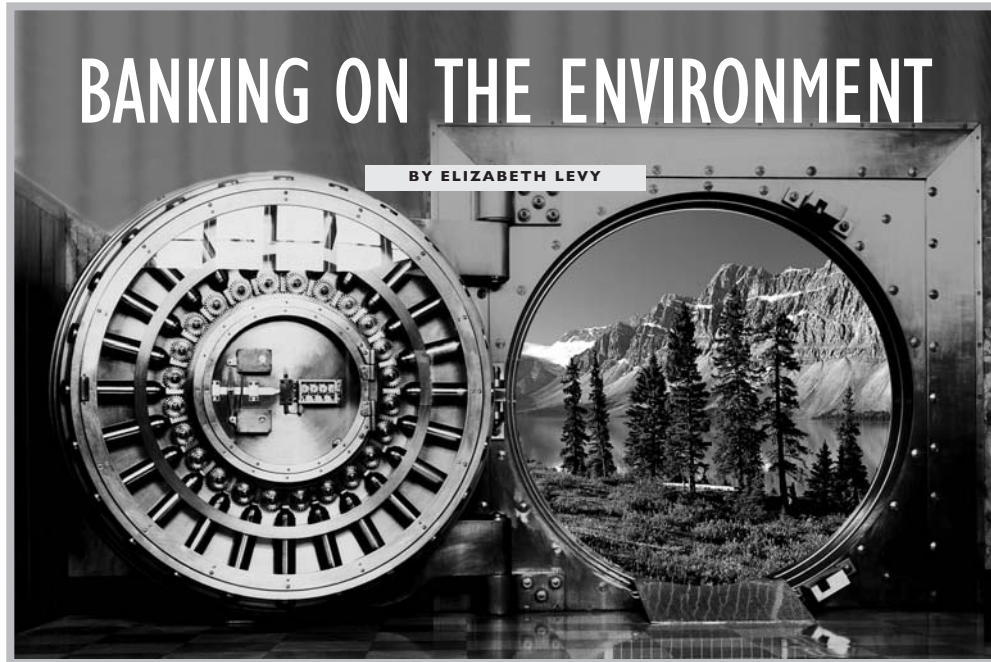


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JULY 2005



BANKING ON THE ENVIRONMENT

BY ELIZABETH LEVY

FINANCE HAS IMPLICATIONS BEYOND BANKS' LEDGER BOOKS. FROM INVESTMENTS TO LOANS, FINANCIAL SERVICES COMPANIES AFFECT THE WORLD AROUND THEM. WHATEVER PROJECTS THEY FUND, FROM OIL EXTRACTION TO ENTREPRENEURIAL BUSINESSES TO HOME OWNERSHIP, THEY IMPACT THE PHYSICAL AND SOCIAL ENVIRONMENT – FOR BETTER OR WORSE.

Financial institutions, broadly defined, can have many different types of environmental impacts, depending on the type, location and scale of activities in which they engage. This article presents examples of some of the ways that financial institutions operating at three different levels – funding small, medium and large projects – can influence environmental outcomes.

Micro help to those who need it

At the most local level, microcredit banks

provide capital directly to people in need.

Microcredit loans, typically in the range of tens to hundreds of dollars, help borrowers transition out of subsistence living by providing money for small entrepreneurial enterprises.

One of the pioneers of microfinance is Bangladesh's member-owned Grameen Bank, providing housing, educational and income-generating loans to its members. Grameen has dispersed


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FEATURED COMPANY

Wainwright: A Bank of a Different Color

BY ELLEN PFEIFER

There's nothing "banker's gray" about Wainwright Bank & Trust Company (NASDAQ:WAIN). The branch office in the Boston suburb

WAINWRIGHT 
banking on Values

of Somerville features a cybercafe, fireplace and comfy modernist chairs in bright pinks, reds and oranges. The Wainwright website boasts rainbow hues, and the annual report dazzles the eye with crayon colors.

This bold palette deliberately sets Wainwright apart from other banks, conveying Wainwright's embrace of a broader, more diverse clientele and business model. While Wainwright offers traditional services ranging from checking

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MARKETBEAT PAGE 2

Banks begin to see the light with CSR

Integrating social responsibility into their lending policies offers multiple benefits



PORTFOLIO UPDATE PAGE 6

aQuantive launches new division

Atlas On Demand unit to provide TV ad management and measurement

THORS APPOINTED TO HEALTH CARE TRUST

Lisa Thors, Chief Operating Officer of Winslow, was recently appointed by Massachusetts Governor Mitt Romney to the Board of Trustees of the Health Care Security Trust of the Commonwealth of Massachusetts.

The Trust was created in 1999 to provide funding for health-related services and programs, including those intended to control or reduce the use of tobacco. The Trust is funded through annual payments received by Massachusetts from the landmark settlement reached with the tobacco companies in 1998, known as the Master Settlement Agreement. As of May 31, the Trust had approximately \$500 million in assets.

The mission of the Board of Trustees is to manage and invest all money allocated to the Trust with the goals of improving the health status of all citizens and building a permanent health care "savings account" for the Commonwealth. The seven-member board consists of five appointees of the Governor, one appointee of the State Treasurer and one appointee of the Attorney General of the Commonwealth of Massachusetts. With the exception of two initial seven-year gubernatorial appointments, Trustees are appointed for five-year terms.

Banks Can Profit from CSR

BY JACKSON W. ROBINSON

Shareholders of some banking and financial services companies that are embracing Corporate Social Responsibility (CSR) are enjoying favorable absolute and relative returns in their portfolios, and may owe some thanks to environmental and shareholder activists.

Some firms, such as Wainwright Bank in Boston (featured in this issue of *WEN*), have long viewed CSR as part of their fundamental mission.

However, many traditional and global-scale institutions have needed ongoing external prodding to see the light. They have had to be shown the value of integrating ecological and social, as well as economic, criteria into their decision-making and lending practices.

Citigroup: From "villain" to hero

In 2000, big banks got their first serious wake-up call from environmental activists, led by the Rainforest Action Network (RAN). That year, RAN began a targeted campaign against Citigroup, which had been financing old-growth logging practices globally and was considering funding

a controversial new oil pipeline through an Ecuadorian ecological preserve. The campaign continued over the next few years; in 2002, then-CEO Sandy Weill found himself labeled as an

"environmental villain" in full page ads in the global press paid for by RAN, and in 2003 RAN-sponsored commercials showing Hollywood stars cutting up Citibank credit cards began playing on television. Wisely, Citigroup officials began a dialogue with RAN and, partially based on what they learned in that dialogue, eventually banned investment in firms that cut down primary tropical forests. They also pledged to invest in renewable energy projects and continued the learning process by becoming a founding signatory of the Equator Principles in 2003 (see the main article in this issue for more information on the Equator Principles).

As a result of these and other commitments to CSR, Citigroup has been awarded the highest rating

Innovest Ratings Areas

STAKEHOLDER CAPITAL

- ❖ Regulators and policymakers
- ❖ Local communities/NGO's
- ❖ Customer relationships
- ❖ Alliance partners
- ❖ Emerging markets

HUMAN CAPITAL

- ❖ Labor relations
- ❖ Health & safety
- ❖ Recruitment/retention strategies
- ❖ Employee motivation
- ❖ Innovation capacity
- ❖ Knowledge development & dissemination
- ❖ Progressive workplace practices

STRATEGIC GOVERNANCE

- ❖ Strategic scanning capability
- ❖ Agility/adaptation
- ❖ Performance indicators/monitoring
- ❖ Traditional governance concerns
- ❖ International 'best practice'

ENVIRONMENT

- ❖ Board and executive oversight
- ❖ Risk management systems
- ❖ Disclosure/verification
- ❖ Process efficiencies /eco-efficiency
- ❖ Health and safety
- ❖ New product development

Source: Innovest Strategic Value Advisors

by Innovest Strategic Value Advisors. This independent research firm rates companies within a sector based on their CSR activities, using four corporate metric categories: human and stakeholder capital,

governance and the environment, as reflected in the accompanying table. Innovest's ratings range from AAA to CCC, similar to the bond ratings established by such agencies as Fitch, Moody's, and Standard & Poor's.

For example, Innovest's AAA rating denotes "a company with minimal, well-identified environmental/social risks and liabilities, and with a strong ability to meet any losses which might materialize." Innovest considers such a company to be "extremely well-positioned to handle any foreseeable tightening of regulatory requirements, and strongly positioned strategically to capitalize on environmentally and/or socially-driven profit opportunities." Of the 30 companies Innovest included in its January 2005 assessment of the Diversified Financials North America sector, only Citigroup received a AAA rating.

The Companies at the Bottom

At the other end of Innovest's rating spectrum are the CCC-rated companies, "...where there are significant doubts about management's ability to handle environmental/social risks and liabilities, and where (such liabilities) are likely to create a serious loss." These companies are considered to have a "well below-average ability to capitalize on environmentally and socially driven profit opportunities."

The January rating flunked six companies, assigning them CCC grades. These were Bear Stearns, Power Corp of Canada, Ameritrade Holding Corp, Alliance Capital Management Holdings, Federated Investors, and Janus Capital Group, the lowest ranked company in the sector. Doug Morrow,

Innovest's financial sector analyst, recently explained to us that in contrast to Citigroup, Janus "has yet to articulate a general sustainability strategy; the company does not appear to track any environmental indicators, has not signed the Equator Principles and does not use environmental or social screens to inform its asset management activities."

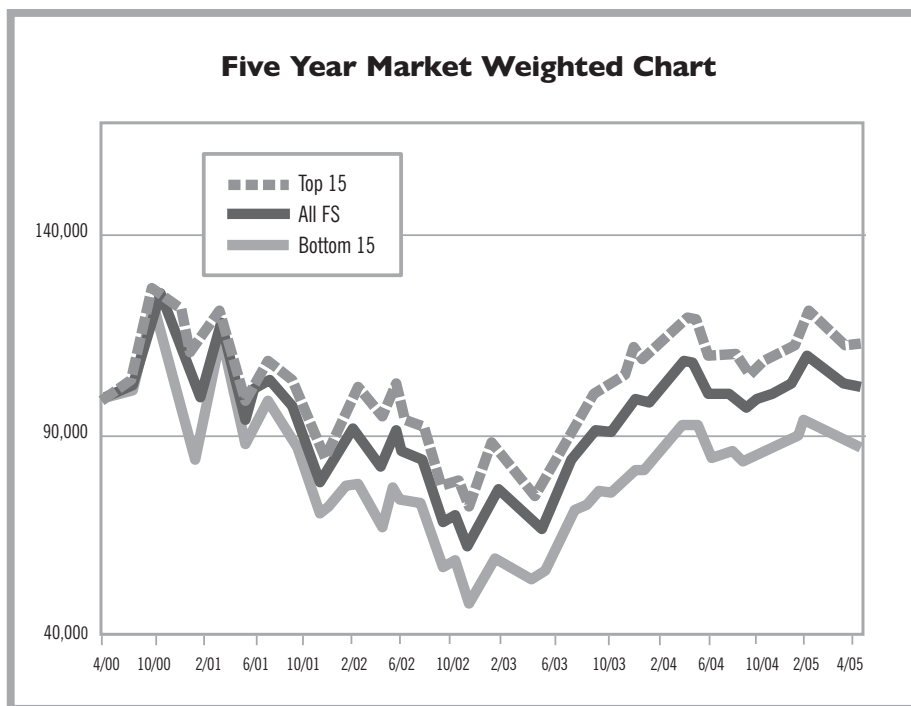
CSR Equals Increased Value

What brings home the significance of these CSR ratings is how they translate into

Stanley (BB) and Legg Mason (B).

As shown in the accompanying chart, the price of the top group of 15 financial companies rose +14.4% over the five years ending April 30, 2005, versus a -12.2% decline for the 15 lower-ranked financial services companies.

The aggregate capitalization equity return for all 30 of Innovest's financial services companies for period was +4.0%. Interestingly, Wainwright Bank, which was not



profitability. To better understand the correlation, we compared two five-year capitalization-weighted portfolios, testing Innovest's top 15 ranked financial companies, ranked from AAA to BB, versus the lowest 15, which ranked from BB to CCC. In addition to Citigroup, the top group included State Street Corp (AA) and Northern Trust (A) while the lower group included Morgan

included in the Innovest sector evaluation, returned +144.7% over the same period. Our conclusion from this, and many similar analyses we have performed over the years, is that CSR activities, like those measured by Innovest, add value to all stakeholders, including customers, employees, communities, partners, vendors, shareholders and – most importantly – the environment. □

This data is backtested data. The performance of the highest and lowest rated indices do not represent actual trading in a client or proprietary account or the performance of securities selected on a prospective basis. Winslow selected companies for these indices based on Innovest's provided rating of the Diversified Financials Services North America sector. For more information on Innovest and its ratings, please see www.innovestgroup.com. Past performance is not indicative of future results.

Microcredit organizations can play a major role in future sustainability efforts by encouraging borrowers to include conservation measures as part of rebuilding loans.

BANKING continued from page 1

\$4.79 billion to its 4.48 million members as of April 2005, with a loan recovery rate of 99%. Notably, Grameen has been profitable for all but three years since its founding in 1983 and has not needed or accepted donor funds or loans since 1998.

Microcredit banks are in a unique position to encourage borrowers to incorporate environmental protection into local projects. For example, damage assessments after the December 2004 tsunami have revealed that degraded coastal areas suffered more destruction than those with intact mangrove forests and wetlands. Extrapolating from this, the February issue of the UN Capital Development Fund's *Microfinance MATTERS* noted that microcredit organizations can play a major role in future sustainability efforts by encouraging or requiring borrowers to include conservation measures as part of rebuilding loans.

Mid-level Community-Based Financing

Community investing directs capital to groups assisting traditionally under-served people and areas. Galvanized by government regulation and proactive leadership, networks of banks and non-traditional organizations are creating dynamic community programs.

Among these is Wainwright Bank, a Boston-based financial services company active in community investment, as highlighted in this issue's Featured Company article. Also in Winslow's neighborhood, Boston Community Capital (BCC) is solely devoted to providing community resources. BCC's Boston Community Loan Fund provides loans and assistance to local organizations, such as developers of affordable housing, childcare centers or other social services. The Loan Fund has committed more than \$140 million over its history and has written off less than 0.10%, beating commercial banks' 2004 write-off rate of 0.47%, according to Federal Deposit Insurance

Corporation (FDIC) data.

Community investment financiers have a particular opportunity to raise environmental awareness. Both BCC and Wainwright, for example, provide loans specifically for green building projects, and BCC also offers expert advice on green enhancements to clients that might not have even considered environmental aspects of their projects. BCC's Chief Operating Officer, DeWitt Jones, explained that in addition to providing necessary capital for projects, "We are committed to... providing borrowers with access to the most up-to-date standards and experience on new sustainable technologies."

Impacts on a Large Scale

While large commercial banks are usually not directly involved in development projects that they finance – such as telecommunications, energy or resource extraction infrastructure – they do influence project selection and development. According to an April 2005 report by Bank Track, a consortium of non-governmental organizations (NGOs) monitoring the sector's environmental impact, the financing of major development projects "may result in unsustainable practices because banks and project sponsors (bank clients) often do not produce adequate environmental and social impact assessments."

In response to such criticism, 10 financial institutions from seven countries launched the Equator Principles in June 2003. The Principles provide a common method for signatories (31 as of June 1, 2005) to analyze the environmental and social risks of projects before they're begun. Additionally, they require borrowers to develop impact management plans following established best practices, and allow lenders to call in loans if borrowers don't meet those conditions. While some critics have noted that the Principles don't set out absolute standards, they can help protect lenders from risks to their

own institutional wellbeing. As an article in Project Finance International's *Yearbook 2004* noted, "...Banks that fail to weigh and address [environmental and social considerations] could be overlooking significant credit and reputation risk, let alone the potentially costly project liability that might arise from an environmental mishap or miscalculation."

A "Tipping Point"

Increasingly, the financial services industry is recognizing its responsibility for the social and environmental impacts of its lending and investment practices while discovering the opportunities these wise practices can yield. For example, partnerships between microcredit institutions and commercial banks are developing worldwide and allowing microfinancers to extend their services and banks to expand to new markets, such as Citigroup's underwriting of a bond raised by Mexican microfinancer Compartamos in August 2004.

This spring, the sector's clarion call may have come from JPMorgan Chase, which had been targeted by NGOs for its delay in publishing an environmental policy, non-participation in the Equator Principles and lack of transparency. A March 2005 headline on SocialFunds.com posed the question, "Comparing Citigroup and JPMorgan Chase Policies: Which Stems Illegal Logging in Indonesia?" and speculated whether JPMC's overdue environmental policies would be as comprehensive as those of leaders Citigroup and Bank of America. The next month, JPMC adopted the Equator Principles and released an inclusive environmental policy to great acclaim, prompting SocialFunds.com to declare: "JPMorgan Chase Environmental Policy Triggers Tipping Point for U.S. Bank Sustainability." Based on these recent developments, it's clear that the path forward for financial services companies will continue to include increasing environmental responsibility. □

Increasingly, the financial services industry is recognizing its responsibility for the social and environmental impacts of its lending and investment practices.

EDITORIAL

GE'S ECOMAGINATION

In May, General Electric publicly launched a public relations campaign called "Ecomagination" with a series of ads describing its new environmental efforts. At its heart are several commitments on GE's part. The company pledged to double its investment in and sales of environmental technologies to \$1.5 billion and \$20 billion respectively by 2010, and to reduce company-wide greenhouse-gas emissions by 1 percent as well as improve energy efficiency by 30 percent by 2012.



None of these promises makes GE an ideal corporate citizen; the company still has a debt to pay to the PCB-laden Hudson River, among others.

But in introducing Ecomagination, GE's CEO, Jeffrey Immelt, affirmed a belief that Winslow has long held, explaining that the company is undertaking this program "not because it is trendy or moral, but because it will accelerate [economic] growth."

While GE's internal commitments will reduce its carbon emissions by less than the Kyoto Protocol would have required, the company estimated that carbon emissions would have increased 40% over the same period without action. But more importantly, the external commitments promise to increase profits while spreading conservation technology to GE's customers. This is not entirely a new market for GE; over the past few years, GE has become a major player in the wind power market and purchased solar power company AstroPower and water filtration company Ionics. While GE's Ecomagination will not be the final chapter in corporate environmental responsibility, we commend the company for taking a significant step in the right direction.

PORTFOLIO UPDATE

aQuantive, Inc.

(NASDAQ:AQNT)

SEATTLE, WA – Atlas, an operating unit of aQuantive, announced in May the launch of its new division, Atlas On Demand. Building from its extensive experience in providing advertising services for internet media, the new Atlas business will focus on advertising campaign management and measurement solutions for the emerging On Demand television arena.

"On Demand advertising represents a powerful and measurable channel that is both an immense opportunity for, and challenge to, existing television advertising models," said Ona Karasa, president of Atlas. "We believe Atlas is in the best position to break-down the complexities and provide our customers with the technology and analytics that will help accelerate the growth of On Demand advertising."

Atlas On Demand applications will help advertisers plan the commercial time inserted into Video-On-Demand programming, target specific audiences and track viewer response. According to Reuters, "advertisers have been

experimenting with new ways of inserting commercial messages into television programming as the growth of digital video recorders in the United States allows more consumers to skip over traditional 30-second commercials."

Green Mountain Coffee Roasters, Inc.

(NASDAQ:GMCR)

WATERBURY, VT – Green

Mountain Coffee Roasters posted a strong quarter ending April 9, 2005, with net sales increasing 19.1% to \$37.0 million, up from \$31.1 million in the same quarter of 2004, including a positive contribution from the company's equity investment in Keurig.

Chief Executive Officer Robert P. Stiller noted several drivers of the company's growth. First, GMCR is increasingly reaching markets beyond its home base, with shipments outside of New England representing 59% of total business during the quarter.

The Keurig single-brew K-Cup business was also a strong contributor to the quarter's growth, with office coffee service channel K-Cup sales contributing almost half of the Company's total sales increase in dollars for the quarter.

Additionally, Stiller stated that he believes the company's "commitment to responsible business practices is a big part of this success, as consumers look for companies that share their values and priorities. A good example is the success of our Fair Trade and Organic coffees, which accounted for 20% of overall coffee pounds sold this past quarter, up 43% over the year-ago quarter, and growing about three times faster than our conventional lines."

Headwaters Incorporated

(NYSE:HW)

SOUTH JORDAN, UT –

Headwaters, the largest provider of technology and chemical reagents to the coal-based synthetic fuel industry, announced in late April that it had reached a preliminary settlement agreement with AJG Financial Services, Inc. ("AJG"). The settlement followed upon a February jury verdict in which Headwaters won \$175 million from AJG in a dispute over a synfuel licensing agreement. The verdict was subject to certain post-trial motions. Under the terms of the new agreement, the two companies will settle all claims for a payment of \$50 million to Headwaters in May 2005, and a payment of \$70 million to Headwaters on or before January 15, 2006. The two companies also agreed on a contract modification whereby AJG and Headwaters will share for calendar years 2005 to 2007 the economic benefit from certain synfuel facilities partially owned by AJG during the 2003-7 timeperiod. This agreement in principle is subject to execution of a final settlement pact.

Headwaters is reviewing the appropriate accounting treatment and timing of payments to be received and expenses incurred during the period of settlement. The amount of the net nonrecurring revenue and expenses for the June 2005 quarter, both related and unrelated to the AJG litigation, have not yet been determined, but the total could significantly lessen the quarterly net income impact of the AJG settlement payment. Headwaters

intends to use most of the payments from the AJG settlement for debt reduction.

Audible Inc.

(NASDAQ:ADBL)

WAYNE, NJ – Audible, a digital distributor of audio books, magazines, newspapers and radio programs for downloading on computers or MP3 players, and XM Satellite Radio, the nation's leading satellite radio service, announced in early June an exclusive relationship to introduce the first portable, handheld satellite radio devices that are capable of playing both the XM service as well as Audible's spoken-word content in 2006.

With the launch of these "AudibleReady/XM" devices, XM subscribers will be able to expand their listening experience through purchasing audiobooks and other content from Audible. Audible will offer popular XM talk programs via the Audible web site this year, and XM programs will join the more than 45 regularly recurring audio subscriptions available for downloading to users of AudibleReady digital audio devices. XM will also produce a new Audible audiobook program for broadcast on XM Satellite Radio.

"This announcement brings together the best of XM Satellite Radio and the best of the Audible audio experience," stated Audible's Chairman and CEO, Donald Katz. "Together our respective technologies will enable the consumer to listen to the finest in radio programming and the best of personalized, spoken-word listening on their portable audio devices."

WAINWRIGHT continued from page 1

accounts to mortgages, its difference is its commitment to two bottom lines – conventional financial success and social justice. As Co-Chairman Robert Glassman describes, “...Social justice is the driving value system of Wainwright Bank.” In practice, the bank puts its money behind community development and – of importance to *Winslow Environmental News* readers – environmental protection.

“Banking on Value”

Founded in 1987, Wainwright currently has assets of \$590 million, which places it within the “top 1000 banks in the country,” notes Glassman with a mixture of pride and amusement. As a Boston-based community bank, Wainwright primarily serves eastern Massachusetts, with 11 offices in the Boston area.

Embedded in the core values of Wainwright is the notion that “the management of (customers’) financial affairs is not a morally neutral endeavor,” but can be used to improve social conditions, according to company literature. Nearly 40% of Wainwright’s commercial loan portfolio is dedicated to such projects as affordable housing, homeless shelters, HIV/AIDS services, community health centers, and environmental protection. As of May 2004, the bank had financed the creation of over 1000 units of affordable and special needs housing and over 50% of the housing projects built in the Boston area for people living with AIDS. In 1997, Wainwright acquired a 30% equity share in Trillium Asset Management, an investment management service specializing in socially responsible investing, as part of the bank’s investment strategy.

Dedicated to equal rights, the bank has worked aggressively to be inclusive not only in its lending practices, but also in its own activities. For example, it was the first financial institution in Massachusetts to extend benefit coverage to partners of gay and lesbian staffers, and the first

in the country to elect an openly lesbian member to its board. Wainwright has also won awards for its record of making loans to businesses headed by women; in 2003 it was named one of the 11 Best Lenders to Women by the Community Investing Campaign of the Social Investment Forum Foundation.

Remarkably, Wainwright has been able to do good and still do well by its financial bottom line. “Other banks and businesses look at us and think this is a charitable operation,” says Senior Vice President Steve Young. “But, in fact, we have had a zero percent default rate. We have lost no money on this.” At the same time, the bank has experienced solid growth. Results for the first quarter of this year show Wainwright with consolidated net income of \$1.5 million compared to \$1.3 million during the same period in 2004. And impressively, over the five-year period ending May 31, 2005, Wainwright’s adjusted stock price has increased by 150%.*

Wainwright’s brightest color may be green

Wainwright is serious about protecting the environment, both inside and outside of the bank. Company literature explains that Wainwright is particularly concerned “where environmental issues intersect with social justice,” because “social justice and human rights are powerfully linked to the health of the environment.” As a result, the bank has provided loans, lines of credit and other financial support to such organizations as the Silent Spring Institute and its Cape Cod Breast Cancer and Environment Study Atlas, the Boston-based Trust for Public Land, the green headquarters of the Union of Concerned Scientists and the Earthwatch Institute. The bank has also introduced

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* Past performance is not indicative of future results.

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WAINWRIGHT continued from page 7

its Green Loan program. In partnership with Mass Energy and Solar Boston, Wainwright offers a fixed rate Home Equity Loan discounted by 1.00 % when used for the installation of a solar energy system.

Within the bank itself, Wainwright has adopted the Environmental Protection Agency's Green Lights program, uses recycled paper products and soy-based inks whenever possible, has installed energy-



efficient heating and ventilating systems in its headquarters and encourages the use of mass transit through employee subsidies. Additionally,

Wainwright's two newest branches will seek Leadership in Energy and Environmental Design (LEED) certification from

the U.S. Green Building Council.

A Unique Opportunity

Wainwright finds that it attracts passionately loyal customers who are diligent about repaying their loans. As a result of its community investment, the bank draws in new depositors, and the bank's progressive image has become a distinctive brand that sets it apart from the competition. As Glassman explains, "Others in the banking business resist" engaging in community investment and social activism. "They feel the pressure of the federal government and regulators, and the more they are pushed, the more they want to walk away. For them, it's an obligation. For us, it's an opportunity." □

Wainwright offers a fixed rate Home Equity Loan discounted by 1.00 % when used for the installation of a solar energy system.

Should you invest for the **environment** superior growth or **both?**



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