

Global Alliance for Banking on Values

**Strong and
Straightforward:
The Business Case
for Sustainable Banking**

November 2012

**GLOBAL
ALLIANCE
FOR BANKING
ON VALUES**

Banking provides a critical function in the modern economy by supporting, serving and funding economic and social development. Traditionally banks have facilitated the safe accumulation of wealth, credit for investments supporting and growing the real economy¹, and payment and trade transactions. As we look at the economic and environmental challenges currently facing society, it is timely to analyze banking models to determine those best designed to meet these challenges.

The last five years have presented a series of serious challenges to the financial system in general, and the largest banks in the world in particular. At the same time over the last several decades a group of sustainable banks have pursued banking models based on sustainable banking principles as articulated by the Global Alliance for Banking on Values (GABV).² The Principles of Sustainable Banking³ are summarised as:

Principles of Sustainable Banking

1. Triple bottom line approach at the heart of the business model;
2. Grounded in communities, serving the real economy and enabling new business models to meet the needs of both;
3. Long-term relationships with clients and a direct understanding of their economic activities and the risks involved;
4. Long-term, self-sustaining, and resilient to outside disruptions;
5. Transparent and inclusive governance;
6. All of these principles embedded in the culture of the bank.

Early in 2012 the GABV released a report⁴ providing an innovative analysis comparing the financial performance of sustainable banks with Global Systemically Important Financial Institutions (GSIFIs).⁵ This analysis has been updated and expanded.⁶ The updated analysis compares three banking peer groups.

This analysis focuses on the principles underlying a banking business model. There are a variety of business models within each peer group reviewed. The banking models within each peer group are driven by geographic location, economic circumstances, and other bank specific factors. The banks in the sustainable peer group are distinguished by basing their models on the Principles of Sustainable Banking.

Sustainable banks provide a compelling approach for the future of banking by:

- **Focusing on the real economy**
- **Offering resiliency through strong capital positions**
- **Delivering stable and solid financial returns, and**
- **Providing for growth.**

1. The real economy relates to economic activities that generate goods and services as opposed to a financial economy that is concerned exclusively with activities in the financial markets.

2. For more information: www.gabv.org

3. See separate section providing details on these principles.

4. Full and summary reports available at www.gabv.org.

5. For more information including a complete list of GSIFIs: www.financialstabilityboard.org.

6. See separate section detailing analytical framework.

Banking Models – The Sustainable Banking Approach

The primary focus of public discussions on the financial system has centred on the very large international banks, those that are referred to as 'too big to fail'. Similarly these banks have generally had the highest levels of investment from investors and the greatest level of support from governments. Furthermore, historically most research has centred on these large banks both within the investor and academic communities.

Sustainable banks operating with business models based on the Principles of Sustainable Banking have consistently delivered products, services and social, environmental and financial returns to support the real economy. They have increased their activity during the present financial crisis, expanding their lending to small and growing businesses in particular. Committed to providing a client demand-driven suite of banking services to the real economy over the long-term while also operating with an awareness of the development and environmental needs of society, they highlight the powerful role banks can deliver as stewards of equitable and environmentally sound capitalism.

Many of these sustainable banks have been in business for a few years, others for far longer – even many decades. Their commitment to providing long-term, patient, and sustainably profitable banking services has been at the heart of some of the world's most successful economic developments, especially in the small and growing business sectors. The vital role that these banks play in developing the real economy and addressing environmental challenges should be recognised in the debate over how to restructure local and global finance.

Assessing Sustainable Banking – A Financial Perspective

In assessing various banking peer groups the key question to address is:

- What long term value does a bank provide to stakeholders including society, clients, and investors?

To answer this question, the following analytical framework was used:

- What support does a bank provide to the real economy?
- How resilient is a bank in the face of economic challenges?
- What returns does a bank provide to society, clients and investors?
- What growth does a bank achieve to expand its impact?

To the extent these questions can be researched on a historic basis for alternative peer groups, insight about which types of banking are best suited for the future can be used to take decisions by clients, investors and society. Since the only standard for historic analysis is the financial profiles that are publicly available, the analysis focused on that information.

Three peer groups were used for the analysis: sustainable banks, GSIFs, and US commercial and retail banks with assets between \$100 million and \$10 billion (USCRBs).

The financial profiles were determined for each peer group relative to four components:

- Commitment to the real economy
- Capital strength and quality
- Financial returns and volatility, and
- Growth.

Given the impact of the financial crisis during the ten year time period, the profiles⁷ were averaged over three time periods:

- 2002 to 2011 (Over the cycle)
- 2002 to 2006 (Pre-crisis) and
- 2007 to 2011 (Crisis/Post-crisis).

7. Details by bank of the analysis are available from the GABV.

Based on this analysis the key conclusions are:

- **Sustainable banks had a significantly greater proportion of exposure to customers in both deposits and loans**
- **Sustainable banks had relatively higher and better quality capital**
- **Sustainable banks had better returns on assets and equal returns on equity with lower volatility of returns**
- **Sustainable banks had significantly higher levels of growth.**

The analysis calls into question recent critical comments from the banking industry regarding the negative impact of higher capital requirements on both financial returns and the ability of banks to provide lending to support the real economy. The analysis highlights the trade-off between leverage and returns for equity investors while adding insight into the volatility of returns across different peer groups. Finally, the analysis provides some evidence for assessing proposed regulatory changes relative to capital requirements for banking.⁸

What support does a bank provide to the real economy?

The relative support to the real economy by a bank is illustrated by the proportion of its total balance sheet devoted to client lending and funded by client deposits. In this area the comparisons between the peer groups are striking.

| Loans and Deposits to Total Assets | | | | |
|------------------------------------|-----------------------|-------------------|--------|--------|
| | | Sustainable Banks | GSIFIs | USCRBs |
| Over the Cycle | Loans/Total Assets | 72.4% | 40.7% | 65.1% |
| | Deposits/Total Assets | 72.5% | 42.0% | 76.8% |
| Post-Crisis | Loans/Total Assets | 71.7% | 39.8% | 65.7% |
| | Deposits/Total Assets | 73.1% | 41.1% | 78.5% |
| Pre-Crisis | Loans/Total Assets | 73.2% | 41.6% | 65.1% |
| | Deposits/Total Assets | 71.9% | 42.8% | 75.1% |

The data illustrates a consistently strong commitment to lending to meet societal needs by both the sustainable banks and the USCRBs. The exposure of the GSIFIs to lending is significantly lower. Similarly the reliance on client deposits to fund the bank's assets is significantly higher for both sustainable banks and USCRBs. The GSIFIs' reliance on non-client funding highlights their dependence on more volatile funding sources leading to liquidity risk and the interconnectivity that makes them systemic risks.

8. See separate section that discusses regulatory issues.

How resilient is a bank in the face of economic challenges?

There are striking differences in both the level and quality of capital strength across the referenced peer groups as shown below:

| Capital Ratios | | Sustainable Banks | GSIFs | USCRBs |
|----------------|---------------|-------------------|-------|--------|
| Over the Cycle | Equity/Assets | 7.5% | 5.3% | 10.5% |
| | Tier 1 Ratio | 12.2% | 10.0% | 12.7% |
| Post-Crisis | Equity/Assets | 8.3% | 5.5% | 10.7% |
| | Tier 1 Ratio | 13.1% | 10.9% | 12.9% |
| Pre-Crisis | Equity/Assets | 6.7% | 5.0% | 10.4% |
| | Tier 1 Ratio | 11.2% | 8.6% | 12.5% |

For both sustainable banks and USCRBs capital ratios have been substantially higher than those of the GSIFs, especially the equity/assets ratio; that provides a simple and straightforward measure of capital strength⁹. Furthermore, a much greater proportion of regulatory capital is represented by shareholder equity, a high quality form of capital increasingly favoured by regulators and investors. It should be noted that for both sustainable banks and USCRBs the capital ratios are not only higher than those of GSIFs but are also in excess of the target levels publicly communicated by regulators.

It is possible that some of the higher capital levels for sustainable banks and USCRBs are driven by a strategy to address lower levels of business diversification. Most of these banks are relatively concentrated in specific communities, geographic or otherwise. At the same time the levels of capital for sustainable banks are closer to historic levels of the banking industry across decades. From this perspective the levels of capital, and especially equity, for the GSIFs can be considered very low over the period reviewed. Across all peer groups the impact of regulatory and governmental pressure to increase capital to address the consequences of the crisis can be seen in the development of capital levels in the post-crisis period.

What returns does a bank provide to society, investors and clients?

Historically there has been a general perception that sustainable banks deliver lower financial returns. Until recently this view has not been empirically tested in a structured multi-year analysis. The initial and updated research refutes these prevailing opinions.¹⁰

Equity investors typically measure returns relative to stock market performance. As this study is focused on stakeholder returns, the analysis has focused on publicly reported financial results rather than stock market returns. This approach eliminates the volatility of market movements while focusing on the long term operational results of the banks. Over time the market performance should be consistent with the reported financial performance.

⁹ The equity/assets ratio is comparable to, but different from, the Leverage Ratio as defined in Basel III. The Leverage Ratio incorporates various adjustments that are not readily available from publicly available information.

¹⁰ For the sustainable banks there were four start-up institutions and one institution created from a significant merger. For purposes of the analysis these five institutions have been excluded from the analysis but their data is available from the GABV.

In assessing the financial returns of a bank, it is important to focus both on the financial return ratios as well as their volatility. Banks are in the business of managing assets and related liabilities to generate profits. From this perspective the return on assets should be the key measure of the quality of earnings and the management and business structure that deliver them. A number of recent articles in the financial press have focused on the importance of return on assets for measuring the success of a bank.¹¹

Return on equity, the general focus of equity investors, is significantly impacted for banks by their capital strategy and capital management processes. As noted in a recent study¹², capital strategy primarily addresses the distribution of returns between different stakeholders (depositors, debt holders, equity holders, etc.). Furthermore, increases in return on equity resulting from greater leverage should lead to higher required returns on equity from investors due to the higher degree of risk.¹³

It is also helpful to look at the volatility of financial returns over time. An investment with lower volatility should require a lower return from an investor. For purposes of this research the standard deviations of the return on assets and return on equity were calculated for the GSIFIs and the sustainable banks. This statistic was not meaningful for the US community and regional bank peer group as composite data rather than individual bank data was used in the analysis.¹⁴

In looking at the returns and volatility across the peer groups the following results can be seen:

| Return on Assets | | Sustainable Banks | GSIFIs | USCRBs |
|------------------|--------------------|-------------------|--------|--------|
| Over the Cycle | Return on Assets | 0.72% | 0.55% | 0.85% |
| | Standard Deviation | 0.38% | 0.38% | n/m |
| Post-Crisis | Return on Assets | 0.74% | 0.38% | 0.36% |
| | Standard Deviation | 0.34% | 0.35% | n/m |
| Pre-Crisis | Return on Assets | 0.71% | 0.71% | 1.33% |
| | Standard Deviation | 0.31% | 0.22% | n/m |

11. Martin Wolf, The Cost of Equity, Financial Times, 13 April 2012; What do the bank's target returns on equity tell us?, Financial Times, 25 September 2011.

12. The Capital Conundrum, Richard J. Herring, International Journal of Central Banking, December 2011.

13. See separate section on regulation for discussion of the impact of leverage on return on equity.

14. There are a variety of ways to measure volatility, some more complex than others. For this study it was decided to use the relatively simple standard deviation of the returns for each bank. Standard deviation captures the variability of the returns relative to the calculated average of the returns.

| Return on Equity | | Sustainable Banks | GSIFIs | USCRBs |
|------------------|--------------------|-------------------|--------|--------|
| Over the Cycle | Return on Equity | 9.7% | 10.8% | 7.9% |
| | Standard Deviation | 3.9% | 11.6% | n/m |
| Post-Crisis | Return on Equity | 9.0% | 6.6% | 3.3% |
| | Standard Deviation | 3.7% | 8.8% | n/m |
| Pre-Crisis | Return on Equity | 10.4% | 15.1% | 12.5% |
| | Standard Deviation | 2.6% | 9.4% | n/m |

Relative to return on assets sustainable banks deliver better returns with comparable volatility over the cycle than GSIFIs. The strength of sustainable banks is especially evident in the returns on assets post-crisis with substantially higher returns and substantially lower volatility than GSIFIs. Sustainable banks had lower returns on assets than the USCRBs over the cycle but have shown superior performance post-crisis.

Relative to return on equity sustainable banks have slightly lower returns over the cycle than the GSIFIs but with considerably lower levels of volatility and leverage. The research further demonstrates the strength and stability of the financial returns of sustainable banks in the post-crisis years relative to both peer groups. The impact of leverage and volatility should be key components for investors in assessing future investment in banks.

What growth does a bank achieve to expand its impact?

In addition to analyzing exposure to the real economy, returns and capital strength, it is also helpful to examine the growth of various banking peer groups. The growth of loans and deposits demonstrates the growth both of the market share of a bank and the economy it serves. Growth in assets and total income¹⁵ generally derives from this growth. As with volatility of returns, the use of composite data for the USCRBs does not allow for calculation of meaningful growth ratios.

15. Total Income for a bank was defined as the sum of net interest income and other income streams. It is the best measure of a bank's total revenues.

The growth perspective both over the cycle and in the years since the crisis can be seen as follows:

| Compound Annual Growth Rates (CAGRs) | | | |
|--------------------------------------|--------------|-------------------|--------|
| | | Sustainable Banks | GSIFIs |
| Over the Cycle | Loans | 19.7% | 7.8% |
| | Deposits | 19.6% | 10.0% |
| | Assets | 19.0% | 10.4% |
| | Equity | 20.1% | 11.5% |
| | Total Income | 16.6% | 6.9% |
| Post-Crisis | Loans | 15.6% | 4.3% |
| | Deposits | 16.3% | 7.8% |
| | Assets | 15.2% | 5.1% |
| | Equity | 15.1% | 10.5% |
| | Total Income | 11.9% | 4.4% |

The data clearly shows that sustainable banks have delivered significant growth over the cycle and, more importantly, in the aftermath of the financial crisis. This growth in general has resulted from three factors:

1. Market share growth, especially in developed economies
2. Expanded formal economies, especially in developing economies
3. Expanded sustainability opportunities (e.g. growth of green economy, opportunities for inclusive financing, etc.)

Sustainable bank growth is amplified by their relatively small size. However, these growth rates suggest that the future of sustainable banks will be positively impacted by solid growth prospects, especially compared to the largest banks in the world.

Conclusion

As society, clients, and investors consider the future of banking, sustainable banks demonstrate a stable and proven track record of positive performance over the last ten years, meeting the needs of the real economy and providing returns to a variety of stakeholders including investors. This performance is particularly favourable in the post-crisis period compared with the other peer groups. It is also less volatile and less dependent on leverage than the performance of the GSIFIs.

Sustainable banks provide a compelling approach for the future of banking by:

- **Focusing on the real economy**
- **Offering resiliency through strong capital positions**
- **Delivering stable and solid financial returns, and**
- **Providing for growth.**

Set against the economic turmoil of recent years, the evidence from the historic financial profiles of the group of sustainable banks demonstrates that banking based on sustainable principles offers a compelling proposition for clients, investors and society. Further growth of banks focused on the Principles of Sustainable Banking provides a way forward for a financial system that would be better equipped to meet society's development and environmental needs while delivering solid financial returns.

Principles of Sustainable Banking (expanded)

Principle 1. Triple bottom line approach at the heart of the business model

Sustainable banks integrate this approach by focusing simultaneously on people, planet and prosperity. Products and services are designed and developed to meet the needs of people and safeguard the environment; generating reasonable profit is recognized as an essential requirement of sustainable banking but is not a stand-alone objective. Importantly, sustainable banks embrace an intentional approach to triple-bottom-line business—they don't just avoid doing harm, they actively use finance to do good.

Principle 2. Grounded in communities, serving the real economy and enabling new business models to meet the needs of both

Sustainable banks serve the communities in which they work. They meet the financial needs of these geographic and sector-based communities by financing sustainable enterprise in productive economies.

Principle 3. Long-term relationships with clients and a direct understanding of their economic activities and the risks involved

Sustainable banks establish strong relationships with their clients and are directly involved in understanding and analysing their economic activities and assisting them to become more sustainable themselves. Proper risk analysis is used at product origination so that indirect risk management tools are neither adopted as a substitute for fundamental analysis nor traded for their own sake.

Principle 4. Long-term, self-sustaining, and resilient to outside disruptions

Sustainable banks adopt a long-term perspective to make sure they can maintain their operations and be resilient in the face of external disruptions. At the same time they recognize that no bank, or its clients, is entirely immune to such disruptions.

Principle 5. Transparent and inclusive governance

Sustainable banks maintain a high degree of transparency and inclusiveness in governance and reporting. In this context, inclusiveness means an active relationship with a bank's extended stakeholder community, and not only its shareholders or management.

Principle 6. All of these principles embedded in the culture of the bank

Sustainable banks seek to embed these principles in the culture of their institutions so that they are routinely used in decision-making at all levels. Recognizing that the process of embedding these values requires deliberate effort, these banks develop human resources policies that reflect their values-based approach (including innovative incentive and evaluation systems for staff), and develop stakeholder-oriented practices to encourage sustainable business models. These banks also have specific reporting frameworks to demonstrate their financial and non-financial impact.

Regulatory Implications

Banks are substantially impacted by regulations across many dimensions. The overall regulatory framework for banking addresses product, client, and geographic participation decisions taken by banks among other issues. These issues are beyond the scope of this study. However, the study does provide insight relative to the impact of capital regulations for banking.

This insight relative to capital arises from two perspectives:

1. How will current and future capital regulatory changes impact banks?
2. What lessons relative to regulatory capital can be learned from this review of bank financial performance?

Regulatory Overview

There has been intense and wide-ranging debate on many elements of banking regulation arising on the heels of the global financial crisis. This debate has led to the enactment in 2010 of the Dodd-Frank Act in the United States as well as recommendations from studies undertaken by the Independent Commission on Banking chaired by Sir John Vickers in the United Kingdom¹⁶ and the Liikanen Group report¹⁷ commissioned by the European Union.

It is too early to assess the impact of proposed and implemented regulatory and legal changes on banking. The full implementation of Dodd Frank requires numerous detailed regulations to be written by a multitude of existing and new regulatory agencies. Recommendations from the Vickers Commission and the Liikanen Group reports are still under discussion relative to specific regulatory changes.

Capital regulation for banks has evolved over the last several years with the emerging rules, generally referred to as Basel III, still in an implementation phase. Currently Basel III is delayed with only 8 of 27 countries on track to put in place the legal framework for its effectiveness¹⁸.

Existing and emerging capital regulation relies on a variety of methods which aim to set capital levels relative to the risk of the bank. In general these methods involve the use of complex multi-variable models to measure risk, generally based upon historic data. These models are used to calculate Risk Weighted Assets (RWAs) against which capital (Tier 1 and Tier 2) is to be held by a bank. With the development of risk based capital approaches, there has been less emphasis on the ratio of equity to assets. For many smaller banks these models are not used due to the cost and complexity of developing and maintaining them. For most of the sustainable banks RWAs are calculated using the standardised approach.

Emerging voices from senior experienced banking regulators question the move from the relatively simple equity/assets ratios of the past to the more complex Tier 1 and Tier 2 Capital ratios under Basel III and its predecessor.¹⁹

At the same time there is a general consensus that capital levels higher than those previously required by regulation, regardless of the measurement approach, are needed.

16. Full report available at: <http://www.parliament.uk/briefing-papers/SN06171>.

17. Full report available at: http://ec.europa.eu/internal_market/bank/docs/high-level_expert_group/report_en.pdf.

18. 'Biggest banks given extra time on reform', Financial Times, 6 November 2012.

19. The Dog and the Frisbee; Andrew Haldane, Executive Director Financial Stability, Bank of England delivered to the Federal Reserve Bank of Kansas City Economic Policy Symposium; Jackson Hole, Wyoming 31 August 2012. Back to Basics: A Better Alternative to Basel Capital Rules; Thomas M. Hoenig, Director, Federal Deposit Insurance Corporation, delivered to The American Banker Regulatory Symposium; Washington, D.C. 14 September 2012.

Impact on Banks from Capital Regulation Changes

The overall move to higher levels of capital requirements for banks leads to two issues to consider:

1. What is the capacity for banks to raise additional capital?
2. What is the impact on returns of banks from higher levels of capital?

The analysis shows a consistent increase in capital levels across all peer groups considered with an especially strong increase in the Tier 1 capital ratio for the GSIFIs. Furthermore the equity/asset ratio has strengthened over the time period studied. Although firm conclusions remain uncertain, it would appear that banks in general have the capacity to increase their capital to meet higher regulatory requirements.

The impact of higher capital on returns can be estimated by looking at the relationship between return on assets (net income/average assets), the equity/asset ratio, and return on equity (net income/average equity). Return on equity is directly influenced by a bank's leverage (equity/assets) as it is mathematically the return on assets divided by the equity/asset ratio.

A simple way of seeing this relationship is looking at the return on equity from differing return on asset and equity/asset levels as follows:

| Calculated Impact of Leverage on Return on Equity | | | |
|---|------------------|-------|-------|
| | Return on Assets | | |
| Equity/Assets | 0.50% | 0.75% | 1.00% |
| 5% | 10.0% | 15.0% | 20.0% |
| 8% | 6.3% | 9.4% | 12.5% |
| 11% | 4.5% | 6.8% | 9.1% |

It is clear that future returns on equity are likely to be lower than historic levels if higher levels of capital realised through increases in equity are required. This decrease can be offset by higher returns on assets. In principle lower returns should be more acceptable to investors as there would be lower risk. The impact on the return on equity for the GSIFIs is likely to be the most negative given the relatively low levels of their current and historic equity/asset ratios compared to the other peer groups.

Implications for Capital Regulations from Analysis

In assessing the value of the use of models to determine RWAs under Basel III, it is helpful to review the data from the analysis. For the three peer groups the ratio of RWAs/total assets was calculated over the three periods:

| RWAs / Assets | Sustainable Banks | GSIFIs | USCRBs |
|----------------|-------------------|--------|--------|
| Over the Cycle | 56.4% | 42.4% | 72.8% |
| Post-Crisis | 62.2% | 38.7% | 72.9% |
| Pre-Crisis | 50.5% | 44.4% | 72.8% |

In principle this ratio should measure the level of risk on the balance sheet of a bank and by implication the likely impact of a financial crisis on the bank's earnings. In comparing the pre-crisis ratio of RWAs/total assets with actual financial results, it would appear that modeling of RWAs for the largest banks was inconsistent with the subsequent volatile financial results that imply more risk. Therefore the analysis would support the concerns raised by experienced regulators on potential issues with models determining RWAs.

Financial Reporting – Challenges of Complexity and Comparability

This analysis required the gathering of substantial financial information from a variety of public sources. Interpretation of the data was required to ensure consistency of analysis and presentation given multiple and varying reporting approaches. The use of high-level ratios in the analysis mitigates the impact of potential errors in interpretation of detailed reporting.

For sustainable banks the individual banks publicly available information was used to complete a standard analytical format. These banks were asked to validate the information. In some cases reclassifications were made to create consistency with IFRS or US GAAP (primarily an issue for GLS Bank). For sustainable banks a weighted average based on US dollar total assets was used given the large variance in size among this group. There were five sustainable banks that began operations during the period studied. Their data was not included in the summary statistics presented in this report. This information is available from the GABV.

For the GSIFIs²⁰ the publicly available annual reports from 2001 through 2011 were gathered for all banks other than Dexia²¹. Large bank financial reporting complexity is highlighted by the length of their 2011 annual reports. These averaged over 350 pages per bank. For the GSIFIs there were also changes in accounting policy over the time period (e.g. moving to IFRS or in some cases to US GAAP) as well as numerous mergers, acquisitions, and restructurings, often involving complex and not fully transparent reporting. As there were varying wordings in the annual reports, the analysis involved categorizing reporting on a consistent basis.

For the USCRBs financial information was available from US bank regulatory information websites. This data source already provided summary information for banks between \$100 million and \$1 billion and between \$1 billion and \$10 billion. The data from these two peer groups were combined for this analysis. As individual bank data review was beyond the scope of this analysis, standard deviations of returns and growth statistics could not be meaningfully calculated.

In comparison with the March 2012 analysis the following changes were incorporated:

- Expansion of the time period analyzed covering 2002 to 2011 thereby incorporating pre- and post-financial crisis financial information
- Expansion of the universe of sustainable banks to 22 banks from 17 banks in the original analysis²²
- Inclusion of US community and regional banks (banks with assets between \$100 million and \$10 billion) as an additional peer group
- Addition of new analytical measures including volatility of returns.

20. The FSB has changed the list of GSIFIs as of November 2012. Dexia, Commerzbank, and Lloyds were removed and BBVA and Standard Chartered were added to this list.

21. Dexia was not included as its financial information was too complex and inconsistent over the time period to generate useful data.

22. Five of these banks were excluded from the analysis as data was not available for the full 10 years. Data on these banks is available from the GABV.

Financial Comparisons

| | Financial Comparisons Over the Cycle – 2002 to 2011 | | | Financial Comparisons Post-Crisis – 2007 to 2011 | | | Financial Comparisons Pre-Crisis – 2002 to 2006 | | |
|---------------------------------------|--|--------|--------|---|--------|--------|--|--------|--------|
| | Sustainable Banks* | GSIFIs | USCRBs | Sustainable Banks* | GSIFIs | USCRBs | Sustainable Banks* | GSIFIs | USCRBs |
| Real Economy | | | | | | | | | |
| Loans/Assets | 72.4% | 40.7% | 65.1% | 71.7% | 39.8% | 65.7% | 73.2% | 41.6% | 64.5% |
| Deposits/Assets | 72.5% | 42.0% | 76.8% | 73.1% | 41.1% | 78.5% | 71.9% | 42.8% | 75.1% |
| Financial Returns | | | | | | | | | |
| Return on Assets | 0.72% | 0.55% | 0.85% | 0.74% | 0.38% | 0.36% | 0.71% | 0.71% | 1.33% |
| Return on Assets – Standard Deviation | 0.38% | 0.38% | n/m | 0.34% | 0.35% | n/m | 0.31% | 0.22% | n/m |
| Return on Equity | 9.7% | 10.8% | 7.9% | 9.0% | 6.6% | 3.3% | 10.4% | 15.1% | 12.5% |
| Return on Equity – Standard Deviation | 3.9% | 11.6% | n/m | 3.7% | 8.8% | n/m | 2.6% | 9.4% | n/m |
| Capital Strength | | | | | | | | | |
| Equity/Assets | 7.5% | 5.3% | 10.5% | 8.3% | 5.5% | 10.7% | 6.7% | 5.0% | 10.4% |
| Tier 1 Ratio | 12.2% | 10.0% | 12.7% | 13.1% | 10.9% | 12.9% | 11.2% | 8.6% | 12.5% |
| RWAs/Total Assets | 56.4% | 42.4% | 72.8% | 62.2% | 38.7% | 72.9% | 50.5% | 44.4% | 72.8% |
| Compound Annual Growth Rates | | | | | | | | | |
| Loans | 19.7% | 7.8% | n/m | 15.6% | 4.3% | n/m | 15.6% | 10.1% | n/m |
| Deposits | 19.6% | 10.0% | n/m | 16.3% | 7.8% | n/m | 15.7% | 10.7% | n/m |
| Assets | 19.0% | 10.4% | n/m | 15.2% | 5.1% | n/m | 15.5% | 13.7% | n/m |
| Equity | 20.1% | 11.5% | n/m | 15.1% | 10.5% | n/m | 21.6% | 11.3% | n/m |
| Total Income | 16.6% | 6.9% | n/m | 11.9% | 4.4% | n/m | 14.8% | 9.7% | n/m |

* This data excludes five sustainable banks for which 10 years of data was not available. Full information on all banks available from the GABV.

Appendix II

GSIFs and Sustainable Banks

GSIFs as of 31 December 2011

Bank of America
Bank of China
Bank of New York Mellon
Banque Populaire CdE
Barclays
BNP Paribas
Citigroup
Commerzbank
Credit Suisse
Deutsche Bank
Dexia*
Goldman Sachs
Group Crédit Agricole
HSBC
ING Bank
JP Morgan Chase
Lloyds Banking Group
Mitsubishi UFJ FG
Mizuho FG
Morgan Stanley
Nordea
Royal Bank of Scotland
Santander
Société Générale
State Street
Sumitomo Mitsui FG
UBS
Unicredit Group
Wells Fargo

Sustainable Banks

Affinity Credit Union**
Alternative Bank Schweiz
Assiniboine Credit Union
Banca Popolare Etica
BancoSol
Bankmecu
BRAC Bank
Clean Energy Development Bank**
Group Crédit Coopératif
Cultura Bank
Ecobank
First Green Bank**
GLS Bank
Merkur Cooperative Bank
Mibanco
New Resource Bank**
One PacificCoast Bank**
SAC Apoyo Integral
Sunrise Community Banks
Triodos Bank
Vancity
XacBank

* Dexia was excluded from the analysis due to complexity and volatility of its financial reporting over the ten year time period.

** These banks were excluded from the analysis as they did not have ten years of financial reports.
Their information is available from the GABV.

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