

**CATHOLIC CHURCH
SOCIAL DOCTRINE SEMINAR**



**ETHICAL PRINCIPLES OF THE
SANTANDER CENTRAL HISPANO BANK
*RESPONSIBILITY FUND, FIM***

Madrid, May 31, 2003

INSTITUTO SOCIAL “LEÓN XIII” (FUNDACIÓN PABLO VI)

Operating Principles

According to the Catholic Church's fundamental principles on Social Doctrine, the present Ethical Code is set up around the following operating principles¹:

1. The protection of Human Life.
2. The respect for Human Rights.
3. The defence of Peace.
4. The Environmental protection.
5. The protection and promotion of Human Health.
6. The Corporate Social Responsibility.

These operating principles establish certain criteria which will be considered as excluding (they imply that not all companies shall be selected for the ethical fund investments); the sixth principle is also of a positive valuing nature; it will influence the final evaluation of any company to be invested in.

The non-observance of these principles and criteria on the part of a subsidiary company² shall involve the exclusion of the parent company.

1.- EXCLUDING CRITERIA

1.1.- First operating principle: The Protection of Human Life.

No investment shall be made in companies whose activity attempts upon human life.

Its corresponding excluding criteria:

1. Not to invest in companies that conduct their research with or manipulate human embryos.
2. Not to invest in companies devoted to the manufacture or distribution of abortive products.
3. Not to invest in companies which support sterilization campaigns among the population of less-developed countries.
4. Not to invest in companies which direct or indirectly back up terrorist groups.

1.2.- Second operating principle: The respect for Human Rights.

No investment shall be made in companies whose activity is not respectful of human rights.

¹ The contents of this set of ethical principles can be contrasted with those institutions and organisations whose main way of acting observes the Catholic Church's Social Doctrine and whose opinion shall be taken into consideration at the annual review.

² It is established as a **criterion for relevant participation in a company when at least one of the following circumstances apply** (cf. Provision n° 56 of 26/1998 Act, of July 29, on Discipline and Regulation of Credit Entities; Provision n° 69 of 24/1988 Act, of July 28, from the Securities Market):

- When a company holds direct or indirectly at least a 5% share in the voting rights of a subsidiary.
- When, without having acquired such a percentage, it exerts significant influence over the entity, by being able to appoint trustees in a large enough quantity to keep its control.
- When the income received from the subsidiary reaches 10% of the total amount of revenues of both the parent and its subsidiaries.

Its corresponding excluding criteria:

1. Not to invest in companies that have been repeatedly and systematically prosecuted for non-compliance with Labour or Social Security laws, nor in companies that hold relevant equity participation in companies that have.
2. This fund screens out companies that have been issued final judgement orders in judicial proceedings with regard to safety at work.
3. Not to invest in companies that have been sued for unfair child labour practices.
4. Not to invest in companies that have been repeatedly and systematically prosecuted for discrimination against any of their workers on the grounds of sex, race, religion, ideology or any other social condition, or that have significant involvement in other companies that have.
5. Not to invest in companies that have been repeatedly sued for employing bait or offensive advertising for their products, nor in companies that hold relevant equity participation in companies that have.
6. Not to invest in companies that have been repeatedly prosecuted for violating privacy rights, nor in companies that hold relevant equity participation in other companies that have.
7. Not to invest in companies that promote sexual tourism or that hold relevant equity participation in companies that do so.
8. Not to invest in companies that manufacture or distribute any kind of pornographical material, or that hold relevant equity participation in other companies that do so.
9. Not to invest in companies which back up governments of countries where human rights are systematically being violated, nor in companies that hold relevant equity participation in others that do so.
10. Not to invest in companies that have been repeatedly sued for violating fundamental rights and being disrespectful of human dignity of the populations affected by their projects, nor in companies that hold relevant equity participation in other companies that have.

1.3.- Third operating principle: The defence of peace.

No investments shall be made in companies that manufacture or commercialise armament aimed at the destruction of peoples.

Its corresponding excluding criteria:

1. Not to invest in companies which manufacture or commercialise armament or dual purpose products and technologies, nor in companies with relevant equity participation in others that do so.
2. Not to invest in companies which manufacture specific armament components, nor in companies with relevant equity participation in others that do so.
3. Not to invest in companies which promote violence through the manufacture of inadequate toys or videogames, nor in companies with relevant equity participation in companies that do so.

1.4.- Fourth operating principle: The environmental protection.

No investment shall be made in companies whose activity is not respectful of the natural environment or imposes harmful effects on the environment.

Its corresponding excluding criteria:

1. Not to invest in companies which have been sued for polluting the atmosphere, water or soils with emissions of harmful substances, nor in companies that hold relevant equity participation in others that have.
2. Not to invest in companies which have been sued for misuse of chemical substances, harmful for the environment according to the FAO, nor in companies that hold relevant equity participation in others that have.
3. Not to invest in companies that have been sued for manufacturing, employing for the manufacture of their products, or commercialising with substances which destroy or contribute to the depletion of the Ozone Layer, or that favour the Global Climate Change, nor in companies that hold relevant equity participation in others that have.
4. Not to invest in companies that have been sued for non-compliance with security issues regarding the exploitation of nuclear power plants, nor in companies that hold relevant equity participation in others that have.
5. Not to invest in companies that have been sued for not having the appropriate, secure and responsible policies, procedures and production processes for the management of residues and toxic waste, nor in companies that hold relevant equity participation in others that have.
6. Not to invest in companies that unsustainably exploit natural resources or that hold relevant equity participation in companies that do so.

1.5.- Fifth operating principle: The protection and promotion of Human Health.

No investments shall be made in companies that jeopardize human health, nor in companies whose business practices violate, harm or disobey public rulings or recommendations from the World Health Organization (WHO).

Its corresponding excluding criteria:

1. Not to invest in companies with significant involvement in tobacco, either in its manufacture or distribution, nor in companies that hold relevant equity participation in others with such involvement.
2. Not to invest in companies devoted to the distribution or manufacture of distilled alcoholic drinks, nor in companies that hold relevant equity participation in others that do so.
3. Not to invest in companies that manufacture or operate type B gaming machines (i.e. slot machines), nor in companies devoted to the exploitation of gaming centres where money is gambled in exchange for a possible cash prize, nor in companies that hold relevant equity participation in others that do so.

1.6. - Sixth operating principle: Corporate Social Responsibility.

A wide interpretation of the term leads us to an assessment of all those rules and business activities that define a company as socially responsible (SRC) or capable of executing corporate social responsibility (CSR). Its business practices must stem from the acceptance of ethical principles and refer to all the areas ordinarily covered by the CSR, according to which such practices usually surpass the minimum requirements established by the legislation, or, if it is the case, by the standard practices of most corporations, without jeopardising the economic and financial stability of the company, nor its future potential.

Bearing in mind all the limitations and obligations that have been previously described, the examples of business activities that shall be considered as subject to exclusion are as follows:

1. All companies, or their subsidiaries, which have been issued final judgement orders by ordinary or specific courts, with regard to market competence, consumer abuse, urban infringement or crimes against the Administration of Justice shall be excluded from the fund investment policy.
2. All companies, or their subsidiaries, which, either by themselves or through their administrators, have been issued final judgement orders by a court, with regard to societary crimes, fraud, tax evasion and crimes against the Social Security, shall be excluded from the fund investment policy.
3. All companies, or their subsidiaries, which, either by themselves or through their administrators, may have incurred in actions which may constitute a statutory offence, if they mean violations of transparency and equality of opportunities among investors, shall be excluded from the fund's investment policy.

2.- VALUING CRITERIA

These valuing or positive criteria seek to mark those companies which conduct all their business activities in a socially responsible way.

The fund aims to invest preferentially in companies promoting certain types of socially-oriented activities and it will seek to purchase and hold only securities that the fund's investment advisor believes meet specific social criteria, as specified by this Ethical Code.

1. All business practices committed to achieving sustainable and profitable growth in the Third-World economies through:
 - The construction of autochthonous population (creation of comprehensive framework agreements, promotion of the population in general so that they get to know how to express their creativity and satisfy their bare needs),
 - The promotion and association with microcompanies, will be highly valued.
2. All business practices committed to helping working parents and their children, with real, specific measures, both during the maternity processes, and the childcare responsibilities (e.g. education) and, in general, contributing to a better employment and to the promotion of labour rights, will be highly valued.
3. All business conducts which voluntarily contribute to social welfare will also be highly valued.
4. All business conducts which contribute to, or keep as a criterion, the transparency of information at all levels of their activity, will also be highly valued.
5. All companies that incorporate to their organization and their business conduct, in all or in part, the so-called *Good Management Practices (GMP)* in order to assume a greater social responsibility, will be highly valued.
6. All business practices which contribute to cooperating, developing, and promoting Human Rights, labour law, as well as quality and security at work will also be highly valued.
7. All business conducts that foster or perform the furthering of knowledge and training of staff, and offer resources, both internal and externally, for that purpose, will be highly valued.
8. All companies that stand out by their fostering of the labour and social integration of the disabled will be highly valued.

9. All companies that develop or impel technologies which promote environmental sustainability: recycling of machinery, creation of non-polluting renewable energy generators, or systems which contribute to reducing air pollution, will also be highly valued.

3.- INDICATORS AND VERIFICATION SOURCES

The application of all these principles and criteria requires the help of some indicators or guidelines which allow us to decide if a company abides or not by those criteria. These indicators, duly updated, must include all the aspects relative to the business activity: area of activity, organisational model, declaration of principles, cash and information transparency, mission statement, internal management systems, etc.

The formulation of these assessment indicators eases access to objective and reliable verification sources that inform us about the company's behaviour in real time as well as its tendency to follow good practices. In all cases, the corporate assessment analysis shall be based in the following general sources:

- Questionnaires on ethical aspects of business conduct.
- Direct dialogue with companies.
- Databases with public information on the various business activities.
- Publicly accessible documents as well as company reports.
- Social and environmental audits.
- Financial and cash audits.
- Civil Administration reports.
- Reports from international observatories and agencies.
- Research Centres on Ethics and Corporate Social Responsibility.
- Web sites.
- Legal texts (national, EU, ILO ...).
- NGOs and international organisations' reports.
- Mass-media and specialised press.
- Corporate Codes of Conduct.
- Development Cooperation Projects.
- Others...