IFC Conference – Panel 1
Equator – Past & Present

November 10th 2006
Sharon Maharg
WestLB New York, Sustainability Management
Agenda

- Introduction
- Drivers / Eye Opening Examples
- Equator Principles – Implementation at WestLB
Introduction

Expectations of stakeholder groups – Do they fit with WestLB’s commercial activities?
Drivers / Eye Opening Examples

- Origins of EPs grounded in need by financial institutions to deal on a common basis with environmental and social issues relating to projects, particularly in developing countries

- Increasing importance of these issues in late 1990’s and early part of 21st century

- Stakeholders demanded that financial institutions assure that these issues are dealt with in a responsible and transparent manner

- WestLB as a particular financial institution had some eye opening experiences, such as…
Drivers / Eye Opening Examples
Drivers / Eye Opening Examples
Equator Principles – Implementation at WestLB

Sustainability Management

Coordination & Control
- Knowledge Management
- Standards & Processes
- Monitoring

Risk Management
- Risk Process
- Quantification

Revenue Management
- Sustainability Strategies
- Sustainability Products

Stakeholder Management
- Communication
- Initiatives & Memberships

Revenue Management
Equator Principles – Implementation at WestLB

- General Understanding of Bank Management
- EP - Risk Management in Project Finance
- Equator Principles
  - General Guidelines & Standards
  - Policies
    - e.g. IFC Performance Standards
- Guidelines & Procedures
  - e.g. Processes, Workflows
- Tools
  - e.g. Checklists, Audits

Management Level
Strategy Level
Execution Level
Instrumental Level
Equator Principles – Implementation at WestLB

EP as part of internal decision making for client and WestLB

Client:

- **Identification**
  - Ecology
  - Social & Ethnic Health

- **Quantification**
  - Environmental & Social Impact Assessment (ESIA)
  - Environmental Risk Assessment

- **Structure**
  - Environmental Management Plan (EMP)

- **Evaluation & Control**
  - Environmental Audit
    - Contingency Plan

WestLB:

- **Project Screening Process**
  - Undertaken parallel to client’s own environmental & social due diligence
Equator Principles – Implementation at WestLB

Systematic project categorization

Preclusion

Category A

Category B

Category C

IFC Performance Standards
- PS 1: Social and Environmental Assessment and Management System
- PS 2: Labor 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 Mgmt.
- PS 7: Indigenous Peoples
- PS 8: Cultural Heritage

IFC (Sector) Guidelines

World Bank Project Guidelines
- Harmful and toxic substances, etc.
Equator Principles – Implementation at WestLB

**Project Screening**
- Project details
- EP relevance
- Checklists
- Categorization

**Sponsor Screening**
- Environmental & Social competence
- „Rating“

<table>
<thead>
<tr>
<th>Category</th>
<th>Sponsor’s capability</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>high</td>
</tr>
<tr>
<td>B</td>
<td>adequate</td>
</tr>
<tr>
<td>C</td>
<td>low</td>
</tr>
</tbody>
</table>

**Stop Criteria**
- Project Screening
- Sponsor Screening
Equator Principles – Implementation at WestLB

I. Project Data

1. Name of project:
2. Responsible business originator / credit risk manager:
   Office: New York
3. Business origination team:
   Energy
4. Country:
   Mexico
5. Location:
6. Summary description of project:
   a. Likely role of WestLB:
   b. Project sponsor:
   c. Size of project:

The categorisation might be temporary dependent on project and information status.

Acceptance without condition(s)

Project rejected

Clarify condition(s) and categorisation

Consensus Document decision in CAR

SuMa will sign first the pages with the signatures (in Form 1 and/or Form 2) and send via Fax to GSF. The project and the credit risk manager sign the page and send it back to SuMa. The complete Form will be sent via email.

Inform about client request
Check relevance and involvement in principle

Acceptance with condition(s)

Rejection

Dissent

Clarify decision

No application of EP

Project to be pursued

Prepare escalation form

Must be informed about carries out

Additional information e.g. environmental impact assessment (EIA)

Additional information

Decide on categorisation

Credit Committee must be informed about

CAR

Review documentations and decide

Credit Committee must be informed about

CAR

Project in accordance with EP
Equator Principles – Implementation at WestLB

Portfolio analysis by category (Jan. to Dec. 2005)

- Portfolio is characterized by a high share of category B projects (54%)
- Low share of category A projects (13%)
- Energy deals lead with a share of 50% (power, oil & gas)
Equator Principles – Implementation at WestLB

- EP II assures continuity of linking EPs to environmental and social policies/guidelines of IFC and World Bank which are arguably the most widely accepted and recognized as a high standard.

- Development of EP II gave EPFIs opportunity to make some overdue changes to the EPs, for example:
  - Reduction of threshold capital investment amount
  - Expansion to advisory mandates
  - Simplified due diligence process for projects in high income, OECD countries
The application of the Equator Principles along with close involvement by Sustainability Management will enable WestLB to lead sensitive, possibly high profile, financings that we may otherwise have to pass up!