

# ETHICAL AND SUSTAINABLE FINANCE IN EUROPE

---

**First Report**



---

A report by

fondazione  
 **finanzaetica**

---

**Matteo Cavallito**  
**Emanuele Isonio**  
**Mauro Meggiolaro**

Preface by  
**Andrea Baranes**

## ACKNOWLEDGMENTS

The collection and systematization of all data on ethical/sustainable banks and systemic banks as well as the calculation of ratios and growth trends were carried out with the precious help of Leone Di Stefano and Vincenzo Serio, students of “Environmental and Food Economics” at the University of Milan, for which we thank them.

Thanks also to Michele Zini, student of Economics and Finance at the University of Milan.

Many thanks to Jasmin Panjeta, David Korslund and Federica Masut for having kindly provided the data on the ethical banks that are members of the Global Alliance for Banking on Values.

# SUSTAINABLE VS MAINSTREAM BANKS

---

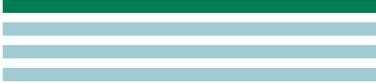
## A new research

**E**thical and sustainable banks finance social and environmental projects, the green economy, organic agriculture and cultural initiatives. But are they also financially sound? And if they are, how do they score compared to mainstream banks? To understand this we decided to take a look at the key figures of European ethical finance, comparing them with those of the traditional banking system. For the team “European ethical and sustainable banks” we have fielded 21 players: all 11 European members of Gabv (Global Alliance for banking on values), two members of In-aise (International association of investors in the social economy) and eight members of Febea<sup>1</sup> (European federation of ethical and alternative banks). We summoned for the match only the players that carry out banking activities (collection of savings, granting of credit and investments) with a prevailing social and environmental focus and have published online (or sent us) the financial reports of at least seven of the last ten years. For the team of mainstream banks we have picked up the 15 “Global Systemically Important Banks” that are based in Europe (including Switzerland), based on the latest list published by the Financial Stability Board (November 2016)<sup>2</sup>.

---

<sup>1</sup> Six out of 11 European members of Gabv are also members of Febea. Therefore, we have included in the research six members of Febea (that are also members of Gabv) + eight members that aren't part of Gabv, i.e. 14 members of Febea were included in total.

<sup>2</sup> See: European Parliament, *Briefing. Global Systemically Important Banks in Europe*, 23 May 2017. Link: <https://goo.gl/Sxgmf3>



**Are ethical and sustainable banks financially sound? And if they are, how do they perform compared to mainstream banks?**

## The level of lending of ethical banks is nearly double that of systemic banks

### THE RESULTS

Publicly available financial information does not currently provide a clear distinction between bank activities in the real economy (that generate goods and services) in contrast to the financial economy (that is concerned exclusively with activities in the financial markets). Therefore, this research uses lending and deposit information as a proxy for the distinction between the real and the financial economy activities of banking institutions<sup>3</sup>.

The first banks were invented in the Middle Ages as a meeting point between savers and those who were in need of financial resources, to develop new activities or consolidate existing ones. An engine for the real economy, which collects money and employs it to develop trade, agriculture, and industry. However, in recent years, most banks have gone through a dramatic transformation and, especially since the 80s, have started to work less and less as “banks” - understood as intermediaries between savers and borrowers - to increasingly become brokers of complex financial products or services.

But let's go back to our game opposing European ethical and sustainable banks to European systemic banks. And let's have a look at the first results.

**CHART 1** Loans in % of total assets

LOANS/TOTAL ASSETS	2016	2011	2006
European ethical/sustainable banks	73,42%	75,25%	64,87%
European systemic banks	38,53%	34,62%	32,93%

The degree to which a banking institution finances the real economy is evident from the portion of assets dedicated to lending.

As can be seen on **CHART 1**, which highlights the percentage of banks' balance sheets devoted to lending, the difference between ethical/sustainable and systemic banks is impressive.

For ethical banks the level of lending is nearly double that of systemic banks.

This means that ethical banks are still working as “banks” in the original sense of the word (collection of savings and granting of loans). While systemic banks tend to prefer other activities, such as the investment in securities or the participa-

<sup>3</sup> See: *Gabv, Real Economy - Real Returns, 2016 Research Report*, link: <https://goo.gl/DQ5qq>

tion in companies. This structural difference between ethical and systemic banks has been a constant in the last ten years.

**CHART 2 Deposits in % of total assets**

DEPOSITS/TOTAL ASSETS	2016	2011	2006
European ethical/sustainable banks	80,87%	69,10%	62,31%
European systemic banks	42,15%	32,57%	33,98%

This difference is confirmed also in the ratio between customer deposits and total assets. As you can see on **CHART 2**, ethical and sustainable banks rely much more on client deposits to fund their balance sheets in comparison with systemic banks, that fund their activities mainly through the issue of bonds or deposits from other banks.

We decided to start collecting data for this research from 2006, a year before the latest financial crisis, which has developed since the summer of 2007, reaching its peak on September 15, 2008, when Lehman Brothers collapsed. We wanted to understand if the crisis has led to a change in the two halves of the field. In fact, after the crisis, systemic banks have begun to grant more credits and collect more savings from customers than before. However, ethical banks did the same, and in the end the structural differences between the two teams have remained.

Ethical and sustainable banks have also preserved a strong capital position measured as a ratio between net equity and total assets.

As can be seen on **CHART 3**, the ratio between net equity and total assets for European ethical banks is exactly double that of systemic banks.

**CHART 3 Net equity in % of total assets**

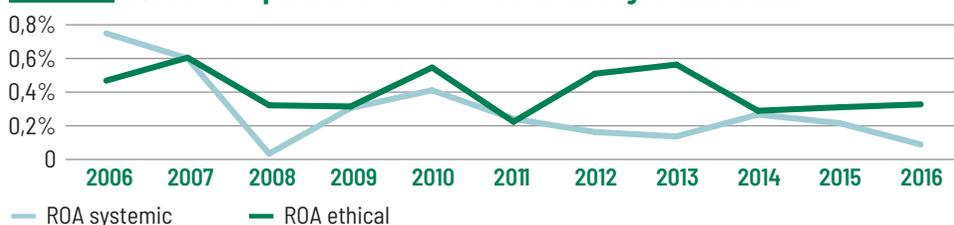
NET EQUITY/TOTAL ASSETS	2016	2011	2006
European ethical/sustainable banks	11,22%	11,22%	10,94%
European systemic banks	5,63%	4,39%	3,86%

Turning to the income analysis, we compared the ROA and ROE ratios of ethical banks with those of systemic banks.

ROA (Return on Assets) is the ratio between net income and total assets and is a measure of how effectively a company is utilising its assets to generate profits for its shareholders.

As can be seen on **GRAPH 1**, the ROA of ethical and sustainable banks has remained fairly stable over the last ten years (0.41% on average) with a very low volatility, measured by standard deviation (0.13%). In both periods we analysed (2006-2016 and 2011-2016) the ROA of European systemic banks has been lower than the one of ethical banks, while the volatility has been significantly higher (at least in the period 2006-2016). The Graph shows very clearly that in 2008, the most acute year of the latest financial crisis, systemic banks have experienced a collapse of ROA, while there was only a slight drop for ethical and alternative banks: a clear sign of ethical banks' resilience in crisis periods.

**GRAPH 1** ROA. A comparison between ethical and systemic banks



### ROA - Return on assets

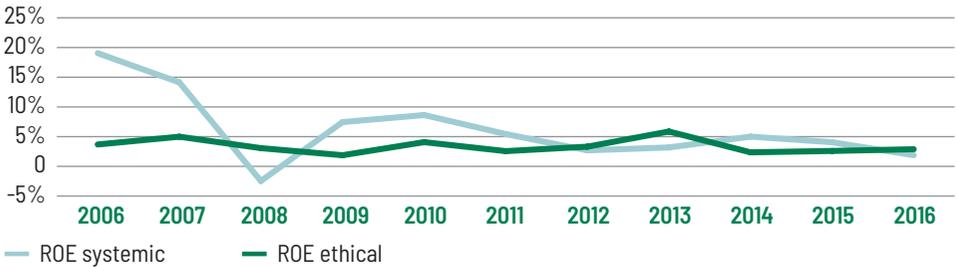
5 YEARS (2011-2016)	AVERAGE	STAND. DEV.
European ethical/sustainable banks	0,37%	0,13%
European systemic banks	0,19%	0,07%
10 YEARS (2006-2016)	AVERAGE	STAND. DEV.
European ethical/sustainable banks	0,41%	0,13%
European systemic banks	0,29%	0,22%

ROE (Return on Equity) is the ratio between net income and net equity. It measures a company's profitability by revealing how much profit is generated with the money shareholders have invested.

As can be seen in **GRAPH 2**, ethical and sustainable banks' profitability has been quite constant on average over the last ten years (3.39%) with a very low volatility compared to systemic banks. The average profitability of systemic banks has been higher in the period 2006-2016 (6.28% vs. 3.39%) though at the price of a very high volatility: five times higher than that of ethical banks (5.98% vs. 1.20%). This was generally due to a higher leverage (level of indebtedness) associated with greater risks.

Also in this case, the graph clearly shows that systemic banks have had a very high ROE before the crisis, but then collapsed in 2008 and never obtained the previous results again: in fact, in the time period 2011-2016 systemic banks' ROE has been on average only slightly higher than the one of ethical banks (3.71% vs. 3.26%) and this was associated to a slightly higher volatility. If you look at the dark green line in the graph, you can see that the ROE of European ethical and sustainable banks hasn't fallen significantly in the most difficult years of the latest crisis: once again, their resilience has been confirmed.

**GRAPH 2. ROE. A comparison between ethical and systemic banks**



**Return on equity**

5 YEARS (2011-2016)	AVERAGE	STAND. DEV.
European ethical/sustainable banks	3,26%	1,32%
European systemic banks	3,71%	1,38%
10 YEARS (2006-2016)	AVERGAE	STAND. DEV.
European ethical/sustainable banks	3,39%	1,20%
European systemic banks	6,28%	5,98%

Lastly, we have analysed the growth trends for all measured items and we have found that, on average, European ethical and sustainable banks have grown much more than European systemic banks in the last ten years as can be seen in TABLE 4. They have awarded much more loans (+ 11.67% vs. + 2.83%), collected more savings in deposits (+ 13.06% vs + 3.74%) and have become larger (total assets growing by 10.13% vs. 1.47%). Their net income has increased as well, on average (+ 5.93%) while that of systemic banks have collapsed in the last ten years (-14.58%).

**Unlike mainstream banks, ethical banks' returns have been steady over the last ten years and less volatile**

**TABLE 4 Growth in assets, loans, deposits, net capital, net income**

<b>GROWTH*</b>	<b>5 YEARS (2011-2016)</b>	<b>10 YEARS (2006-2016)</b>
<b>Totale Assets</b>		
European ethical/sustainable banks	9,03%	10,13%
European systemic banks	-2,00%	1,47%
<b>Loans</b>		
European ethical/sustainable banks	8,53%	11,67%
European systemic banks	0,12%	2,83%
<b>Deposits</b>		
European ethical/sustainable banks	12,55%	13,06%
European systemic banks	3,18%	3,74%
<b>Net equity</b>		
European ethical/sustainable banks	9,04%	10,48%
European systemic banks	3,01%	5,42%
<b>Net income</b>		
European ethical/sustainable banks	5,57%	5,93%
European systemic banks	-11,75%	-14,58%

\* Compound Annual Growth Rate or CAGR<sup>4</sup>.

<sup>4</sup> The compound annual growth rate (CAGR) is the mean annual growth rate of an investment over a specified period of time longer than one year.

## CONCLUSIONS

At the end of the match between European ethical/sustainable banks and European systemic banks, the numbers speak clearly: ethical banks are much more oriented to offering services to the real economy compared to mainstream banks, they have a stronger capital position and are more profitable (in terms of ROA) and less volatile, i.e. less risky.

The average performance of systemic banks (in terms of ROE) has been higher than that of ethical banks in the last ten years but at cost of much higher risks. However, the performance gap almost disappeared in the last five years, because, after 2008, systemic banks haven't been able to repeat the exceptional performances of the pre-crisis period. On the contrary, the performance of ethical and sustainable banks remained almost constant over the years, without suffering significant losses in the most acute crisis period, thus demonstrating an exceptional resilience.

Their added value is their attention to the real economy and the choice to support social and environmental projects with loans, the collection of saving and capital, returning to the roots of banking.

Finally, ethical banks have significantly grown in all the items measured by the research over the last ten years, a sign that ethical finance has been discovered by an increasing number of people, in particular in a period characterised by serious uncertainties in the European banking and financial sector.

**Ethical banks' added value? Strong capital position, resilience in crisis periods and support to social and environmental projects**

# BANCA ETICA COMPARED WITH EUROPEAN ETHICAL AND SUSTAINABLE BANKS

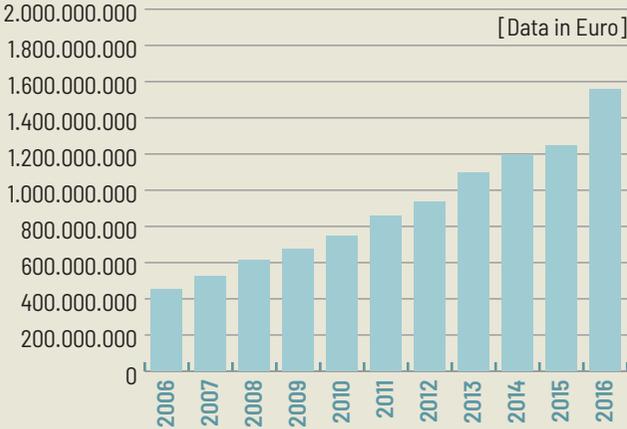
While in the last ten years European ethical banks have grown more, on average, compared to systemic banks, Banca Popolare Etica, the only ethical bank based in Italy, has generally done better than the average of European ethical and sustainable banks. As you can see in [TABLE 5](#), the amount of money collected by Banca Etica (Deposits) grew by an average of 15.41% per year in the last ten years, compared to a growth of 13.05% for European ethical and sustainable banks. Banca Etica's results are also better for what concerns the growth of net equity, deposits, total assets and net income, while the growth in loans is essentially in line with that of the European peers.

**TABLE 5 Growth in assets, loans, deposits, net capital, net income**  
Comparison between Banca Etica and the European ethical banks

GROWTH*	5 YEARS (2011-2016)	10 YEARS (2006-2016)
<b>Totale Assets</b>		
Banca Popolare Etica	12,72%	13,14%
European ethical/sustainable banks	9,03%	10,13%
<b>Loans</b>		
Banca Popolare Etica	4,54%	10,99%
European ethical/sustainable banks	8,53%	11,67%
<b>Deposits</b>		
Banca Popolare Etica	19,64%	15,41%
European ethical/sustainable banks	12,55%	13,06%
<b>Net equity</b>		
Banca Popolare Etica	17,40%	14,86%
European ethical/sustainable banks	9,04%	10,48%
<b>Net income</b>		
Banca Popolare Etica	23,71%	13,09%
European ethical/sustainable banks	5,57%	5,93%

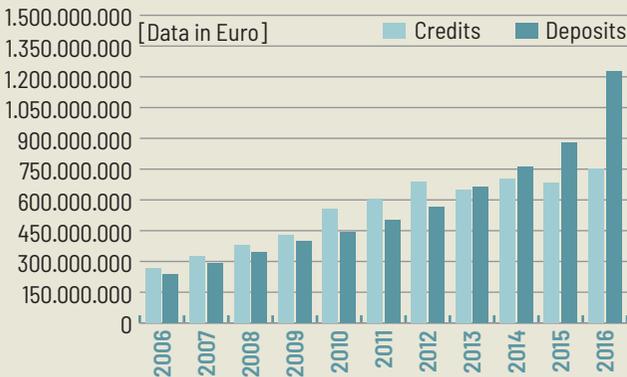
\* Compound Annual Growth Rate or CAGR

The better performance of Banca Etica compared to the European average is evident especially in the last 5 years (2011-2016), in particular as regards the growth in deposits (+ 19.64% vs. + 12.55% of European ethical banks) and net equity (+ 17.40% vs. 9.04%).



**GRAPH 3**  
Banca Etica:  
growth in total assets  
between 2006 and 2016

As can be seen in **GRAPH 3**, the total assets of Banca Etica have constantly grown from 2006 to 2016 and didn't stop growing during the most difficult years of the latest financial crisis (2008 and 2009). In absolute terms, total assets have grown by 244% over the last ten years.



**GRAPH 4**  
Banca Etica:  
growth in deposits  
and loans between  
2006 and 2016

Growth in deposits has also been steady, as can be seen in **GRAPH 4**. In absolute terms, Banca Etica's deposits grew by 418% from 2006 to 2016, while loans granted (whose growth has been less regular compared to that of deposits in the last four years) rose by 184% over the same period.

## APPENDIX I THE TWO TEAMS COMPARED IN THE RESEARCH

### EUROPEAN ETHICAL AND SUSTAINABLE BANKS

Alternative Bank Schweiz (Switzerland)  
APS Bank (Malta)  
Banca Popolare Etica (Italy)  
Caisse Solidaire (France)  
Caixa de Pollença (Spain)  
Charity Bank (UK)  
Cooperative Bank of Karditsa (Greece)  
Credal (Belgium)  
Cultura Bank (Norway)  
Ecology Building Society (UK)  
Ekobanken (Sweden)  
Freie Gemeinschaftsbank (Switzerland)  
GLS Bank (Germany)  
Group Crédit Coopératif (France)  
Hefboom (Belgium)  
La Nef (France)  
Magnet Bank (Hungary)  
Merkur Cooperative Bank (Denmark)  
Oikocredit (Netherlands)  
Tise (Poland)  
Triodos Bank (Netherlands)

### EUROPEAN SYSTEMIC BANKS

BNP Paribas (France)  
Deutsche Bank (Germany)  
HSBC (UK)  
Barclays (UK)  
Credit Suisse (Switzerland)  
Groupe BPCE (France)  
Groupe Crédit Agricole (France)  
ING Bank (Netherlands)  
Nordea (Sweden)  
Royal Bank of Scotland (UK)  
Santander (Spain)  
Société Générale (France)  
Standard Chartered (UK)  
UBS (Switzerland)  
Unicredit Group (Italy)

### METHODOLOGICAL NOTES

We have included in the team of “European and Sustainable Banks” all 11 European members of GABV, 14 members of Febea (six of which are also members of GABV) and two members of Inaise.

We have included only institutions that carry out banking activities (savings, loans and investments) with a prevailing social and environmental focus and have published online (or sent us) their financial reports for at least seven of the last ten years. The historical data series for GABV members have been provided by GABV.

The “European Systemic Banks” team includes the 15 “Global Systemically Important Banks” that are based in Europe (including Switzerland), based on the latest list published by the Financial Stability Board (November 2016).

In general, data processing and index calculation followed the methodology used by GABV in the *Real Economy - Real Returns 2016 Research Report*.