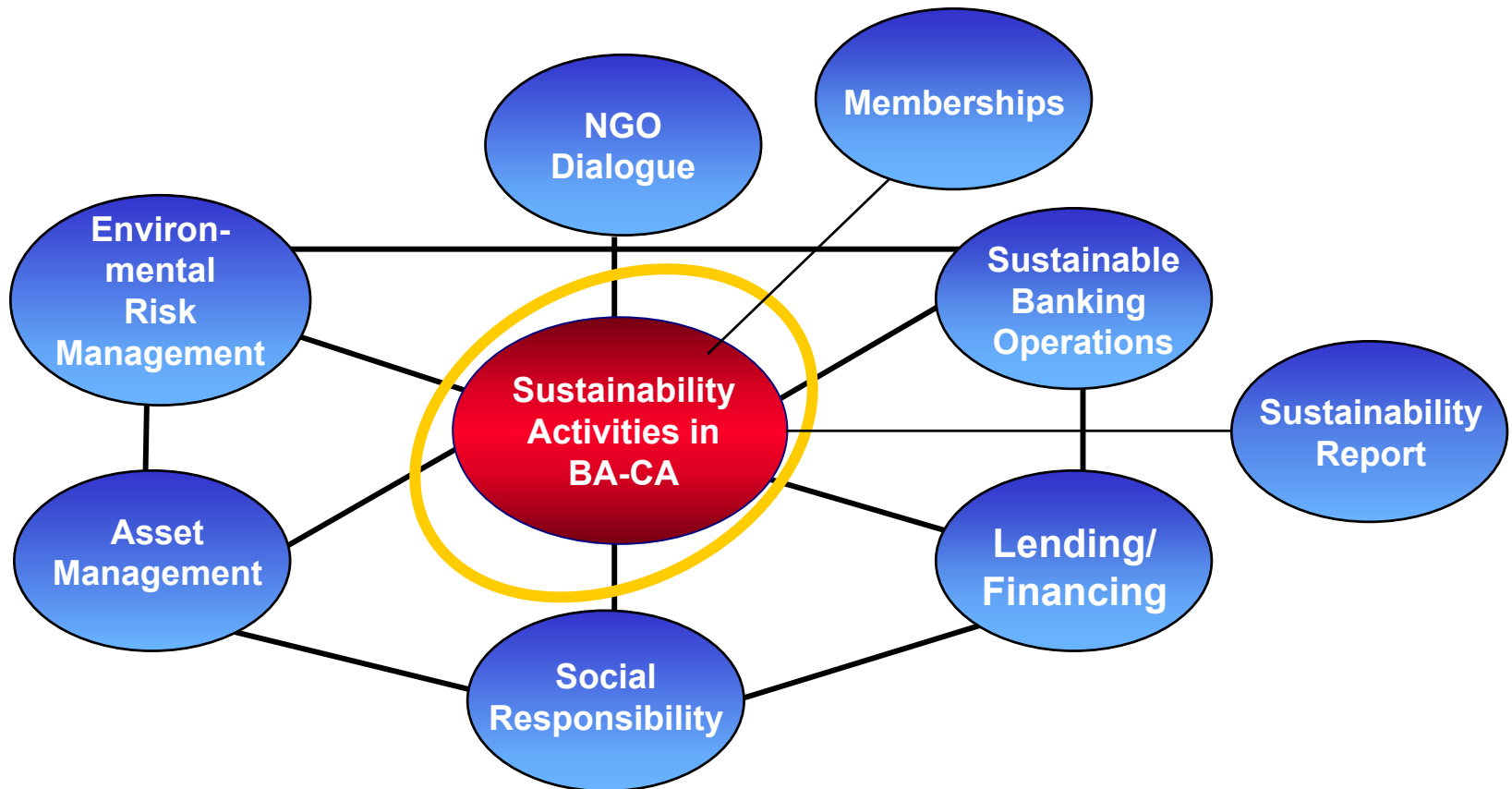
- It is becoming increasingly common to pursue more than financial goals and balance them against ecological and social aspects in order to secure the success of a company over the long term.
- Sustainability is perceived by international business leaders as having more to do with opportunities than with avoiding costs, managing risks and compliance. Innovation and long-term profitability are the opportunities associated with the Triple Bottom Line approach.



Business Relevance

- Sustainability is a moving target and as we move up the learning curve, new issues emerge on the agenda. This learning process builds on interaction with key stakeholders and a set of fundamental business principles we have chosen. It provides the governance framework for putting our values into action.
- Growing stakeholder awareness and action like shareholder activism and socially responsible investing products (funds)
- Threat for companies to lose their “social license to operate” which results in loss of community or consumer acceptance
- Need and chance for companies to look for new dimensions

BA-CA and Sustainability Activities



Sustainability Activities and Reporting

- Benefits for enterprises:
 - Increase of confidence of stakeholders: it creates common understanding
 - Makes data available for lobbying, evidence for activities
 - Participation in formation of public opinion
- Triggers for Sustainable Development reporting:
 - Rating Agencies
 - Legal requirements for institutional investors (e.g. in Austria >> severance pay and pension funds). According to a new, law employee welfare funds and pensions funds have to be invested in SRIs. (Socially Responsible Investments)

Principles and Guidelines

- Code of Conduct
- UNEP-Statement
- General Credit Policy of HVB Group (“Group Policy”)
- Equator Principles for Project Finance

Code of Conduct

- **Environmental protection:** BA-CA contributes actively to environmental protection and sustained development. It supports national and international efforts for progress in this area. In projects in which we are engaged as a financial institution, we do not ignore or evade environmental protection regulations. We make efficient use of resources.

Human Resources in Bank Austria Creditanstalt

- Diversity programme with emphasis on gender, culture, generations, lifestyle, and health. Seminars, mentoring and intercultural workshops, family service, and retirees' service for former employees
- 2003: awarded “the most women- and family-friendly company in Vienna.”
- One year prize by the Federal Ministry for Social Security, Generations, and Consumer Protection for its internal measures for older employees.
- Outlook: With the new Company agreement on “Career and Family” we have already responded to changing demographic circumstances. We will continue to support this and increase both flexibility and equal opportunities for all.

Best Practices: Memberships

- UNEP
- ÖGUT (Austrian Society for Environment and Technology) www.oegut.at
- CABERNET (Concerted Action on Brownfield and Economic Regeneration Network)
- ÖVA (Österreichischer Verein für Altlastenmanagement - Austrian Society for Brownfield Management)
- The “Green Money” platform initiated by the Austrian Society for Environment and Technology (ÖGUT) for the purpose of strengthening the market for ethical and ecological investments in Austria www.gruenesgeld.at
- Austrian Business Council for Sustainable Development (www.abcsd.at)

UNEP FI Central and Eastern European Task Force: Mission and Activities

- The Central and Eastern European Task Force (CEETF) aims to support and expand sustainable finance practices in Central and Eastern Europe.
- It raises awareness of the opportunities for sustainable finance
- The CEETF will conduct more research on the business case for sustainable finance and organise conferences to increase awareness of sustainability within the financial sector but also among the finance sector's stakeholders.

Best Practice: BA-CA is member of the task force

UNEP FI Central and Eastern European Task Force (continued)

- Environmental credit risk management:
In order to support environmental screening in financial institutions, a web-based information platform will be developed. The platform provides information on country and sector-specific environmental credit risks in Central and Eastern Europe to facilitate environmental risk mitigation.
- Training and capacity building:
The CEETF will develop a region-specific training programme on the opportunities and implementation of sustainable practices. The introduction of sustainability management and reporting will be promoted to facilitate the assessment of sustainability benefits.

Best Practices: Risk Management

- Information Platform (Intranet) - Checklists for credit risk officers referring to environmental risks for each sector
- Brownfields and contaminated sites:
 - CABERNET Concerted Action on Brownfield and Economic Regeneration Network (www.cabernet.org.uk)
 - Co-operation with NICOLE Network for contaminated land in Europe (www.nicole.org)
 - Co-operation with the Austrian Environmental Agency and the Ministry
 - Co-operation with Image Train (www.image-train.net)
- EMAS, ISO 14001 and BASEL II
 - Companies which have an EMAS or ISO 14001 Certification are rated better

Best Practices: Risk Management (continued)

- Rating: Rating, identifying and quantifying environmental risks has been part of risk assessment since 1997!
- Implementation of the Kyoto Risks
- Project Finance: Equator Principles
- Export Finance: OECD Guidelines
- CEE-Task Force

Why does BA-CA monitor environmental risks?

- Environmental risks are credit risks for the Bank
 - Default risks
 - Liability risks
 - Reputation risks (NGOs and public opinion)
- Environmental risk assessment creates value-added for corporate customers
- Important criterion for investors and rating agencies
- BA-CA shows Best Practice in risk management

What are the Equator Principles ?

- A framework for managing environmental and social issues in project financing
- Banks which adopt the Equator Principles put in place their own internal policies and procedures which are consistent with the Equator Principles
- The Equator Principles adopt the World Bank Group Pollution Abatement Guidelines and Safeguard Policies as the single global standard
- They use IFC's A/B/C screening process for high/medium/low risk projects

Equator Principles - Basics

- 28 banks (including HVB Group) have adopted Equator Principles for their financing decisions
- Set of guidelines to determine and manage environmental and social risks in project financing
- Pollution Abatement Guidelines and Safeguard Policies of the IFC (International Finance Corporation)
- Projects are classified according to Screening Process (high / medium / low risk)
- Environmental Assessment is done for large project financing, including appropriate consultations with all affected parties
- Equator Banks cover over 80% of global project finance volumes

Elements of the Equator Principles

- They apply to projects with funding requirement of USD 50 million or more
- Projects in category A and B require Environmental Assessment (EA)
- The sponsor must demonstrate compliance with World Bank Group guidelines or justify deviations – banks judge whether this is sufficient
- A's (and B's where appropriate) require an Environmental Management Plan (EMP)
- A's (and B's where appropriate) require consultation with affected people and public disclosure of EA and EMP
- A's require independent review of EA and EMP
- Borrower will covenant to: comply with EMP & provide regular reports on compliance with the EMP
- Wherever the borrower is not in compliance with EMP, banks will engage the borrower in its efforts to come back into compliance

Renewables: Situation in Central & Eastern Europe (Challenges)

- Rules and regulations, legal environment
- Inefficient use of energy
- Over-capacity in production and low energy prices
- Insufficient equity sources and tight public budgets
- Lack of experienced operators

Renewables: Situation Central & Eastern Europe (Opportunities)

- Opportunities: Poland and Czech Republic (Biomass and Wind), Hungary (Biomass and Geothermal), Baltics (Wind), Slovak Republic (Hydro and Biomass), Slovenia (Biomass)
- Upgrade of District Heating Systems - Biomass
- Diversification of fuel sources (reduce dependency on carbon fuels)
- Local Initiatives
- Lobby for producers of renewable energy
- CO₂ Certificates become part of financing

Sources of Financing

- Equity:
 - Equity from Sponsor
 - Equity Funds
 - Carbon Financing (JI/CDM, CO2 Certificates)
- Debt:
 - Project finance or corporate lending from local and international commercial banks
 - Export Credit Agencies (Supplier or buyer credit, risk insurance)
 - Multilateral Banks (EBRD, World Bank/IFC, EIB)
 - Specialised Finance Institutions or Funds (KfW, Mezzanine Fund, Carbon Funds)
 - Capital Market (Bonds, Asset Backed Securities)
- Subsidies:
 - Local or EU

Best Practice: Biomass



Svilosa, Bulgaria

Delivers energy to pulp and paper plant, switch from coal fired to biomass. Sources wood chips from own production process. Financed partly with forward sale of CO₂ Certificates.

Capacity:	18 MW Steam Turbine
Investment:	USD 2,75 Mio.
Emission Reduction:	900.000 t CO ₂
Price per ton CO ₂ :	USD 3
Buyer of Certificates:	Prototype Carbon Fund
Contract value CO ₂ Cert.:	USD 1,8 Mio.

Best Practice - Kyoto: First JI-Project



Tsankov Kamak, Bulgaria

Expansion of existing hydro power plant with 6 turbines and construction of new dam. Power purchase agreement with NEK. Financing secured partly with forward sale of CO₂ Certificates.

Capacity:	450 MW
Investment:	USD 200 Mio. (Commercial Banks: EUR 32 Mio.)
Emission reduction:	200.000 t CO ₂ p.a.
Buyer of Certificates :	Republic of Austria

Best Practice: Asset Management

- **Capital Invest Ethik Fund**, run in collaboration with the Italian index provider E.Capital Partners
- This mutual fund – so far only available for institutional investors – will be renamed into „Capital Invest Ethik Fonds“ with due date August 18th, 2003. From then on, the fund will be invested in ethical stocks and bond indices to 30% and 70%, respectively.
- The goal within this investment universe is to achieve a performance corresponding to a comparable mutual fund without ethical orientation.



Sustainability as Driver of Shareholder Value ?

- **Creates new earnings potential** (Sustainable Products) :
Sustainable investments, financing of water and renewables, financing of environmental technology together with CEE countries, carbon finance / emissions trading
- **Reduces credit risks:**
Monitoring environmental risk & World Bank standards & Equator Principles
- **Generates cost savings through environmental protection** - sustainable banking operations: efficient use of energy and resources
- **Increases customer satisfaction:**
Takes changing customer requirements into account: sustainable investments & Customer Relationship Management

Sustainability as Driver of Shareholder Value ? (continued)

- Improved reputation with our stakeholders (customers / shareholders / staff / society)
- Sustainability performance to enhance corporate profile
- Attractiveness of BA-CA share as sustainable investment

According to an EASEY Study - Ecological And Social Efficiency,
a Project of the Vienna University of Economics and Business
Administration and the Vienna Stock Exchange:
BA-CA is the most sustainable bank in Austria

Bank Austria Creditanstalt Share Price: Self Explanatory



Quelle: IS Teledata AG / powered by PXP Finance Solutions

How the market sees us

BA-CA has been consistently recognised as a leading Bank in CEE & SEE



Best Bank in Emerging Europe 2000-2004
 Best Bank in CEE 2000-2004
 Best Bank in Austria 1992-2004
 Best Custodian In CEE 2002-2004
 Best Bank in Poland 2003
 Best Equity House In Poland 2002
 Best Debt House in Hungary 2003
 Best Debt House in Croatia 2003
 Best International Bank in CEE 2000



Best Project Finance House in CEE 2000
 Best International Bank in Hungary 2000
 Best International Bank in Slovenia 2000
 Best International Bank in Slovakia 2000
 Best Bank in Hungary over the Last Decade 1999



Best Bank in CEE 2003
 Best Bank in Austria 2001-2004
 Best Trade Finance Bank in CEE 2002-2003
 Best Trade Finance Bank in Austria 2004
 Best Foreign Exchange Bank in CEE 2001-2004
 Best Foreign Exchange Bank in Austria 2001-2004
 Best Foreign Exchange Bank In Slovakia 2004
 Best Project Finance Bank in CEE 2002
 Best International Bank in CEE 2000
 Best Execution in Emerging Europe 2000
 Best FX-House in CEE 2000

Local Awards

Best Bank of the year in Slovakia 2003 

Best Bank in Poland 2003
 Manager of the year 2003
 Bank of the Year in Austria 2000, 2002 

Bank of the Year 2002 



Bank of the Year in CEE 2000, 2002-2004
 Bank of the Year In Austria 2000, 2002, 2004
 Bank of the Year in Bulgaria 2003

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the way...