

Ethical finance

Indicators

Ethical finance: The Co-operative Bank

Socially responsible investment: The Co-operative Asset Management

Targets 2009

- ✔ Devise and implement a Co-operative Investments shareholder engagement programme on the effects of neonicotinoid pesticides on bee population decline (page 43).
- ✔ The Co-operative Investments to launch two new ethically screened investment funds (page 45).
- ⊖ Consider the development of an arrangement whereby a deduction is made, at CFS' cost, from international payments fees, in order to support funding of The Co-operative's international development activities (page 46).
- ↶ Consider a distinctive social and ethical consumer proposition for the general insurance business (page 46).

✔ target achieved ⚠ close to target ✖ target not achieved
 ⊖ on track ↶ behind schedule

Targets 2010

- The Co-operative Asset Management (TCAM) to integrate climate change impacts into fund analysis on all core equity investments.
- TCAM to co-file shareholder resolutions at Royal Dutch Shell plc and BP plc regarding tar sands operations.
- Consider a distinctive social and ethical consumer proposition for the general insurance business.
- Launch a Social Banking Unit to bring together banking services for the environmental, social and charity sectors.

Materiality and strategy

The Co-operative Financial Services (CFS) is the group of businesses that comprises The Co-operative Bank (including **smile**), The Co-operative Insurance, The Co-operative Investments, The Co-operative Asset Management (TCAM) and, from August 2009, Britannia. CFS' core business activity is the provision of financial services – banking, insurance and investments – to corporate, business and personal customers. In 2009, following the merger, CFS had an operating profit of £178.3m and total assets at year-end of £68.8bn. Loans and advances to bank customers were £34.1bn and deposits £32.5bn¹. Investments totalled £25.5bn², including listed equities of £4.6bn³. In relation to the provision of ethical finance and investments, CFS seeks to be the leading retail bank and institutional investor in the financial services industry.

The bank launched its Ethical Policy⁴ in 1992, with the most recent iteration being launched in 2009 following extensive customer consultation. It covers all assets and liabilities held on the bank's balance sheet (eg, retail and syndicated loans, corporate leasing, retail deposits and savings, and treasury dealings), and the investment of all retained balances. From 1 August 2009, the Ethical Policy extended to include Britannia's assets and liabilities (see below). The Policy is currently unique in UK retail banking, in so far as it contains explicit clauses, mandated by bank customers, that restrict the provision of financial services to certain activities and sectors. An Ethical Engagement Policy⁵ was launched in June 2005, and is implemented by TCAM on behalf of The Co-operative Investments. The Ethical Engagement Policy guides TCAM's approach to engagement with investee companies. TCAM discloses its entire UK and overseas voting record via its website⁶.

Assurance

The bank's Ethical Policy implementation and TCAM's responsible investment activity are, like the rest of this Report, subject to rigorous third-party verification (pages 12 and 13). Whilst many financial services organisations now produce social and environmental reports, few, if any, subject their core business activity – the provision of finance – to independent scrutiny or assurance. Assurance provider, Two Tomorrows, has provided a high level of assurance (pages 117–118) over the bank's Ethical Policy implementation and associated data. In order to do so, auditors investigated, using a 10% sample level, the veracity of policy implementation; reviewing case files and assuring themselves of the integrity of the process and outcome.

The Co-operative Bank – merger with Britannia

The merger of The Co-operative Bank and Britannia Building Society took effect on 1 August 2009. At the point of merger, Britannia's assets and liabilities were transferred to the bank's balance sheet and became subject to the bank's Ethical Policy.

An extensive six-month ethical audit established that the vast majority of customers were compatible with the bank's Policy. The audit reviewed over 13,000 facilities and identified 25 that would be proscribed by the Policy. In 15 instances facilities were withdrawn. Progress, or otherwise, on the disposal of the remaining facilities will be covered in subsequent Reports. As with the application of the Policy to bank customers, the ethical audit of Britannia customers was subject to independent assurance by the sustainability auditors, Two Tomorrows.

From the point of merger, applications for all new and renewal facilities for Britannia customers have been subject to the process established for new-to-bank customers⁷.

The Co-operative Bank

Screening of finance

Following the merger (page 6), facilities are provided to some 89,000 corporate, business and wholesale market customers⁸. Ethical Policy compliance is secured, in the main, via self-completion questionnaires, which are incorporated within application forms and authenticated by account-opening staff. Ongoing compliance is affirmed remotely via a central screening exercise undertaken on a biannual basis.

For large relationship customers⁹, ethical compliance is confirmed via direct investigation by business development managers and reviewed on an annual basis. Business development managers are issued with Ethical Policy guidelines that set out the criteria

to be considered in the provision of facilities and make explicit where involvement is prohibited. High-risk sector guidelines detail corporate activities that are considered to present an elevated Ethical Policy risk (eg, the manufacture of chemicals) and where referral to the Ethical Policy Unit is mandatory.

Referrals are made to the Ethical Policy Unit by account-opening staff, business development managers and credit risk managers seeking to ensure that prospective business opportunities are Policy compliant. In most cases, independent analysis is commissioned from EIRIS¹⁰, the leading independent ethical investment research organisation. During 2009, the bank's Ethical Policy Unit reviewed 441 (2008: 356) potentially problematic financial opportunities. Of these, 43 (10%) were found to be in conflict, and the business opportunity declined (2008: 36, or 10%). In 2009, the annualised gross income foregone by the bank as a result of ethical screening was an estimated £17.7m (2008: £16m)¹¹.

Bank – ethical screening referrals and outcomes

	2006	2007	2008	2009
Declined	29	32	36	43
Accepted	271	316	320	398
Total	300	348	356	441

On the basis of customer confidentiality, the bank is generally unable to name businesses found to be in conflict with its Policy. However, all referrals to the bank's Ethical Policy Unit are subject to independent third-party scrutiny. In addition, Two Tomorrows liaises with CFS' Internal Audit function to pursue a broader level of assurance on the quality of the referral process in operation across the business.

Performance benchmark

The Co-operative Bank was named Sustainable Bank of the Year by the Financial Times in June 2010, out-performing 26 entrants from across 17 countries.

Performance benchmark

Research undertaken by the Ethical Consumer Research Association in 2009¹² reviewed 28 providers of cash and current accounts in the UK and awarded 'Best Buy' status to The Co-operative Bank and **smile**, 'for their ground-breaking ethical policies'.

Performance benchmark

In 2009, an ethical finance website¹³ was developed by EIRIS, to provide consumers with ratings of financial institutions' green and ethical profiles. The Co-operative Bank (including **smile**) was the highest-rated financial institution, and The Co-operative Insurance was the highest-rated insurance provider.

An Ethical Policy training programme is available to all staff via the intranet, within bank staff induction programmes, and as part of annual training reviews for customer-facing departments. In 2009, the programme was completed by 682 members of staff (2008: 1,112 ●), broadly proportionate with reduced bank recruitment in 2009. In early 2009, the programme was updated to incorporate developments arising from the 2009 Ethical Policy review.

All business referrals by issue 2009

	Estimated income foregone 2009
Animal welfare 63 finance opportunities were referred in connection with animal welfare, of which four were declined. Issues of concern included: animal testing for household products; and retail of fur. For further details, see page 34.	£1,111,000
Ecological impact 154 finance opportunities were referred in connection with ecological impact, of which 16 were declined. Issues of concern included: support for fossil fuel extraction and production; unsustainable biofuel production; and manufacture of chemicals linked to long-term health concerns. For further details, see pages 65, 79 and 85.	£899,000
International development and human rights 152 finance opportunities were referred in connection with international development and human rights, of which 20 were declined. Issues of concern included: ownership by, and transfer of armaments to, oppressive regimes. For further details, see page 25.	£822,000
Social inclusion Seven finance opportunities were referred in connection with financial inclusion, of which two were declined. For further details, see page 49.	£358,000
Diversity Nine finance opportunities were referred in connection with diversity, of which one was declined. For further details, see page 54.	£1,000
Other On occasion, the bank will review businesses in areas not explicitly covered by its Ethical Policy, but where there are pressing ethical/sustainability concerns. In 2009, 56 finance opportunities were referred to the Ethical Policy Unit in connection with potential ethical/sustainability issues, none of which were declined.	£0
Total	£3,191,000

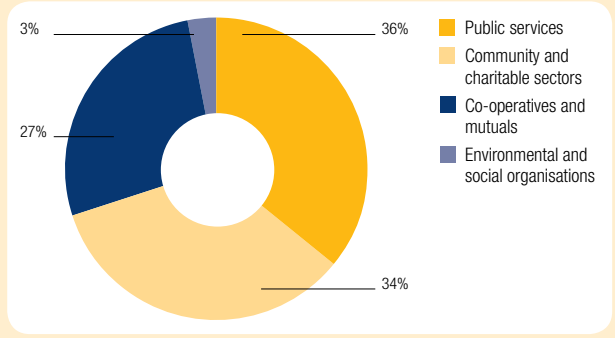
Corporate and business banking customer profile

Annual analysis is undertaken of the bank's corporate and business banking assets (eg, loans and overdrafts) and liabilities (eg, deposits). This is designed to assess the extent to which the bank's products and services support organisations that are considered to make a particularly positive contribution to society. Analysis shows that 52% (2008: 54%) of liabilities and 25% (2008: 23%) of assets are derived from business activities that have a distinct co-operative, ethical or social purpose. Britannia's support for the social housing sector contributed to the increase in 'positive' assets of £1,095m in 2009. 'Positive' liabilities increased by 33%, or £495m, in 2009, with growth primarily in the 'co-operative' and 'public services' sectors. In 2009, consideration was given to establish a Social Banking Unit to bring together banking services for the environmental, social and charities sectors with a view to launching in 2010.

Average bank liabilities (eg, deposits)

	2007	2008	2009 [former bank in square brackets]
Total (£m)	2,103	2,749	3,814 [3,628]
Positive contribution to society (£m)	1,232 (59%)	1,492 (54%)	1,987 (52%) [1,886 (52%)]

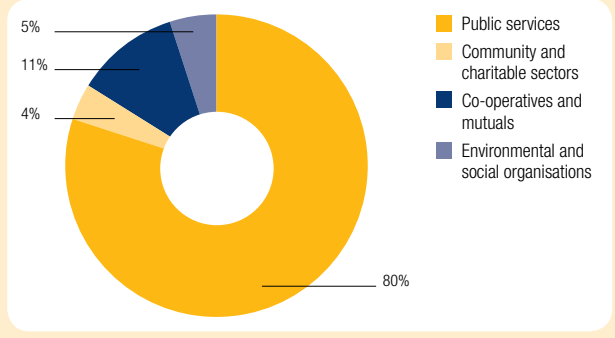
Bank liabilities: positive contribution to society (Total: £1,987)



Average bank assets (eg, loans and overdrafts)

	2007	2008	2009 [former bank in square brackets]
Total (£m)	2,706	3,450	7,785 [4,107]
Positive contribution to society (£m)	751 (28%)	795 (23%)	1,890 (24%) [1,040 (25%)]

Bank assets: positive contribution to society (Total: £1,890)



The Co-operative Asset Management

Investment strategy

TCAM employs a focused, active investment approach, having divested of the majority of its passive holdings in 2008. TCAM recognises that a company's corporate governance and the way it manages its social, ethical and environmental (SEE) risks are important indicators of the long-term value of the company. For this reason, every stock recommendation produced by investment analysts contains, along with analysis of financial performance and prospects, an overview of the quality of corporate governance and SEE risk management evident at the company. These recommendations aim to inform the stock selection decisions of TCAM fund managers.

Performance benchmark

UK general public's social, environmental and ethical ranking of financial services providers¹⁴

	2005	2006	2007	2008	2009
The Co-operative	1 (14%)	1 (18%)	1 (14%)	1 (9%)	1 (17%)
HSBC	=2 (3%)	=2 (2%)	2 (4%)	2 (6%)	2 (6%)
Lloyds TSB	=4 (2%)	=2 (2%)	n/a	3 (2%)	3 (3%)
Barclays	=2 (3%)	=2 (2%)	n/a	4 (2%)	4 (3%)
Halifax	=4 (2%)	=2 (2%)	n/a	5 (1%)	5 (2%)

Approach to engagement

During 2009, TCAM's engagement activity again focused on corporate governance and SEE issues. Corporate governance activism is primarily driven via voting at the general meetings of investee companies (as summarised in the tables on UK voting and overseas voting on pages 42 and 43 respectively). Engagement on specific areas of corporate governance concern (eg, short-termism in remuneration policy) is undertaken on a case-by-case basis, following on from voting outcomes. For reporting purposes, SEE 'engagement' is restricted to instances where TCAM has pressed a point of difference with a company or where it has lent weight to a significant positive initiative. Engagement is not taken to cover endorsements of corporate behaviour that are essentially the sector norm, or close to it. Research, letters of enquiry and seminar attendance are not reported upon as engagement.

UK voting

At year-end 2009, 67% of equity holdings by value were listed on the UK Stock Exchange (2008: 70%). A UK Corporate Governance and Voting Policy sets out positions with respect to voting outcomes¹⁵. TCAM will vote against a resolution where it 'is inconsistent with its guidelines, does not accord with best practice, and is not in shareholders' long-term interests'. However, in the first instance, and where the issue is not considered fundamental, an abstention will tend to be registered, and a vote against a company only registered when it has not responded to previous engagements. Abstentions will also be registered where performance falls short of best practice, but is not considered to be significantly material. Where there are plans not to support a company's board, the affected company is informed in writing in advance of concerns.

In 2009, 207 notifications were issued detailing an intention to vote against, or to abstain on, a management resolution, or to support or abstain on a shareholder resolution (2008: 285). In 10 instances (2008: 19), a response from the company was forthcoming and, in three cases (2008: five), this resulted in a change to the proposed vote.

In 2009, TCAM voted on 3,882 UK resolutions tabled by management (2008: 5,229), and was represented at four annual general meetings (2008: three). Opposition to management voting (whereby votes were cast against a resolution or an abstention was cast) accounted for 417, or 11% of the votes cast (2008: 570, or 11%), and confirmed TCAM's status as one of the most active and assertive institutional investors in the UK. The major areas of opposition were executive incentives, executive remuneration and board independence.

Ethical and sustainability engagement, 2009

Concern	Companies	Push for change
International development and human rights (policies and systems) Limited attention to human rights issues presents a cause for concern where companies generate significant income in developing countries.	Energy – Aggreko	Notwithstanding the company's positive impact with regard to the provision of emergency power supply in post-conflict and post-disaster situations, company urged to adopt policies and systems to address human rights risks within its sphere of influence (see page 25).
International development and human rights (oppressive regimes) There are many oppressive regimes across the world; however, Sudan presents a compelling case for urgent action. Since 2003, an estimated 200,000 Darfurian civilians have been killed, 2 million displaced and 3.5 million made reliant on humanitarian aid.	Engineering – Weir Group	Engagement commenced in 2007, urging company to establish a human rights policy to formalise its approach to human rights and political risk in countries in which it operates (see page 26).
Biodiversity (pesticides) The use of pesticide products containing neonicotinoids is considered to be a contributory factor in the decline in bee numbers across the world.	Chemicals – Bayer AG	Company urged to consider the implications arising from a restriction on use of neonicotinoid pesticides on plants where bees are known to forage (see page 79).
Climate change (unconventional oils) Increasing investment by oil companies in unconventional fossil fuels, such as Canadian oil sands and US oil shales, risks dangerously increasing atmospheric CO ₂ levels and causing local ecological disaster.	Oil & gas – BP & Shell	Engagement commenced in 2008. TCAM co-filed shareholder resolutions requesting that companies report on the investment risks associated with Canadian oil sands projects and their plans to address them (see page 66).
Climate change (coal-fired power generation) Brown coal (lignite), commonly used in power generation, contains more moisture and less energy than conventional coal. International Power operates two brown-coal power stations in Victoria, Australia. A typical brown-coal power station in Victoria is 37% more carbon-intensive than a power station using conventional coal ¹⁶ .	Utilities – International Power	Engagement commenced in 2008, urging company to adopt meaningful and challenging targets for reducing the carbon intensity of its operations (see page 67).

UK voting

Category	Resolutions tabled by management			Voted against resolution and management			Abstained on resolution and against management		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
Report and accounts	712	392	293	52	26	15	78	50	39
Board independence: director election	2,622	1,568	1,138	192	53	60	231	142	61
Remuneration report: Executive	657	371	303	149	74	73	131	110	79
Shares: Executive incentives	219	137	80	83	26	20	23	42	22
Political donations	141	95	83	9	1	1	0	2	0
Other governance	4,483	2,736	1,985	64	12	14	41	32	33
Total	8,834	5,299	3,882	549	192	183	504	378	234

Votes in 'opposition' to acceptance of report and accounts on basis of poor social, ethical and environmental risk reporting

	2006	2007	2008	2009
Votes against	40	31	12	5
Abstentions	38	62	45	27

Annual reporting TCAM votes against accepting the report and accounts of UK-listed companies that fail completely in respect of SEE risk disclosure¹⁷, and which operate in sectors deemed to be medium or high SEE risk. Where there is limited disclosure (or no disclosure in low-risk sectors) abstentions are registered. For the

poorest-performing companies¹⁸ within medium- and high-risk SEE categories TCAM will, as part of its considerations, factor into voting decisions current SEE risk disclosure, previous voting history and engagement on SEE issues.

In 2009, TCAM voted on the acceptance of UK company report and accounts on 293 occasions (2008: 392) and, in 54 instances, voted against, or abstained on, the acceptance of report and accounts (2008: 76). Of these 54 votes, 15 related to instances where a vote against was registered, of which five¹⁹ related to SEE matters (2008: 12); and 39 related to instances where a vote to abstain was appropriate, of which 27 related to SEE matters (2008: 46). Voting rationale continues to be publicly disclosed on the website on a quarterly basis²⁰.

Of the 12 companies voted against in 2008, TCAM retained holdings in four in 2009²¹. Of these, improvements in SEE reporting progressed at two. In one instance, TCAM was able to support the resolution on the company's report and accounts in 2009 (Brit Insurance Holdings plc), and, in one instance, an abstention was deemed appropriate (London Stock Exchange Group plc). However, in two instances (Carnival plc and Umeco plc), persistent SEE concerns meant that votes continued to be registered against these companies' report and accounts in 2009. In both cases, this represented the fifth consecutive year that such a vote had been registered. Of the 45 companies where abstentions were registered in 2008, TCAM retained holdings in 26 companies in 2009. Of these, 17 companies improved their disclosure sufficiently for TCAM to subsequently support the resolution to receive their report and accounts, whereas one did not make any improvements, and a vote against was registered in 2009.

Executive remuneration In 2009, the remuneration resolution was voted against in 73 cases (2008: 74) and, in 79 cases, an abstention was posted (2008: 110). In five instances²², the remuneration resolution was ultimately defeated. This is the highest number of remuneration resolutions defeated in a single year, and reflects the extent to which pay and bonus structures have been implicated in the current financial crisis. In two cases (Bellway and Royal Dutch Shell), TCAM attended AGMs to highlight its concerns over remuneration and bonuses.

Board independence In line with the Combined Code on Corporate Governance, TCAM considers that, generally, at least half the board, excluding the Chair, should comprise independent non-executive directors (NEDs). In smaller companies, TCAM believes that there should be at least two independent NEDs, with the Chair being independent upon appointment. Votes against were registered in 60 cases (2008: 53) and votes to abstain registered in 61 cases (2008: 142). In the majority of instances, oppositional voting was driven by a lack of NED independence and unsatisfactory board meeting attendance. In 2007, research undertaken by Deloitte & Touche LLP determined that 89% of FTSE 100 and 71% of FTSE 250 companies had a board that was at least one-half independent, excluding the Chair²³.

Overseas voting

At year-end 2009, 33% of equity holdings were listed outside the UK; principally in the United States, continental Europe and Japan (2008: 30%). During 2009, TCAM voted against, or abstained on, 4,941 overseas resolutions tabled by management (2008: 975). Voting continues to be publicly disclosed online on a quarterly basis²⁴.

Independent shareholder resolutions

In the UK, it is uncommon for shareholders to table independent resolutions, owing to the large number of shares required and a general aversion amongst large UK institutional investors to such practices. TCAM was faced with only two such resolutions in 2009, and voted to support one and registered an abstention on the other. This latter resolution was connected with a sustainability issue for Tesco plc (page 26).

In contrast, in the United States, independent groups frequently secure the required number of shares to enable a resolution to be tabled, although these are framed as advisory resolutions, where the outcome or request is not binding on the company. When considering such resolutions, the 'burden of proof' is considered to rest with companies and not independent shareholders.

In 2009, TCAM's international shareholdings grew due, in part, to the launch of the Sustainable World Fund in October 2009. This is reflected in the increase in independent shareholder resolutions presented to TCAM from 119 in 2008 to 646 in 2009. Of these, 162 were opposed or an abstention registered (2008: 61) and 484 supported (2008: 58). In 151 cases (2008: 21), resolutions had ethical or sustainability components, of which 110 (73%) were supported (2008: 13, or 62%). These related to: climate change (28) (page 65), international development and human rights issues (28) (page 26), diversity issues (20) (page 54), animal welfare (nine) (page 35), social inclusion (four) (page 49), chemicals (three) (page 85), biodiversity (three) (page 79), waste and recycling (one) (page 73). A further 14 resolutions concerned other issues, including nuclear power, genetic modification and tobacco. The remaining 41 resolutions where an abstention was registered concerned: social inclusion (20) (page 49), climate change (four) (page 65) and international development (three) (page 26). A further 14 resolutions concerned other issues, including nuclear power and disclosure of prior governmental employment by directors.

Overseas voting

Category	Total		Resolutions tabled by management						Resolutions tabled by independent shareholders					
			For resolution and management		Against resolution and management		Abstained on resolution and against management		For resolution and against management		Against resolution and for management		Abstained on resolution and against management	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Board composition and election of directors	1,238	10,179	768	6,653	200	917	259	2,543	8	42	2	6	1	18
Remuneration	354	990	160	244	122	509	40	100	8	124	20	8	4	5
Other governance	1,394	3,428	987	2,291	122	406	232	466	27	181	19	49	7	35
Political contributions	2	27	0	0	0	0	0	0	2	27	0	0	0	0
Ethics and sustainability	21	151	0	0	0	0	0	0	13	110	5	0	3	41
Total	3,009	14,775	1,915	9,188	444	1,832	531	3,109	58	484	46	63	15	99

Ethics and sustainability overseas voting by category

Ethical Engagement Policy category	Number of resolutions		For independent resolution and against management		Against or abstain on independent resolution	
	2008	2009	2008	2009	2008	2009
Environmental sustainability (pages 65, 73, 79 and 85)	8	39	6	35	2	4
Human rights and armaments (page 26)	7	26	7	25	0	1
Social inclusion (page 49)	0	24	0	4	0	20
Diversity (page 54)	5	20	0	20	5	0
Animal welfare (page 35)	0	9	0	9	0	0
Trade and labour rights (page 26)	1	5	0	3	1	2
Other	0	28	0	14	0	14
Total	21	151	13	110	8	41

Performance benchmark

Research undertaken by the Ethical Consumer Research Association (ECRA) concluded that The Co-operative merited a 'Best Buy' in both its insurance²⁵ and investment²⁶ sector buyers' guides. These reports commend its best-in-class engagement and transparency policies. Furthermore, ECRA noted that The Co-operative Insurance 'is highly unusual in subjecting its engagement policy to rigorous independent scrutiny'²⁷.

Social private equity investment

Since 2007, CFS has committed £14.5m of shareholder capital to social private equity, of which to date £7.5m has been drawn down. Funds committed include:

- £5m committed to support UK start-ups in the most deprived areas, of which £2.9m drawn down²⁸.
- £4.5m invested to support the solar, wind and waste sectors globally²⁹.
- £3m committed to support small businesses in former coal-mining areas in the UK impacted by pit closures, of which £0.2m drawn down³⁰.
- £2m committed to a sustainable property fund, of which £0.2m drawn down³¹.

CFS – Sustainable Procurement and Supplier Policy

CFS has a set of sound sourcing practices to address matters of ethics, the environment and corporate reputation, via its Sustainable Procurement and Supplier Policy (SPSP). To maintain the integrity of the SPSP, it also directs supplier relations relating to joint Trading Group and CFS procurement of goods not for resale. In four separate tenders, businesses were excluded from CFS supply arrangements during 2009:

- A division of a major European defence contractor was excluded from a hardware security contract. Business was engaged in the supply of military aircraft and missile systems to Middle Eastern and Southeast Asian states classified as oppressive regimes.
- Two businesses were excluded from a joint Trading Group and CFS gas supply contract. In one instance, the business had a significant presence in Burma. In the second instance, the business was part-owned by a European government considered an 'oppressive regime'.
- One business was excluded from a joint Trading Group and CFS electricity supply contract. The business had a significant presence in Burma.
- An insurance company with operations in Burma was excluded from a joint Trading Group and CFS insurance contract.

Products and services

think card

The think credit card supports ethical consumerism, whereby purchases from 17 specified ethical partners³² attract preferential rates of interest. The ethical partners have been identified as organisations that provide ethical or sustainable products or services, or are considered to be 'ethical leaders'³³ in their sector. Upon activation of the card, the bank, in partnership with the RSPB, arranges for a third of an acre of Indonesian rainforest to be purchased and protected in the customer's name³⁴. For every £100 spent on the card, a further 25 pence is donated to rainforest protection. Since the launch of the partnership in December 2008, £59,792 has been raised for the RSPB, enough to help protect 1,139 acres of rainforest.



Families living on the Harapan rainforest's edge are supported to generate an income using the rainforest's resources in a sustainable way via think card donations.

Sustainable funds

© In 2009, TCAM launched two new unit trusts: The Sustainable Diversified Trust – a cautious managed fund providing capital growth from a range of asset classes, mostly in the UK; and the Sustainable World Trust – a balanced fund of overseas equities and bonds. The new trusts operate the same 'best-in-class' approach to ethical investment as the established Sustainable Leaders Trust. The three sustainable funds place an increased emphasis on holding shares in businesses whose products or services make a net positive contribution to environmental and social well-being, and those companies that are considered corporate responsibility leaders in a particular sector. In addition, the funds withhold investments from certain proscribed activities: armaments, animal testing for cosmetics, nuclear power, tobacco and companies that operate in countries where human rights are systematically violated.

Performance benchmark

In 2009, the Sustainable Leaders Trust achieved an 'A' rating from Old Broad Street Ratings (OBSR). The rating recognises the fund's strong research-based investment process and long-term investment approach with a focus on SEE and governance issues³⁵.

Performance benchmark

CFS is a signatory to the United Nations Principles for Responsible Investment (PRI), a voluntary investor initiative comprising six Principles³⁶ aimed at raising awareness of SEE and governance issues and providing a framework for investors to integrate such issues into the investment process. The current number of signatories stands at 689³⁷. In the 2009 PRI Reporting and Assessment Survey, CFS ranked in the top quartile on four out of six Principles (2008: five out of six).

Carbon offset – products

Carbon offsetting is a standard feature of all The Co-operative Bank's mortgages and virtually all new car insurance policies (page 63).

Home and motor insurance

⊙ A project to consider a distinctive social and ethical proposition for the home and motor insurance business was initiated in 2007 and continued through 2009.

International payments

⊙ Consideration is being given to the development of an arrangement whereby a deduction is made, at CFS' cost, from international payments fees, in order to support funding of The Co-operative's international development activities. Progress will be dependent on the development of new IT systems infrastructure, among other factors.

Influence and action

Corporate Governance

In September 2009, TCAM made a submission to HM Treasury's Walker Review of Corporate Governance of the UK Banking Industry. TCAM supported the review's recommendation for the chair of banks and other financial institutions' board committees to stand annually for re-election and, in addition, called for the annual re-election of all board members, in order to increase accountability to shareholders. TCAM also supported the Walker Review's recommendation that fund managers should disclose their voting record, calling for such disclosure to be mandatory.

Good Companies Guide

The Observer/TCAM Companies Guide³⁸, published for the third year in August 2009, focused on the issue of boardroom gender balance, and ranked the FTSE 350³⁹ on two considerations: policy and practice, and presence and seniority of women on the board. Alongside this, the Guide provided sector-specific analysis on the banking sector and commentary on recruitment.

Read more in this Report

- Bank Ethical Policy declines – throughout the Report as detailed on page 41.
- Bank finance for renewable energy (page 65).

- TCAM engagements and overseas shareholder resolutions – throughout the Report as detailed on page 45.
- Basic bank account provision (page 48).
- Bank accounts for prisoners (page 48).
- Bank support for credit unions (page 48).
- Microfinance (page 25).
- Carbon offset products: mortgages and insurance (page 63).
- Charity credit cards (pages 26 and 79).

Accompanying notes

- 1 As at 31 December 2009.
- 2 Including investment property.
- 3 Listed equities under management on behalf of policyholders, as at 31 December 2009.
- 4 www.goodwithmoney.co.uk/ethical-banking
- 5 Ibid.
- 6 www.goodwithmoney.co.uk/ethical-insurance-and-investments
- 7 Britannia International, based on the Isle of Man, presents an exception to this. Compliance with Manx law restricts the transfer of data from the Isle. Ethical evaluations are, therefore, conducted on site by trained staff and are subject to quarterly audit by the Social Goals department.
- 8 Including some 10,700 former Britannia customers.
- 9 Corporate banking customers with a turnover in excess of £1m.
- 10 Experts In Responsible Investment Solutions. www.eiris.org
- 11 Relates to those potential financial opportunities foregone following referral to the Ethical Policy Unit. Figure comprises the first year of income foregone as a result of business turned away in 2009 (£3,191,000) and income foregone from declines made in the years 2000–2008 (£14,537,000), on the basis that financial services provision will have retention beyond 12 months.
- 12 Ethical Consumer (May/June 2009), Issue 118.
- 13 www.youreticalmoney.org. The site rates financial institutions according to six areas: Ethical Lending/Insurance, Responsible Lending, Financial Exclusion, Environment, Carbon Neutrality and Equal Opportunities. The bank and insurance business rated as 'good' (the highest rating) in all categories except Responsible Lending, for which the bank rated 'average' and the insurance business 'n/a'.
- 14 One of the two measures supporting CFS' KPI of market-leading social responsibility. Source of data: TNS Omnibus (December 2009) – survey of UK general public's unprompted awareness of corporate responsibility. Representative sample, all adults aged 16+.
- 15 www.coopinve.myzen.co.uk/downloads/voting-guide-05-10.pdf
- 16 Why Brown Coal Should Stay in the Ground, Institute for Sustainable Futures, University of Technology, Sydney, May 2002.
- 17 Based on Association of British Insurers (ABI) guidelines on socially responsible investment – www.abi.org.uk/Display/File/85/SRI_Guidelines.doc
- 18 As determined by Experts In Responsible Investment Solutions (EIRIS), who identify bottom decile performers, based on SEE risk reporting and environmental reporting, and produce a universe of companies to which the voting policy is now applied.
- 19 Domino Printing Sciences plc, Colt Telecom Group SA, Headlam Group plc, Umeco Plc and Renishaw Plc
- 20 www.goodwithmoney.co.uk/servlet/Satellite/1200903577492,CFWeb/Page/GoodWithMoney
- 21 In the remaining eight cases, holdings were divested of, or companies were subject to mergers, meaning stocks were no longer held in 2009.
- 22 Bellway Plc, Royal Bank of Scotland Group plc, Provident Financial plc, Royal Dutch Shell plc and Punch Taverns plc.
- 23 Board Structure Report 2007, Deloitte & Touche LLP.
- 24 www.co-operativeinvestments.co.uk/servlet/Satellite/1239949742617,CFWeb/Page/Investments-UnitTrustsAndISAs
- 25 Ethical Consumer (Nov/Dec 2007), Issue 109.
- 26 Ethical Consumer (Mar/Apr 2008), Issue 111.
- 27 Ibid.
- 28 Bridges Ventures Community Development Venture Fund II.
- 29 Impax Environmental Markets plc.
- 30 Enterprise Ventures Growth Fund.
- 31 Bridges Sustainable Property Fund LP.
- 32 Traidcraft, IKEA, Lush, theTrainLine.com, Raleigh, Adili.com, EthicalSuperstore.com, Nigel's Eco-store, Energy Saving World, Ecofirst, Ecotricity, Arriva, Ethical Consumer Magazine, The Ecologist, The Co-operative Electrical, The Co-operative Food and The Co-operative Insurance.
- 33 Leadership positions are identified via independent third parties, such as Ethical Consumer Research Association (ECRA).
- 34 www.rspb.org.uk/supporting/campaigns/sumatra
- 35 OBSR rates approximately 250 funds out of a universe of around 2,500 funds in the market. There are three tiers of rankings, 'A', 'AA' and 'AAA' where AAA is the highest. OBSR stated: 'any fund which receives an OBSR Fund Rating is exceptional of its type'. www.obsr.co.uk
- 36 The six Principles are: '1: We will incorporate ESG issues into investment analysis and decision-making processes; 2: We will be active owners and incorporate ESG issues into our ownership policies and practices; 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest; 4: We will promote acceptance and implementation of the Principles within the investment industry; 5: We will work together to enhance our effectiveness in implementing the Principles; and 6: We will each report on our activities and progress towards implementing the Principles.'
- 37 www.unpri.org/report09/
- 38 The third Good Companies Guide was published in The Observer on 23 August 2009.
- 39 The Good Companies Guide analysed 295 companies out of the FTSE 350. The Guide excludes Investment Trusts and a number of companies new to the index that have not yet completed a full reporting cycle.