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What is meant by “Sustainable Financing”?

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- Sustainable Financing is an approach that connects **Corporate Social Responsibility (“CSR”)** and **Social Responsible Investing (“SRI”)** and which promotes **Sustainable Development**
 - **CSR** is a business model that contributes to the social and economic development of a stakeholders
 - **SRI** is a business model for investing in transactions that meet specific ethical criteria
 - Sustainable Development is defined as
 - “development that meet the needs of the present without compromising the ability of future generations to meet their own needs” (Brundtland Commission)
 - “an economic development theory that calls for raising living standards without destroying the earth’s ecosystems or causing environmental problems such as climate changes, water scarcity, or species extinction” (Webster’s New World Finance and Investment Dictionary)
 - “financial sustainability is not only about the amount of money, but also about how effectively money is spent, how well benefits are provided to local stakeholders, and other factors” (Convention on Biological Diversity)
 - Sustainable Financing must meet the generic requirements of Sustainable Development to be relevant
- Sustainable Financing is not by itself the financing of “Green Energy” technologies or “Green Energy” projects e.g. a sustainable hydropower project that does not take into account affected or relocated stakeholders would not be regarded as sustainable financing.

Why is Sustainable Financing relevant – financiers' view

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- Banks are an important intermediary between sources of capital demand and capital supply and exist to transform money by size, duration, time, place and risk
- Banks play a crucial role financing transactions and have the ability to influence clients to achieve high degrees of compliance with sustainability objectives
- Increasingly, financiers are implementing both global principles (e.g. Equator Principles) and bank-specific policies to embed CSR goals in business decisions
- Embedding CSR and SRI within the decision making process provides a consistent approach for financing to achieve:
 - efficient risk management
 - appropriate pricing of risk
 - pro-active selection of transactions
 - greater understanding of client requirements
 - greater understanding of stakeholder issues
- Provides opportunity to work alongside customers to achieve more sustainable practices
 - selective withdrawal from clients opposed to sustainability initiatives
 - selective withdrawal from transactions that are unlikely to meet sustainability requirements



“We want to work with clients to understand the social and environmental risks and opportunities in their business. The conversation quickly turns to what we can do to help them mitigate these risks and ensure their business and projects are successful and sustainable over the long term.”

— ALEX THURSBY, CHIEF EXECUTIVE OFFICER, ASIA PACIFIC



A LEADER IN SUSTAINABLE BANKING

ANZ was assessed as the leading bank globally on the Dow Jones Sustainability Index (DJSI) for the second year in a row.

The DJSI is the most widely accepted assessment of Corporate Responsibility performance and touches on almost every aspect of our business. This independent assessment, against more than 100 banks globally, covers issues such as corporate governance, stakeholder engagement, customer relationship management, human resource practices and managing the social and environmental aspects of our lending activities.

OUR SOCIAL AND ENVIRONMENTAL POLICIES – AT A GLANCE				
POLICY	FORESTS	GREENHOUSE AND ENERGY	WATER	MINING AND MINERALS
What does it say?	ANZ to avoid support of logging in high conservation value and protected areas and will encourage clients to seek certification of their practices	ANZ to assess emissions intensity of client against industry and sector benchmarks and identify potential for improvement	Client to develop water management plans according to international standards	Client to demonstrate best practice control of social and environmental mine legacies and establish community engagement plans
What type of businesses does it apply to?	Forestry, logging and related primary production companies	Power generation companies and high-emission manufacturers	High-use customers including irrigators, food processors and manufacturers	Mining and mineral processing companies
Applies to existing customers?	Yes	Yes	Yes	Yes
When did it commence?	March 2008	September 2008	September 2008	September 2008

More information: www.anz.com/policies



Why is Sustainable Financing relevant – a broader perspective

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- An environmental risk can very quickly become a financial risk
 - Poorly managed projects can have serious environmental and social impacts
 - Serious impacts will need to be cleaned up - at a cost
 - Reputational risks are an increasing concern for banks
 - Banks are increasingly held responsible for their clients' actions and activities
 - Significant demands on senior management time
 - Disruption to orderly running of the business
 - Adverse impact on future business opportunities
- Civil society keeps a close watch on transactions that involve sustainability concerns
 - Active and professional campaigns by NGOs has raised the profile of "ethical investments"
 - Focused campaigns continue against certain industries and investments
 - Constant monitoring of some projects by NGOs is expected
 - The ability to engage with NGOs can vary significantly depending on their philosophy and willingness to open dialogue with stakeholders – advocates or adversaries?



What are the applicable standards for Sustainable Financing?

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- In 2004, in order to standardise financial best practice, an international group of financial institutions created the Equator Principles
- The Equator Principles comprise a set of rules and guidelines that assist banks identifying and managing a common and consistent assessment of environmental and social issues across industries and geographies
- The Equator Principles require adopter banks to ensure compliance with all the obligations under the Principles
- The Equator Principles reference the Performance Standards of the International Finance Corporation (part of the World Bank Group)
- The Equator Principles are also broadly in line with the similar policies of the Asian Development Bank, the European Investment Bank and OECD Export Credit Agencies
- ANZ adopted the Equator Principles in 2006 and they have now been adopted by a total of 67 financial institutions
- Equator Principle banks will not provide loans to projects where the borrower will not or is unable to comply with the Equator Principles
- Other standards ANZ applies for the Mekong Region include the International Commission on Large Dams and International Hydropower Association Protocols



Equator Principle Performance Standards

PS 1	Social & Environmental Assessment and Management System
PS 2	Labour and Working Conditions
PS 3	Pollution Prevention and Abatement
PS 4	Community Health, Safety and Security
PS 5	Land Acquisition and Involuntary Resettlement
PS 6	Biodiversity Conservation and Sustainable Natural Resource Management
PS 7	Indigenous Peoples
PS 8	Cultural Heritage



What do the Equator Principles attempt to address?

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Equator Principle	Statement of Principles
EP1: Review & Categorisation	Each Project is categorised in respect of the magnitude of its environmental and social impact (referenced to IFC Environmental and Social Screening Criteria): <ul style="list-style-type: none"> • Category A: Potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented • Category B: Potential limited adverse social or environmental impacts that are few in number, site specific, largely reversible and readily addressed through mitigation measures • Category C: Minimal or no social or environmental impacts
EP2: Social and Environmental Assessment	For Category A and B projects, the Borrower must conduct a Social and Environmental Assessment, prepared by the Borrower or by suitably skilled independent third parties, to identify any impacts caused by the project
EP3: Applicable Standards	For most countries, the Assessment is referenced to the IFC Performance Standards
EP4: Action Plan / Management System	For most countries, for all Category A and B projects, the Borrower must complete an Action Plan to describe, prioritise and implement mitigation measures, corrective actions for any impacts identified in the Social and Environmental Assessment
EP5: Consultation and Disclosure	For all Category A and most Category B, timely consultation of the non-technical findings is to be made available in the local language to encourage early dialogue with stakeholders
EP6: Grievance Mechanism	For all Category A and most Category B, procedures to be implemented to allow affected stakeholders the ability to raise and resolve issues of concern
EP7: Independent Review	For all Category A and most Category B, an independent third party review is required for the Assessment, Action Plan and other documentation
EP8: Covenants	The Borrower will covenant (a) to comply with all local social and environmental laws, permits and standards, (b) to implement the Action Plan, (c) to provide periodic reports to the Banks confirming compliance with required standard, and (d) to decommission the project (where applicable) in accordance with a decommissioning plan
EP9: Independent Monitoring and Reporting	For all Category A and most Category B, an independent third party review is required to verify the Action Plan and other obligations
EP10: Public Reporting	Each Bank must provide annual updates of its own compliance with the Equator Principles

How are the Equator Principles applied?

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- The Equator Principles support a balanced approach towards decision making, taking into account the views of **all** stakeholders, not just borrowers
- The Equator Principles are applied throughout a project's evaluation and implementation, including client screening, and before formal evaluation
- Potential borrowers are informed of the need and requirements of the Equator Principles before signing any mandate
- The Equator Principles apply to both advisory and financing phases of projects above US\$10m in size *though ANZ applies to **all** projects*
- In larger transactions, one bank will normally be appointed to co-ordinate review of environmental and social issues
- Most Equator Principle banks have dedicated Sustainability teams and "Toolkits" to allow for in-house decision-making to complement external advice
- Outcomes from assessment are shared with clients to identify areas needing mitigation
- Outcomes are embedded into the finance documents and monitored at least annually

"The Equator Principles have sharpened our focus on social and environmental issues – we now take a more holistic approach to the question of whether we should even begin discussions about a project or not."
— CHRISTINA TONKIN,
GLOBAL HEAD OF
SPECIALISED LENDING

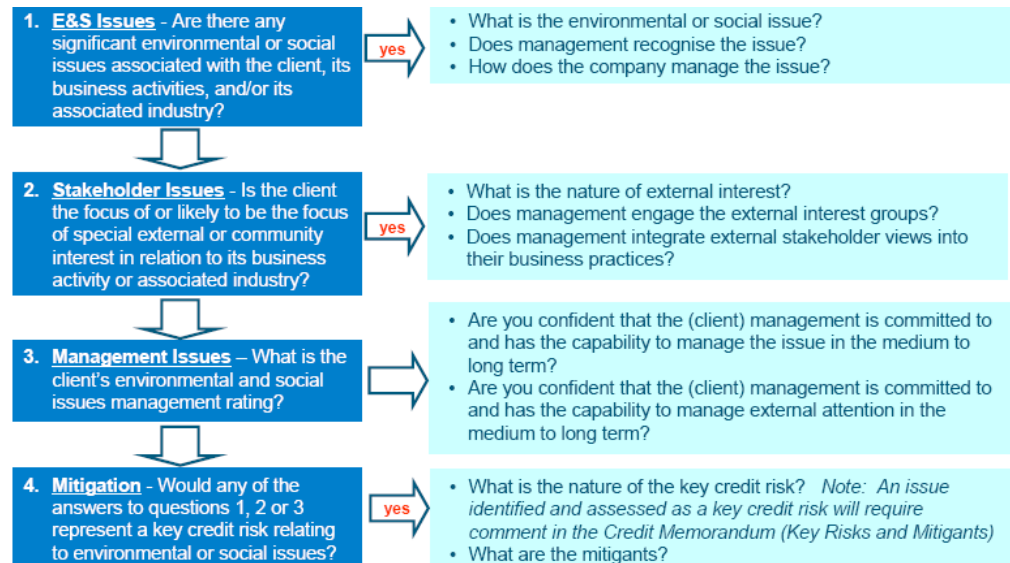
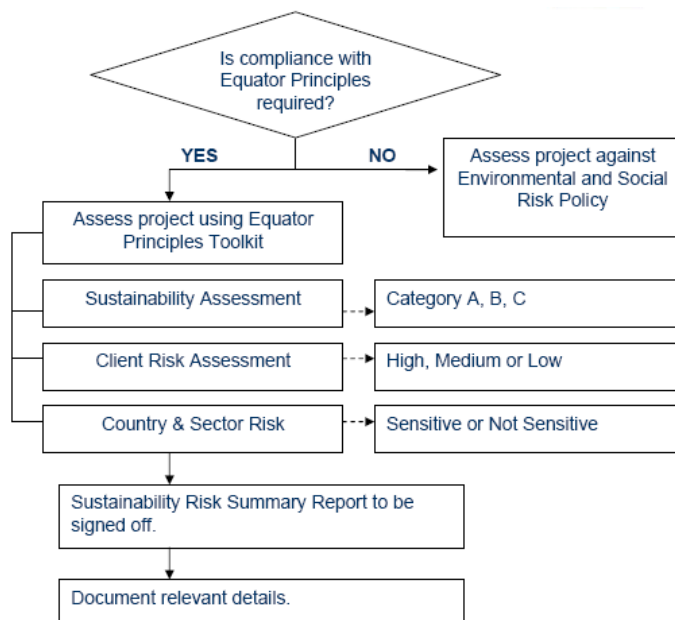
EQUATOR PRINCIPLES PROJECTS REVIEWED 2006			
	REVIEWED	CONFORM TO EP	FINANCED
High Impact	3	2	0
Medium Impact	16	16	14
Low Impact	14	14	10
Total	33	32	24

"Our approach is not all about declining clients or deals. Instead, we will measure our success in this area based on how many businesses we help to transform."
— CHRIS PAGE, CHIEF RISK OFFICER

Decision Frameworks	Engagement & Innovation	Knowledge & Perspectives
Wholesale Credit Env. & Social Policies - screen, client rating, mitigation - based on ANZSIC classification	Stakeholder Engagement - alignment with CEO Agenda - Business & Sustain. Forums	Sensitive & Controversial Issues - effective issues management - decision-making criteria
Sector & Issue Management Policies - social/environmental guidelines - forests, energy, water, mining	Product & Service Innovation - environmental markets - carbon, water, biodiversity	Global Trends & Emerging Risks - portfolio exposure analysis - climate change adaption
Equator Principles - Asia focus – known-use of funds - Sustainable Finance Ltd Toolkit	Stewardship Model - Value/Impact (V/I) model - industry/sector benchmarks	External Alliances - WWF-Australia partnership - multi-bank initiatives?

How are standards implemented?

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What are the implications?

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For Equator Principle financiers

- Environmental and social considerations as important as economic considerations
- Consistent assessment methodology for environmental and social issues
- All stakeholder issues are taken into account
- Active ongoing monitoring requires dedication of resources
- Engagement with NGOs to provide transparency and accountability for actions
- Rejection of non-compliant projects

For Non-Equator Principle banks

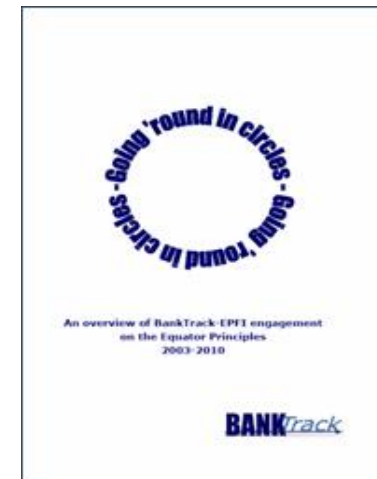
- Potentially less competition for projects
- Local laws are the only applicable requirements
- Increased exposure to reputational risk possibilities

Investors

- Early decision whether to follow or reject compliance with Equator Principles
- Failure to meet these standards impairs access to capital
- Failure to meet these standards will lead reputational risk
- Cost

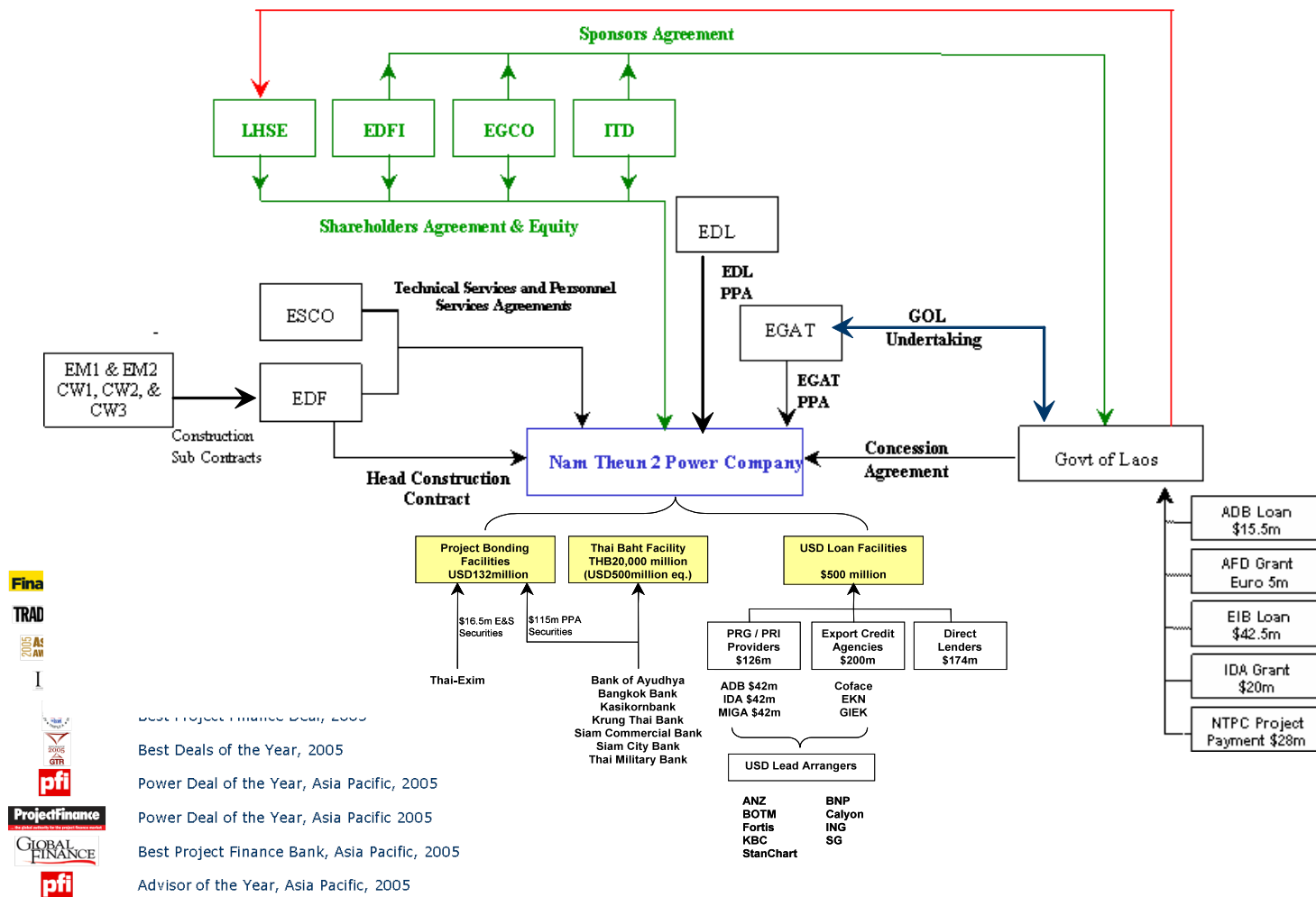
Governments

- Ability to attract investment, especially foreign investment



Nam Theun 2 a 1,070MW hydropower project Lao PDR

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Environmental Standards



Concluding comments

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- Equator Principles have become a *de facto* standard among international financial institutions
- Satisfying the Equator Principles provides greater ability to access capital and finance projects
- The Equator Principles do no more than enshrine and embed good corporate governance and CSR in transactions
- Projects that adopt the Equator Principles will generally be more successful in managing potential environmental and social issues than those that do not
- Projects adopting the Equator Principles will generally be more successful in managing reputational risk issues than those that do not
- Projects that adopt the Equator Principles will generally lower operational risk in the long term by reducing the risk of delays around environmental and social issues
- A large hydropower project that is fundamentally sound in terms of economic, social and environmental issues and developed with regard to all stakeholders, should be able to meet the requirements of the Equator Principles
- The choice to follow the Equator Principles is one that Governments and investors need to consider at an early stage of a project's development
- How might the Equator Principles or similar processes be developed in pursuit of higher standards for sustainable finance?

Thank You

