

**CONCLUSIONS OF THE
WORKING GROUP:**

***ENVIRONMENT AND
FINANCIAL INSTITUTIONS***

2007

This study is the outcome of the work performed by a group of Spanish Savings Banks, coordinated by *Confederación Española de Cajas de Ahorros* (CECA - the Spanish Confederation of Savings Banks), to analyse all environmental aspects that could affect enterprises operating in the sector of Savings Banks.

The study forms part of the contribution by the Spanish Savings Banks (hereinafter *Spanish Cajas*) to the European Alliance for Corporate Social Responsibility of the European Commission. This participation, and the large number of *Spanish Cajas* that have joined the Alliance, illustrates this segment's commitment to Corporate Social Responsibility.

The study addresses the relationship of *Spanish Cajas* with their surroundings, from the point of view of environmental impact. Following the theoretical approach of earlier studies on business activity and ecology, a distinction has been made between direct and indirect impact.

This document also addresses, albeit briefly, the most significant aspects of the *Obra Social*¹ of *Spanish Cajas* that is closely related with the care and protection of our surrounding environment.

The study was conducted between September 2006 and June 2007, with the participation of 14 *Spanish Cajas* coordinated by a team from the Spanish Confederation of Savings Banks.

This document is a summary of the conclusions reached within the working group.

¹ Particular Savings Banks' scheme by terms of which financial resources are allocated to social, cultural, educational, etc. programmes. These resources are the remaining returns after taxes and allocation of reserves. As for 2006, 1.52 € billion were allocated to *Obra Social* projects, over 23% of after-tax return.

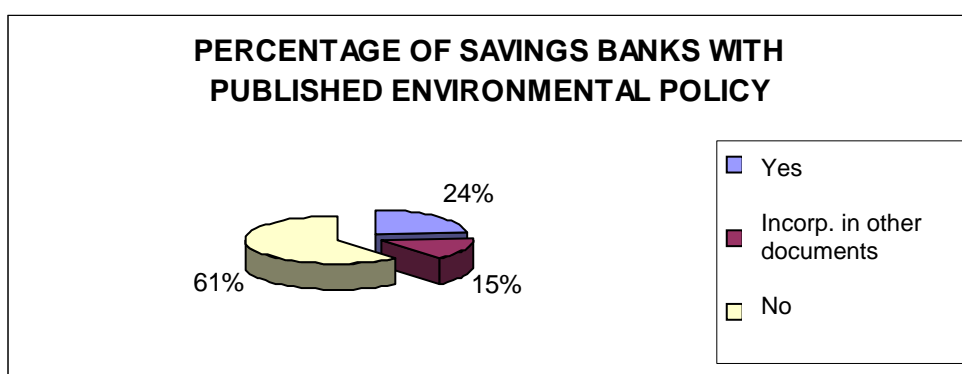
THE ENVIRONMENT AND FINANCIAL INSTITUTIONS

The banking business is not especially aggressive for the environment, yet through the financing they provide, they are in a strategic position to perceive social concern and bear an influence on other economic activities. The first actions taken by *Spanish Cajas* in environmental issues were focused on the establishment of policies and conducts to minimise direct damage to the environment and reduce consumption. Institutions at a more advanced stage are linked to their financing activity.

Accordingly, an analysis can be made of the establishment and implementation of certain internal policies and organisations to back an environmental culture in financial institutions.

Environmental policies

Environmental Policy is a public declaration on environment-related commitments undertaken by an institution in the performance of its business activity. The *Spanish Cajas* sector actually has an extensive array of options related with the environment. In December 2006, the following percentage of *Spanish Cajas* had published an Environmental Policy² :



² Sample representing the entire sector (45 Savings Banks). The data for institutions participating in the group have been taken from their replies to a survey. The information on *Spanish Cajas* not participating in the group has been taken from their Corporate Social Responsibility Reports 2005 or, otherwise, from the information published on their web sites.

Environmental management organisation

The vast majority of Environmental Policies are approved by one of the management bodies. However, the organisation may differ greatly from one institution to another. In some cases, “ad hoc” structures have been created in the form of new departments, and in other cases they have been based on horizontal structures within the organisation management, i.e. environmental committees.

DIRECT IMPACT

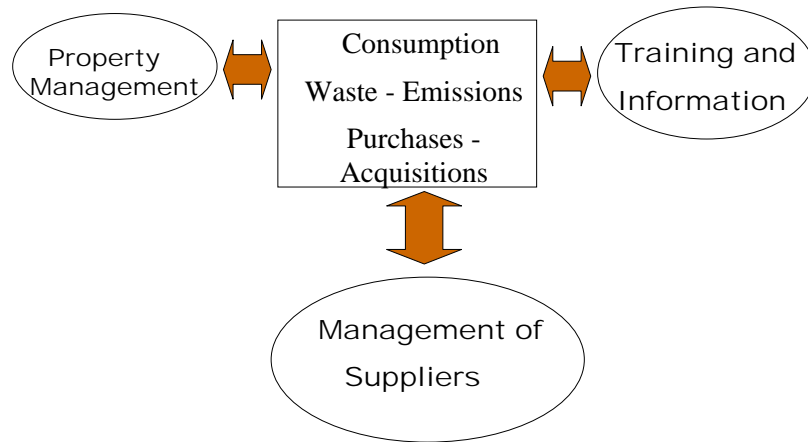
The direct impact of a financial institution is defined in the FORGE Environmental Impact Guidelines as:

“associated with internal operating activities. This includes the heating and lighting of buildings, transport of employees and materials, all kinds of waste, the purchase of goods and services and the use of energy, paper and water. A good management of these activities will help to improve operating efficiency and create a potential improvement in cost.”³

In the review made, we found that institutions are working systematically on minimising the direct environmental impacts of their business activity. They have plans for reducing different types of consumption, such as energy, paper, etc. Adequate policies are also being implemented for the responsible handling of waste.

The internal environmental management developed in *Spanish Cajas* can be illustrated graphically as follows:

³ FORGE is an association of British financial institutions (Abbey National, Barclays, CGNU, Lloyds TSB, Prudential Plc, Royal Bank of Scotland, and Royal & Sun Alliance) which published environmental management and reporting guidelines, backed by the British Departments of Industry and Environment in 2000.



Internal environmental management in financial institutions

Following this outline, each section has been studied, analysing activities and initiatives developed both by the *Spanish Cajas* and by other financial institutions (national and international).

It should be noted that, as mentioned earlier, most *Spanish Cajas* are developing environmental policies with favourable results on minimising the impact. After analysing other initiatives worldwide, room for improvement in most aspects contemplated in this section has been detected in certain areas.

We go on now to examine this type of internal actions, according to their specific area of implication. We include a table for each subject-matter showing certain examples of the practices implemented in the financial sector, others we have observed in other financial institutions and possible improvements.

PAPER CONSUMPTION

Paper is one of the most largely consumed natural resources in *Spanish Cajas*. It is used both internally and to send information to customers, in advertising, publications, etc. In short, it does not appear to be irrelevant and its reduction and rational use is particularly interesting as regards the environmental impact of our business.

<i>Actions in Spanish Cajas</i>
<ul style="list-style-type: none"> • Use of Intranet for different information flows (communications to employees, press releases, employees' newssheet, etc.) • Multi-use envelopes for internal correspondence. • Use of recycled and/or ecological paper. • Scanner in branches / offices to digitalize documents. • Card statements printed on both sides. • Correspondence to customers replaced with electronic documents / Sending single receipts to customers / Alerts to cell phones. • Reduced paper consumption in statements of account entries in ATMs. • Installation of paper and cardboard containers for subsequent collection by external companies for recycling.

WATER CONSUMPTION

<i>Actions in Spanish Cajas</i>
<ul style="list-style-type: none"> • Cisterns with optional reduced discharge • Posters encouraging rational use of water in WC • Reduced flow in push-button taps • Optimisation of consumption in cooling towers • Renewal of cooling equipment to save on consumption

ENERGY CONSUMPTION

Most *Spanish Cajas* have taken action to save energy. Apart from the environmental aspect, this also means economic savings. Different initiatives have thus been taken in this regard:

<i>Actions in Spanish Cajas</i>
<ul style="list-style-type: none"> • Substitution of low-consumption monitors • Automatic shutdown of equipment • Automatic timers for turning on and off the branch signs • Presence detectors for turning on lights in different areas • Night storage heaters • Replacement of conventional lighting with lights with a greater lighting efficiency.

EMISSIONS CONTROL

<i>Actions in Spanish Cajas</i>
<ul style="list-style-type: none"> • Travel control • Control of emissions in air-conditioning installations according to the Kyoto Protocol • Control of CO₂ emissions (changing from gasoil to natural gas) • Monitoring of boiler gases and generators • Ekopass Project (estimates CO₂ emissions, both direct from electricity consumption and indirect, through business trips. After calculating these emissions, a decision is adopted to invest in an external project to offset them) • Monitoring of noise and vibrations

WASTE CONTROL

This section is important for *Spanish Cajas*, since although they do not produce highly polluting waste, they do produce waste in large quantities. Consequently, a large number of *Spanish Cajas* have contracted specialised firms to collect and recycle that waste.

<i>Actions in Spanish Cajas</i>
<ul style="list-style-type: none"> • Selective waste collection • Contract with confidential paper destruction and waste management firms • Toner refills for reuse • Collection of vegetable oils in properties containing a kitchen • Collection of hazardous waste (fluorescent lights, expired extinguishers, generator set batteries) • Collection of biosanitary waste • Collection of electric/electronic waste for reuse • Collection of cell phones • Collection of used batteries • Collection of rubble at suitable places

ACTIONS REGARDING PURCHASES AND SUPPLIERS

<i>Actions in Spanish Cajas</i>
<ul style="list-style-type: none"> • The suppliers must be certified under ISO 14001 or EMAS • They must be committed to the Global Compact • They must comply with environmental and waste management laws • Environmentally responsible purchase criteria of material suppliers

ACTIONS REGARDING TRAINING AND AWARENESS

Since financial institutions require a vast human resources, they have contacts with large numbers of individuals. Consequently, they have a huge potential to influence people, promoting environment-friendly habits and conduct.

In an effort to increase their employees' environmental conscience and awareness, *Spanish Cajas* have developed several training programmes and actions, including:

<i>Actions in Spanish Cajas</i>
<ul style="list-style-type: none"> • Specialised training (technicians, internal auditors, cleaning staff on waste management) • Environment awareness programmes for all employees. Memorandums encouraging energy saving and reduced consumption • Environment awareness programmes for new employees • Employee environment manual in Intranet and environmental procedures. Code of conduct and best practices among employees • Environmental education workshops with guided visits to natural spaces • One special action is the environmental volunteer work designed to clean and maintain protected natural spaces • Promotion of volunteer work among employees • Publishing of volunteer promotion guides

INDIRECT IMPACT

The indirect impact, as defined by the FORGE institute, is related with:

“The environmental aspects associated with company policies and practices in financing, investment and other business activities that may entail financial, legal and operational risks, and risks to reputation”.

As indicated by the Forge association, indirect impacts are more difficult to manage, yet they are the essence of environmental issues in financial institutions. Firstly, because the severity of their impact on the business is much greater, owing to the importance of intangible assets for the financial sector.

Assessment of environmental impact

At present, owing to growing social pressure regarding social and environmental criteria, different financial institutions now take into account the possible social and environmental impacts when financing enterprises and projects.

But why is it necessary to consider environmental risk as a component of financial risk?

We could put forward several reasons:

- As mentioned earlier, society attaches increasing importance to the environment and its development and protection are now among the **social concerns** and, therefore, affect financial and economic activities.
- Growing attention is paid to the **risk to reputation** in the overall risk management. Financial institutions can find their reputation jeopardised if they finance projects with adverse environmental impact.
- There is growing **legal and tax pressure** related to the environment:
 - The Accounting and Audit Institute (Decision 25/03/02) requires auditors to include in their annual reports on companies' accounts the expenses generated by the environmental aspects of different economic activities.
 - Global risk management. The Basel II Accord makes a global consideration of the risks of an enterprise, contemplating a specific assessment of the different elements and the consequent optimisation of equity. Through this global focus, it is possible to consider new risks, such as those relating to environmental aspects, among others:

- Closure of the enterprise on the grounds of infringement of environmental laws. Refusal of authorisations or permissions
 - Boycott by affected communities or consumers
 - Contingencies or accidents. Anticipation of fines or requirement of guarantees
 - Costs incurred in controlling emissions, polluting dumping and waste
 - Required changes in the design of products and services
 - Accumulation of liabilities and responsibilities that could lead to insolvency (possible penalties)
- New business opportunities, deriving from:
 - New businesses started up (solar-energy farms, emission certificate trading, more ecoefficient technologies, etc.)
 - Products linked to the granting of a loan, related with environmental laws and regulations, such as the furnishing of guarantees, collateral or insurance to prevent fines, credit facilities to finance new facilities, etc.
 - Participation in “green” credit lines created under the auspices of international public organisations, such as the European Investment Bank, Latin-American Development Bank, etc. or national institutions, such as the Green Funds System put into practice by the Netherlands Government.

Existing models

The traditional models used for assessing financial risk do not contemplate environmental aspects, partly because:

- There are no registers or documentary data bases that permit the dumping of reliable data
- The effects on the overall portfolio are small, especially for retail banks. These effects are much greater in some specific sectors of activity.

However, environmental risks are beginning to be taken into account, provided the analysis meets a number of essential requirements::

- From a financial point of view, they must be rigorous and compatible with the undertaking's risk policy.
- From a business point of view, they may not create a significant burden for executives or customers.
- From the point of view of Corporate Social Responsibility, they must show that the financial institution considers its customers' environmental conduct.

Based on these requirements, our findings on analysing the different models of environmental risk assessment implemented in financial institutions show that:

1. All the models analysed take account of the sector of business activity in which the assessed company operates.
2. Most of the models studied have identified what are known as “sensitive businesses” included on the “no financing” list, such as weapons dealing, nuclear, gambling, pornography, testing on animals, etc.
3. The undertakings and business portfolio of the company are analysed separately from the assessment of projects.

4. Most models have different screening systems. The first filters normally consider activity, volume and location. The subsequent filters are more technical from an environmental viewpoint and examining more thoroughly the different risks and their management and control.

Products and Services

The Environment of a Financial Institution represents a business opportunity, opening up a line for the development of new products and services. Since it is linked to financing activities, this category is included within the block of indirect impacts.

Environmental financial products could be defined as a set of financial instruments designed not exclusively in search of a profit, but to generate an additional environmental gain.

Although there are products identified as ecological or having a certain environmental content, most of them would be classified as ethical or responsible products. The problem with this name is that it encompasses highly varied products, from investment funds to micro-loans, the ethical content of which might correspond to widely varying concerns. This makes it difficult to separate those benefiting the environment.

Moreover, apart from the Investment Funds regulated by the National Securities Market Commission (CNMV), there are no laws stipulating the compulsory criteria to be met by ethical products. The offering of products classified as environmental is, as a result, very arbitrary.

It should also be noted that not only traditional banks are offering this kind of ethical products; other entities are also specialising in this type of supportive or ethical financial products.

When approaching this matter, it is useful to consider the general classifications for this type of ethical products and services. The first classification to be clarified is the difference between an ethical product and a supportive product:

Supportive: Encourages the donation of funds to associations or projects that defend the Environment (NGOs, projects, etc.).

Ethical: Focusing on the financing of initiatives to preserve the environment, save energy, promote alternative energies, etc.

Saving and welfare products:

- **Investment funds**

The Spanish Association of Collective Investment and Pension Fund Undertakings (INVERCO) has published a set of rules laying down the requirements to be met by Ethical, Supportive and Ecological Investment Funds. These have been accepted by the National Securities Market Commission. They must establish value and/or negative criteria which must necessarily be met by the securities in portfolio.

- The securities included in the investment will be determined by an independent ethics committee, or otherwise they must be included in an ethical index or qualified as ethical by an independent agency.
- Advertising messages must contain a message along the lines of “Consult the ethical criteria of the Fund or Trust in the prospectus” and a brief description will be given of the ethics of the Collective Investment Undertaking.
- A compulsory quarterly report must be published. In accordance with the first requirement, the fund may follow positive or negative criteria:
 - Positive: if the product encourages investment in or donations to companies or associations considered responsible or which promote sustainable development.
 - Negative: “those excluding investments in companies whose earnings or profits are obtained, in full or in part, from activities going against the investor’s

convictions. If any of these activities are found in a company, its shares would be classified as a security not suitable for investment”.

Value: “those backing investments in companies that make a positive contribution to the development of the investor’s convictions. These criteria assess certain strengths or weaknesses in the actions of companies, but are not sufficiently important to classify a security as suitable or unsuitable for investment”.

- **Current accounts, deposits, savings accounts**

When these instruments are defined as environmental, the financial institutions are ensuring that the balances are geared to pre-established environmental criteria.

Means of Payment

- Credit and debit cards: Several *Spanish Cajas* have credit cards bearing the image identifying an NGO. By obtaining these cards, customers express their support for the cause of that organisation, which may be environmental. In these cases, the NGO receives half the proceeds obtained by the banking institution on each use of the card.

Credit Instruments

Some *Spanish Cajas* have launched specific lines of financing for environmental projects. In some cases they are aimed at individuals to foster responsible consumption in the home, e.g. encouraging the installation of solar panels in the home.

In other cases, these new lines of financing are aimed at business projects, which must be assessed by a committee to guarantee their environmental nature. In most cases, these lines are offered in collaboration with another entity, such as the Energy Saving and Diversification Institute (IDAE) or the Official Credit Institute (ICO).

Bonds have been developed jointly with the European Investment Bank to finance renewable energy projects, called “Climatic awareness bonds”. These bonds are in turn offered to customers as an environmental product.

Future possibilities

At present, most of the environmental products offered by *Spanish Cajas* are adaptations of traditional banking products. For this reason, they are mostly aimed at traditional consumers with an environmental awareness. However, as legislation progresses and companies acquire more environment-related obligations, new financing needs arise, to which *Spanish Cajas* will have to respond.

By way of example, the Environmental Liability Act passed this year requires companies to furnish a number of bank guarantees to cover any environmental liabilities they may incur. This provides a new business opportunity for our *Spanish Cajas*.

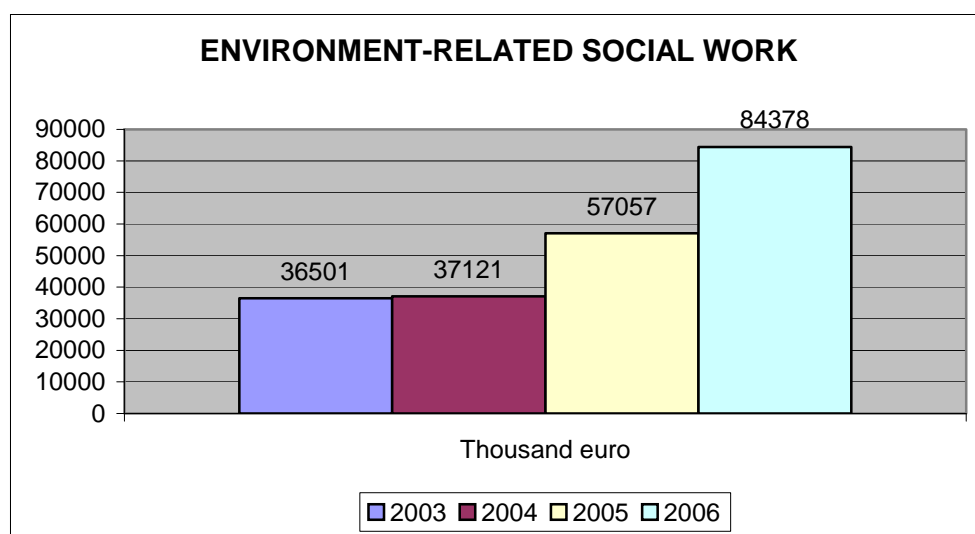
OBRA SOCIAL

The *Obra Social* undertaken by *Spanish Cajás* naturally include important environmental actions.

Some of the most important actions include:

- Acquisition and management of natural spaces
- Training and Awareness
- Financing of research projects

EVOLUTION OF ENVIRONMENT-RELATED *OBRA SOCIAL* IN RECENT YEARS



The Natural Environment is one of the eight social areas among which the *Obra Social* funds of *Spanish Cajás* are divided. These funds have not only increased in net content in recent years, but moreover their weight in the overall *Obra Social* has increased from 3.2% in 2003 to 5.5% in 2006.⁴

⁴ Figures taken from the *Obra Social* Annual Reports 2003, 2004, 2005 and 2006.