

Applying the Integrated Reporting concepts of outcomes and social and relationship capital in the banking industry

<IR> Banking Network

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Introduction

Reporting on outcomes is a requirement of the International Integrated Reporting <IR> Framework (the Framework), but the term “outcomes” has been interpreted and understood differently by reporters in practice.

In the study “*Reporting on Outcomes – An Information Paper*¹” the authors provide a conceptual basis for the term and explain generically what outcomes are under the Framework. They also make observations about the practical challenges around differences in interpretation, issues of measurement etc., when implementing the Framework that correspond to the findings in this paper, which focuses on application of the Framework by banks.

This paper helps to clarify some of the issues that banks have raised when preparing integrated reports and provides insights into current practice of banks’ reporting on outcomes. It also outlines leading reporting practice and articulates the benefits for banks in reporting on outcomes. This paper is intended as a brief practical guide to the industry rather than a conceptual analysis. As such, the paper does not revisit the theoretical underpinning for reporting on outcomes, but instead contextualizes some of the practical challenges that banks face when implementing the Framework.

Outcomes are closely related to the capitals in that outcomes are defined in the Framework as the internal and external consequences (positive and negative) for the capitals as a result of an organization’s business activities and outputs during the period.

The expression of capitals was reviewed in our earlier document – *Applying the Integrated Reporting concept of ‘capitals’ in the banking industry (August 2015)*. Rather than repeat the analysis here, this paper explores how banks communicate their effects on social and relationship capital. This paper does not repeat examples of disclosures around the impact on the capitals under the “direct” (or primary) direction of banks (e.g. measurement attributes such as number of hours of training, brand value, etc.). Instead it will focus on those examples where banks have disclosed the broader impact of their activities and outputs on society (e.g. creating jobs) or what may be seen as an indirect (or derivative) benefit via growth of social and relationship capital.

¹ <http://www.integratedreportingsa.org/Portals/0/Documents/IRCReportingOutcomesIP.pdf>

It is not the purpose of this paper to argue for a change in how commercial banks conduct business, to advocate for specific industry groups and social objectives, or the adoption of more socially engaged strategies by banks.

In addition, by focusing on the contribution of banks to society via its action it is not intended to suggest that social and relationship capital encompass only this element. Indeed other important aspects like strategic partnerships with collaborators in the value chain and relationships with regulators are important aspects of social and relationship capital too.

The paper refers to the members of the banking industry group and its peers as “banks”. In reality, this group consist of financial institutions of various natures and some may more rightly be classified as credit institutions. These distinctions are not made explicit here. Also, the paper refers to commercial, community and development banks. The distinction between these is not always easy to draw but broadly, community banks often focus more on the delivering products and services for customers in a smaller area/community and at times (but not always), have a broader social agenda than commercial banks. Development banks are set up – often with government or supranational involvement – to serve specific social purposes. Finally, various other terms are used to describe (or brand) banks such as “socially responsible banks”, “sustainable banks” etc. This paper does not dwell further on these terms.

Defining outcomes

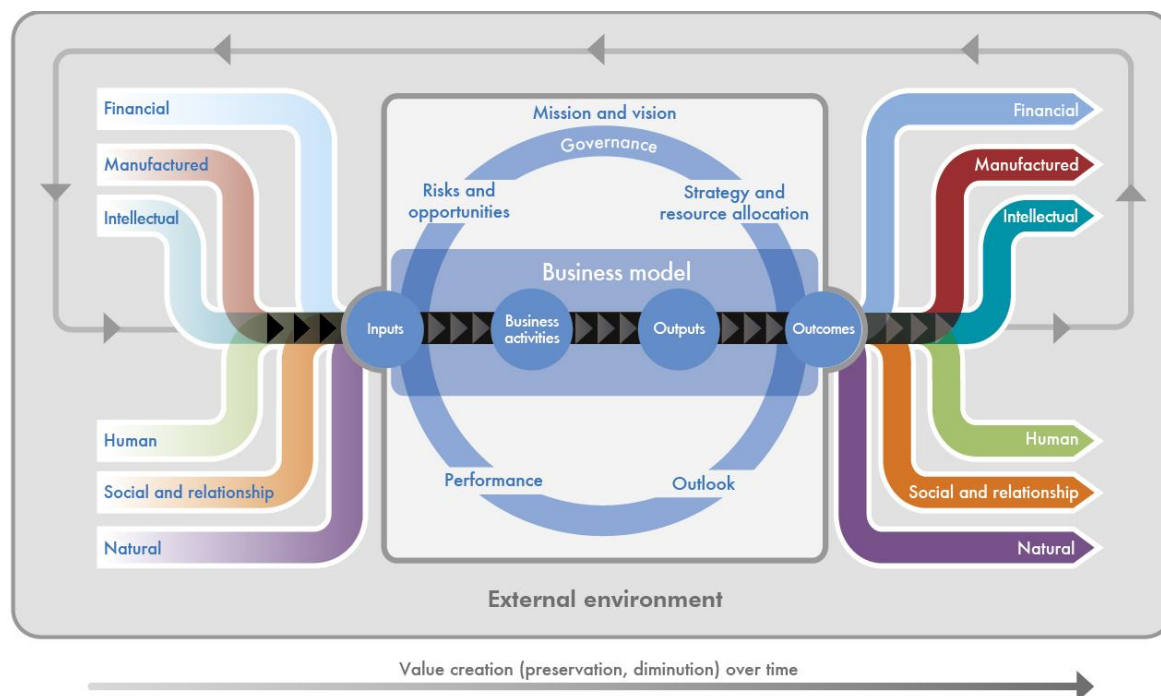
The Framework defines outcomes as follows:

Outcomes are the internal and external consequences (positive and negative) for the capitals as a result of an organization’s business activities and outputs

The Framework provides examples of internal outcomes such as employee morale, organizational reputation, customer satisfaction, tax payments, brand loyalty, and social and environmental effects. It goes on to clarify the broad scope for reporting outcomes as follows:

Identifying and describing outcomes, particularly external outcomes, requires an organization to consider the capitals more broadly than those that are owned or controlled by the organization. For example, it may require disclosure of the effects on capitals up and down the value chain (e.g., carbon emissions caused by products the organization manufactures and labour practices of key suppliers).

Outcomes are linked to the value creation process in the Framework's well-known value creation process diagram as follows:



It follows from the definition above that “outcomes” can be considered as simply the change in the quality, availability or affordability of the capitals an organization uses or affects. However, the definition is clear that in considering outcomes, an organization should think beyond the capitals that it controls or directly influences.

Benefits to banks

Establishing a correlation between a bank's business activities and the impact on society in terms of “value added” is, by its nature, very challenging. Demonstrating causation is incrementally harder. Given the difficulty of this challenge, why would a bank want to report on its effects on social and relationship capital?

One reason may be to justify the bank's role in society. In the wake of the financial crisis, banks have come under scrutiny for being exclusively profit focused and not serving a socially beneficial role in society. To address this perception banks may wish to more explicitly demonstrate their beneficial impact on society.

In addition, a number of banks include directly in their charter a requirement to serve a broader social purpose. This is particularly true for development banks (e.g. World Bank Group) but is increasingly the case also for a number of other banks including those members of the Global Alliance for Banking on Values (GABV)². These banks have an incentive or need to demonstrate

² <http://www.gabv.org/>

their impact on society and we would expect them to develop and report key performance indicators (“KPI”) to measure their strategic success.

Coinciding with this is the call to move from short to long term consideration of the impacts of strategic decisions. Examples are the call for abandoning quarterly reporting and the recently issued report from the World Economic Forum – *“The Global Risk Report 2016”* that points to the need to consider a framework to measure the potential negative impacts of interconnected global risk. Banks hold a central place in this symbiotic global system. The report underscores the importance of reporting on social and relationship capital. It also points to the role banks can have in creating real change in society by profitably investing in infrastructure.

When a bank carries out its business of extending loans (an “output” in Framework terms) it has a powerful impact on the economy. For example, a bank’s lending practices – who it chooses to lend to and how much – will impact the financial resources available for economic prosperity and, on the flipside, creates an inherent risk of “overheating” an economy. For example, a bank may choose to lend to small and medium enterprises (SMEs) or low income earners. In doing so, it will have an impact on the “value chain” - in this case, job and knowledge creation with SMEs or amongst low income earners.

The bank’s activity can affect all types of capital, but what capitals within the bank will change as a result of its activities? It would seem reasonable to suggest that, other than its financial capital, the element of capital most impacted within the bank are its reputation and “social license to operate”, which are elements of social and relationship capital that the bank’s activities help preserve, enhance, reduce or even destroy. Like many other capitals, changes in social and relationship capital may ultimately affect financial capital. The correlation between the bank’s activities and the resulting financial impact will possibly depend on the bank’s business model and purpose behind its activities. A commercial bank may use the activities mostly to maintain its earnings potential whilst others may have found a market niche where social activities more directly translate into financial value.

How should a bank then think about and report its effects on social and relationship capital as an “outcome”? One way for banks to decide what and how to report social and relationship outcomes may be to focus on the reason(s) the bank undertakes its activities and how this generates a wider impact on society. For example:

1. **Commercial activities.** A bank may have a business model and strategy where it targets an underprivileged segment of society in a profitable way. If profit is the exclusive or dominant reason the bank operates, outcomes will often primarily be reflected via the bank’s impact on financial capital (e.g. KPIs like Net Interest Margin, etc.), however social and relationship outcomes (positive and negative, intended and unintended) should not be ignored when they are material.
2. **Relationship activities.** Banks may serve segments that are, initially at least, not profitable for them. They may be required to do this, or choose to do so in an attempt to gain recognition in a country or market. For example, banks in India are required to provide a portion of their loans (2% over 3 years) to underprivileged classes and the agriculture sector³. In this situation, a bank may wish to articulate its activities (which may be loss-making in the short term) as an investment in social and relationship capital. This notion is

³ <http://www.theguardian.com/sustainable-business/india-csr-law-debate-business-ngo>

supported by the authors' previous study on capitals⁴, which noted some banks report KPIs such as "loans to SMEs".

3. **Corporate purpose and charter.** Some banks – including development banks – explicitly describe as a stated purpose (or objective) their aim to generate jobs and create wealth in the economy. Here, the notion of benefiting society is core to the strategy of the bank. In such cases, it may be relevant to think of the outcomes as a "Value Distribution" rather than an increase in any specific capital. Indeed, some banks do choose to present it as such, as reflected in the examples below.

One possible indication of how important a bank's social and relationship capital is to its strategy may be indicated by how it chooses to manage it. Banks that consider having a minimum social and relationship capital as a way to reduce its "reputation risk" may be less proactive than those to whom it is a part of the purpose of the bank. Accordingly they may more often focus on having policies in place ensuring that they don't lend to the "wrong customers" instead of actively pursuing activities to benefit society. Those same banks may also see social and relationship capital and "ESG⁵ issues" as *risks* and report them in the risk section of their integrated report. Banks that have a social impact as their overarching purpose would likely be more proactive in measuring (quantitatively) their impact and more often report social and relationship outcomes as an opportunity for differentiation.

It would be easy to suggest that commercial banks do - and perhaps even should - focus mainly on direct impacts on their financial capital, whereas development banks would be expected to focus more on their social and relationship capital. That however misses the important notion that social and relationship capital can change as a result of the bank's activities and outputs, which may be material in its own right, in addition to leading to long term increases (or decreases) in financial capital. In fact the distinction between commercial and "mission driven banks" is far from clear and hence not helpful.

In any case, a bank should present its outcomes in the context of the strategic intent behind its activities⁶. Failure to do so could be detrimental. For example, by overemphasising the intention to benefit society if in reality the dominant intent is commercial, the bank may be seen as less credible in its general communication. It should be noted that having a commercial purpose for lending activities should be seen as perfectly legitimate and reasonable as long as material implications for social and relationship capitals (e.g. positive or negative social outcomes, either intended or unintended) are disclosed when material.

The previous paper *Applying the Integrated Reporting concept of 'capitals' in the banking industry (August 2015)* dealt with the examples discussed above and they will not be repeated here in detail. Instead this paper focuses on examples demonstrating how banks and other organizations disclose social and relationship outcomes more from a strategic perspective because it is core to their strategy.

⁴ Applying the Integrated Reporting concept of 'capitals' in the banking industry (August 2015)

⁵ Environmental, Social and (Corporate) Governance.

⁶ This does not imply that banks with a purely commercial purpose should ignore reporting on social and relationship capital.

About Corporate Social Responsibility (CSR) and Sustainability Reports

The broader notion of outcomes as discussed above must not be confused with simply providing a Sustainability Report and/or a Corporate Social Responsibility (“CSR”) report.

A typical sustainability report provides measures of a bank’s impact on the environment and society (e.g. its own emissions). However, these impacts are often dwarfed by the indirect outcomes brought about by the bank’s business activities and outputs, such as lending activities. It is these secondary outcomes – when material– that are captured by the illustrations below.

The disclosures described here are also not the same as those typically reported in a standalone CSR report that a number of banks issue today. These reports almost always focus on such measures as the number of loans to SMEs, number of volunteer hours etc. These are technically *outputs* rather than *outcomes* (i.e., consequences for social and relationship and other capitals). That said, in the absence of objective ways to assess changes in social and relationship capital or attribute particular changes to particular activities and outputs, most organizations use output measures as proxies for outcomes. This is evidenced in our previous paper and included in Appendix B.

This paper demonstrates cases where banks have tried to measure their outcomes directly, rather than rely on output proxies.

Measuring social and relationship outcomes

The practical problem of measuring (as in providing a fixed dollar amount) a bank’s social and relationship outcomes is obvious and widely discussed. A recent article from *Stanford Social Innovation Review*⁷ addresses this. It provides a perhaps cynical but pointed comment

"I think most companies right now are doing a sustainability report, but [they're] generally not reporting the bad news, and [instead share] some anecdotes about some of the wonderful things they're doing that they have cherry-picked. So, extractives companies don't say a whole lot about carbon footprints and fossil fuel, and banks don't say a whole lot about the high charges for people with bad credit or the overdraft fees. Having this sustainability report gives them a vehicle to report on the things that they want to report on and that make them look good and skip over the tougher issues."

Mark Kramer, director at FSG Consulting

Banks have been seen as “needing to justify their existence” and in doing so have at times been criticised for claiming too much credit for positive outcomes in society. Most would agree that the core function of banking (intermediation between borrower and lenders and managing risk) is valuable but how to measure it is unclear.

⁷ http://ssir.org/articles/entry/the_wild_west_of_measuring_corporate_sustainability

This practical problem can be illustrated by a simple example:

Bank A is the sole lender to Company B, a pharmaceuticals producer. Bank A provides a five-year \$100 million loan at market rates. Company B also holds equity capital of \$100 million, has 20 skilled employees, and a patent and other resources available to it. Over the five years, Company B chooses to employ 10 new staff for the first two years, but then decides to invest in production efficiencies (machines) and reduce its employee base in Year 3 by 15. Over the period, Company B makes a profit of \$10 million per year. It also creates some externalities, e.g., pollution.

How much value did the bank create? Some questions come to mind immediately:

1. **What should be measured?** Options may include:
 - a. Profit generated by the borrower
 - b. Jobs created by the borrower
 - c. Products or services produced by the borrower (e.g., the loan enabled the company to produce another drug)

Proposal: One solution is to measure the value in the same way as the bank measures its own direct value through the use of KPIs. Hence if the bank measures “employee growth”, then this is something the bank believes is valuable and it would report on how it helps generate jobs via its banking business⁸.

2. **How much value to attribute to the bank’s loan effort?** This issue can be broken into two parts. Firstly, was it a prerequisite for the loan to come from Bank A (i.e., if Bank A had not lent to the company, would another bank have done so)? Some take the (controversial) view that if a bank lends at commercial terms and the borrower had access to similar funding with the same conditions elsewhere, then the bank has not truly “added” anything. It simply carried out its business on market terms. Secondly – if it is only Bank A that would lend to the company, or would do so on conditions that other banks would not (e.g. lending to a priority sector at below market rates), is the loan in itself sufficient to create the relevant outcome (e.g., jobs growth) in the absence of other capitals?

Some have thought about measuring only the “*incremental value*” that the bank brings but how should the question be posed? If the question is “what outcomes would Company B have experienced without the loan?”, then perhaps the bank could take credit for all the growth in jobs. Instead a bank may try a less complex approach by considering its share of the financial capital (in this case $100/200 = 50\%$) but that ignores the contribution of other capitals.

Proposal: A practical approach may be to focus on the jobs growth created only for those priority sectors where a bank has decided as part of its purpose and strategy to offer lending at terms that are not directly commercial. That would seem logical and consistent with the bank’s chosen strategy. Some banks like Dutch development bank FMO have gone further and report on “*jobs supported*” rather than “*jobs created*” in recognition of the difficulty of determining the intricacy of factors that promote job creation.

⁸ In the full spirit of the Framework, a bank would aim to report on all material attributes.

3. **How far down the value chain?** Having decided how to measure the relevant outcome (e.g., job growth) the bank must then decide how far down the value chain it should consider. Obviously Company B's product will create value with its customers, but measuring this efficiently becomes difficult and subjective given the lack of direct data.

Proposal: There is no easy answer to this, but the simplest approach is to look only at the direct effect to the borrower.

4. **How long to measure for?** The question to answer is whether the loan should be "accredited" value each year during the five-year tenure or only in the first year. Theoretically at least, an assessment could be made each year to determine if other banks would have lent at the same terms and decide each year whether to accredit value. In practice, this would be highly complex, subjective and time consuming.

Proposal: One possibility is to accredit value each year over the term of the loan. For example, a five year loan would be correlated with the performance of the borrower in each of the five years.

5. **What control does the bank have?** In the example above, the borrower chooses to retrench employees in Year 3. This may be a commercially valid action and may indeed benefit society overall. Yet, if the bank measures and reports its ability to create employment with its borrowers, it would show a negative KPI for Year 3. That is despite the fact that Bank A has no direct influence on Company B's actions.

Proposal: There is no one solution to this issue; however, banks should explain their methodology for evaluating outcomes and any inherent weaknesses in the chosen methodology.

This highly simplified example illustrates the challenge of measuring social and relationship capital outcomes from a data sufficiency and quality perspective. The subjectivity, complexity and resource requirements can render the exercise a substantial one.

Banks may, therefore, start with simplified approaches where they measure the impact of their lending on one relevant measurement attribute. What remains essential is how outcomes are measured and reported in connection with the bank's purpose and strategy. Equally, the approach adopted should be balanced, covering both positive and negative consequences, whether intended or unintended.

In addition, the above discussion has focused on how to measure or quantify outcomes. It is worth noting that the Framework accepts that it is not possible to quantify all those aspects that are relevant to an integrated report and that at times qualitative descriptions alone may be the appropriate or sufficient approach. Also some comfort can be drawn from the following extract from the Framework:

"This Framework does not require an integrated report to provide an exhaustive account of all the complex interdependencies between the capitals such that an organization's net impact on the global stock of capitals could be tallied. It is important, however, that an integrated report disclose the interdependencies that are considered in determining its reporting boundary, and the important trade-offs that influence value creation over time..."

As will be shown in the following sections, commendable attempts are already being made in what will undoubtedly be an area of continuing development.

Reporting of social and relationship outcomes in practice

The outcomes for the six capitals in Appendix B are extracted from the paper *Applying the Integrated Reporting concept of 'capitals' in the banking industry (August 2015)*. As noted, the focus here is on social and relationship capital.

We surveyed the same 20 annual reports that were reviewed in the previous paper on capitals. These reports were selected from the following population⁹ and are listed in Appendix A:

- Members and associates of the <IR> Banking Network
- Public banks listed on the Johannesburg Stock Exchange, which are required, on an “apply or explain basis”, to publish an integrated report
- Banks whose capital disclosures are highlighted in the <IR> Examples Database¹⁰

Of the selected banks, 17 could be categorised as commercial banks¹¹, two as development banks and one as a community bank. The survey does not purport to represent a statistically valid sampling of all banks in the industry. We did not review sustainability or CSR reports, but rather focused only on integrated reports on the basis that if such information was excluded from the integrated report, then the bank did not consider it material for integrated reporting purposes.

Below are observations derived from our survey. Many findings are congruent with “*Reporting on Outcomes – An Information Paper*”.

Looking first at the general reporting of outcomes and recapping some observations from our earlier paper on capitals, we find:

1. Half of the banks surveyed (10) used the terminology of outcomes as per the Framework.
2. All banks either used outputs or cost/investment measures as a proxy for consequences for the capitals (i.e., the outcomes) or confused the two concepts. Proxies were generally used where the value of a particular capital was not readily available from the financial statements – for example:
 - *Intellectual Capital*: “investment in IT” and “number of online customers ”
 - *Human Capital*: “number of employees”, “diversity profile” and “staff turnover”

With respect to reporting on outcomes pertaining to social and relationship capital, we observe:

3. Banks, to a varied extent, explain why their impact on society is important to the viability of their strategy. Most provide only a boilerplate statement recognizing their responsibility to society. One logical conclusion may be that the majority of banks are conscious of their role in society but do not have it in their purpose or explicitly in their strategy to serve society in specific ways (e.g. creating jobs or reducing environmental

⁹ Where possible we reviewed the 2014 reports. We note that the International <IR> Framework was released in December 2013 and thus reports reviewed may not have had the chance to incorporate the Framework’s principles.

¹⁰ <http://examples.integratedreporting.org/home>

¹¹ Being termed a “commercial bank” suggests only that the bank is driven on market terms with profit being an important commercial objective. These banks may have various additional objectives.

pollution) above and beyond the natural positive impact banking can have on society through intermediating between borrower and lenders. This conclusion drives a number of further observations:

- Thirteen banks have a separate sustainability report that focuses mostly on their direct ESG impact or have embedded substantial sections covering this type of information in their integrated report.
- Four banks have a CSR report – or embed substantial CSR sections in the integrated report. These reports often link back to social objectives vital to the bank’s overall strategies but often are reported as “stand alone” initiatives (i.e. without contextualizing the activities within the bank’s strategy). As such, they may come across as a “hygiene factor” meaning that it is thought of as something a bank feels it “ought to” disclose to show it does something for society. CSR reports in general seem to report mainly on initiatives (as opposed to quantifying the impact the company had on society in unbiased quantitative terms) and thus focus on the positive impacts on society.

It should be noted that there is no overlap between those banks preparing a sustainability report and those preparing a CSR report. Thus, 17 out of 20 banks prepare one of the two types of reports (albeit the distinction between the two types of report may not in all cases be obvious) or have substantial CSR sections in their Annual Report.

- Only a handful of banks draw direct and extensive links between their impact on society, changes to social and relationship capital and strategy.
 - Eight banks disclosed goals for impact on society through, for example, lending to priority sectors.
4. Nearly all banks report – to a varying extent – on policies in place to address “Responsible Lending” and ensure they do not engage with selected segments whose business models have a negative impact on the society.
 5. Only three of the surveyed banks have developed a methodology to comprehensively quantify impacts on society. Of these banks, two are community or development banks and one is a commercial bank that clearly explains how its societal impact drives its strategy. This may imply that community and development banks have embedded their impact on society more directly or prominently into their strategy and KPIs whereas commercial banks may – in general – be more worried about the down side that loss of social capital could have.
 6. As with other capitals, outputs are most often used as proxies for outcomes in social and relationship capital, with the most frequently used examples including:
 - Ethical Investment
 - Lending to SMEs
 - Sustainable Index Rating
 7. Many banks use terminology that is not well defined to show their impact via proxies. For example one bank used the term “empowering loans” without explaining how it defines such loans.
 8. There remains a tendency to report only on positive outcomes rather than an unbiased reporting that also includes negative outcomes such as the externalities of lending to companies that may have a direct negative impact on society or the environment. For example, if a bank chooses to quantify and report on its contribution to job generation via its lending activities it may consider equally measuring and reporting the negative

externalities that the same lending may contribute to (e.g. emission). This is no doubt challenging but the principles of unbiased reporting would support such reporting. Rather, banks often choose to describe in the corporate governance section the policies in place for “sustainable banking” or similar terms. Banks rarely report quantitative measures of these impacts. In fact we were unable to find good examples of where banks report directly on its negative impact via its business activities.

Examples - Towards the next level of reporting

Examples in the financial industry

Vancity

Vancity - a member of GABV - has developed a “triple bottom line” methodology for measuring its impact on the community surrounding it. Vancity explains its efforts in its 2014 Annual Report ¹¹ and acknowledges the challenges that creating such measures entail. Perhaps no better statement than this captures the issue:

“What we often defer to is measuring outputs, like how many loans we’ve funded or the number of financial literacy workshops we run, which are relatively easy to measure,

“What we’re really trying to do is measure the outcomes of these actions, like increased social justice or more financial inclusion. This is much more difficult. One reason for the difficulty is that it can be extremely hard to attribute outcomes to specific Vancity initiatives. Another is that this type of work is so new¹²”

Vancity explains the methodology behind the Triple Bottom Line further in the following statement. By aligning itself to the methodology of GABV it defines “triple bottom line assets as a percentage of total assets” as a measure of its contribution to society. Arguably this measure is an output (e.g. loans granted) working as a proxy for the outcome – the impact on society.

¹² <http://annualreport.vancity.com/>

Demonstrating the benefits of values-based banking

While it's easy to measure and report financial performance, measuring the long term value we create for members and their communities is challenging, as the story on page 38 highlights. We've been exploring ways to measure member and community well-being, but we need to better connect outcomes with our activities. This is also a priority for the Global Alliance for Banking on Values (GABV), which is working with its members, including Vancity, to develop a "sustainable banking scorecard". The scorecard asks financial institutions to describe how they incorporate sustainable banking principles across their business, and to provide data on three key elements: financial viability, real economy focus and triple bottom line focus.

A key GABV metric being developed to demonstrate a triple bottom line focus is "triple bottom line assets to total assets", defined as the proportion of assets dedicated to meeting the needs of people, planet or prosperity. The majority of our assets is loans—they accounted for 85 per cent of our on-balance-sheet assets at the end of 2014. We already measure the proportion of business loans that has a positive impact on members and their communities, and we've begun work on a similar measure for residential mortgages.

As well, we measure triple bottom line treasury investments, which we call "treasury investments in impact". These totalled \$107.4 million at the end of 2014, representing five per cent of that portfolio. One of our five strategic priorities in 2015 is to increase this amount while diversifying our balance sheet away from real-estate secured assets.

The GABV plans to publish scorecards for all its members in 2015 (see gabv.org for more details). In addition to this work, we're exploring approaches to measuring the [social return on our investments](#), such as the value of providing affordable housing, or creating jobs.

In this way Vancity provides a number of interesting proxies for outcomes.

Key accountability data

The following table summarizes key accountability data for the past five years, where available. It includes organizational scorecard measures and additional data of most importance to our business strategy and to our members. The **bold** indicates that 2014 data for these measures was verified by KPMG.

Impact	Unit	2014	2013	2012	2011	2010
Members surveyed who strongly agree (9 or 10 of 10) Vancity's contribution to the community has a positive effect on their well-being	%	51.4	51.2	50.2	n/a	n/a
Trusted advisor score (out of 10)¹	#	8.9	n/a	n/a	n/a	n/a
Member likelihood to recommend score ²	%	50	45	46	n/a	n/a
Member service centre satisfaction score	%	81	81	80	78	75
People assisted with financial literacy	#	14,775	10,456	5,870	n/a	n/a
Value of community impact loans approved and funded as a percentage of total business and commercial loans³	%	44.1	50.7	34.7	35.5	n/a
Value of treasury investments in impact (millions)	\$	107.4	71.2	34.5	6.7	n/a
Community grants approved plus community impact loans approved and funded ⁴ (millions)	\$	386.9	474.8	403.3	365.5	n/a
Units of affordable housing funded	#	737	786	619	n/a	n/a
Square feet of green buildings funded	ft ²	901,105	887,363	555,519	n/a	n/a
Locally based suppliers	%	78	78	76	76	77
Net new socially responsible investments administered by Vancity on behalf of members or clients as a percentage of total investments	%	26.0	14.6	18.3	23.2	31.2

FMO

FMO, the Dutch development bank, has made progress in measuring and reporting its social impact. In its 2014 Annual Report¹³ FMO provides first a very simple diagram with an overview of how it creates value and the outcomes it aims to achieve.



FMO makes clear that its financing activities are incremental to those provided by commercial lenders:

How we add value

Additionality

We only take on projects where we are additional to the market. We support investments that are expected to produce strong economic, social and environmental returns to society as a whole, but where the perceived risks are such that they attract insufficient commercial interest.

¹³ <http://annualreport.fmo.nl/>

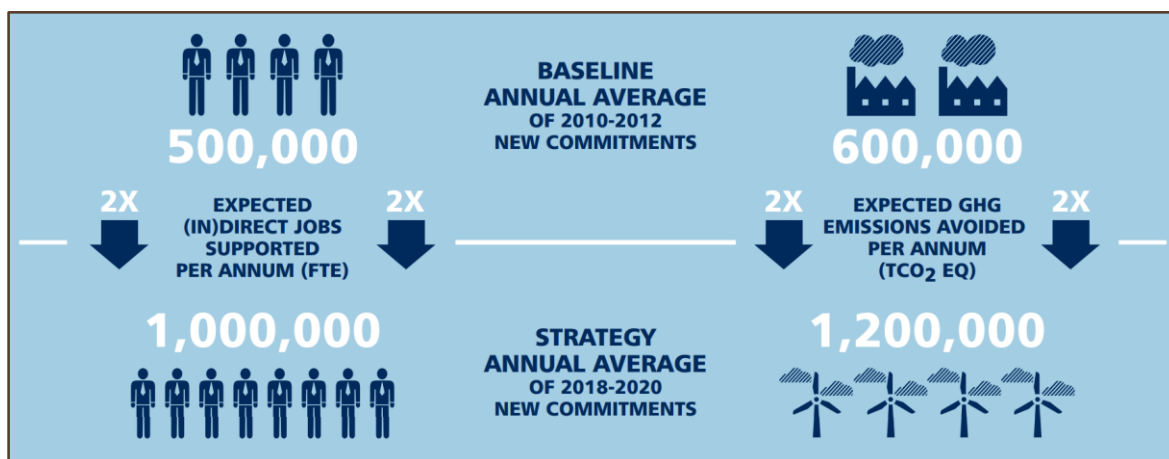
It describes the outcomes in relatively broad terms and provides some measurement attributes of its impacts such as “jobs supported” and “GHG avoidance” (an indicator of environmental impact).

Our Outcomes

Development impact

We actively seek out clients and projects that have high potential for positive impact in all spheres of development –beyond just economic growth. We define development impact as the combined effects of economic growth, social progress and environmental sustainability.

Our clients play a crucial role in helping us to achieve our impact aims. With our support they create jobs, manufacture products and deliver services in an environmentally sustainable and socially responsible way. This in turn provides income and boosts living standards, which generates lasting private sector development impact with due consideration for the environment.



Triodos

In its 2014 Annual Report, Dutch “sustainable bank” Triodos explains the impact it aims to have on society.¹⁴ The report also makes clear that the organization is in the process of improving its measurement of impact attributes.

Triodos Bank aims to be a leader in impact-driven reporting in the financial industry. As part of that effort we report on our impact below. Numbers alone can only tell a limited story, however they do provide quantitative details of the impact of Triodos Bank's mission in practice.

This data serves as an indication of Triodos Bank's non-financial impact. The data, which is reported by all our branches, is based on a number of assumptions. In general, the full impact of a project is counted when Triodos Bank has financed it, either wholly or in part. In general, we take a conservative approach to the data and exclude projects when we are uncertain about the impact figures relating to them. We will further harmonize our reporting in 2015 as a matter of continuous improvement.

Please visit www.annual-report-triodos.com to view an impact chapter providing more detail on the impact of Triodos Bank and its finance.

Methodology

We aim to be as rigorous as possible in developing methodologies behind the data you will see and to be completely open about the assumptions we have made.

This report represents the start of a process to better assess and communicate the impact of Triodos Bank's work. We expect it to develop substantially in the future and we welcome feedback.

Triodos' online Impact Report¹⁵ provides interesting case studies where it explains the methodology it uses for measuring its contribution.

Bank Resiliency through Asset Quality – Low-quality Assets to Total Assets

4.0%
(2013: 3.7%)

Low quality assets (such as loans to enterprises that struggle to repay them), at levels significantly above the market average, are generally a bad thing for banks because they represent the risk of financial losses in the future.

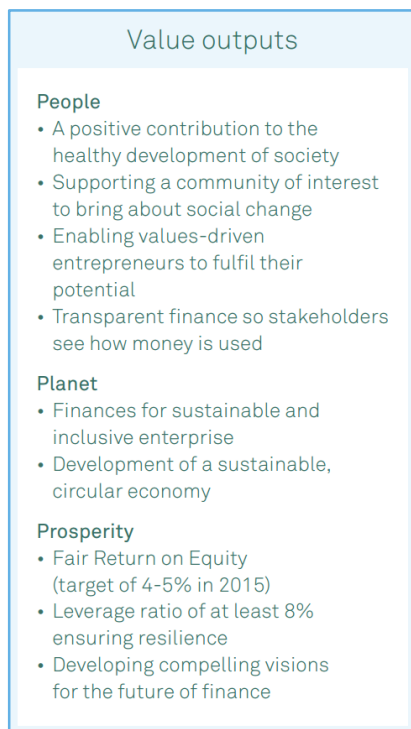
Values-based banks should have strong customer relationships, and have a deep understanding of their activities and the sectors they work in. Together this will limit the chances of loans and investments going wrong in the first place, and should make working through challenges with clients easier when problems do occur. Meaningful relationships with customers and precisely this expertise, is at the core of Triodos Bank's approach to banking.

Triodos Bank's low-quality assets to total assets ratio is below the market average in all the countries where it operates.

¹⁴ www.annual-report-triodos.com/en/2014/

¹⁵ www.annual-report-triodos.com/en/2014

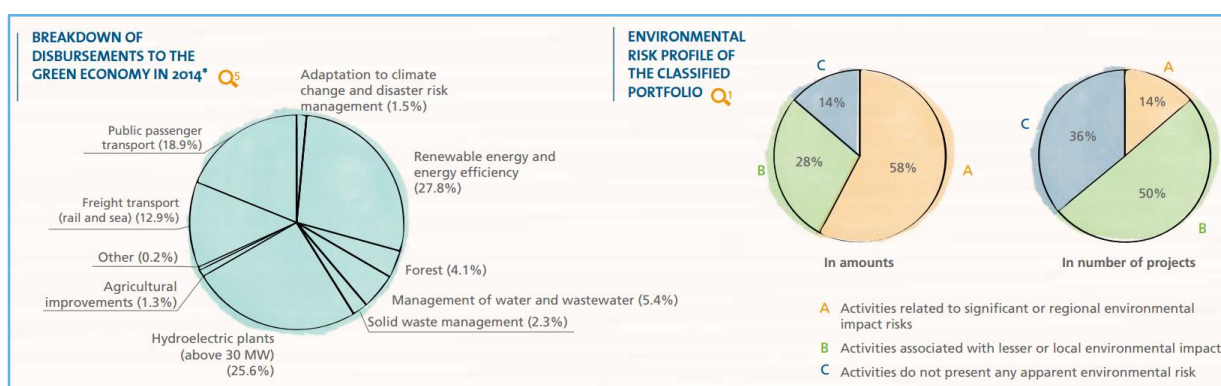
Triodos is also the first bank to present a scorecard, developed by the GABV, to assess the sustainability or impact of banks¹⁶.



Arguably, Triodos also uses the term output as a proxy for what are technically outcomes, but the bank still provides interesting insight into its measurement attributes.

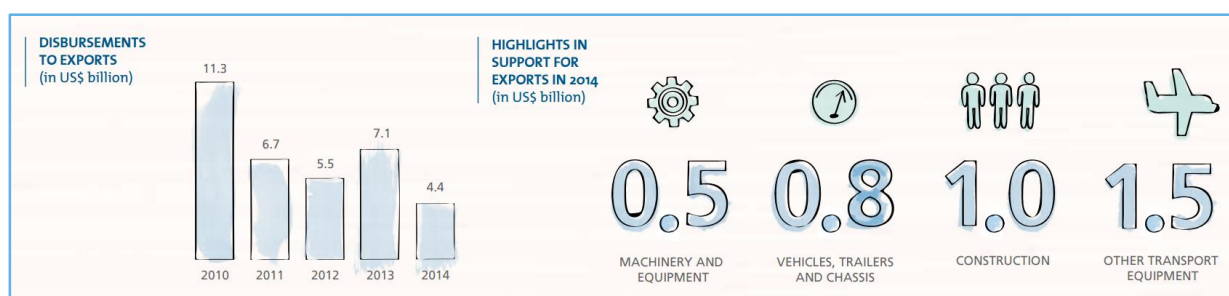
BNDES

BNDES, the Brazilian development bank, has yet to present measures like Vancity or FMO that directly aim to quantify the impact on society. It does provide good narrative illustrations of the value it brings to society and a wealth of outputs (e.g. type of lending and investment activities) as proxies¹⁷.



¹⁶ www.annual-report-triodos.com/nl_be/2014/impact/onze-impact-in-een-mondiale-context/de-gabv-scorecard.html

¹⁷ www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/Investor_Relations/Annual_Report/index.html



World Bank

The World Bank has as its stated mission:

Ending Extreme Poverty and Promoting Shared Prosperity¹⁸

In line with its mission, and given that the bank is a leader in Integrated Reporting, it is perhaps unsurprising that its 2014 Annual Report includes a number of measures relating to its impact on the world.

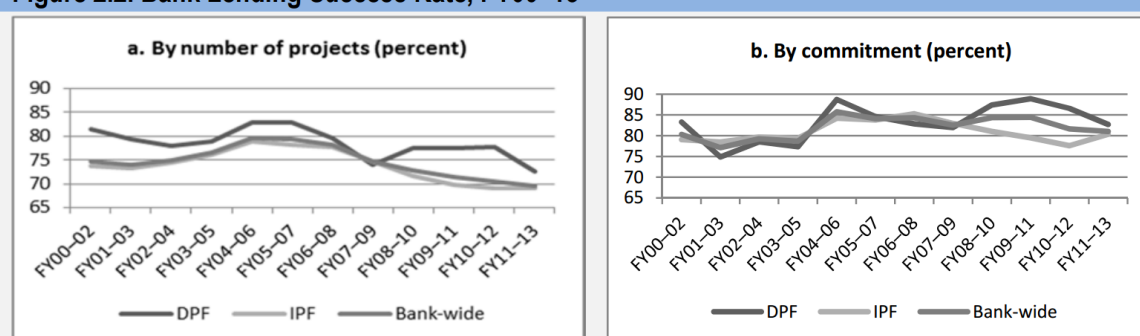
Table D.3. Risk Factors in Bank Projects in Primary Education, Health, and Water and Sanitation Sectors

	Primary education (n=48)	MCH (n=59)	HIV/AIDS (n=48)	WSS (n=52)
Uncertain financial sustainability	29	50	32	26
Institutional/capacity weaknesses	27	22	36	33
Lack of ownership	4	24	4	9
Political/security risks	11	7	9	15

Sources: Implementation Completion Report Reviews of primary education, HIV/AIDS, and WSS projects approved during FY02–14; IEG 2013 (for MCH).

Note: n = number of projects reviewed.

Figure 2.2. Bank Lending Success Rate, FY00–13



Source: IEG.

Notes: Success rate is the share of projects rated moderately satisfactory or better for development outcomes. The ratings by number of projects include all IBRD, IDA and trust funded projects, but ratings by commitment include only IBRD and IDA projects. DPF = development policy financing; IPF = investment project financing.

¹⁸ www.worldbank.org/en/news/feature/2013/04/17/ending_extreme_poverty_and_promoting_shared_prosperity

Swedfund

One financial institution that has addressed the issue of the scope of the value chain to include in its impact assessment is Swedfund. In its 2014 Annual Report¹⁹, Swedfund states that it only considers its impact on direct job creation with its direct customer.

SUSTAINABILITY TARGET JOB CREATION 2013-2014

1,5%

COMMENTS

Average job growth in the 41 companies that were in Swedfund's portfolio in both 2013 and 2014, and where information on the number of staff is available, was 1.5 percent. Direct employment in the portfolio totalled 108,221 (104,390)¹. Direct jobs also generate a large number of indirect jobs through the supply chain and distribution. Swedfund has no estimates of, and does not account for the indirect jobs that are created. The World Bank's investment organization IFC estimates that the number of indirect jobs created in the IFC's portfolio companies is **seven to 25** per direct job created. Many of these indirect jobs will benefit uneducated and poor people. Swedfund estimates that the impact on employment locally and overall is substantially larger than the jobs reported above.

During the management phase Swedfund will influence the portfolio company through capacity building, leadership and performance monitoring. Swedfund nominates directors to the board with relevant backgrounds, sets financial reporting requirements as well as yearly ESG reporting while all the time ensuring that improvements are implemented.

¹⁹ https://issuu.com/swedfund/docs/swed14_eng

Examples from other industries

The challenge of capturing the broader impact on society has been picked up by organizations in other industries.

The Crown Estate

One notable example is The Crown Estate, which has developed and published an entire framework²⁰ on how it measures its “Value Contribution” to society. It describes its “Total Contribution” as follows:

Total Contribution is a way of demonstrating the value we deliver to the UK beyond the direct net revenue surplus (profit) we make to the Treasury. To do this we have selected a range of indicators across economic, environmental and social areas, and have explored value in more detail through four case studies.

Transparency

To ensure the most rigorous results we have adopted a conservative practice to quantify and value our contribution and have established three fundamental transparency principles; Credit, Confidence and Net contribution.

Credit

We have been clear about the amount of credit that we may claim and have separated contributions into the following segments:

- Direct contributions – activities carried out by us.
- Indirect contributions – activities commissioned by us but carried out within our supply chain.
- Enabled contributions – activities carried out on our portfolios by our customers.

Our next step in developing our approach will be to more fully explore our role in the Indirect and Enabled segments and to break down the associated credit that could be attributed to our activities.

Confidence

It is not practical, or even possible in some cases, to capture first hand (primary) data for every indicator. We have therefore used recognised methodologies, models and academic research to estimate results where necessary.

We have indicated the source of each indicator and therefore the level of confidence of the data in the supporting methodology document available at <http://www.thecrownestate.co.uk/totalcontribution/>. We have split the confidence of data into three broad areas:

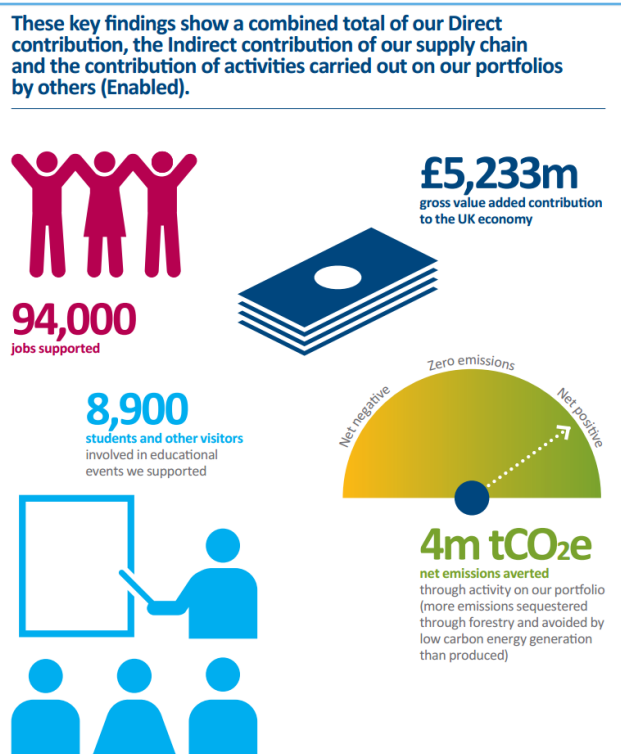
- Primary data, e.g. derived from information disclosed by The Crown Estate.
- Estimates based on direct measurement, subject to certain assumptions or models, e.g. statistics from government/industry.
- Assessments based on estimated data subject to certain assumptions or models.

Net contribution

Although we aim to capture both positive and negative outcomes from the activities across our portfolio, and to report the resulting net contribution, we acknowledge that in this first baseline report this has not always been possible. As we develop better systems to capture data we intend to investigate more deeply the range of potentially negative outcomes and provide a more balanced report on our performance.

²⁰ www.thecrownestate.co.uk/our-business/integrated-reporting/

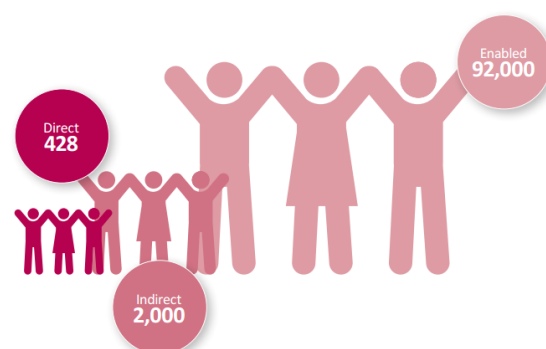
The Crown Estate recognizes both the inherent need to develop a framework, given its charter, and to maintain subjectivity when measuring outcomes. One good example to demonstrate this is how The Crown Estate measures the amount of jobs it has “enabled” (rather than “created”) via its activities.



Employment

As well as the 428 full-time equivalent (FTE) people who work directly for The Crown Estate, we supported a further 2,000 FTE jobs through our supply chain, such as contractors and consultants. Over half of these were connected to major construction projects on our urban portfolio. The actual number of people employed was higher than the FTE number reported here as many jobs are part-time or temporary.

The 92,000 Enabled FTE jobs is the number assumed to be delivered by our customers. It is calculated based upon the same modelling and case studies that are used for the Enabled GVA.



Since the publication of this report, the measurement of Total Contribution has evolved further. The Crown Estate has now organized Total Contribution within a framework of its six capitals (known as Resources and Relationships), being financial resources, physical resources, natural resources, people, knowhow and networks. It has increased the number of indicators to 62 (positive and negative) and has started to put an economic value on each of them. This will enable the measurement of value beyond financial return year on year (known as adjusted GVA - “aGVA”) and the use of Total Contribution as a decision making tool. The Crown Estate will produce another report later in 2016 to reflect this work, and more information is available on its website.

Vodafone Netherlands

Vodafone Netherlands has developed a concept of “*Environmental Profit and Loss*” (“EP&L”). In its 2014/15 Report²¹ the company explains its reason for doing so.

Executive Summary

What is an E P&L?

The Vodafone Environmental Profit & Loss account (E P&L) is an overview of all the positive and negative environmental values (or impacts) that Vodafone creates in the course of its business and throughout its value chain. To take two examples, Vodafone creates positive environmental value by the mobile connectivity services it provides such as Smart Garbage systems which help customers avoid energy and related air emissions. However, Vodafone has a negative environmental impact from the energy used by its data centres and in the production of mobile devices.

Why Vodafone developed an E P&L

Vodafone aims to use the E P&L to improve its decision making so that it can reduce its negative impact on the environment and boost its positive impact. By knowing what impacts it has, Vodafone can strategically focus on its full performance, rather than just its financial performance. This E P&L has five goals:

1. Strategic insights on the environmental value of the value chain
2. Insights for internalisation
3. Clarity
4. Forecasting
5. Benchmarking.

Scope

In order to identify Vodafone's impact, five steps were taken:

STEP 1: Decide what to measure

The purpose of this step was to identify what should be included in the E P&L. Vodafone aims to include as many business areas as possible.

The E P&L is based on:

1. Business scope: which parts of the Vodafone business are included?
2. Value chain scope: how far back in the supply chain or forward to the customers is included?
3. Impact scope: which types of environmental impacts are taken into account?

STEP 2: Map the value chain

The second step is to map the value chain in order to make sure that Vodafone understands it. The key areas are defined at each stage in the value chain, including transport. Most information about the value chain is derived from life cycle analysis or from the direct supplier of Vodafone.

STEP 3: Collect data

Data used in this E P&L is based on primary and secondary data. Primary data was collected from Vodafone's own operations. Based on this information, Vodafone was able to assess its own impacts. Secondary data from suppliers and additional research were used to fill in the gaps, especially to assess impacts deeper in the value chain.

STEP 4: Valuation

Vodafone has put a monetary value on its impacts, by converting non-financial impacts (such as CO2 emissions) into financial numbers. Putting a monetary value on activities helps Vodafone better understand the positive and negative impacts of its business.

STEP 5: Calculating E P&L

The collected data is translated into financial values and summarised in an E P&L.

The EP&L may seem closely related to a Sustainability Report based on GRI²² principles, but it is different in two fundamental aspects. Firstly, Vodafone attempts to map out the value chain and thus create links between its output and the broader impact on society (here limited to the environment). Secondly, it attempts to put financial value on its impact.

²¹Vodafone Netherlands, Environmental Profit and Loss, Methodology and results, 2014/15

²² www.globalreporting.org/Pages/default.aspx

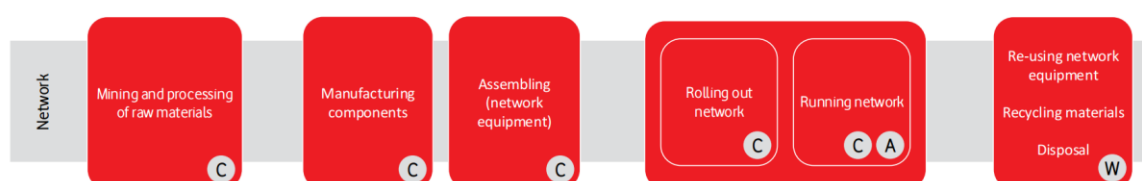
Vodafone Netherlands then maps out the value chain flows for different processes and explains how much of the impact that can be attributed to Vodafone's activities. One example from the report is how Vodafone disposes of its obsolete products.

End-of-life

Vodafone recycles almost all its network equipment. Only ≈1.5% of the network is not useful in terms of recycling or refurbishing. Based on internal documentation, this is mainly due to technical restrictions on circuit boards.

3.2.2 Impact area

Scope



Attribution

Vodafone **100%** Value chain **0%**

Concluding remarks

In this paper, we have illustrated how select banks have chosen to measure and report on outcomes related to social and relationship capital. Our study finds that banks are still relatively new at measuring and reporting on one particular aspect of social and relationship capital, namely impacts on society. Outputs are often used as proxies, deliberately or otherwise, for the measurement of outcomes. Banks are also experimenting with approaches to quantify their societal impact and, not surprisingly, development banks seem to be the most progressed. Banks that are members of GABV also appear to be further advanced in this regard.

The banking industry will likely continue to develop and improve its capabilities in this difficult area and as they do, a few key principles would seem relevant.

1. Data should be reported in the context of the bank's vision and strategy. For example, reporting all lending activities – on commercial terms – as a benefit to society may face resistance with stakeholders. In general, banks should not be claiming credit for more than can reasonably be substantiated.
2. The conceptual basis for banks' explanation of their impact on society should be explained. Do they see this impact as a change in "social and relationship capital", or as a separate consideration more akin to "Value Distribution"?
3. Banks should consider how to report their material outcomes in the integrated report rather than only in separate sustainability reports and/or CSR reports. In doing so, a bank has the opportunity to explain the fundamental importance of social and relationship outcomes in achieving both its purpose and strategy.
4. The methodology applied to the measurement of outcomes should be kept simple and balanced, i.e., focused on both positive and negative and both intended and unintended material impacts. Where outputs are used as proxies for outcomes (being consequences for social and relationship capital), the reason should be clarified.

On behalf of the <IR> Banking Network – March 2016²³

Mikkel Larsen
Managing Director, DBS

²³ See <http://integratedreporting.org/ir-networks/> for the network's depiction as "<IR> Banking Network".

Appendix A: List of banks surveyed in ‘Reporting of Outcomes in Practice’

1. Banca Fideuram*
2. Barclays Africa Group Limited*
3. BBVA
4. BNDES
5. BNP Paribas
6. Capitec Bank Holdings Limited*
7. DBS Group Holdings Ltd[#]
8. Deutsche Bank
9. FMO[#]
10. Garanti
11. HSBC
12. Itaú Unibanco*
13. National Australia Bank
14. Nedbank Group*
15. Sasfin Holdings Limited[#]
16. Standard Chartered
17. Standard Bank*
18. UniCredit*
19. URALSIB*
20. Vancity





* Banks that have applied <IR> capitals terminology

[#] Banks that have applied a similar concept but used alternative terms – including “Our resources” and “Our inputs”

Appendix B: Outcomes for Capitals – Extract

Below is an extract of the outcomes most commonly reported for the six capitals as included in the paper *Applying the Integrated Reporting concept of 'capitals' in the banking industry (August 2015)*.

An overview of how banks are reporting capitals today is presented in the table below.

Categories of capital	Components of capitals	No. of banks reporting on capital	Top KPIs reported by banks applying 'Capitals' or similar concept	Other KPIs reported
Financial capital	<ul style="list-style-type: none"> Pool of funds available from diverse sources 	 11	Cost-income or efficiency ratio (%) 9 Return on equity (%) 9 Total Capital (\$) 8 Capital ratio (%) 7 Loan portfolio mix (%) 6 Net profit (\$) 6	<ul style="list-style-type: none"> Earnings per share (\$) Revenue (\$) Dividends (\$) Fee income Total assets (\$) Credit loss ratio (%) Credit ratings Customer deposits (\$) Market share (%) Operating expenses (\$)
Manufactured capital	<ul style="list-style-type: none"> Branches and network Plant and equipment Information technology 	 9	No. of branches/ offices 8 No. of ATMs/ touchpoints 6 No. of active internet/ mobile banking clients 4 No. of regions in which the bank operates 4 Investments in technology (\$) 4	<ul style="list-style-type: none"> Investments in branch transformation (\$) Number of enquiries and transactions on online platforms Rent and related expenses (\$) Processing capacity Data storage capacity Number of IT systems
Intellectual capital	<ul style="list-style-type: none"> Brand and reputation Processes and procedures Information technology Innovation capability 	 8	Brand Value (\$/Ranking/ Awards or Index) 8 Development of new technologies (Qualitative) 7 Investments in IT (\$) 3 Number of transactions through online platforms 3 No. of customers online 3	<ul style="list-style-type: none"> Social networks presence Personnel training expenses (\$) Training hours per employee Number of training courses
Human capital	<ul style="list-style-type: none"> Skills, capabilities, knowledge and experience of employees Management and leadership 	 11	Number of employees 10 Employee diversity profile (%) 9 Staff turnover (%) 7 Employee Engagement score (%) 5 Learning and development cost (\$) 5 Number of employees who attended learning and development programmes 5 Occupational health and safety statistics 5	<ul style="list-style-type: none"> Number of employee training hours Number of employees attending leadership programs Occupational Health and Safety statistics Disciplinary and grievances statistics Staff cost (\$) Employee satisfaction (%) Employee tenure (Years) Number of merits and promotions



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