ESG Guide for a Sustainable Future

UniCredit Bulbank

AA 1000 Standards

A series of standards were introduced for the first time in 1999 by the British non-profit organization AccountAbility. The standards refer to various forms of social responsibility and sustainable development, and apply to organizations of all types and sizes. At their core, these norms are based on the following principles:

- Involvement: stakeholders should have a say regarding decisions that affect them
- Significance: decision makers should identify and be clear about important things
- Accountability: Organizations should be transparent about things related to their activities

C

Carbon Footprint

The carbon footprint is the amount of carbon dioxide emitted by any entity, individual, company or state, through direct or indirect consumption of fossil fuels. The carbon footprint covers emissions of all greenhouse gases, not just carbon dioxide, and is calculated and expressed in tons of carbon.

Carbon Neutrality

Carbon neutrality refers to achieving net-zero carbon dioxide emissions. This can be done by balancing emissions of carbon dioxide with its removal or by eliminating emissions from society.

Certificate

A certificate is a document issued according to the rules of a certification system that provides a guarantee that an unambiguously defined product, process, or service complies with a certain standard or other normative act. There are several types of certificates, for example, for successfully completed training, compliance with standardized management systems, products, fair business, sustainable management, etc.

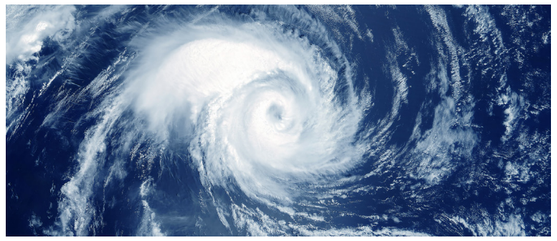
Circular Economy

A circular economy is an economic system aimed at eliminating waste and the continual use of resources. Circular systems employ reuse, sharing, repair, refurbishment, remanufacturing, and recycling to create a closed-loop system, minimizing the use of resource inputs and the creation of waste, pollution, and carbon emissions. The circular economy aims to keep products, equipment, and infrastructure in use for longer, thus improving the productivity of these resources.

Climate Bonds (Green Bonds)

Green bonds are a kind of financial instrument or investment instrument designed to finance projects or initiatives with environmental benefits. These bonds are typically issued by governments, municipalities, corporations, or other entities to raise capital specifically for projects that have a positive impact on the environment. Proceeds from issuing green bonds are earmarked for activities such as renewable energy projects, improving energy efficiency, sustainable transportation infrastructure, reducing pollution, and other environmentally friendly initiatives. Green bonds are a way for investors to support and finance projects that match their environmental values while generating a financial return. The green bond concept is part of a broader sustainable finance movement that aims to integrate environmental, social, and governance (ESG) considerations into investment decisions. Green bond issuers ensure transparency and accountability, establishing guidelines and frameworks, such as the Green Bond Principles set out by the International Capital Markets Association (ICMA). These principles guide how green bond issues should be structured, managed, and reported. Investors interested in green bonds can contribute to environmentally beneficial projects while potentially earning a financial return, making them a popular choice for those looking to align their investments with sustainability goals.

Climate Change



Climate change is a long-term statistical change in weather over time that can range from a few decades to several million years. It can be reflected in a change in major weather conditions, probabilities for extreme conditions, or in any other way relating to a statistical distribution of weather conditions. Climate change can happen in an area or on our entire planet. Recently, especially in the context of environmental policy, climate change has been marked by global warming. Climate change is directly or indirectly attributed to human activities that alter the composition of the global atmosphere and, in addition to natural climate oscillations, are observed in a certain period.

Corporate Governance

Corporate governance (business management) is a framework for business operations and supervision in a company with the aim of creating long-term economic value for all stakeholders. It is based on the protection of rights and equal treatment of all stakeholders, transparency of operations and responsibilities, timely and objective information on the activities of the company and the results achieved, and control systems.

Corporate Social Responsibility – CSR

The concept of socially responsible business stems from the growing belief that companies have an increasing responsibility for their role in society. According to this concept, companies integrate concern for social issues and environmental protection with economic business indicators into their activities and relationships with various stakeholders. It is a practice that goes beyond legal requirements, and each company decides which areas to pay more attention to follow its own strategic goals, sources of risk, and business opportunities.

Eco-efficiency

Companies that achieve increasing efficiency and at the same time prevent environmental pollution through good management, replacement of raw materials, cleaner technologies, and environmentally friendly products and that strive for more efficient use and renewal of resources can be called eco-efficient.

Ecological Footprint

Ecological footprint is a term used as a measure of human exploitation of the Earth's natural resources converted into agricultural area (hectares) per capita, which is needed to produce food, energy, and other resources necessary to maintain the existing standard of living in an area or the entire planet. The standard of living, quality of life, and consumption of resources vary from country to country, so the ecological footprint also differs. The term "environmental footprint" was coined by William Rees in 1996. It also refers to the growth of consumption of goods and services that affect the social standard, so the ecological footprint when it comes to products includes electrical and electronic devices and equipment, furniture, food and clothing, etc., and when it comes to services, it includes education, health, tourism, drainage, etc. The organization Global Footprint Network measures the global environmental footprint and the footprints of individual countries.

Ecology

Ecology is the science of the interrelationships and dependencies of organisms and their inanimate environment. It deals with the interplay of living and non-living nature at the local, regional, and global levels. In fact, it is the science of ecosystem structures and functions, that provides a scientific basis for the protection of nature and encourages and monitors the effectiveness of technical measures and devices for the environmental protection. The term ecology was first used in 1866 by the German biologist Ernst Haeckel, a follower of Darwin, who defined it as a science of the relations of an organism to the outside world, which in a broader sense included all existential conditions. In everyday life, it is often equated with the environmental protection of nature.

Ecosystem

An ecosystem is a basic organizational unit of nature in which living beings and their inanimate environment are spatially and temporally integrated by energy and circular flows. Every intervention in the environment — the construction of transport infrastructure (roads, railways, bridges, etc.), production facilities, residential areas, hotels and other tourist facilities, leisure and entertainment facilities, waste treatment plants, or landfills — affects the ecosystem of the area in question. Therefore, spatial plans, environmental impact assessments, and other procedures are carried out in order to minimize the consequences of the intervention.

Emission

According to the Environmental Protection Act, the emission is the release or leakage of a substance in a liquid, gaseous, or solid state, and/or the release of energy (heat, radiation, noise, vibration, or light) and the release of organisms from a single source into the environment, which is a result of human activities as well as microbiological pollution of the environment. In short, emissions are the release of pollutants from a source into the environment.

Energy Efficiency

Increased energy efficiency is the quickest and most cost-effective way to address energy shortages. Concerns about reducing energy consumption have changed the design of many products, such as household appliances. The manufacturer provides notice to consumers about the energy efficiency of the products they buy and thus provides a choice based on verified data. Energy efficiency data can be found on the Energy Label, which provides reliable and easily comparable information on energy and water consumption, as well as the noise levels of household appliances. The term energy efficiency is used in cases where specific activities and measures were implemented to reduce electricity consumption, such as industrial facilities/processes/technologies, and building renovations.

ESG

Environmental, social, and governance responsibility (ESG) evaluate a company's sustainability. These three pillars cover a range of factors, which entails:

- Environmental - Ecological responsibility (Protection of the environment). Climate change by reducing the carbon footprint, water, and waste management, increasing energy efficiency, protecting and restoring biodiversity and ecosystems, and transitioning to a circular economy;
- Social - Social responsibility, which involves protecting human rights, modern labor standards, creating safe and healthy workplaces, and supporting local communities and customers;
- Governance - Management responsibility. These factors include country and/or jurisdictional issues or common industry practices, balancing interests among all stakeholders, business models for long-term value creation and sustainability, and transparent company governance.

Environmental Protection

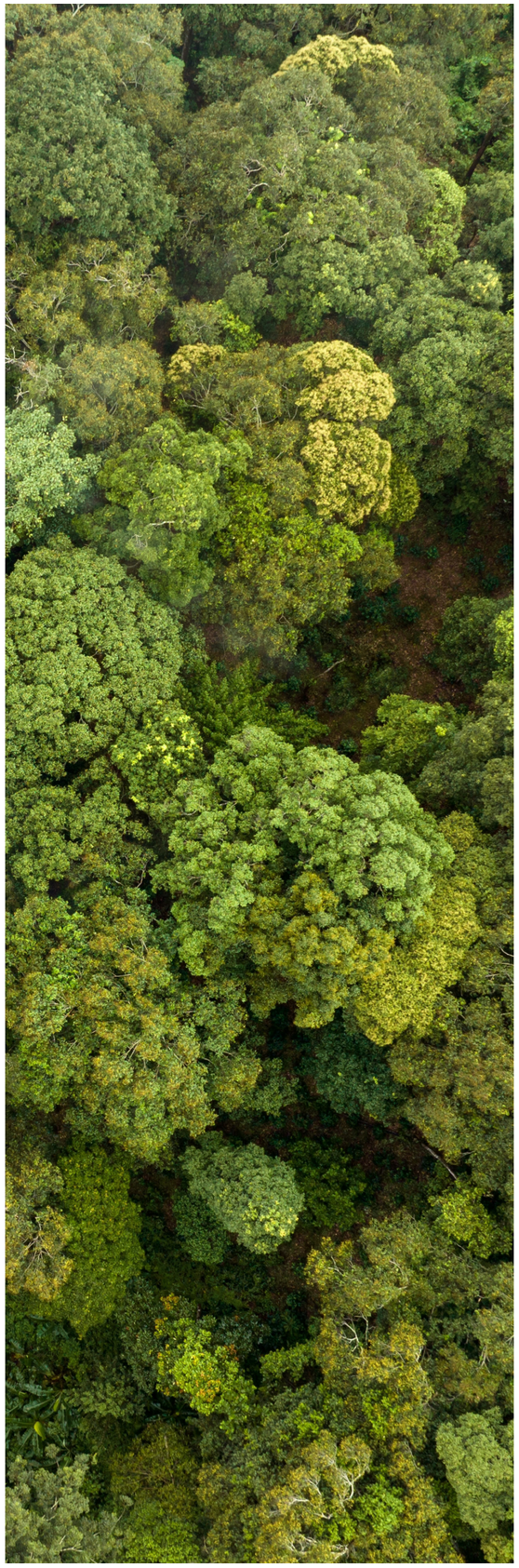
Environmental protection refers to the preservation of the Earth's capacities (natural resources, common goods) in order to support life in its diversity, respecting the limitations of natural resources, and ensuring a high level of protection and improvement of the quality of the environment. Environmental protection refers to a system of activities, technical, legal, and economic measures, as well as the moral actions of individuals, institutions, the government, or international organizations aimed at preserving the (natural and cultural) environment from deteriorating.

ESG Rating

ESG Rating is designed to measure a company's resilience to long-term, industry material environmental, social, and governance (ESG) risks.

European Green Deal

The European Green Deal aims to make Europe the first climate-neutral continent by 2050 and represents a strategy for achieving the sustainability of the EU economy. The European Green Deal provides an action plan to boost the efficient use of resources by moving to a clean, circular economy, restoring biodiversity, and cutting pollution.



Greenhouse Gases

Greenhouse gases (GHGs) are gaseous constituents of the atmosphere (troposphere) formed as a result of natural and human processes, and they absorb and emit radiation of specific wavelengths within the infrared spectrum of radiation emitted from the Earth's surface, atmosphere, and clouds. Greenhouse gases create a gaseous layer around the Earth, which maintains a temperature on Earth suitable for life as we know it.

Greenwashing

Greenwashing refers to the practice of misleadingly presenting a product, service, company, or organization as environmentally friendly or sustainable when in fact it may not be. This term is often used to describe instances where companies make exaggerated or false claims about their environmental efforts or initiatives to improve their public image and appeal to environmentally conscious consumers.

ISO 900x

ISO 900x refers to a set of standards for quality management systems.

ISO 1400x

ISO 1400x refers to a set of environmental management standards. The purpose of these international standards is to provide companies with elements of effective Environmental Management System that can be linked to other management needs, such as helping organizations achieve economic and environmental management goals.

ISO 26000 Standard on Corporate Social Responsibility

ISO 26000 guides the basic principles of social responsibility, its key themes and issues, and how to apply them.

ISO 50001 Energy Management Systems

ISO 50001: 2011 provides an overview of requirements for the establishment, implementation, maintenance, and improvement of energy management systems. The purpose of the standard is to provide companies with a systematic approach to achieving lasting improvements in energy performance, including energy efficiency, use, and consumption.

Kyoto Protocol

The Kyoto Protocol is an international treaty that extends the United Nations Framework Convention on Climate Change and commits state parties to reduce greenhouse gas emissions. The Kyoto Protocol entered into force on February 16, 2005. There are currently 192 parties to the Protocol. The Kyoto Protocol implemented the objective to reduce the onset of global warming by reducing greenhouse gas concentrations in the atmosphere and applies to the six greenhouse gases: carbon dioxide (CO2), Methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF6).

Net Zero GHG (greenhouse gas) Emissions

A zero net rate of greenhouse gas emissions occurs when all greenhouse gas emissions, caused by human activities, are balanced by removing greenhouse gases from the atmosphere. Emissions from human activity - such as exhaust fumes from vehicles and factories, should be reduced and brought as close to zero as possible. Balance can be achieved, for example, by reforestation. The concept of zero net emissions is similar to “climate neutrality”.

Non-renewable Resources

Non-renewable natural resources, such as fossil fuels (oil, coal), minerals, and ores, are those that were formed during different geological periods of the Earth’s formation and for the formation of which special natural processes and conditions are required. When deposits are depleted, they can no longer be rebuilt, as measured by human time. Increasing consumption increases the need for non-renewable and renewable resources, thus increasingly destroying the ecosystem and reducing biodiversity.

Non-financial Reporting

Non-financial reporting is the practice of measuring, publishing, and being accountable to internal and external stakeholders concerning the company’s performance for sustainable development. Non-financial reports based on the Global Reporting Initiative (GRI) reporting guidelines publish the results achieved in the reporting period in the context of commitments, strategies, and approaches to corporate governance. Non-financial reporting is important for the establishment of a system for measuring and evaluating corporate social responsibility activities or sustainability programs introduced by a business entity.

P

Paris Agreement

The Paris Agreement on Climate Change (French: Accord de Paris) is a climate agreement signed at the conference COP 21 in Paris in 2015. The agreement entered into force on October 4, 2016 following ratification by the European Union. By December 2016, the agreement had been signed by 194 states. The main goal of the agreement is to limit global warming to temperatures “well below” 2° C, to ensure food supply, but also to strengthen the capacity of countries to combat the effects of climate change, develop new “green” technologies, and help weaker, less economically developed members achieve their national emission reduction plans.

Renewable Energy Resources

Renewable energy sources are all energy sources that are renewable or have an unlimited source. These are the sun, wind, water, tides, waves, the Earth (geothermal energy), natural gas, biomass, and some types of waste are usually mentioned. Renewable energy sources are often called “clean” because their use in the process of conversion into useful forms of energy (mechanical, thermal, chemical, and light) pollutes the environment less than the conversion of non-renewable forms of energy.

Social Entrepreneurship

Social, non-profit entrepreneurship is one of the ways to mitigate the consequences of unemployment, especially for hard-to-employ categories of the population, such as the disabled, people with lower qualifications, the elderly, and the like.
Social enterprises are established to meet certain social goals and invest in the well-being of the community, not primarily to generate profit.

Social Impact Banking

An initiative at the level of UniCredit Group whose goal is to identify, encourage, and finance projects and entrepreneurs that have the potential to achieve a positive social impact. The program includes microcredits - for financing micro and small entrepreneurs, financing with social impact - for financing larger projects that, in addition to a positive financial result, also aim at providing a measurable positive social impact and financial education - free education on financial literacy for citizens and entrepreneurs, various financing options available for individuals who are considered vulnerable in society.

Stakeholders

Stakeholders are persons, groups, and/or organizations that have an interest in a certain company because they can directly or indirectly affect that company, or are affected by the company's actions. A transparent relationship between a company and its stakeholders ensures long-term trust between all stakeholders who are building a lasting relationship. Stakeholders are employees, shareholders, investors, clients, suppliers, the local community, the media, etc.

Sustainability

Sustainability is the ability to sustain a function or process. In nature, sustainability is best illustrated by the circulation of matter and energy, which represents a perfect sustainable cycle. There are no losses or waste in nature, all matter and energy are renewed and returned to the process, and this cycle can last indefinitely. Today, the concept of sustainability is being introduced in all branches of the economy to slow down and stop the accelerated trend of environmental pollution and resource depletion, which, if continued as before, threatens to endanger survival on Earth. Sustainable consumption of resources and energy ensures a lasting, and in theory endless, process of development without endangering the Earth's ecosystem.

Sustainable Development

Sustainable development is a process that has several definitions; the most famous and most commonly used one, was published in the 1987 report "Our Common Future" by the UN Commission on Environment and Development. According to her, sustainable development is "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". This means that economic, social and environmental protection factors must be systematically taken into account when deciding and implementing activities that create value for each organization. Sustainable development is development in which the processes of change, use of resources, direction of investments, technological development, and institutional changes that are implemented, are consistent with the needs of present and future generations.

Sustainable Bonds

Sustainable bonds are financial or investment instruments designed to finance projects or initiatives with environmental or social benefits.

Sustainable Development Strategy

Sustainable development presupposes strategies that will harmonize the achievement of its goals. Three strategies play an important role in this: The Efficiency Strategy warns of a change in the existing relationship between the goods produced and the resources expended to introduce sustainability into the economy. It requires reducing the consumption of natural resources and achieving equal utility for products and services. The Sufficiency Strategy is a strategy for introducing sustainability into the economy. It contributes to the daily orientation of people's behavior towards sufficiency and modesty in consumption to align with sustainability. Human needs are at the center. The Consistency Strategy refers to the consistency of material circulation, which means the ability to include the human way of using natural resources on ecological scales to link anthropogenic and natural material flows in terms of quality and quantity.

W

Waste Management

According to the Act on Sustainable Waste Management, waste management is a set of activities, decisions, and measures aimed at preventing waste generation, reducing the amount of waste and/or its harmful impact on the environment, collecting, transporting, recovering, disposing, and other waste-related activities, and supervising these activities, as well as caring for landfills that are closed. The law stipulates that waste management must be carried out in such a way that it does not endanger human health and without the application of procedures and/or methods that might harm the environment.

DIRECTIVES AND REGULATIONS

CSRD

CSRD – The Corporate Sustainability Reporting Directive, which includes significant improvements and amendments to the previous reporting requirements of the Non-Financial Reporting Directive (NFRD). CSRD takes sustainability reporting to the next level within the EU as it iIntroduces the following new elements:

- extending the scope of application to all large enterprises and enterprises registered on regulated markets (except for registered micro-enterprises)
- a requirement to certify sustainability reporting
- more detailed and standardized requirements regarding the information that companies must disclose
- improving the accessibility of information by introducing a requirement to publish it in a special section of the reports on the management of companies

These changes will strengthen the accountability of companies, prevent differences in national standards, and facilitate the transition to a sustainable economy.

NFRD

NFRD – The European Union Non-Financial Reporting Directive (2014/95/EU) requires companies to include non-financial reporting in their annual reports or a separate submission from 2018 onwards, including information on environmental protection, social responsibility, the treatment of employees, respect for human rights, the fight against corruption and bribery, and diversity in company boards.

SFDR

SFDR – The Sustainable Finance Disclosure Regulation is a regulation establishing harmonized rules for financial market participants and financial advisers on transparency concerning the integration of sustainability risks, and the consideration of adverse sustainability impacts in their processes, and the provision of sustainability-related information in relation to financial products.