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Environmental, Social and Corporate Governance criteria: Analysis of the Banking Industry

End of Degree Project: Business Administration and Management – Academic year 2018-2019

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1 INTRODUCTION

1.1 Election of the topic

Environmental and social issues that are part of our society have been in my mind for quite some time and I actually did not know that there were such concepts other than Social Corporate Responsibility when it comes to corporations and businesses. I have always thought that a lot of the companies appear to be sustainable but they are really not. My interest in the banking industry has risen since I started my internship in a bank (Laboral Kutxa) in February and I am currently working there. This has helped me understand a little bit how the banking sector works in a daily basis and how important banks are for the community, society and economy.

Due to my interest in the environment, society and the banking sector, I have decided to make a combination of both and do my End of Degree Project about ESG criteria and see how those work in the Banking Industry.

As it is usually pretty hard to get information of smaller companies, I will take advantage that I am part of the staff (Laboral Kutxa) to get information about their current strategies and future strategies when it comes to ESG. I would also like to make some recommendations for the company in order to keep growing and incorporating ESG aspects in their strategies.

1.2 Background.

Humankind's awareness of its dependence on the environment goes back to the very beginning of human history. Through the centuries, the scale degree and location of environmental problems and awareness have evolved.

Business ethics and approaches to better forms of leadership of companies have been a topic of growing interest for the last years (Crane & Matten, 2010); (Fisher & Lowell, 2009). Over time, and with so many unethical behaviors coming out, like balance sheets that were manipulated, people started demanding a more ethical business behavior. However, since 2008 the markets have had to deal with another banking, finance and Euro crisis that is still happening. Perhaps, the situation is a lot better today comparing to what it used to be (Bachmann, 2017).

Although many people thought that since then the unethical behavior of corporations could not get any worse, they soon found out about new scandals like personal failures of figures like Bernard Madoff who's persecutors estimated the fraud to be worth 64,8 billion dollars. They had to confront the situation along with the global crisis, of which the Fukushima incident was one of the prime examples. This also included government misdemeanor. It became clear that it was no longer just a matter of incidents, but that the existence of all of humanity was threatened by a silent global environmental crisis.

Events like that rose questions about the efficiency exercised by public authorities. Having a growing number of corporate and public scandals taking place, again the interest in corporate social responsibility (CSR) and ethics rose.

Business ethics and CSR became popular topics in the media, of interest to journalist and many non-profit organizations were formed to promote consumer protection and highlight environmental and transparency issues (Göbel, 2010) (Clausen, 2009).

At the same time, people started realizing that there were rising environmental problems all lead by the society's unconsciousness and corporate environmental misconduct. Major current environmental issues may include climate change, pollution, environmental degradation and resource depletion. It is true that until the society has been able to see how those issues are leaving evidence in the planet, individuals have not started changing habits. For example, most of the supermarkets in Spain did not stop giving plastic bags until a few years ago.

Along with the environmental problems, social issues in corporations have been part of our society since the Industrial Revolution. The working conditions of workers have been something that has been fought since 1810, when the first labor organizations started bringing together workers of divergent occupations, and then in 1818 possibly the first Trade Union was formed in Manchester, the General Union of Trade. Although a lot has been achieved historically, these issues of corporations are still being fought by Trade Unions nowadays and will be in the future.

Every country in the world has established a complex system of laws and institutions intended to protect the interests of workers and to help assure a minimum standard of living for its population (Botero, Djankov, Porta, Lopez-de-Silanes, & Shleifer, 2004). Perhaps, we all know that there are enormous differences in the legislation of countries and also when it comes to employees' rights. This way, and taking into account the globalized economy that has been created lately, corporations have taken advantage of these differences and have created a high number of sweatshops all over the world with poor working conditions.

So, we could say that environmental, social and corporate governance problems have been part of our society for a long time, although nowadays there is a bigger concern within people. That is why ESG is becoming more and more common for investors and corporations. Perhaps there are controversies when it comes to the effectiveness of the scores in ESG factors.

The path towards sustainability will involve citizens, non-governmental organizations (NGO), governments, companies and, obviously, the financial sector as well.

1.3 Methodology

The theoretical framework using an analytical synthetic methodology is based on the analysis of academic papers, articles and reports which can be observed in the references. First of all, information has been searched through the internet and Google scholar in order to have access to academic articles and publications. The next step has been to analyze such articles in order to decide which ones are relevant for the project and this way select the best references. Once the selection is done, we have summarized the information in order to be concise while referencing.

In order to carry out the practical part of the research project, a sample of 6 commercial banks has been selected, the most important ones operating in Spain. Once the sample was selected, data has been collected from the Thomson Reuters Eikon Database (Thomson Reuters Eikon , 2019). This offers a comprehensive platform for establishing customizable benchmarks (e.g. sector and country) for the assessment of corporate performance. Annually 400 data points are used as inputs from which a subset of 178 most comparable and relevant measures are selected based on comparability, data availability and industry relevance (Thomson Reuters Eikon., 2018). These measures are then categorized into 10 key performance indicators (KPIs), which are weighted proportionally depending on the amount of measures within each pillar:

Environmental performance pillar: Resource use, Emissions and Innovation

a) Social performance pillar: Workforce, Human Rights, Community and Product Responsibility
b) Corporate Governance performance pillar: Management Shareholders and CSR strategy

Thomson Reuters integrates economic research and strategy development with asset analysis. Because we are dealing with component variables of empirical model, four dependent variables were used:

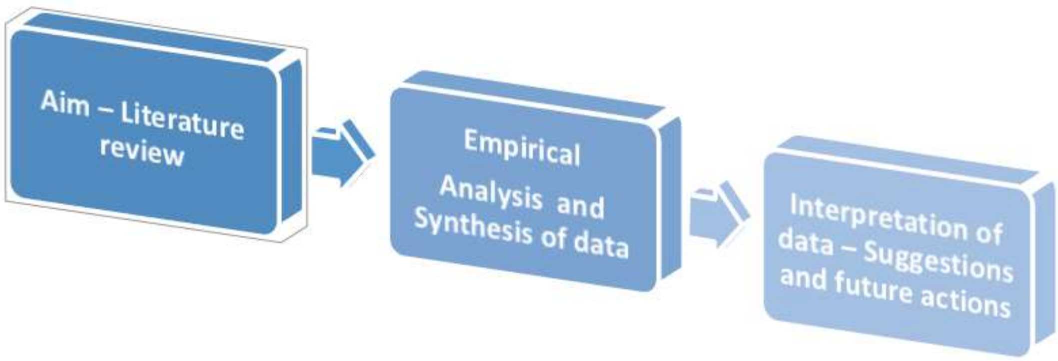
a) Overall ESG performance
b) Environmental Performance
c) Social Performance
d) Corporate Governance performance

With regard to the independent variables at the company level, we used variables usually adopted in the finance literature (Dowell, 2000); (Maury & Pajuste, 2005). Not all of these variables will be part of our research as we have been limited to the available data.

Once the data has been collected, in order to be able to represent visually each of the scores of the banks, scores have been converted from a letter based scale to a number based scale, for the easier realization of figures. This enabled us to interpret the data obtained and make comparisons between the different entities and generalizations of the sector in Spain.

On the other hand, the data obtained from Laboral Kutxa has been collected from the Corporative Internal Documents of the entity in order to see how sustainable its actions are. Once the data has been collected, we have only selected specific values in order to make comparison with the rest of the banks, that way the size of the companies is no longer a problem for comparisons. On the other hand, some absolute values have been selected for the analysis of Laboral Kutxa itself in order to make comments on evolutions that have taken place within the entity.

Figure 1: Methodology steps:



Source: Own creation

1.4 Aim of the paper

Keeping in mind the arising environmental and social problems that are taking place in the society and planet as a whole, the main goal of this paper is to define the relatively new concept of Environmental Social and Corporate Governance criteria, analyzing the importance of the term for investors and also for companies when it comes to the incorporation of it in the investment portfolio and sustainable strategies.

Analyzing and comparing the different methodologies that exist for evaluating the scores of companies in ESG aspects, another goal is to evaluate the subjectivity and ambiguity of the ESG concept and measurement methodologies and question the effectiveness of such data for investors. The main focus will be in the banking industry, as it is one of the pillars of the economy, crucial in society and has a bad reputation among the society as a whole.

Within the analysis of the banking industry, the goal will be to gather ESG scores of 6 commercial banks that operate in Spain and try and evaluate how the banking industry is doing in Spain when it comes to ESG scores and sustainability. Being financial institutions structural organizations in the economy and society, this analysis will enable us to know if such organizations are performing well when it comes to ESG scores. In the end, such organizations are role models for the rest of the companies, and that is why demanding good ESG scores could be the beginning of a social, economic and environmental change. Visualizing the evolution of ESG scores will enable us to conclude which of the three pillars tends to score the lowest or the highest and which one of the pillars is more volatile.

This research is aimed for the increasing community that has special interest in sustainability and social concerns. This will enable them to understand the ESG concept that has to do with the evaluation of companies and their goodwill when it comes to environmental, social and corporate governance aspects. This community could encompass a wide variety of groups, for example:

1. Simple Consumers: for their daily life consumption decisions
2. Teachers: for their lections in business ethics and sustainable strategies
3. Investors: for their investment criteria and portfolio
4. Managers: for the incorporation of such concepts in their strategies

The specific analysis of the Banking industry will permit to visualize the performance of different companies of the same sector according to their ESG score, leaving aside their financial performance. On the other hand, having data of 7 representative companies of the same sector, and these being all structural organizations in the economy, we will be able to judge if these institutions are being good role models or not.

As ESG scores are mainly calculated for big companies that are out in the stock market, the idea of this project will also be to gather information from a small Basque commercial bank (Laboral Kutxa) and try to evaluate the sustainable strategies that have been, are or will be in place in such bank. The ESG scores of the other banks will allow us to have an average performance of the sector and compare the environmental, social and corporate aspects of Laboral Kutxa and the other banks, trying to give an approximate ESG score or range. This way we will also be able to find out if small companies tend to have lower performance in ESG criteria or not.

After being able to analyze and compare some ESG aspects of Laboral Kutxa and the rest of the banks, the idea will be to give recommendations to improve or keep improving ESG key factors and to indicate which ones could be the next steps, answering the following questions: How is the bank doing comparing to its peers? Knowing how the banking industry is doing, what should Laboral Kutxa do to improve its scores and therefore have a better impact in the society and the environment?

2 THEORETICAL FRAMEWORK

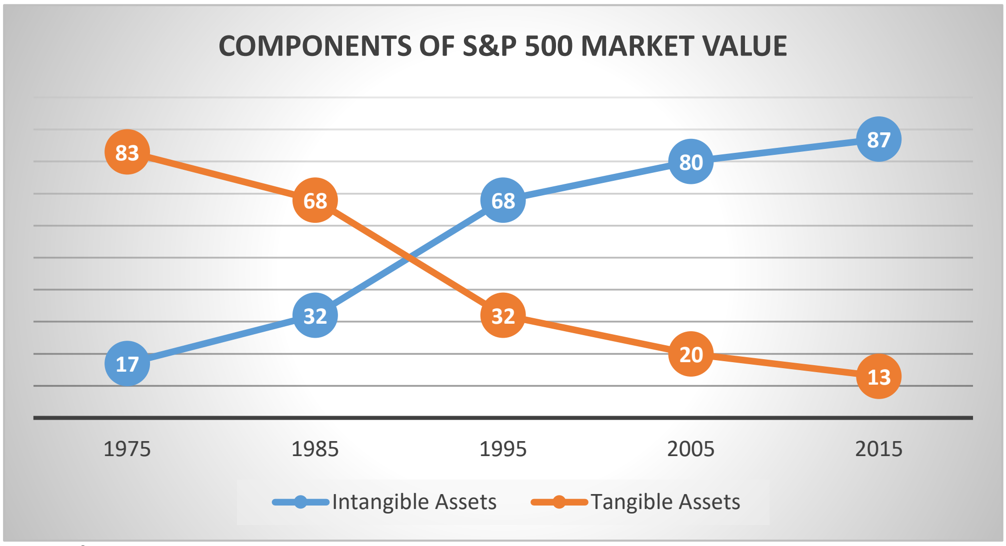
2.1 Socially responsible investing and Environmental, Social and Corporate Governance (ESG)

Over the last decade, there has been a big increase in social and environmental consciousness among people and society in general (including companies and institutions) (Smith & Soonieus, 2019). Therefore, the value of an investment is no longer just about financial returns, more and more investors want their money to make a positive impact in society and the world as a whole. Taking the society as simple consumers there has been a big change in the goods and services purchased, all led by the social and environmental consciousness.

It is also true that over the years the role intangible factors play in the perceived value of companies has dramatically increased.

According to the annual study of intangible asset market value from (Ocean Tomo Releases Annual Study of Intangible Asset Market Value, 2015), the following data shows the role played by tangible and intangible assets in the perceived value of companies taking the S&P 500 market as reference

Figure 2: Components of S&P 500 Market Value



Source for data: Ocean Tomo LLC, January,2015:1 – Own creation

This increasing consciousness brings into place Socially Responsible Investing (SRI), which is also known as ethical, green, socially conscious or sustainable investing. SRI seeks to consider both social good and financial return. According to The Forum for Sustainable and Responsible Investment, SRI could be defined as (The Forum for Sustainable and Responsible Investment., 2019).

"Initially, the ESG framework was only used by impact investors to determine if they were suitable investments. Nowadays, the framework has gained more recognition among all types of investors because of a greater attention of governments and regulators to such factors, and a stronger public awareness of the environmental and social influence of companies. The majority of the big publicly traded companies publish reports about their ESG initiatives (The Corporate Finance Institute, 2019, p. 1).

Socially responsible investing (SRI) is for those who have a personal connection to their investments, and want to invest their money in good causes. There are two sides to SRI-investing in companies that investors feel that have ethical business operations taking place, and probably more so, avoiding companies that do not have ethical business practices, products or services.

Going into depth to the two sides of SRI, it has to be said that there is a name for each side and it exists an intermediate one too. First of all, Negative Screen is called when an investor avoids certain companies because they are involved in certain activities that are not making any good. Secondly, selecting a certain company because some ethical practices are taking place there is called Positive Screen. As said before, there is an intermediate screen that is called Restricted Screen which takes place when an investor decides to invest to a limited extent in a highly diversified company, but whose activities include some operations that the investor does not like.

ESG factors can significantly impact the company's financial performance. For example, Volkswagen's emission's scandal in 2015 cost the company $7 billion to cover the costs and more than $4 billion in penalties. Besides, the company's stock experienced dramatic declines throughout the scandal. Shares in Volkswagen fell by more than 30% in a single day.

"Nevertheless, environmental, social and governance criteria are very subjective and accurate assessment of the factors can be extremely challenging" (The Corporate Finance Institute, 2019, p. 1). We will go into those issues later in the research paper.

2.2 Conceptualization and Measurement of ESG

According to S&P Global, "ESG criteria have expanded beyond charitable and community activities to encompass every aspect of a business, including items such as environmental impact, the governance systems that oversee those impacts, the willingness to develop human capital, and company's behavior as a corporate citizen" (Gold, 2017).

Firstly, the **environmental factor** is primarily concerned with the company's influence on the environment and its capacity to decrease various risks that could harm the environment. Generally, a company is assessed by its use of energy, waste generation, level of the pollution produced, utilization of the resources, and the treatment of animals. Although it is true that the factors vary depending on the industry that is being analyzed (First National Bank, 2019).

"The company's environmental policies and its ability to mitigate the environmental risks may not directly influence its financial performance. More governments around the world introduce strict environmental policies and the company's inability to comply with the standards may result in significant penalties" (The Corporate Finance Institute, 2019).

The main question here is if the companies' actions are closely watched by the government to actually be able to sue inappropriate actions on time and not when the harm or at least some harm is already done. As an example, we can go back to the Volkswagens' case and question ourselves how easy it is to lie about emissions nowadays and the time it takes for authorities to realize on it. We personally think that not enough actions are taken from the governments' side and should have more resources available to do so as the planet is suffering from tremendous human negligence. It is also true that as we said before, the environmental consciousness is changing dramatically nowadays. In the end, the main question for me is if the authorities should take action to avoid environmental irresponsibility or whether they should employ their resources penalizing the harm that is already caused. Secondly, according to the (First National Bank, 2019, p. 5), "the social factor of ESG covers a broad set of criteria ranging from employee diversity and working conditions to external factors, such as, product safety, human rights and community impact".

In recent years, human rights have gained public attention as some unacceptable labor conditions have made headlines. It is also true that many companies have been implementing the UN Guiding Principles on Business and Human Rights that were released by the United Nations in 2011. These principles were designed to set a global standard for preventing human rights violations connected to business activity and to address the violations that do occur (The United Nations, 2011).

For example, in Nike´s case after the accusations of violations in several of the company's foreign manufacturing facilities, the company was demanded to produce a list of all the global locations and conditions. Nike responded in 2005 with a report that was 108 pages long and detailed the whereabouts and conditions of more than 700 factories where goods were produced (Teather, 2005).

The **social criteria** of an ESG strategy primarily focuses on the company's compromise to safety and establishing a good work environment where employees can have fulfilling careers, under fair work conditions with equal pay (First National Bank, 2019, p. 5). In the end, as work is part of everyone's daily routine, it is very important to make it a great place, where workers want to be, and can be themselves where they are accepted and appreciated.

Although progress has been made, there is a lot to do still in order to avoid some severe working conditions and inequalities that take place in some companies, especially the ones that have facilities in foreign countries with weaker legal systems.

Lastly, (First National Bank, 2019) states that **corporate governance** criteria pertains to issues of corporate behavior, including executive pay, board structure and diversity and accounting transparency and corruption among others, customers, suppliers, financers, the government, and the community as a whole. It is really important that the corporate governance of a company ensures that the management of such firm runs the firm for the benefit of stakeholders, being these, shareholders, creditors, suppliers, clients, employees and other parties with whom the firm conducts its business.

Companies with high governance standards also exhibit a regard for safe operational practices, such as taking strong cyber security measures to protect sensitive data. On the contrary, corporations that fail to meet ethical standards regarding appropriate behavior often notice declining profits or lose public favor.

Corporate governance has some principles that need to be followed and at the same time help us understand the meaning of such concept better:

1. **Shareholder recognition** is the crucial in order to maintain a company's stock price although a lot of the times small shareholders with little impact on the stock price are ignored to make way to the interest of majority shareholders and the executive board. Good corporate governance makes sure that all shareholders get a voice at general meetings and are allowed to participate, share their views.

2. **Stakeholder interests:** It is important that the company keeps in mind non-shareholder stakeholders, as they help the company establishing a positive relationship with the community and the press. In other words, stakeholders that are not shareholders have to be taken into account also.

3. **Board responsibilities** must be outlined to majority shareholders. All board members must be on the same page when it comes to future strategies and ways of action. That does not mean that all board members have to share the same opinion. In fact, in a Wake Forest University study conducted by Ya-Wen Yang, they found that "firms with more diverse boards (gender, race, age, tenure and expertise) are more risk-averse […] exhibiting lower volatilities of stock returns than those with less diverse boards." (Wake Forest study finds diverse corporate boards rein in risk, 2014, p. 1). This study analyzed the performance more than 2.000 companies from 1998-2011, and concluded that adding women to boards improves Corporate Governance, as female directors make less aggressive acquisitions, therefore being more risk averse.

Ethical behavior is very important, as ethical misconduct in any company can lead to very serious consequences which can cause the company time and money in trying to repair their business reputation and any legal issues that may arise depending on the severity of the situation.

4. **Business transparency** is the key to promoting shareholder trust. Financial records, earnings reports and forward guidance should all be clearly stated without what is called "creative accounting".

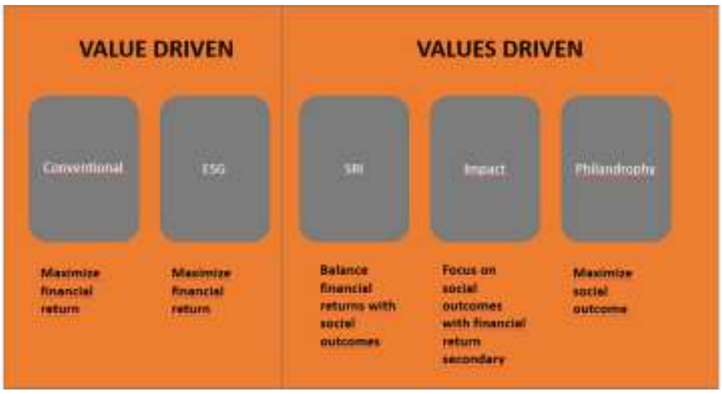
2.3 Comparison of ESG and SRI

Although there is no doubt that the environmental and social consciousness has risen among the population worldwide, authors do not come into a consensus while defining some of the new terms, or ways of investing that are arising in the society.

More recently, Impact Investing has become popular, here investors provide capital to innovative companies working to solve social problems like endemic unemployment or recidivism. SRI has expanded that much that some have relabeled it from socially responsible investing to sustainable, responsible and impact investing. Many use these terms interchangeably.

The following figure (Figure 1) taken from Vert Asset Management is made to make meaningful distinctions between ESG, SRI and impact investing strategies. We can observe that the main difference is the preference of financial return or impact.

Figure 3: Framework for Sustainable Investing



Source: (Vert Asset Management , 2017): https://www.advisorperspectives.com/articles/2018/12/17/the-difference-between-sri-and-esg-investing - own creation

It also has to be considered that it is quite difficult to distinguish the limits of those concepts and is incredibly hard to measure those preferences of investors. On the other hand, that picture makes a clear image in one's mind to know where the difference between these concepts could come from, always knowing that still nowadays people do not come to a consensus. As we said, the terms are subjective and hard to measure.

2.4 Demographic changes driving ESG and the importance of it

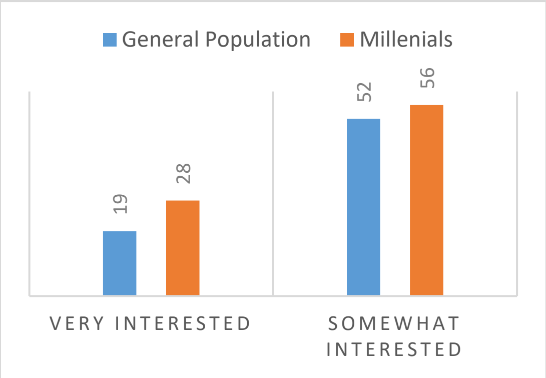
"Demographic changes in the investment community are fostering this increased interest in ESG. For instance, the youngest millennials, now entering adulthood, have consistently shown a commitment to the environment and a willingness to put their money where their convictions lie" (Gold, 2017, p. 7).

A global survey done by the research company Nielsen in 2015 showed that almost ¾ of millennials are willing to pay more for sustainable products and services. Factors influencing their purchases include whether the products were made from fresh, natural or organic ingredients, and a company's environmental friendliness or commitment to social values (Nielsen, 2015).

A 2015 Morgan Stanley's study showed that millennials are twice as likely as other generations to invest in companies and funds that target specific social/environmental outcomes (Morgan, Stanley Institute For Sustainable Investing, 2015).

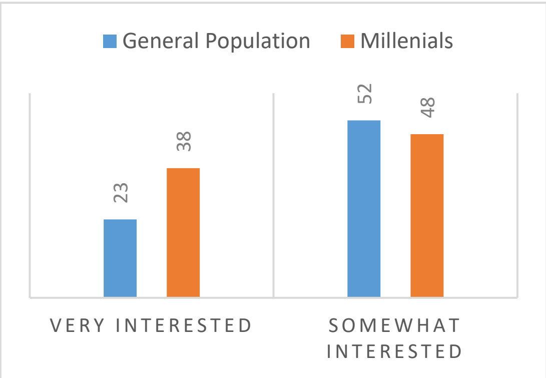
Another study conducted in the U.S.A by Morgan Stanley Institute for Sustainable Investing in 2017 showed that more investors are interested in sustainable investing and adopting its principles as part of their strategy, but Millennials are leading the charge. In the following graph there is a comparison made between the data obtained in 2015 and the data from 2017 in which it is clearly visible that there has been a greater change in Millennials' concern. Millennial investors are making more sustainable investing decisions and are twice as likely as the overall investor population to invest in companies targeting social or environmental goals (Morgan Stanley Institute For Sustainable Investing, 2017, p. 4).

Figure 4:The level of interest in Sustainable Investing in 2015



Source for data: (Morgan Stanley Institute For Sustainable Investing, 2017, p. 4)– Own creation

Figure 5: The level of interest in Sustainable Investing in 2017



Source for data: (Morgan Stanley Institute For Sustainable Investing, 2017, p. 4) – Own creation

The same exact study also arrived to the conclusion that Millennials purchased from a sustainable brand two times more often than individual investor population. They also revealed that millennials were three times more likely to have sought employment with a sustainably minded company and also that Millennials invested in companies targeting social/environmental goals two times more often than the total individual investor population

With all the data observed above there is no doubt about the importance of ESG data and socially responsible investing nowadays as the investing habits of investors and purchasing habits of consumers are changing more and more specially among millennials, or generation Y.

2.5 Ways in which a socially responsible investor can act:

Although investors may think that the only action possible when being a socially responsible investor is directly investing in a certain company, there are actually three ways in which socially responsible investors can accomplish their idea of promoting concepts and ideals that they feel strongly about (Chamberlain, 2013).

1. **Invest** in companies and governments that the investor believes best hold the values of most importance. These include the environment, consumer prediction, employees' rights, religious beliefs and human rights among others. These areas of concern can be summarized as "Environmental Social and Governance", in other words as ESG investing. In addition, SRI includes shareholder advocacy and community investing.

2. **Shareholder advocacy** takes place when socially responsible investors proactively influence corporate decisions that could otherwise have damaging consequences in society. The main goal of shareholder advocacy is to pressure those entities into improving practices and policies and acting as a good corporate citizen, while at the same time promoting long-term value and financial performance.

   There are various ways of action in order to achieve such goal. These include dialogue, filing resolutions for shareholders' vote, education of the public and attraction of the press to the issue, which usually puts additional pressure on the corporation to be socially responsible.

3. **Community investing** has become the fastest growing segment within SRI. Investors' capital is directed to those communities within and outside the country which are under served by more traditional financial lending institutions and gives recipients of low-interest loans access to not just investment capital and income but provides valuable community services that include healthcare, housing, education and childcare.

2.6 The Benefits of Socially Responsible Investing

When someone takes a SRI strategy, the tendency shows that either the whole portfolio is full of socially responsible stocks and funds or empty. In other words, we could say that a SRI strategy tends to be an all or nothing strategy. It is important to know the benefits socially responsible investing:

1. **Personal values followed:** If the values of an investor are important for him or her, then socially responsible investing allows them to put the money where their biggest concerns are fought. So to say, the investor will hardly say that she is an environmentalist when part of her or his portfolio is invested in companies that are destroying the environment.
   "The most rewarding feeling when an investor takes an SRI strategy is when the companies they have invested in begin to make a profit and reward investors financially" (Muller, 2019). Having this kind of approach, and sticking to core values, will allow investors to focus on other aspects of their financial life, such as automatic payroll savings, college savings and purchasing a home.

2. **Taking a stand:** It is very easy nowadays to complain about certain situations that are taking place locally, nationally or globally, but it is even harder to do something about it. When an investor commits to a socially responsible investing, it is an opportunity to withhold the investment money from businesses that are not behaving.

3. **Rewarding ethical companies:** Socially responsible investing punishes companies that act unethically, and it also rewards companies that are doing the right thing. We personally think that supporting these companies that are doing things the right way is providing them some capital to continue doing things the same way and as a side effect it makes the other companies less competitive in some respect. This could be an incentive for competitors to improve their strategy.

4. An example of this could be Lego, who is partnering with World Wildlife Foundation on social initiatives, working toward having 100% renewable energy capacity by the year 2030 while committing to reduce their overall carbon footprint. It is obvious that they are making a lot of progress on ESG aspects taking into account that a few years ago they ended their partnership with Shell Oil. All the causes mentioned could not be founded unless individuals invest in them (Muller, 2019).

2.7 The downfalls of Socially Responsible Investing

As almost everything in the world, SRI offers not only a plenty of benefits, but also drawbacks.

1. **Many companies claim to be socially responsible, but they are not:** According to Muller "Putting a marketing spin on anything for sale is part of a modern business culture. In many cases, it's more important to craft the image of being socially responsible than to actually be socially responsible" (Muller, 2019). It is not the truth, but what the people believe that counts. With the right marketing campaign, people will believe nearly anything.

   A clear example is Volkswagen. Their commercials and general image portray social responsibility. For a long time, they put a huge amount of marketing into their "clean diesel" cars marketing them as environmentally friendlier. This led to a scandal as we mentioned before, which later began to unravel Volkswagen's image of being an ethical company.

   The lesson to be learnt and always keep in mind while deciding where to invest and create a company image for ourselves is that just because a company says its socially or ethically responsible, does not mean that it actually is. This is what disturbs us the most and we think that as a society and specially the authorities should start to make rigorous checks and controls to verify that the image a company has created is reflected in their sustainable strategies, creating some incentives for the companies to keep improving the strategies.

It needs to be highlighted also that because of the fact that a lot of socially responsible companies are actually doing some practices that damage the environment, society or the world as a whole, there are a lot of investments that are considered socially responsible but are not as those damaging actions are taking place secretly.

2. **The definition of socially responsible investing is quite subjective**: What constitutes socially responsible investing is not always universal. Perhaps the best example is nuclear energy. If viewed from the perspective of damage from nuclear accidents, it might be seen as one of the worst investments possible. But if it is considered to be a substitute for fossil fuels, it could constitute a socially responsible industry.

3. **Few available data:** With all the importance that ESG and SRI have nowadays, there remain remarkably few standards, available data, and useful tools by which investors can effectively price financial instruments based on their level of greenness or how sound a company's social policies and governance practices are.

2.8 Incorporation of ESG

The incorporation of ESG practices could be explained by two different points of view, and it all depends if we are talking about the investors' point of view or the company's point of view.

When it comes to **investors**, according to The Forum for Sustainable and Responsible Investment, a key strategy for sustainable and responsible investing is incorporating environmental, social and corporate governance (ESG) criteria into investment analysis and portfolio construction. "In ESG incorporation, investment institutions complement traditional, quantitative techniques of analyzing financial risk and return with qualitative and quantitative analyses of ESG policies, performance, practices and impacts" (The Corporate Finance Institute, 2019)

When it comes to **companies**, the question of whether companies should incorporate responsibility practices into their management strategies designed to meet the expectations of their different stakeholders leads to theoretical positions in favor and against.

On the one hand, there is the neoclassical approach defended by Friedman, who defended that social responsibility is a subversive doctrine. He also said that business has an only special responsibility in free societies, which consists on using the resources available to increase its profits as long as it stays within the rules of the game, in other words, having an open and free competition where deception and fraud did not have a place. (Friedman & Hyneman Knight, 1951).

In other words, the social function of the company should be limited to the value of the results obtained and at the same time should not be less than the resources employed. This takes place when companies maximize their profits or when they maximize the capital value of owners or shareholders. This implies that any other activity that does not maximize such value will be considered unacceptable. The neoclassical position, therefore, maintains that the management of the company should only be concerned with the interest of its owners or shareholders.

Considering other theories, Freeman defended a theory called shareholder theory. This considered that the company does not just belong to one party (owner or shareholder) but to plurality of agents involved in it. Therefore, make it possible (Miralles-Quirós, Miralles-Quirós, & Redondo Hernandez, 2019).That being said, the objective of the company should not be to maximize value for the shareholder, but to create value for all the stakeholders including employees, consumers, local communities, natural or environmental resources between others instead.

Following somewhat the same idea as Freeman, (Post, Preston, & Sauter-Sachs, 2002), argue that companies should apply social, environmental, and corporate governance aspects that are convenient, regardless of the costs incurred or the income they produce. On the other hand, (Porter & Kramer, 2011) argue that the company’s objective must continue to be the maximization of shareholder value, while also trying to incorporate social environmental and corporate governance measures into management. In this sense, it is very important to know whether these measures are profitable for the company.

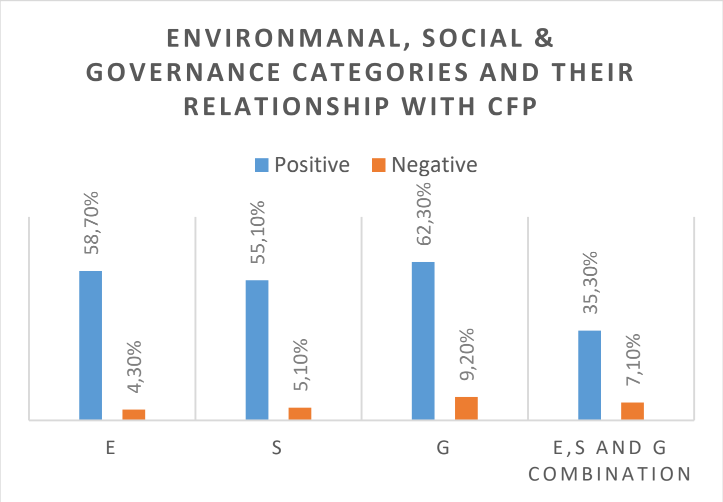
After bringing up different authors' opinion on the way companies should operate strategically, it is obvious that there is a difference. It all lies on the preference of the company between maximization of profits and value creation or incorporation of social, environmental and corporate governance aspects to their strategies. Saying it this way, it looks like both options cannot be combined.

There are various studies examining the relationship between ESG performance and firm performance for over some decades. Some of the studies looked into these three factors separately and related them with company performance (Gompers, and Ishii, & Metrick, 2003); (Waddock & Graves, 1997); (Benabou & Tirole, 2010). At the same time, other studies tried to integrate these three factors together and related them with performance (Gillan, 2010). Still nowadays there is lack of clarity and ambiguity when it comes to the nature of the ESG- firm performance relationship, though most of the studies found this to be positive (Friede, Busch, & Bassen, 2015).

This last mentioned study is worth a comment. This paper drew out the main conclusions from a joint Deutsche Asset Management and University of Hamburg study. This examines the entire universe of ESG-CFP academic review studies that have been published since 1970s, analyzing how a link between ESG and CFP differs across regions and asset classes and whether any specific subcategory of E, S or G has a dominant influence on CFP.

Taking this last aspect into account this is what the study revealed: "For our sample of vole-count studies with identifiable ESG categories in 644 studies we find relatively similar positive results for E,S and G. However, the highest proportion of positive results occurs in G with 62,3% of all studies delivering a positive correlation. However, governance-related aspects also exhibited the highest percentage of negative correlations at 9,2%" (Friede, Busch, & Bassen, 2015, p. 5). If the share of negative findings is subtracted from the positives, environmental studies offer the most favorable result with social focused studies coming last. The following graph is helps to visualize the analysis

Figure 6: Environmental, Social & Governance categories and their relationship with CFP



Source: (Friede, Busch, & Bassen, 2015, p. 223)- Own creation

2.9 ESG ratings:

Individual agencies' ESG ratings can vary dramatically. An individual company can carry vastly divergent ratings from different agencies simultaneously due to the differences in methodology or subjective interpretation.

A report published by (Doyle, 2018), the vice president of Policy & General Counsel of the American Council for Capital Formation found that there are significant disparities in the accuracy, value and importance of individual ratings for a series of reasons.

Before talking about the problematic and subjective nature of the current ESG ratings, it is very important to understand the growing importance these ratings have on the investment landscape. ESG rating services are now used by many of the world's largest investment firms, including BlackRock, State Street Global Advisors, among many others. In fact MSCI, a leading company provider of ESG ratings, claims to provide ratings for 46 of the top 50 asset managers (Moen, 2018).

While dozens of companies evaluate ESG factors, four major rating companies dominate the market: MCSI, Sustainalutics, RepRisk, and new entrant ISS. In the following table obtained from the research paper from The American Council for Capital Formation, we can observe how each rating agency has a customized scoring method which evaluates different non-financial metrics and frequently disagree about the components of ESG.

Table 1: Overview of Major ESG Rating Agencies

ESG Agency	Overview	Rating Scale
MSCI	Launched in 2010, MSCI ESG Research is one of the largest independent providers of ESG ratings. As part of the MSCI Group, MSCI provides ESG ratings for 6,000+ global companies and 400,000+ equity and fixed-income securities.	AAA (highest) to CCC (lowest)
Sustainalytics	Sustainalytics is the 2008 consolidation of DSR (Netherlands), Scores (Germany) and AIS (Spain). Sustainalytics now covers 7,000+ companies across 42 sectors and has an international presence. In July 2017, Morningstar acquired a 40% ownership stake in Sustainalytics.	100 (highest) to 0 (lowest) using sector and industry based comparisons
RepRisk	Founded in 1998, RepRisk provides ESG reports for 84,000+ private and public companies in 34 sectors globally	AAA (highest) to D (lowest)
ISS Environmental & Social QualityScore	Launched in February 2018, it covers an initial set of 1,500 companies across multiple industries. An additional 3,500 companies spanning 18 industries will be added later in 2018	10 (highest) to 0 (lowest) for overall Environment and Social, as well as sub-issues.

Source: (Doyle, 2018, p. 7)– Own creation

According to SustainAbility which enables businesses to lead the way to a sustainable economy, has called on rating agencies to offer greater transparency. Raters expect transparency from companies, yet they too often fail to live up to the same expectation themselves. While they recognize the proprietary nature of many ratings, and that limiting disclosure may be commercially necessary for organizations, the need for greater transparency persists (Sadowski, Whitaker, & Ayars, 2011).

Core ESG metrics vary from as few as 12 performance indicators to as many as 1.000 for other agencies. Below there is a brief explanation of each obtained from the (Doyle, 2018, p. 8):

1. **MSCI** evaluates 37 key ESG issues divided into three pillars (environmental, social and governance) and ten themes: climate change, natural resources, pollution & waste, environmental opportunities, human capital, product liability, stakeholder opposition, social opportunities, corporate governance, and corporate behavior (MSCI ESG research, (2018)).

2. **Sustainalytics** looks at what defines as key ESG issues and indicators. It splits them into three pillars: environmental, social and governance. Sustainalytics examines at least 70 indicators in each industry. It also breaks down ESG into three distinct dimensions: preparedness, disclosure and performance (Huber, Comstock, Polk, & Wardwell., 2017).

3. **RepRisk** focuses on 28 ESG issues connected to Ten Principles of the UN Global Compact, which encourages global businesses to adopt socially responsible policies and report on their implementation. It divides those into environmental, community relations, employee relations, and corporate governance issues. RepRisk also includes ESG risk exposure for both a two-year and ten-year timeframe using a scope of 28 ESG issues and 45 "hot topic" tags (RepRisk ESG data science and quantitative solutions, 2019).

4. **ISS E&S Quality Score** evaluates 380+ factors (at least 240 for each industry group) divided into environmental and social factors. Areas include management of environmental risks and opportunities, human rights waste and toxicity, and product safety, quality, and brand. The offering is touted as being very similar to the company's well-known governance score.

After getting a just of how each one of the most important ESG rating agencies does the job, we can clearly say that each agency has a distinctive approach to the ESG landscape, the variance of these methodologies demonstrates that this is an ever-changing, inconsistent, and subjective analysis.

If we explore the ratings biases, according to ACCF, "Rating agencies attempt to apply a one-size-fits-all approach which has created consistently skewed benefits for large and multi-national companies. This bias ignores industry and company specific differences in risk profiles" (Doyle, 2018, p. 9).

<u>BIAS #1: Larger companies obtain higher ESG ratings</u>

An analysis of over 4.000 Sustainalytics ESG ratings show that larger companies tend to obtain better ESG ratings. MSCI addresses the imbalance indicating that "Companies with higher valuations might be in better financial shape and therefore able to invest more in measures that improve their ESG profile; such investments might lead to higher ESG scores" (Giese, Lee, Melas, Nagy, & Nishikawa, 2019, p. 2).

As a result of the bias mentioned, small and mid-sized companies are at a competitive disadvantage when it comes to ESG ratings, even though these companies create the most jobs and tend to be the most innovative (Evans, 2019).

BIAS #2: Geographical bias toward companies in regions with high reporting requirements. Comparing ESG ratings is not an easy task in a global market. There exist differences between company ratings between Europe (the best) and North America (the worst).

Disclosure requirements vary significantly by country and region, and several divergent regulatory requirements have been introduced to induce the disclosure of corporate ESG information – the primary source of information for ESG research and rating providers. In Europe, the EU requires companies with 500 employees or more to disclose information on the way they operate and manage social and environmental challenges.

This actually helps investors, customers and policy makers and stakeholders in general to evaluate the non-financial performance of large companies. It also like an encouragement for big companies to act in a responsible way in business. The law also specifies the policy topics about which large companies have to publish reports: environmental protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery, diversity on company boards when it comes to age, gender, educational and professional background (Europepan Parliament Directive, 2014). On the contrary, North America has no such requirement for disclosure, which is one source for the positive bias toward European Companies.

In addition to disclosure requirements, investors in Europe are more convinced of ESG investing. A 2016 study by Schrouders found that 58% of European fund managers view ESG as an important investment consideration while only 14% of US managers said the same (Ralston, 2016). Because of all of the above, we could say that the geographical split between investor sentiment and corporate reporting is driving distinct differences in ESG rating performance.

BIAS #3: ESG agencies oversimplify industry weighting and company alignment

Rating agencies claim to normalize ratings by industry. However more often than not, agencies assign E, S and G weights to companies without factoring in company specific risks. This can result in a biased rating for a company based on their industry, as opposed to company specific risks.

Categorizing all companies the same within each industry is common for ESG ratings and this highlights the need for a more tailored approach to the rating process. MSCI acknowledges that company specific risks are not a focus and the systematic issues that face a given industry play a more important role.

A study conducted by Deloitte in 2016 found that 79% of investors indicated dissatisfaction with the comparability of ESG reporting between companies in the same industry. Companies within the same industry do not have same risks. Rather, companies have unique structures and risk models (Deloitte, 2016).

Going back to the fact that every rating agency follows its own methodology while computing the scores of Environmental Social and Governance pillars, it is obvious that there are inconsistencies between rating agencies. Analysis conducted by CSRHub shows that ESG rating agencies frequently disagree when evaluating the same company. “When comparing MSCI’s and Sustainalytics’ ratings in the S&P Global 1200 index- a global index composed of seven regional indices which covers 31 countries and 70% of the global stock market- CSRHub found a weak correlation (0,32) between the two firms’ ratings” (Doyle, 2018).

Inconsistency across ESG agencies can be problematic for both investors and companies working to improve their performance. Investors are understandably concerned with the inconsistency and lack of rigor in the ratings. In addition they view agencies as data providers, rather than part of a comprehensive and reliable rating systems.

As an example, we could mention the case of the Bank of America, one of the largest banks in the world. Although the issues detected by the two rating agencies were similar, the final scores were notably different. This comparison table was extracted from the ACCF report (Doyle, 2018).

Table 2: Comparison of ESG scores of Bank of America by two different rating agencies:

Bank of America	**PepRisk**	**Sustainalytics**
Score	CCC	70
Relative Score	Below Average	Well Above Average
Issues Cited	-Fraud -Corruption, bribery, money laundering -Poor employment conditions -Anti-competitive practices -Impacts on ecosystems and landscapes -Human rights abuse, corporate complicity -Global Pollution -Violation of internal standards	-Coal mining funding -Financing to foreign ESG violators -Enabling tropical deforestation -Gender discrimination -Faulty mortgage backed securities -Lending discrimination -DAPL financing -Financing cluster munitions

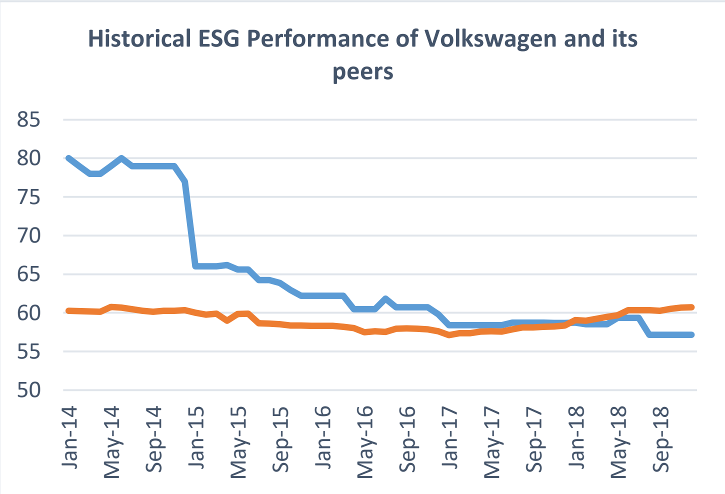
Source for data: (Doyle, 2018, p. 14) - Own creation

Even though both agencies factored many of the same issues facing The Bank of America into their ratings, the final scores are dramatically different due to the inconsistencies in how the ratings providers interpreted these issues. Without a standardized, comprehensive rating system, such inconsistencies unjustly expose investors to risk and cast doubt on the overall legitimacy of a company’s score.

ESG rating providers’ methodologies are failing to identify risk. Worse still, when corporate scandals have taken place, many of the affected companies had above average ratings at the same time as their stock price plummeted. For that reason, by failing to identify risk ahead of severe stock price movements the rating agencies are not effectively assisting investors.

We could use Volkswagens' case to prove the fact that corporate scandals do not necessarily bring the ESG score below the average. Even after it was discovered that Volkswagen committed one of the most serious clean air violations, it continued to enjoy an ESG rating higher than its peer average. The ratings dropped from a well above from well above average at 77 to still 6 points above average at 66 following the scandal becoming public. Even in the first quarter of 2018, its ESG ratings place the company on par with the rest of the industry.

Figure 7: Historical ESG Performance of Volkswagen and its peers



Source of data: Yahoo Finance data, Retrieved 19 August, from https://finance.yahoo.com/quote/VOW3.DE/sustainability?p=VOW3.DE&guccounter=2
Own creation

The company is currently performing below average although the gap is not too big. The example is concerning because it shows a complete failure by rating agencies to accurately capture ESG risk. This was both environmental and corporate governance failure but according to data from each of the pillars, it is visible that environmental score diminished but never went below average. On the contrary, corporate governance score went by far below average (Yahoo Finance Data, n.d.).

After mentioning all the downfalls of the current ESG ranking methodologies and the current ratings are a reflection of how much a company discloses, rather than the risks that are being disclosed. According to the American Council of Corporate Finance (Doyle, 2018, p. 17), these are the recommendations for consideration:

1. In order to reform the non-financial reporting structure that is used currently, measures should be taken so that this way ESG rating consistency improves.

2. ESG ratings need to adjust for company size, geographic reporting, and industry sector differences.
3. ESG rating agencies need to be transparent on how E, S, and G factors impact scores and prioritizing those that are material.
4. ESG rating agencies should be carefully compared and should fully expose their rate in protecting investors from large underlying risks.

As there continues to be an increasing interest in ESG investing, it is compulsory that investors and money managers have the necessary information to make wide investment decisions. Given that investments are increasingly based on a company's ESG rating, the rating agencies that assign these rating have a vital impact on investment strategies. In the end, all investors need consistent, transparent, and easily understandable ratings on which to base their investment decisions. But are the rating agencies doing a good job? We understand that gathering real information about the sustainable strategies that corporations are planning is not easy, as it is common for corporations to create a good image using marketing strategies. But, if we suppose that all the information for such ratings is real, how can different rating agencies calculate different ESG scores? There are different methodologies that each rating agency defend.

"We believe that the recommendations given will improve the process of standardizing ESG ratings. While this is still a relatively new factor for investors to consider, improved transparency and uniformity will bring much needed clarity to the process." (Doyle, 2018, p. 17).

2.9.1 ESG score methodology: Refinitiv

Thomson Reuters Financial & Risk business closed a strategic partnership transaction between Thomson Reuters and private equity funds managed by Blackstone, the Financial & Risk business which is now known as Refinitiv (Thomson Reuters, 2018).

Refinitiv ESG Scores measures company's ESG performance based on reported data in the public domain across 3 pillars and 10 different ESG topics. It calculates over 400 company-level ESG measures. This methodology distinguishes three different types of scores (Refinitiv, 2019).

1. **ESG Score:** measures company's ESG performance, commitment and effectiveness based on publicly reported information.
2. **ESG Combined Score:** Overlays the ESG Score with the ESG controversies to provide a comprehensive evaluation on the company's sustainability impact and conduct. The main idea of this score is to discount the ESG performance score based on negative media stories.

3. **ESG Controversies Score:** This score is computed based on 23 ESG controversy topics. During the year, if a scandal comes out, the company involved is penalized and this affects their overall ESG combined score and grading.

The scores of this methodology range between a D- and an A+. We could clearly say that the Refinitiv methodology is very different to others and the outcome is measured differently too. This adds more subjectivity to the grading system and more difficulties in the comprehension of the outcomes when it comes to individual investors.

The visual scheme of this process is attached in Annex 6.1 which will be useful to analyze the data later in the study. It will allow us to keep present how this methodology works.

2.9.2 ESG in the banking industry

Banks have always played an active role in the economic and social development of countries by having the ability to select investment projects, manage risks, and decide who has access to capital and what activities are financed. That being true, these institutions have a huge impact on society and, consequently, on sustainable development understood as the development that meets the needs of the present without compromising the ability of future generations to meet their own needs. (Beck, Demirgüç-Kunt, & Levine, 2010).

As a result of the global financial crisis, there is a growing consensus that the financial system should not only be solid and stable but also sustainable. Since such big crisis, banks are increasing their social responsibility practices, reinforcing their credibility and trust their stakeholders have in them. Those practices include the publication of sustainability reports following the Global Reporting Initiative (GRI) guidelines, the adoption of the Equator Principles and the Global Compact and the inclusion of environmental risk assessment in their credit risk, recommended by the European Union among others.

In that sense, corporate social responsibility (CSR) can reinforce the credibility and trust of stakeholders or interest groups, since it refers to the voluntary activities of a company that seems to favor some social cause, beyond the interests of the company and what is required by law (Amini & Bienstock, 2014)

In the specific case of the banking industry, studies are very limited. As (Finger, Gavious, & Manos, 2018) indicate, banks are often excluded from samples in empirical work due to their special characteristics. Even though such studies are limited, there are some that are worth a mention in order to understand the relationship of each ESG pillar and the financial performance.

Although it is true that the banking industry cannot generate serious problems of environmental pollution, great savings can be achieved in the billing of electricity, water, fuel and the use of paper among others, if sustainable measures are adopted (Jeucken, 2010). In this respect, (Jo, Kim, & Park, 2015) examined if corporate environmental responsibility plays a role in improving operational performance in the financial sector of a total of 29 countries, and found out that the reduction of environmental costs takes at least two years before bringing financial performance, being the slowest in developing markets and fastest in developed markets.

When it comes to the Social performance in the banking industry, according to (Simpson & & Kohers, 2002) banks are more involved with the community in which they operate achieve better performance. Continuing with the same pillar of ESG, (Esteban-Sanchez, de la Cuesta-Gonzalez, & Paredes-Gazquez, 2017), concluded in their research that banks with better relationships with employees have better financial performance.

Analyzing the corporate governance (Esteban-Sanchez, de la Cuesta-Gonzalez, & Paredes-Gazquez, 2017), observed a positive relationship between corporate governance and financial performance for a sample of banks from different countries, before and during the financial crisis.

A recent study conducted by the University of Extremadura that tried to “examine if the social strategy policies adopted by financial institutions, measured through their ESG performance can create, destroy or not significantly affect the company’s value, contributing or not to the generation of the shared value in the company (Miralles-Quirós, Miralles-Quirós, & Redondo Hernandez, 2019).

Their overall results reveal that there is no homogeneity in the value relevance of environmental, social and governance practices adopted by the selected banks. But more precisely, they observed that there is a positive and significant relationship of banks' environmental and corporate governance with Tobin's Q and therefore, with shareholder value creation (Miralles-Quirós, Miralles-Quirós, & Redondo Hernandez, 2019)

The results also revealed that responsible social practices in terms of quality, safety, diversity; and equal opportunities in employment, concern for human rights, as well as quality and safety in products and services, among others, reduce the market value of the company. However, they also highlight that those results exclusively persist for banks quoted on emerging markets and banks that have their headquarters in civil law countries, where the authorities implements serious restrictions.

As they clearly state in their conclusion that "these results also reveal that work must be continued in the search for the creation of shared value for the shareholder and society in banking sector" (Miralles-Quirós, Miralles-Quirós, & Redondo Hernandez, 2019, p. 13).

After analyzing some academic researches done in the banking industry, we could say that there is no clear answer yet when it comes to the relationship between ESG pillars and the financial performance of banks. Although that is something that future researchers should find out, in this project we will focus on finding out how ESG criteria work in the banking industry.

3 ANALYSIS OF THE BANKING INDUSTRY IN SPAIN

In order to see how ESG criteria work in real companies and more precisely in financial institutions, we will proceed to analyze the scores of some companies from the same sector and see how that data is useful for the investor. If the data is clear and straightforward it will leave place for evaluation.

Thanks to the professor Iñaki Heras from the University of the Basque Country, we have been able to obtain ESG scores of 6 commercial banks that operate in Spain. The 6 commercial banks that are part of the study will be the following:

1-Banco de Sabadell S.A.

2-Banco Santander S.A.

3- Bankia S.A.

4-Bankinter S.A.

5-Banco Bilbao Vizcaya Agentaria S.A.

6-Caixabank S.A

Looking at the data obtained, it looks that the methodology followed by the rating companies has been Refinitiv. We have the final scores of the three ESG pillars, although the data obtained only includes data of the Environmental and Social pillar.

The data of the next table summarizes the key issues and aspects that were taken into account by different rating agencies in order to give a score to the banks. Although the data obtained is not very complete in some banks, and not all the aspects are analyzed in all of the banks, this will give us the opportunity to create a general image of the sector in Spain.

Table 3: Key issues and aspects taken into account in the ratings

ENVIRONMENTAL	SOCIAL
Resource Use	**Workforce**
Energy Use Total	Trade Union Representation
Energy Purchased Direct	Turnover of Employees
Electricity Purchased	Women Employees
Renewable Energy Purchased	Women Managers
Water Withdrawal Total	Employees With Disabilities
Fresh Water Withdrawal Total	Employee Fatalities
Emissions	Lost Working Days
CO2 Equivalent Emissions Total	Employee Lost Working Days
CO2 Equivalent Emissions Direct, Scope 1	Average Training Hours
CO2 Equivalent Emissions Indirect, Scope 2	Training Hours Total
CO2 Equivalent Emissions Indirect, Scope 3	**Human Rights**
Waste Total	**Community**
Non-Hazardous Waste	**Product Responsibility**
Innovation	Customer Satisfaction

Own creation

3.1 Evolution of the three pillars of ESG

As the data obtained gives the scores in letters, in order to see clearly the evolutions and be able to make comparisons between different years and banks we have converted such grades into numbers ranging from an F that will be equivalent to 0 and an A+ which will be equivalent to 12. Although the whole study has no F letter and Refinitiv does not even include it on the scale, we decided to incorporate it also because there are some years with no data available and this way we do not mix the missing data with the bad score. Annex 6.2 shows the scale that we applied by making use of conditional functions in Excel.

Starting with Sabadell bank and if we observe Annex 6.3.1, we can tell that the environmental scores have been the highest out of the three pillars, although through the years it suffered ups and downs. The range in which it has moved is only between A- and A+ so we could tell that volatility of environmental scores has not been high within 2008 an 2017.

When it comes to social scores, it has had ups and downs throughout the years but the volatility has not been high, the biggest change from one year to another has been from 2013 to 2014 where we can observe an increase of 2 grades, from a B to an A-. We could also say that from 2014 the tendency has been do decrease. That decrease was due to a poorer performance in the key issues of community and product responsibility (Annex 6.3.3).

Corporate governance scores were the ones that most changed among the years and are the lowest ones among the three pillars. The changes from one year to another have not been big in general except 2014 to 2015 where the ESG governance score increased from a C to a B (Annex 6.3.1).

After finding out what the main tendency of Sabadell has been through the years, it is interesting to analyze the other five entities in order to find out how the sector is doing. With just individual scores it is not possible to detect the actual situation of the company in the sector or industry. Therefore, scores of individual companies may not be enough information for investors and not even for companies.

If we continue with Santander (Annex 6.4.1), we can observe that the three pillar scores have been somewhat constant among the years. Concerning the environmental scores, this being the most constant, and it has only ranged from an A between 2009 and 2014 and an A+ from 2015 and 2018. That change has been because of a better score in emissions which changed from an A to an A+ since 2015 (Annex 6.4.2).

When it comes to social scores, these have been more volatile than the environmental scores but the change each year has not been bigger that one grade. The lowest grade in this pillar took place in 2012 and 2013 due to the scores in community and workforce (Annex 6.4.3). Continuing with the corporate governance scores, we could say that it has been mainly constant among the years, more precisely it has been constant between 2009-2010 and 2011-2013 and 2015-2018. The range of the scores has been of one unit, it has either been an A or an A-, which we would consider a good grade.

Analyzing Bankia and its ESG scores of the three different pillars (Annex 6.5.1), we can observe that the scores have improved dramatically from 2011 until 2017, so the evolution of the data has been quite different in this bank. It has to be highlighted also that this bank had to be rescued in 2012 because it was bankrupt. Therefore, we could tell that since the financial rescue in 2012, the bank has dramatically improved its scores until 2017. The fact that the ESG rating of Bankia reflects the bad situation back in 2011 and 2012 makes me think that the ESG rating is quite realistic in this case and it does represent the real situation, at least in those years.

When it comes to the environmental score, we could say that it has ranged from a C- in 2011 to an A in 2015 and stayed constant until 2017. The social score ranged from a D+ in 2011 to an A in 2015 although this pillar did not stay constant until 2017, it scored an A- in 2016 and an A in 2017. That change happened due to a decrease in the community score and human rights (Annex 6.5.3). The corporate governance scores have been the highest out of three pillars, ranging from a C in 2011to an A in 2017.

Watching the scores of Bankinter in (Annex 6.6.1) we can say that environmental and corporate governance scores have been almost constant but the social scores have been more volatile, although from 2014 till 2017 the score has stayed constant. The environmental scores have ranged from a B+ in 2008 to an A in 2012 keeping it constant until 2017. This proves that the company has concern about the environment and has dedicated efforts on keeping such scores constant since 2012.

When it comes to the social score, it has ranged from an A in 2008 to a B in 2012 and a B+ from 2014 to 2017. The overall tendency has been downwards because most of the key issues have been really volatile over time (Annex 6.6.3). Talking about the corporate governance of this financial institution, we could say that it has stayed quite constant as the range of the scores are between an A+ and an A-. It is the pillar with the best scores among the three and it has been constant in A- since 2015. This pillar is in its lowest score ever.

BBVA’s ESG scores have stayed pretty constant throughout the years (Annex 6.7.1). When it comes to the environmental pillar, it has been switching between an A+ and an A throughout the years due to changes in emissions and resource use (Annex 6.7.2). Innovation has stayed in A+ the whole time. The ESG social score has been almost constant too, it has stayed in an A except in 2014 that the score was A- and in 2017 the score was A+. Following the same tendency, corporate governance score has been quite constant also, ranging from a B+ to an A+. We could say that BBVA is scoring the best score in corporate governance in 2018 comparing to the scores of the same pillar in the past.

Lastly, observing the data of Caixabank in Annex 6.8.1 we can see that it has started out from quite low scores. When it comes to environmental scores, it has ranged from a B in 2008-2010 to an A+ in 2018 due to changes mainly in innovation (Annex 6.8.2). The scores also went through a few A’s between 2013 and 2016. ESG social scores also started quite poorly comparing to the other scores, it started out from B- in 2008 and then went up to either A- or A which are quite high scores. Concerning ESG corporate governance scores we could say that Caixabank is by far the financial institution with the lowest scores. The scores of this pillar have not gone any higher than a C+ which is a lot lower than its peers that we have seen so far. It is also true that the score has increased form a D+ to a C+ not long ago and has maintained such score in 2017 and 2018, so it looks like there have been some efforts to maintain such score stable but the next thing should be trying to improve it, knowing that its peers are doing a lot better.

3.2 ESG score, ESG combined score and ESG controversy score

From an investors point of view it is also important to see the comparison of all financial institutions in order to take a decision, but which score is more representative? we would say that the current scores' average would not mean as much as the ESG combined score, which takes into account not only the three pillar scores but also controversies scores captured from the media. That being said, after seeing the evolution of each pillar in each entity throughout the years, it will be quite interesting to make a comparison of the ESG combined scores of the different banks. This will makes us visualize the evolution of the whole sector in Spain.

If we just look at the ESG scores (Annex 6.9.1) of the different banks, taking the most recent common year of data as reference, 2017, we could say that Santander and BBVA are leaders of the sector scoring both an A. On the contrary, the bank that goes last on the sector is Sabadell scoring a B+.

On the other hand, if we look at the ESG combined scores we can see that the results are dramatically different. This means that the media and the controversy measures do have an impact on the ESG combined score (Annex 6.9.2). Although we do not know which measures are taken into account in the ESG controversy score (Annex 6.9.3), it is clear that it does make the entities perform poorer although the measurement might be quite subjective.

As said before the result of the sector changes dramatically (Annex 6.9.2), being on the lead BBVA with an A and Sabadell last with a C. BBVA particularly does not change a lot when it comes to the ESG score and the combined score, but Sabadell goes from a B+ to a C. There is quite a change in the scores of Santander that goes from an A to a C+. Same happens to Bankia and Bankinter.

With these two measures that at first sight people think that should score the same, we see that such scores are quite different although the outcome can be similar at times. So then the question is, which grade do companies publish in their websites? Do actually investors know the difference of both scores and how they are computed?

Going to back to Annex 6.9.2 we could say that there has been a general decrease in the ESG combined scores on the last year or couple of years, this means that financial institutions are scoring lower lately than what they used to in the past. How can that be? The interesting thing is that the ESG scores are not lower. We personally think that the main reason for that to happen is that the society and authorities are being pickier about sustainable and transparent strategies and misconducts are easier to detect and to judge publicly. But, it has to be highlighted also that the data in which the rating companies lie in order to compute the controversy score is a bit ambiguous, which makes the rating system more subjective.

In order to finish with a clear picture of the ESG pillar scores in 2017 (Annex 6.9.4), we can see that financial institutions are more environmentally friendly, as it is the highest score out of the three pillars. Also, with the exception of Bankinter, the social pillar is the next important one, corporate governance pillar being last. Are this scores high enough? The financial institutions being the center of an economy and society to function, we would say that banks must not stop improving their ESG scores and trying to be more competitive and role models for the rest of the society.

In the process of more sustainable financial system, it is compulsory for authorities to intervene and propose different alternatives, as environmental problems are severe. There are a couple of global agreements that need to be mentioned at this point, as they do prove that specially environmental problems are taken more and more seriously by authorities of different countries.

First of all, in December of 2015, The Paris Agreement on Climate Change was launched, and 195 countries adopted the first-ever universal, legally binding global climate deal. The agreement sets out a global action plan in order to avoid dangerous climate change by limiting global worming to below 2ºC and pursuing efforts to limit it to 1.5ºC, as this low limitation should significantly reduce risks and the impacts of climate change. The interesting thing is that Governments agreed to come together every 5 years to set more ambitious targets as required by science and report to each other and the public on how well the implementation of the target is going (Paris Agreement - Climate Action - European Commis, 2019).

About four years later, in September 22nd of 2019, the United Nations altogether with leading banks that hold one third of the global market, launched what they called the Principles for Responsible Banking. In these principles, banks commit themselves to strategically align their business with the goal of the Paris Agreement on Climate Change and the Sustainable Development Goals. (130 banks holding USD 47 trillion in assets commit to climate action and sustainability, 2019).

UN Secretary-General Antonio Guterres said at the launch event that the UN Principles for Responsible Banking will be a guide for the global banking industry to respond to ("130 banks holding USD 47 trillion in assets commit to climate action and sustainability", 2019). The principles are supported by a strong implementation framework that defines clear accountabilities and requires each bank to set, publish and work towards ambitious targets. According to the UN Environment Press release, “By creating a common framework that guides banks in growing their business and reducing risks through supporting economic and social transformation required for a sustainable future, the Principles pave the way for transformation to a sustainable banking industry” (130 banks holding USD 47 trillion in assets commit to climate action and sustainability, 2019)

All that being said, and after finding out that between 2008 and 2017 the financial sector in Spain has been quite stable when it comes to ESG pillar scores, we could confirm that there is no evolution. Therefore, structural organizations like banks need more time to change the scores of the different pillars. Hopefully, with the UN Principles for Responsible Banking, at least the environmental scores will start improving little by little, at least for the banks that signed up (Principles for Responsible Banking – United Nations Environment – Finance Initiative, 2019). We would say that this action will benefit them in the long run increasing their environmental score and bringing down the controversy score, which in the end will result in higher combined ESG score.

Although it is too early to talk about the effectiveness of such principles, we have a feeling that they will make a difference, not just in the financial sector but also in the society. With this kind of agreements that are impulse from the authorities, huge changes can be made and the environment will notice the difference.

3.3 Laboral Kutxa (LK): Analysis of social and environmental aspects: ways of action

Once we have the picture of the banking sector in Spain, the idea is to find out how financial institutions put into action those strategies in order to be more sustainable, in particular the small ones. Small institutions cannot compare themselves with the bigger ones, which are always in advantage when it comes to these kind of ratings as we have said in a previous section. Being an employee in Laboral Kutxa (LK), a small cooperative bank that operates mainly in the north of Spain, I had access to first-hand information about their sustainability plans and codes which we analyzed in order to see how they are doing and which ones should be their next steps to take in order to keep improving.

Although small companies are not part of major rankings made by big ESG rating companies or agencies, Morningstar that evaluates ESG aspects of fund managers did include LK in the rankings in 2016, more precisely, in the 5th position, which is a lot better than most of its competitors like Caixabank, BBVA, Santander, Sabadell, Bankinter and Bankia, In other words, it was placed in a better position than all the banks that are being part of the study. This means that sustainability has nothing to do with the company size and therefore it should not influence the ESG score.

Looking at the memory of Social Corporate Responsibility of LK from 2016, we was able to obtain some data that was also used by the rating agencies to rate the other six commercial banks. This will enable us to make some comparisons in some of the aspects of the study, and see the current situation, what could be improved and how. This memory actually makes a comparison of 4 different banks from which one of them is Caixabank (Laboral Kutxa, 2016), exactly one of the commercial banks analyzed before.

Concerning social aspects of LK, we could say that the bank has some downfalls and strengths in this respect. When it comes to the amount of women working in the company, LK has the almost lowest percentage scoring a 47% while all its peers have at least half of the staff (Annex 6.10.1). On the other hand, and being a clear downfall for the company also, only 27,8% of the managers are women while its peers score higher in general. (Laboral Kutxa, 2016, p. 14).

Continuing with the social pillar, it is worth to mention the amount of training hours and the wage gap. According to the data obtained in the Memory mentioned above, LK offers 66,5 hours of training in average (Laboral Kutxa, 2016, p. 14), being by far, the first one in the whole sector. This is a clear strength for the company as all the workers need to be in constant preparation and updated with different legislations that come up in the society. We can verify that the training hours received by LK are quite impressive as we have received a lot of training since the first day of my internship and being a worker now, we still continue receiving different trainings. Another aspect that is worth to mention is the wage range although it is not studied in the six commercial banks. The Memory of LK shows that the wage range in LK is of 2,8 while in Caixabank is 35,5 although it does say in the notes that the way it is computed in Caixabank is not given (Laboral Kutxa, 2016, p. 14). There is a huge difference between both financial institutions and is quite impressive how high that number is. It should definitely be one of the aspects that are taken into account in order to compute the ESG score.

Although the percentage of women is lower than men, LK has been concerned about gender equality for a long time. In this respect, we could mention the certificate granted to LK in 2004 by Emakunde, the Basque Institute for Women. “This institute is an autonomous body of the Basque Government which designs, promotes, advises on, coordinates and evaluates equality policies and raises awareness within society in order to achieve the real and effective equality of women and men in the Basque Autonomous Country” (EMAKUNDE – The Basque Institute for Women, 2019).

Apart from that, LK has been designing Gender Equality Plans throughout the years in order to achieve better results each time. According to the evaluation made to the II Plan, the grand majority of the employees think that women and men are equal when it comes to job opportunities and promotion possibilities in LK, but, on the other hand, men's willingness to take higher responsibility positions (68%) is 10% higher than women's (58%). When it comes to women, this is due to family, personal and work life reconciliation, whereas when it comes to men this is due to age and proximity to retirement (Laboral Kutxa, 2015, p. 13).

That being said, we think that in LK reconciliation aspects between work and family life should be reviewed in order to analyze what is holding women back from wanting positions with higher responsibilities. The company should identify workers' needs in terms of conciliation and the problems generated by the current reconciliation plans, with the final aim of improving.

In order to finish with the social aspects, we would recommend recruiters of the bank to keep in mind that women are less than men, with no doubt of evaluating talent first. It could also be interesting to show all the staff members particular cases of women managers that have high responsibility in order to encourage women to take such positions. On the other hand, they should make sure every employee knows about the Gender Equality Plan and the different actions that the company is going to take in order to ensure that such plan is being followed.

Concerning environmental aspects, we have to say that there is no point in comparing the data from the six commercial banks and the data obtained from the memory, due to the different sizes of the companies, it would not be fair at all. Therefore, we will comment some data obtained from the memory that will give an idea of how Caixabank and LK are performing environmentally. Later, we will go in depth with the evolution of the consumptions within LK obtained from the inform from the Environmental Management Department from 2017 (Laboral Kutxa, 2017), Annex 6.10.2 shows the data of the consumptions of different products made in 2016 by LK and Caixabank. The data in both cases is computed with the consumption made in the headquarters. When it comes to paper and gas consumption both financial institutions have similar amounts, but other consumptions like electricity, CO2, water and toner are very different. This may be because of the difference in the workers per m2 of each headquarter, due to having some spaces prepared for conferences, trainings and other services that can bring those consumptions. But, this is not the goal of this study. This table enables us to conclude that environmental aspects do matter in small companies and that LK is doing a great job being environmentally responsible (Laboral Kutxa, 2017, p. 15),

Taking about the headquarter office it needs to be mentioned that LK has remodeled the main office when it comes to acclimatization and this way replace the old gas boiler with a geothermal installation that is enough for all the demand except some days in winter where the decision has made to introduce a biomass boiler that uses local woodchips. This new installation has received funding from the European Union through the European Regional Development Fund and will enable the bank to save up to 50% in energy consumption, minimize CO2 emissions and have more independence to the fluctuations of combustion prices (Laboral Kutxa, 2016). Due to this installation, the general consumption of electricity between others has increased in 2015-2017 that is why total consumption numbers are not very representative.

Continuing with the environmental aspects, according to a report, cardboard and paper waste is huge due to the economic activity. This waste in 2017 was 73% of the total recycled waste, that is why the aim will be to reduce the consumption but as importantly to recycle all the paper and cardboard waste. Going into detail to the evolution of the consumption of paper in LK, we could say first of all that in 2017 14,3% of the total publicity paper consumed was recycled paper and 85,7% was ecological paper. When it comes to internal paper that is consumed in offices, the consumption has decreased 47.765 kilograms (16,86%) which is mainly due to the progressive digitalization of the activity with higher proportion of clients that operate online and receive correspondence by email (Laboral Kutxa, 2017, p. 8). It has to be mentioned also that there has been quite an innovation in the signature system by tablets in the past few years that has helped reducing such consumption and will still help in the future, as this should be still part of the strategy in order to continue bring paper consumptions down considerably.

LK forms part of Izaite, a Non-Profit Organization of Basque companies for sustainability. LK takes part actively in the dialogue forums organized by this aggrupation of companies in order to exchange experiences about different responsible initiatives and practices.

LK also takes part in the global activity driven by the World Wide Fund for Nature (WWF) and the publicity agency Leo Burnett that is called The Planet Hour. This initiative consist on a voluntary electric shutdown of homes and companies during one hour in which LK not only takes part in the event as part of its compromise with the environment, but also encourages all its employees to do the same (Laboral Kutxa., 2016). Taking part in this kind of initiatives also enables to have an impact in the society and therefore hopefully have an impact in consumption and investment decisions.

On September 22nd of 2019, LK turned to be one of the signatories of the Principles of Responsible Banking in New York, during the conference of the United Nations. LK promised to line up its strategies with sustainable development objectives and the Paris Agreement about climate change. Being one of the 130 financial institutions from all over the world makes us think that small companies should have the same opportunities to take part in different initiatives as they can also make a positive impact on the environment and the society.

Table 4: Summary of key aspects found in Laboral Kutxa

LABORAL KUTXA	
SOCIAL	**ENVIRONMENTAL**
Gender Equality Plan	Acclimatization system change
Conciliation Problems: women managers	Decreased paper consumption: will keep going
Emakunde Award 2004	Principles of Responsible Banking
Part of Izaide	Hour of the planet: electricity billing decrease 50%
High training hours for employees	

Source: own creation

After all the data analyzed for LK, we could say that social and environmental aspects are well taken care of. Although LK is a smaller bank than the other 6, it does have a great environmental and social responsibility included in its strategies. Being that said, we do have to remark that giving an ESG to the bank is not an easy task, could be very subjective and it is not part of the objectives of this research paper. But, for the years 2016 and 2017 we could say that LK would have an A + in the Environmental pillar and an A in the social pillar, all regarding to the aspects that have been analyzed in this part of the project.

4 CONCLUSIONS

Environmental, Social and Corporate Governance criteria and sustainable investing have been topics of growing interest in society, especially in the last years. Due to the environmental and social problems that are part of our daily life, it is proved some groups in society at least have started acting more sustainably, especially Millennia's. On the other hand, when it comes to investors also those sustainable actions translate in investing in sustainable brands and companies rather than others, giving less importance to financial return.

We have seen a clear social problem with our way of treating the environment. When such misconducts that we have been having with the environment have started showing it consequences, it looks like more and more people are changing their habits but is it enough?

There is no consensus of authors when it comes to defining the different ways of investment that are being more and more popular. Although the differences are not clear they all want to make a good impact in the world.

Therefore, for those investors who want to follow their core values by investing in noble causes, there are agencies that offer ESG ratings to different companies. Our question is, though, if individual investors base their decisions out of ESG ratings or they just go into websites and forums in order to read and gather information and make their own decision depending on their preferences.

We can´t ignore the fact that a lot of companies make huge investments in marketing themselves it a creative way, so that some misconducts are covered and they hope they will never come out. That is why we have to be careful with everything we read and apply a filter.

The existence of a lot of different methodologies to measure the ESG criteria in businesses does not help in the effectiveness of such scores for the public. The methodologies not only take into account different aspects but they also offer different grading systems which are very confusing for investors. Apart from that, there have been cases of companies that at the same year obtained different ESG scores computed by different rating agencies. The nonexistence of a common ESG rating system does not help in the effectiveness of such scores.

We believe that there should be a common methodology approved by the authorities that should be used to evaluate different companies in order to measure the sustainability of businesses.

Such methodology should be adaptable for each sector and business as the risks and the importance of each pillar vary. Such methodology should eliminate the disadvantage that small companies have comparing to bigger ones with some current methodologies. On the other hand, sustainable actions taken by companies due to law requirements should not be rewarded with higher rating, we think that scores should measure more voluntary actions. Otherwise, countries with less strict legislation will always have grades that are a lot poorer. This would permit rating agencies to continue functioning but for official ratings companies should be rated by common criteria.

This common criteria ratings could be done every few years to every single company that exists and the criteria should be clearly established by the authorities. The data needed for such ratings should be transparent and legit, otherwise what is the point of such ratings if it is based on lies and fake final scores? We clearly think that, authorities should put some inspectors in order to especially control the industries and companies that most harm the environment, in order to see if the data they present has no deviations. After getting a final score, in order to make sure that no lies are published about sustainable strategies and so on, it would be a good idea to publish all the ratings by industries and companies so that all the community knows how the different companies are doing. We don't see the necessity to penalize bad ESG scores, as the market and the community itself will make the companies with a bad scores decrease their financial performance anyway.

This way, individual investors' and simple consumers' choices will be less time consuming, less confusing and more effective. If the society starts trusting the rating system and process there will be no need to understand how the methodology works, only experts will have to do so. These ratings and classifications will also enable the general population to know the companies more and be more confident about their personal decisions while investing or shopping.

When it comes to the banking industry, this being one of the pillars of the economy, the presence of ESG criteria is very important. As the data analyzed reveals, the different financial institutions are being cautious with their actions in order to be more sustainable, but it is also true that the society as a whole is being more and more critical in this respect and scandals are coming out easier nowadays than what they used to, meaning that ESG scores are being poorer because of the ESG controversy score.

The banking industry should continue keeping their ESG scores up in the future because banks should be a clear example for other companies to do the same.Future researchers should analyze how banks could incorporate ESG criteria in lending processes, and the effect of it in the society as a whole. In other words, if money lending conditions vary depending on the grade obtained in the official rating, companies will have another reason to try and act more sustainably over time.

Of course, when the final goal is a social change in the society, results will not be visible in the short run, but this change in our consciousness should start with little actions. For example, whether the Principles of Responsible Banking are effective or not will not be easy to tell in ten years at least, but the main goal should be to follow the strategy alignment issues and give recommendations.

Other researchers should also find out the relation between incorporation of ESG criteria in financial institutions and the corporate financial return, this way it would be easier to encourage banks to take such actions and the impact in society would increase.

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6 ANNEXES

6.1 Refinitiv Methodology

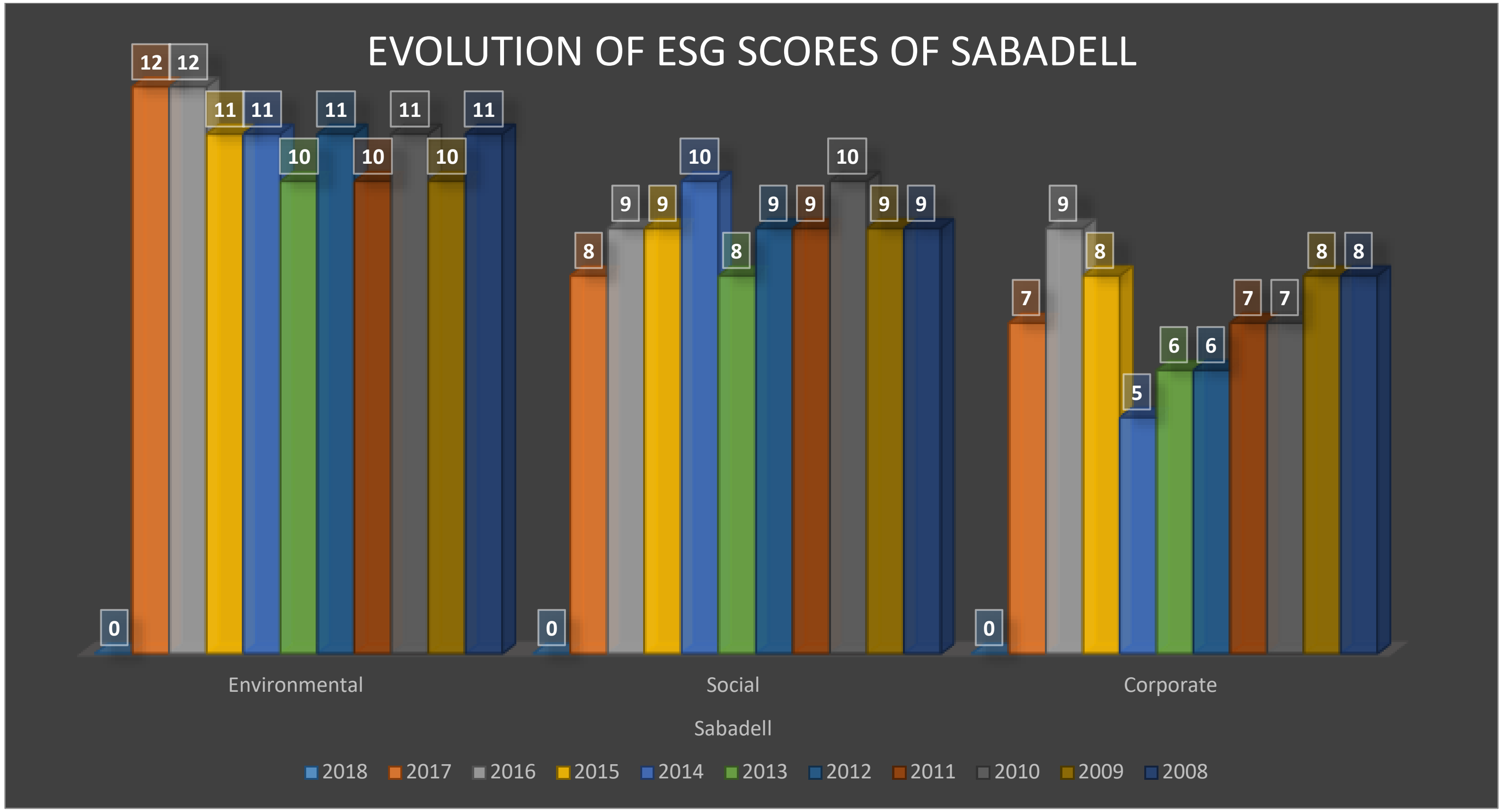
Source: (Refinitiv, 2019, p. 7)

6.2 Grading System for the study

LETTER	NUMBER
A+	12
A	11
A-	10
B+	9
B	8
B-	7
C+	6
C	5
C-	4
D+	3
D	2
D-	1
F	0

6.3 Sabadell

6.3.1 Evolution of ESG scores of Sabadell



6.3.2 ESG environmental score table of Sabadell

Banco de Sabadell SA | 09-07-2019 | 4:28:03 PM

Environmental	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
ESG Combined Score	C	A-	A-	B+	B	B+	B+	B+	B+	B+
ESG Score	B+	A-	A-	B+	B	B+	B+	B+	B+	B+
Environment Pillar Score	A+	A+	A	A	A-	A	A-	A	A-	A
Social Pillar Score	B	B+	B+	A-	B	B+	B+	A-	B+	B+
Governance Pillar Score	B-	B+	B	C	C+	C+	B-	B-	B	B
ESG Controversies Score	D-	B-	B-	B	B	B	B	B	B	B
Period End Date	31-12-2017	31-12-2016	31-12-2015	31-12-2014	31-12-2013	31-12-2012	31-12-2011	31-12-2010	31-12-2009	31-12-2008
Reporting Currency	--	--	--	--	--	--	--	--	--	--
Period Status	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete
ESG Report	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ESG Reporting Scope	64.864	64.641	64.657	100	97.43	97.63	96.88	100	--	--
ESG Report Auditor Name	PricewaterhouseCoopers Auditores,	PricewaterhouseCo	PricewaterhouseCo	--	--	Bureau Veritas	Bureau Veritas	Bureau Veritas	Bureau Veritas	Bureau Veritas
ESG Period Last Update Date	19-04-2019	09-04-2019	09-04-2019	09-04-2019	09-04-2019	04-07-2019	04-07-2019	04-07-2019	10-12-2018	17-12-2018
Resource Use	A+	A+	A	A	A-	A	A-	A+	A	A+
Energy Use Total	82.824	89.809	--	375.909	83	--	--	--	--	--
Energy Purchased Direct	82.824	89.809	--	375.909	1.891	--	--	--	--	--
Electricity Purchased	--	--	--	369.671	101.001	--	--	--	--	--
Water Withdrawal Total	--	--	--	636	566.681	--	--	--	--	--
Fresh Water Withdrawal Total	--	--	--	636	566.681	--	--	--	--	--
Emissions	A+	A+	A-	B+	B+	B+	B+	A-	A-	A-
CO2 Equivalent Emissions Total	--	--	--	13.442	2.749	--	--	--	--	--
CO2 Equivalent Emissions Direct, Scope 1	763	--	--	552	560	--	--	--	--	--
CO2 Equivalent Emissions Indirect, Scope	22	--	--	12.890	2.189	--	--	--	--	--
CO2 Equivalent Emissions Indirect, Scope	3.337	--	--	3.143	--	--	--	--	--	--
Non-Hazardous Waste	--	--	--	883	594	--	--	--	--	--
Hazardous Waste	--	--	--	--	17	--	--	--	--	--
Innovation	A+	A+	A+	A+	A+	A+	A-	A	B+	A-

6.3.3 ESG social score table of Sabadell

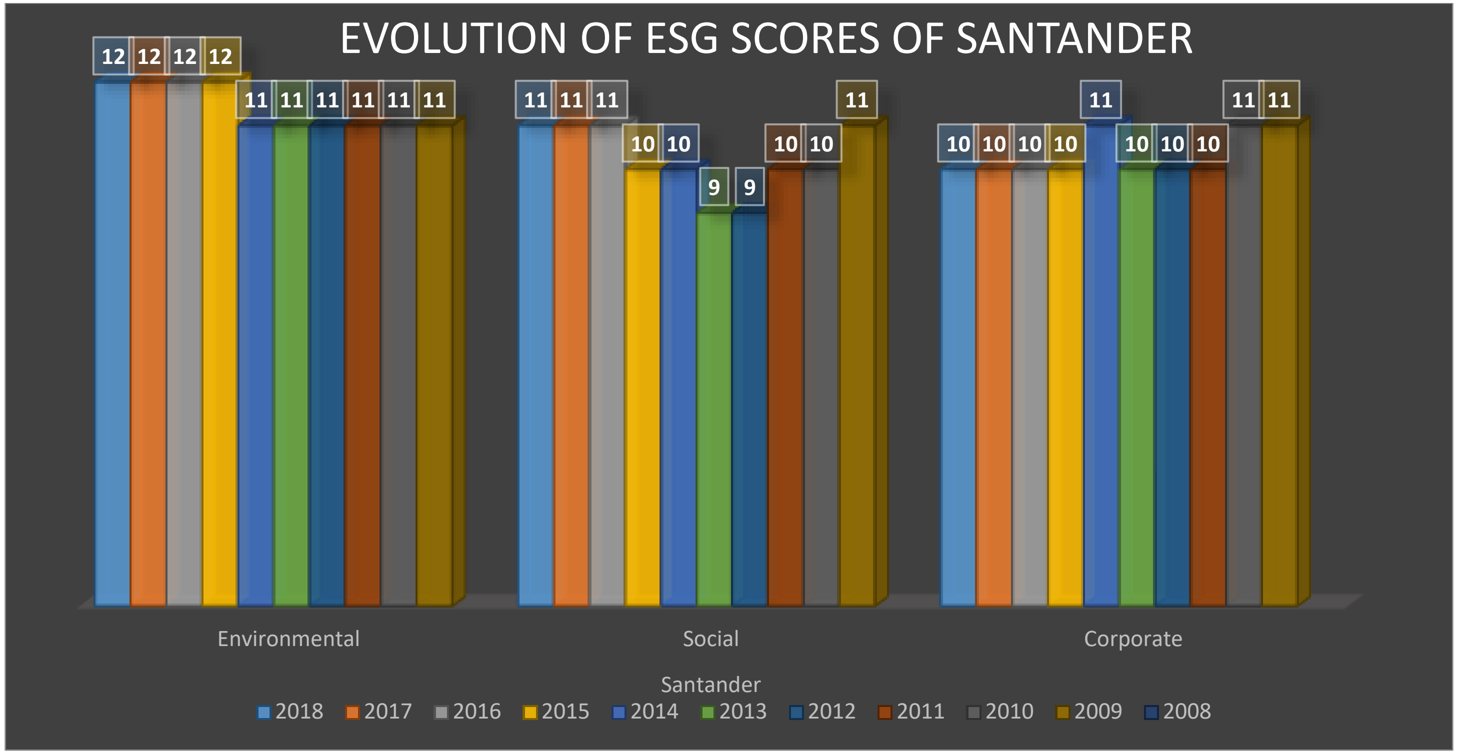
Banco de Sabadell SA | 09-07-2019 | 4:28:03 PM

Social

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
ESG Combined Score	C	A-	A-	B+	B	B+	B+	B+	B+	B+
ESG Score	B+	A-	A-	B+	B	B+	B+	B+	B+	B+
Environment Pillar Score	A+	A+	A	A	A-	A	A-	A	A-	A
Social Pillar Score	B	B+	B+	A-	B	B+	B+	A-	B+	B+
Governance Pillar Score	B-	B+	B	C	C+	C+	B-	B-	B	B
ESG Controversies Score	D-	B-	B-	B	B	B	B	B	B	B
Period End Date	31-12-2017	31-12-2016	31-12-2015	31-12-2014	31-12-2013	31-12-2012	31-12-2011	31-12-2010	31-12-2009	31-12-2008
Reporting Currency	—	—	—	—	—	—	—	—	—	—
Period Status	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete
ESG Report	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ESG Reporting Scope	64.864	64.641	64.657	100	97.43	97.63	96.88	100	—	—
ESG Report Auditor Name	PricewaterhouseCoopers Auditores, S.L.	PricewaterhouseCoopers Auditores, S.L.	PricewaterhouseCo	—	—	Bureau Veritas	Bureau Veritas	Bureau Veritas	Bureau Veritas	Bureau Veritas
ESG Period Last Update Date	19-04-2019	09-04-2019	09-04-2019	09-04-2019	09-04-2019	04-07-2019	04-07-2019	04-07-2019	10-12-2018	17-12-2018
Workforce	A-	A	A-	A	B+	B+	B+	A	A	B+
Number of Employees from CSR reporting	25.845	—	—	—	—	—	—	—	—	—
Turnover of Employees	1,57%	—	—	—	—	—	—	—	—	—
Women Employees	55,6%	—	—	—	—	—	—	—	—	—
Women Managers	34,6%	—	—	—	—	—	—	—	—	—
Average Training Hours	32,98	—	—	33,62	26	—	—	—	—	—
Training Hours Total	—	—	—	589.324,98	399.394	—	—	—	—	—
Human Rights	A-	A-	A-	B+	B+	B+	A-	A-	A-	A
Community	C-	C	C	B-	C+	B	B-	B	C+	B
Product Responsibility	B+	A-	A	A	B	B	A-	A	A	A+

6.4 Santander

6.4.1 Evolution of ESG scores of Santander



6.4.2 ESG environmental score table of Santander

Banco Santander SA | 09-07-2019 | 4:25:49 PM										
Environmental										
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
ESG Combined Score	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+
ESG Score	A	A	A	A	A-	A-	A-	A-	A	A
Environment Pillar Score	A+	A+	A+	A+	A	A	A	A	A	A
Social Pillar Score	A	A	A	A-	A-	B+	B+	A-	A-	A
Governance Pillar Score	A-	A-	A-	A-	A	A-	A-	A-	A	A
ESG Controversies Score	D-	D	D-	D-	D-	D-	D-	D-	D-	D
Period End Date	31-12-2018	31-12-2017	31-12-2016	31-12-2015	31-12-2014	31-12-2013	31-12-2012	31-12-2011	31-12-2010	31-12-2009
Reporting Currency	—	—	—	—	—	—	—	—	—	—
Period Status	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete
ESG Report	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ESG Reporting Scope	90	100	100	100	100	100	100	100	100	—
ESG Report Auditor Name	PricewaterhouseCoopers Auditores, S.L.	PricewaterhouseCo	PricewaterhouseCo	Deloitte S.L	Deloitte S.L.	Deloitte S.L.	Deloitte S.L.	Deloitte S.L.	Deloitte S.L	Deloitte S.L.
ESG Period Last Update Date	05-07-2019	05-07-2019	04-07-2019	04-07-2019	04-07-2019	04-07-2019	04-07-2019	04-07-2019	04-07-2019	04-07-2019
Resource Use	A	A	A	A	A	A	A	A	A	A
Energy Use Total	4.314.890	4.522.999	—	—	—	5.222.774	—	—	—	—
Energy Purchased Direct	4.314.890	4.522.999	—	—	—	5.222.774	—	—	—	—
Electricity Purchased	1.019	1.112	1.178	1.208	1.215	1.291	—	—	—	—
Renewable Energy Purchased	462	473	514	480	480	8.432.274,21	—	—	—	—
Water Withdrawal Total	2.956.420	2.872.853	3.017.524	—	—	3.651.742	—	—	—	—
Fresh Water Withdrawal Total	2.956.420	2.872.853	3.017.524	—	—	3.651.742	—	—	—	—
Emissions	A+	A+	A+	A+	A+	A	A	A	A	A
CO2 Equivalent Emissions Total	—	—	—	—	—	321.988	—	—	—	—
CO2 Equivalent Emissions Direct, Scope 1	31.227	28.941	—	—	—	31.642	—	—	—	—
CO2 Equivalent Emissions Indirect, Scope 2	364.682	374.346	—	—	—	290.346	—	—	—	—
CO2 Equivalent Emissions Indirect, Scope 3	124.840	108.910	—	—	—	150.006	—	—	—	—
Waste Total	7.656.046	8.972.420	9.199.786	9.543.869	—	15.788,38	—	—	—	—
Non-Hazardous Waste	—	—	—	—	—	15.788,38	—	—	—	—
Innovation	A+	A+	A+	A+	A+	A+	A+	A+	A+	A+

6.4.3 ESG social score table of Santander

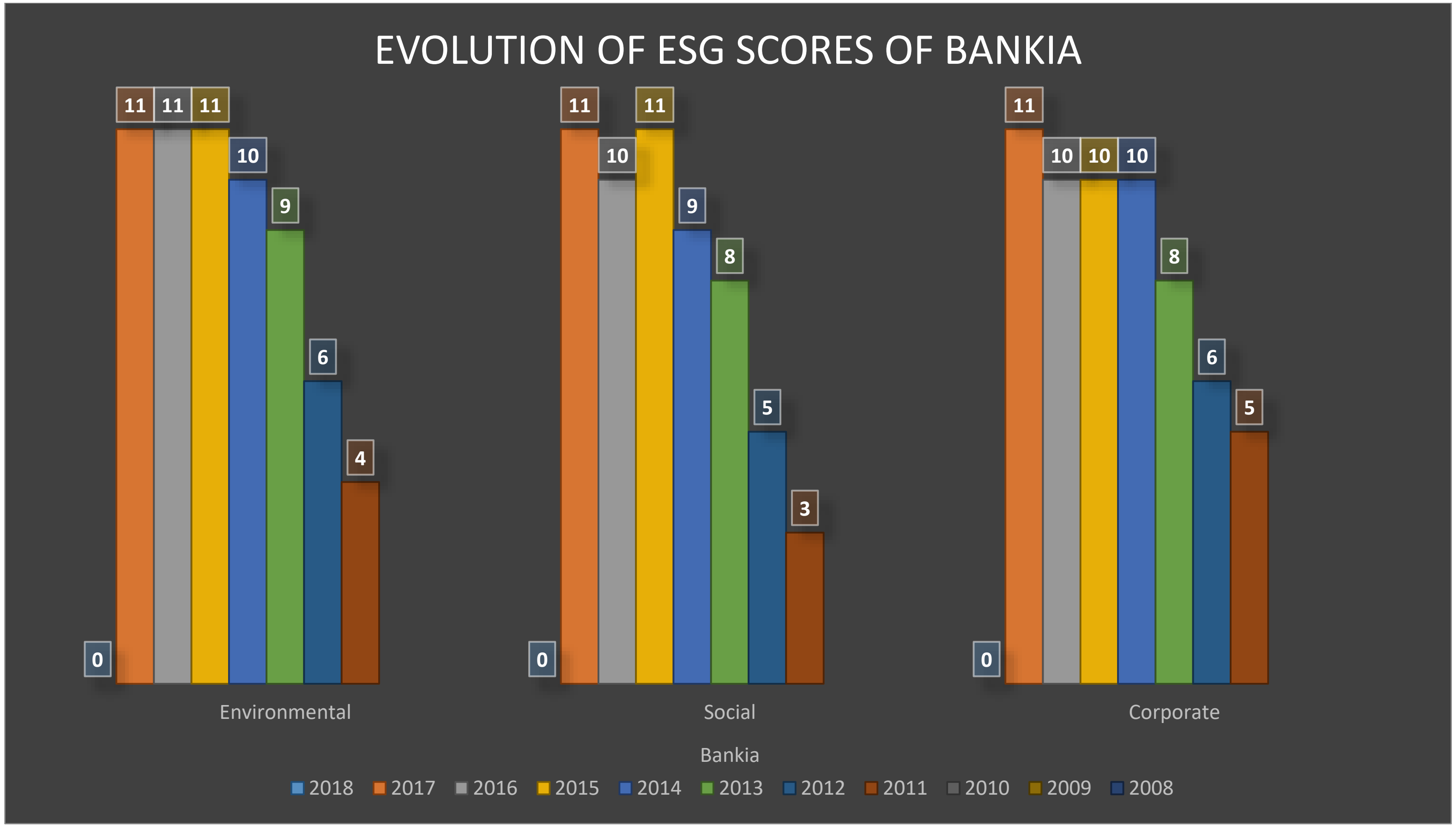
Banco Santander SA | 09-07-2019 | 4:25:49 PM

Social

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
ESG Combined Score	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+
ESG Score	A	A	A	A	A-	A-	A-	A-	A	A
Environment Pillar Score	A+	A+	A+	A+	A	A	A	A	A	A
Social Pillar Score	A	A	A	A-	A-	B+	B+	A-	A-	A
Governance Pillar Score	A-	A-	A-	A-	A	A-	A-	A-	A	A
ESG Controversies Score	D-	D	D-	D-	D-	D-	D-	D-	D-	D
Period End Date	31-12-2018	31-12-2017	31-12-2016	31-12-2015	31-12-2014	31-12-2013	31-12-2012	31-12-2011	31-12-2010	31-12-2009
Reporting Currency	--	--	--	--	--	--	--	--	--	--
Period Status	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete
ESG Report	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ESG Reporting Scope	90	100	100	100	100	100	100	100	100	--
ESG Report Auditor Name	PricewaterhouseCoopers Auditores, S.L.	PricewaterhouseCoopers Auditores, S.L	PricewaterhouseCo	Deloitte S.L	Deloitte S.L.	Deloitte S.L.	Deloitte S.L.	Deloitte S.L.	Deloitte S.L	Deloitte S.L.
ESG Period Last Update Date	05-07-2019	05-07-2019	04-07-2019	04-07-2019	04-07-2019	04-07-2019	04-07-2019	04-07-2019	04-07-2019	04-07-2019
Workforce	A	A	A-	B+	B	B+	B-	B+	B+	A
Number of Employees from CSR reporting	--	202.251	188.492	--	--	--	--	--	--	--
Trade Union Representation	70,6%	76,3%	70,6%	--	--	--	--	--	--	--
Turnover of Employees	15,4%	13,35%	14,68%	--	--	--	--	--	--	--
Women Employees	54,5%	55%	55%	--	--	--	--	--	--	--
Women Managers	20,5%	--	--	--	--	--	--	--	--	--
Employees With Disabilities	1,7	1,7	1,85	--	--	--	--	--	--	--
Employee Fatalities	--	4	2	--	1	--	--	--	--	--
Lost Working Days	--	--	--	--	--	1.262.500	--	--	282.613	--
Employee Lost Working Days	--	--	--	--	--	1.262.500	--	--	--	--
Average Training Hours	33,8	39,64	34,1	--	44,59	51,71	--	--	--	--
Training Hours Total	6.842.825	8.016.912	6.435.034	--	8.267.366	9.461.127	--	--	--	--
Human Rights	A+	A+	A+	A+	A+	A+	A+	A+	A+	A+
Community	A	A	A	B+	B+	B	B	B	A-	A-
Product Responsibility	A+	A+	A+	A+	A+	A+	A+	A+	A+	A+
Customer Satisfaction	88,75	88	87,5	--	--	--	--	--	--	--

6.5 Bankia

6.5.1 Evolution of ESG scores of Bankia



6.5.2 ESG environmental score table of Bankia

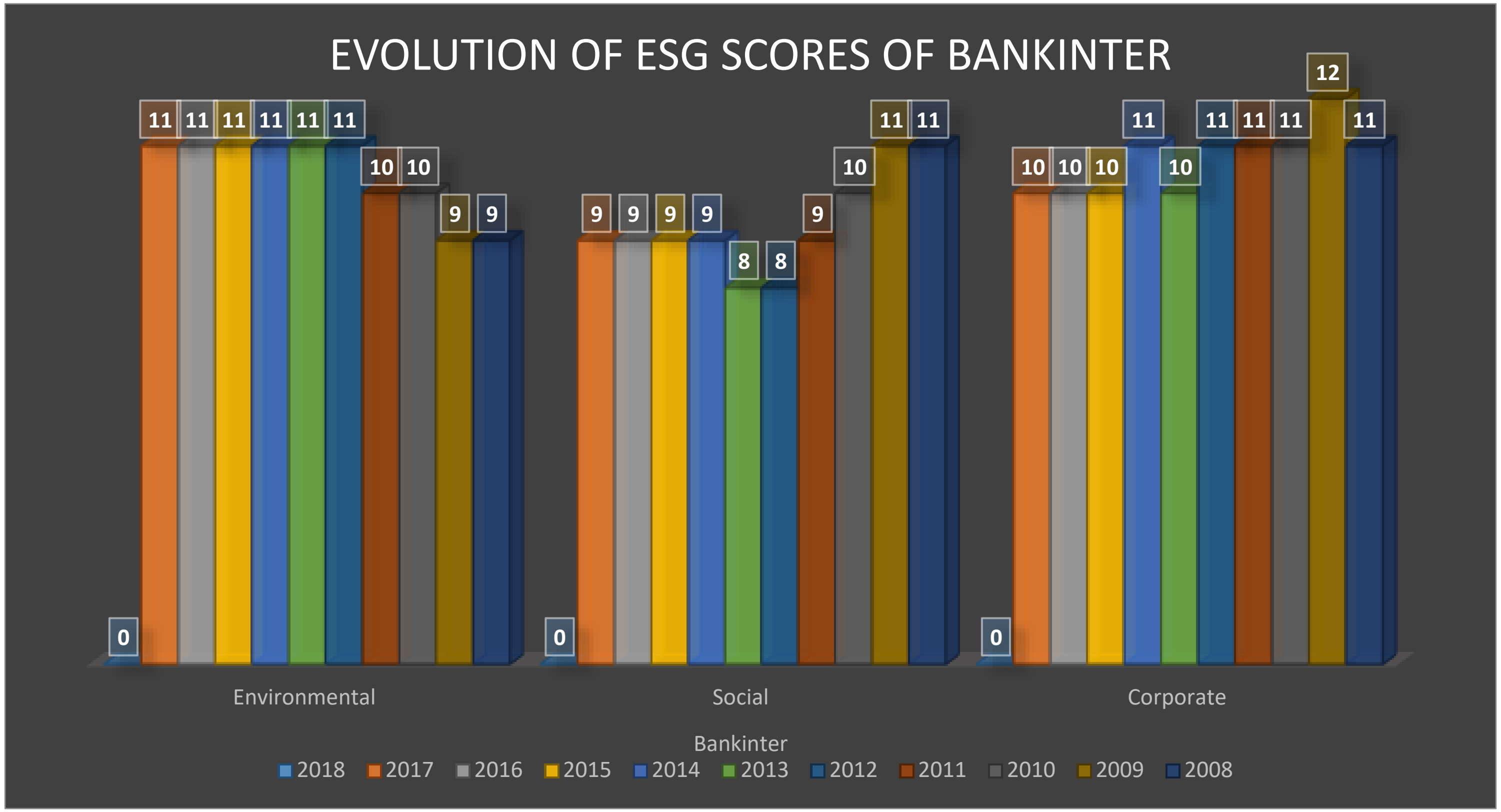
Bankia SA | 09-07-2019 | 4:26:34 PM							
Environmental							
	2017	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
ESG Combined Score	B-	A-	A	A-	C+	C-	C-
ESG Score	A	A-	A	A-	B	C+	C-
Environment Pillar Score	A	A	A	A-	B+	C+	C-
Social Pillar Score	A	A-	A	B+	B	C	D+
Governance Pillar Score	A	A-	A-	A-	B	C+	C
ESG Controversies Score	D	B-	B-	B	D+	D+	B
Period End Date	31-12-2017	31-12-2016	31-12-2015	31-12-2014	31-12-2013	31-12-2012	31-12-2011
Reporting Currency	--	--	--	--	--	--	--
Period Status	Complete	Complete	Complete	Complete	Complete	Complete	Complete
ESG Report	Yes	Yes	Yes	Yes	Yes	No	No
ESG Reporting Scope	100	100	100	100	100	--	--
ESG Report Auditor Name	ERNST & YOUNG, S.L.,	Ernst & Young	ERNST & YOUNG,	ERNST & YOUNG,	Ernst & Young	--	--
ESG Period Last Update Date	01-03-2019	01-02-2019	01-02-2019	01-02-2019	01-02-2019	01-02-2019	01-02-2019
Resource Use	A+	A+	A+	A	A-	B	D+
Energy Use Total	312.950	4.033	379.638	385.845	495.811	540.336	--
Energy Purchased Direct	--	10.841	3.538	385.845	--	540.336	--
Electricity Purchased	312.950	326.127	--	369.051	461.490	495.828	--
Renewable Energy Purchased	312.950	326.127	--	369.051	--	470.540,77	--
Water Withdrawal Total	240.538	244.516	--	--	--	93.942	--
Fresh Water Withdrawal Total	240.538	244.516	--	--	--	93.942	--
Emissions	A+	A+	A+	A	A-	B	C
CO2 Equivalent Emissions Total	--	3.743,5	--	3.348,1	--	5.249,8	--
CO2 Equivalent Emissions Direct, Scope 1	4.545,7	3.743,5	--	3.348,1	--	2.881,8	--
CO2 Equivalent Emissions Indirect, Scope 2	0	0	--	0	0	2.368	--
CO2 Equivalent Emissions Indirect, Scope 3	4.001,2	4.571,6	--	4.672,7	4.195,4	2.106,2	--
NOx Emissions	1,4	1,41	--	1,53	3,1	2,91	--
Waste Total	--	--	--	906,93	--	907,27	--
Non-Hazardous Waste	0,67	1.246,17	1.522,46	906,28	--	906,8	--
Waste Recycled Total	1.096,24	1.246,17	--	895,6	--	--	--
Hazardous Waste	0,57	0,68	--	0,65	1,18	0,47	--
Innovation	B+	B+	B+	B-	B	D+	D+

6.5.3 ESG social score table of Bankia

Bankia SA | 09-07-2019 | 4:26:34 PM							
Social							
	2017	2016	2015	2014	2013	2012	2011
ESG Combined Score	B-	A-	A	A-	C+	C-	C-
ESG Score	A	A-	A	A-	B	C+	C-
Environment Pillar Score	A	A	A	A-	B+	C+	C-
Social Pillar Score	A	A-	A	B+	B	C	D+
Governance Pillar Score	A	A-	A-	A-	B	C+	C
ESG Controversies Score	D	B-	B-	B	D+	D+	B
Period End Date	31-12-2017	31-12-2016	31-12-2015	31-12-2014	31-12-2013	31-12-2012	31-12-2011
Reporting Currency	--	--	--	--	--	--	--
Period Status	Complete	Complete	Complete	Complete	Complete	Complete	Complete
ESG Report	Yes	Yes	Yes	Yes	Yes	No	No
ESG Reporting Scope	100	100	100	100	100	--	--
ESG Report Auditor Name	ERNST & YOUNG, S.L.,	Ernst & Young	ERNST & YOUNG,	ERNST & YOUNG,	Ernst & Young	--	--
ESG Period Last Update Date	01-03-2019	01-02-2019	01-02-2019	01-02-2019	01-02-2019	01-02-2019	01-02-2019
Workforce	A+	A+	A+	A+	B+	D	D-
Number of Employees from CSR reporting	13.122	13.159	--	--	--	--	--
Trade Union Representation	100%	--	--	--	--	--	--
Turnover of Employees	0,74%	0,59%	--	--	--	--	--
Women Employees	54,63%	--	--	--	--	--	--
Women Managers	40,86%	--	--	--	--	--	--
Total Injury Rate Total	0,18	0,23	--	--	--	--	--
Total Injury Rate Employees	0,18	0,23	--	--	--	--	--
Employee Fatalities	0	--	--	0	0	--	--
Lost Working Days	--	--	--	2.918	4.314	1.043,5	--
Employee Lost Working Days	--	--	--	2.918	4.314	1.043,5	--
Average Training Hours	74,42	50,66	--	50,9	40,61	17,22	--
Training Hours Total	--	666.624	--	669.293	--	354.488	--
Human Rights	A	A	A+	A	A	A	C
Community	B	C	A-	A-	B-	B-	D+
Product Responsibility	A	A	B+	D+	D+	C	C
Customer Satisfaction	90	--	--	--	--	--	--

6.6 Bankinter

6.6.1 Evolution of ESG scores of Bankinter



6.6.2 ESG environmental score table of Bankinter

Bankinter SA | 09-07-2019 | 4:29:43 PM										
Environmental										
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
ESG Combined Score	C+	A-	A-	A-	A-	A-	A-	A	A	A-
ESG Score	A-	A-	A-	A-	A-	A-	A-	A	A	A-
Environment Pillar Score	A	A	A	A	A	A	A-	A-	B+	B+
Social Pillar Score	B+	B+	B+	B+	B	B	B+	A-	A	A
Governance Pillar Score	A-	A-	A-	A	A-	A	A	A	A+	A
ESG Controversies Score	D	B-	B-	B	B	B	B	B	B	B
Period End Date	31-12-2017	31-12-2016	31-12-2015	31-12-2014	31-12-2013	31-12-2012	31-12-2011	31-12-2010	31-12-2009	31-12-2008
Reporting Currency	--	--	--	--	--	--	--	--	--	--
Period Status	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete
ESG Report	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ESG Reporting Scope	84.403	99.4899999999999	100	100	100	100	100	100	--	--
ESG Report Auditor Name	PricewaterhouseCoopers Auditores,	Pricewaterhousecoo	Deloitte	Deloitte Advisory	Deloitte	PricewaterhouseCoo	PWC	PricewaterhouseCoo	PRICEWATERHOUSE	PricewaterhouseCoo
ESG Period Last Update Date	03-05-2019	22-02-2019	09-04-2019	09-04-2019	09-04-2019	22-02-2019	22-02-2019	22-02-2019	10-12-2018	17-12-2018
Resource Use	A	A	A	A-	A-	A+	A	A-	A+	A+
Energy Use Total	90.204	89.454	--	--	96.520	--	--	--	--	--
Energy Purchased Direct	--	89.454	--	--	96.520	--	--	--	--	--
Electricity Purchased	13.234	82.795	--	--	91.728	--	--	--	--	--
Renewable Energy Purchased	33.113	32.870	--	--	28.527	--	--	--	--	--
Water Withdrawal Total	46.871	45.488	--	45.252	45.099	--	--	--	--	--
Fresh Water Withdrawal Total	--	45.488	--	45.252	45.099	--	--	--	--	--
Emissions	A+	A	A+	A	A	A-	A+	A+	A+	A+
CO2 Equivalent Emissions Total	--	--	--	--	8.709,16	--	--	--	--	--
CO2 Equivalent Emissions Direct, Scope	964	416,88	--	--	300,74	--	--	--	--	--
CO2 Equivalent Emissions Indirect,	1.395,91	7.819,56	--	--	8.408,42	--	--	--	--	--
CO2 Equivalent Emissions Indirect,	1.138,63	9.016,44	--	--	3.192,92	--	--	--	--	--
Waste Total	--	--	--	139.068	111,4	--	--	--	--	--
Non-Hazardous Waste	154.954	306,26	511	136.888	106.518	--	--	--	--	--
Hazardous Waste	6.795	36.191	--	2.180	4.877	--	--	--	--	--
EMS Certified Percent	43%	39,14%	--	--	--	--	--	--	--	--
Innovation	A+	A+	A+	A+	A+	A+	B+	B+	D+	C-

6.6.3 ESG social score table of Bankinter

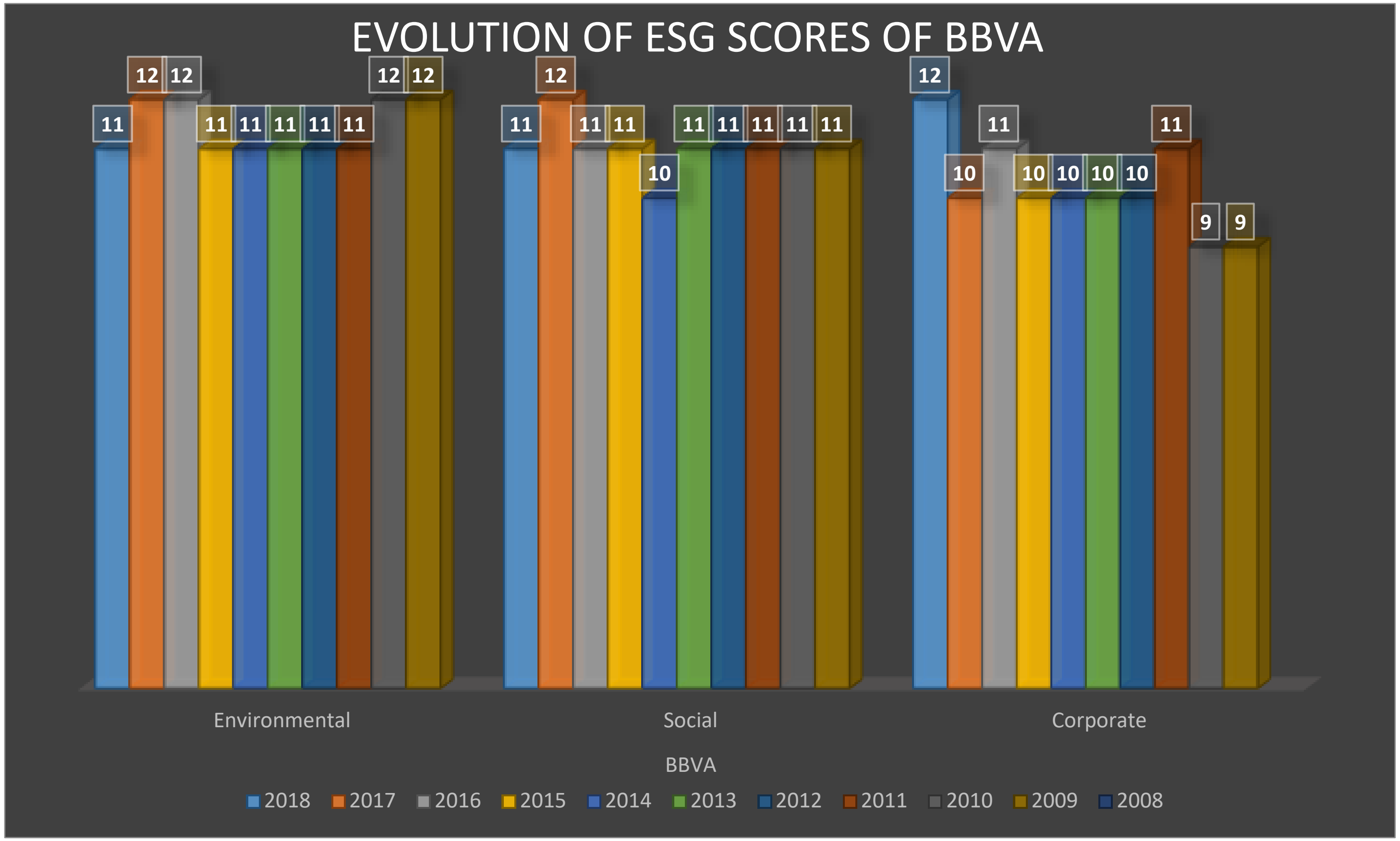
Bankinter SA | 09-07-2019 | 4:29:43 PM

Social

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
ESG Combined Score	C+	A-	A-	A-	A-	A-	A-	A	A	A-
ESG Score	A-	A-	A-	A-	A-	A-	A-	A	A	A-
Environment Pillar Score	A	A	A	A	A	A	A-	A-	B+	B+
Social Pillar Score	B+	B+	B+	B+	B	B	B+	A-	A	A
Governance Pillar Score	A-	A-	A-	A	A-	A	A	A	A+	A
ESG Controversies Score	D	B-	B-	B	B	B	B	B	B	B
Period End Date	31-12-2017	31-12-2016	31-12-2015	31-12-2014	31-12-2013	31-12-2012	31-12-2011	31-12-2010	31-12-2009	31-12-2008
Reporting Currency	–	–	–	–	–	–	–	–	–	–
Period Status	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete
ESG Report	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ESG Reporting Scope	84.403	99.4899999999999	100	100	100	100	100	100	–	–
ESG Report Auditor Name	PricewaterhouseCoopers Auditores,	Pricewaterhousecooper	Deloitte	Deloitte Advisory	Deloitte	PricewaterhouseCo	PWC	PricewaterhouseCo	PRICEWATERHOUS	PricewaterhouseCo
ESG Period Last Update Date	03-05-2019	22-02-2019	09-04-2019	09-04-2019	09-04-2019	22-02-2019	22-02-2019	22-02-2019	10-12-2018	17-12-2018
Workforce	A	A	A-	A-	A-	B-	B+	A	A+	A+
Number of Employees from CSR reporting	5.578	5.486	–	–	–	–	–	–	–	–
Trade Union Representation	100%	100%	–	–	–	–	–	–	–	–
Turnover of Employees	5,1%	4,45%	–	–	–	–	–	–	–	–
Women Employees	50,81%	51,13%	–	–	–	–	–	–	–	–
Women Managers	–	37,2%	–	–	–	–	–	–	–	–
Employees With Disabilities	1,1	0,86	–	–	–	–	–	–	–	–
Total Injury Rate Total	–	–	0	113	–	–	–	–	–	–
Total Injury Rate Employees	–	–	0	113	–	–	–	–	–	–
Accidents Total	–	–	–	113	–	–	–	–	–	–
Employee Accidents	–	–	–	113	–	–	–	–	–	–
Employee Fatalities	0	0	–	–	–	–	–	–	–	–
Lost Working Days	–	–	–	–	644	–	–	–	–	–
Average Training Hours	61,24	52,47	–	–	–	–	–	–	–	–
Training Hours Total	–	–	–	186.127	139.000	–	–	–	–	–
Human Rights	B+	A-	B+	B+	B+	B+	A	A	A+	A+
Community	B	B	B	B+	B+	B+	A	A-	A	A-
Product Responsibility	C	C+	C+	C	D+	B	B	B	B	A

6.7 BBVA

6.7.1 Evolution of ESG scores of BBVA



6.7.2 ESG environmental score table of BBVA

Bankinter SA | 09-07-2019 | 4:29:43 PM

Social

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
ESG Combined Score	C+	A-	A-	A-	A-	A-	A-	A	A	A-
ESG Score	A-	A-	A-	A-	A-	A-	A-	A	A	A-
Environment Pillar Score	A	A	A	A	A	A	A-	A-	B+	B+
Social Pillar Score	B+	B+	B+	B+	B	B	B+	A-	A	A
Governance Pillar Score	A-	A-	A-	A	A-	A	A	A	A+	A
ESG Controversies Score	D	B-	B-	B	B	B	B	B	B	B
Period End Date	31-12-2017	31-12-2016	31-12-2015	31-12-2014	31-12-2013	31-12-2012	31-12-2011	31-12-2010	31-12-2009	31-12-2008
Reporting Currency	—	—	—	—	—	—	—	—	—	—
Period Status	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete
ESG Report	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ESG Reporting Scope	84.403	99.4899999999999	100	100	100	100	100	100	—	—
ESG Report Auditor Name	PricewaterhouseCoopers Auditores,	Pricewaterhousecooper	Deloitte	Deloitte Advisory	Deloitte	PricewaterhouseCo	PWC	PricewaterhouseCo	PRICEWATERHOUS	PricewaterhouseCo
ESG Period Last Update Date	03-05-2019	22-02-2019	09-04-2019	09-04-2019	09-04-2019	22-02-2019	22-02-2019	22-02-2019	10-12-2018	17-12-2018
Workforce	A	A	A-	A-	A-	B-	B+	A	A+	A+
Number of Employees from CSR reporting	5.578	5.486	—	—	—	—	—	—	—	—
Trade Union Representation	100%	100%	—	—	—	—	—	—	—	—
Turnover of Employees	5,1%	4,45%	—	—	—	—	—	—	—	—
Women Employees	50,81%	51,13%	—	—	—	—	—	—	—	—
Women Managers	—	37,2%	—	—	—	—	—	—	—	—
Employees With Disabilities	1,1	0,86	—	—	—	—	—	—	—	—
Total Injury Rate Total	—	—	0	113	—	—	—	—	—	—
Total Injury Rate Employees	—	—	0	113	—	—	—	—	—	—
Accidents Total	—	—	—	113	—	—	—	—	—	—
Employee Accidents	—	—	—	113	—	—	—	—	—	—
Employee Fatalities	0	0	—	—	—	—	—	—	—	—
Lost Working Days	—	—	—	—	644	—	—	—	—	—
Average Training Hours	61,24	52,47	—	—	—	—	—	—	—	—
Training Hours Total	—	—	—	186.127	139.000	—	—	—	—	—
Human Rights	B+	A-	B+	B+	B+	B+	A	A	A+	A+
Community	B	B	B	B+	B+	B+	A	A-	A	A-
Product Responsibility	C	C+	C+	C	D+	B	B	B	B	A

6.7.3 ESG social score table of BBVA

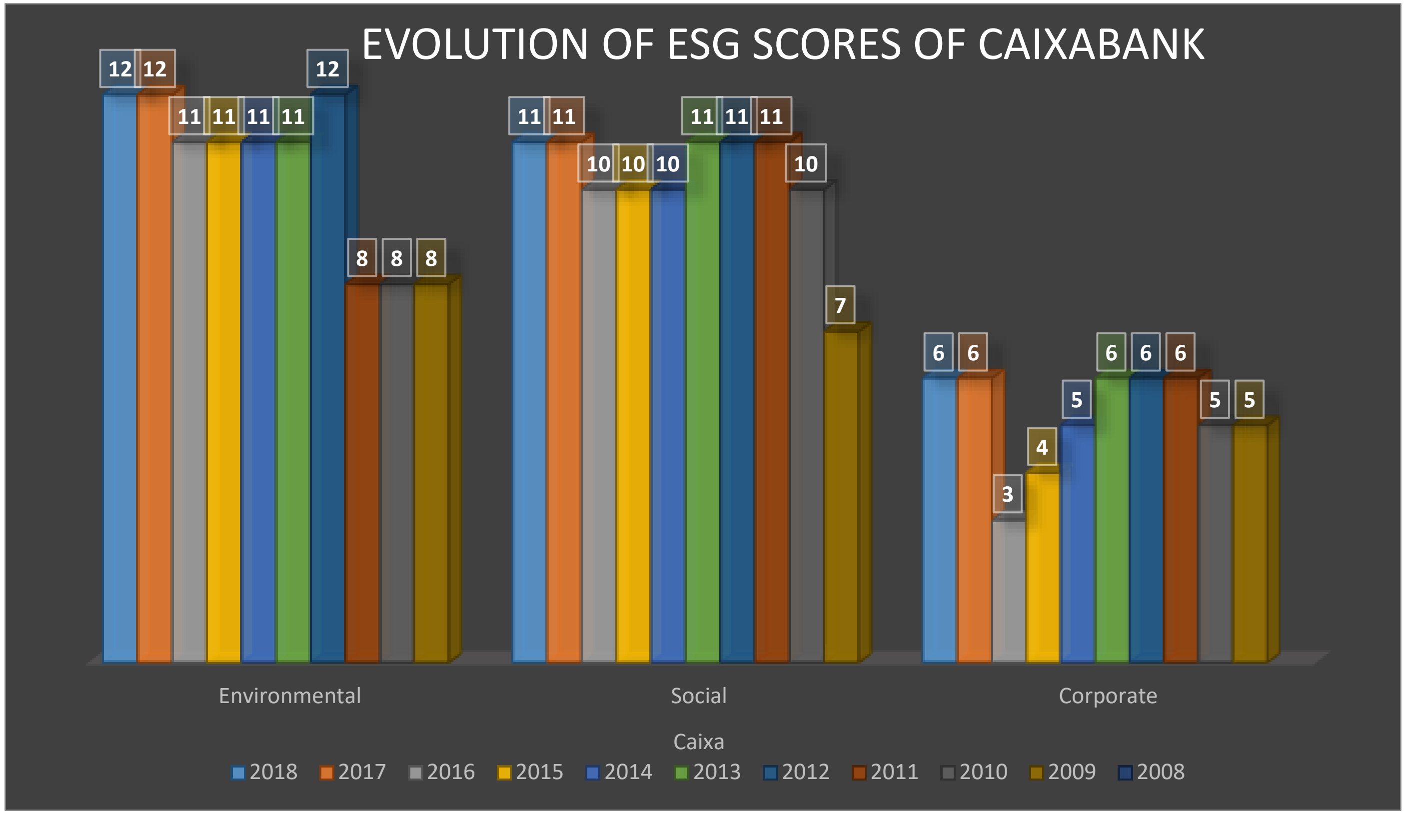
Banco Bilbao Vizcaya Argentaria SA | 09-07-2019 | 4:23:55 PM

Social

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
ESG Combined Score	C+	A	A	A	A-	A	B-	A	A-	C+
ESG Score	A	A	A	A	A-	A	A	A	A-	A
Environment Pillar Score	A	A+	A+	A	A	A	A	A	A+	A+
Social Pillar Score	A	A+	A	A	A-	A	A	A	A	A
Governance Pillar Score	A+	A-	A	A-	A-	A-	A-	A	B+	B+
ESG Controversies Score	D-	B-	B-	B	B	B	D+	B	B	D
Period End Date	31-12-2017	31-12-2016	31-12-2015	31-12-2014	31-12-2013	31-12-2012	31-12-2011	31-12-2010	31-12-2009	31-12-2008
Reporting Currency	—	—	—	—	—	—	—	—	—	—
Period Status	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete
ESG Report	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ESG Reporting Scope	100	100	100	100	100	79	82	100	—	—
ESG Report Auditor Name	KPMG Asesores S.L	Deloitte Advisory, S.L	—	Deloitte	Deloitte Advisory,	Deloitte	Deloitte	Deloitte	Deloitte	DELOITTEE
ESG Period Last Update Date	05-07-2019	22-02-2019	22-02-2019	22-02-2019	22-02-2019	22-02-2019	22-02-2019	04-07-2019	10-12-2018	17-12-2018
Workforce	A	A+	A+	A+	B+	A+	A+	A+	A-	B+
Employee Satisfaction	—	—	83%	—	—	—	—	—	—	—
Number of Employees from CSR reporting	—	131.856	134.792	—	—	—	—	—	—	—
Turnover of Employees	—	7,5%	8,2%	—	—	—	—	—	—	—
Women Employees	—	54%	54%	—	—	—	—	—	—	—
Women Managers	—	47,2%	47,1%	—	—	—	—	—	—	—
Average Training Hours	—	59	59	—	52	—	—	—	—	—
Training Hours Total	—	—	—	—	5.656.040	—	—	—	—	—
Human Rights	A+	A	A	A	A	A	A+	A+	A+	A+
Community	A+	A+	A+	A+	A+	A+	A+	A+	A+	A+
Product Responsibility	B+	A-	B+	B	B+	B+	B+	A-	A	A
Customer Satisfaction	—	82	—	82	—	—	—	—	—	—

6.8 Caixabank

6.8.1 Evolution of ESG scores of Caixabank



6.8.2 ESG environmental score table of Caixabank

Caixabank SA | 09-07-2019 | 4:27:11 PM										
Environmental										
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
ESG Combined Score	C+	A-	B+	B+	B+	B+	A-	B	B	B-
ESG Score	A-	A-	B+	B+	B+	B+	A-	B	B	B-
Environment Pillar Score	A+	A+	A	A	A	A	A+	B	B	B
Social Pillar Score	A	A	A-	A-	A-	A	A	A	A-	B-
Governance Pillar Score	C+	C+	D+	C-	C	C+	C+	C+	C	C
ESG Controversies Score	D-	B-	B-	B	B	B	B	B	B	B
Period End Date	31-12-2017	31-12-2016	31-12-2015	31-12-2014	31-12-2013	31-12-2012	31-12-2011	31-12-2010	31-12-2009	31-12-2008
Reporting Currency	–	–	–	–	–	–	–	–	–	–
Period Status	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete
ESG Report	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ESG Reporting Scope	78.76	93.901	93.977	99.03	98.9	98.5	100	–	100	100
ESG Report Auditor Name	Deloitte	Deloitte SL	Deloitte Advisory	–	Deloitte	Deloitte Advisory,	Deloitte.S.L.	ERNST & YOUNG	KPMG Asesores S.L	KPMG
ESG Period Last Update Date	22-03-2019	09-04-2019	22-03-2019	14-06-2019	04-07-2019	04-07-2019	14-06-2019	04-07-2019	14-06-2019	07-12-2018
Resource Use	A+	A+	A+	A+	A+	A	A+	B+	A	A-
Energy Use Total	–	15.734	15.427	16.370	15.812	17.065	–	–	–	–
Electricity Purchased	–	15.092	15.174	15.877	15.465	16.734	–	–	–	–
Water Withdrawal Total	–	48.135	46.255	–	–	–	–	–	–	–
Fresh Water Withdrawal Total	–	48.135	46.255	–	–	–	–	–	–	–
Emissions	A+	A+	A+	A	A	A+	A+	A-	A-	A-
CO2 Equivalent Emissions Total	–	–	–	–	–	–	–	29.095	29.757	80.883
CO2 Equivalent Emissions Direct, Scope 1	–	13.873	14.277	74	1.203	196	–	12.283	12.398	12.498
CO2 Equivalent Emissions Indirect, Scope 2	–	375	616	–	–	–	–	16.812	17.359	68.385
CO2 Equivalent Emissions Indirect, Scope 3	–	20.530	21.284	–	–	–	–	–	–	–
Carbon Offsets/Credits	–	22.964	20.239	–	–	–	–	–	–	–
Waste Total	–	–	–	–	–	–	–	255,82	–	–
Non-Hazardous Waste	–	1.833	321	–	–	–	–	–	–	–
Hazardous Waste	–	31,65	65,7	–	–	–	–	1,21	–	–
Innovation	A	A	A-	A-	A-	A-	A+	D+	D+	C-

6.8.3 ESG social score table of Caixabank

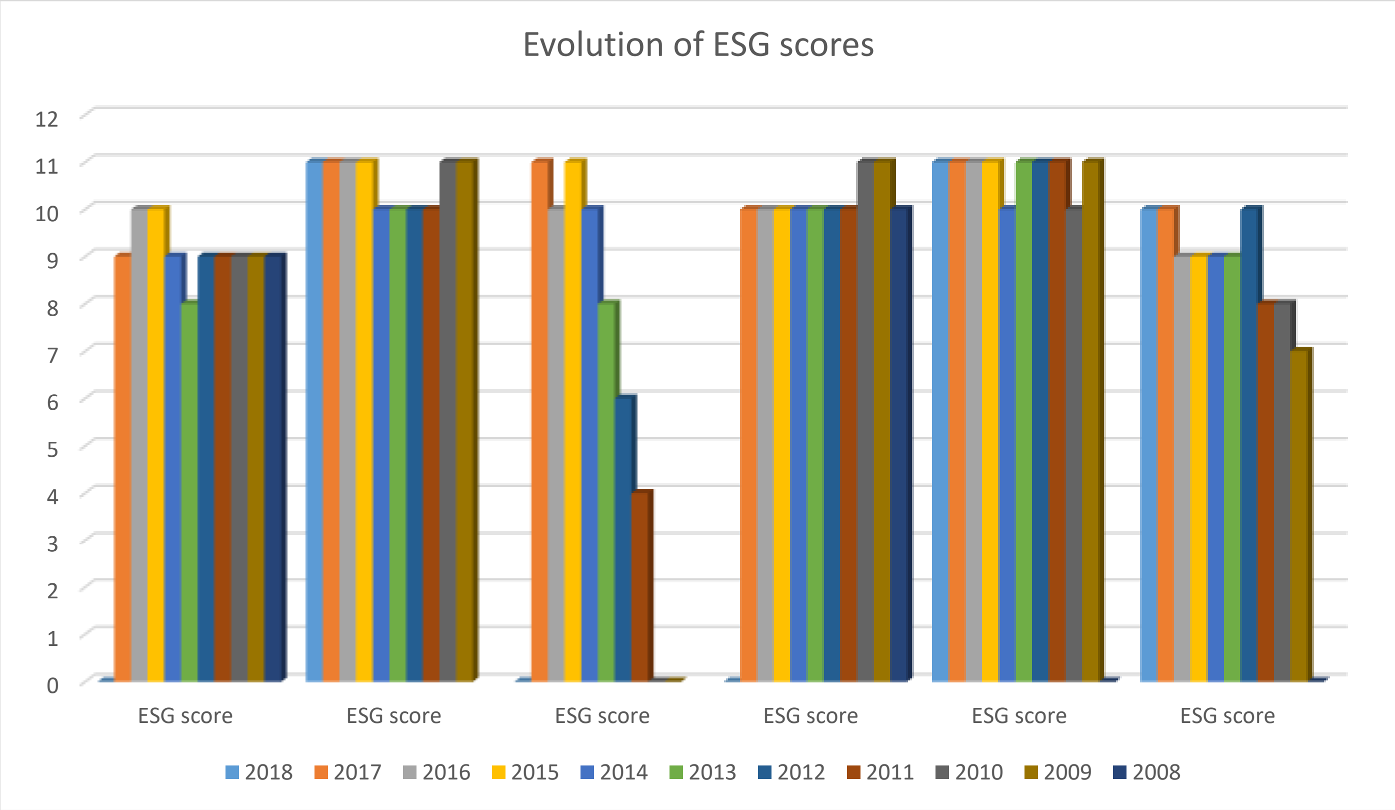
Caixabank SA | 09-07-2019 | 4:27:11 PM

Social

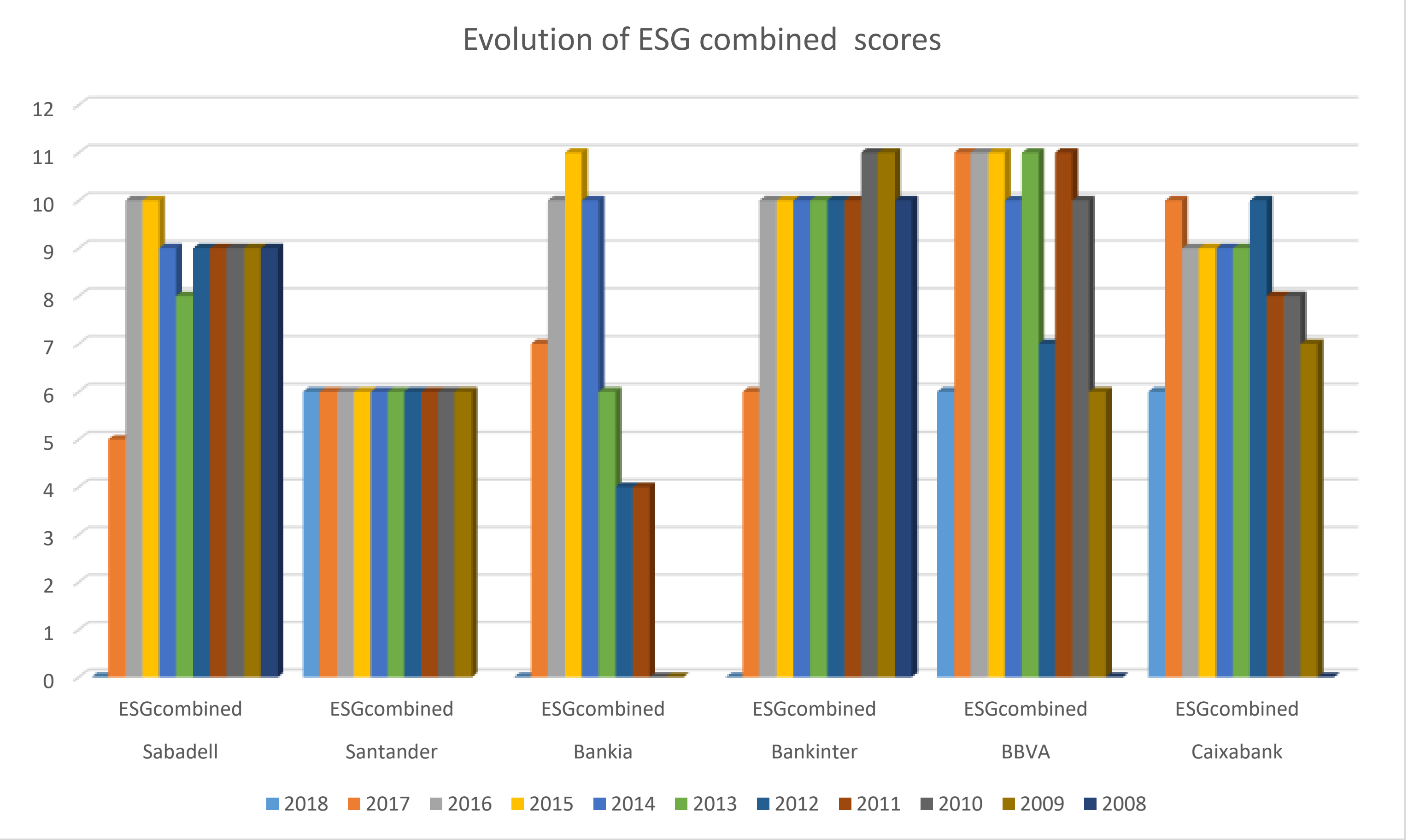
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
ESG Combined Score	C+	A-	B+	B+	B+	B+	A-	B	B	B-
ESG Score	A-	A-	B+	B+	B+	B+	A-	B	B	B-
Environment Pillar Score	A+	A+	A	A	A	A	A+	B	B	B
Social Pillar Score	A	A	A-	A-	A-	A	A	A	A-	B-
Governance Pillar Score	C+	C+	D+	C-	C	C+	C+	C+	C	C
ESG Controversies Score	D-	B-	B-	B	B	B	B	B	B	B
Period End Date	31-12-2017	31-12-2016	31-12-2015	31-12-2014	31-12-2013	31-12-2012	31-12-2011	31-12-2010	31-12-2009	31-12-2008
Reporting Currency	—	—	—	—	—	—	—	—	—	—
Period Status	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete
ESG Report	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ESG Reporting Scope	78.76	93.901	93.977	99.03	98.9	98.5	100	—	100	100
ESG Report Auditor Name	Deloitte	Deloitte SL	Deloitte Advisory	—	Deloitte	Deloitte Advisory,	Deloitte.S.L.	ERNST & YOUNG	KPMG Asesores S.L	KPMG
ESG Period Last Update Date	22-03-2019	09-04-2019	22-03-2019	14-06-2019	04-07-2019	04-07-2019	14-06-2019	04-07-2019	14-06-2019	07-12-2018
Workforce	A+	A	A-	B+	A-	A	A+	A+	A	A-
Number of Employees from CSR reporting	—	—	31.938	—	—	—	—	—	—	—
Trade Union Representation	—	100%	100%	—	—	—	—	—	—	—
Turnover of Employees	—	4.9%	2,8%	—	—	—	—	—	—	—
Women Employees	—	—	52,58%	—	—	—	—	—	—	—
New Women Employees	—	52,37%	48,74%	—	—	—	—	—	—	—
Women Managers	—	—	37%	—	—	—	—	—	—	—
Total Injury Rate Total	—	449	482	444	600	6,68	—	—	—	—
Total Injury Rate Employees	—	124	482	444	600	6,68	—	—	—	—
Lost Time Injury Rate Total	—	—	—	—	—	2,86	—	—	—	—
Lost Time Injury Rate Employees	—	—	—	—	—	2,86	—	—	—	—
Lost Working Days	—	—	5.491	—	—	7.026	5.978	4.879	—	—
Employee Lost Working Days	—	—	5.491	—	—	7.026	—	—	—	—
Average Training Hours	—	—	—	—	—	51,4	—	—	—	—
Training Hours Total	—	—	1.549.295,84	—	—	1.561.974	—	—	—	—
Human Rights	A+	A-	A-	A-	A-	A	A-	A-	A-	C
Community	A+	A+	A+	A+	A+	A+	A+	A-	A	C+
Product Responsibility	B+	B+	B+	B	B-	B-	B-	B	C+	D

6.9 ESG rating outcomes

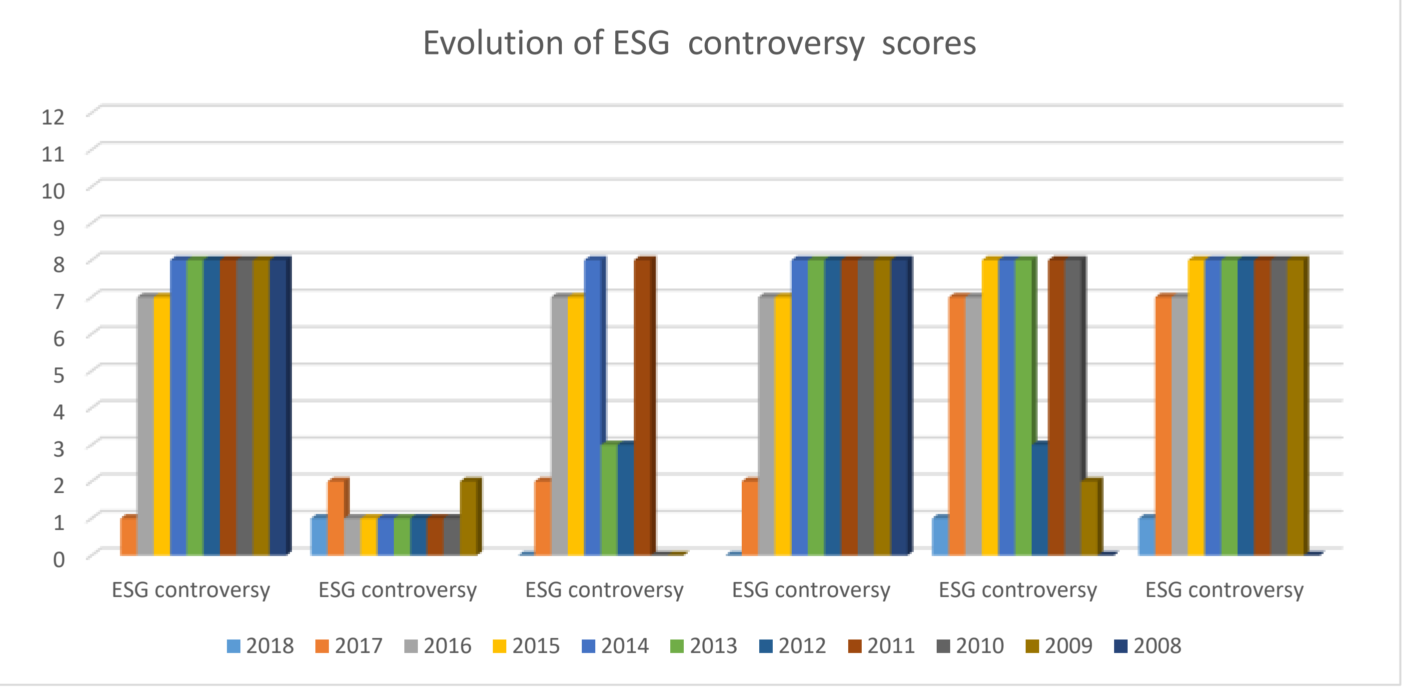
6.9.1 ESG score



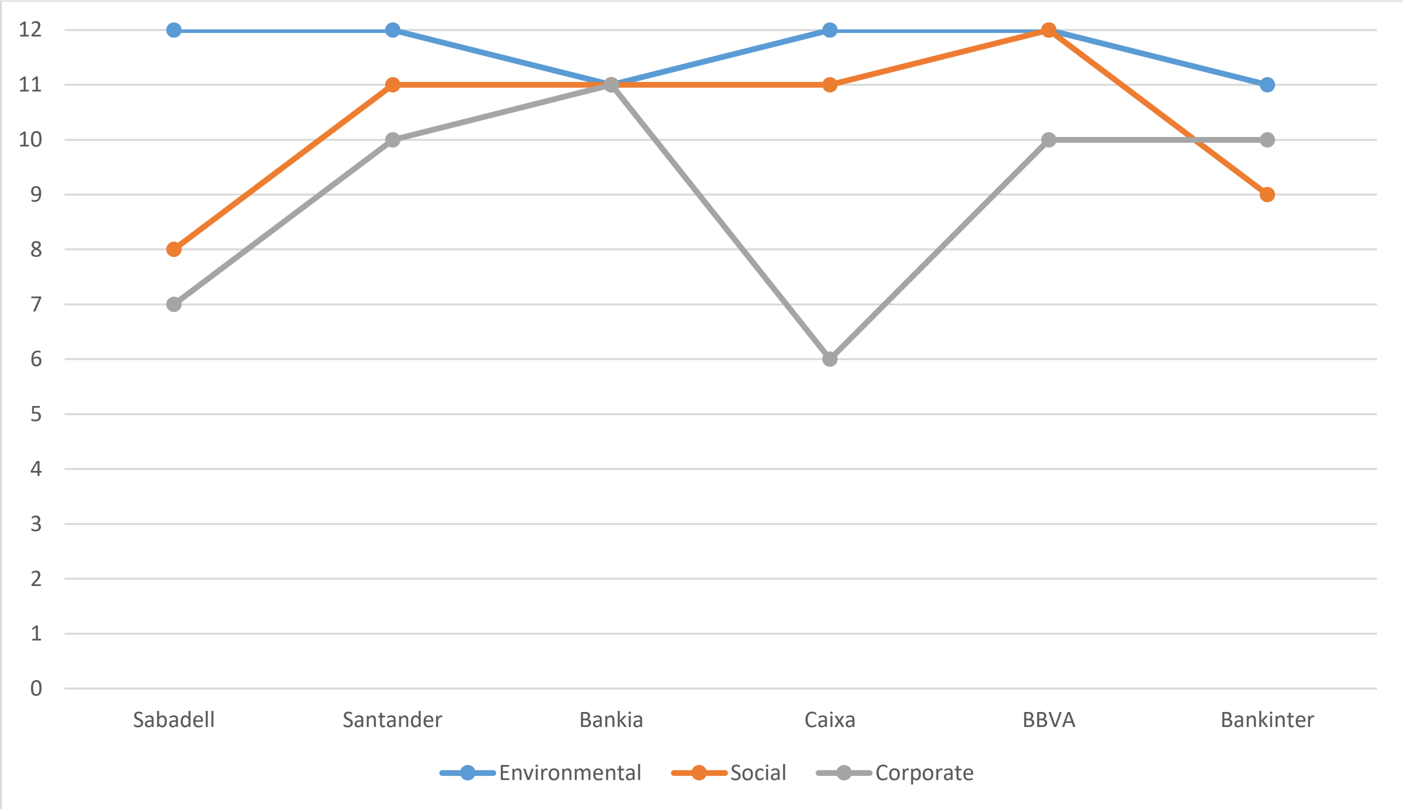
6.9.2 ESG combined score



6.9.3 ESG controversy score



6.9.4 Three pillar scores of the six banks in 2017



6.10 Data from Laboral Kutxa

6.10.1 Aspects that affect the social score

	Sabadell (2017)	Santander (2018)	Bankia (2016-17)	Bankinter (2016)	BBVA (2016)	Caixabank (2016)	LABORAL kutxa (2016)
Average Training Hours	32,98	33,8	50,66	52.47	39	46.6	66.5
Women employees	55,6%	54,5%	54,63%	51,13%	54%	52,58%	47%
Women managers	34,6%	20,5%	40,86%	37,2%	47,1%	37%	27.80%

6.10.2 Consumptions that affect the environmental score

Consumption/Employee	CAIXABANK	LK
Paper (t)	0.15	0.14
Toner	1.99	0.26
Water (m^3)	26.5	5.5
Gas (litres)	28.6	26.1
Electricity (Kwh)	9,236	4,733
Co2 (t)	2.21	0.66

6.11 Auxiliary tables created

		2018	2018	2017	2017	2016	2016	2015	2015	2014	2014	2013	2013	2012	2012	2011	2011	2010	2010	2009	2009	2008	2008
Sabadell	Environmental	-	-	A+	12	A+	12	A	11	A	11	A-	10	A	11	A-	10	A	11	A-	10	A	11
	Social	-	-	B	8	B+	9	B+	9	A-	10	B	8	B+	9	B+	9	A-	10	B+	9	B+	9
	Corporate	-	-	B-	7	B+	9	B	8	C	5	C+	6	C+	6	B-	7	B-	7	B	8	B	8
Santander	Environmental	A+	12	A+	12	A+	12	A+	12	A	11	A	11	A	11	A	11	A	11	A	11		
	Social	A	11	A	11	A	11	A-	10	A-	10	B+	9	B+	9	A-	10	A-	10	A	11		
	Corporate	A-	10	A-	10	A-	10	A-	10	A	11	A-	10	A-	10	A-	10	A	11	A	11		
Bankia	Environmental	-	-	A	11	A	11	A	11	A-	10	B+	9	C+	6	C-	4						
	Social	-	-	A	11	A-	10	A	11	B+	9	B	8	C	5	D+	3						
	Corporate	-	-	A	11	A-	10	A-	10	A-	10	B	8	C+	6	C	5						
Caixa	Environmental	A+	12	A+	12	A	11	A	11	A	11	A	11	A+	12	B	8	B	8	B	8		
	Social	A	11	A	11	A-	10	A-	10	A-	10	A	11	A	11	A	11	A-	10	B-	7		
	Corporate	C+	6	C+	6	D+	3	C-	4	C	5	C+	6	C+	6	C+	6	C	5	C	5		
BBVA	Environmental	A	11	A+	12	A+	12	A	11	A	11	A	11	A	11	A	11	A+	12	A+	12		
	Social	A	11	A+	12	A	11	A	11	A-	10	A	11	A	11	A	11	A	11	A	11		
	Corporate	A+	12	A-	10	A	11	A-	10	A-	10	A-	10	A-	10	A	11	B+	9	B+	9		
Bankinter	Environmental	-	-	A	11	A	11	A	11	A	11	A	11	A	11	A-	10	A-	10	B+	9	B+	9
	Social	-	-	B+	9	B+	9	B+	9	B+	9	B	8	B	8	B+	9	A-	10	A	11	A	11
	Corporate	-	-	A-	10	A-	10	A-	10	A	11	A-	10	A	11	A	11	A	11	A+	12	A	11

		2018	2018	2017	2017	2016	2016	2015	2015	2014	2014	2013	2013	2012	2012	2011	2011	2010	2010	2009	2009	2008	2008
Sabadell	ESGcombined	-	-	C	5	A-	10	A-	10	B+	9	B	8	B+	9	B+	9	B+	9	B+	9	B+	9
	ESG score	-	-	B+	9	A-	10	A-	10	B+	9	B	8	B+	9	B+	9	B+	9	B+	9	B+	9
	ESG controversy	-		D-	1	B-	7	B-	7	B	8	B	8	B	8	B	8	B	8	B	8	B	8
Santander	ESGcombined	C+	6	C+	6	C+	6	C+	6	C+	6	C+	6	C+	6	C+	6	C+	6	C+	6	-	
	ESG score	A	11	A	11	A	11	A	11	A-	10	A-	10	A-	10	A-	10	A	11	A	11	-	
	ESG controversy	D-	1	D	2	D-	1	D-	1	D-	1	D-	1	D-	1	D-	1	D-	1	D	2		
Bankia	ESGcombined	-	-	B-	7	A-	10	A	11	A-	10	C+	6	C-	4	C-	4	-	-	-	-	-	
	ESG score	-	-	A	11	A-	10	A	11	A-	10	B	8	C+	6	C-	4	-	-	-	-	-	
	ESG controversy	-	-	D	2	B-	7	B-	7	B	8	D+	3	D+	3	B	8	-	-	-	-		
Bankinter	ESGcombined	-	-	C+	6	A-	10	A-	10	A-	10	A-	10	A-	10	A-	10	A	11	A	11	A-	10
	ESG score	-	-	A-	10	A-	10	A-	10	A-	10	A-	10	A-	10	A-	10	A	11	A	11	A-	10
	ESG controversy		-	D	2	B-	7	B-	7	B	8	B	8	B	8	B	8	B	8	B	8	B	8
BBVA	ESGcombined	C+	6	A	11	A	11	A	11	A-	10	A	11	B-	7	A	11	A-	10	C+	6	-	-
	ESG score	A	11	A	11	A	11	A	11	A-	10	A	11	A	11	A	11	A-	10	A	11	-	-
	ESG controversy	D-	1	B-	7	B-	7	B	8	B	8	B	8	D+	3	B	8	B	8	D	2	-	-
Caixabank	ESGcombined	C+	6	A-	10	B+	9	B+	9	B+	9	B+	9	A-	10	B	8	B	8	B-	7	-	-
	ESG score	A-	10	A-	10	B+	9	B+	9	B+	9	B+	9	A-	10	B	8	B	8	B-	7	-	-
	ESG controversy	D-	1	B-	7	B-	7	B	8	B	8	B	8	B	8	B	8	B	8	B	8	-	-