people & planet
student action on world poverty and the environment

51 Union Street, Oxford OX4 1JP
telephone: 01865 245 678
facsimile: 01865 791 927
email: ian.Leggett@peopleandplanet.org
online: http://peopleandplanet.org

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Dear Sir Phillip,

Thank you for meeting us at the end of last month in Edinburgh, and for your clear commitment to take our concerns and suggestions to the Board of RBS, and to Sandy Crombie as the senior independent director and chair of the Board's sub-committee on sustainability.

We are now writing, as agreed, to set out specific suggestions and proposals to address some of the concerns we have about the practices, policies and governance of RBS. These reflect the different competences and remits of each of our organisations.

Our concerns about RBS, especially as a primarily tax-payer owned bank, relate to the severe environmental consequences of financing projects and companies involved in exploitation of fossil fuels, and particularly tar sands, as well as to human rights abuses, and other social concerns, including poverty and conflict arising from these activities. We provide, below, a list of steps we believe RBS should be taking towards meeting these concerns, including issues of disclosure, risk management, investment practices, due diligence and governance.

1. **Improved disclosure of financial arrangements**. It was clear in our discussions that full and prompt disclosure of information is essential to better understand the consequences of the bank's activities. Where RBS is involved in project or corporate finance, either as a lead underwriter or as a member of a syndicate, we expect the bank to disclose the client and purpose of the finance. The bank should also disclose the nature and magnitude (if not the client) where such arrangements are declined for reasons of human rights, environmental, ethical or social performance. At an absolute minimum, the bank should disclose annually the total number and value of such declined arrangements in each sector.

2. **Improved disclosure of greenhouse gas emissions embedded in the bank's project and corporate finance portfolio**. Given the tightening in legislation relating to greenhouse gases, there is growing probability that high carbon intensity assets will become more expensive to operate, undermining cash flows and leading to refinancing risk. There is consequently a direct incentive for the bank to analyse the carbon emissions of clients operating in carbon-intensive sectors and providing related disclosure to stakeholders. While compilation of a 'carbon footprint' for every customer might be onerous, it would surely be practical to measure and disclose such 'embedded emissions' for all loans or arrangements over, say £10m. There are companies that could provide such a service. Moreover, failure to collate such information could be considered a breach of the Board's duty under Company Law to consider significant risks to the business including those from environmental issues.

3. **Risk management.** We noted in our meeting that you failed to mention environmental or social risks in your Business Review. While we appreciate some issues are captured in your sustainability reports, we reminded you that under UK Company Law the Business Review is also obliged to consider and alert shareholders to such risks. While some investors may read your sustainability reports, others will not, and the disclosure of environmental or social risks is not simply a matter of interest to explicitly 'socially responsible investors', it is a legal duty held by the directors to all members of the company. For example, the risks of extant legal challenges to the Canadian government,

as regards to its constitutional obligations to uphold the rights of indigenous peoples certainly place a medium-term financial risk on your investments in companies operating in tar sands if these cases are successful. We also understand that your SEC report of risks *does* make reference to environmental factors such as climate change, and we would fully expect these reports to be aligned.

4. **Human Rights obligations**: There is an emerging consensus, reflected in the 2010 report on Business and Human Rights of the UN Special Representative, Professor Ruggie, that the responsibility to respect human rights applies to all companies in all situations. He defines the scope of this activity by "the actual and potential human rights impacts generated through a company's own business activities and through its relationships with other parties, such as business partners, entities in its value chain, other non-State actors and State agents". This clearly applies to financial products and services supplied by RBS. We challenge RBS to live up to its stated Group Position on Human Rights, which specifies a commitment "to respecting and upholding human rights in all areas of our operations and within our sphere of influence". Simply having a policy statement and excluding some countries from your operations does not address this.

5. **Social responsibility:** We believe RBS must acknowledge and act upon its responsibility for the downstream impacts of its financial support for client businesses. Such impacts on local populations are particularly severe in cases such as tar sands and other extractive industries. RBS should require clients to provide evidence of Free Prior Informed Consent (FPIC) from First Nations (and other indigenous peoples) on projects and activities affecting their community. FPIC reflects international law, minimizes conflict, and was adopted by TD Bank Financial Group as part of its Environmental Management Framework in 2007.

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7. **Investment criteria:** RBS should establish clear criteria to guide its project and corporate finance in high-risk sectors such as weapons, mineral extraction and fossil fuels. Pending such development RBS should announce and implement a moratorium on the extension of any new credit guarantees or debt/equity issuance underwritings to companies that own and/or are undertaking activities within an agreed list of project types and companies involved in such projects (including unabated coal power; and the upstream and midstream development activities associated with unconventional fossil fuels including tar sands). The bank should further commit to a progressive review of all such existing investments in the Bank's lending portfolio. We firmly believe that the case for enhanced due diligence in financing such risky industries is as compelling as the case for phasing out financing for the manufacture of cluster munitions, steps already undertaken by RBS.

8. **ESE policy development:** We note that RBS intends to produce ESE policy statements this year on oil and gas; energy generation and on mining. These will provide the bank with clear opportunities to show a commitment to demonstrably moving away from a business-as-usual model. Nevertheless, a policy generated only by internal processes and people is likely to be constrained by existing policies and priorities. We recommend that the bank consult the UK Sustainable Development Commission, or another independent body with relevant and appropriately broad expertise to facilitate discussions internally and with relevant stakeholders.

9. **The Equator Principles:** You noted the bank's commitment to the Equator Principles for project finance. But as you know, there are significant shortcomings with implementation of the principles. We call upon RBS to ensure exemplary practice through enhanced transparency and accountability, including external, independent and transparent third party verification of compliance with the principles and voluntary extension of your application of the Principles to all corporate finance activities conducted by the bank.

10. **Engagement practices:**
RBS should commit to active engagement with its corporate and project finance clients wherever evidence emerges of a lack of compliance with EP or equivalent standards. The bank should use its leverage as a financier to seek rapid and appropriate rectification,

remediation and compensation to protect the corporate reputation of both the bank and its client.

There is also a longer term case to shift the bank to a more progressive agenda, that will enhance the value of the bank over time. In respect of fossil fuel investments, that case arises from the conclusions of the Stern Report and with the strategic direction, which has been set by the Committee on Climate Change. Given that taxpayers comprise the vast majority of RBS's shareholders, we believe that the usual practice of treating climate change costs as externalities is simply not open to RBS since these costs will inevitably fall on taxpayers. In that sense it is in the interests of all your shareholders that you take a leadership role in re-shaping the bank's role in supporting the oil, gas and coal sector.

In this context, we believe it is incumbent on the Bank and its Board and management to consider a wider public interest, and to the Bank's role in delivering public policy objectives. It is in this spirit that we present two further suggestions:

i). UKFI investment mandate. You clearly see it as a role for Government to set the framework of policy and regulation within which financial institutions operate. We believe it is in RBS' interests to engage in proactive dialogue with your largest shareholder, UKFI, to develop a stronger, considered mandate that aims to achieve the highest levels of environmental and social governance. In our view, the current mandate has failed to provide you with the levers to make more considered decisions that will benefit the taxpayer in the long-run. UKFI should provide RBS with a clear mandate to forgo short-term profits where environmental or human rights issues are at risk. The recently adopted UKFI sustainability policy falls below best practise expectations, which does a disservice to both RBS, and the taxpayer.

ii). Green Investment Bank: The recently elected Conservative-Liberal Democrat coalition government has expressed its intention to establish a public Green Investment Bank (GIB) to help fund the UK's transition to a low carbon economy. The format of this bank has yet to be finalised, but we believe RBS should be at the centre of these discussions, and should be looking to work proactively with the GIB to develop joint financing programmes for renewable energy and green transport infrastructure schemes in the UK. Pursuing this strategy presents a very practical way in which RBS' directors could look to create long-term benefit for its primary shareholders, the British taxpayer.

We look forward to hearing from you.

Yours sincerely,

Ian Leggett
Director, People & Planet

Johan Frijns
Coordinator, BankTrack

Duncan McLaren, Chief Executive, Friends of the Earth, Scotland

Kevin Smith, Platform

Deborah Doane
Director, World Development Movement

Peter Frankental
Economic Relations Programme Director
Amnesty International UK

Brant Olson, Campaigns Director, Rainforest Action Network

Jeni Mackay

Director, SEAD (Scottish Education and Action for Development