Perspectives on Responsible Banking. Spain 2023

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With the collaboration of:

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Executive Summary

The purpose of this study is to carry out a comparative, qualitative and quantitative analysis of how the ten Spanish banks that subscribed to the Principles of Responsible Banking (PRB) implement the concepts of sustainable finance

In recent years there has been a big push in the trend towards sustainability. New generations have understood the need to properly manage resources to ensure the long-term viability of the economic system in harmonious coexistence with the needs of the planet. The banking sector, which is no stranger to this trend, is affected in several areas and is beginning to differentiate in its financing policy those instruments that imply a greater commitment to investments which are compatible with a more sustainable economy.

In 2020, Regulation (EU) 2020/852, also known as Taxonomy, was introduced, which established guidelines for promoting sustainable investments in the European Union and ensures greater coherence and continuity in the field of sustainability. Through the complementary regulations, companies that are obliged to publish non-financial information according to Directive 2013/34/EU must include details on how their activities can be considered environmentally sustainable according to the technical criteria defined by the regulations. As a complementary view to the mentioned regulatory changes, the purpose of the study

is to carry out a comparative, qualitative and quantitative analysis of how the ten Spanish banks that subscribed to the Principles of Responsible Banking (PRB) implement the concepts of sustainable finance. The analysis is done in relation to three frameworks:

- **The Principles of Responsible Banking of the United Nations Environment Programme – Finance Initiative (UNEP FI)**
- **The GABV Scorecard of the Global Alliance for Banking on Values (GABV) – based on the Principles of Values-Based Banking**
- **The application of the European Taxonomy.**

In general terms, this study allows us to conclude, if we look at the levels of compliance with the recommendations given by **UNEP-FI** for the progressive adaptation of its principles, that all the entities analysed are within an adequate process of integrating the Sustainable Development Goals (SDGs), the Paris Climate Agreement and other relevant frameworks at the national, regional or international level into their business strategy.

However, if the second framework is taken into account, when evaluating Spanish banking through a very demanding prism such as that applied by the **GABV** in the analysis of securities banking, the entities analysed are still far from the thresholds recommended in that model. Even so, this gives a starting point from which to start working towards a future where banking truly plays a leading role as a multiplier of activities with a positive impact on people, prosperity and the planet.

In relation to the third reference framework analysed, it can be seen that all the banks analysed publish the eligibility ratios required by the **EU Taxonomy** regulation, but that the figures obtained, due to the limitations of the system itself and the heterogeneity in the ways of applying the ratio in these early mandatory times, allow us to deduce very little about the focus of the entities' policies. In any case, the low figures obtained on a weighted average allow us to infer that the percentage of the assets of the entities that are dedicated to financing the ecological and social transformation is still low and can be improved upon.

1. Introduction

In recent years it has been shown that environmental risks and social needs are increasing. The need to work on the transition to a more sustainable economic model has become an imperative for all economic sectors, including the financial sector.

The latter can act as a catalyst to accelerate the transition by redirecting capital flows towards investments that ensure sustainable and inclusive growth. Added to all this is the “pressure” from new generations who understand the need to properly manage resources to ensure long-term viability.

Despite the current boom in sustainability-oriented finance, so-called “sustainable finance” is a concept with a long history. Historically, different standards, movements and initiatives have emerged that have allowed its evolution and have guided the financial sector towards promoting it. Among these movements is the Global Alliance for Banking on Values (GABV), the Finance Initiative of the United Nations Environment Programme (UNEP-FI), which launched the UN Principles for Responsible Banking and, more recently, the new European regulatory framework for Sustainable Finance.

In 2009 a group of ten banks founded the GABV, which brings together more than 70 entities, credit unions and microcredit institutions around the world who put finance at the service of people and the planet. The main objective of this network is to provide the banking system with greater transparency, and to support economic, social and environmental sustainability. GABV member banks share a commitment to finding global solutions to international problems and to promoting a positive and viable alternative to the current financial system. Their focus on meeting the real needs of people and their communities rather than the financial economy is a core element of their business models.

UNEP-FI, on the other hand, is a partnership created between the United Nations Environment Programme and more than 200 financial institutions (of which about 150 are banks) and which launched the UN Principles for Responsible Banking (UN PRB) on 26 November 2018 in Paris. These principles were developed by a core group of 30 banks around the world.

The European Commission presented the Sustainable Finance Action Plan in March 2018. This plan established a roadmap in order to enhance the role of the financial sector in the transition to a more sustainable economic model and in achieving the goals set out in the Paris Agreement and the United Nations 2030 Agenda for Sustainable Development. The Sustainable Finance Action Plan identifies three key objectives:

1. Reorienting capital flows towards sustainable investments in order to achieve sustainable and inclusive growth.
2. Managing financial risks arising from climate change, resource depletion, environmental degradation and social problems.
3. Encouraging transparency and a long-term philosophy in financial and economic activities.

To meet these objectives, the plan develops a set of ten actions that are carried out through different legislative acts that incorporate new rules and modify the existing regulations.

The first action of the plan recognizes the need to establish an EU classification system for sustainable activities, so as to provide clarity and ensure a common understanding on which activities can be considered to be ‘sustainable’. In response, Regulation (EU) 2020/852, also known as Taxonomy, was introduced in 2020, which established guidelines to promote sustainable investments in the European Union and ensure greater coherence and continuity in the field of sustainability. Through the complementary regulations, companies that are obliged to publish non-financial information according to Directive 2013/34/EU must include details on how their activities can be considered environmentally sustainable according to the technical criteria defined by the regulations.

The purpose of this study is to carry out a comparative, qualitative and quantitative analysis of how the ten Spanish banks that signed up to the Principles of Responsible Banking (PRB) (i) comply with the commitment made in relation to the principles of responsible banking of the UNEP-FI PRB; (ii) are aligned to the scorecard of securities banking, the GABV Scorecard; and (iii) implement the mandatory information of the European Taxonomy and its alignment with the values of sustainable finance and environmental, social and governance (ESG) criteria.

2. Aim of the Research

The aim of the study is to analyse how the Spanish banks that signed up to the UNEP-FI PRB implement the concepts of sustainable finance in relation to three frameworks:

1. The Principles of Responsible Banking of the UNEP Finance Initiative
2. The GABV Scorecard of the Global *Alliance for Banking on Values*
3. The application of the EU Taxonomy

An expository study of the situation in the sector is proposed, in which the data is shown in aggregate form, which gives way to a drafting of conclusions in which solutions and aspects for improvement are put forward, both for the sector and for the main owners of each of the frameworks used.

3. Research Target

The study sample focuses on the ten Spanish banks that signed the UNEP-FI Principles of Responsible Banking:

	Entity	Head Office	Date of joining UNEP FI	Assets 2021 (billion euros)
1	ABANCA Corporación Bancaria S.A.	Betanzos, La Coruña	31/7/2019	80,497
2	Banco de Crédito Social Cooperativo (Cajamar)	Madrid	11/7/2019	58,513
3	Banco Sabadell, S.A.	Alicante	29/7/2019	251,947
4	Banco Santander, S.A.	Santander	12/10/1992	1,595,835
5	Bankinter S.A.	Madrid	22/5/2020	107,584
6	BBVA Group	Bilbao	8/4/1999	662,885
7	CaixaBank, S.A.	Valencia	20/4/2018	680,036
8	Laboral Kutxa	Mondragón, Guipúzcoa	3/6/2019	28,563
9	Grupo Caja de Ingenieros	Barcelona	5/3/2020	4,223
10	Ibercaja Banco, S.A.	Zaragoza	18/10/2019	58,631
			Total	**3.528.714**

All companies that are required to report their non-financial information under the current directive in this area should disclose information regarding the EU Taxonomy in their annual report. The EU Taxonomy regulation sets out the requirements for reporting on those economic activities which are framed within the Taxonomy.

4. Framework 1. Principles of Responsible Banking

4.1. Introduction

4.1.1. Aim of the Research

Four years after the birth of this initiative, the research aims to analyse the fulfilment of the commitment assumed by the entities that signed the UNEP-FI PRB in relation to the Principles of Responsible Banking.

To this end, an analysis of the performance of the affiliated Spanish entities will be carried out to allow us to evaluate:

- Their alignment with the United Nations Sustainable Development Goals (SDGs) and the Paris Agreement.
- The identification of goals, degree of compliance and assessment of social and environmental impact.

Firstly, a review of their value proposition will be carried out, identifying those financial and non-financial solutions aimed at facilitating the transition process to a decarbonized and sustainable economy for customers.

Secondly, instruments and processes aimed at integrating key issues such as climate change, biodiversity, human rights, inequality, social inclusion and transparency will be analysed.

Thirdly, there will be a focus on analysing the governance instruments that have been developed to integrate sustainability into the agenda of governance bodies and steering committees.

Finally, the degree of progress achieved in terms of reporting will be analysed.

4.1.2. The UNEP FI and the Principles of Responsible Banking

4.1.2.1. What is the UNEP FI?

The UNEP FI Finance Initiative brings together a large network of banks, insurance companies and investors who collectively catalyse action across the financial system to achieve more sustainable global economies.

For more than 30 years, the initiative has been connecting the UN with financial institutions throughout the world to shape the sustainable finance agenda. UNEP FI has established the world's most important sustainability frameworks that help the financial industry address global environmental, social and governance (ESG) challenges.

Convened by a secretariat based in Geneva, Switzerland, more than 450 banks and insurers with assets in excess of $100 trillion work together to facilitate the implementation of the UNEP FI Principles for Responsible Banking and Principles for Sustainable Insurance, as well as three net-zero-emission partnerships convened by the United Nations. Financial institutions work with UNEP FI on a voluntary basis, and UNEP FI helps them apply the industry frameworks and develop practical guidance and tools to position their businesses for the transition to a sustainable and inclusive economy.

Founded in 1992, UNEP FI was the first organization to engage the financial sector in sustainability, and incubated the Principles for Responsible Investment, with it today being the world's leading advocate for responsible investment.

The Principles of Responsible Banking

The Principles of Responsible Banking were structured by a core group of 30 leading banks, the "Founding Banks", through the United Nations Environment Programme Finance Initiative (UNEP FI).

These principles have the fundamental objective of determining the role and responsibilities of the banking industry in the creation of a sustainable future, aligning with the Sustainable Development Goals (SDGs) approved by the UN itself and with the Paris Climate Agreement that was finalized in 2015. For its part, UNEP FI emerged in 1992 as a partnership between the United Nations and the private sector aiming to make sustainability an essential aspect of the business strategies of financial institutions.

These principles are:

- Alignment: entities commit to align their respective business strategies with the objectives expressed in the SDGs and the Paris Agreement.
- Impact and goal setting: efforts will be made to continuously increase positive impacts by reducing negative ones, concentrating efforts in the areas where they will be more significant.
- Customers: organizations are willing to work responsibly with their customers to develop sustainable practices and generate shared prosperity for both current and future generations.

- Stakeholders: the signatories of these principles are committed to proactively consulting, engaging and collaborating with relevant stakeholders to achieve society's objectives.
- Governance and culture: entities will set public objectives and implement them through effective systems of governance and a culture of banking responsibility, thus seeking to correct the most negative impacts derived from their activity.
- Transparency and accountability: the implementation of these principles will be reviewed periodically, adopting transparency and assuming full responsibility for positive and negative impacts.

To meet their commitment to the Principles of Responsible Banking, banks must take the following three steps:

- Analyse the most significant impacts of products and services on society, the environment and the economy, as well as identify where the greatest positive impacts are obtained and where significant negative impacts can be reduced.
- Establish "SMART[1]" objectives that address the significant impacts that have been identified.
- Provide public information on how the Principles of Responsible Banking are being implemented.

It should be noted that, in addition to public information, member entities must report to UNEP FI itself through a reporting and self-assessment form. The UNEP FI Secretariat reviews the reports once a year, based on the requirements set out in the official Principles of Responsible Banking, and provides feedback on the progress made, as well as recommendations on the next steps that each entity should take.

It is also important to specify that each entity can take up to four years to initially implement the Principles of Responsible Banking, apply the three Key Steps and comply with the requirements for each of them.

1 SMART is a methodology for defining objectives. It is an acronym that explains the basic characteristics of SMART objectives. These should be Specific, Measurable, Achievable, Realistic and Time-bound

4.2. Methodology and Considerations

Through the public information available (Sustainability reports of the signatory entities, mostly relating to 2021[2]), the degree of progress on the set of recommendations that UNEP FI gives to the banks that sign, and which were published in September 2019 in a Guidance document[3], has been analysed.

The study was carried out solely and exclusively with the non-financial reports that the entities have published, and with the information available on their corporate website.

The ten participating Spanish entities were analysed: Abanca, Bankinter, BBVA, CaixaBank, Caja de Ingenieros, Caja Laboral Popular, Grupo Cooperativo Cajamar, Ibercaja, Sabadell and Santander.

A total of 57 UNEP FI recommendations were evaluated, and for each of them the level of progress that each entity has managed to make was evaluated.

Number of recommendations assessed by each Principle:

Alineamiento	5 recomendaciones
Impacto y fijación de objetivos	12 recomendaciones
Clientes	12 recomendaciones
Stakeholders	9 recomendaciones
Gobernanza y cultura	12 recomendaciones
Transparencia y responsabilidad	7 recomendaciones

Each of these recommendations has been evaluated on a scale of 1 to 5, with 1 being the assessment that implies that the recommendation is still pending further development for its full implementation and 5 the assessment that implies that the recommendation has already been almost fully developed.

1	2	3	4	5

The set of evaluations carried out for each recommendation has also made it possible to evaluate the average level of development achieved by each entity for each of the Principles, and to carry out a comparative analysis that facilitates understanding in a graphical and visual way which aspects show the need for greater development.

Once all the recommendations and their level of compliance for each of the six Principles have been evaluated, an overall assessment of the degree of compliance with the Principles of Responsible Banking was carried out for each of the ten Spanish entities along with an aggregated view of compliance for the sector.

Thus, the degree of compliance with the Principles of Responsible Banking by the sector comes from having calculated the average of the ratings obtained in all the recommendations evaluated.

2 https://www.unepfi.org/banking/prbsignatories/

3 Guidance Document Principles of Responsible Banking

4.3. Study Results

The study was carried out solely and exclusively with the non-financial reports that the entities have published, and with the information available on their corporate website.

The results of this part of the study are presented in blocks, differentiating each of the six Principles, and analysing the evolution of the recommendations set out for each of them.

4.3.1. Principle 1: Strategic Alignment

Strategic alignment means guiding a bank's business strategy to be consistent with, and contributing to, the Sustainable Development Goals, the Paris Climate Agreement and other national, regional or relevant international structures, such as the UN Guiding Principles on Business and Human Rights, where a bank is best positioned to do so through its business. These frameworks articulate globally agreed goals and challenges to build a more sustainable future. By aligning their strategy objectives of society, the bank shows that its business, the products and services it provides, can support a sustainable future while obtaining long-term business benefits. It shows that the bank accepts its shared responsibility to shape and secure our future.

The research has studied the business model of each entity, including its main segments of customers served, the types of products and services provided, the main sectors, and type of activities, as well as, where relevant, the technologies financed in the main locations in which the entity carries out its activity. The degree of alignment of the strategy has also been checked of each of the entities with the Sustainable Development Goals, the Paris Climate Agreement and the relevant national and regional frameworks.

In this regard, the following recommendations have been evaluated:

R1. Integrate the SDGs, the Paris Climate Agreement and other relevant frameworks at national, regional or international level explicitly into their strategy and with the

R2.- Assess the current misalignment with society's objectives and where the bank can contribute to the objectives of society and take advantage of business opportunities at the same time.

R3.Identify if there are current activities, portfolio focus areas, products or services for customers and users that are inconsistent with the SDGs and the Paris Climate Agreement.

R4.Concentrate on the SDGs most relevant to the bank's operational context, which may require focusing on specific objectives and indicators underlying those SDGs.

R5. Evaluate the degree of consistency of the entities with the set of recommendations.

In a range from 1 to 5, with 5 being the maximum level of progress, taking into account the set of entities analysed, the level of progress of Principle 1 would be 4.4 out of 5. Table 1 shows the level of progress of the set of entities in each of their recommendations.

R-1 Level of progress

4

R-2 Level of progress

4

R-3 Level of progress

4

R-4 Level of progress

5

R-5 Level of progress

5

4.3.2. Principle 2: Impact and Goal Setting

This Principle requires banks to conduct an analysis of their impacts on society, the environment and the economy, to identify their most significant impacts and set a minimum of two targets that address at least two of the identified significant impacts. The impact analysis of banks should be based on:

- Scope: the main business areas of the bank, the products/services in the main geographical areas in which the bank operates;
- Exposure scale: where the core business/core activities of the bank are in terms of industries, technologies and geographies;
- Context and relevance: the most relevant challenges and priorities related to sustainable development in the countries/regions in which it operates;
- The scale and intensity/significance of the (potential) social, economic and environmental impacts resulting from the bank's activities and the provision of products and services.

4. Framework 1

Each bank should engage with relevant stakeholders, including civil society, to give information on aspects of the analysis. The goals may be qualitative or quantitative.

Goals and their level of ambition should be linked to the SDGs, the Paris Climate Agreement and other relevant national, regional or international frameworks.

Banks are required to set milestones or key performance indicators (KPIs) to monitor the progress of their objectives. When establishing and monitoring progress against targets, banks should be aware of any negative impacts that may result from this process, and must address them should they arise.

Objectives should be specific, measurable, achievable, relevant, and time-bound.

In the work carried out, whether the entities have identified the areas in which they have their most significant positive and negative impact has been verified, through an impact analysis that takes into account the following elements: scope, exposure scale, context and relevance, scale and intensity.

Whether the entities have established and published a minimum of two specific, measurable, achievable, relevant and time-bound objectives, which address at least two of the "most significant impact areas" which have been identified, has also been checked.

In addition, whether these objectives are linked and drive alignment and greater contribution to the appropriate Sustainable Development Goals, the Paris agreements and other relevant frameworks has been analysed.

If the entities have analysed and recognized the negative impacts against the SDGs, climate change or society and if they have established relevant actions to mitigate them to the extent possible in order to maximize the net positive impact of the established objectives has been checked.

In this regard, the following recommendations have been evaluated:

R1. Undertake an impact analysis of the bank's significant impacts based on detailed requirements in scope, exposure scale, context and relevance, scale and intensity/significance of impacts.

R2. Conduct a forward-looking assessment that analyses the bank's reliance on the nature and extent of associated risks.

R3. Evaluate, monitor and be transparent about the exposure of the bank's portfolio to technologies, business models and sectors with significant impacts on sustainability.

R4. Develop and publish increasingly quantitative and forward-looking assessments of the bank's positive and negative impacts, risks and opportunities.

R5. Based on the outcome of the impact analysis, develop strategies, policies and KPIs to address, reduce and mitigate negative impacts, and seize opportunities to continuously expand and scale up positive impacts, and establish processes and systems to manage risks, for both people and the environment.

R6. Once the bank has identified their highest impact areas, assess which of those areas should be prioritized and set goals in those areas.

R7. Determine the activities or sectors to prioritize, and establish the baseline or starting point for the bank in those activities or sectors. Then set SMART objectives against the determined baselines.

R8. Establish processes to monitor and review progress towards objectives, including setting KPIs.

R9. Analyse if there are any actual or potential negative impacts associated with their objectives (e.g. damage to ecosystems) and take corrective precautions or measures to address them.

R10.Link internal functions, such as marketing and communication, training, human resources, innovation and compliance with objectives to ensure internal coherence.

R11. Establish mechanisms to periodically review the objectives in order to grow them over time.

R12. Report frequently on progress to the Board of Directors and executive team to ensure buy-in.

In a range from 1 to 5, with 5 being the maximum level of progress, taking into account the set of entities analysed, the level of progress of Principle 2 would be 4 out of 5. Table 2 shows the level of progress of the set of entities in each of their recommendations.

R-1 Nivel de avance	R-2 Nivel de avance
4	4
R-3 Nivel de avance	**R-4 Nivel de avance**
4	4
R-5 Nivel de avance	**R-6 Nivel de avance**
4	4
R-7 Nivel de avance	**R-8 Nivel de avance**
4	4
R-9 Nivel de avance	**R-10 Nivel de avance**
4	4
R-11 Nivel de avance	**R-12 Nivel de avance**
4	4

Table 2: Level of progress of recommendations in the Principle on Impact and Goal Setting

Despite the relatively good rating received by the sector in the follow-up to the recommendations relating to Principle 2, in a publication that collects aggregated data worldwide1, UNEP FI itself states that only 30% of the signatory banks have set targets in any of the areas of significant impact, and many of them have not yet followed the recommended steps for robust performance. The result is good, but much remains to be done.

4.3.3. Principle 3: Customers and Users

In accordance with the Principles for Responsible Banking Framework Documents, banks must report, at a high level, on how their policies and practices promote responsible conduct, encourage sustainable practices and enable sustainable economic activities.

In the work carried out, the policies and practices that each entity has implemented and/or plans to implement to promote responsible relationships with their customers have been identified. This should include high-level information on the programmes and actions implemente and/or planned, their scale and where possible, their results.

How entities are working and/or plan to work with their customers to foster sustainable practices and enable sustainable economic activities has also been analysed. This includes information on planned/implemented actions, products and services developed, as well as impacts achieved.

In this regard, the following recommendations have been evaluated:

R1. Proactively inform and interact with customers and users about their commitment to sustainability and responsible banking.

R2. Develop policies and train staff to ensure customers and users are treated fairly. Review specific products and services to ensure they meet their needs, including sustainability needs.

R3. Evaluate employee incentive structures and compensation policies to ensure that they do not encourage mis-selling and other unfair practices. Ensure account managers[1] incentives are aligned with the responsible banking objectives and strategy of the bank.

R4. Establish partnerships with third parties to offer solutions for sustainable production and consumption beyond the current customer and user base of the bank. These may include technology providers and FinTech companies in order to leverage digital technology for new solutions that contribute to financial inclusion, greater access to credit and greater data security. These partnerships can be with companies that offer products and services related to sustainability; social entrepreneurs who drive social innovation to achieve society's goals; and renewable energy companies able to support the bank's customers and its own transition to a low-carbon economy.

1 1 Responsible Banking: Building Foundations. The first collective progress report of the UN Principles for Responsible Banking signatories. https://www.unepfi.org/banking/more-about-the-principles/progress/prb-collective-progress-report-2021/

R-1 Level of progress	R-2 Level of progress
5	4
R-3 Level of progress	**R-4 Level of progress**
4	4
R-5 Level of progress	**R-6 Level of progress**
4	4
R-7 Level of progress	**R-8 Level of progress**
4	4
R-9 Level of progress	**R-10 Level of progress**
4	4
R-11 Level of progress	**R-12 Level of progress**
4	4

Table 3: Level of progress of recommendations in the Principle on Customers and Users

R5. Systematically identify where the bank can help their customers and users reduce their negative impacts and increase their positive impacts, through the adoption of new technologies, business models andpractices. Based on their analysis of their customers, develop a strategy, and identify the steps to follow.

R6. Involve customers and users as stakeholders in their bank's commitments; and systematically engage customers and users in sustainability issues.

R7. Develop appropriate incentives for customers and users to make more sustainable investments and financial decisions. This can be done through preferential interest rates, rewards programmes for sustainable consumption options, etc.

R8. Offer "sustainable loans" or "positive impact loans", where some of the terms could be related to corporate progress in sustainability (for example, discounts could be provided based on the use of funds or the achievement of certain objectives related to sustainability).

R9. Build capacity among the bank's employees to better interact with customers and users on sustainable finance; and establish internal guidelines and protocols to support customers and users in sustainability considerations.

R10. Integrate questions about the sustainability ???

R11. Develop expertise within the bank, or through partnerships with other organizations, to effectively advise customers and users on adopting more sustainable business models, technologies and lifestyles.

R12. Create a "race to the top" between customers and users, offering more attractive interest rates, prices, terms and conditions, and value-added services for more sustainable customers and users.

In a range from 1 to 5, with 5 being the maximum level of progress, taking into account the set of entities analysed, the level of progress of Principle 3 would be 4.1 out of 5. Table 3 shows the level of progress of the set of entities in each of their recommendations.

4.3.4. Principle 4: Stakeholders

must identify their main stakeholders and understand their roles, capacities and needs. In

line with the Principles for Responsible Banking Framework Documents, entities should consult with, commit to, collaborate with and/or partner with relevant stakeholders in order to implement the Principles, including engaging in their impacts. Entities are required to provide high-level information on the stakeholders they have identified and engaged with, as well as the key issues raised by the stakeholders and how they were addressed by the entity.

The work undertaken has analysed how entities have described the stakeholders (or stakeholder groups/types) they have consulted, engaged, collaborated or partnered, in order to implement these Principles and improve the entity's impacts. This should include a high-level overview of how the entity has identified relevant stakeholders and what issues were addressed/results were achieved.

In this regard, the following recommendations have been evaluated:

R1. Identify and map key external stakeholders such as regulators, investors, governments, suppliers, customers and users, academia, civil society institutions, communities and non-profit organizations. Pay special attention to "affected" stakeholders, i.e. those who are influenced by the bank's indirect impacts.

R2. Identify those issues or areas where collaboration could help achieve results beyond what the bank could offer on its own.

R3. Establish multidisciplinary consultation channels and use digital and connected technologies to facilitate continuous and fruitful engagement with stakeholders.

R4. Establish partnerships with third parties in order to offer solutions for sustainable production and consumption beyond the current customer and user base of the bank.

R5. Consult and engage all relevant stakeholders so that they can express their expectations regarding the bank's impacts, strategy, objectives, the role the bank can play in driving sustainability, and their efforts to implement these Principles. Use the experience and knowledge of stakeholders.

R6. Engage with regulators and policymakers to advocate for regulations and policies that are in line with the goals and objectives of the Principles for Responsible Banking and sustainable development in general. Be transparent about the bank's political commitments and activities, and ensure that they are in line with the bank's commitments under these Principles.

R7. Partner with relevant stakeholders who can help their bank reduce negative impacts, or achieve or scale up positive impacts and deliver more than they could by working on their own. Create partnerships or relationships that enable the bank to leverage its intellectual and social capital, and develop and implement solutions that make substantial contributions to the goals of the SDGs, the Paris Climate Agreement, and other relevant national, regional, or international frameworks.

R8. Work with other banks and financial institutions to facilitate specific and scalable changes in the sector, taking into account applicable competition law restrictions that may exist in their jurisdictions

R9. Regularly review their stakeholder engagement strategy to ensure that it is comprehensive and includes new relevant stakeholders where necessary.

In a range from 1 to 5, with 5 being the maximum level of progress, taking into account the set of entities analysed, the level of progress of Principle 4 would be 4.4 out of 5. Table 4 shows the level of progress of the set of entities in each of their recommendations.

R-1 Level of progress: **5**	R-2 Level of progress: **4**
R-3 Level of progress: **5**	R-4 Level of progress: **4**
R-5 Level of progress: **4**	R-6 Level of progress: **4**
R-7 Level of progress: **4**	R-8 Level of progress: **4**
R-9 Level of progress: **5**	

Table 4: Level of progress of recommendations in the Principle on Stakeholders

4.3.5. Principle 5: Governance and Culture

In accordance with the Principles for Responsible Banking, banks should develop governance structures that enable and support the effective implementation of the Principles. This includes having structures, policies and processes suitable for managing their significant impacts and risks, and achieving their objectives. Each bank will also be required to disclose the measures it is implementing in order to foster a culture of responsible banking among its employees.

The work undertaken has reviewed the relevant governance structures, policies and procedures that entities have implemented or are planning to implement in order to manage significant positive and negative (potential) impacts and to support the effective implementation of the Principles.

In addition, the Initiatives and measures that entities have implemented or are planning to implement to foster a culture of responsible banking among their employees have been reviewed. This should include a general high-level overview of capacity building, inclusion in remuneration structures, performance management and leadership communication among others.

Finally, the governance structures for the implementation of the PRBs have been reviewed, including: the setting of goals and actions to achieve the established objectives; corrective measures in case targets are not reached or unexpected negative impacts are detected.

In this regard, the following recommendations have been evaluated:

R1. Integrate sustainability into a clearly communicated statement that links environmental and social issues to the bank's vision and mission, with clear endorsement from senior executives.

R2. Integrate sustainability values and ethics into the bank's daily operations and culture through everyday policies, processes and practices such as gender equality and equal pay, environmentally friendly transportation options, or sustainable and inclusive procurement practices, etc.

R3. Establish appropriate policies and procedures with effective management systems and controls, including risk assurance, compliance and third party procedures.

R4. Align lending policies with sound, scientific approaches, which can be developed through a multi-stakeholder process.

R5. Integrate the bank's sustainability objectives into their remuneration and incentives, as well as into their performance management systems. Rewarding strong sustainability performance and leadership, for example, through promotion.

R6. Educate and train employees on their bank's sustainability strategy and objectives in general, and in particular sustainability issues related to their respective area of work in order to develop appropriate awareness and expertise at all levels.

R7. Develop in-house expertise in environmental, social and economic issues relevant to the context of their bank, such as climate change, deforestation, pollution, biodiversity, human rights, gender equality, through external guidance via consultants in order to inform and educate staff.

R8. Build an internal community of sustainability advocates that includes all employees who have a clear contribution to make and responsibility towards achieving its sustainability goals and objectives. Manage and strengthen this community with frequent engagement, such as webinars, meetings and seminars, and newsletters.

R9. Assign clear and specific roles and responsibilities at the level of the Board of Directors and in all functions of the bank with respect to the bank's sustainability agenda, and providing the appropriate allocation of resources.

R10. Formally include sustainability criteria in the Terms of Reference or Statutes for the nomination, remuneration and audit committees of their Board of Directors, or create a Committee dedicated to sustainability and responsible banking.

R11. IIntegrate sustainability objectives and goals into the decision-making processes in the bank. Regularly review existing management systems and processes to assess whether they need to be modified or strengthened so that the bank can meet its sustainability objectives.

R12. Establish a dedicated and specialized team of sustainability experts (e.g. a corporate sustainability department) with strong leadership, and clear roles and responsibilities, in order to facilitate sustainable financing and implementation of the Principles across all functions of the entity.

In a range from 1 to 5, with 5 being the maximum level of progress, taking into account the set of entities.

R-1 Level of progress	R-2 Level of progress
4	4
R-3 Level of progress	**R-4 Level of progress**
5	5
R-5 Level of progress	**R-6 Level of progress**
3	4
R-7 Level of progress	**R-8 Level of progress**
4	4
R-9 Level of progress	**R-10 Level of progress**
4	4
R-11 Level of progress	**R-12 Level of progress**
4	4

Table 5: Level of progress of the recommendations in the Principle on Governance and Culture

4.3.6. Principle 6: Transparency and Accountability

Banks are accountable to their employees, investors and society at large. Public disclosure is critical because it allows internal and external stakeholders to assess their banks' contribution to society and the progress that it is making. This, in turn, helps build confidence in the bank's sustainability-related commitments and helps distinguish it from its competitors. Making goals public and reporting on progress significantly increases the potential for success in achieving them. Progress reports are key to ensuring the effectiveness of the approach, motivating employees, competing with peers, driving innovation and strengthening reputation and trust.

The work carried out shows that the entities have made progress in the implementation of the six Principles in the last 12 months, in addition to establishing and implementing objectives in a minimum of two areas (see Principle 2). In addition, entities have considered existing and emerging international/regional good practices relevant to the implementation of the six Principles for Responsible Banking. Based on this, they have defined priorities and ambitions to align with good practices.

Finally, the banks analysed have implemented or are working on implementing changes to existing practices to be in line with the existing and emerging international/regional good practices, and reflect that they have made progress in implementing these Principles.

In this regard, the following recommendations have been evaluated:

R1. Publish a transparent and balanced annual account (in the existing reports) of the significant positive and negative impacts of each bank, their risks and the progress they are making in implementing the Principles, focusing on results and impacts, rather than the process.

R2. Integrate disclosures related to the implementation of the Principles into the bank's existing reports (e.g. annual report, sustainability report, company website, etc.). When the bank is not yet able to provide some information, include a description of how the bank plans to work to obtain and publish that information.

R3. Align disclosures with the sustainability disclosure requirements of frameworks commonly used in the banking sector, such as *Global Reporting Initiative (GRI), the Sustainable Accounting Standards Board (SASB) and Integrated Reporting (IR) frameworks.*

R4. Check whether the report meets current best practice standards for reporting, to allocate adequate resources and take steps to close the gap and align public reports with disclosure requirements.

R5. Disseminate commitments to clients and other stakeholders at the aggregate level to promote change within the sector.

R6. Demonstrate that the bank, through consistent processes linked to its own governance mechanisms, has determined the most significant impacts, has identified where it can have the greatest impact in terms of contribution to the SDGs, the Paris Climate Agreement and other relevant frameworks, and the objectives it has set in this regard.

R7. Disseminate at the aggregate level the strategic risks and opportunities and how these are integrated into the bank's own governance processes and strategy.

In a range from 1 to 5, with 5 being the maximum level of progress, taking into account the set of entities analysed, the level of progress of Principle 6 would be 4 out of 5. Table 6 shows the level of progress of the set of entities in each of their recommendations.

R-1 Level of progress	R-2 Level of progress
4	4
R-3 Level of progress	**R-4 Level of progress**
4	4
R-5 Level of progress	**R-6 Level of progress**
4	4
R-7 Level of progress	
4	

Table 6: Level of progress of the recommendations in the Principle on Transparency and Accountability

4.4. Conclusions

In general, all entities have sufficiently integrated the UNEP-FI recommendations with regard to the PRBs.

Likewise, all entities have identified the most relevant SDGs for their business model and have concentrated their efforts, at least in terms of their objectives.

This integration process has meant that all the entities have widely incorporated and developed the recommendations that the PBRs have contemplated in order to comply with the commitments of Principle 1 corresponding to strategic alignment.

In general, all entities are paying attention to the assessment of impact and the configuration of objectives. However, the level of implementation varies significantly between the largest entities, who are further deployed, and the other entities with a longer way to go. Given that we are analysing data from 2021 and this is an area in which it will take time for entities to be able to demonstrate that they are producing a positive impact, it is still too early to judge the performance of the sector. We are facing one of the main areas of development.

The involvement of the management bodies and the executive team should be positively highlighted, which will probably result in a greater and faster deployment of the set of recommendations in the future.

As we already pointed out, the identification and assessment of the negative impacts linked to the objectives of the entities is the recommendation with the longest journey. This is particularly important, since its correct identification is what should allow the implementation of corrective measures.

In general, all entities have developed and provided an overview of the policies and practices they have implemented and/or plan to implement to promote responsible relationships with their customers.

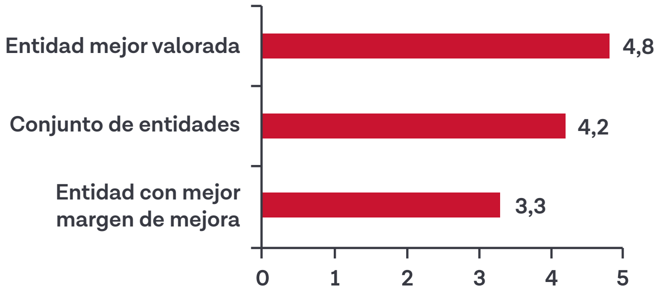
In general, larger entities have a greater development than the other entities, especially with regard to the implementation of incentives for the organization.

Along with the quantification of objectives, the involvement of customers in a common objective is probably the aspect that presents the greatest path towards improvement in the sector.

In general, all entities have identified their stakeholders and have established consultation channels that should allow them to understand and evaluate their expectations.

The level of transparency that the entities develop through their reports shows clear inequalities between the different entities analysed. A greater effort in that aspect would probably facilitate a better understanding of the level of progress achieved in the implementation of the Principles of Responsible Banking in the different entities.

Finally, in relation to the advancement of the Principles of Responsible Banking of all entities analysed, for all the recommendations analysed, in a range of 1 to 5, the level of progress would be 4.2 out of 5, with a better rating in one of the entities, which shows a 4.8 against an entity with a 3.3 showing more room for improvement.



5. Framework 2. Analysis of the Global Alliance for Banking on Values (GABV) scorecard

5.1.Introduction

5.1.1. Aim of the Research

The objective of this second framework is to bring us closer to situating the degree of alignment of the Spanish banks that make up the sample of the study with the Principles of Values-Based Banking promoted by the Global Alliance for Banking on Values (GABV).

To carry out this analysis, the standard defined by the GABV, the GABV Scorecard, will be used as a tool to measure the degree of alignment, so that the performance of the analysed banks in relation to sustainable finance can be evaluated from the perspective of that independent association of banks.

5.1.2. The Global Alliance for Banking on Values (GABV)

5.1.2.1. What is the Global Alliance for Banking on Values?

The Global Alliance for Banking on Values (GABV) represents a global movement of leaders and organizations in the banking sector that put finance at the service of people and the planet, placing human dignity at the heart of their action. Its main collective objective is to make the banking system more transparent and to support economic, social and environmental sustainability.

The GABV was founded in 2009 by ten pioneering banks who believed in the need for a fairer financial system. Today, it is a growing organization with 71 members from 45 countries in Africa, Latin America, Asia-Pacific, North America, and Europe.

Its members include microfinance banks in emerging markets, credit unions, community banks, and sustainable banks that finance social, environmental, and cultural activities.

According to the Principles of Banking on Values, "GABV member banks share a commitment to finding solutions to global problems and to promoting a positive and viable alternative to the current financial system. These organizations believe that the quality of life of all the inhabitants of the planet should be improved, recognizing economic interdependence and responsibility towards current and future generations" (Principles of Values-Based Banking, 2021).

Although members are heterogeneous in terms of their business models, size, and the markets in which they operate, they share the six Principles of Values-Based Banking. Values-based banks have consistently offered products and services to individuals and businesses active in the real economy that generate a social, environmental and economic triple benefit. Their focus on meeting the real needs of people and their immediate communities rather than investing in the financial economy is a core element of their business models.

5.1.2.2. Principles of Values-Based Banking

The GABV defines six guiding principles as the basis of the movement it promotes, which are the distinctive element of so-called "values-based banking".

Unlike other players in the financial sector, especially conventional banking, values-based banking does not have the profitability of its services as the main driver of business decisions. The business decisions of a values-based bank aim to put finance at the service of people and the planet. To do this, they identify a human need to be satisfied, and subsequently analyse how to satisfy it in a sustainable way from an environmental, social and economic perspective, including sustainable profitability for the bank.

The Principles[1] of Values-Based Banking are as follows:

- Triple Bottom Line approach
- Real economy
- Focus on the customer
- Long-term resilience
- Transparency
- Values-based culture

First of all, a Triple Bottom Line approach (TBL) is the starting point for this type of institution and the core of the model of

values-based banking. Through loans and investments, they support individuals and companies committed

1 Principles of Values-Based Banking. Global Alliance for Banking on Values. 2022.

to generating impacts in at least one of the categories of social empowerment (People), environmental regeneration (Planet) or economic resilience (Prosperity).

This approach is embodied in those activities that respond to the main economic, social or environmental challenges faced by communities in the places where these institutions operate. These activities are designed and implemented with the intention that the impact generated is additional, always while searching

to deliver lasting, sustainable and transformative solutions. These institutions use broad exclusion lists to limit present and future risks of negative impact, and also have customer dialogue processes that allow them to mitigate potential negative impacts.

The real economy refers to economic activities that generate goods and services, as opposed to a financial economy that deals exclusively with activities in financial markets. Values-based financing and investment activity seeks to directly support productive and long-term investments rather than focusing on the buying and selling of assets in financial markets. For example, and in particular, financing for companies that focus on the responsible development of societies, projects such as organic agriculture, sustainable construction, renewable energy, and non-profit companies that work in areas such as education and community assistance.

The principle of customer focus presupposes a continuous effort on the part of the institution to promote dialogue with customers, which makes it possible to understand their needs and offer financial products and services that respond to them.

In addition, thanks to close relationships with customers, these institutions can anticipate and offer solutions to customers at risk of falling into arrears.

These institutions have advanced the construction of risk profiles of their clients by including elements which are not specifically financial. The quality of their portfolio is therefore usually superior. As such, institutions promote their impact objectives and also benefit from the stability offered by high levels of deposits.

The principle of long-term resilience refers to the importance of ensuring the financial viability of the institution in order to protect the interests of customers and overcome disruptions due to factors external to its activities. It also involves working closely with customers in arrears, thereby minimizing the risks of future financial losses. The principle of resilience motivates these institutions to attract customer deposits which are more stable, and minimize liquidity risks. It also translates into prioritizing the financing of activities in the real economy.

The principle of transparency refers to the importance of maintaining a high degree of transparency in terms of governance and detailed information on brokerage activities, and the operation and composition of the institution's leadership teams. Financial and sustainability reports must be clear and easy to understand, so that customers can evaluate the financing decisions that have been made.

The minimum required is the communication of investment and loan policies, and lists of excluded activities that generate high negative impact. Institutions are actively involved with stakeholders in general, taking their views into account in strategic decision-making. A diverse group of stakeholders is reflected in the composition of the institution's board.

Finally, we have the principle of values-based culture, which refers to the importance of fostering shared values to enable the realization of the mission of the institution. The above five principles, along with the institution's own values, are reflected in the practices of the leadership team, the corporate culture and organization of the bank. Training and education are not limited to the acquisition of financial knowledge, but also promote an understanding of the bank's mission, values, and business model in the broader social and environmental context of the bank. The leadership team promotes strong staff participation.

5.1.2.3. El GABV Scorecard

The Global Alliance for Banking on Values has defined its own scorecard as a measurement standard[2]. The GABV Scorecard, in addition to helping set the standard promoted for values-based banking, allows the monitoring and disclosure of the progress of said entities.

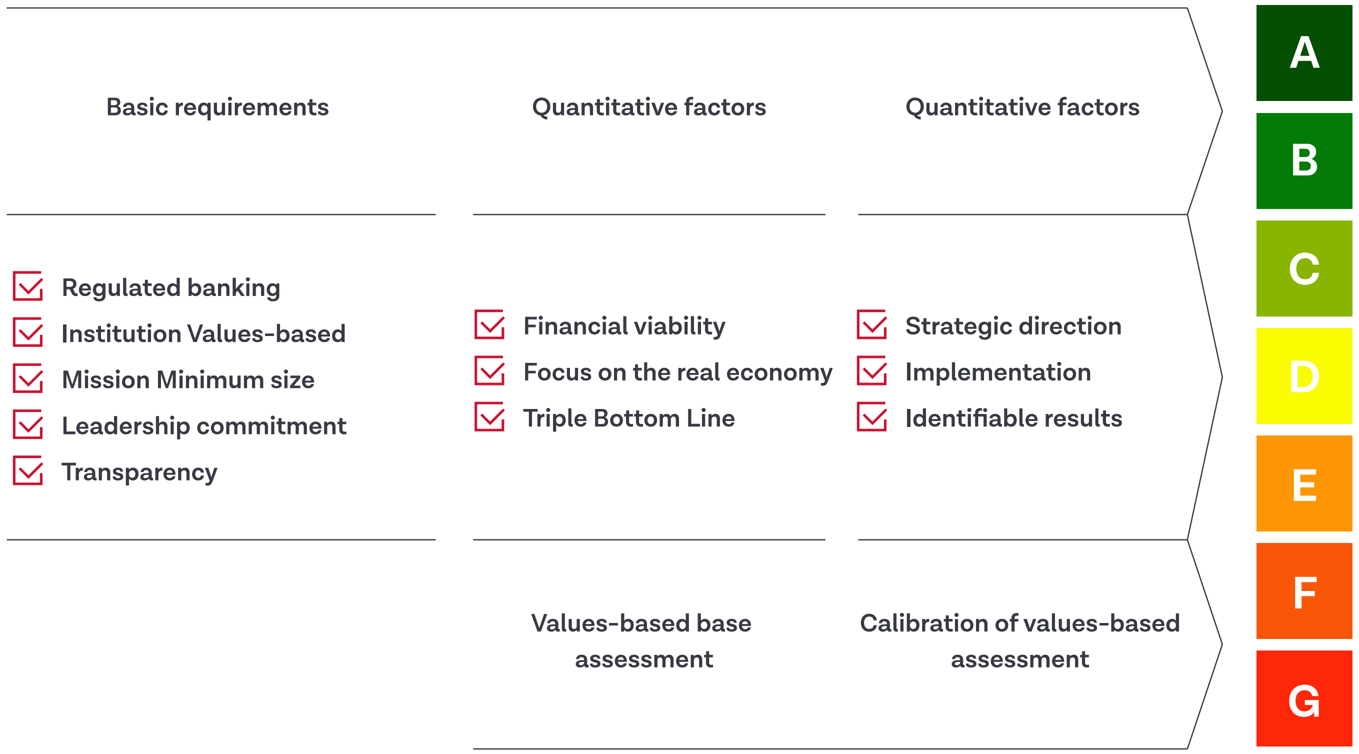
The GABV Scorecard operationalizes the Principles of Values-Based Banking and recognizes the special emphasis that values-based banking places on its business model to serve the real economy and contribute to social empowerment, environmental regeneration and economic prosperity (triple bottom line approach).

2 Transforming Finance. Scorecard. Global Alliance for Banking on Values.

The GABV Scorecard includes not only the vision and strategy of the bank, but also incorporates, in particular, its practices and results.

It is specifically designed for retail banking institutions, that is, those that receive deposits and make loans, based on two pillars: quantitative factors and qualitative elements. The collection and evaluation of information through

the lens of the GABV Scorecard allows us to determine the performance of the institution in terms of the practice of the Principles of Values-Based Banking.



Source: How does the GABV Scorecard work? GABV

5.2. Methodology and Considerations

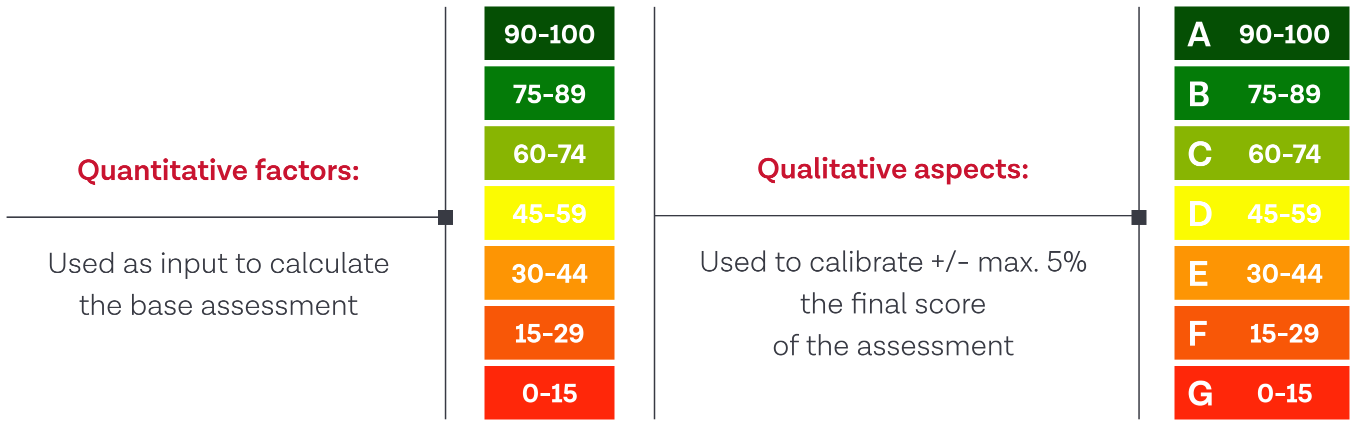
The GABV Scorecard has been used as an evaluation tool for Spanish banks, providing quantitative and qualitative information on the entities under analysis. Data has been obtained from sources of public information, in particular from the information disclosed by the entities.

In this regard, the banks' periodic reports, the annual and consolidated management accounts from 2017 to 2021, and non-financial information reports from the last financial year studied (2021) have been analysed. All this is complemented by the information collected on the commercial and investor relations websites of the entities.

On the one hand, based on financial information from the annual accounts, the analysis of quantitative factors has been carried out. This analysis has made it possible to measure the bank's resilience or financial viability. In this regard, the return on its assets, the solvency ratio that relates its own funds to assets, low-quality balance sheet assets and what percentage of the bank's assets is financed with customer deposits has been calculated. In relation to income from financial intermediation, income from intermediation in the real economy and income that has generated triple bottom line in society have been measured.

On the other hand, based on non-financial information and other public sources (INE, EU, IMF), the qualitative elements have been analysed. These elements are intended to capture the culture of the entity and its capabilities in terms of leadership, organizational structure, management systems, human resources, products and services and information on financial and non-financial performance. This methodology has made it possible to evaluate the transparency of the information in bank reports, as well as the culture, including attention to employees, customers and society in general.

Once the data was collected, the quantitative factors were used as input to an algorithm to obtain a base score. The qualitative elements have been used to calibrate the score by a maximum of 5%, and thus determine the final evaluation or score and establish a classification (ranking).



Source: Banking on a Bolder Future. GABV Annual Meeting, 2023.

Working Assumptions

Part of the analysis carried out is based on the study of the composition of loan portfolios and investments by the banks. Given the high degree of detail required by the GABV Scorecard and the limitations of working only with public information, it has been necessary to establish a set of assumptions and considerations for carrying out the analysis.

To implement these considerations, the information of the entities has been supplemented with specific information on different perspectives, such as: how the Spanish business fabric is distributed by size, the evolution of Spain's unbanked levels, data on housing, etc.

Such considerations apply especially to the classification of portfolios according to their contribution to the real economy and triple bottom line. These considerations are:

1. Considerations for measuring contribution to the real economy:

Measuring the contribution to the real economy involves analysing how the bank's economic activity assists different matters such as social inclusion, access to good quality services, equality or human rights.

Thus, operations that favour the real economy would be a good part of the loans or credit granted directly to companies, individuals and families, and also those financial products that are a degree away from real productive activity but which are needed for it to take place. As an example, a foreign exchange forward contract for export is a financial product that is located at a distance from real productive activity, but which is necessary for a cereal exporter to be able to operate more effectively; therefore, we would qualify it as the real economy. Other more sophisticated financial products, which were two or more degrees away from productive activity, would not qualify as the real economy.

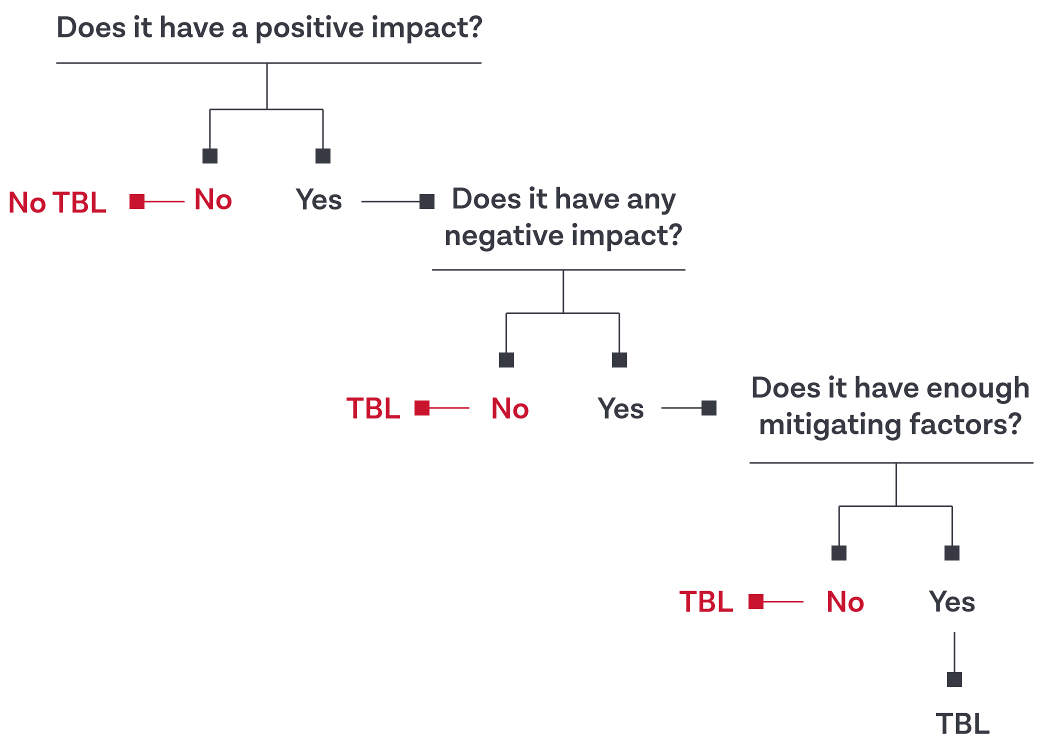
The analysis carried out shows the degree of contribution to the real economy of the part of the entities' balance sheet of assets related to loans and investments made. Some of the considerations applied in said analysis, in those items of the loan portfolio that may be more debatable, are the following:

- Loans for civil works are considered in their entirety as a contribution to the real economy and to triple bottom line by constituting the basis of basic services of the economy (roads, lighting, paving, etc.)
- Consumer credit contributes to the real economy.
- Loans to large companies contribute to the real economy.

2. Considerations to measure the contribution to triple bottom line:

Measuring the contribution to triple bottom line involves analysing how the bank's economic activity generates an impact in any of the aforementioned categories: (a) social strengthening, (b) environmental regeneration or (c) economic resilience.

To determine if an economic activity contributes to triple bottom line, the following simplified decision tree can be used, so that it is concluded whether or not an activity has a positive impact, and if it generates any negative impact.



Based on this, different considerations have been applied to attribute the degree of contribution to the triple bottom line of the entities under study:

1. Financing micro-enterprises contributes to social strengthening and economic prosperity. In addition, these companies are considered to be low risk in environmental terms due to their size.
   In the analysis of loans to SMEs and the self-employed, the reports prepared by the General Directorate of Industry and SMEs based on data provided by the Ministry of Employment and Social Security (ME&SS) on companies registered with Social Security have been taken into account. According to the SME Figures study of December 2021, the distribution to companies by size assigned 38.86% to microenterprises. This proportion has been applied to the amount of loans to SMEs and self-employed, so that this proportion is considered to contribute to the triple bottom line. The rest, although not considered as a contribution to the triple bottom line, is considered as a contribution to the real economy, because they help companies generate jobs and create goods and services for the real economy.
2. For loans to large companies, we have used the criterion of applying the percentage of alignment to the taxonomy reported by each bank to distinguish between loans that contribute to the triple bottom line and those that contribute only to the real economy. Brokered investment funds were also evaluated, some of which were included as contributors to the triple bottom line. It can be deduced from this that there is a financial economy that can generate triple bottom line.
   It is worth mentioning that large Spanish companies are concentrated in productive sectors (such as real estate for commercial use, or manufacturing or services), and it cannot be generalized that they contribute to social strengthening, environmental regeneration and economic prosperity. However, entities report their degree of alignment to the Taxonomy, based on the eligibility ratio.
   This data allows us to assign a percentage contribution to environmental sustainability for financing large companies.
3. In the case of consumer loans, the data on the growth of the banking population of the World Bank[1] has been used to recognize the percentage of credits and loans to consumers which contributes to triple bottom line in addition to contributing to the real economy. This assumption arises from considering that the bank has carried out an exercise to assist customers in unbanked areas, so that inclusion and social strengthening is being carried out.

1 https://microdata.worldbank.org

5.3. Study Results

As can be seen, in a range of 0-100, the score obtained by the Spanish bank on average is 23.5.

	Financial viability	Real economy	Brokerage on the TBL with respect to total brokerage	Qualitative elements (calibration factor)	Final scorecard (adjusted and calibrated)
Score base	35	25	40		100
Average score of spanish banking	19,2	3	1,3	0,07%	23,5

From the aggregate analysis of the alignment of the study sample of banks with the GABV Principles of Values-Based Banking, the following results can be highlighted:

Regarding financial viability:

- The financing of customers (SMEs, self-employed, families) over total assets through bank deposits stands out positively. It would be important to ensure that these deposits were stable to ensure the liquidity of the entity.
- The percentage of non-performing or low-quality assets is low. However, how it works and helps clients with financial problems from the perspective of promoting economic prosperity and social empowerment, which would minimize future losses, is not specified.

Regarding the contribution to the real economy and return on assets:

- It can be seen that a good part of the Spanish banking entities under analysis continue to finance the financial economy above the real economy.
- Although very strict with the criteria for classifying loans, it is a fact that most banks have high percentages of off-balance sheet assets (for example, income from the management of investment funds or insurance products).

Regarding the contribution to the triple bottom line:

- Although the sector could have scored better in the financial viability section or in the orientation to the real economy, in the total score range of the observation corresponding to 2021, surely the contribution to the triple bottom line would be the main factor that would explain the low relative score received by the group of entities analysed.
- It is not sufficiently clear that entities finance people and companies committed to social strengthening, the environment and economic prosperity. For example, when evaluating the loan portfolio of each bank, it can be seen that there is a lack of detail on the amounts and sectors to which the investment has been destined. Some banks report a willingness to increase the amounts to certain sectors, but do not yet show this with the transparency of their data.
- This fact is relevant, since these activities should generate an impact on lasting, sustainable and transformative solutions.

Regarding the final result adjusted and calibrated according to the qualitative elements:

- 50% of banks have a positive adjustment factor, 10% neutral and the remaining 40% negative.
- Since the public information of the banks does not contain all the data required by the GABV
- Scorecard, some qualitative elements have been inferred, since they have not been published, and this is reflected in the qualitative elements rating.
- In general, the banks analysed show their interest in customers, in promoting investments that generate sustainable impact, in transparency in terms of governance and in improving financial reporting. However, the evidence is not sufficient, and in this regard we believe that investment and financing policies should be better communicated.

5.4. Conclusions

The exercise of evaluating Spanish banks using a very demanding prism such as that of the GABV has been very revealing about the point where commercial banking is compared to a standard as high as that of values-based banking, despite not being completely conclusive, since the information provided by the entities (at least in their public reports) is not structured at that level of specificity. The results obtained indicate that, at present, commercial banking is still far from the perspective of values-based banking as proposed by the GABV.

First, it highlights the need to increase transparency regarding the contribution of entities to social strengthening, environmental regeneration or economic prosperity, and the way in which this vision is integrated into the values and mission of the entity.

Qualitative analysis requires analysing evidence of which transparency, governance, culture or customer relationship policies are already implemented and operating with sufficient demonstrable success. This exploration has certain limitations when working from a perspective totally external to organizations, because disclosure in this aspect is general and unspecific.

Based on the above, it will be necessary to establish and specify the steps to follow to guarantee the evolution of a report of possible information (the starting point at which we find ourselves) towards a report of desirable information.

Secondly, it is necessary to integrate culture and values based on sustainability (whether environmental, social or economic prosperity) into the strategy and purpose approved by the entities, so as to guarantee true intentionality by including the Principles of Values-Based Banking and establish an action plan consistent with these.

Thirdly, it is essential to measure the impact generated by the entities, in relation to all their balance sheet assets, in order to become aware of the consequences of the decisions taken, monitor their evolution and, in this way, adapt the strategic plan and approve policies consistent with the Principles of Values-Based Banking.

The GABV Scorecard requires banks to have a large part of their assets invested in the portfolio of loans to companies, projects and individuals, minimizing investment in any other type of assets that could be considered as “financial economy”, particularly of a speculative nature (more than two degrees removed from activity in the real economy according to the GABV conceptual framework).

The premise behind this is that banks must allocate the vast majority of the resources received from depositors and shareholders to the direct financing of activities and companies that enhance the prosperity of communities and countries in the long term.

The principle of triple bottom line, defined with the highest level of priority, requires percentages of assets in the loan portfolio that contribute in addition to the market average to social strengthening, environmental regeneration and economic prosperity to those entities that want to act in accordance with the Principles of Values-Based Banking. In fact, one of the key points is the high weighting given to the triple bottom line approach in the analysis, since it outweighs the entities that have already traveled an important distance in sustainable banking and financing of companies aligned with the SDGs.

Despite the results obtained, Spanish banks are at a reasonable starting point from which to begin working. Incorporating the values promoted by the GABV, in coordination with other frameworks, could be a key task towards a future in which banking truly plays a leading role as a multiplier of activities with a positive impact on people, prosperity and the planet.

6. Framework 3. Analysis of the Application of the Taxonomy on the Signatory Banks of the PRB

6.1. Aim

The aim of this section is to carry out a qualitative and quantitative analysis of how the ten Spanish banks that signed the Principles for Responsible Banking (PRB) are implementing alignment with the European taxonomy, and also extend the analysis to other indicators, with the objective of assessing the alignment of said banks with sustainability and ESG criteria.

6.2. Methodology

The study has been articulated in three central components:

1. Analysis of mandatory eligibility information according to the European Taxonomy Regulations.
2. Analysis of CO2 emissions.
3. Analysis of marketed green products, or products with an eco-sustainability label.

For each of the different components, different indicators and information have been analysed among the ten target banks of the study.

These indicators and information have been obtained from the information published by each of the entities.

In this regard, the consolidated annual and management accounts and the specific reports on sustainability and ESG issues for 2021 have been analysed. To carry out the analysis of the marketed green products, additionally

the contents and reports of the websites of each bank have been consulted.

From the total information disclosed, information on eligible activities, carbon footprint and green products marketed by the banks has been filtered and selected to be as homogeneous and comparable as possible. In this way, the information, data and indicators evaluated have been summarized in the following table.

Based on this information, we have constructed the set of indicators, ratios and values on which the results have been based.

Information on eligible activities

Indicator	Unit of measure
Total balance sheet assets	Billion euros
% active coverage	Percentage
Eligible activities exposure	Percentage of assets; Volume (billion euros
Exposure to central governments, central banks and supranational issuers	
Exposure to derivatives	
Exposure to companies that are not required to report non-financial information	
Trading portfolio	
Interbank loan portfolio on demand	

Information on carbon footprint and offsets

Indicator	Unit of measure
Total balance sheet assets	Billion euros
Average number of employees	Number
Total Scope 1 emissions	Tons of CO2 equivalent
Total Scope 2 emissions	
Total Scope 3 emissions	
Scope of compensated emissions	Emissions scope type
Number of offset projects funded	Number

Information on marketed green products

Indicator	Unidad medida
Issuance of green bonds	YES/NO
Offer of green mortgages	
Offer of loans for the rehabilitation of properties	
Green leasing offer for capital goods	
Green leasing offer	
Offer of green loans for businesses	
Offer of sustainabie investment funds (according to SFDR regulations)	
Offer of sustainable	

6.3. Regulation of the European Taxonomy

In 2020, Regulation (EU) 2020/852, also known as Taxonomy, was introduced, which established guidelines to promote sustainable investments in the European Union and ensure greater coherence and continuity in the field of sustainability.

Through the complementary regulations, companies that are obliged to publish non-financial information according to Directive 2013/34/EU must include details on how their activities can be considered environmentally sustainable according to the technical criteria defined by the regulations.

The EU taxonomy can be said to be the EU's dictionary of sustainable economic activities. In this way, transparency is promoted, greenwashing practices (marketing practices aimed at creating an illusory image of environmental responsibility) are countered and the change of capitalization towards the sustainable economy of the future is promoted.

The EU Taxonomy came into force on 1 January 2022, and for the years 2022 and 2023, the reporting requirements focus on eligibility under the taxonomy. From 2024, activities aligned or not aligned with it must be reported in what will be the Green Asset Ratio (GAR).

In the case of mandatory reporting, information related to the eligibility of financial institutions should be based on actual information provided by counterparties, in accordance with Article 8, Section 4, of the delegated act on disclosure.

During the years 2022 and 2023, financial institutions must report the eligibility ratio, which reflects the percentage of the bank's assets associated with economic activities included in the Taxonomy, but without assessing compliance with the technical alignment criteria.

Financial institutions have carried out the necessary developments to comply with the disclosure requirements of the Taxonomy, including specific ratios and information listed in the regulation:

- Proportion of assets associated with eligible and ineligible economic activities, according to the Taxonomy.
- Proportion in total assets of exposures to central governments, central banks and supranational issuers.
- Proportion in total assets of derivatives.
- Proportion in total assets of exposures to entities not subject to the obligation to publish non-financial information in accordance with Directive 2013/34/EU.
- Proportion in total assets of trading book exposures and interbank loans on demand.

As established in the regulations, some exposures have been excluded from the calculation of the main ratio of eligible exposures, such as

those related to central banks, sovereign issuers and the trading book. In addition, the regulations also establish that some exposures cannot be considered aligned with the Taxonomy, so they have also been excluded from the numerator of the eligibility ratio, such as derivatives, exposures to companies that are not required to publish non-financial information, interbank loans on demand, cash and other cash-related assets, etc.

6.4. Green Asset Ratio (GAR)

The Green Asset Ratio (GAR) is the ratio of the assets of credit institutions invested in economic activities aligned with the Taxonomy to the total assets covered (the assets covered in the GAR are all balance sheet exposures except exposures to central governments, central banks and the trading book)

The GAR is the main indicator that financial institutions must publish according to the European Union Taxonomy regulation from 2024 with information relating to 2023.

6.5. The Concepts of Eligibility and Alignment with the Taxonomy

According to the technical criteria established in the Taxonomy Regulations, the concept of "eligibility" relates mainly to a series of economic activities that contribute to the environmental objectives of the European Union in terms of mitigation and adaptation to climate change.

The European Union provided guidance in December 2021 and updated it in February 2022, where a distinction was made between mandatory and voluntary information in relation to the EU Taxonomy.

In 2022, the eligibility ratio could be calculated with mandatory information or with mandatory and voluntary information, and not all banks explain the details of the calculation of this ratio.

In the case of mandatory information, the information related to the eligibility of financial institutions must be based on the actual information provided by the counterparties. Since the EU Taxonomy did not enter into force until 1 January 2022, it is likely that very few customers have disclosed their eligibility with respect to the Taxonomy during the 2021 financial year (which may result in the mandatory information for calculating the eligibility ratio in 2022 being partial and not very detailed). There are some banks that directly indicate that the mandatory approach is limited to information on the household portfolio referring to loans secured by residential real estate, building renovation loans and automobile loans, and gathers virtually no exposures to companies.

The voluntary approach makes it possible to complement the mandatory approach with exposures to local governments and financial and non-financial corporations. In the case of companies, both those subject to and not subject to the Non-Financial Disclosure Directive can be included in line with the considerations of the Sustainable Finance Platform (using customer NACE codes to estimate whether they meet the eligibility criteria). In relation to the alignment, according to the European regulation, an economic activity is considered aligned with the Taxonomy when it meets the following four conditions:

- Contributes significantly to achieving one or more of the environmental objectives of the EU Taxonomy.
- It does not cause significant harm to any of the other environmental objectives.
- It complies with the minimum social safeguards established.

6.6. Comparative Framework on Eligible Activities under the European Taxonomy Regulation

The comparisons that have been made of the eligible assets of the ten banks have been based on the different ratios that those entities are obliged to disclose in their annual reports:

- Exposure to eligible activities.
- Exposure to central governments, central banks and supranational issuers.
- Exposure to derivatives.
- Exposure to companies that are not required to publish non-financial information.
- Trading book and interbank loans on demand.
- It meets the established criteria for technical selection.

The synthetic indicator used to jointly represent the analysis ratios was the average of the banks in the sample, weighted by assets.

Table 1. Mandatory information according to Article 8 of the European Taxonomy Regulation

	Media de los bancos de la muestra (ponderada por activos)
Exposure to eligible activities	33,13%
Exposure to central governments, central banks and supranational issuers	15,00%
Exposure to derivatives	2,70%
Exposure to companies that are not required to publish non-financial information	16,08%
Trading book and interbank loans on demand.	6,44%
Exposure to ineligible activities	26,66%
TOTAL	**100,00%**

In short, the EU Taxonomy has initially identified a limited number of economic activities that are eligible, which will be expanded in the coming years.

In 2022, we can conclude that all financial institutions comply with the obligation to report exposure ratios to eligible and ineligible activities, but that the numerical percentages do not allow us to draw many conclusions about how these entities are implementing sustainability, beyond that the entities where retail business has more

weight have higher eligibility ratios, simply because of the fact that, to date, the regulations consider this activity eligible and that this eligible activity has to be reported.

6.7. Comparative Framework on Carbon Footprint

The ten banks in the study disclose information about their own carbon footprint, submitting the data concerning their carbon emissions and the offsets made in a transparent and structured way (dividing them into the three scopes).

Eight of the ten Spanish banks in the Principles for Responsible Banking initiative are also committed to the joint initiative of the Net Zero Banking Alliance, which brings together financial institutions that have undertaken to align their loan and investment portfolios with net zero emissions by 2050. In this way, the emissions produced by their own economic activity – in addition to being subject to a reduction process in recent years – should also be offset by these same entities through the financing of specific projects.

The only substantial differences between the disclosures of the different banks about their emissions and their offsets are related to a greater or lesser breakdown of the scope presented and – with reference to offsets – greater or lesser information on the projects identified and financed to achieve neutrality.

In addition, in the same disclosures made by the banks analysed, some of them report their emissions by relativizing them in relation to the average number of employees in the entity in the same year of emission, in order to provide an emission indicator that is more comparable with other competing banks.

The information on CO2 equivalent emissions is broken down into three scopes:

- **Scope 1:** direct emissions by the financial institution (mainly emissions from its own fleet of vehicles and refrigerant gases).
- **Scope 2:** indirect emissions (mainly electricity consumption).
- **Scope 3:** other indirect emissions or induced emissions (mainly emissions due to displacement of employees, work trips, paper and water used, or waste produced). Here we could also include the emissions generated by the entities' own portfolio of assets.

The volumes, in absolute terms of tons of CO2 equivalent, have been divided by the total balance sheet assets of the different banks and by the number of employees in 2021, in order to obtain two comparable indicators on the carbon footprint of each bank in the study.

The synthetic indicator used to jointly represent the information is the median, which manages to more efficiently represent the central value of all the indicators evaluated in the carbon footprint study.

Table 2. Tons of CO2 emissions equivalent/total balance sheet assets on 31/12/2021.

	Median of sample banks
Scope 1 emissions	14,64
Scope 2 emissions	0,07
Scope 3 emissions	21,56
Total emissions	**57,32**

Scope 3 emissions are where there is more disparity between the entities considered, but in general most banks, with more or less breadth and detail, report issues related to work trips, production and transport of consumed fuels, paper waste management and water supply, etc.

It should be noted that, in 2022, there is only one reporting entity, which definitively brings together the most relevant information in relation to banks' emissions, that being a first approximation of the calculation of emissions arising from the loan and investment portfolio.

Some of the banks indicate that they are carrying out a first estimate of emissions financed in business banking operations, and that they are also working on the estimates ofemissions from the mortgage portfolio. With all this, they hope to be able to submit information on the emissions financed by their credit intermediation economic activity, and have a complete first calculation of Scope 3 over the next few years.

Table 3. Composition of total CO2 equivalent emissions

	Median of sample banks
Scope 1 emissions	30,18%
Scope 2 emissions	0,12%
Scope 3 emissions	51,61%
Total emissions	**100,00%**

Table 4. Offset information

	Datos bancos muestra
Scope of offset emissions*	1-2
Percentage of total emissions offset	100.00%
Median tons of CO2 equivalent offset per entity	2.595,56
Number of offset projects	Between 1 and 4 projects per entity

**There are some banks that, in addition to Scope 1 and 2 emissions, also offset Scope 3 emissions.*

6.8. Comparative Framework on Marketed Green Products

The last component of the study is an analysis of the supply of green products, or those which have the label of sustainable, marketed by the ten banks.

The information in this section is purely qualitative, and the fact that the categorization of green products is carried out by each entity, based on their individual criteria, must be taken into account, since currently (beyond the EU Taxonomy and the different regulations in relation to investment) there is still no generally validated and agreed criterion of what can be considered a green or sustainable product.

From the aforementioned qualitative analysis, the information collected from the different websites and official reports has been grouped as follows:

- Green financial products for the banks' own financing (mainly green bonds or other forms of liabilities issued or subscribed by the bank with its creditors that have green sustainability characteristics).
- Green financial products for customer financing (such as green mortgages, eco or green loans for sustainable housing rehabilitation, green loans to businesses, etc.).
- Green financial products for customer investment (such as sustainable investment funds – according to the European SFDR Regulation – and sustainable pension plans).

In this way, the results of this section of the study are a cross analysis between:

- The percentage of types of green products marketed by each bank.
- The percentage of banks that market a type of green product.

Comparative Table 5. Marketed green products

	Percentage of banks that market out of the total banks analysed
Green bond issues	70,00%
Green mortgages Loans for the	70,00%
Leasing of capital goods	80,00%
Leasing	40,00%
Green loans to companies	70,00%
Green investment funds	80,00%
Green pension plans	90,00%
Planes de pensiones verdes	90,00%

6.9. General Conclusions of the Taxonomy Study

The publication and application of the EU Taxonomy signifies an important milestone enabling the environmental classification of activities according to established technical criteria (currently the Taxonomy focuses on environmental activities, although it has already begun working on a Social Taxonomy that expands the classification boundary of sustainable activities).

However, the fact that 2022 is the first year of application means that there is an initial period where the detail and specifics of information have to be consolidated.

All entities publish their exposure to eligible activities, but certain details still need to be standardized in the way the eligibility ratio is computed and calculated.

In relation to the data published in 2022, the average exposure ratio of eligible activities weighted by the assets of the ten banks is 33.13% (with 55.03% being the highest ratio and 24.07% the lowest) but, as we said previously, this ratio does not currently allow us to draw many conclusions about how banks are steering their cash flows in relation to sustainable activities.

The eligibility ratio depends on the limitations of the standard itself and whether banks stick with the mandatory approach or extend it to the voluntary approach (in relation to identifying whether the activities to which they have exposure are eligible or not). In this regard, basically, the qualitative information that this percentage can provide us is as follows: banks in which the retail business has more weight have higher eligibility ratios (due to the simple fact that current regulations require counterparties to report directly on the eligibility of their activity, and this information may be more difficult for company customers to obtain).

It will be from 2024 when alignment data with the Taxonomy will be published in relation to the activities to which banks have exposure, and it will be then when we can really assess how banks are steering their investment and financing flows in relation to sustainable activities.

The publication of CO2 emissions is not mandatory data at the Taxonomy level, but it does constitute the metric that is taken as a reference to measure climate risk; for this reason, all banks disclose information on their structured emissions in the three scopes, as well as on the offsets made.

The median ratio of tons of CO2 equivalent emissions/ total balance sheet assets on 31/12/2021 is 57.32. Total CO2 equivalent emissions are distributed as 30.18% in Scope 1, 0.12% in Scope 2 and 51.61% in Scope 3.

Scope 2 emissions refer to the use of electrical energy, and if banks only make use of renewable electrical energy in their offices and places of economic activity, they can state zero Scope 2 emissions.

Countries with greater international operability have significantly higher than average Scope 2 emissions (in general, in offices located in countries outside the European environment, only a part of the electrical energy consumed is of sustainable or green origin).

There are banks that distinguish between market-based Scope 2 emissions (energy consumed by each country, and whether it is green or not) and location-based Scope 2 emissions (the IEA emission factor corresponding to each country is applied for all energy consumed, regardless of its source of origin, renewable or non-renewable).

The calculation of Scope 3 emissions shows some divergences in relation to the induced emissions that are taken into account.

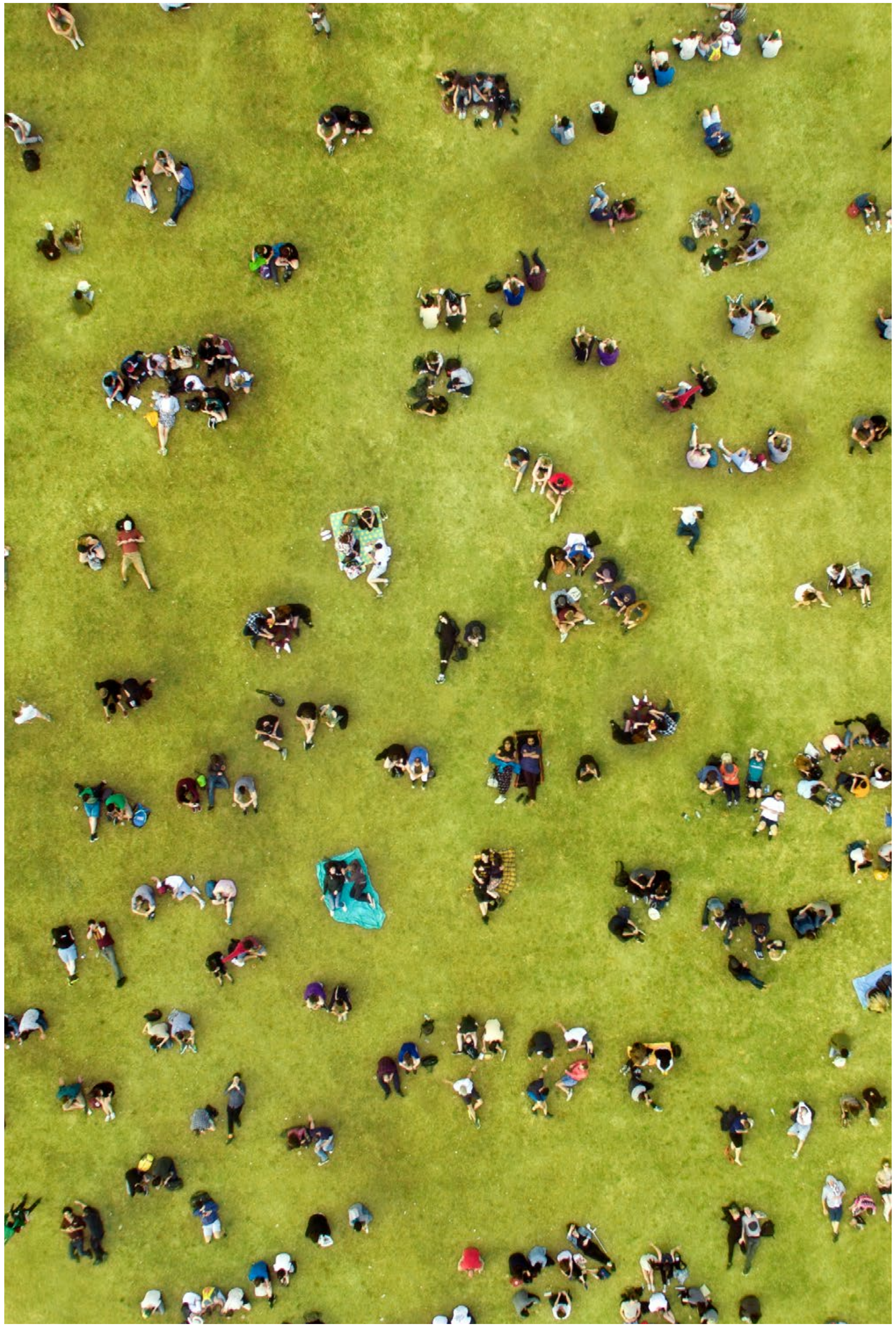
In relation to this scope, as we have commented previously, it is important to highlight that, in 2022, there is only one reporting entity, which definitively gives the most relevant information in relation to bank emissions, that being the calculation of emissions arising from the loan and investment portfolio.

However, as we have also mentioned in a previous section, there are some banks indicating that they are working on calculating estimates of their financial activity, and it is expected that most banks will be able to have a first full Scope 3 calculation over the coming years.

The total offset emissions reported is 255,010.66 tons of CO2 equivalent, although it is also observed that there is some disparity in the detail of information that is published.

In the section of “green” or “sustainable” products marketed, although the information is qualitative, not homogeneous and does not adhere to a formal normative categorization of what can be considered “green” or “sustainable”, we can see that all banks have a wide offer with the label of “green” or “sustainable” in the three categories in which we have structured the information (self-financing products, customer financing products and investment products).

6. Framework 3



7. Conceptual Comparison of the Three Frameworks Used

UNEP-FI, the association created by the United Nations Environment Programme and more than 200 financial institutions (of which some 150 are banks) launched the UNEP-FI Principles for Responsible Banking on 26 November 2018 in Paris. These principles have the fundamental objective of determining the role and responsibilities of the banking industry in the creation of a sustainable future, aligning with the Sustainable Development Goals approved by the UN itself and with the Paris Climate Agreement that was finalized in 2015.

The Global Alliance for Banking on Values is an international alliance of leaders and independent banking entities that share the goal of generating systemic change through financial activity. Founded in 2009, it is based on the Principles of Values-Based Banking.

The eligibility ratio has a very different genesis to the two previous frameworks, since it is an indicator that financial institutions must publish, on a mandatory basis, according to the Taxonomy Regulation of the European Union in 2022. This indicator establishes, in accordance with the technical criteria in the Taxonomy Regulations, the exposure that banks have with regards to

economic activities that contribute to the environmental objectives of the European Union in terms of mitigation and adaptation to climate change. From 2024, not only will the exposure to eligible activities be published, but there will be an obligation to disclose whether or not such activities are aligned with the Taxonomy. Unlike the two previous cases, this is not a voluntary framework based on principles, but data – accompanied by some other data – that will be mandatory for European banks.

In order to fully understand the way in which this study was prepared, the reading of its data and the scope of its recommendations, we have to fully understand the conceptual difference between the three frameworks used. As in almost all complex analyses involving exhaustive data collection and qualitative analysis in parallel, we could not deduce that this or that particular financial institution, or the financial sector of this or that country compared to another, is more responsible or acts better in terms of alignment with the SDGs just because it obtains a better result in one of the frameworks. Each of them measures what it measures, and means what it means and a reading on the total quality of the sector requires a holistic interpretation of the three realities analysed.

Let us first focus on the comparison between the two principles-based voluntary affiliation frameworks: the UNEP-FI PRBs compared to the GABV Principles of Values-Based Banking (hereinafter, PVB).

In general, we could say that the PRBs show the way for those financial institutions that want to follow a certain path towards a responsible strategy, while the PVBs are designed to collect evidence from those purpose-based entities that have already implemented in one way or another a concept of responsible banking. This fundamental difference is seen in the individualized comparison of some of the principles.

- The triple bottom line principle is clearly defined with the highest level of priority by the PVBs, which require their member banks to have percentages of assets in their loan and investment portfolio that contribute to social empowerment, environmental regeneration and economic prosperity in addition to the market average (People
- + Planet + Prosperity), but it is still more an aspiration in the PRBs which, in Principles 1 and 2, strategic alignment and impact and setting of objectives, give a series of recommendations to achieve a positive impact that can be measured using the UNEP-FI Portfolio Impact Analysis Tools for Banks, which has been recently launched and on which the signatory banks should prepare their impact information.
- There are specific references to the SDGs and the Paris Climate Agreement in the PRBs. In the PVBs, launched long before the SDGs were published or the Paris Agreement was signed, these frameworks are implicit in the TBL approach of the scorecard, which shows decades of intentional triple bottom line practices of these institutions.
- The PRB approach makes specific reference to the negative impacts of current banking practices, but is relatively silent on the question of the real economy mentioned explicitly in the PVBs and which, at best, is implicitly mentioned in the PRBs. This is a fundamental difference, since the PVBs require banks to comply with them, with a very high part of the assets invested in the loan portfolio to companies, projects and individuals, minimizing investment in any other type of assets that could be considered as a "financial economy" of a particularly speculative nature (more than two degrees removed from activity in the real economy according to the GABV conceptual framework). The premise behind this is

that banks must use the vast majority of the resources received from depositors and shareholders in the direct financing of activities and companies that boost the prosperity of communities and countries, and not in the financialization of the economy. Thus, this could give rise to the paradox that an entity that had a very good rating according to the PRBs has dedicated a very low percentage of its balance sheet assets to the financing of productive activity. Dedicating bank assets to significant lending and funding these assets through deposits is inherently healthy, and minimizes systemic risk.

- Both principles focus on customers with the aim of helping them become more values-based, and encouraging companies and individual customers to become more aligned with sustainability goals.
- The PRBs do not include or refer to the long-term resilience of the financial institution itself, like the PVBs do. Although it is not something that is directly related to the achievement of the SDGs, we must recognize that the more solid and solvent financial institutions are, the better their reputation will be and the more credible their requests to customers and society in general to align their actions with the SDGs. The fact that the PRBs do not incorporate this explicit reference is a possible aspect for improvement for that framework, but it should not be of concern practically speaking, because all credit institutions, in this case, the ten Spanish companies under analysis, are subject to a strict supervisory framework led by the European Central Bank, which ensures an adequate financial performance of the entities.
- Both sets of principles focus on transparency and, more importantly, the PRBs state that banks should be transparent and accountable for the positive and negative impacts of their activities on society, and give a number of recommendations in this regard.
- Both focus on the importance of integrating principles into a bank's culture and governance. The PRBs are designed for banks that are on the road to sustainability, while the PVBs capture the essence of banks that are already focused on values-based banking, and have been on that path for some time.

The PRBs are a very useful and positive starting point for conventional banks and other lenders to delve into a more responsible approach to banking. The GABV Principles are most appropriate for banks that are already sufficiently committed or established as value-based banks. Comparing the two approaches, the requirements for goal setting of the PRBs leave some room for interpretation, while the requirements of the PVBs, measured through the GABV

Scorecard, are much more sharp and reflect the reality of entities that are already banking in a certain way better than those that are putting their systems in place to promote change, but that in terms of balance sheet status, are still far from having a portfolio with transformative assets, or at least, assets aligned with the SDGs in a significant way.

However, in other aspects, both frameworks (PRB and PVB) are similar: transparency, governance, culture or customer relationship, the vision of the PRB is to make a series of recommendations for policies and procedures that must be implemented so that a bank can align with the PRB and increase its positive impact; the PVBs, however, directly analyse the evidence that these policies are already implemented and in operation with a sufficient verifiable success, and most importantly analyse that there really is transformation of the economic paradigm that operates in the communities in which these institutions exist, due to their credit policy above all.

As far as the Taxonomy is concerned, in its current regulatory development, it has focused on activities that significantly contribute to climate change mitigation and adaptation. Work is underway to complete the rest of the environmental objectives (circular economy, water management, biodiversity and pollution) and the social taxonomy.

The percentage of exposure to eligible activities is a fundamentally different framework than the previous two. First of all, we refer to a specific ratio (accompanied by a series of

additional information) that has an objective related to compliance with a regulatory framework and not to the evaluation of a business model based on a set of principles, which always have a certain level of interpretability. As such, we are faced with much colder data that allows us to give an approximation of to which point a bank is complying with the EU taxonomy and is funding eligible assets.

Certainly, the eligibility ratio has its limitations and there are points that can be improved. It is an indicator controlled by a regulation, where criteria are established to determine which activities "are eligible" and which are "ineligible", and which is at an initial point of implementation that will be more detailed and expanded in the coming years through the development of the regulatory framework.

Among the ineligible activities, we find those related to SME financing, which is an essential part of the financing of the real economy and which is an important factor in aligning the productive economy with the SDGs. The non-inclusion of SMEs in the eligibility ratio is a fundamental problem of the first order, given that, in most economies of the world, SMEs play an important role and contribute substantially to the generation of GDP.

Additionally, the fact that the eligibility ratio rests on the EU taxonomy is both an advantage and a weakness. The advantage is that it is not debatable; the standard dictates a series of activities and sectors that fall within the taxonomy, and others that do not.

Everything is very clear, perfectly comparable in the medium term, once the entities have aligned their reading of what they consider are eligible activities based on the taxonomy. However, this advantage is then transformed into a certain weakness for two reasons:

1. The European Taxonomy at the moment incorporates some activities that do not enjoy the full support of civil society in Europe and that, at least, we could qualify as debatable, such as the generation of electrical energy through the use of natural gas or nuclear reactors. Furthermore, up to now, and despite the fact that the Taxonomy mentions that eligible activities must meet minimum social standards in order for such activities to be considered, it is very difficult to say that the Taxonomy – and its related indicators – incorporate social aspects, which limits the transformative interpretation of eligible activities to environmental aspects, leaving aside other considerations.
2. The fact that the EU Taxonomy is based on activities and sectors impoverishes the analysis and interpretation of the eligibility ratio, since a project or company is eligible merely because it falls within a certain sector, without taking into account the peculiarities of its value chain, nor without the lending bank necessarily having made a complete deliberation on the alignment of the borrower's business model based on the integration of ESG criteria in the assessment of the eligibility of each borrower.

We can understand the composition of the eligibility ratio at present, its context and its limitations, but certainly the European authorities should reflect on how to develop this ratio in the future so that the mere reading of the figure, together with the rest of the aligned data which are the object of the report, will suggest that the behaviour of the financial institution that publishes it is in no doubt aligned with the transformative policy of the EU. Creating a simple battery of highly explainable ratios is probably an

appropriate line of work.

Basically, the indicators used by the GABV Scorecard to calculate the triple bottom line assets of values-based banks are not so different, in their mathematical essence, from the eligibility ratio. The fundamental difference lies in two aspects. In the case of the PVBs, the "eligible assets" are compared with all the assets of the entity, while, in the case of the eligibility ratio, there are a whole series of assets that are not considered. In addition, from the point of view of Taxonomy, as mentioned above, the allocation of eligible activities is provided by the

activity of the business. In the case of the GABV, on the other hand, when we talk about TBL assets we are referring to those that are derived from an in-depth analysis carried out for each type of asset by the bank's own services and analysed based on the main challenges of the community in which the entity is located, and the TBL view of the positive impact of each borrower or portfolio. Therefore, there is also a fundamental difference in the numerator of the ratio. The TBL allocations of the GABV bank portfolios could be subject to an independent external audit.

In fact, one of the key points in the PVB model is precisely the high weighting given on the scorecard to the factor called TBL, or percentage of assets of each financial institution that finance companies or projects with triple bottom line. The model overweights entities that have a strong and solid portfolio in this area, that is, that have already taken an important step in sustainable banking and financing of companies aligned with the SDGs. We are therefore faced with a way of understanding banking activity that rewards the financing of activities already considered transformative based on the analysis of the needs of the country in which each financial institution studied operates.

The table below is intended to give a summary of the main conceptual differences among the three frameworks used:

Concepto	PRB	PBV	Ratio de elegibilidad
Essence	Based on principles	Based on principles	Based on rules
Purpose	Recommendations for the way	In what state are those who already do responsible banking and how do they accelerate their impact	Regulatory compliance
Focused on	The way to go	The ideal destination according to a model of understanding	Alignment with the EU Taxonomy
Real economy	Not explicitly contemplated	It is a fundamental factor	Partially contemplated. SMEs are excluded, among other activities
Assets aligned with SDGs	Indications are given on KPIs to be communicated and reporting, but the percentages of assets are not yet included in the PRBs	It is very sharp and focuses on a high percentage of TBL assets. TBL portfolio classification is complex and requires detailed information, which is a limitation	This is the heart of the eligibility ratio, but SMEs are excluded. The focus is on the classification of the activity, and not on the value chain, which is a limitation
Transparency/Culture/ Customer relationship	Collected based on recommendations and processes	Collected based on best practices	Not collected
Financial resilience and systemic risk mitigation	Not explicitly collected	Explicitly collected	Not collected

8. Limitations

In the field of social sciences, any study has certain limitations. This is also so for the case at hand, although we understand that the main conclusions and recommendations are totally valid.

An important element is that the study has been carried out based on public documentation submitted by the entities analysed, to a large extent audited or verified by third parties, although the details concerning this documentation have not been directly checked with the entities analysed, and consequently it has not been possible to fully verify the quality of the information, nor has it been possible to complement it with other data that could have been provided by each entity and which would have allowed a better assessment.

Due to the previous point, in relation to the transparency of the entities, it has not been possible to thoroughly look into those aspects related to their risks, and more specifically into the assessment of their negative impacts.

When disclosing non-financial information, entities do not explain the number of customers who have financing products or the number of customers who have investment products. Loans are also not classified by activities (purpose of the loan) or by sectors, nor is the investment in eligible activities made clear according to the Taxonomy. This makes it difficult to be able to confirm banks' alignment with their sustainability commitments.

There are different definitions and grades of sustainability and sustainable product, which complicates the correct implementation of the changes proposed by the Community directives.

It is important to mention that the study has certain limitations when adapting the information in the annual reports of the banks analysed with the data required by the GABV Scorecard. This requires a high level of detail, and the fact of working only with public information has the disadvantage of assuming certain considerations and hypotheses that could affect the result of the study.

The scope of the EU Taxonomy is itself limited in several respects:

- The EU Taxonomy has identified a limited number of economic activities that are eligible. Coverage will expand in the coming years. Although many of the financed activities, such as renewable energy and other sustainable activities, are within the scope of the Taxonomy, a significant part of the financed activities, which could be considered within the scope of ESG criteria (in sectors such as healthcare, education, sustainable agriculture, etc.) are currently outside its scope, as they are (still) not eligible at the moment.
- SMEs – which make up a significant part of the loan portfolio – are outside the scope
- 8. Limitations of the Taxonomy (the scope of the EU Taxonomy has been narrowed to include only large companies subject to the directive on non-financial information).
- As 2022 is the first year in which the counterparties of the non-financial reporting directive provide direct feedback on their results with regard to the Taxonomy, some banks may not be in a position to be able to carry out mandatory disclosure using direct customer information during the 2021 financial year. This means that mandatory disclosure figures could be limited due to low exposures with respect to entities that are required to report under this directive.
- Some banks choose to supplement mandatory information with voluntary disclosure information with regard to the EU Taxonomy, which uses NACE counterparty codes and customer impact data to estimate whether they are eligible under the Taxonomy. This is a positive aspect, but it generates diversity of interpretation.
- All entities submit the information required by the Taxonomy on the eligibility ratio, but since they are able to separate between mandatory and voluntary information for the calculation of the eligibility ratio in 2022, not all banks explain the details of how they calculate said ratio.
- In the denominator, although the regulation establishes that exposures to central governments, central banks and supranational issuers must be excluded (therefore retaining total hedging assets), the truth is that many institutions do not detail their calculation of the aforementioned denominator, and it is not clear whether they use total balance sheet assets or total hedging assets.

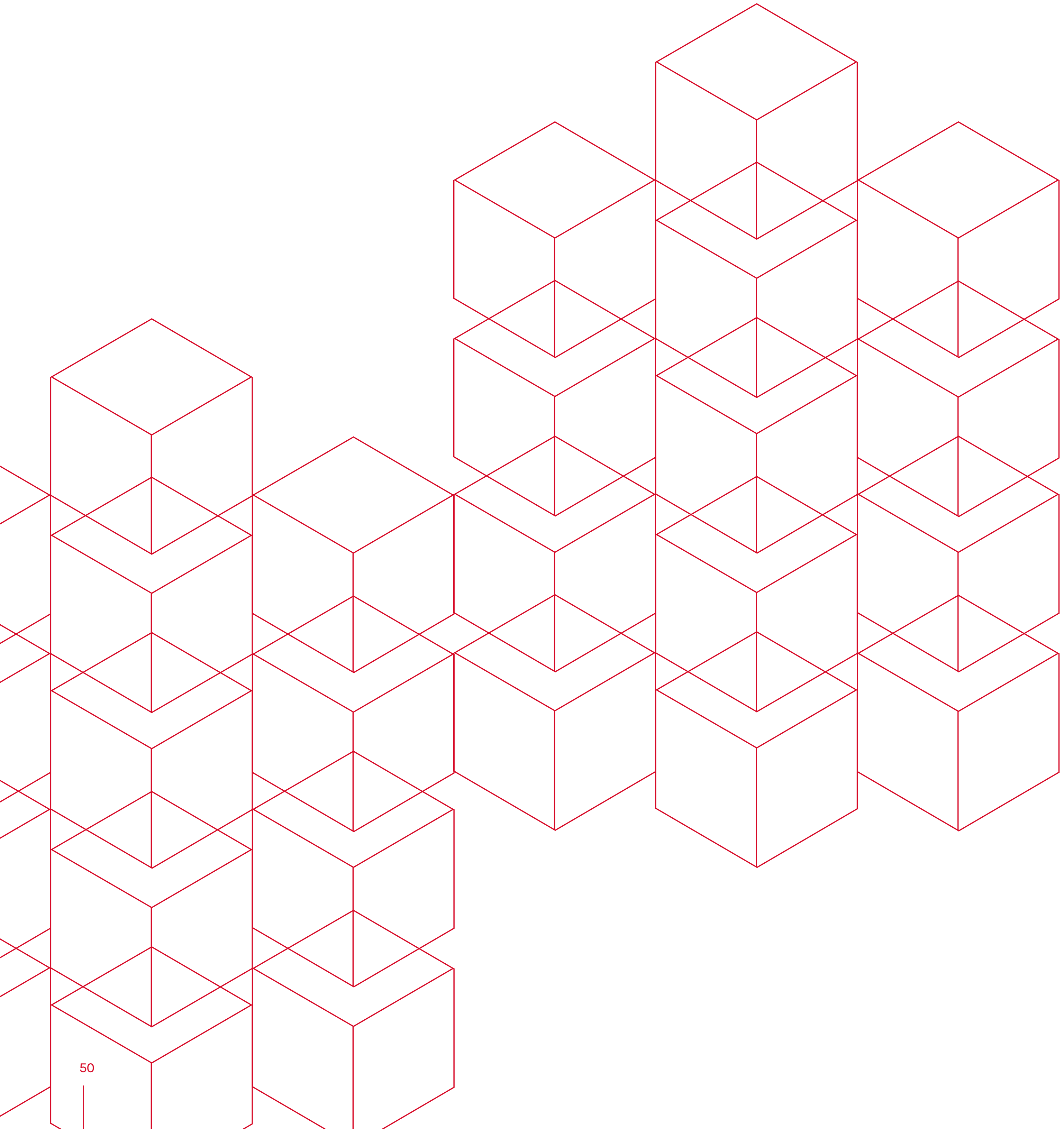
In relation to information on carbon footprint emissions:

- There is homogeneity in what are considered Scope 1 and 2 emissions, but with regard to Scope 3 emissions, there is a certain disparity between activities included by the different entities.

In relation to the analysis of green/sustainable products marketed:

- The information in this section is purely qualitative, and we must take into account that the categorization of green products is carried out by each entity, based on their own individual criteria, since currently (beyond the EU Taxonomy and the different regulations in relation to investment products) there is still no validated and agreed general criterion of what can be considered a green or sustainable product.

9. Conclusions and Recommendations



We are aware of the limitation of the public data used in this first edition of the study, in which we took as a sample for analysis those banking entities that are signatories to the Principles for Responsible Banking (PRB) of UNEP-FI domiciled in our country, with data from 2021.

Due to EU mandates and deadlines given to the PRB signatory banks to integrate some of their recommendations into their reporting scheme, we understand that data sources in successive years, especially from 2024 onwards, will allow a more detailed and fine-tuned study to be carried out in the future.

We believe, however, that although, as detailed throughout the study, the research team has had to work on various methodological assumptions to infer information in some areas in which the entities' reports were still not sufficiently clear, the publication of this first report Perspectives on Responsible Banking, Spain 2023, is more necessary than ever. In the last two years, Spanish banks have embarked on a path to position themselves in the world of sustainable finance. This is a very long road that requires organisational determination and willingness on the part of shareholders and management bodies, as well as a profound change in the culture of banks that cannot be achieved in a short period of time.

It takes many years to build the right foundations and there is a great danger that that path will end up littered with burnt-out fireworks rather than meaningful realities. Hence the launch of the first edition of this annual study, although – we repeat – some data has had to be inferred that does not appear clearly in the reports made by the entities. The study aims to support the sector to visualize the path to a more genuine sustainable banking from a holistic viewpoint, seeks to generate reflection on inappropriate marketing practices and wants to accelerate a positive change in the Spanish financial sector.

The study also aims to position itself above the continuous hyper-technical dialogue that dominates the ecological transition and which, in the vast majority of sectors and activities, has been transformed into a gibberish of initialisms and acronyms that only some experts understand.

This analysis is at its core. That is to say: what do we talk about when we talk about responsible banking?

This document can also be of help to regulators, legislators and rating agencies, and even to those responsible for the frameworks themselves, which have been used in the analysis. It allows us to reflect on what is measured, why it is measured and what that measurement means, especially with something as sensitive as the fact that a financial entity can classify itself as "green", "responsible", "sustainable" or any other similar adjective before the society it serves, with all that that entails.

In this first edition, and probably throughout one or two more editions, until the reporting systems of the entities are fully adapted to the requirements of the EU, the study offers weighted data on the behaviour of the average of the sector in Spain (the country's banks that sign the PRB) and, at times, observations that are at the extremes, without identifying the name of the entity, but we do not have data for each bank. In future editions this will change, and data will be provided for each of the banks that will allow evaluation by institution. In any case, in this first edition and in the following ones, we will observe if the Spanish banking sector is heading towards a different paradigm of what we will call responsible banking and if it does so in a progressive and appropriate way.

Since, for each of the three frameworks analysed, a brief section of specific conclusions has been written, in this final section we will try to compile a global view that includes the main inputs of the three blocks and, interpreting what each of them really measures, provide a holistic vision.

Whereabouts is the sector regarding the concept of "responsible banking"?

The evidence collected allows us to affirm that the sector has just begun on the path with good momentum, but it is still far from being able to use the label "responsible banking", if we understand this as being granted based on sets of substantial and percentage-important evidence in view of the total of activities of the entities: operations, loan and investment portfolio, etc., that would allow this statement to be supported, above and beyond a market ploy.

There are positive elements that reflect this "starting momentum". Many of the Spanish banks that signed the UNEP FI PRBs have taken concrete steps to implement these principles. Some have set specific goals to reduce their carbon footprint or to fund renewable energy projects. As we have seen, entities offset Scope 1 and 2 emissions at 100% and are on track to also manage, offset and report Scope 3 emissions in the future, although there are still no significant movements in terms of greenhouse gas (GHG) emissions driven by the loan and investment portfolio, which would undoubtedly be the most important part to obtain.

It should also be noted that some of the entities analysed, in addition to being signatories of the PRBs, have joined the commitment to measure and report the GHG emission of the international PCAF (Partnership for Carbon Accounting Financials) initiative. In this way, they have already established their strategy to align their portfolios with the goals of the Paris Agreement. It should also be remembered that eight of the ten signatories of the PRBs are members of the NZBA (Net-Zero Banking Alliance), a sister alliance of the PRBs made up of banks that have committed to reaching net zero in total CO2 emissions, by 2050. Other entities have implemented policies to avoid financing projects that are harmful to the environment or that violate human rights, and most entities market one or another type of green products, although there are hardly any cases of entities that market products that we could consider of a social nature.

The rating obtained by the sector in terms of following the UNEP-FI recommendations for the implementation of the PRBs could be defined as medium-high, especially among larger entities who have more resources to devote to these needs. Although all this is positive and the involvement of the members of the boards of directors and management teams in the deployment of the recommendations is very commendable, it should not be forgotten that the identification and assessment of impacts – especially negative ones – linked to the activities and objectives of the entities is in a very incipient phase. We still do not know enough about something so crucial.

It is also necessary to point out, regarding compliance with the PRBs by the signatory Spanish banks, that their implementation is a continuous process. At the moment, UNEP FI publishes on its website the reports of each signatory institution, which is clearly good practice. However, although UNEP FI provides private feedback on the reports received to the signatory banks, it does not yet offer a public assessment of compliance with the principles by the signatories, nor on the practical positioning of each one in this process of change. *The Responsible Banking Foundations*[1] document, a collective report on the progress of the signatory banks, shows the aggregated progress made by the signatories worldwide, together with some data, also very aggregated, of potential impact.

This rather positive view, when looking at the PRBs and some other indicators, is somewhat overshadowed when looking at other ways of analysing reality. Commitment to the PRBs is, above all, on paper. It deals with policy design, assumption of goals, impact measurement commitment, etc., but many of those measures will take quite a few years to have a substantive impact on the balance sheet of the entities, if they do finally. Therefore, with regard to more demanding measurements, such as the eligibility ratio itself or the GABV Scorecard, based on the Principles of Values-Based Banking slightly different realities.

1 Responsible Banking: Building Foundations. The first collective progress report of the UN Principles for Responsible Banking signatories. https://www.unepfi. org/banking/more-about-the-principles/progress/prb-collective-progress-report-2021/

9. Conclusions and Recommendations

In this ratio and, despite the limitations that it presents and which have been pointed out in previous sections, we see that the weighted average for the assets of the ten banks is 33.13%. The EU Taxonomy was published in 2020 and started to be implemented in 2022; without a doubt, this is an important milestone for beginning to categorize and promote sustainable activities, which starts with an obligation to provide information focused on the eligibility of their exposure although with some limitations when classifying the activities that are today considered eligible, but which will be developed and expanded gradually, so that in 2024 there will be information not only on the

eligible activities, but also on those that are aligned or not with the Taxonomy, and we hope also with the implementation of a Social Taxonomy that expands the boundary of sustainability.

To a large extent, banking is its balance sheet structure, how the entity decides to finance itself and what it decides to do with its assets. Therefore, one of the fundamental elements that make a bank qualify as sustainable or responsible or any other similar label, is precisely the percentage of its total assets dedicated to lending to sectors and companies that have a positive environmental and social impact or, at least, a neutral impact. It should be noted that, in the reading of the Principles of Values-Based Banking, to be classified as Triple Bottom Line activities in a bank's portfolio is much more demanding than the interpretation of the eligibility ratio, since it only considers activities with a positive impact on environmental and social aspects or those that have a positive impact well above the average of what is usual in that market, as long as they are solving a clear social or environmental problem in the communities in which the bank operates.

In 2022 all financial institutions complied with the obligation to report exposure ratios to eligible and ineligible activities, but we can also conclude that, in any case, the relatively low numerical percentages that were published do not allow us to draw many conclusions as to how these entities implement sustainability.

Current eligibility ratios allow us to infer that the percentage of the assets of the entities that are dedicated to financing the transformation is still low and can be improved.

It should be noted that, from 2024, the eligibility ratio will be replaced by an update, the so-called Green Asset Ratio (GAR), which will allow a clearer vision, although still with certain limitations. It will then be possible to better assess how banks are directing their investment and financing flows to sustainable activities.

What is already intuited when using the eligibility ratio is even more evident when using the GABV Scorecard based on PVBs which, in addition, as we have commented above, would not accept some of the activities that the EU Taxonomy accepts, which makes it even more demanding. The ratio of TBL loan portfolio to the total loan portfolio of the entity has a fundamental weight in the ratings obtained, designed to measure the excellence of banks already installed in a business model self-described as values-based banking. The sector scores relatively low at the national level precisely because the percentage of its balance sheets destined to finance economic activities with positive impact is still relatively little. It is commendable, however, that some of the analysed entities show a more than interesting performance in that section.

The PBV model also places emphasis on the financial resilience of the entities themselves and especially on the fact that the entities dedicate a substantial part of the total assets on their balance sheet (above 60–65%) to lending to companies and individuals, which limits the resources allocated to other activities, some of which, such as investments in financial instruments of the public treasury or in the interbank market, would undoubtedly be necessary to maintain good indicators in areas such as liquidity. Others, such as certain types of investments in organized markets or derivative products, could be more debatable and can be considered to be of a speculative financial economy nature.

A high ratio between loan portfolio and total assets minimizes the possibility of banks positioning themselves in activities not directly linked to the development of prosperity from purely productive or service activities.

The PRBs and PVBs agree on some principles, but they measure very different things. PVBs focus on a way of understanding banking that is more focused on communities and service close to the local area, not only on the values that inspire it or on the transformative capacity of its balance sheet. Hence, in its measurement system, certain aspects are overweighted.

Precisely for this reason, the sector in Spain rates medium-high in following the PRB recommendations, rates medium-low in a reading of its eligibility ratios and rates relatively low in a hypothetical compliance with the holistic principles of values-based banking.

As a summary, we could say that the sector has begun to take appropriate measures and in the right direction. The sector should be congratulated for this drive and initiative, but it must also be recognized that it still does not show enough significant evidence, in the sense of the eligibility ratio or the measure of negative impacts of financial activity in relation to the overall size of balance sheets, or in the more holistic sense of the vision of the PBVs, to categorically affirm that this is responsible banking.

9. Conclusions and Recommendations

Recommendations for the sector

El presente apartado propone una serie de rThis section proposes a series of recommendations after the joint interpretation of the sector results using the three analysed frameworks. The basis for these is found in the partial recommendations given in the section corresponding to the analysis of the behaviour of the sector in relation to the PRBs, but they have been adequately qualified based on the rest of the observations of the other two frameworks and on their meaning.

The main aspects are still the composition of banks' portfolios of assets, the identification of types of investment and products, as well as customers and projects that can and should be financed in accordance with the SDGs and the Paris Climate Agreement. All this is of fundamental relevance, since it builds what we could call the "real economy", and clearly defines the role of banking in creating the society of the future. In general, the sector as a whole does not yet present sufficient, comparable and credible information on what part of its assets finance transformative activities and what part is used to finance other types of activities, or is simply used to invest in financial assets.

Despite the many advances that the sector shows in complying with the recommendations of the PRBs, this crucial aspect still has a long way to go. In fact, with the information we currently have, it is not possible to clearly identify the negative impacts of the sector's activity in relation to the SDGs and the Paris Climate Agreement and, with regard to the positive impacts, the information is relative and unconnected.

It would be useful to delve deeper into the Principle of Transparency and, in a manner agreed upon in the sector and/or according to current or future guidelines of the PRBs themselves and their compliance guides (there are already, published by UNEP-FI, tools that can help when building indicators), create a simple battery of indicators that could be monitored to inform stakeholders and society in general about the positive and negative impacts of each bank and the sector (always according to the total size of the balance sheet of each entity). There are positive precedents for agreements in this type of area in the Spanish banking sector, such as the Collective Commitment for Climate Action, signed in December 2019 by the main banks operating in the country.

Continuing with the Principle of Transparency, as we have already indicated in previous sections, it would be advisable to delve into those aspects related to the risks that non-alignment with the SDGs can cause in the sector and, more specifically, in the assessment of its negative impacts.

Transparency must also be interpreted in a very particular way. It is not enough to fill in countless documents with data and indicators that cannot be interpreted by non-experts in the field for the reports required by current regulation.

The creation of those simple indicators (few, clear and well explained) which reflect the true reality of the sector in the face of the challenges posed by the SDGs, is a fundamental aspect. This would be data that can be interpreted by any average citizen and is hardly objectionable. An example could be the use of data based on the TBL concept managed by the GABV, which allows the classification of portfolios to be grounded in the three dimensions of social strengthening, environmental regeneration and economic prosperity, which are also easily aligned with the SDGs.

The sector must anticipate the possible evolution of the new European regulations on ecological claims[1], which aims to fight against greenwashing while protecting consumers and the environment, through a clear and simple transparency policy that reflects the true reality of the negative, neutral or positive impact generated by the bank.

To finish this section of recommendations for the sector, despite the adequate level of initial compliance with the twelve main recommendations that the PRBs indicate for suitable development of the fifth principle, "Governance and Culture", the sector in general should constantly review compliance with this group of recommendations, especially R1 – Integrate sustainability into a clearly communicated statement that links environmental and social issues with the vision and mission of the bank, with clear support from senior

1 Proposal for a Directive on ecological claims adopted by the European Commission in March 2023. https://environment.ec.europa.eu/topics/circular-economy/green-claims_en?etrans=es

executives, and R2 – Integrate sustainability values and ethics into the bank's day-to-day operations and culture through everyday policies, processes and practices such as gender equality and equal pay, climate-friendly transportation options, sustainable and inclusive procurement practices, etc.

The purpose and business culture are not changed or implemented, especially in large institutions, in short periods of time. Establishing a new purpose or a new business culture linked to ethics and sustainability is a matter of years, of determination, of effort, and of constant and coherent measures. Despite the current adequate level of compliance with the recommendations related to the fifth principle of the PRB, we are in a very incipient phase of their application, and entities must be very aware of the real, day-to-day evolution of what happens in their institutions in terms of purpose and culture.

It is true that, according to globally aggregated data published by UNEP-FI[2], about 94% of the signatory banks to the PRBs that had submitted their monitoring report had taken steps to integrate sustainability as a strategic priority for the organization. This being an important fact, it must be emphasized that integration and strategic priority does not mean the same as adapting the purpose and mission of the financial institution to a different vision of what society should be. A strategic priority is something that can be altered, but an entity's purpose is much more stable, more transformative, more related to culture, and much more complex to modify.

Purpose and company culture is a crucial aspect for achieving objectives which are much more transformative and measurable in other areas in the medium and long term, but it is also a more fragile and fickle aspect that can be easily truncated due to lack of coherence in governance and management models, is difficult to measure by quantitative indicators and, therefore, requires constant attention

2 Responsible Banking: Building Foundations. The first collective progress report of the UN Principles for Responsible Banking signatories. https://www.unepfi. org/banking/more-about-the-principles/progress/prb-collective-progress-report-2021/

Recommendations for regulators, legislators, independent agencies and other stakeholders

In general, legislators and regulators, especially in Europe, tend to design overly complex systems and models for regulating economic activity, based on the creation of mandatory reports and the publication of figures and ratios that each entity, in the case of banking activity, must comply with, and that are relatively simple to follow by the regulatory body in charge.

This type of regulation, well-intentioned without a doubt, but heavy, complex and excessively oriented towards compliance with certain observable data and very focused data, may sometimes be biased towards processes, and does not always contribute to an improvement in the responsibility of the entities. The type of regulation we have creates culture and there is a risk that the sector will focus on how to meet regulatory minimums rather than in reconsidering the essence of institutions' business models. In addition, and contrary to how it may seem, heavy and complex regulation does not always favour authentic transparency.

Although the above statements may be true in many other areas of economic activity subject to regulation, in the case of monitoring banking activity and, more specifically, in compliance with the obligation to provide information on the percentage of assets of a bank that are intended to finance eligible economic activities, as defined by the EU Taxonomy, it must be acknowledged that, for once, the regulator has opted for succinct and clear information.

We have given, in previous sections, some idea on how the eligibility ratio (and potentially its successor, the GAR) and the information that accompanies it could be improved, to make its meaning clearer, so that it is easily interpretable by the general public. However, and despite its need for improvement, we believe that the concept of eligibility is on the right track to prioritize simple and clear data and information that makes regulatory work simpler and communication with stakeholders more transparent.

But a simpler regulation does not mean that it is less rigorous.

As a last generic and especially relevant reflection to move the banking sector, with hundreds of years of history and a very well-established culture, in the direction of a paradigm shift oriented towards sustainability, we are lacking a model of regulation based on incentives and recommendations that make possible profound changes in purpose, organizational culture and business model in Spanish institutions and not so much in compliance with cold data.

We must not forget the almost absolute correlation between the concept of responsible banking, as defined by UNEP-FI, and the application of ESG (environmental, social and governance) criteria in management. Of the three criteria, the G of governance is undoubtedly the most important, because it is the high-level instrumental lever in organizations, which allows the other two to be moved. A hybrid model that combines the transparent sample of a few, significant and simple pieces of data which allow us to evaluate the progress of the sector in the financing of social and environmental activities, together with measures that encourage and ensure a robust and appropriate governance model that creates a culture of responsible banking in institutions is probably the most appropriate option. There is some way to go in this line of action.

The PRBs should consider, in the medium term, redefining the principles themselves, and putting more emphasis on the evidence and on the collection of results of the signatory banks, to put the focus not only on the way forward, but also on the signs that the signatory banks are beginning to show results based on the figures of financed activities according to their balance sheet statements.

Another aspect that could also be interesting to reconsider is that of giving much more weight than they have so far to elements linked to purpose and culture, which allows for more lasting and solid transformations than the mere integration of sustainability as a strategic priority.

We understand that the PRBs are geared towards driving the transition towards a more responsible and sustainable banking model, and that this implies that, for quite some time, the balance sheets of the signatory banks will show chiaroscuro in the composition of their assets. The reality is these hybrid situations can only be understood through transparency, explaining what the situation is like at all times and showing whether the sector, and each entity in particular, are making adequate progress year after year towards the agreed objectives, especially with regard to the decarbonisation of the economy.

At the beginning of 2023, a medium-sized German bank, which is very focused on sustainable and community banking, withdrew from the PRBs and its sister organization, the NZBA (Net Zero Banking Alliance), in protest at the fact that several of the large signatory banks maintain the financing of important infrastructures linked to the production of fossil fuels in Africa. Although it was an isolated event, it was a wake-up call for the PRBs to accelerate their implementation and increase their demands on entities.

Finally, a last recommendation about the PVBs and GABV Scorecard that allow us to measure to what extent a financial institution acts effectively based on those principles.

As we have already mentioned in previous sections, we are faced with a framework radically different from the others, since it focuses on very particular, purpose-oriented banks and credit unions that, for decades, long before all kinds of acronyms and concepts that are in vogue today (ESG, PRB, etc.), have advocated for a different kind of bank. The PVBs must be open to welcoming into their alliance other credit institutions from different countries, and also – why not? – from Spain, which show sufficient levels of performance in compliance with those principles.

Undoubtedly, there may be some of the current Spanish entities that are signatories of the PRBs that are close to qualifying within the framework of the PVBs. In any case, the PVBs must continue with their function of being a beacon for the sector, maintaining levels of demand that, currently, are not within the reach of much of the banking sector in the world, but they must also adapt their vision to the advances that will undoubtedly occur in the field of sustainable finance and purpose-oriented financial institutions.

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