

ENVIRONMENTAL AND SOCIAL RISKS MANAGEMENT IN BANK: DRIVERS, PROCESSES AND ACTORS

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CONTENTS

DRIVERS

E&S STANDARDS AND POLICIES

IMPLEMENTATION: PROCEDURES, PEOPLE

EXAMPLES



WHY?

WHY?

■ Types of risks covered by ESG Management Systems

- Credit
- Legal
- Reputation

■ “Bankability”

■ Identification of positive E&S impacts

- Bus
- “Pos





E&S STANDARDS AND POLICIES

OBJECTIVES / PRINCIPLES

■ Refer to:

- Internationally recognized standards
- Best available techniques

■ Discussed with our clients

■ If possible and when pertinent, use of certification schemes / third party reviews

■ For developing our E&S Policies:

- Benchmark
- Mapping
- Impact

ENVIRONMENTAL AND SOCIAL GUIDELINES OF SOCIETE GENERALE GROUP

▪ ‘Environmental & Social General Guidelines for Business Engagement’

- Societe Générale's commitments to account for the economic, environmental and social consequences and impacts of its activities <http://csr.societegenerale.com/home-page>

- Show norms & keys parameters set by SG for a responsible financing when proposing financial services

▪ **Key standards adopted and respected**

- Universal Declaration of Human Rights.
- Main Conventions of the International Labour Organization.
- UNESCO World Heritage Convention.
- OECD Guidelines for Multinational Enterprises.

▪ **Voluntary best practice initiatives adopted and supported**

- UNEP Finance Initiative.
- UN Global Compact.
- Equator Principles.



SECTORIAL POLICIES



Mining and Metals Sector Policy



Defence Sector Policy



Coal-Fired Power Sector Policy



Oil & Gas Sector Policy



Shipping Sector Policy



Nuclear Power Policy

SECTORIAL POLICIES



Palm Oil Sector Policy



Forestry Policy



Hydropower Policy



Agriculture Policy

TRANSVERSAL POLICIES



Biodiversity Policy



Human Rights Policy



Water Policy



IMPLEMENTATION: PROCEDURES AND PEOPLE

OBJECTIVES / PRINCIPLES

■ Use existing processes in particular:

- RISK
- KYC
- Reputation Risk

■ But also:

- Legal, to integrate Environmental and Social clauses
- Middle Office, to monitor Environmental and Social issues

■ Challenges:

- Integrate E&S review in “standard” financing timeframe review
- Need for clear requirements/reports/documentation

IMPLEMENTATION WITHIN SOCIÉTÉ GÉNÉRALE CIB

SG Group Environmental & Social (E&S) Policies

Internal directive defining SG's general, transversal and sector E&S position , signed by our CEO

Implementation of procedures at SG CIB

In RISK process for transactions with "known use of proceeds"

In KYC process for clients

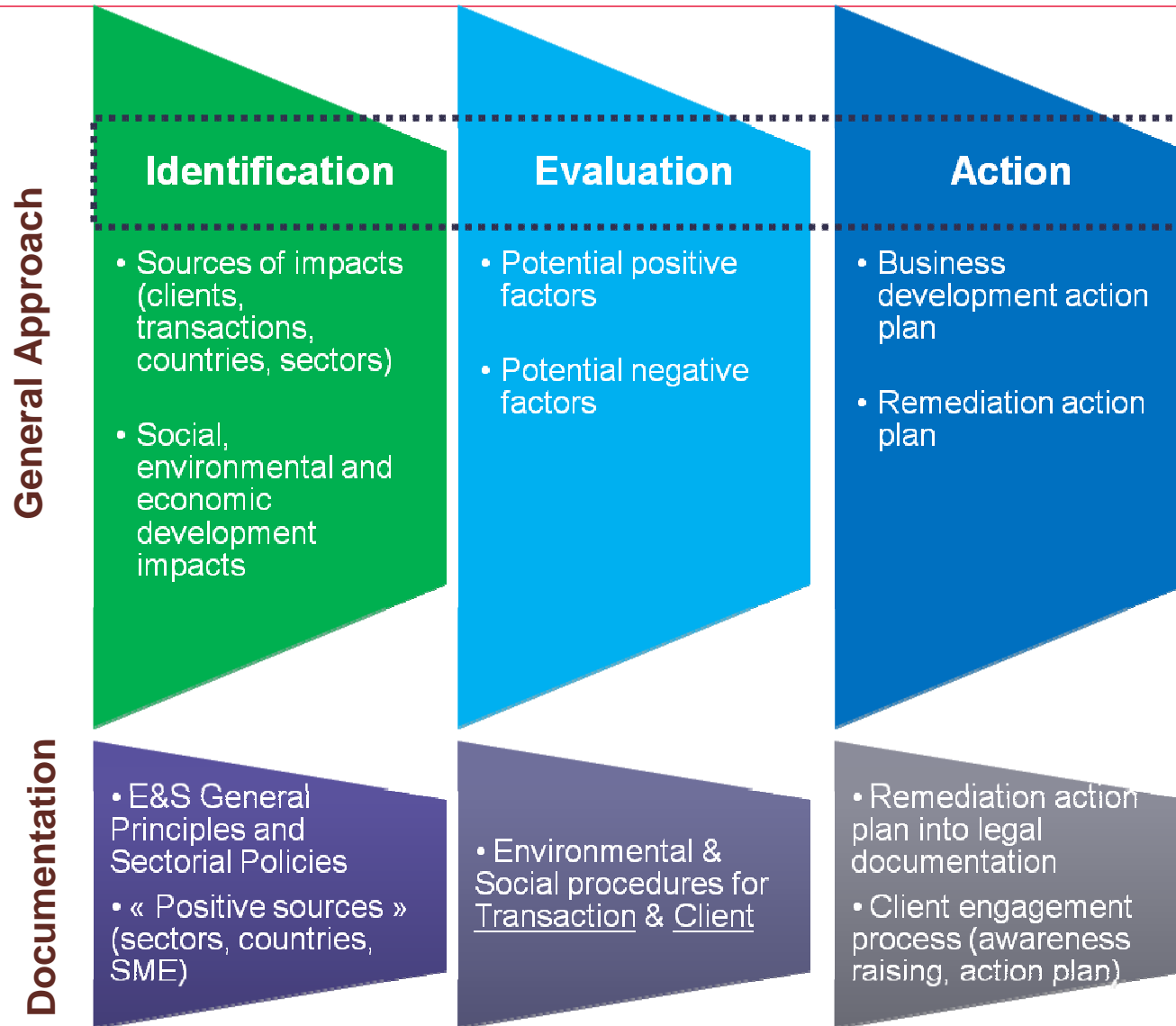
Generic & specific procedure for evaluating E&S risk for transactions with known use of proceeds

Project finance:
Equator Principles

Other project or asset based transactions
(e.g. export finance)

Procedure for evaluation of E&S risk for clients: evaluation of client's compliance with standards referred to by SG E&S Policies / reputation risk

METHODOLOGY



TOOLS

■ Identification Tools

- Categorization forms (by sector)
- Policies and Standards
- « Positive sources » of impacts
- Mapping tools

■ Evaluation Tools

- Procedures
- Environmental and Social Memo

■ Action tools

- Action Plans
- Loan documentation
- Client engagement

CAT FORM

- Over one year tenor (except for bridge facility)

Note that as part of the Client evaluation process, a specific Finethic screening for ES risk is performed. Depending on the results of the screening there may be ES conditions to operate with the client (KYC to be verified in BDR or with the PCRU).

Key Information on the transaction:

| | | | | | |
|--|---|-----------------------|--|--------------------------|--|
| Transaction Name: | | Front Officer: | | Date: | |
| Client/Sponsor: | | Business Line: | | Total Amount: | |
| Sector: | | Country: | | Longest maturity: | |
| Multilateral Dev. banks (if any): | | Other lenders: | | SG UWFT: | |
| SG Role | <input type="checkbox"/> Advisor <input type="checkbox"/> MLA <input type="checkbox"/> Lead Arranger <input type="checkbox"/> Participant <input type="checkbox"/> Agent <input type="checkbox"/> Env. Bank <input type="checkbox"/> Tech. Bank <input type="checkbox"/> other: _____ | | | | |
| Type of Transaction | <input type="checkbox"/> Advisory <input type="checkbox"/> Project Finance (non-recourse) <input type="checkbox"/> Export Finance If Yes, name of ECAs: _____ <input type="checkbox"/> Leasing <input type="checkbox"/> Bridge <input type="checkbox"/> Refinancing <input type="checkbox"/> Other: _____ | | | | |

Description of the Transaction (including explanation of the financial transaction and overview of the associated physical infrastructures & sites):

"Positive impact" Transactions

| | Yes | No |
|--|-----|----|
| Can the transaction be considered as having a positive environmental & social impact, i.e. socially/environmentally positive (e.g. renewable energy, waste management, public transportation, water treatment and health services) | | |

Step 1 ES general Guidelines - Protected areas / prohibited activities

As stated in the ES General Guidelines, Societe Generale will not enter in transactions prohibited by host country legislation or international conventions as follows:

| Does the transaction involve any of the following activities prohibited by international conventions and agreements? | Yes | No |
|--|-----|----|
| Cluster bombs or anti-personnel mines? | | |
| Production, use or trade in unbounded asbestos fibres and asbestos-containing products excluding asbestos cement sheeting where asbestos content is less than 20 per cent? | | |
| Production or trade in products containing PCBs (polychlorinated biphenyls)? | | |
| Production, distribution, sale and trade in pesticides, herbicides, pharmaceuticals and other hazardous substances subject to international bans? | | |
| Production, use or trade in chlorofluorocarbons (CFCs), halons and other ozone depleting substances which have been banned following an international phase-out? | | |
| Trade in wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) | | |
| Drift net fishing in the marine environment using nets in excess of 2.5 km in length? | | |

If yes to any of the above the transaction is not allowed. If no to all, proceed to Step 2.

SOCIETE GENERALE
FINETHIC – Generic Environmental and Social Screening and Categorization Form

This form assists in identifying the Environmental and Social (ES) Risks associated with the transaction and gives guidance for the next steps. For each transaction within the Finethic scope, as listed below, the form will be attached to the relevant approval process (eg. Credit Application and Credit Work Flow if available).

ES ATP ES IPA ES Final assessment Other stage

Finethic scope¹

- Transaction where the use of proceeds is known and limited to one or two particular physical developments or assets, and
- Transaction over \$50 million (total facility of which at least 50% is known use of proceeds), or for Equator Principles transactions over \$10 million (total project capital costs), and
- Over one year tenor (except for bridge facility)

Note that as part of the Client evaluation process, a specific Finethic screening for ES risk is performed. Depending on the results of the screening there may be ES conditions to operate with the client (KYC to be verified in BDR or with the PCRU).

Key Information on the transaction:

| | | |
|--|-----------------------|--------------------------|
| Transaction Name: | Front Officer: | Date: |
| Client/Sponsor: | Business Line: | Total Amount: |
| Sector: | Country: | Longest maturity: |
| Multilateral Dev. banks (if any): | Other lenders: | SG UWFT: |

SG Role Advisor MLA Lead Arranger Participant Agent Env. Bank Tech. Bank other: _____

Type of Transaction Advisory Project Finance (non-recourse) Export Finance **If Yes, name of ECAs:** _____
 Leasing Bridge Refinancing Other: _____

Description of the Transaction (including explanation of the financial transaction and overview of the associated physical infrastructures & sites):

"Positive impact" Transactions

| | Yes | No |
|--|-----|----|
| Can the transaction be considered as having a positive environmental & social impact, i.e. socially/environmentally positive (e.g. renewable energy, waste management, public transportation, water treatment and health services) | | |

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¹This scope is to be used unless otherwise specified in a customized procedure or guidance notes applicable for the product

E&S MEMO

Author from Business Line (BL): [Author]
 Author from GLF/EME/ENV: [Author]

Transaction type:
 Date: [MM/DD/YYYY]

[PROJECT NAME]
[PROJECT COUNTRY, PROJECT SECTOR]

categorization

STAGE: ES ATP ES IPA ES Final Assessment

Choose an item.

This section is to be filled by GLF/EME¹ and is based on the information provided by FO.

| |
|---|
| GLF/EME/ENV ¹ OPINION [POSITIVE/NEGATIVE] |
| SUBJECT TO THE FOLLOWING CONDITIONS: |
| <u>PENDING DOCUMENTS TO BE CHECKED BY EME PRIOR SIGNING:</u> |
| <u>KEY ES ISSUES TO BE SPECIFICALLY ADDRESSED:</u> |
| [CONDITIONS PRECEDENT TO SIGNING] |
| CONDITIONS PRECEDENT TO FIRST DRAWDOWN |
| CONDITIONS PRECEDENT TO SUBSEQUENT DRAWDOWN (DATE OR EVENT) |
| OTHER CONDITIONS (INCLUDING AFTER AVAILABILITY PERIOD) |
| [GLF/EME/ENV SHOULD BE DIRECTLY INVOLVED IN TRANSACTION'S E&S MONITORING] <i>Unless an arbitration attached to the Credit Application amends them, the above conditions are deemed fulfilled for RISQ assessment and/or the Business Line commits to implement them.</i> |

| | | |
|---|---------------------------------|--|
| POSITIVE IMPACT FINANCE ² | | |
| [YES/NO] | | |
| TRANSACTION ELIGIBLE TO POSITIVE IMPACT FINANCE | | |
| <u>Sector:</u> Choose an item. | <u>Country:</u> Choose an item. | <u>SME:</u> [YES/NO] |
| IMPACT ON SUSTAINABLE DEVELOPMENT THREE PILLARS | | |
| <u>Environmental:</u> Choose an item. | <u>Social:</u> Choose an item. | <u>Economic convergence:</u> Choose an item. |

Following sections are filled by FO based on public information and information provided by the client. GLF/EME can amend them.

| |
|--|
| REPUTATION RISK ON E&S GROUND ² |
| [VERY HIGH/HIGH/MEDIUM/LOW] |
| [RATIONALE/DESCRIPTION AS THE CASE MAY BE] |

| |
|---|
| CREDIT RISK ON E&S GROUND ² |
| [NONE IDENTIFIED/IDENTIFIED] |
| [RATIONALE/DESCRIPTION IF ANY IDENTIFIED] |

| | |
|-------------------------------|---|
| SUMMARY ² | |
| Project description and stage | [Stages includes construction/operation phase, refurbishment/rehabilitation...] |

RESOURCES

■ Teams

- Corporate Social Responsibility
- E&S in KYC: 3 persons
- Equator Principles + Team: 4 persons

Number of projects reviewed in 2011

| | |
|--------------|-----------|
| A | 23 |
| B | 47 |
| C | 29 |
| Total | 99 |

WAY FORWARD

- Equator Principles type review
 - Build some capacity
 - Make profit of cofinancing

- Client type review:
 - KYC Teams to look at this
 - Use of external sources (SRI...)

- Learning by doing!



EXAMPLES

EXAMPLE: 168MW RUN OF THE RIVER HYDROELECTRIC PLANT IN PERU - PROJECT FINANCE

Identification

- Renewable energy sector
- Potential biodiversity impacts
- Potential cultural heritage impacts
- Land acquisition and other socio-economic impacts

Evaluation

- Categorisation: A
- Independent Environmental and Social Assessment
- Gap analysis with international standards

Action

- Integrated Basin Management Plan
- Compensation Plan for land acquisition
- Socio-Economic Management Plan
- Conservation Plans for biodiversity