

Article

Ethical Versus Conventional Banking: A Case Study

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Abstract: The 2008 financial crisis has changed the structure of banking, generating public distrust in the conventional financial system. An alternative has emerged as a result of this lack of confidence. This alternative is known as ethical banking. A growing number of investors, asset managers, and financial intermediaries have incorporated sustainability considerations into their business practices. This paper discusses the origins of ethical banking and describes its primary characteristics. The goal is to determine whether ethical banking can be as profitable as conventional banking despite only investing in projects based on social values. A comparative analysis is performed to identify differences between an ethical bank (Triodos Bank) and a conventional bank (Banco Santander). The analysis was conducted to study the financial activity of both banks over a four-year period (2012–2015). The balance sheets, profit and loss accounts, liquidity ratios, indebtedness, and returns provided by both banks were analyzed. The results indicate that ethical banking is less profitable than conventional banking. Nevertheless, customers are attracted to the social investments and financial transparency that characterize ethical banking. Over the study period, Triodos Bank experienced a greater increase in the number of employees and the volume of loans and deposits than did Banco Santander. Triodos Bank invests in social and environmental projects. This investment approach makes it less profitable than Banco Santander.

Keywords: ethical banking; conventional banking; social banking; social economy; social values

1. Introduction

Several factors have led to heightened interest in socially responsible finance. Such factors include the recent financial crisis and its attendant bailouts, as well as the ecological damage caused by economic growth. For instance, since the beginning of the financial crisis, banks have been called upon to operate more responsibly. There is not a simple one-to-one relationship between financial development and sustainable development, but rather various, often indirect, linkages [1]. Chang et al. [2] conclude that the banking industry faces a harsh competitive environment, which requires banks not only to achieve a high level of operational efficiency but also to ensure customer satisfaction with the quality of service offered by the bank.

The linkages between finance and sustainable development have been explored by numerous scholars. Recent studies have shown that sustainability can be useful for improving the stability of the financial system [3] and that sustainability and ethical values can play a key role in finance [4].

San-Jose and Retolaza [5] examined a range of perspectives regarding ethics in finance, considering both the views of academic experts and those reported in studies that offer an alternative view of finance from an ethical point of view. Ethics in finance has long been a subject of study. Today, increasing attention is being paid to this issue. For instance, the Co-operative Bank has succeeded in sustaining the UK's socioenvironmental development, justifying the numerous prestigious awards it has won and the national and regional recognition it has garnered [6]. The Co-operative Bank

encourages an ever-growing number of banking consumers to incorporate moral, transparent, fair, and sustainable considerations into their decisions [7].

Socially responsible finance refers to responsibility from the corporate side as well as from investors in financial markets [8]. The literature discusses the fields of corporate social responsibility (CSR) [9] and socially responsible investing (SRI) [10]. However, studies have failed to address the role of two key aspects of capital markets (i.e., banking and corporate finance) in terms of social finance. Thus, the concept of sustainable finance has not been fully established in the literature.

Regulations must target the financial sector, which often funds and profits from environmentally unsustainable development. In an era of global financial markets, the financial sector has a crucial impact on the state of the environment. The movement for ethical behavior and SRI has recently begun to advocate environmental standards for financiers [11]. The business motivations that primarily encourage SRI are not enough to ensure that the financial sector drives sustainable development.

A growing number of investors, asset managers, and financial intermediaries are willing to consider sustainability in their business practices. The capital markets can be seen as a fundamental driver for a company to adopt socially and environmentally responsible policies that boost overall ethical conduct [12].

But why should firms act sustainably? Certain scholars argue that the primary purpose of a corporation is to maximize return to the shareholders. To the extent that they meet this goal while abiding by the law, firms have no other obligations to society [13].

Investors seek to invest their money sustainably, while entrepreneurs act sustainably to gain a competitive edge. Financial markets match surpluses of capital with shortages of capital, either directly or indirectly through financial institutions.

The European Sustainable Investment Forum defines SRI as any investment process that combines investors' financial objectives with their concerns about environmental, social, and governance issues. The terms sustainable, social, responsible, socially conscious, green, and ethical investments are used in a myriad of ways in relation to SRI. Environment, social justice, and corporate governance have been recognized as the three central criteria for determining the sustainability of an investment [13].

The 2008 financial crisis created widespread public distrust in the financial system. Public discontent raised concerns among many savers regarding the use of their deposits. This discontent prompted them to take an interest in the ethical and social values offered by ethical banking, which is also known as sustainable, social, alternative, or civic banking. Ethical banks differ from conventional banks because they seek profits by promoting investment in ethical projects with a social impact. According to Callejas-Albiñana et al. [7], the economic and financial crisis has underscored the need to embrace an investment philosophy based on greater transparency, a greater presence of ethical values, and better and broader risk management. The ethical issues involved in banking practices have become an important matter that countries around the world must consider, especially in light of recent bank failures and the ensuing losses of customers' deposits [14].

On the supply side, these banks consider ethical responsibility when determining which products—financial or otherwise—to offer customers, thereby supplying the market with a responsible offer based on trust in those who receive and manage customers' savings [15].

Movement toward greater social and environmental responsibility has increased awareness of the influence that banks can exert through their lending policies. This greater awareness has placed pressure on banks to extend their operations beyond the boundaries of traditional business management [16]. Because of their role as intermediaries in the economy, banks have a unique opportunity to contribute to sustainable development. Banks can advance sustainability through price differentiation, such that firms with poor CSR performance would pay a higher interest rate. Moreover, banks can foster SRI by promoting more sustainable products [17].

Banks have adopted efficient mechanisms to assess the nature and quality of potential debtors. These mechanisms provide a comparative advantage because they allow banks to evaluate not only financial risks, but also social and environmental risks that relate to certain projects or corporations.

Customers with high levels of social and environmental risk would pay a higher interest rate, whereas leaders in sustainability would pay below the market lending rate.

As intermediaries, banks may also be able to channel funds to certain niche markets. Corporations pursuing sustainable innovation (e.g., in renewable energy, organic farming, or social public housing) are widely considered non-bankable and are generally neglected by financial intermediaries. Through lending and venture financing to such companies, banks can have a substantial effect on the sustainability of economic performance [1].

Traditionally, moral conscience is ignored in individualist and utilitarian analyses. However, many people base their behavior on a value system that is sensitive to social problems such as environmental issues, human rights, and equal opportunities. Paulet et al. [18] used factor analysis techniques to confirm whether two separate types of banking institutions (conventional and ethical) really exist. They concluded that different responses by the two types of banks reflect the existence of distinct business models. San-Jose et al. [19] showed that transparency of information and placement of assets differentiate ethical banks from other financial intermediaries. Guarantees and participation are characteristics of ethical banks. However, their analysis failed to provide clear evidence of differences in terms of these variables.

This raises the question of whether ethical banking can actually be more profitable than conventional banking while still investing in social values. This article first defines ethical banking and discusses its characteristics and origins. Second, the ethical banks that operate in Spain are presented. Third, the results of a comparison of ethical and conventional banking are presented. The analysis is based on a case study of two banks—one ethical and one conventional.

The article has the following sections: Section 2 provides a detailed description of the origin and concept of ethical banking. In the Spanish market, examples of ethical banks include Triodos Bank, Fiare Ethical Banking, and Coop57. Section 3 discusses the key differences between conventional and ethical banks. Section 4 presents the results of a case study that was used to compare financial metrics for an ethical bank (Triodos Bank) and a conventional bank (Banco Santander). Section 5 concludes the article.

2. Ethical Banking

2.1. Concept and Origin

The cooperative banking model is based on direct, personalized customer service provided at bank branches, whereas the ethical banking model is based on electronic banking and a small number of branches [20]. Ethical banking aims to institutionalize socially responsible investment. Socially responsible investment is based on ethical and financial criteria. For instance, Islamic banking follows the principle of profit and loss sharing among shareholders and partners [21]. Accordingly, such investments consider not only financial conditions but also the use of the funds by the recipients of these investments. This approach has led to the emergence of responsible investment funds and the concept of corporate social responsibility. This term covers banking ethics, ethical funds, solidarity investment, social responsibility, and ethical banking.

The term ethical banking has multiple definitions, but this study used the two that are considered most relevant. According to the first definition, an ethical bank is constituted by a heterogeneous set of banking entities that specialize in financing the most disadvantaged groups, companies in the social economy, NGOs, and companies that behave responsibly toward their human, social, and natural environment [22]. The second defines ethical banks as those that seek to finance profitable economic activities that also have a positive social impact [23]. Ethical banking is part of the solidarity enterprise movement. The projects financed by ethical banking are based on the following principles [24]:

- *Equality*: Financed projects and companies should encourage the active participation of all members of the organization and should build remuneration systems with small differences between managers' salaries and those of workers.

- *Employability*: Financed projects and companies should encourage stable employment and access to employment for groups that are at the greatest risk of exclusion.
- *Environment*: Financed projects should guarantee sustainable growth.
- *Cooperation*: Financing should support projects and companies that encourage internal cooperation (among employees of the organization) and external cooperation (with other organizations).
- *Commitment to the environment*: Financed projects and companies should contribute to the local community and beyond, supporting activities to help society.
- *Reinvestment*: Financed projects should reinvest a portion of their profits in society.

These principles differentiate ethical banking from conventional banking. They provide a benchmark for socially responsible businesses in a context where conventional banks have broadly been considered speculators that engage in abusive practices such as charging exorbitant commissions, evicting customers who miss their mortgage payments, and so forth.

Sustainable banking can be defined as an alternative form of banking in which environmental, sustainable, ethical, and social values are key components of the business strategy [25]. Ethical banking seeks the best possible outcome for the triple bottom line, which consists of economic, social, and environmental outcomes. Ethical banking thus has a broader outlook than banks that are merely deemed “social” [26].

The earliest examples of ethical banking date back to the Montes de Piedad in Europe in 1462 [24]. Savings institutions, in the form of credit unions and savings banks, emerged from these organizations in the second half of the 18th century. In 1976, the first ethical bank, Grameen Bank [27], was created in Bangladesh. The experience of this bank and other similar enterprises shows that microcredit is effective at helping the poor use their own hard work and creativity to meet their basic needs. This bank and its creator, Muhammad Yunus, have set a global benchmark for ethical banking, and similar entities have sprung up around the world. The following ethical banks are notable examples: Sewa Bank in India, Caisse Solidaire in France, and the South Shore in Chicago.

In Spain, early attempts to create an alternative bank, named the Association for Ethical and Ecological Banking (ABSE), failed for several reasons [28]. Then, in 1990, interest in developing ethical banking resurfaced. This fresh interest in ethical banking coincided with an increase in speculative activity by conventional Spanish banks.

The financial services cooperative Coop57, Oikocredit, the Network of Alternative and Solidarity Economy Networks (REAS), and the Initiatives for the Alternative and Solidarity Economy (IDEAS) emerged in 1995. These projects are not strictly ethical banks—they are not recognized as banks by the Bank of Spain—but they nonetheless do important work in relation to socially responsible investment [24].

Various credit unions have established cooperation agreements with different associations and foundations that are involved in socially responsible investment. For example, Caja Laboral Popular in Navarra grants assistance loans, while Caixa Popular and the Nova Terra Foundation in Valencia provide financial support for the creation of social enterprises. In 2000, various other initiatives were launched. These include the creation of the Network of Financial Tools (RUFAS), the Ethical and Solidarity Financing project, EnClau, Fiare, and the Trust Project [28]. The Trust Project was founded in 1998 in Madrid with the aim of creating a social bank. In 2003, the Trust Project reached an agreement with Triodos Bank to start the first social bank in Spain. Therefore, 2003 can be thought of as the birth of ethical banking in Spain.

2.2. Banks That Operate in Spain

Having described the primary features and differentiators of ethical banks, the article now discusses three of the most important ethical banks in Spain: Triodos Bank, Ethical Banking Fiare, and Coop57. The origins of Triodos Bank date back to 1968, when a group of economists, who were part of the “Money Conscious Association,” promoted the idea of using money ethically and responsibly.

This group founded the Triodos Foundation in 1971 to raise funds from private donors to invest in activities with social, environmental, and cultural aims [29]. In 1980, the Triodos Foundation became Triodos Bank in the Netherlands and established itself as the benchmark for ethical banking in Europe. The bank currently has branches in the Netherlands, Belgium, the United Kingdom, Spain, and Germany.

As indicated earlier, the first ethical banking project in Spain began in 1998 with the Trust Project, which, in 2003, became Triodos Invest (the financial intermediary of Triodos Bank in Spain). Triodos Bank was recognized by the Bank of Spain in 2004. It then began trading as the first social bank in Spain.

Triodos Bank was founded so that the financial system could be used to promote positive change in society. Its goal is to finance companies and organizations that work in the social, environmental, and cultural spheres through the support of savers who seek a humane and sustainable society. Triodos Bank's threefold mission is to: "help create a society that protects and promotes the quality of life of all its members and that has human dignity at its core; enable individuals, organizations, and businesses to use their money in ways that benefit people and the environment and promote sustainable development; and offer our customers sustainable financial products and high-quality service" [24]. Triodos Bank's business model is based on the following values, which support its goal of creating social value from the financial system:

- *Sustainability*: Triodos Bank finances companies and activities that benefit society, the environment, and culture. Sustainable development is thus promoted through the key sector that is banking.
- *Transparency*: All clients are informed about the companies and projects that their savings and investments finance.
- *Excellence*: A large number of sustainable and high-quality financial products and services are offered. Clients can operate effectively with Triodos Bank as their primary bank.
- *Entrepreneurship*: The bank supports entrepreneurship in sustainable and innovative sectors.

The Fiare Foundation was founded in 2003, and an agency contract with Popolare Ethical Banking was signed in 2005. Under this contract, Fiare and Popolare Ethical Banking in Spain came together to finance social projects and encourage financial intermediation. Fiare Ethical Banking resulted from the merger of Fiare and Banca Popolare. It now has offices in Barcelona, Bilbao, and Madrid. Its mission is to recover the social value of money by financing cooperative development, transforming values, encouraging agroecology, developing cooperation and fair trade, and extending social inclusion. The principles on which Fiare Ethical Banking is built are as follows:

- *Transparency*: All information on activities, investments, and projects is published.
- *Participation*: Partners are involved in decisions made at general meetings.
- *Democracy*: All partners have the same vote under the "one person, one vote" principle, regardless of the size of their stake.
- *Right to credit*: Project financing is open to everyone.

Participation and democracy are possible because Fiare Ethical Banking is a cooperative. In addition, its structure is based on the involvement of locally organized partners. Applications for financing are assessed ethically and socially, identifying and considering the banking needs of the region.

Sanchis and Pascual [20] analyzed the similarities and differences between cooperative banks and ethical banks through a case study that compared the Caixa Popular credit cooperative and the Fiare Ethical Banking ethical bank. The results show that both models of social banking are based on a democratic and participatory system, in which workers and customers actively participate in the bank's operations and contribute to financial inclusion. The cooperative banking model is based on direct, personalized customer service provided at bank branches, whereas the ethical banking model is based on electronic banking and a limited number of branches.

The Bruguera publishing company closed in 1986 as a result of the industrial crisis. Many workers invested their redundancy pay in creating the Coop57 cooperative in Catalonia in 1995. Coop57 was created as an ethical solidarity cooperative for financial services [30]. Initially, its development was closely linked to associated cooperative work, and its social base was linked to other social enterprises through financial intermediation. It thereby captured savings from society, channeling these savings to finance social enterprises that promote employment, sustainability, and the ideals of cooperatives and associations based on the principles of ethics and solidarity. In 2005, Coop57 implemented a model for network growth. A network of social enterprises from Aragon and Coop57 share the management of the project. The model uses the legal and technical structure of Coop57 but enables autonomy in each territory. Coop57 operates in Aragón (2005), Madrid (2006), Andalucía (2008), and Galicia (2009). It is based on the following principles:

- *Coherence*: Coop57 avoids the contradiction of funding activities that are not aligned with its values and ethical principles.
- *Compatibility*: Financial performance and social performance are compatible. Coop57 does not seek to maximize profit, but rather maximizes social benefit whilst ensuring financial viability.
- *Participation*: Partners and investors are encouraged to regain control of savings and economic resources, and financial self-management is promoted.
- *Transparency*: Coop57 is managed with complete transparency in terms of both granting loans and running internal and corporate operations. Every individual and partner organization is aware of the resources that he, she, or it has contributed, and the way that this contribution is used. A newsletter is published twice a year. The newsletter lists the loans that have been granted and the size and term of each loan.
- *Solidarity*: The staff and partners of Coop57 know that their money helps build a more humane and supportive economy. In addition, solidarity is shown in the assembly by fixing the rate of return and the cost of loans.
- *Reflection*: Ethical behavior is understood as a process. Values and principles that are considered fair and critical are adapted. The bank adapts to the needs of the people and partner organizations to contribute to alternative investments.

3. Ethical vs. Conventional Banking

The primary difference between ethical banking and conventional banking is that ethical banking pursues both social and financial goals, the latter being necessary to achieve the former [31]. However, the goals of conventional banking are purely financial. Thus, commercial banks seek to maximize profits, whereas ethical banks seek to maximize the volume of performing loans to projects that are aligned with the ethical banking philosophy [25].

Cornée and Szafarz [32] affirm that lower short-term profitability is offset by periods of higher sustainability. This difference with respect to traditional banks may owe to what can be referred to as the cost of CSR. The primary similarity between both types of banks is that they both have the same capital constraints: It is a legal requirement to increase reserves when the number of defaults increases.

The joint social and financial goal of ethical banking [19] is reflected by the fact that its customers receive a lower return as money is invested in social projects. In addition, the interest rates that customers receive are lower than the market rate, while the interest that is charged differs only slightly from that of conventional banks [33]. Given these conditions, ethical banks should make a greater profit than conventional banks do. However, the profits that ethical banks make are actually lower than those of conventional banks for three reasons [23]:

- *No speculation*: All investments that are highly profitable, yet that have social and environmental costs (e.g., speculative investments in the stock market) are dismissed.

- *It takes time:* Ethical banks usually make long-term rather than short-term investments. They consider that social projects need time to take off, so the return on investment is not immediate and diminishes over time.
- *Additional costs:* Granting a loan is expensive because the amounts are small, so the profit margin is tight. Ethical banks face greater risks because they do not ask for loan guarantees. They also make technical follow-ups on projects, providing advice and training, which entails an additional cost.

The consequences of the recent financial crisis are not only economic but also social, psychological, political, and ethical. These consequences have affected the financial and banking system. Despite receiving a smaller return than they would from other banks, customers prefer to invest in ethical banks because they encourage social development [7]. In addition, these customers might have lost confidence in conventional banking and might prefer to invest in ethical banking because it offers transparency and allows them to contribute to society. Ethical banking enables customers to choose where to invest their savings in a responsible manner. In addition, ethical banking is based on the “one person, one vote” principle, so all members have the same rights. Conventional banking, in contrast, is governed by the “one share, one vote” rule.

Yet simply adopting certain ethical criteria does not make a bank ethical [34]. These criteria might only affect a specific investment fund and might coexist with other investment funds that do not follow any ethical guidelines. Conventional banks use these ethical criteria as a marketing tool to boost profits.

Thus, according to Cowton and Thompson [35], ethical banking initiatives seek to differentiate themselves from conventional banking. Although all banking entities can be classified according to a continuum of ethical behavior, a point of inflection can be identified to clearly differentiate between ethical banking and conventional banking.

Finally, ethical and conventional banks have different purposes [36]. Conventional banks offer appealing products for their clients and attractive returns to shareholders, who have invested their capital. Conventional banks do not reflect on their savings ideology, nor do they study the social impact of the business projects to which they lend money; they only seek a return. Ethical banking offers fewer products and has different operating criteria from those of conventional banks. Their deposits come from people whose ideology means that they want their money to help projects and people who cannot enter conventional banking channels because of their high-risk status as marginalized or excluded individuals. Table 1 summarizes the primary differences between ethical and conventional banking.

Table 1. Differences between ethical and conventional banking. Source: [37].

Category	Conventional Banking	Ethical Banking
Primary goal	Seek only profit	Obtain benefits to ensure the bank's survival
	Focus on shareholder value	Achieve positive social and environmental impact
	Ensure high performance by managers	Place the economy at the service of the people
Investment criteria and principle of involvement	Return on equity (ROE), return on assets (ROA), and risk diversification	Negative criteria: Refusal to finance certain products (e.g., arms) and companies that violate human rights
		Positive criteria: Desire to finance companies and projects that positively transform society
		Application of principles of ethical banking: transparency, coherence, participation, and involvement
Criteria for granting loans	Purely financial	An ethical committee evaluates the project from the ethical point of view and then determines whether it is financially viable
	Guarantees from applicants	
Target of funds	Financially profitable projects	Projects with values shared by partners and customers
Profit	Primary goal is to reward shareholders	Most ethical banks do not seek profits; profits are reinvested in social or environmental projects
Organizational model	One share equals one vote	In cooperative banks (the majority), one person equals one vote
Transparency	Regular ongoing training is not offered to funded projects	Regular bulletins on financed activities are provided

Table 1. Cont.

Category	Conventional Banking	Ethical Banking
Coherence	Financing for projects that may not coincide with customers' values	Investment in activities that reflect customers' values
Participation	Only shareholders that have contributed sufficient capital participate	Most banks encourage and facilitate participation
Customers and their money	Customers cannot decide how their money is used	Partners or customers know and decide how their money is used

4. Financial Analysis

To examine whether ethical banking is more profitable than conventional banking, the financial activity of both types of banks was analyzed for a four-year period (2012–2015). The analysis was based on their balance sheets and annual results.

Banco Santander was chosen to represent the conventional banking sector because it has the largest volume of assets in Spain. Triodos Bank was chosen to represent the ethical banking sector because it is the largest ethical bank in Spain. Banco Santander is much larger than Triodos Bank. Therefore, all figures are expressed in relative terms to show how they developed over the study period.

The balance sheets and profit and loss accounts as well as the liquidity, indebtedness, return on assets (ROA), and return on equity (ROE) ratios of both banks were analyzed. Comparison in relative terms was also performed for the number of employees, profit per employee, and volume of loans and deposits.

4.1. Preliminary Analysis

According to Table 2, between 2012 and 2015, the number of employees of Triodos Bank increased by 42%, whereas the number of employees of Banco Santander grew by just 2%. Triodos Bank had a higher profit per employee than Banco Santander did. However, for the period 2012 to 2015, the profit per employee grew more for Banco Santander than it did for Triodos Bank.

Table 2. Comparison of the number of employees, profit per employee, and volume of loans and credits.

Category	Bank	2012 (€M)	2013 (€M)	2014 (€M)	2015 (€M)	Percentage Difference (2012–2015)
Number of employees	Triodos	0.0008	0.0009	0.0010	0.0011	42%
	Santander	189,460	186,540	185,405	193,863	2%
Profit per employee	Triodos	39	38	40	48	23%
	Santander	0.02	0.04	0.06	0.05	162%
Volume of loans	Triodos	0.0241	0.0296	0.0363	0.0444	59%
	Santander	731,572	684,690	734,711	790,848	9%
Volume of deposits	Triodos	0.0046	0.0057	0.0063	0.0073	84%
	Santander	626,639	607,836	647,628	683,122	8%

Source: Compiled by the authors based on the annual accounts of Banco Santander and Triodos Bank.

The volume of loans granted by Triodos Bank increased by 59% over the period. The volume of loans granted by Banco Santander increased by 9%. The volume of deposits that customers made between 2012 and 2015 increased for both banks. However, it increased more for Triodos Bank (84%) than it did for Banco Santander (8%). This growth indicates that customers have decided to start supporting ethical banking. The increase in relative terms of the volume of loans and deposits was much higher for Triodos Bank.

4.2. Balance Sheet

Both non-current and current assets were analyzed (Table 3). The non-current asset of Triodos Bank represented 1% of total assets. Over the study period, the non-current assets increased by

36%, while the current assets increased by 55%. These increases show that Triodos Bank continued its commitment to short-term investment. Banco Santander's non-current assets represented 7% of total assets over the study period. This percentage grew by 15%. Current assets represented 93%, with an increase of 5%. This finding implies that Banco Santander has focused in recent years on long-term investments.

Table 3. Comparison of assets.

Type of Asset	Bank	2012		2013		2014		2015		Percentage Difference (2012–2015)
		Million €	%	Million €	%	Million €	%	Million €	%	
Non-current assets	Triodos	0.0698	1	0.0681	1	0.0664	1	0.0951	1	36%
	Santander	80,003	6	77,965	7	91,145	7	92,091	7	15%
Current assets	Triodos	5.2211	99	6.3785	99	7.0860	99	8.1160	99	55%
	Santander	1,189,642	94	1,037,798	93	1,175,151	93	1,248,169	93	5%
Total assets	Triodos	5.2909		6.4467		7.1524		8.2112		55%
	Santander	1,269,645		1,115,763		1,266,296		1,340,260		6%

Source: Compiled by the authors based on the annual accounts of Banco Santander and Triodos Bank.

Table 4 shows the data for net worth in terms of shareholders' capital, capital increases, reserves allocated, and profit in previous years. The net worth of Triodos Bank was approximately 10% of total equity, whereas the net equity of Banco Santander was 7%. Over the study period, net worth grew by 38% for Triodos Bank, and 22% for Banco Santander. In short, because they had insufficient net worth, both banks sought external financing to cover their assets.

Finally, non-current liabilities and current liabilities were analyzed. The non-current liabilities of Triodos Bank represented around 88% of total assets, whereas current liabilities represented 2%. Over the study period, non-current liabilities increased by 58%, while current liabilities increased by 7%. This finding implies that Triodos Bank has decided to focus on long-term financing. The non-current liabilities of Banco Santander represented 1% of equity, whereas the current liabilities represented 92%. Non-current liabilities fell by 9%, while current liabilities rose by 5% over the period. This finding implies that Banco Santander continued to focus on short-term financing.

Table 4. Comparison of Net Capital Stock and Liabilities.

Category	Bank	2012		2013		2014		2015		Percentage Difference (2012–2015)
		Million €	% of Total Assets	Million €	% of Total Assets	Million €	% of Total Assets	Million €	% of Total Assets	
Net worth	Triodos	0.5653	11	0.6540	10	0.7036	10	0.7805	10	38%
	Santander	81,212	6	79,642	7	89,714	7	98,753	7	22%
Non-current liabilities	Triodos	4.6112	87	5.6766	88	6.3133	88	7.3086	89	58%
	Santander	9190	1	7509	1	10,092	1	8352	1	–9%
Current liabilities	Triodos	0.1144	2	0.1160	2	0.1355	2	0.1221	1	7%
	Santander	1,179,243	93	1,028,612	92	1,166,490	92	1,233,155	92	5%
Total assets	Triodos	5.2909		6.4467		7.1524		8.2112		55%
	Santander	1,269,645		1,115,763		1,266,296		1,340,260		6%

Source: Compiled by the authors based on the annual accounts of Banco Santander and Triodos Bank.

The guarantee ratio was also analyzed. This ratio indicates the ability of the bank to provide assets to meet its debt obligations. It is calculated by dividing total liabilities by total assets. As Table 5 shows, both banks had sufficient collateral to meet their debt obligations because their guarantee ratios were greater than 1 throughout the study period.

The current ratio indicates the ability of a company to generate sufficient liquid resources to meet its short-term obligations. It is calculated by dividing current assets by current liabilities. For both banks, the current ratio was greater than 1 over the study period. Thus, both banks were able to meet their short-term debt obligations throughout the entire period. In relative terms, this ratio grew by 46% for Triodos Bank, while it remained stable for Banco Santander.

To analyze in depth the total debt of both banks, the total indebtedness ratio was studied for the short and long term. It is calculated as the ratio of total liabilities to net equity. Triodos Bank had a lower level of indebtedness, which started at around 8% in 2012, but increased by 14% over the study period. Banco Santander's indebtedness started at around 15%, but fell by 16% over the study period. For long-term indebtedness, Triodos Bank increased its debt by 15%, while Banco Santander decreased its debt by 25%. The short-term debt of both banks decreased—by 23% for Triodos Bank and by 14% for Banco Santander.

Table 5. Relevant ratios.

Ratio	Bank	2012	2013	2014	2015	Percentage Difference (2012–2015)
Guarantee ratio	Triodos	1.12	1.11	1.11	1.11	–1%
	Santander	1.07	1.08	1.08	1.08	1%
Circulating ratio	Triodos	45.62	54.99	52.30	66.48	46%
	Santander	1.01	1.01	1.01	1.01	0%
Long-term indebtedness	Triodos	8.16	8.68	8.97	9.36	15%
	Santander	0.11	0.09	0.11	0.08	–25%
Short-term indebtedness	Triodos	0.20	0.18	0.19	0.16	–23%
	Santander	14.52	12.92	13.00	12.49	–14%
Total indebtedness	Triodos	8.36	8.86	9.17	9.52	14%
	Santander	14.63	13.01	13.11	12.57	–14%

Source: Compiled by the authors from the annual accounts of Banco Santander and Triodos Bank.

Thus, in terms of investment, Triodos Bank focused on the short term because its current assets exceeded its non-current assets over the study period. Over the study period, net worth amounted to 28%, thereby improving the solvency of the bank. In terms of liabilities, total debt generally increased, especially in the short term. For Banco Santander, long-term investments increased more than short-term investments did. Net equity increased by 18% and long- and short-term debt decreased.

4.3. Profit and Loss Account

Income, expenses, taxes, and profit were studied (Table 6) to analyze the profit and loss accounts of the two banks. Triodos Bank's revenues increased by 40%, whereas Banco Santander's revenues increased by only 2%. Costs at Triodos Bank increased by 30%, whereas costs at Banco Santander fell by 12%. These results show that Triodos Bank primarily channeled its income into long-term projects, which led to a significant increase in costs. Both banks paid more taxes on profit by the end of the period—63% more for Triodos Bank and 279% more for Banco Santander. Finally, the results for the tax year after deducting taxes from gross profit were analyzed. Triodos Bank increased its net profit by 80%, while Banco Santander increased its net profit by 146%. The growth of profit in ethical banking was smaller because of the higher costs associated with financing social projects.

Table 6. Comparison of revenues, expenses, taxes, and profit for the year.

Category	Bank	2012 (Million €)	2013 (Million €)	2014 (Million €)	2015 (Million €)	Percentage Difference (2012–2015)
Income	Triodos	0.1516	0.1637	0.1896	0.2116	40%
	Santander	45,166	41,818	45,765	46,290	2%
Expenses	Triodos	0.1208	0.1295	0.1493	0.1576	30%
	Santander	41,601	34,440	35,086	36,743	–12%
Taxes	Triodos	0.0082	0.0085	0.0102	0.0133	63%
	Santander	584	2034	3718	2213	279%
Profit	Triodos	0.0226	0.0257	0.0301	0.0407	80%
	Santander	2981	5344	6961	7334	146%

Source: Compiled by the authors from the annual accounts of Banco Santander and Triodos Bank.

4.4. Analysis of ROA and ROE

Finally, both ROA and ROE were analyzed (Table 7). ROA provides an indicator of how profitable a bank is before subtracting remuneration for resources used and tax on profits. ROA increased for both banks—by 13% for Triodos Bank and by 154% for Banco Santander. ROE grew by 30% for Triodos Bank and by 102% for Banco Santander. This greater growth by Banco Santander reflects the differences in the financial goals of the two banks. Whereas Banco Santander seeks to maximize profits, Triodos Bank focuses on financing investments that have a positive social impact. This approach yields lower returns.

Table 7. Comparison of ROA and ROE.

Ratio	Bank	2012	2013	2014	2015	Percentage Difference (2012–2015)
Return on assets (ROA)	Triodos	0.58%	0.53%	0.56%	0.66%	13%
	Santander	0.28%	0.66%	0.84%	0.71%	154%
Return on equity (ROE)	Triodos	4.00%	3.93%	4.28%	5.22%	30%
	Santander	3.67%	6.71%	7.76%	7.43%	102%

Source: Compiled by the authors from the annual accounts of Banco Santander and Triodos Bank.

5. Conclusions

The goal of this study was to answer the initial question of whether ethical banking is as profitable as conventional banking. Based on the available information, the analysis indicates that ethical banking is less profitable because of its focus on social investment. The analysis shows that between 2012 and 2015, Triodos Bank experienced a greater increase in number of employees than did Banco Santander. This increase was because Triodos Bank was likely in a process of expansion while Banco Santander was reducing its oversized network of branches and employees.

The increase in the volume of loans granted and deposits received by Triodos Bank was greater, indicating outstanding growth in the number of customers that have chosen ethical banking and have sacrificed a portion of their return on investment for the opportunity to invest in social projects. Triodos Bank's profits were lower than those of Banco Santander. This difference owes to Triodos Bank's higher costs when financing social projects.

Banco Santander's ROA and ROE were higher than Triodos Bank's because its primary goal is to maximize profit, whereas Triodos Bank invests in social and environmental projects that may be less profitable. This difference is important because a growing number of citizens are looking for a transparent bank that promotes values that enrich society.

Scholars tend to polarize the terms traditional banking and ethical banking, and draw conclusions by comparing them. However, the reality is that there exists a wide range of possibilities, and it is sometimes difficult to make a profit. The primary conclusion of this study is that the difference in the response by the two types of banks reflects the existence of two distinct business models. Whereas some banks have already attempted to take responsibility for helping society and the environment, these goals had until now been regarded as niche activities. For banks to play a more constructive role, a shift of focus from high financial returns to highly sustainable returns is required.

Banks should use their financial resources as an instrument that serves society rather than the interests of the powerful, and that finances ethical projects that help protect people's human rights instead of weakening them.

Finally, the inclusion of two banks with different characteristics (i.e., size, age, and life cycle) is a limitation of this study, although the use of relative variables or variations across periods enabled their comparison.

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