

# EIRIS GUIDE TO RESPONSIBLE BANKING 2003

**EIRIS**

ETHICAL INVESTMENT RESEARCH SERVICE

# INTRODUCTION

## PROMOTING RESPONSIBLE BEHAVIOUR IN THE BANKING SECTOR

### FORGE Group

The FORGE Group comprises major financial services companies including Abbey National, Barclays, LloydsTSB and Royal Bank of Scotland. In 2002 the Group published its Guidance on Corporate Social Responsibility Management and Reporting for the Financial Services Sector. It is intended to be a practical toolkit to help financial providers understand and address CSR issues including human rights, financial inclusion and labour standards. [www.bba.org.uk](http://www.bba.org.uk)

### London Principles

Commissioned by the Corporation of London, on behalf of the Department of the Environment, Food and Rural Affairs, the London Principles project examines the role of the UK financial sector in promoting sustainable development. One outcome of the project is a set of seven principles which propose conditions under which financial market mechanisms can best promote the financing of sustainable development. The principles cover the areas of economic prosperity, environmental protection and social development. [www.forumforthefuture.org.uk](http://www.forumforthefuture.org.uk)

### UNEP Financial Initiatives

Since its inception in 1972 the UN Environment Programme (UNEP) has been working with industry to develop environmental management strategies. Its work with commercial banks, begun in 1991, seeks to "catalyse the banking industry's awareness of the environmental agenda". Signatories to the UNEP Statement by Financial Institutions on the Environment and Sustainable Development commit to environmental sustainability in three areas: their internal operations, on issues such as energy usage; identifying and quantifying environmental risk as part of their normal risk management process; and by developing products and services that "actively promote environmental protection". [www.unepfi.net](http://www.unepfi.net)

### Equator Principles

As well as Third World debt, societal concern has grown over banks' involvement in financing projects in developing countries with a high impact on the environment and local communities, such as large hydroelectric dams. The Equator Principles are voluntary guidelines for investment banks wishing to adopt International Finance Corporation (part of the World Bank) environmental and social "safeguard" policies when financing projects. Non-governmental organisations have given the Principles a cautious welcome, but favour disclosure of bank policies that support the Principles, or third-party verification to monitor compliance (more details are at [www.financeadvocacy.org](http://www.financeadvocacy.org)). Barclays and the Royal Bank of Scotland are signatories to the Principles. [www.equator-principles.com](http://www.equator-principles.com)

In 2001, EIRIS published its first guide to ethical banking, which demonstrated how ethical, or socially responsible, investment (SRI) extends beyond unit trusts and OEICs (open-ended investment companies). It proved to be very popular. Since then, there have been significant developments in the field of corporate social responsibility (CSR), not least within the financial sector. The financial sector has great leverage in encouraging responsible behaviour from the companies it might invest in or lend to, and there is increasing pressure on the sector to lead by example.

As well as updating you on the social, environmental and ethical (SEE) behaviour of the top UK banks, this edition highlights some recent initiatives to encourage better corporate behaviour from financial institutions. We also feature the Charity Bank, the UK's first not-for-profit bank.

### Banks have a dual role to play

Banks can play a dual role in the SRI field. Ethical investors can seek responsible behaviour from their banks directly, and also indirectly by investing in ethical retail funds and pensions. Along with telecoms, banks are among the top holdings in the portfolios of SRI funds. Last year ISIS (investment manager of the Friends Provident Stewardship Fund range) warned Europe's top banks about their lending policies concerning environmentally sensitive projects, noting the "growing consensus that environmental issues can negatively impact a bank's reputation".

### Sources of information for this guide

The majority of information on banks that is presented in this guide comes directly from the ongoing research that EIRIS undertakes as part of its core work on researching the social, environmental and ethical behaviour of listed companies. The tables cover some key issues of general concern to all companies and a few that are specific to the financial sector. Unless otherwise indicated in the text, the information has been extracted from EIRIS's proprietary software Ethical Portfolio Manager (EPM) during September 2003 (based on EIRIS surveys in 2002, and 2003 if received by the end of Sept 2003). EPM enables EIRIS clients to access the results of extensive research on more than 2000 companies across the globe.

### What action you can take

The tables are intended to give an indication of what a bank is doing, or what the EIRIS assessment is, in relation to specific issues. Obviously there is far more information than can be presented here. The tables are therefore a "snapshot". To find out more, you could:

- 1 ask your bank additional questions about these and other issues which are important to you
- 1 review related reports produced by the banks themselves and by other stakeholders
- 1 ask for practical examples of policy implementation to back up any claims
- 1 lobby your bank to improve its ethical performance, perhaps referring to the environmental or social policies of other banks, where appropriate
- 1 lobby your bank for proactive customer consultation on social, environmental and ethical issues
- 1 consider changing your bank if you feel it is not moving in the direction you would like. Of course, you will need to research the alternatives first. The Banking Code Standards Board stipulates that your bank must co-operate fully if you decide to change to another provider
- 1 consider a combination of providers: for example, you could leave your current account where it is for convenience, but divert your savings to a bank or building society with a better ethical record.

## Different types of banking services

**High street banks** offer services to both companies and individuals. They tend to be listed on the London Stock Exchange and so have external shareholders to consider and pay dividends to. The exception here is the Co-operative Bank, which is not listed but part of Co-operative Financial Services Ltd.

**Building societies** tend to concentrate on providing mortgages and personal finance services. They are "mutuals" which means they are "owned" by their members – that is their savers and borrowers – instead of having external shareholders. In the last few years several building societies have floated and become banks, such as Bradford & Bingley, or have been sold directly to a bank; for example Cheltenham & Gloucester was sold to LloydsTSB in 1995. EIRIS's guide to building societies and social responsibility covers the top building societies in detail.

**Internet banking and financial services** have flourished over the last few years with more and more people going online to manage their finances. Most high street banks and large building societies provide online services. Dedicated internet banking service providers tend to be part of an existing financial service group; Smile is part of the Co-operative Bank, Cahoot is part of the Abbey National Group and Intelligent Finance is a division of Halifax – which in turn is part of HBOS.

**Supermarkets** have expanded the outlets for retail financial services by offering online, telephone and in-store facilities. In most cases this will be in partnership or linked with an existing financial service provider; for example, Tesco Personal Finance Limited is a joint venture between the Royal Bank of Scotland and Tesco.

**The Post Office** has a Post Office Card Account. This can be used to receive benefits, state pensions and tax credit payments. The Post Office also allows holders of most basic bank accounts (offered by most high street banks) to use it for some banking services.

**"Mission-based" financial organisations** provide a focused range of financial services linked to certain social and environmental objectives. The Charity Bank and Triodos Bank have already been mentioned. The Ecology Building Society funds mortgages for sustainable housing and small-scale enterprises, and The Catholic Building Society strives to find mortgage solutions for the financially excluded, such as claimants of state benefits. More details on the Ecology and Catholic building societies are at [www.eiris.org](http://www.eiris.org).

**Credit unions** are financial co-operatives, owned and controlled by their members, who put savings into a common fund. The money saved can then be used to make low interest loans to other members. There are credit unions in more than 80 countries and in total they have over 100 million members.

### Charity Bank

In 2002 the Chancellor Gordon Brown launched the Charity Bank, the UK's first registered charity which is also a bank. Regulated (like other financial service providers) by the Financial Services Authority, the Charity Bank's sole business is to accept deposits in order to make affordable loans for charitable purposes. Individuals can open a savings account in the knowledge that their money is earning a social as well as a financial return. The Bank's origins are with the Charities Aid Foundation (CAF). In 1996 it seeded a loan fund, Investors in Society, which provided affordable credit to 200 charities. For some, Investors in Society was the only financial source that would support their ideas. As a charitable trust CAF took the initiative as far as it could. It used the experience to build the Charity Bank, an enterprise with the capacity to grow and provide social benefits to a much wider community. [www.charitybank.org](http://www.charitybank.org)  
Tel: 01732 520029

### Triodos Bank

Triodos is an independent European bank with shareholders although it is not a listed company. Set up in Belgium in 1980 it also has offices in the UK and the Netherlands. It offers various savings accounts to individuals, businesses and charities. However its unique status amongst banks is that it will only provide finance to enterprises that it considers to be of social, environmental or cultural benefit. Examples would be alternative energy development like wind farms and solar panels, organic/sustainable farming or sheltered housing for people with special needs. Triodos has a number of savings vehicles that finance particular types of projects or organisations such as the Amnesty Saver Account and the Organic Saver Account. It provides a list of all the projects it finances. [www.triodos.co.uk](http://www.triodos.co.uk)  
Tel: 0117 973 9339

## WHO'S WHO

### British Banking Association

The main UK trade association for banks and other financial service firms. [www.bba.org.uk](http://www.bba.org.uk)

### Financial Services Association

The independent non-governmental body, with regulatory powers over the financial industry. [www.fsa.gov.uk](http://www.fsa.gov.uk) 0845 606 1234

### Financial Ombudsman Service

Free service set up by government to help resolve disputes between consumers and financial firms [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk) 0645 080 1800

### Banking Code Standards Board

This body ensures banks and building societies comply with the Banking Code and the Business Banking Code. The former is a voluntary code followed by banks and building societies in their relations with personal customers in the UK. [www.bankingcode.org.uk](http://www.bankingcode.org.uk) 020 7661 9694

### Association of British Credit Unions Ltd

ABCUL is the main trade association for credit unions in England, Scotland and Wales. Credit unions in the Republic of Ireland and Northern Ireland are served by the Irish League of Credit Unions. [www.abcul.org](http://www.abcul.org) 0161 832 3694

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## THE BANKS

The table below gives a snapshot of EIRIS's assessment of the banks' social and environmental positions. Further details of how EIRIS undertakes its assessments and a better understanding of how the banks are addressing these issues can be found in the following pages.

	Third World Debt	Published ethical lending policies	Operations in countries under oppressive regimes	Published policies addressing financial/social exclusion	Environmental policy	Equal opportunities policy	Community involvement commitment
<b>Abbey National</b>	no	yes	no	yes	good	advanced	clear commitment
<b>Alliance &amp; Leicester</b>	no	yes	no	?	moderate	moderate	clear commitment
<b>Allied Irish Bank</b>	no	yes	no	yes	undeveloped	moderate	some commitment
<b>Bank of Ireland</b>	no	yes	no	?	moderate	moderate	clear commitment
<b>Barclays</b>	yes	yes	yes	yes	good	advanced	very clear commitment
<b>Bradford &amp; Bingley</b>	no	?	no	yes	weak	advanced	clear commitment
<b>Co-operative Bank</b>	no	yes	no	yes	exceptional	advanced	very clear commitment
<b>Egg</b>	no	?	no	?	moderate	advanced	clear commitment
<b>HBOS</b>	no	yes	no	yes	good	advanced	clear commitment
<b>HSBC</b>	yes	yes	yes	yes	good	advanced	clear commitment
<b>LloydsTSB</b>	yes	yes	yes	yes	good	advanced	very clear commitment
<b>Northern Rock</b>	no	?	no	?	good	advanced	very clear commitment
<b>Royal Bank of Scotland</b>	no	yes	no	yes	good	advanced	very clear commitment

? = not found on website in June/July 2003

### Note the following:

- | The Co-operative Bank is not a listed company
- | 79% of Egg plc is owned by Prudential plc but it has a separate listing on the London Stock Exchange and operates separately
- | Halifax and the Bank of Scotland are part of HBOS plc
- | National Westminster Bank (Natwest) is part of the Royal Bank of Scotland Group plc
- | Bristol & West is part of the Bank of Ireland UK Financial Services Group
- | Cheltenham & Gloucester is part of LloydsTSB Group plc
- | The Woolwich is part of Barclays plc.

### Getting independent financial advice

As with other types of investment, EIRIS does not and cannot provide financial advice and recommends that you seek independent professional advice. A number of independent financial advisers specialise in ethical investment. See [www.eiris.org](http://www.eiris.org) for a searchable directory of such IFAs or call 020 7840 5700

EIRIS welcomes feedback on this guide so we can continue to provide relevant, useful and objective information. Please email [ethics@eiris.org](mailto:ethics@eiris.org) with your comments or write to The Public Information & Advice Manager at EIRIS, 80-84 Bondway, London SW8 1SF

## THIRD WORLD DEBT

The third world debt crisis first came to world's attention in 1982, when the Mexican government, confronted by high interest rates and low commodity prices, admitted its inability to service hundreds of billions of dollars of commercial bank loans. During the Seventies and Eighties, money was frequently lent for prestige projects or wasted by corruption, leaving many countries with no means of repaying the original debt and having to pay interest several times greater than the sum originally borrowed. In response, leading international development agencies began a campaign to cancel UK high street banks' debts to developing countries. These concerns were reflected in the EIRIS criteria on third world debt, which were first established in the late Eighties.

Since the mid-Nineties the bulk of third world debt has been transferred to official creditors such as the International Monetary Fund (IMF) and the World Bank. Hence, the main focus of the debt campaign has switched from commercial creditors to official creditors (creditor governments and multilateral agencies). Campaigners' attention on the needs of the poorest countries contributed to the World Bank/IMF sponsored Heavily Indebted Poor Countries (HIPC) Initiative, agreed in 1996. All UK banks have sold or written off the bulk of their debts. However, historical connections and deposit requirements in different countries mean that some UK banks still have lending relationships with developing country governments, but these are currently not the direct focus of campaigns in the same way as in the past.

EIRIS uses company annual reports and responses to our annual survey to obtain information on third world debt. Where the source indicates involvement with third world debt by a part of a company that we research, we attribute the details to that company.

	Does the bank hold any Third World Debt?
Abbey National	no
Alliance & Leicester	no
Allied Irish Bank	no
Bank of Ireland	no
Barclays	Government/sovereign debt for Asia and Latin America (Annual Report 2002 notes c.£100 million)
Bradford & Bingley	no
Co-operative Bank	no
Egg	no
HBOS	no
HSBC	South America and Asia. (Annual Report 2002 notes a figure of £399 million excluding China – the company's home base)
LloydsTSB	South America – Brazil and Argentina (Annual Report 2002 notes that the total exposure was £2.09 billion)
Northern Rock	no
Royal Bank of Scotland	no

## LENDING POLICIES

Some banks have policies in relation to lending to companies involved in controversial activities or behaviour, in particular arms, environmental degradation and operating or dealing with countries with oppressive regimes. Some will have guidelines rather than absolute exclusions, but more often than not such issues will be part of a bank's general risk assessment, carried out on a case-by-case basis when considering commercial loan proposals.

Lending policies are not part of EIRIS's main research topics. The table is based on information available on the banks websites during June and July 2003.

	Has the bank published on its website any ethical policies in relation to lending to companies/organisations with a significant involvement in arms, or countries considered to be under the rule of oppressive regimes, and/or organisations with a poor environmental record?
<b>Abbey National</b>	Published ethical investment guidelines covering these areas in 2000. See Corporate Citizen Report at <a href="http://www.abbeynational.com">www.abbeynational.com</a> . The guidelines state that the bank "exercises special care" in "the case-by-case screening process" in certain areas, such as companies or projects operating in the defence sector and activities which pose a high degree of risk to the environment
<b>Alliance &amp; Leicester</b>	All operations UK-based. Its Corporate Socially Responsibility Report states: "We do not knowingly do business with organisations or bodies which are involved in the abuse of human rights." See <a href="http://www.alliance-leicester-group.co.uk">www.alliance-leicester-group.co.uk</a>
<b>Allied Irish Bank</b>	It says: "Our criteria for making business decisions are primarily determined by economic risk and reward, taking into account the long term health of the business, and, where appropriate, social and environmental considerations." The AIB Group Principles are at <a href="http://www.aibgroup.com">www.aibgroup.com</a>
<b>Bank of Ireland</b>	Has responsible lending guidelines in relation to environmental risk. It states: "Lenders will be equipped to enable them to assess the environmental implications of proposals. Staff involved in lending should be fully aware of the environmental issues confronting borrowers." See Inside BOI at <a href="http://www.bankofireland.ie">www.bankofireland.ie</a>
<b>Barclays</b>	Publishes policies and principles associated with these areas at <a href="http://www.barclays.com">www.barclays.com</a> in the social responsibility section. It states: "It is our policy not to finance trade in nuclear, chemical, biological or other weapons of mass destruction. Our policy also explicitly prohibits financing trade in landmines or any equipment designed to be used as an instrument of torture"
<b>Bradford &amp; Bingley</b>	No published policies found on its website <a href="http://www.bbg.co.uk">www.bbg.co.uk</a> Operations focus on personal savings, loans and mortgages
<b>Co-operative Bank</b>	Has explicit policies in this area, see <a href="http://www.cooperativebank.co.uk">www.cooperativebank.co.uk</a> . In 2002 its Partnership Report published figures for the loss of potential business due to its ethical and ecological policies, for example companies involved in fossil fuel extraction, supplying arms to oppressive regimes and genetic modification
<b>Egg</b>	No published policies found on its website <a href="http://www.egg.co.uk">www.egg.co.uk</a> . Its operations focus on personal banking
<b>HBOS</b>	Has lending policy in relation to environmental impact. It states: "We maintain a detailed internal guide to environmental risks associated with lending and leasing to help support our colleagues in the identification of lending issues." See Environmental Impact section at <a href="http://www.hboscr.com">www.hboscr.com</a>
<b>HSBC</b>	Has a published responsible financing policy, see <a href="http://www.hsbc.com">www.hsbc.com</a> (HSBC in Society, Living our Values). It states: "All major loan proposals are assessed for their environmental, ethical and social impact, in line with our commitment to the UN Global Compact, the Global Sullivan Principles, and the principle of sustainable development"
<b>LloydsTSB</b>	Its CSR Report 2002 states: "We are not 'environmental policemen' but we believe that by working with our customers, we can help to identify potential risks to both the environment and their business, and help them to develop appropriate and cost-effective solutions." See <a href="http://www.lloydstsb.com">www.lloydstsb.com</a> (About Us, Community and the Environment)
<b>Northern Rock</b>	No published policies found on its website <a href="http://www.northernrock.co.uk">www.northernrock.co.uk</a> . Operations focus on the mortgage market
<b>Royal Bank of Scotland</b>	Its environmental policy includes the statement: "Risk is at the core of the credit lending process and we have a formal process for evaluating this. Environmental impacts are an important and integral part of this credit assessment and approval process..." See corporate responsibility section at <a href="http://www.rbs.co.uk">www.rbs.co.uk</a>

## HUMAN RIGHTS – operations in countries with oppressive regimes

The issue of human rights has become increasingly central to corporate social responsibility. This is partly driven by the debate about whether globalisation is detrimental or beneficial to developing countries, and partly by the question of whether corporate behaviour is reinforcing or undermining human rights. Governments have primary responsibility to promote and protect human rights, but corporations and other organs of society also have responsibilities. Companies have direct responsibility for their own operations, for example that their labour rights policies apply throughout their global operations. Companies are now starting to be assessed on their wider social impact on local communities, under the banner of fundamental human rights as enshrined in the Universal Declaration of Human Rights (see [www.un.org](http://www.un.org)).

Investors in the past have boycotted certain countries, but it is increasingly argued that countries need investment to improve basic social and economic rights. For example, Mary Robinson, former UN High Commissioner on Human Rights, highlighted extreme poverty as a major human rights violation. Against this background it is what the company does in a country that is of interest. Is the company an influence for good, or does it either benefit from or somehow support a climate of repression? The arguments are not always clear-cut, and the debate about how to assess a company's overall performance on human rights is still at an early stage. EIRIS has the following grading structure for a company's policy and systems in this area: basic policy (no systems); policy and some systems, and, for the top grade, significant policy and systems. Three broad indicators are used to assess companies' policy and systems on human rights: policy and responsibility; management systems, and reporting and dialogue.

Each year EIRIS draws up lists of countries under scrutiny in relation to human rights issues. To compile its "Category A" list EIRIS uses the latest Freedom House list of "not free" countries, and cross reference this with the latest annual reports from Human Rights Watch and Amnesty International. In addition EIRIS looks beyond the Freedom House "not free" list. An example of this is Colombia, where armed conflict and killing of trade unionists has received widespread publicity. The annual EIRIS Human Rights survey seeks confirmation from companies of operations in A list countries, and clarification of size of operations there. In addition, publicly available information such as annual reports, social reports and company websites are reviewed. EIRIS defines "operations" as an equity stake of at least 20% in a company incorporated in these countries. "Significant operations" means that the bank's employee total in A list countries exceeds 1000 and/or its turnover or asset total in A list countries exceeds £100 million.

	Human rights: in how many countries listed in EIRIS's category A, does the bank have operations?	According to EIRIS's definition does the bank have significant operations in these countries?	How does EIRIS rate the bank's human rights policy and systems?
Abbey National	0		
Alliance & Leicester	0		
Allied Irish Bank	0		
Bank of Ireland	0		
Barclays	4 (Colombia, Egypt, Kenya and Zimbabwe)	yes	policy and some systems
Bradford & Bingley	0		
Co-operative Bank	0		
Egg	0		
HBOS	0		
HSBC	10 (Bahrain, Brunei, China, Colombia, Egypt, Kenya, Oman, Saudi Arabia, United Arab Emirates, Vietnam)	yes	significant policy and systems
LloydsTSB	1 (Colombia)	yes	policy and some systems
Northern Rock	0		
Royal Bank of Scotland	0		

## SOCIAL/FINANCIAL EXCLUSION

In 1999, a study by the Joseph Rowntree Foundation found that 1.5 million UK households lacked even the most basic financial products and, not surprisingly, these tended to be in communities with high levels of deprivation. With an increasing number of bank-branch closures and a rising consumer debt problem, this figure has probably since grown. Most high street banks now offer basic accounts into which benefits and any other income can be deposited but there is still much to be done. A number of initiatives have been developed to tackle the problem. For example, the Money Advice Trust is a charity formed in 1991 to increase the quality and availability of money advice in the UK. It works in partnership with government and the private sector to promote free, independent money advice. Several banks provide funding for the trust, as do other companies. A similar organisation is the Consumer Credit Counselling Service.

There is also a growing number of credit unions, for which some banks have provided funding. The UK government and many other organisations see credit unions as a valuable means of tackling financial exclusion.

Financial exclusion is not a main EIRIS research topic. The table is based on information published by the banks on their websites in June/July 2003.

	Has the bank published any information on its website in relation to how it addresses social/financial exclusion?
<b>Abbey National</b>	Provides financial support to the Consumer Credit Counselling Service and Money Advice Trust. See Social Impact Report at <a href="http://www.abbeynational.com">www.abbeynational.com</a>
<b>Alliance &amp; Leicester</b>	No published information found on its website <a href="http://www.alliance-leicester-group.co.uk">www.alliance-leicester-group.co.uk</a>
<b>Allied Irish Bank</b>	AIB Better Ireland Programme supports non-profit organisations that address the social exclusion of children. Since the introduction of the scheme in August 2001, over €2.9 million has been awarded to 315 community projects throughout the country. See Community section of <a href="http://www.aibgroup.com">www.aibgroup.com</a>
<b>Bank of Ireland</b>	No published information found on its website <a href="http://www.bankofireland.ie">www.bankofireland.ie</a>
<b>Barclays</b>	Has partnerships with credit unions; working with the New Economics Foundation in study to promote economic regeneration; financial education project in Birmingham for adults in disadvantaged areas. See Social Responsibility section at <a href="http://www.barclays.com">www.barclays.com</a>
<b>Bradford &amp; Bingley</b>	Works with housing associations to develop social housing; national sponsor of Shelterline, the 24-hour national freephone helpline from Shelter. See Corporate and Social Responsibility section of <a href="http://www.bbg.co.uk">www.bbg.co.uk</a>
<b>Co-operative Bank</b>	Sponsors annual conference for credit unions and national sector newspaper; helped launched and develop Co-operative Family Credit Union. See Ethics in Action section of <a href="http://www.cooperativebank.co.uk">www.cooperativebank.co.uk</a>
<b>Egg</b>	No published information found on its website <a href="http://www.egg.co.uk">www.egg.co.uk</a>
<b>HBOS</b>	Has Community Banking Team dedicated to tackling financial exclusion. The bank has undertaken a number of initiatives, which include funding a Scottish credit union and designing a savings and loan scheme for housing association tenants. See Community Banking section of <a href="http://www.hbosplc.com">www.hbosplc.com</a>
<b>HSBC</b>	Funds and develops financial education projects for young people in various countries. See HSBC in Society section of <a href="http://www.hsbc.com">www.hsbc.com</a>
<b>LloydsTSB</b>	Provides financial support to Money Advice Trust. See Corporate Social Responsibility Report 2002 at <a href="http://www.lloydstsb.com">www.lloydstsb.com</a>
<b>Northern Rock</b>	No published information found on its website <a href="http://www.northernrock.co.uk">www.northernrock.co.uk</a>
<b>Royal Bank of Scotland</b>	Dedicated Community Development Banking team headed by the chairman of the UK Social Investment Forum. Initiatives include investing in the freephone Lone Parent Helpline helping lone parents overcome practical and financial problems and running a University Access Programme with five Scottish universities. See Group Information section of <a href="http://www.rbs.co.uk">www.rbs.co.uk</a>



## ENVIRONMENT

From climate change to tropical hardwood, degradation of the environment remains at the forefront of public concern. Companies have responded in a variety of ways. A common first step is to produce a policy statement or make a formal commitment to principles established by organisations such as the International Chamber of Commerce. Companies can then implement an environmental management system to monitor performance and compliance with their environmental policy. A further step is to publish information on their activities in relation to the environment – impact, targets and the like. The extent and quality of environmental reports has improved greatly in recent years, and a number of organisations, notably the Global Reporting Initiative, have published guidance documents in an attempt to standardise the format and type of data presented. However, many companies have been criticised for publishing 'greenwash' to improve public relations without including meaningful performance data.

EIRIS assigns one of five grades (ranging from “exceptional” down to “undeveloped”) to a company's environmental policy, management systems and reporting. EIRIS assessments are based on responses to our annual company environment survey, together with publicly available information such as annual reports, websites and regulatory authority data. By policy we mean an explicit statement published by the company in any of its publicly available literature. Alternatively it may be an interpretation made by EIRIS of the contents of text found in these publications which implicitly describe the company's attitude and commitments, and can be regarded as amounting to an environmental policy even if not explicitly described as such. An environmental management system monitors implementation of a policy and can be certified as meeting the requirements of an accepted standard such as ISO 14001 or devised by the company itself. By environmental reporting we mean that contained within either a standalone environmental report, a dedicated section in a company's Annual Report and Accounts, or on its website. With each of these elements EIRIS seeks out certain properties and assigns a grade accordingly.

EIRIS also assesses environmental performance over time in key areas such as climate change, waste, emissions and water consumption. An overall grade is assigned based on how companies perform in each of these areas. The grades are (in descending order) major, significant, minor, no improvement or inadequate data to assess.

Note that “undeveloped” means that insufficient or no information has been made available to EIRIS through our annual environment survey or through publicly available sources.

How does EIRIS rate the bank's environmental:	policy	management systems	reporting	performance
Abbey National	good	exceptional	exceptional	significant improvement
Alliance & Leicester	moderate	weak	undeveloped	no improvement
Allied Irish Bank	undeveloped	undeveloped	undeveloped	inadequate data to assess
Bank of Ireland	moderate	weak	undeveloped	inadequate data to assess
Barclays	good	exceptional	exceptional	major improvement
Bradford & Bingley	weak	weak	undeveloped	no improvement
Co-operative Bank	exceptional	exceptional	exceptional	major improvement
Egg	moderate	good	undeveloped	no improvement
HBOS	good	exceptional	weak	no improvement
HSBC	good	good	weak	significant improvement
LloydsTSB	good	good	moderate	no improvement
Northern Rock	good	exceptional	exceptional	major improvement
Royal Bank of Scotland	good	good	weak	major improvement

## EQUAL OPPORTUNITIES

The treatment of workers and the improvement of employment conditions forms a major part of people's perceptions of a company's attitude to its stakeholders and its policies on social issues. An increasingly important element to be considered when assessing labour conditions, is a company's attitude towards equal opportunities and diversity. Despite the many strides made globally in combating discrimination during the last century, much remains to be done to achieve true equality in the workplace. In the UK, despite the many changes in social attitudes in the last three decades, equal pay legislation and EC directives to ensure added legal protection, women overall still receive only around four-fifths of men's hourly pay. Similarly, despite positive developments since the introduction of the 1976 Race Relations Act in the UK, many people from ethnic minorities are, consciously or otherwise, prevented from progressing within parts of the workforce.

Using responses to EIRIS's annual social survey and publicly available information, we assess a company's policy on equal opportunities and diversity, and its systems for monitoring and improving corporate practices in these areas. Without such systems it can often be difficult for the company to effect real change. By policy we mean a specific set of guidelines, or collection of written commitments found in company literature which when taken as a whole can be deemed to shape the company's strategy and activities. EIRIS assigns one of five grades (ranging from advanced down to little or no evidence) to a company's equal opportunities policy, and one of four grades (ranging from very clear evidence down to little or no evidence) to a company's systems and practices. In the assessments we look for a number of elements, for example whether a named senior executive has been made responsible for implementing the policy, and whether the company provides supporting data on the composition of the workforce.

	How EIRIS rates the bank's policy on equal opportunities and diversity issues	How EIRIS rates the evidence for systems and practices to support equal opportunities and diversity
Abbey National	advanced	clear evidence
Alliance & Leicester	moderate	clear evidence
Allied Irish Bank	moderate	some evidence
Bank of Ireland	moderate	clear evidence
Barclays	advanced	clear evidence
Bradford & Bingley	advanced	clear evidence
Co-operative Bank	advanced	clear evidence
Egg	advanced	clear evidence
HBOS	advanced	clear evidence
HSBC	advanced	clear evidence
LloydsTSB	advanced	clear evidence
Northern Rock	advanced	clear evidence
Royal Bank of Scotland	advanced	clear evidence

## COMMUNITY/CHARITY WORK

When a company gives donations (in money and in kind) to a charity or to benefit the community, this can often bring tangible rewards to the business in terms of improved reputation and a better profile – as well as benefiting the good cause it is supporting.

However, not all investors will share the same priorities as companies when it chooses which causes to support. Considerable work has been carried out by organisations such as the London Benchmarking Group to identify good corporate-giving practice. Three principal observations have been made:

- I When considering the amount of money spent by a company on community involvement, this figure should be related to the company's overall profits and turnover
- I Ideally, the company should report fully on the causes it supports and set out a clear rationale explaining its choice of beneficiaries
- I Company involvement should extend beyond merely writing cheques. There are considerable mutual benefits to companies, individuals and charities, if businesses get actively involved with the causes they support, by, for example, seconding staff and resources to assist charities.

As well as the responses to EIRIS's annual social survey and publicly available information we also consult additional sources, such as membership lists for Business in the Community's PerCent club and the Directory of Social Change's Guide to Company Giving. EIRIS assigns one of four grades (ranging from very clear evidence down to little or no evidence) to a company's commitment. In the assessments we look for a number of elements to indicate the size and scope of a company's involvement with the wider community, for example a payroll giving scheme or employee secondment scheme.

Unless otherwise stated, The FTSE100 ranking and donations as a percentage of pre tax profits were compiled by The Guardian and Business in the Community's PerCent Club.

	How EIRIS rates the bank's commitment to community/charitable work	Rank in FTSE100 Giving List 2002	Donations (in cash, in kind, staff time etc.) as % of pre-tax profits 2002
<b>Abbey National</b>	clear commitment	59	0.2%
<b>Alliance &amp; Leicester</b>	clear commitment	78	0.08%
<b>Allied Irish Bank</b>	some commitment	not in FTSE100	not known
<b>Bank of Ireland</b>	clear commitment	not in FTSE100	not known
<b>Barclays</b>	very clear commitment	26	1%
<b>Bradford &amp; Bingley</b>	clear commitment	45	0.63%
<b>Co-operative Bank</b>	very clear commitment	not a listed company	2.2% (source: company response to EIRIS social survey 2002)
<b>Egg</b>	clear commitment	not in FTSE100	donated £20,781 in 2002 (source: www.egg.co.uk July 2003)
<b>HBOS</b>	clear commitment	64	0.17%
<b>HSBC</b>	clear commitment	52	0.38%
<b>LloydsTSB</b>	very clear commitment	22	1.1%
<b>Northern Rock</b>	very clear commitment	2	5%
<b>Royal Bank of Scotland</b>	very clear commitment	44	0.64%

## Other EIRIS publications

- | EIRIS quarterly newsletter, The Ethical Investor (£15 per annum)
- | How Responsible is Your Pension? (with website database)
  - | Guide to active share ownership
  - | Guide to charities and ethical investment
  - | Guide to seeking financial advice

Further information can be found at [www.eiris.org](http://www.eiris.org) or telephone 020 7840 5700

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