SIXTH REPORT

Ethical and Value-Based Finance in Europe

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1. Ethical and Value-Based Banks compared to significant European Banks

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Ethical and value-based banks perform the traditional role of financial institutions, with one key difference: savings gathered from customers are exclusively invested in productive and financial activities generating a positive impact on society and the environment. In this Sixth Report, our aim is to compare the main indices of profitability, capital adequacy, and financial performance of European ethical and value-based banks with the so-called "significant banks" in Europe, under the direct supervision of the ECB.

WHAT MAKES A BANK SIGNIFICANT

Source ECB

Significance criteria
Size
the total value of its assets exceeds €30 billion
Economic importance
for the specific country or the EU economy as a whole
Cross-border activities
the total value of its assets exceeds €5 billion and the ratio of its cross-border assets/liabilities in more than one other participating Member State to its total assets/liabilities is above 20%
Direct public financial assistance
it has requested or received funding from the European Stability Mechanism or the European Financial Stability Facility

We have examined European ethical and value-based banks that are members of the Global Alliance for Banking Values (GABV) and the European Federation of Ethical and Alternative Banks (FEBEA), for a total of 22 ethical and value-based banks, for which data from the last 10 years is available.
With regard to "significant" European banks, we have considered those included in the list of banks directly supervised by the ECB, totaling 60 banks, for which data from the last 10 years is available.
The comparison between the two groups of banks goes beyond studying their performance solely to determine which one is more profitable and financially stable. It also helps us understand how ethical and value-based banks, which do not primarily focus on profit but prioritise social well-being and environmental protection in their decision-making, are compatible (in terms of financial results) with the European banking system, especially its larger and interconnected components.
The comparison covers a 10-year period, from 2012 to 2021, a year marked by a significant impact due to the Covid-19 pandemic, whose initial effects were analysed in the Fifth Report.
The methodology used to compare the two groups of bank relies on calculating a series of indices that form the basis of the CAMELS rating system, covering six main areas: **C**apital Adequacy, **A**sset Quality, **M**anagement Quality, **E**arnings, **L**iquidity, and **S**ensitivity to market risk.
It was not possible to perform a comparison that included all the elements required by a CAMELS model, due to the limited availability of data publicly provided by ethical and value-based banks. We conducted the analysis by focusing on the essential indicators, for which calculations were feasible throughout the entire period. To conduct a thorough and truthful analysis, we thus calculated the most important indices. These indices were evaluated in a way that comprehensively covers all the key areas subject to assessment in banking institutions.
We started with **Capital Adequacy,** obtained by dividing equity by total assets. Unfortunately, not all ethical and value-based banks provide information about the capitalisation indices required by the Basel Accords in their publicly available financial reports[2].
The calculated index still provides relevant information about the adequacy of the banks' capital:

Equity to Assets ratio = Equity / Total assets

Secondly, we examined profitability, which is a topic of significant interest and discussion. Profitability was assessed using two indices, Return on Equity (ROE) and Return on Assets (ROA). ROE is a measure of economic performance calculated by dividing net profit by net equity. It measures the return on the capital invested in a company at risk (and thus the profitability of the shareholders' investment):

ROE = Net Income/Equity

ROE (Return on Equity) is expressed as a percentage and can

2. Guidelines regarding the capital and prudential requirements for credit institutions, internationally agreed upon by the Basel Committee on Banking Supervision (BCBS). The Basel indices, concerning capital requirements, encompass the three levels of capital quality, known as core Tier capital, Tier 1, and Tier 2.

be calculated for any company if both the net income and net equity are positive. The assessment of the ROE level will also depend on the industry being evaluated. Often, ROE cannot be used to compare different companies in different sectors. ROE varies across sectors, primarily because companies have different operating margins and financing structures. Moreover, established companies with higher efficiency may not be comparable to younger companies.
It is also important to consider how an excessively high ROE could be indicative of a particularly modest level of capitalisation. Therefore, it is necessary to evaluate this indicator in combination with capitalisation indices.
The term 'Return on Assets' (**ROA**) refers to a financial ratio that indicates the profitability of a company relative to its total assets.

ROA = Net Income/Total assets

Both ROA and ROE measure the degree of resource utilisation by a company. However, one of the main differences between the two is how a company's capitalisation level is considered. ROA takes into account the total company assets, regardless of the financial funding source. On the other hand, ROE only measures the return on a company's equity, excluding liabilities (and thus debt).
Certain characteristics of company management were then evaluated using two further financial indicators. These include the 'business model,' which measures the ratio of loans to total assets, and the 'Deposits to Total Assets Ratio,' an indicator of total deposits divided by total assets.

Business Model = Total loans/Total assets
Deposits to total assets ratio = Total deposits/Total assets

The first shows the percentage of a bank's loans compared to its total assets, thereby measuring the relative amount of loans granted. The second measures the percentage of bank deposits compared to the total funds gathered by the bank and subsequently invested in its activities.

Finally, we examined **liquidity** by comparing loans to deposits.

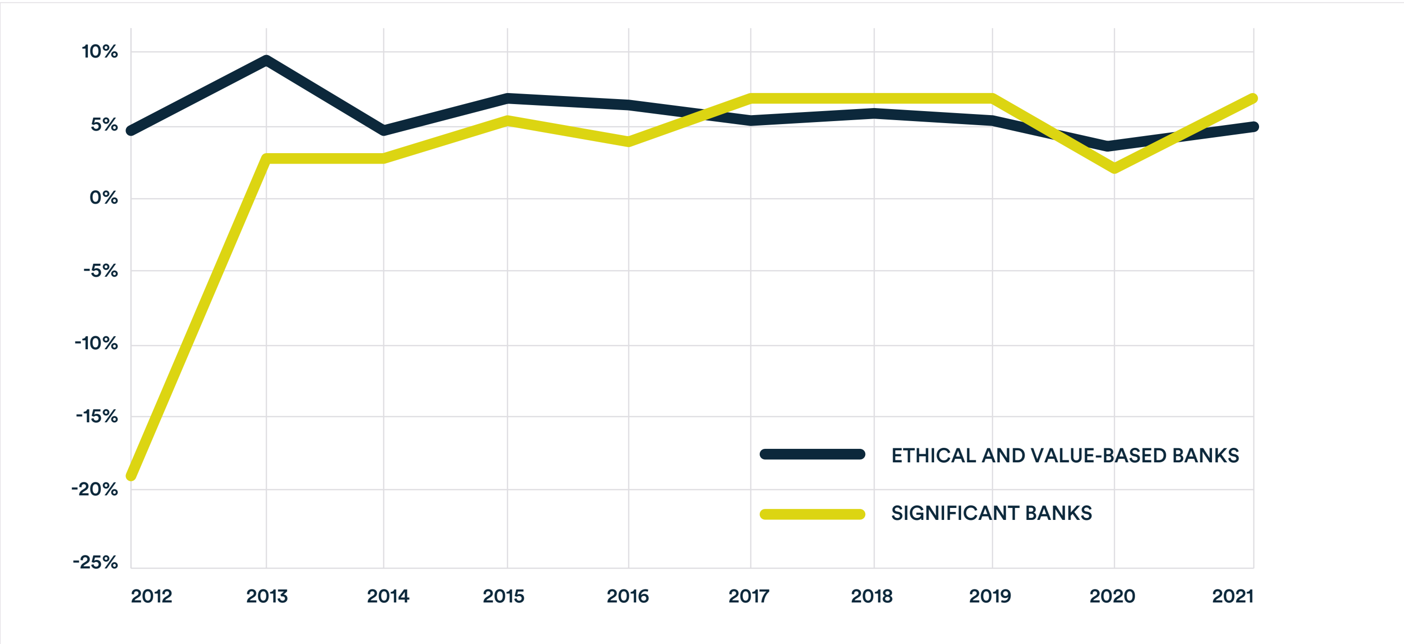
LDR = Total loans/Total deposits

The Loans-to-Deposits Ratio (Loans to Deposits Ratio - **LDR**) is used to assess a bank's liquidity by comparing its total loans and total deposits within the same period. The index is expressed as a percentage and provides insights into the bank's risk level. A high indicator level may hint at a higher-risk situation, as the bank holds a significant amount of assets tied-up in loans and might face greater difficulty in covering unexpected losses and cash outflows.

THE RESULTS

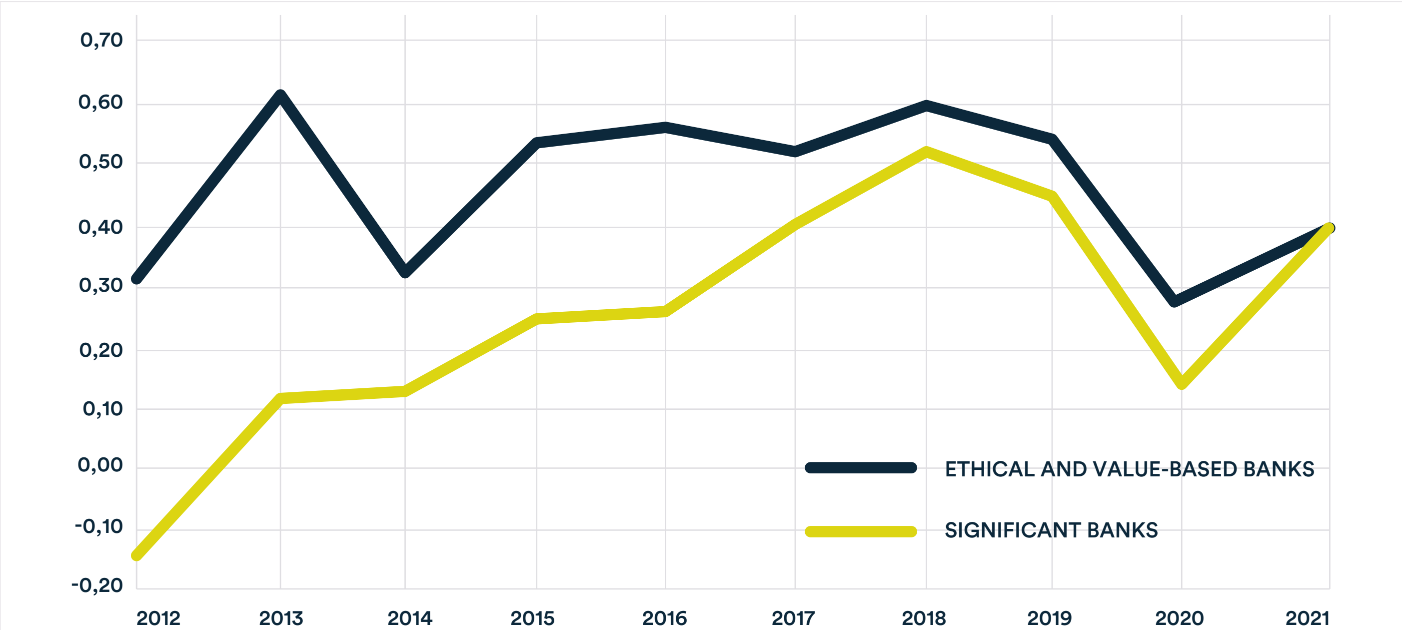
Profitability

We analysed the profitability by comparing the financial ratios, ROA and ROE, of European ethical and value-based banks with those of European 'significant' banks directly supervised by the ECB. From 2012 to 2021, ethical banks maintained a steady average **ROE** of 5.23%, whereas significant banks had an average value of 2.21%. In this regard, ethical banks show significantly higher profitability compared to that of 'significant' banks. Taking a closer look, we can attribute this significant difference to the high volatility in the results of traditional banks. Despite the 'significant banks' having a favourable starting position in 2008, with an average ROE of 8.20%, they were more affected by the consequences of the 2007-2008 crisis in the following years. As shown in the table, the 'significant banks' experienced significant losses, resulting in a severely negative ROE of -18.94% in 2012. In the following years, 'significant' banks staged a recovery until 2020, when they recorded a larger drop in profitability compared to ethical banks (due to the Covid-19 pandemic). However, in 2021, they experienced a rapid surge, outpacing the performance of ethical banks. This can be attributed, in part, to the highly expansionary monetary policy, alongside a notably positive year for major international stock markets, and an enhancement in the quality of granted credit.



Graph 1 - ROE. Comparison between ethical and value-based banks and significant banks.

ROA (Return on Assets) represents the ratio of net income to total assets and shows how profitable a company's assets are. The table shows that ethical banks consistently maintained a higher and stable **ROA** compared to the European 'significant' banks over the last decade, with an average of 0.46% versus 0.25% for 'significant' banks. In terms of volatility, measured by the standard deviation of yearly averages, ethical banks demonstrate stability with relatively low volatility at 0.64%, compared to 0.84% for the 60 'significant' banks.
Between 2019 and 2020, both groups experienced a substantial decline, with ethical banks decreasing by -0.25 percentage points and 'significant' banks by -0.30 percentage points. This is due to the impact of the Covid-19 pandemic. From 2020 to 2021, despite the challenging economic environment, banks rebounded, recording an average increase in return on assets (ROA) of 0.12% for ethical banks and 0.30% for significant banks. In 2021, ROA values essentially converged: 0.399% for ethical banks and 0.396% for significant banks.
In summary, the analysis of ROA from 2012 to 2021 reveals a higher stability in results for ethical banks, consistently maintaining positive index values even during crises. However, 'significant' banks have faced prolonged effects from the 2007-2008 financial crisis, but they bounced back strongly from 2013 and caught up with ethical banks' performances by 2021. Starting from 2018, the two groups of banks display a similar trend, experiencing a decline in profitability until 2020, followed by a recovery in 2021.

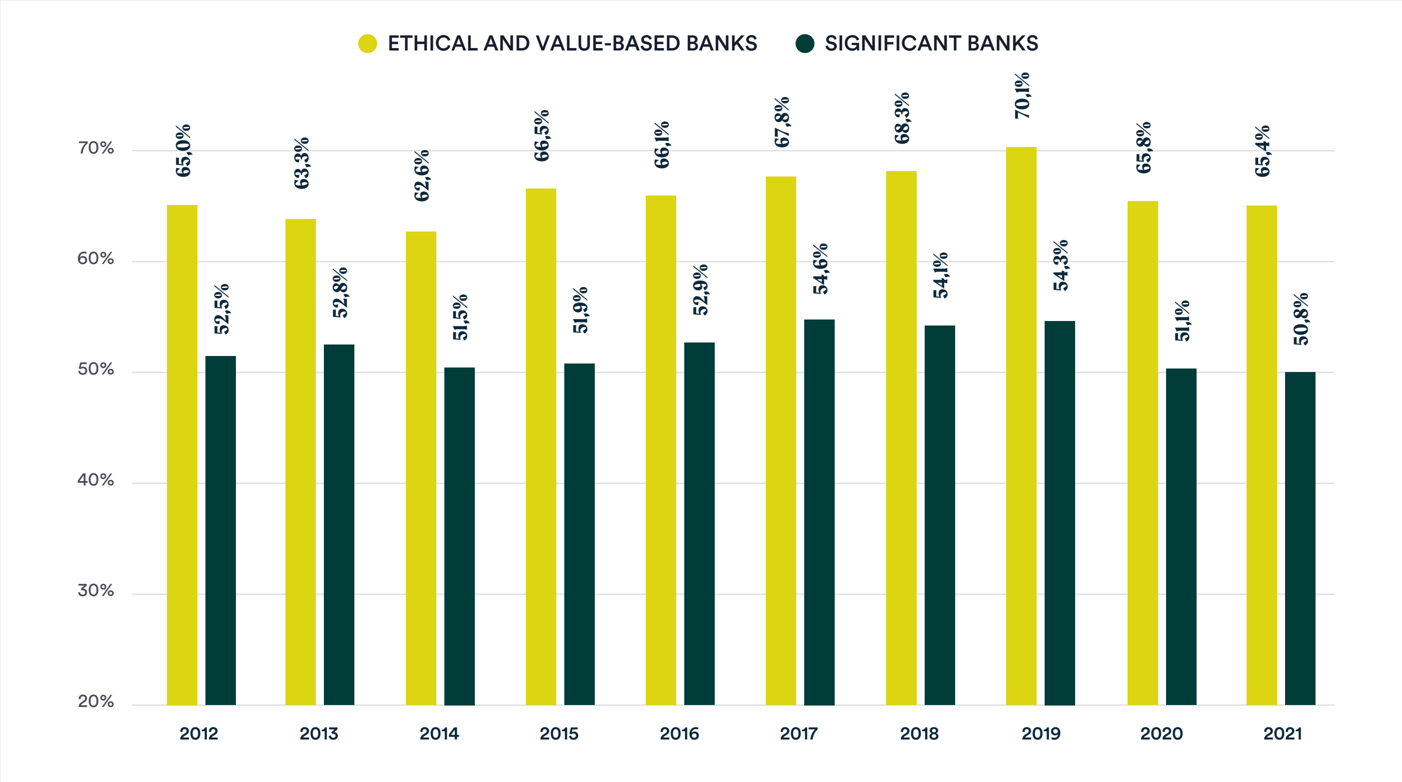


Graph 2 - ROA. Comparison between ethical and value-based banks and significant banks.

Total loans to total assets

Next, we analyse the management characteristics for the two samples. Initially, we compared the weight of credit activity as a percentage of total assets. Credit activities (i.e. loans) remain the primary focus for ethical banks, although we sawa slight decrease compared to previous years. In 2021, total loans accounted for 67.58% of total assets on average. This value is obtained by calculating the business model index based on the aggregated total values of ethical banks.
For more representative results, the indicator was also calculated as the average of the single percentage indices for each ethical bank in the sample (rather than just at an aggregate level, as the ratio of the sums of data for individual banks). The same method was applied to the significant banks sample.
Graph 3 displays data collected for the given period. Results under this second methodology show an index of 65.4% for ethical banks and 50.8% for significant banks in 2021. Throughout the entire period, ethical banks consistently had a much higher percentage of loans to total assets compared to 'significant' banks.
Clearly, ethical banks are more focused on traditional banking activities, like collecting savings and granting loans. On the other hand, 'significant' banks associate traditional banking activities with other financial activities such as investments, financial services or placement of funds and securities.
In both analysed samples, credit activity shows a similar pattern, declining from 2008 to 2014, then growing from 2015 to 2019, and slightly decreasing in the last two years. The recent downturn is due to the impact of the pandemic crisis that started at the end of 2019.
Although credit activity has slightly decreased in recent years, it is evident that ethical banks primarily focus on providing credit, directly supporting businesses and households, which we consider synonymous with the 'real economy' in this and previous versions of the report. On the other hand, 'significant' banks have reduced their credit activity by 2% from 2012 to 2021.

Ethical and value-based banks primarily focus on providing credit, directly supporting the real economy

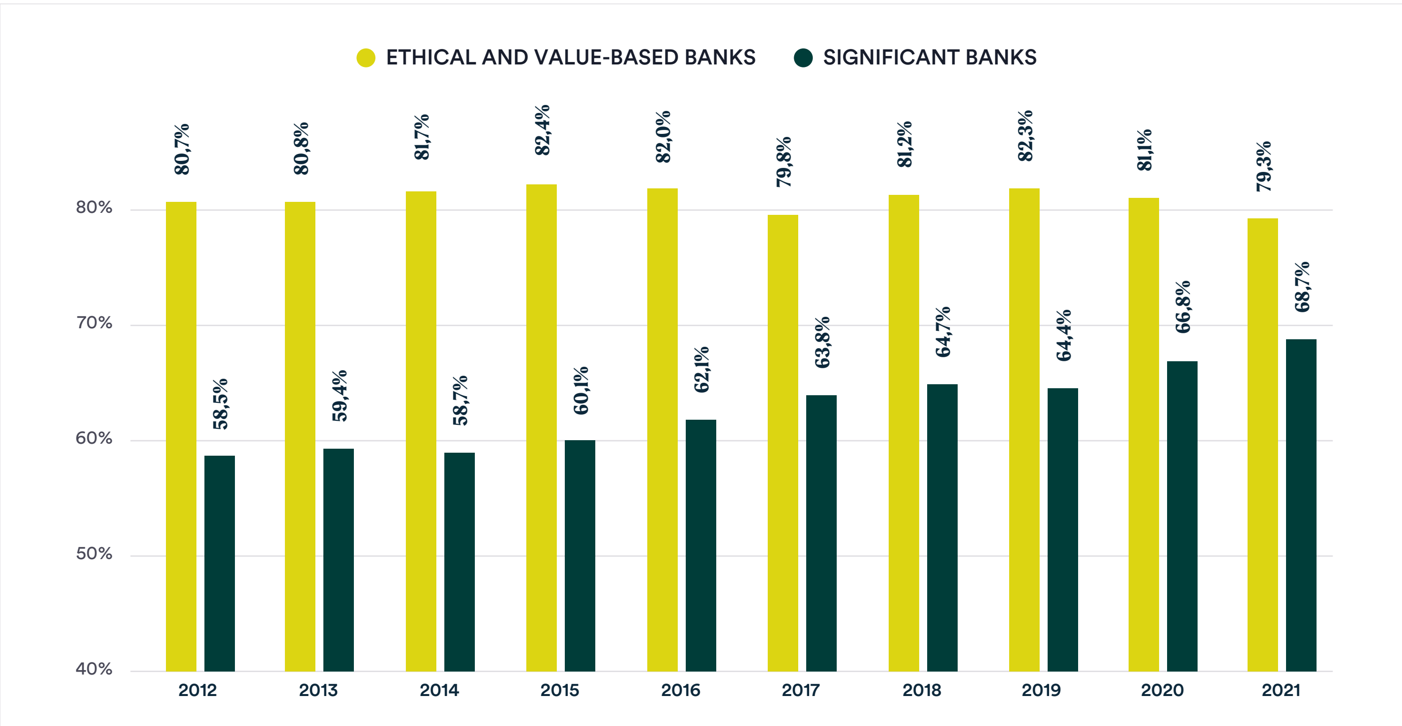


Graph 3 - Total loans to total assets.

Total deposits to total assets

The difference between the two groups of banks is also evident in the percentage of deposits to total assets. As depicted in Graph 4 and Table 1, ethical banks mainly rely on customer deposits, averaging 81.1% of total assets, while 'significant' banks have an average of 62.7%.

The lower ratio for the latter is due to the importance of additional sources of liquidity (compared to ethical banks), such as bonds or financing from other banks. Over the 2012-2021 period 'significant' banks experienced a 10.2% increase in deposits to total assets, whereas ethical banks saw a 1.4% decrease.



Graph 4 -Total deposits to total assets.

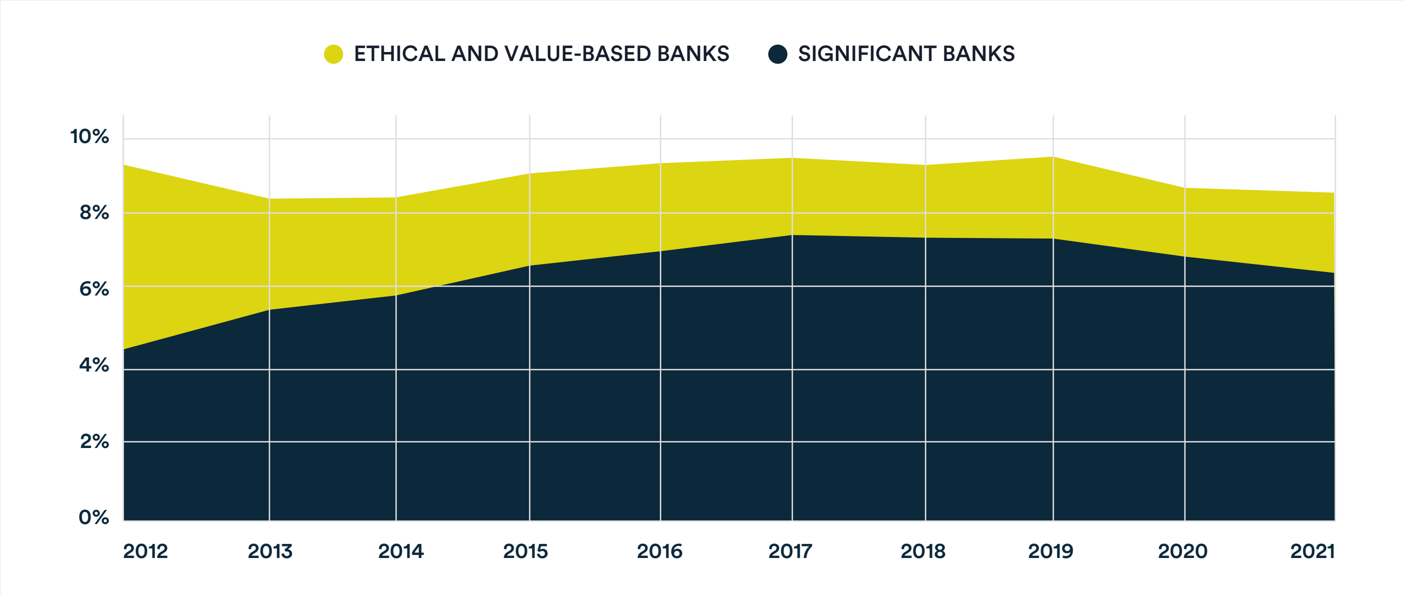
	2021/2020			2020/2019		
Ethical and value-based	**Change in Assets**	**Change in Credits**	**Change in Deposits**	**Change in Assets**	**Change in Credits**	**Change in Deposits**
Credit Cooperatif	8%	11%	7%	13%	9%	22%
Triodos	19%	11%	13%	15%	12%	10%
GLS Bank	15%	5%	16%	20%	-26%	19%
Umweltbank	20%	8%	4%	21%	8%	7%
Banca Etica	8%	3%	3%	28%	10%	17%
APS Bank	15%	14%	15%	12%	16%	10%
ABS	16%	14%	-1%	12%	3%	13%
La Nef	32%	40%	31%	23%	54%	40%

Table 1 - Growth of major European ethical and value-based banks

Table 1 shows the increases in total assets, loans, and deposits for the main European ethical banks in 2021 and 2020. We focused on the eight largest ethical and value-based banks with assets exceeding 1 billion euros, as they have the most significant impact on the overall results.
Similar to 2020, Crédit Coopératif remained a key player in 2021, representing 37% of the total assets of all European ethical banks. However, this year, Crédit Coopératif saw a higher increase in loans at 11% (compared to 9% in the previous year), while deposit growth was lower than 2020 (7% vs. 22%).
Compared to 2020, there was a higher average loan growth for the eight major ethical banks (+13% compared to +11% in the previous year). French bank La Nef stood out once again, showing significant increases of 40% in loans and 31% in deposits (compared to 54% and 40% respectively in the previous year).
In general, the eight largest ethical banks experienced a double-digit growth rate in deposits, with an average of 11%. It's worth noting that all the major ethical banks saw substantial growth in total assets, with La Nef leading the way once more with a growth rate of 32%.
To conclude, 2021 showed positive growth in the analysed metrics, especially in loans and total assets, albeit at a slightly lower rate compared to 2020.

Capital Adequacy

Capital adequacy was measured as the ratio of net equity to total liabilities. Graph 5 shows that over the years, this ratio slightly decreased for ethical banks, starting at 9% in 2012 and reaching 8.2% in 2021. However, for 'significant' banks, it followed the opposite trend, though at notably lower levels, rising from 4.3% in 2012 to 6.20% in 2021.
Compared to 2020, the pandemic crisis caused a further decline in the ratio, with a decrease of 0.2% for ethical banks and 0.4% for 'significant' banks.
Ethical banks have consistently maintained a strong financial position, although it has decreased from 2012 to 2021, confirming a level of capitalisation consistently above that of 'significant' banks. The latter, despite starting from a weaker position, have gradually closed the gap with ethical banks.
After the 2008 crisis, regulators have focused more on the quality and quantity of capital banks must hold, as a fundamental pillar of prudential supervision of financial intermediaries. Unlike ethical banks, which always maintained relatively high net equity compared to total liabilities, traditional banks have been required to set aside larger capital reserves due to new regulatory interventions in banking supervision.

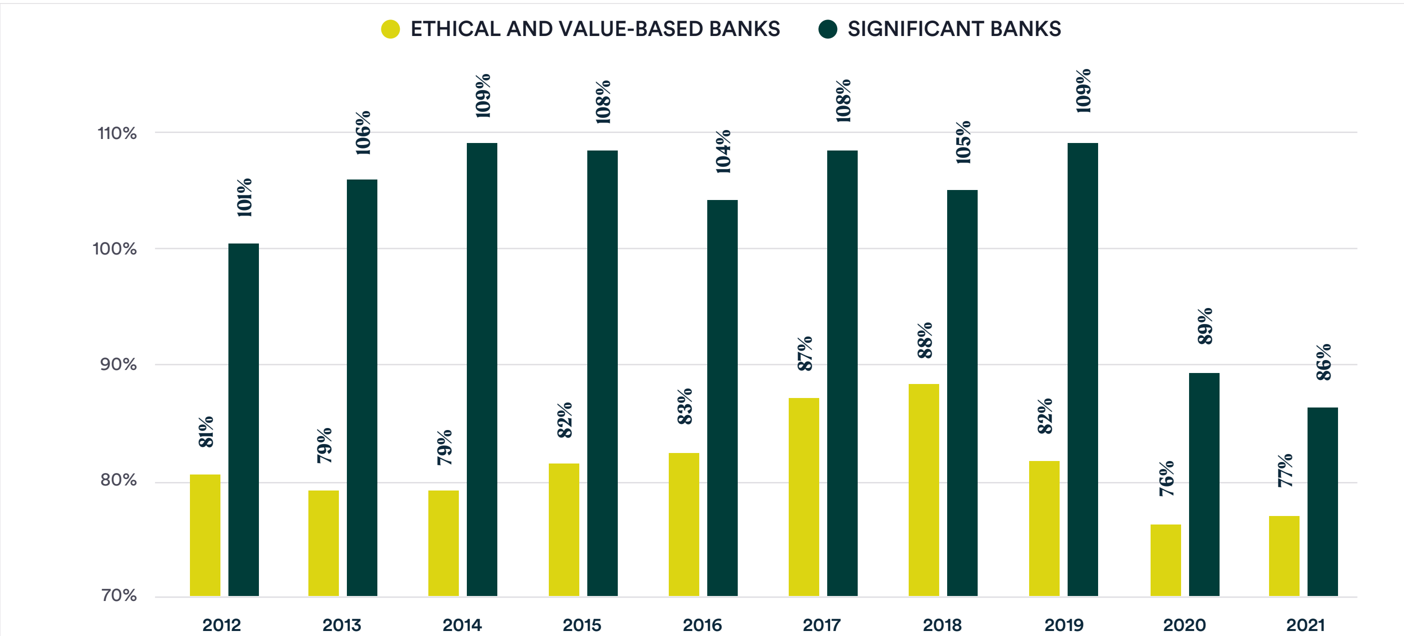


Graph 5 - Capital adequacy.

Liquidity: Loan-to-Deposit Ratio (LDR)

According to Graph 6, ethical banks consistently maintained a strong liquidity index throughout the period from 2012 to 2021, with an average LDR of 81.5%. On the other hand, 'significant' banks had a much higher average LDR of 102.5%, especially in recent years, peaking at 109% in 2019. It's important to note that a very high ratio suggests the bank may not have enough liquidity to meet unexpected withdrawal demands from depositors or other unexpected cash outflows.

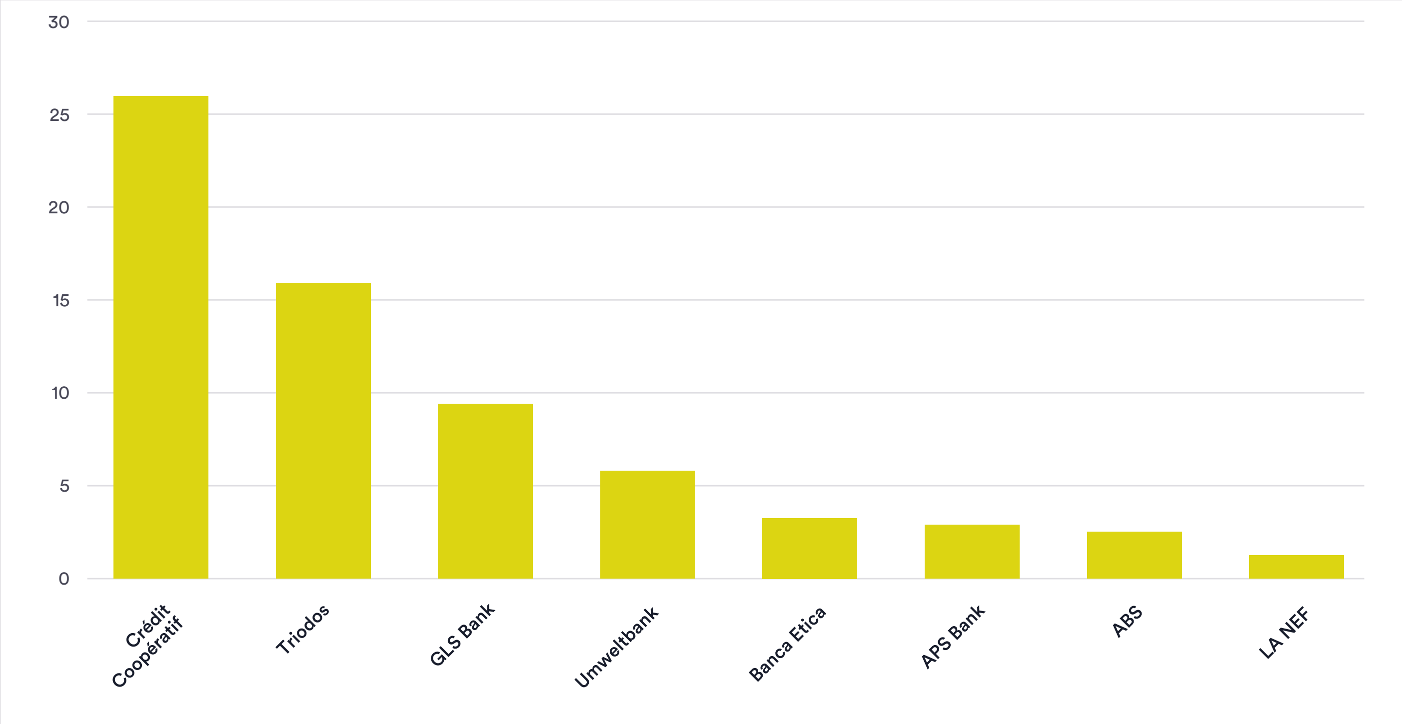
In 2021, both groups of banks experienced a decrease in the LDR compared to the previous year, mainly due to the pandemic emergency and reduced credit issuance. Ethical banks reported an average LDR of 77% in 2021, while traditional banks had an average of 86%.



Graph 6 - Liquidity: Loan-to-Deposit Ratio (LDR).

In general, 'significant' banks often maintain a high LDR due to their tendency to extend loans in proportion to total deposits, aiming to leverage interest margins. Ethical banks, in contrast, exhibit much less performance fluctuation, suggesting the 'significant' banks' greater emphasis on speculative or high-risk activities.

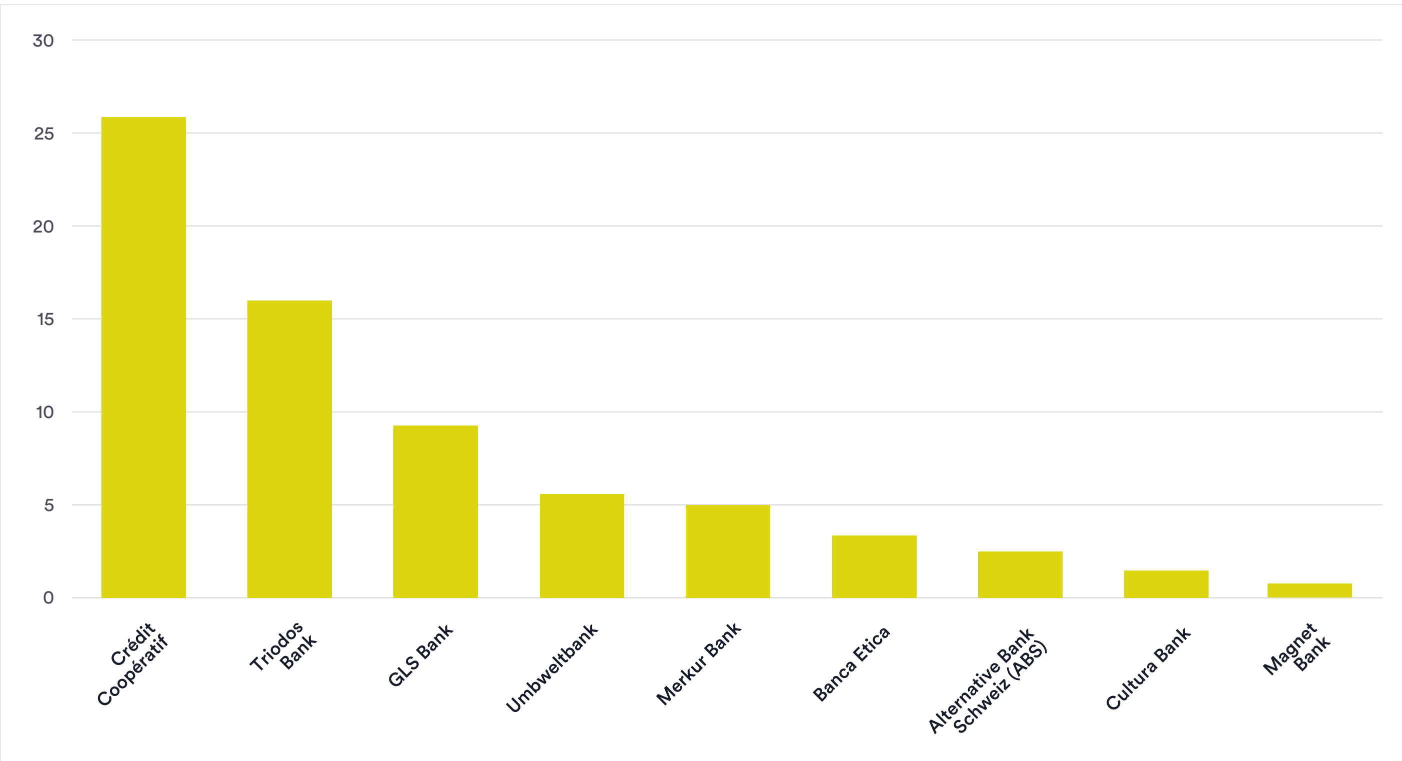
This analysis is supported by the notable volatility in the profitability of 'significant' banks, which shows high values during periods of economic recovery and low or negative values during crises. In contrast, ethical banks have exhibited less pronounced volatility. In recent years, stricter regulations have contributed to narrowing this discrepancy. However, the recent sharp rise in interest rates has increased market risks, especially for 'significant' banks, particularly in terms of interest rate risk, further increasing volatility in the banks' balance sheets.



Graph 7 - Total assets of the 8 largest ethical and value-based banks (in billion euros).

CONCLUSIONS

In conclusion, the comparison between European ethical banks and 'significant' banks shows that ethical banks are more focused on serving the real economy. Furthermore, ethical banks experienced much less fluctuation in profitability compared to significant banks.
During the first year of the Covid-19 pandemic, both groups experienced a decrease in profitability, but ethical banks were affected to a lesser extent. However, in 2021, both groups saw a significant recovery, narrowing the gap between the two, especially in terms of ROA.
Furthermore, in terms of capitalisation, ethical banks consistently maintained a higher capital coefficient than 'significant' banks, despite the latter undergoing a capital adjustment process due to regulatory interventions, leading to



Graph 8 - The eight largest European ethical banks by asset volume (in billion euros).

an increasing trend in banks' capitalization levels.
Regarding liquidity, 'significant' banks had higher average LDR, surpassing 100%, indicating a greater exposure to liquidity risk. In contrast, ethical banks maintained a stable loan-to-deposit ratio, with an average ranging from 80% to 90%.

During the first two years of the pandemic LDR ratio decreased mainly due to a more significant reduction in loans compared to deposits.
However, by the end of 2021, ethical banks showed improvement in the indicator.

Aggregated numbers of European ethical and value-based banks (2021)

Assets **71.09** billion euros
+11.77% compared to 2020

Loans **47.83** billion euros
+8.98% compared to 2020

Deposits **51.30** billion euros
+9.98% compared to 2020

The data for 2021 includes the financial statements of the 23 ethical banks analysed in the research, along with the 2021 data of Coop57 (Spain), Femu Qui (Corsica, France), Etika (Luxembourg), Ucit (Great Britain), Sidi (France), and Sifa (France). While these entities do not engage in mainstream banking activities, they provide credits following the principles of ethical banks.

Methodological note

The calculation methodology used for all indicators is the simple average of the single indices calculated for each bank, extended to all years in the historical series. For the overall comparison, the average of the aggregated means for each year has been applied.

Appendix I. European Ethical and Value-Based Banks

BELGIUM
Credal
Hefboom

DENMARK
Merkur Cooperative Bank

FRANCE
Caisse Solidaire - until 2018
Group Crédit Coopératif
La Nef

GERMANY
GLS Bank
UmweltBank

GREECE
Cooperative Bank of Karditsa

HUNGARY
Magnet Bank

ITALY
Banca Popolare Etica

MALTA
APS Bank

THE NETHERLANDS
Triodos Bank

NORWAY
Cultura Bank

POLAND
Tise

SERBIA
3Bank (formerly Opportunity Bank Serbia)

SPAIN
Caixa de Pollença

SWEDEN
Ekobanken

SWITZERLAND
Alternative Bank Schweiz
Freie Gemeinschaftsbank

UNITED KINGDOM
Charity Bank
Ecology Building Society

Appendix II. 'Significant Banks'

AUSTRIA
Addiko Bank AG
BAWAG Group AG
Erste Group Bank AG
Raiffeisen Bank International AG

BELGIUM
KBC Group NV

CYPRUS
Bank of Cyprus Holdings Public Limited Company
Hellenic Bank Public Company Limited

FINLAND
Kuntarahoitus Oyj
Nordea Bank Abp

FRANCE
BNP Paribas S.A.
BPCE S.A.
Crédit Agricole S.A.
HSBC Continental Europe
RCI Banque SA
Société Générale S.A.

GERMANY
Aareal Bank AG
Bayerische Landesbank
Commerzbank Aktiengesellschaft
DekaBank Deutsche Girozentrale
Deutsche Bank AG
Deutsche Pfandbriefbank AG
DZ BANK AG Deutsche Zentral-Genossenschaftsbank
Goldman Sachs Bank Europe SE
Landesbank Baden-Württemberg
Münchener Hypothekenbank eG
Morgan Stanley Europe Holding SE
Norddeutsche Landesbank -Girozentrale-

GREECE
Alpha Services and Holdings S.A
Eurobank Ergasias Services and Holdings S.A
National Bank of Greece S.A.
Piraeus Financial Holdings S.A.

IRELAND
AIB Group plc
Bank of Ireland Group plc

ITALY
Banca Mediolanum S.p.A.
Banca Monte dei Paschi di Siena S.P.A.
Banca Popolare di Sondrio, Società per Azioni (S.p.A.)
Banco BPM S.p.A.
BPER Banca S.p.A.
Credito Emiliano Holding S.p.A.
FinecoBank S.p.A.
Intesa Sanpaolo S.p.A.
Mediobanca - Banca di Credito Finanziario S.p.A.
UniCredit S.p.A.

LATVIA
AS "Citadele banka"

LITHUANIA
Akcinė bendrovė Šiaulių bankas

MALTA
Bank of Valletta plc
HSBC Bank Malta p.l.c.

the NETHERLANDS
ABN AMRO Bank N.V.
BNG Bank N.V.
Coöperatieve Rabobank U.A.
ING Groep N.V.
Nederlandse Waterschapsbank N.V.

PORTUGAL
Banco Comercial Português, S.A.

SLOVENIA
Nova Ljubljanska banka d.d., Ljubljana

SPAIN
Banco Bilbao Vizcaya Argentaria, S.A.
Banco de Sabadell, S.A.
Banco Santander, S.A.
Bankinter, S.A.
CaixaBank, S.A.
Unicaja Banco, S.A.

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