

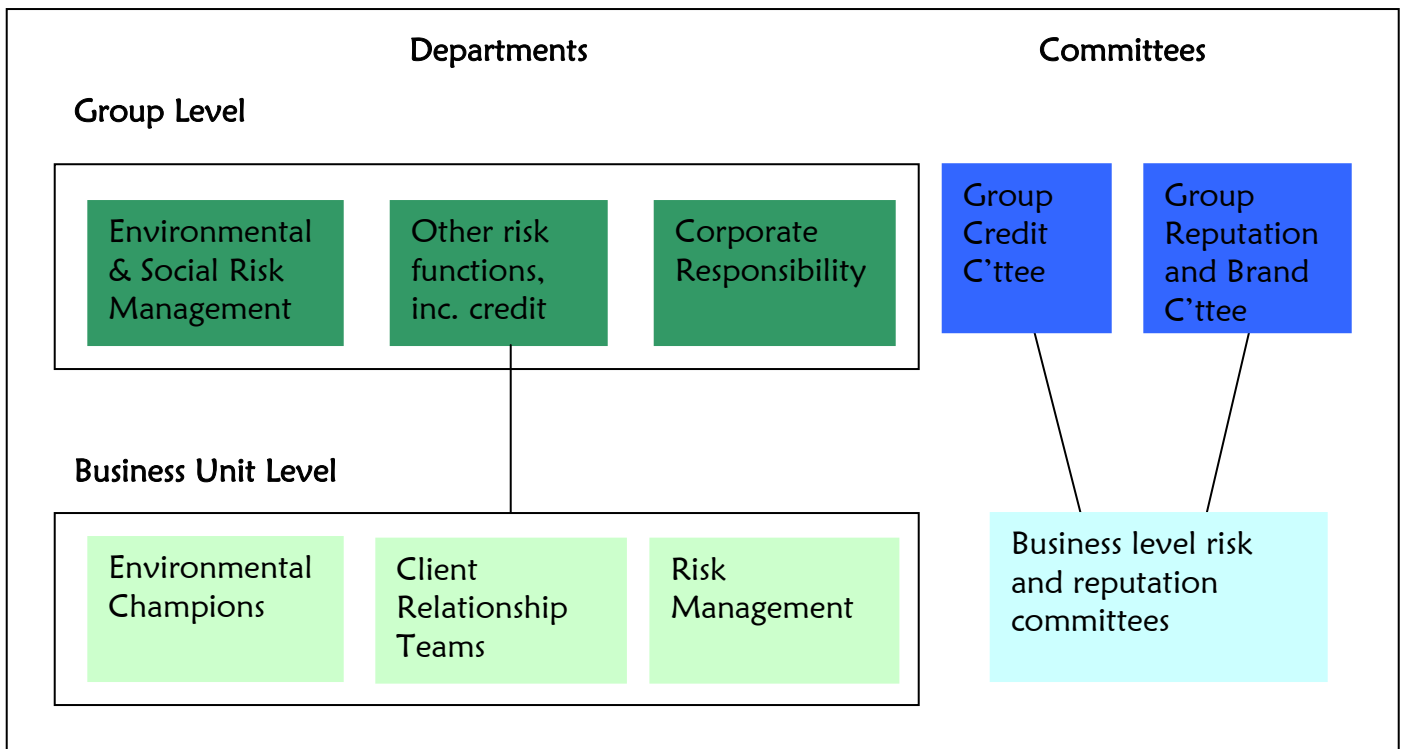
ENVIRONMENTAL AND SOCIAL RISK ASSESSMENT IN LENDING

Barclays has a strong and longstanding commitment to managing the environmental and social issues associated with corporate lending. We recognise that a bank's major environmental impacts tend to be indirect, arising from the provision of financial services to business customers operating in sensitive sectors. We also believe that taking due account of our environmental and social impacts is not only the right thing to do, but also makes good business sense.

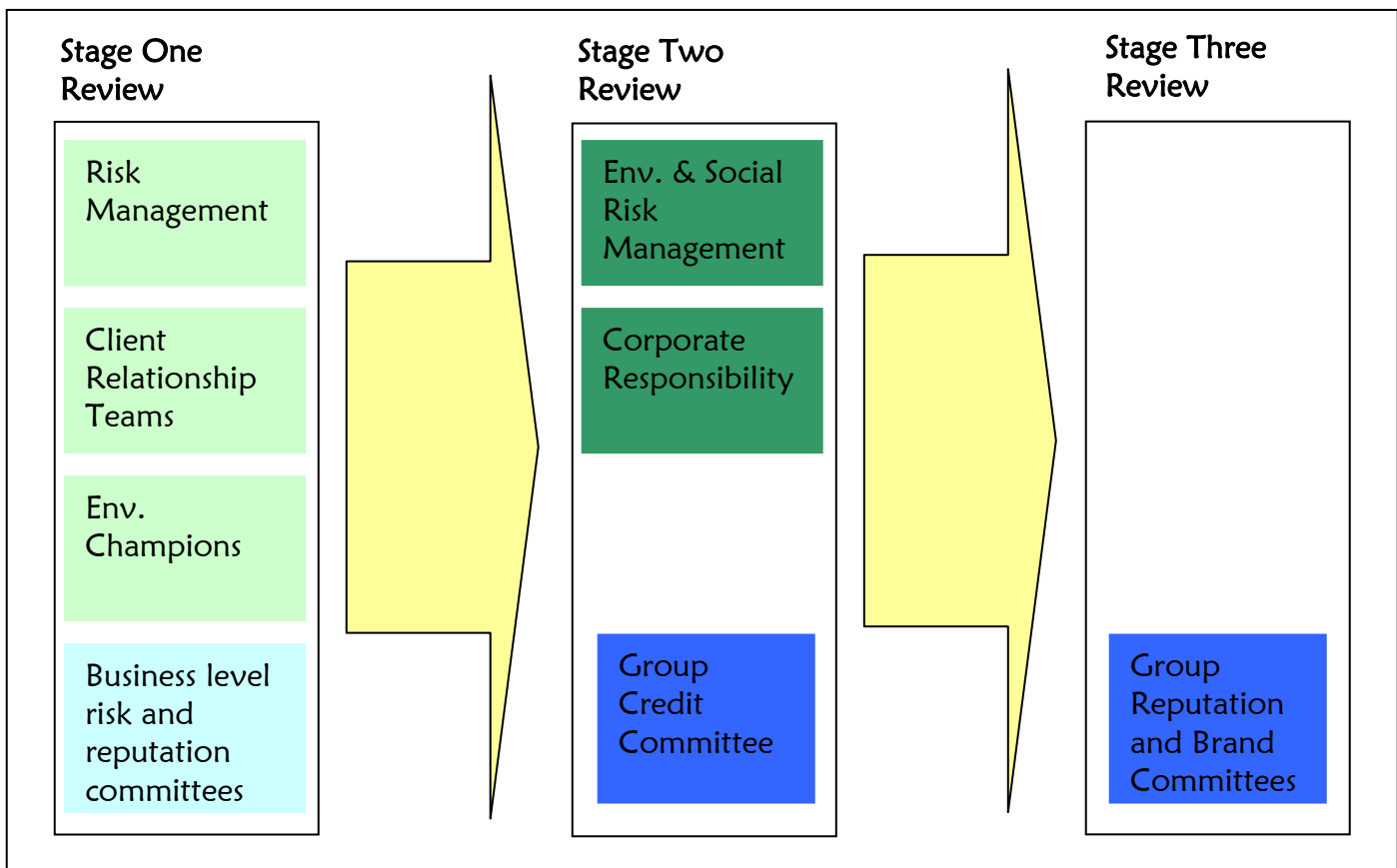
Environmental and Social Risk Structure

There is an established interface between Barclays lending managers, credit teams, the central Environmental and Social Risk Policy team and our senior Brand and Reputation Committee. Initially, the lending manager will liaise with the credit teams and, if a proposed transaction is judged to have material environmental or social sensitivities, advice/guidance can be obtained from the central Environmental and Social Risk Policy team and the Corporate Responsibility team. Further escalation to the Brand and Reputation Committee is effected in cases where the sensitivities are likely to remain significant.

Structure chart of the consideration of Environmental and Social Risks



Environmental and Social Risk Assessment Process



- **Environmental and Social Risk Management Team** – a dedicated team advising on larger, international, and often complex transactions where there are environmental and/or social sensitivities. Based in London, it is supported by a network of Environmental Champions across the world tasked with the dissemination of information, raising environmental and social risk awareness, providing guidance, as well as acting as a referral point in their regions.
- **Group Reputation and Brand Committee** – This committee was established early in 2004, as a sub-committee of Barclays Executive Committee, with the objective of protecting and enhancing the Barclays brand. The committee considers issues that could affect our organisation’s reputation, acts as a think-tank for the development of our corporate responsibility agenda and assesses our progress as a responsible organisation. Members of the committee include divisional Chief Executives and heads of key central support areas.
- **Additional Environmental Risk Review** – In addition to the referral process already described, all business clients operating in environmentally sensitive sectors and which are subject to sanction by Barclays Group Credit Committee, are referred

to the Environmental and Social Risk Policy team for assessment (every two years as a minimum). This ensures that banking relationships, in addition to particular lending transactions, are included in the risk assessment process.

Environmental and Social Risk Training

As part of Barclays' ongoing commitment to sustainability, we continue to focus on raising the awareness of environmental and social risk issues among employees across our global operations. Training frontline employees helps us ensure environmental and social risks are considered alongside more traditional business risks when lending decisions are made.

In 2006 we focused in particular on our staff based in South Africa, New York and London. Overall we coached over 122 people, including staff from the credit, investment banking, legal, sales and structured finance teams.

Industry Specific Guidance

In 2006 we extended our industry specific risk guidance to cover over 50 environmentally and socially sensitive sectors, which span 10 broad industry headings. The content of these guidance notes has been considerably expanded to include an overview of each industry's regulatory situation, and guidance about the sort of measures we would expect companies in that sector to be taking to identify their risks and implement the appropriate actions and controls. For example, an issue that may not be immediately obvious with health care companies is the disposal of surgical waste. Likewise the question of recycling and product stewardship is becoming more pressing for telecoms companies. The revised guidance also places far greater emphasis on aspects of social issues and human rights – an area of increasing concern for the NGO community.

This guidance now covers the following sectors, and a number of sub-sectors within them:

- Agriculture and fisheries
- Metals and mining
- Oil and gas
- Power generation, supply and distribution
- Chemicals, pharmaceuticals manufacturing and bulk storage
- General Manufacturing
- Utilities and waste management
- Infrastructure
- Service industry
- Forestry and logging

Referrals to the Environmental and Social Risk Policy Team

In 2006 the Environmental Risk Policy Team considered 36 project finance transactions, 6 of which were not ultimately progressed. There are a range of reasons which either singly or in combination determine whether or not we proceed with a project finance deal; one of these considerations relates to environmental and social issues. In addition to applying the Equator Principles to project finance deals, we also undertake comprehensive environmental and social reviews of other deals too (although the Equator Principle framework can not be applied). We feel this is truly applying the “spirit of Equator”. In 2006 we did this for 268 non project finance transactions.

Number of project finance by categorisation, status and region

	Category			Total	Total 2005
	A Higher Risk	B Medium Risk	C Lower Risk		
Number of project finance deals	8	10	18	36	68
Deals completed or pending	4	9	17	30	43
- of which, number where E/S related changes were made.	4	9	17	30	Not reported
Deals considered, but not participated in	4	1	1	6	25
Projects referred from EU	6	4	15	25	58
Projects referred from Africa	1	2	2	5	8
Projects referred from Asia Pacific	1	2	0	3	2
Projects referred from North America	0	2	1	3	0

Number of project finance and non project finance deals considered by industry sector:

Sector	Percentage the sector contributes to total Group loans and advances	Environmentally Sensitive Sub-sector	Project finance* deals	Non project finance deals referred to E and S Risk Team
Agriculture, forestry, fishing	1.40	Agriculture and Fisheries	0	5
	5.40	Forestry and Logging	0	17
Manufacturing		Manufacturing	1	23
		Chemicals, pharmaceuticals manufacturing and bulk storage	0	14
		Mining and Metals	3	41
Energy and water	2.40	Power generation	14	105
		...Of which non fossil fuels	6	73
		Oil and gas	3	23
		Utilities and Waste Management	1	17
		Infrastructure (including dams, pipelines)	3	8
Business and other services	10.30	Service Industry	11	15
Totals	19.50		36	268

* Project finance as defined by Basel II www.bis.org/publ/bcbs118.pdf.

Environmental and Social Impact Assessment Policy

In 1997, Barclays adopted and implemented a lending policy structuring our consideration of environmental issues into project finance transactions. This has evolved into our current Environmental and Social Impact Assessment (ESIA) Policy, which focuses on the environmental and social sensitivities of our lending and is designed to ensure that lending proposals are rigorously assessed to identify, quantify and, where appropriate, mitigate the environmental and social impacts.

Equator Principles

The ESIA Policy is the mechanism by which Barclays applies the Equator Principles (EPs) – a voluntary framework banks can use to manage the environmental and social aspects of project financing.

Barclays was one of four banks to collaborate with the International Finance Corporation (IFC), part of the World Bank, in drafting the EPs, which are based on

internationally recognised IFC standards. The EPs were launched in June 2003 and formally adopted at that time by Barclays and nine other banks.

The Equator Principles were re-drafted in July 2006 to adopt the new IFC Performance Standards. The Equator Principles apply globally and to all sectors and have been revised in the following ways:

- The Principles apply to all project financings with capital costs above USD 10 million. This threshold was lowered from USD 50 million.
- The Principles now also apply to project finance advisory activities.
- The revised Principles now specifically cover upgrades or expansions of existing projects where the additional environmental or social impacts are significant.
- The approach in applying the Principles to countries with existing high standards for environmental and social issues has been streamlined.
- Each EPFI is now required to report on the progress and performance of Equator Principles' implementation on an annual basis.
- Stronger and better social and environmental standards, including more robust public consultation standards.

The number of adopting financial organisations had risen to 45 at the start of 2007. For further information on this initiative see the [Equator Principles website](#).

The Equator Principles have prompted other sectors besides banking to take account of Equator-related criteria, e.g. law firms, environmental consultants and construction/engineering companies, all of which are associated with aspects of project development. This “ripple effect” has broadened awareness of the environmental and social implications of projects and the need to manage these effectively if access to the maximum number of potential financiers is to be achieved.

“The Equator Principles are playing a critical role in developing best practice in socio-environmental impact assessment and mitigation for major international projects. Although still in the fledging stage, the Principles do appear to be taken seriously by the adopting organisations and we have been involved in assessing several projects against EP compliance. They have increased transparency and accountability of project developments and have added strength to the traditional consultants’ arguments that project proponents should proactively manage their stakeholder responsibilities.”

Robert Evans, formerly Principal in Charge International EIA, Parsons Brinkerhoff, London.

International law firm Freshfields Bruckhaus Deringer described the Equator

Principles as “a bright beacon for responsible banking” and concluded that they “have delivered material benefits to the way project finance banks look at the social and environmental impacts when assessing projects” at the launch of their report [‘The World Bank is not enough’](#) (February 2005) and its associated [press release](#).

Scope of Barclays Environmental and Social Impact Assessment Policy (ESIA)

The Barclays ESIA Policy covers our business worldwide when considering financing, advising or other roles related to projects, and applies in the following circumstances:

- Where there is a legal requirement for the project developer to conduct an environmental and social impact assessment and/or
- Where Equator Principles apply (in line with other EP adopting banks Barclays uses IFC environmental and social screening criteria to categorise projects as A, B, or C – high, medium or low risk.)
- Where there is a known application of funds to a potentially sensitive project.

There is no minimum financial threshold for the application of Barclays ESIA policy.

Policy Process – Project Assessment

Barclays requires an ESIA to be undertaken for all transactions that fall within the scope of our ESIA Policy. This must comply with Barclays minimum requirements for an ESIA and be undertaken by an independent consultant that appears on our preferred panel.

If an ESIA has already been undertaken in connection with the relevant project, but does not meet the above requirements, then Barclays may require a second opinion of the ESIA be commissioned and undertaken by an independent consultant that appears on our preferred panel, in accordance with our minimum requirements for a second opinion of an ESIA.

Our aim is to ensure we have access to an objective, comprehensive and professional report on the environmental and social risks associated with the project.

Post ESIA process

The independent consultant will confirm whether the project currently meets the requirements of our ESIA policy and the Equator Principles. They are required to highlight areas where full compliance is not clear, alongside recommended actions that will need to be taken in order for the project to work towards compliance. The

consultant is also expected to provide guidance on the associated costs and timescales. Barclays will then work with the consultants and our client (the borrower) to understand whether the recommended actions to attain Equator compliance are achievable in the project and commercial context. If this is so, the actions will be incorporated into an Environmental and Social Action Plan. The implementation and monitoring of such plans is covenanted in the loan documentation i.e. it becomes a condition of the loan agreement.

If we feel that that the required action may prove too challenging to implement, or the client is unwilling to proceed, we will decline to participate in the project. However, as a general rule, we prefer to collaborate to improve project standards rather than simply step aside to allow a potentially less environmentally or socially inclined financial institution to support the transaction.

Barclays Minimum Requirements for an ESIA

Barclays sets out a minimum scope for an ESIA and has a separate scope for a second opinion of an existing ESIA. These contain details of our requirements in relation to aims, data collection and assessment, baseline assessment, treatment of subcontractors, risk assessment, monitoring/mitigation plan, environmental and social management, and training and reporting.

“When working to Barclays' requirements for ESIA work, URS is always aware that the expected scope is regularly updated and extended by the Bank to reflect current consultancy thinking. Such assignments present their own unique challenges given the range of issues which must be addressed.”

Rob Fitzsimmons, Managing Principal, URS London

The scope includes the areas listed on the following page.

- An assessment of the project impacts and related project categorisation in line with the Equator Principles.
- An assessment of the project against:
 - IFC Policies and World Bank Guidelines
 - Equator Principles
 - Currently and reasonably anticipated environmental legislation (both national and international)
 - Current and reasonably foreseeable sector-specific policies, e.g. forestry, water infrastructure, which are proposed/supported by internationally recognised non-governmental organisations
 - Voluntary Principles on Security and Human Rights (where appropriate)
 - Industry best practice
- The ESIA scope takes into consideration:
 - Physical resources - landscape, topography, soils, air quality and climate (including global warming/Kyoto Protocol), surface water, ground water, geology/seismology,
 - Ecological resources - flora, fauna, habitats and species, fisheries, aquatic biology, wildlife, forests, rare/endangered species, wilderness or protected areas,
 - Marine issues – bathymetry, currents, waves, tides, sediment transfer, sea level rise, marine water quality, sediment quality, marine archaeology,
 - Human and economic development - including, but not necessarily limited to, population and communities (numbers, locations, composition, resource dependency, employment); industries; infrastructural facilities (including water supply, sewage, flood control, drainage); transportation (roads, harbours, airports, navigation) and traffic (particularly during construction); land use planning (including dedicated area uses); power sources and transmission; agricultural development; mineral development; tourism resources,
 - Quality of life values - including, but not necessarily limited to, socio-economic values; public health; noise disturbance; recreational resources and development; aesthetic values; archaeological or historical treasures; cultural values,
 - The level and adequacy of public consultation. This should include details of: public meetings/hearings and attendance; press releases; a list of questions asked and the project responses to these; notifications/consultation with the principal community/interest groups, timing of consultation and whether it would constitute prior, informed consultation,
 - A review of material relating to the assessment of alternatives (including project approaches and locations which could achieve the same or equivalent results, as well as the ‘Do-Nothing’ option) made by the project sponsor. This should consider, from a broad perspective, whether there are alternative approaches or locations which require more detailed consideration and how that may be undertaken,
 - Identification of the extent to which the proposed project would irreversibly and irretrievably commit resources or curtail the potential uses of the environment. For example, highways that cut through wetlands or a natural estuary can result in irretrievable damage to those sensitive ecosystems.

Review of Policy Procedures Barclays ESIA Policy (originally EIA policy) has been in existence since 1997. It is reviewed on an annual basis, to ensure it remains fit for purpose, user friendly and value adding. This review process is overseen by the chief credit officers of our businesses and ratified at the Wholesale Credit Risk

Management Committee. The policy has been refined to ensure consistency with the Equator Principles. The last policy review was completed in June 2006.

Preferred independent consultants

Barclays has a panel of preferred independent consultants for undertaking ESIA reviews. The panel consists of 20 firms of consultants which have been selected on a global basis for their environmental and social risk expertise, industry and geographical strengths and experience of working with financial institutions. The consultants' ongoing suitability is assessed on a regular basis.

To support the implementation of Barclays ESIA Policy, the process is fully documented with a policy statement, process document, a categorisation tool, ESIA scoping documents, and the topical record of preferred consultants. These documents are available to all our employees electronically.

“The (Barclays) group had a well-developed existing set of policies and procedures, and had a sustainability/business line interface already in place that worked, ensuring a very high level of rigour in the practical application of social and environmental issues in project due diligence.”

Sustainable Finance Ltd (consultants), following a Barclays workshop on project finance due diligence, October 2004.

External Engagement

- **United Nations Environment Programme – Finance Initiative**

In February 2004 Barclays was elected by the wider membership of [UNEP FI](#) onto the Initiative's steering committee. Since that time the Steering Committee has proposed, and the Initiative has agreed, a revised constitution which provides for far greater engagement with the wider membership through a network of regional task forces, and greater regional representation on the Steering Committee. By this means some of the leading finance sector players are better able to share experience and best practice with other institutions which may be at an earlier stage of developing their approach to sustainable finance.

- **Equator Principles**

Barclays continues to remain fully involved in the ongoing evolution and implementation of the [Equator Principles](#).

- **Business Leaders Initiative on Human Rights**

We are proud to be a founder member of the Business Leaders Initiative on Human Rights. In 2006 we were pleased to support the second three-year phase of work.

Our primary challenge for 2007 in this regard will be to contribute to the work of the BLIHR workstream looking at 'Good Governance in Sensitive Countries'. This is examining the role of companies in protecting and upholding human rights when operating in areas of weak, lax or corrupt governance. The objective is to develop guidance for businesses which will assist in providing a benchmark for good practice and scope out the boundaries of corporate responsibility in this area.

As a BLIHR member, we hosted an outreach seminar on human rights for other banks in April 2006 which included presentations from the legal, NGO, investor and ethical index perspectives. This discussion initiated further interest among banks which contributed to a human rights project proposal being adopted by the United Nations Environment Programme – Finance Initiative (UNEP FI) in November 2006.