7TH REPORT ON ETHICAL AND VALUE-BASED FINANCE IN EUROPE

Beyond profits

HOW ETHICAL BANKS ARE SHAPING EUROPE'S FINANCIAL LANDSCAPE

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INTRODUCTION

INTRODUCTION

Włodzimierz Grudziński and Dominique Lesaffre,
Advisors to the FEBEA Board of Directors

Dear readers,
Hereby it is our pleasure to present the 7th issue of the annual Report on Ethical and Value-Based Banks in Europe, documenting the performance of banks operating with an alternative approach to that of mainstream banks. This report is the product of a close collaboration between Fondazione Finanza Etica, Fundación Finanzas Éticas and FEBEA, the European Federation of Ethical and Alternative Banks and Financiers. Together, we promote the success of the ethical finance sector by collecting useful data from the real economy and showcasing the banks under the Federation as best practices in the European banking realm.
It is therefore worth knowing what lies behind the figures, tables, charts and comparative analysis described in the Report.
FEBEA has indeed been developing, over the last 20 years, a unique and special positioning in the European Financial System: addressing a continuous message that financial institutions, banks and non-banks, can actually provide conventional financial services with a proven sense of ethics. This may look paradoxical as finance is by essence volatile and tends, normally and nowadays, to thrive by itself, for itself and for the sake of individual and short-term targeted purposes of self-enrichment.

The Ethical Finance Report in Europe illustrates how ethical banks, through tangible actions, prove that finance and ethics can successfully coexist over the long term.

FEBEA has therefore been gathering and establishing long term connections amongst Financial Institutions throughout Europe.
The common denominators of FEBEA members are:
Firstly, **serving the real and popular economy**, meaning credit at the service for people supporting job creation and social inclusion through social entrepreneurship.
Secondly, **tracing and avoiding any speculation** by committing to serve what is called the real economy, not the interest of a second or third market making money with money. FEBEA and all its members understand that social financial inclusion through tangible entrepreneurship remains a long-term policy and operational priority for enhanced economic justice. In this case, the meaning of justice is that all citizens can actually access financial services which make sense for the wealth of their enterprises and livelihoods, as well.
Thirdly actually **being not satisfied with self-rewarding declarations about the real effects and impact of their commitment and endeavours**. Regular analysing these through factual impact criteria, indicators and analysis of the outcoming social changes.
Fourthly, **managing money transparently** by breaking down the wall between depositors and borrowers. This is done, for example, by publishing lists of credit customers and even allowing depositors to indicate where the bank should allocate their money.
Fifthly, organising a **participatory mode of governance**. FEBEA members specifically adhere to this principle in their internal functioning so that this is also the basis for ethical financing. They also very often require this from their clients.
With regard to its outreach, FEBEA presently accounts for a representative sample of the legitimated institutional profiles from big regulated banks, addressing the demanding issues enacted by the European Central Bank and their respective national ones, up to social financial associations or non-banking institutions which are deeply rooted and committed to social change. Unlike other federations or networks, the statutory profile of an organisation is no hindrance to membership, whereas proven record on ethical finance is.
All these features explain why FEBEA is not a massively broad movement attracting all ranges of self-determined 'ethical' institutions. FEBEA understands that ethics is proven by facts and not through self-declarative assertions.
FEBEA, with its 33 members, financial institutions rooted in 16 European countries turns out to be a very lively dynamics through its present, with still very active historical founders and new members, joining every year so as to enrich the federation with all possible sensitivities, from the Mediterranean sunny countries up to Northern Europe with its social financial traditions, from the British Isles up to Eastern continental Europe, with now its headquarters and Secretariat located in Brussels, the place to be acquainted with and defend its positioning amongst the big trends to be observed throughout European financial markets.
FEBEA and its members have been showing through their observable performance over time and in a very long-standing

manner how Finance and Ethics can articulate harmoniously provided key principles and strategies are actually duly respected.
It is very gratifying to see that mainstream banking in some respects, in a bid to meet ESG conditions, is beginning to take the steps that the banks described in the Report have been doing in their operations for many years.
We may need and therefore propose to add another E as Ethics (EESG)!

Brussels, May 2024

BANKING SECTOR, MILITARY SPENDING, AND SOCIAL ECONOMY: A EUROPEAN PERSPECTIVE. KEY THEMES OF THE NEW REPORT

We are pleased to introduce the 7th edition of the Report on Ethical[1] and Value-Based Finance in Europe, a comprehensive analysis that sheds light on the diverse impacts of financial institutions that operate under different banking models.
This report is a result of the collaborative efforts of various stakeholders committed to promoting ethical finance and fostering a more inclusive and sustainable financial system in Europe.
At the core of this edition is a detailed **comparison between ethical banks and major systemic banks in Europe**.
This approach aims to illustrate how these two distinct banking models can shape the real economy and society in markedly different ways. For years, the banking sector has been seen as a monolithic entity; however, our findings reveal a range of visions regarding how finance can serve the common good. Since the inception of this Report, we have continuously refined our indicators, creating a robust historical dataset that enables us to track these differences over time.
In this 7th edition, we have further enhanced our analytical framework by adopting a more nuanced methodology based on the **CAMEL model**. This model focuses on five key areas: Capital Adequacy, Asset Quality, Management Quality, Earnings, and Liquidity, ensuring a comprehensive evaluation of the banks under study.
Another critical theme explored in this Report is the **impact of military spending on public budgets** and the broader implications for financial governance. This section provides a valuable perspective on how financial decisions can influence national policies, either fostering peace or escalating conflict. Our aim is to underscore how ethical finance stands firmly in support of an economy oriented towards peace and the common good, inviting broader reflection on the role of finance in either supporting or countering war dynamics.
The Report also explores the **social economy,** a sector that is closely aligned with the goals of ethical finance.
It demonstrates how ethical finance underpins a model of economic activity that focuses not solely on financial profits, but on creating tangible social and environmental benefits as well. This section contributes to a broader discussion on how the choice of banking models can reflect and promote different social paradigms, demonstrating that banking is far from a neutral activity.
In collaboration with Euricse and Social Economy Europe, this 7th Report marks the beginning of a **three-year exploration into the social economy in Europe**. This ongoing project aims to deepen our understanding of the impacts of financial choices on social well-being, with future editions set to provide further insights into this vital area. The insights in this Report highlight how ethical finance adopts a distinctive and progressive approach that can positively shape not only economic outcomes but also social and environmental contexts.
By examining ethical banks alongside systemic banks, the Report effectively shows how the financial sector can be steered towards models of development that focus on the common good. Instead of merely critiquing the limitations of the prevailing system, it offers a forward-thinking blueprint for a future where finance is harnessed to promote equity, sustainability, and social cohesion. Through rigorous analysis and a refined methodological approach, this Report serves as a valuable resource for understanding how ethical finance can contribute to building a world where economic choices are deeply connected to collective well-being, peace, and environmental stewardship.

1 In the Report, we have further opted to use the term “ethical banks” broadly to refer to the banking institutions affiliated with FEBEA (the European Federation of Ethical and Alternative Banks) and GABV (the Global Alliance for Banking on Values).

PART 1

ETHICAL BANKS AND LARGE EUROPEAN BANKS: THE NUMBERS BEHIND THE DIFFERENCES

ETHICAL BANKS AND LARGE EUROPEAN BANKS: THE NUMBERS BEHIND THE DIFFERENCES

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THE CAMEL APPROACH TO EVALUATING BANKING PERFORMANCE

The analysis of the banks' performance in this report was conducted using the CAMEL methodology, based on five factors represented by the acronym:
C stands for Capital adequacy.
A stands for Asset quality.
M stands for Management (quality of management).
E stands for Earnings (profits).
L stands for Liquidity.

The CAMEL methodology aims to evaluate the economic, financial, and managerial stability of banks from a comprehensive perspective. This method assesses a bank's overall stability and provides insight into its business model by identifying the strengths and weaknesses of its management strategy. The CAMEL model focuses on evaluating banks' performance through various metrics related to capital adequacy, asset quality, operational and business structure, profitability, and liquidity. Widely used by international supervisory authorities to evaluate the managerial balances of banking institutions, the CAMEL approach has become a standard in the industry.

The CAMEL approach highlights how ethical banks, despite distinctive business models, achieve economic and financial stability comparable to that of traditional banks.

In this report, the CAMEL approach is used to compare significant European banks under the direct supervision of the ECB with ethical and value-based banks associated with GABV and FEBEA. This comparison reveals the differences between the business models of the two bank groups and evaluates whether ethical and value-based banks can achieve similar economic and financial stability over time as larger systemic European banks.
Table 1 outlines the criteria and indicators used in the CAMEL evaluation to analyse the two bank samples.

AREAS	CRITERIA	INDICATORS
Capital adequacy	Tier 1 ratio	Tier 1 Capital / Risk Weighted Assets
Asset quality	Risky assets	Risk Weighted Assets / Total Assets
	Non-performing loans ratio	NPLs / Total loans
Management	Cost-Income ratio	Operating costs / Intermediation income
	Business model	Total loans / Total assets
Earnings	Return on Equity – RO	Net income / Equity capital
	Return on Assets – ROA	Net interest income / Total assets
Liquidity	Loan to Deposits ratio - LDR	Total loans / Total deposits

The CAMEL approach features two notable characteristics: multidimensionality and specialisation in the banking sector, as outlined below:

1. **Multidimensionality**: The methodology used covers several areas of investigation that together form an overall score to assess the performance of financial intermediaries. Final indicators stem from aggregating results in different investigated areas, each further broken down into various metrics. This approach enables the evaluation of individual banks' performance and comparison among entities in the study sample, using either the overall score, specific areas of investigation, or detailed indicators. This method uses a 'tree' logic with progressively detailed branches to enable a thorough examination. It helps to pinpoint the causes of performance improvements or declines among the intermediaries being analysed.
2. **Specialisation in the banking sector**: The methodology is based on indicators tailored specifically for the banking sector, taking into account the operations of financial intermediaries, their regulatory constraints, and the unique aspects of their product portfolios. As a result, the findings are more robust and accurate than the general scores provided by specialised rating agencies. These agencies typically use the same indicators for companies across various sectors, only adjusting the weights of different factors according to the sector of the company being evaluated.

However, the CAMEL methodology does not assess banks' sustainability performance. It focuses solely on factors influencing the riskiness of financial intermediaries and their financial stability, without considering their environmental and community impacts. Consequently, the results from this methodology reflect only the financial aspects of banking performance, excluding their sustainability choices and the direct and indirect effects of corporate actions.

ETHICAL AND LARGE EUROPEAN BANKS: THE CAMEL ANALYSIS

In this chapter, we will examine the financial differences between ethical banks and large banks in Europe. This analysis has been conducted annually since 2017, with each year introducing new methodologies to reveal different insights.
First, we will introduce the two groups of banks under comparison. On one side are ethical banks—institutions that prioritise social, environmental, and economic sustainability above the exclusive pursuit of profit. These banks were identified from among the members of two associations.: FEBEA (European Federation of Ethical and Alternative Banks) and the Global Alliance for Banking on Values (GABV).
On the other side are the large banks, specifically those classified as "significant banks" according to the European Union's definition. Due to their size and international connections, these banks are directly supervised by the European Central Bank (ECB). For both groups, we selected only those banks for which ten consecutive years of financial data were available up to 31 December 2022. The final sample comprises 26 ethical banks and 60 significant banks.

A Five-Humped Camel

The CAMEL rating model, as described earlier, was used for the comparison.

The First Hump: Capital

First, we will address capital adequacy. This was assessed using the **Tier 1 ratio**, which represents the relationship between Tier 1 capital and risk-weighted assets (RWA).

Tier 1 ratio = Tier 1 Capital / RWA

To gain a clearer understanding of this ratio, we will examine its two components in detail. The numerator, Tier 1 Capital, refers to the core capital or primary quality assets of a bank, as it represents the **funds immediately and fully available to cover potential losses**. This capital comprises the equity from ordinary shareholders, along with accumulated reserves and retained earnings that have not been distributed to shareholders.

The denominator includes RWAs, or risk-weighted assets. These are determined by applying a risk coefficient to the bank's assets, which mainly consist of loans to customers and securities. The coefficient increases as the risk level of the asset rises.
For instance, consider a bank with total assets amounting to €100. Cash holdings or investments in German government bonds are assigned a risk coefficient of zero, as these are considered the safest assets and do not contribute to the risk-weighted asset total; their value is multiplied by a coefficient of 0. In contrast, loans to households and businesses are assigned higher risk coefficients based on their risk levels and potential for losses. For example, an unsecured loan to a business would have a higher risk weight than a mortgage loan provided to a family for buying a house. In this instance, out of the total €100 in assets, the risk-weighted assets used in the denominator of the Tier 1 ratio would amount to €50.

With an average Tier 1 ratio of 23.32%, ethical banks demonstrate greater capital strength compared to significant banks, ensuring a higher level of protection against risks.

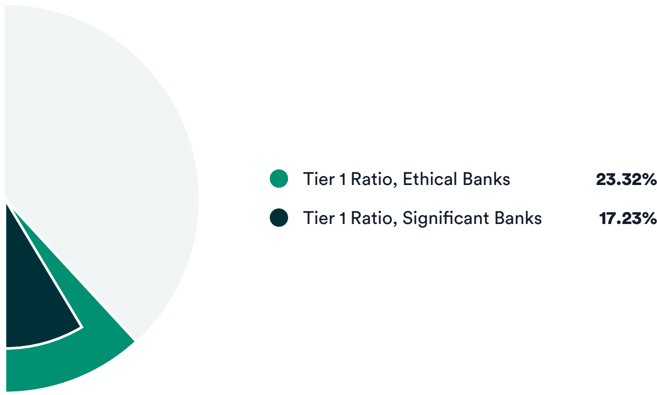
ASSETS	VALUE (€)	RISK COEFFICIENT	RWA (€)
Cash	20	0%	0
German Government Bonds	10	0%	0
Mortgage Loans	40	50%	20
Unsecured Loans Businesses	30	100%	30
TOTAL	100		50

The higher the total risk-weighted assets (RWA) of a bank, the more Tier 1 capital it requires to cover potential risks.

The capital requirement guidelines for banks, known as the Basel III Accord, mandate a minimum Tier 1 ratio of 11%[2]. This percentage is intended to ensure optimal risk management within the banking sector, making future crises like the one in 2007-2008 less likely.

Following this detailed overview, the next step is to compare the average Tier 1 ratio of ethical banks with that of significant banks.

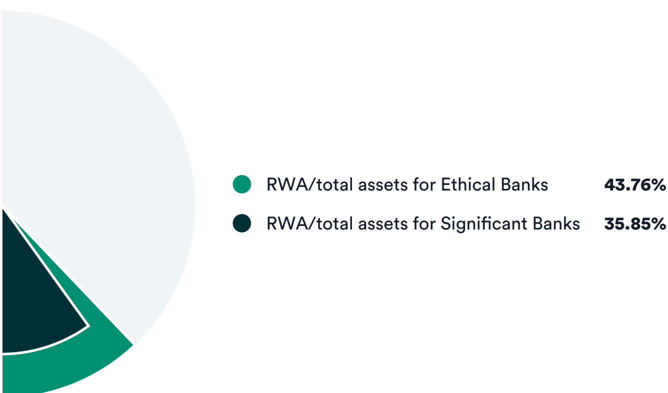
2 Including the Conservation Buffer and the Countercyclical Buffer. For more details, see Basel III Capital and Liquidity Standards FAQ. https://www.bis.org/publ/bcbs199.htm



The results are as follows:
What conclusions can be drawn from this? First of all, we can say that both groups of banks comfortably meet the Basel III requirements. This suggests that the efforts undertaken to strengthen the banking system have been effective since the 2007-2008 crisis.
The second conclusion aligns with the results from previous years: ethical banks are, on average, more solid in terms of capital. With a stronger core capital base, they are well-equipped to confidently manage the risks associated with their assets, particularly loans.

The Second Hump: Asset Quality

Let's move on to the second hump of the camel: asset quality. It was evaluated using two indicators: a) the percentage of RWAs to total assets, and b) the percentage of non-performing loans (NPLs) to total loans (NPL ratio). Starting with the first indicator: **RWA/ total assets**. As we discussed earlier, RWAs are assets weighted according to their risk level. In the previous assessment, RWAs were placed in the denominator to assess whether Tier 1 capital was sufficient to cover the risks associated with the assets. In this case, RWAs are positioned in the numerator and total assets in the denominator. This approach helps us understand what proportion of the total assets are considered risky.
The average ratio for the banks analysed resulted in the following figures for the year 2022:



This shows that, on average, the assets of ethical banks carry more risk compared to those of significant banks.

As we will see later, ethical banks operate with a business model more focused on lending. On average, loans account for nearly 69% of the total assets of ethical banks, compared to only 52% for significant banks. This difference directly influences how their assets are assessed for risk.
Loans are assigned a very high risk coefficient, up to 100% for performing loans, as we saw in the previous example based on Basel requirements. In contrast, other asset categories, especially specific financial investments, are given lower risk coefficients.

Ethical banks focus on lending to households and businesses, accepting riskier assets to promote a positive impact on the real economy

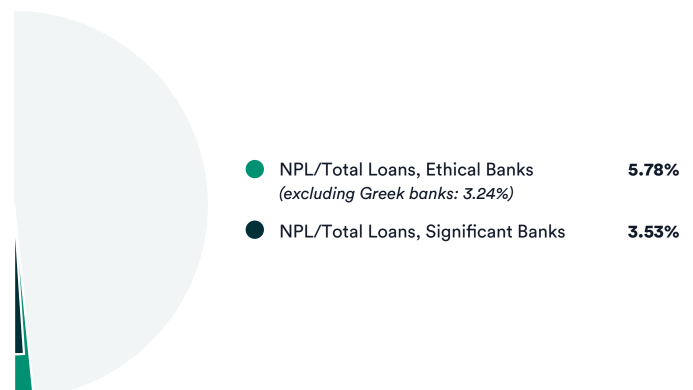
Overall risk associated with a bank's assets is significantly reduced when a substantial portion is invested in government bonds rather than in loans to businesses or individuals. For example, investments in government bonds with ratings from AAA to AA-, such as those from Germany, France, or the United States, are considered to have zero risk.
FinecoBank, an Italian bank included in our analysis of 60 significant banks, provides a practical example. In 2022, only 17.77% of its assets were dedicated to lending, while 53% were invested in government bonds from 16 different countries. Consequently, the proportion of RWAs (risk-weighted assets) to total assets was just 13.07%.

According to Basel principles, banks allocating a smaller portion of their total assets to lending are generally considered less risky than those with a business model focused on providing loans to households and businesses.

We now turn to the second indicator of the second hump: the percentage of non-performing loans (NPLs) to total loans, also known as the NPL ratio. Non-performing loans are bank loans experiencing repayment delays, unlikely to be repaid by the borrower, or already in default. Total loans must maintain an NPL ratio within 5%, as mandated by the European Central Bank.

NPL Ratio = NPLs / Total Loans

We now consider the percentage of non-performing loans (NPLs) related to total loans for the two groups of banks analysed.



The average values for the year 2022 are as follows. Ethical banks have a higher percentage of non-performing loans (NPLs) relative to total loans compared to significant banks. This difference is primarily due to two outliers—banks with unusually high figures that deviate significantly from the average trend. These outliers are the two Greek ethical banks. The adjusted average for ethical banks drops to 3.24%, aligning with the average for significant banks, when these two outlier data points are excluded from the calculation.
The Greek ethical banks have a significantly higher percentage of non-performing loans compared to the average of other ethical banks in Europe. This is a consequence of the severe financial crisis that struck Greece beginning in 2009, leading to the collapse or restructuring of numerous banks. Greek significant banks also have non-performing loans above the average for significant banks: 8.27% of total loans for Alpha Bank, 9.13% for National Bank of Greece, and 6.09% for Piraeus Financial Holdings. Thanks to a series of securitisation operations and the sale of distressed assets to specialised firms, these percentages, while high, remain below 10%.

Ethical banks manage non-performing loans with a focus on individuals client needs and responsible practice.

As discussed in the dedicated BOX, the management of NPLs is handled very differently by significant banks compared to ethical banks. In recent years, significant banks have "cleaned up" their balance sheets by selling large blocks of NPLs, often at a significant discount, to special investment funds or specialised intermediaries. These funds or intermediaries then seek to profit from the NPLs by recovering as much as possible from the debtors in the shortest time possible. The goal is to capitalise on the difference between the amount they manage to recover and the (very low) price at which they purchased the NPLs from the banks. Resolving their problems might be possible for indebted businesses and individuals in difficulty if there were still a dialogue with their bank. However, after the sale of NPLs, these businesses and individuals are often left dealing with unfamiliar financial companies that offer limited opportunities for negotiation. Ethical banks, on the other hand, rarely resort to selling NPLs in bulk. Whenever possible, and within the limits set by European regulations, they prefer to keep non-performing loans on their balance sheets. The bank manages NPLs in a more personalised manner, working directly to understand the client's needs and gradually resolve the issues. The BOX examines the case of Bank of Karditsa, one of the Greek banks that affects the NPL average for ethical banks.
Returning to the significant Greek banks, the example of Alpha Bank is particularly illustrative. In 2022, as we noted, it had an NPL ratio of 8.27%, still above the 5% threshold required by the European Central Bank. However, this percentage was achieved through at least two major NPL disposal operations carried out in 2021.

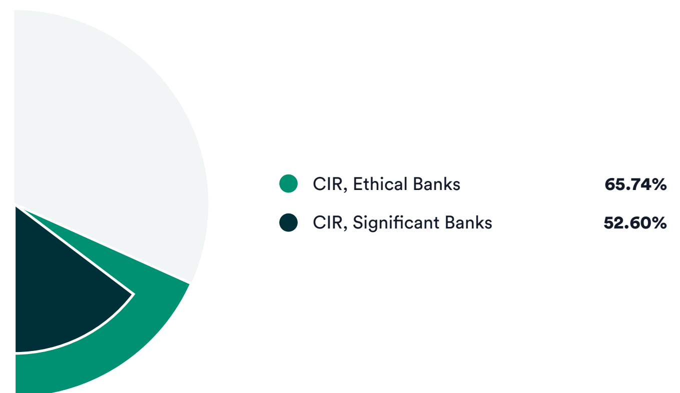
The first, known as Project 'Galaxy', involved the sale of €10.8 billion in NPLs to the Davidson Kemper fund in February 2021. This was the largest securitisation ever conducted in Greece and the second largest in Europe. In the second transaction, known as Project 'Aurora', Alpha Bank sold €1.9 billion in NPLs to the investor Christofferson, Robb & Company (CRC) in December 2021.

The Third Hump: Management Quality

Quality of management forms the third hump of our analytical camel. Two different indicators are used to measure management quality: the cost-to-income ratio (CIR) and the business model mentioned earlier.
The cost-to-income ratio (CIR) is the first indicator. It represents the relationship between a bank's operating costs (including administrative and personnel expenses) and its operating income (net interest margin, fees, and earnings from financial activities). Generally, the lower this ratio, the more efficiently the bank is managed, as it can generate more revenue for the same level of costs.

Cost-to-income ratio (CIR) = Operating costs / Operating income

The following results emerged from the analysis of the CIR for the two groups of banks:



As it appears, significant banks are able to generate more revenue than ethical banks for the same level of costs. Does this make them more efficient? At first glance, yes. However, it's important to consider that we are dealing with two very different groups.
Ethical banks form a homogeneous group, consisting only of small to medium-sized banks focused on traditional banking activities: granting loans funded by deposits. In contrast, significant banks are a much more diverse group of intermediaries, united mainly by their large size and economic significance. While some of these banks focus on traditional banking activities, similar to ethical banks, many others primarily engage in selling funds and securities, with little to no emphasis on lending to individuals and businesses.
A lower CIR for banks that do not grant loans, or grant very few, is normal. Credit activities are labour-intensive and involve extensive administrative processes, which, unlike

financial investment activities, cannot be fully digitised or delegated to the customer's discretion. As a result, they are much more costly compared to activities such as selling funds or securities to clients. Additionally, ethical banks typically have more in-depth procedures for granting loans: besides the standard financial evaluation, they also include socio-environmental assessments.

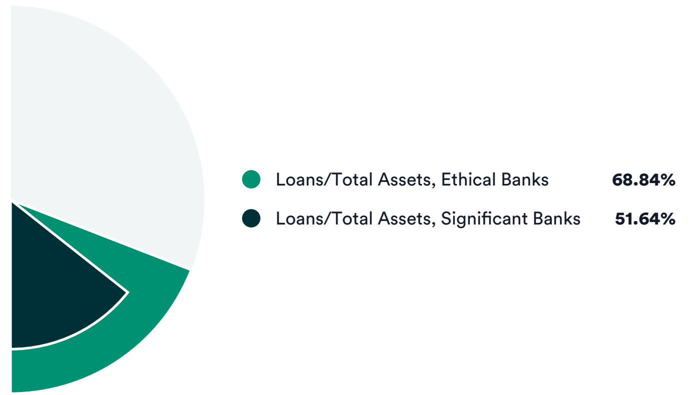
Ethical banks keep a high share of loans among their assets, highlighting their key role in responsibly supporting households and businesses.

Cases that are the opposite of Fineco and much closer to ethical banks can also be found among significant banks. For example, BPER (Banca Popolare dell'Emilia Romagna), where loans accounted for 70% of assets in 2022 and the CIR was 73.17%. A greater focus on lending activities is associated with higher costs for every euro of revenue generated. Moreover, if we compare the CIR of European ethical banks with the average CIR of European cooperative banks, we find similar results. Cooperative banks are the type of banks that ethical banks most closely resemble in terms of business model, as demonstrated in the IV Report on Ethical Finance in Europe[3].

Cooperative banks, like ethical banks, are indeed much more focused on lending activities compared to the average significant banks.
Consequently, we have decided to include a second indicator to assess the proportion of loans relative to total assets.

Total loans / Total assets

As previously mentioned and confirmed in all our previous Reports, their propensity for lending activities is a fundamental characteristic of ethical banks. The difference compared to significant banks is quite evident.



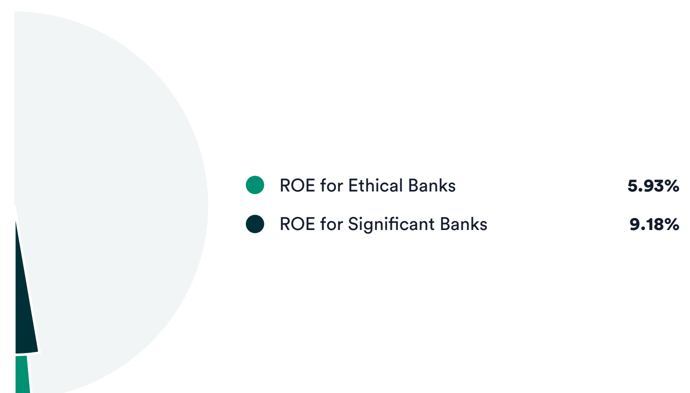
This indicator does not provide insight into the quality of management. A bank can choose not to extend credit and still be well-managed. However, it does help to put the cost-to-income ratio (CIR) into perspective. Ethical banks allocate a much larger portion of their total assets to lending compared to significant banks. This higher emphasis on lending is one reason why their CIR is higher. It is also why their CIR is more comparable to that of other banks focused on credit activities, rather than those primarily engaged in securities brokerage, which involves providing services related to investment in securities.

The Fourth Hump: Earnings

The fourth hump of the CAMEL model concerns the profitability of banks. As in previous reports, this was measured using ROE and ROA.
ROE (Return on Equity) is calculated by dividing net profit by shareholders' equity.

ROE = Net Profit / Shareholders' Equity

This metric assesses the return on the capital invested in the business by shareholders. It shows the profitability of their investment, reflecting the percentage return earned on each euro invested in the company.
The ROE results for the two groups of banks in 2022 are as follows:

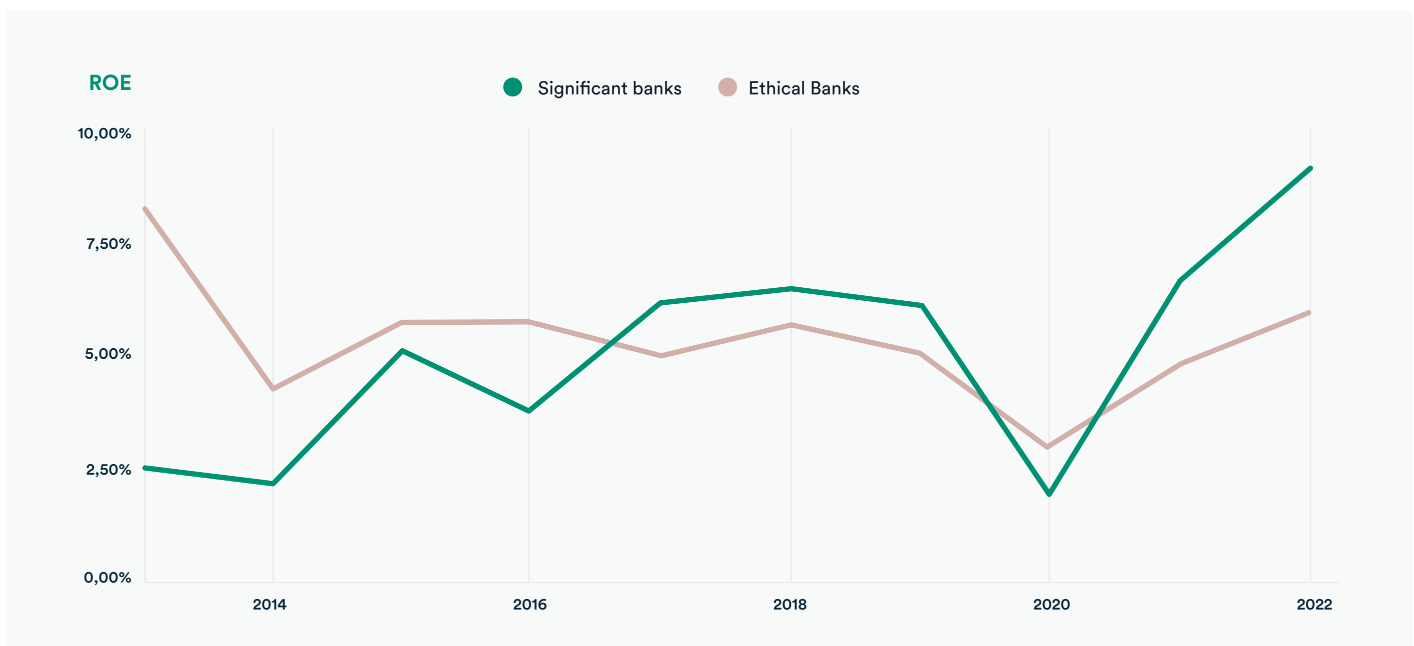


3 This is an average, within which there are groups of cooperative banks from certain countries with a higher average CIR (Cost-Income Ratio), such as German cooperative banks with a CIR of 78.4%, and groups with a lower average CIR, such as Italian cooperative banks with a CIR of 60%.

This comparison shows that significant banks were, on average, more profitable than ethical banks in terms of ROE.

YEAR	ETHICAL AND VALUE-BASED BANKS	SIGNIFICANT BANKS	Δ (in pp)
2013	8,41%	2,56%	5,85
2014	4,25%	2,16%	2,09
2015	5,74%	5,10%	0,64
2016	5,75%	3,76%	1,99
2017	5,05%	6,20%	-1,15
2018	5,68%	6,52%	-0,84
2019	5,05%	6,15%	-1,10
2020	2,97%	1,91%	1,06
2021	4,79%	6,68%	-1,89
2022	5,93%	9,18%	-3,25

As illustrated in the table, over the ten-year period from 2013 to 2022, this was not always the case. In fact, during five of those ten years, the ROE of ethical banks was higher than that of significant banks. In some years, this difference was quite substantial, with ethical banks outperforming significant banks by as much as 5.85 percentage points in 2013. As highlighted in previous reports, large banks were significantly impacted by the 2007-2008 financial crisis and recovered slowly. Ethical banks, on the other hand, were less exposed to financial markets and therefore did not experience severe repercussions from the crisis. Their ROE remained consistently positive, with an average around 5%.



Conversely, the ROE of significant banks was initially lower and more volatile, experiencing greater fluctuations over time. In the last two years analysed (2021 and 2022), it appears that significant banks have finally emerged from the crisis, consistently generating a higher ROE. Moreover, this ROE has been consistently higher than that of ethical banks.
How can these results be explained?
Firstly, by looking at the European economic context. As noted in the European Central Bank's Financial Stability Review of May 2023, "*Supported by higher interest rates and low loan loss provisions, euro area banks showed robust earnings momentum throughout 2022. This is particularly true for banks in countries where variable-rate lending predominates*" (such as Austria, Greece, Italy, Portugal, and Spain).
On 21 July 2022, the European Central Bank decided to raise its three key interest rates by 50 basis points to ensure

inflation returns to its 2% medium-term target. This was the first rate increase in 11 years.
Following the increase in key interest rates, the interest rates on existing variable-rate loans and new fixed-rate loans rose immediately. In contrast, the interest paid on deposits was either not adjusted upwards or did not rise to the same extent as the interest earned on loans. Additionally, banks saw an increase in the yields on debt securities, particularly government bonds, as explained in the Annual Report of the Bank of Italy dated 31 May 2023.

Ethical banks maintain consistent and resilient profitability, keeping a positive ROE even in times of crisis. They have historically outperformed many significant banks.

The rise in interest rates led to an increase in ROE for both ethical banks and significant banks in 2022. For ethical banks, the ROE increased by 1.14 percentage points, while for significant banks, the increase was 2.50 percentage points. The reason for this difference lies in the denominator of the ROE calculation, namely shareholders' equity. Ethical banks have a higher proportion of shareholders' equity relative to total liabilities compared to significant banks, as shown by the following data:

This is reflected in the ROE, which, as we have seen, is the ratio of **net profit to shareholders' equity**. Ethical banks, being more capitalised, generally have higher shareholders' equity. As a result, with the same net profit, the ROE will be lower for ethical banks. This is due to the fact that the profit is spread over a larger base of shareholders' equity.

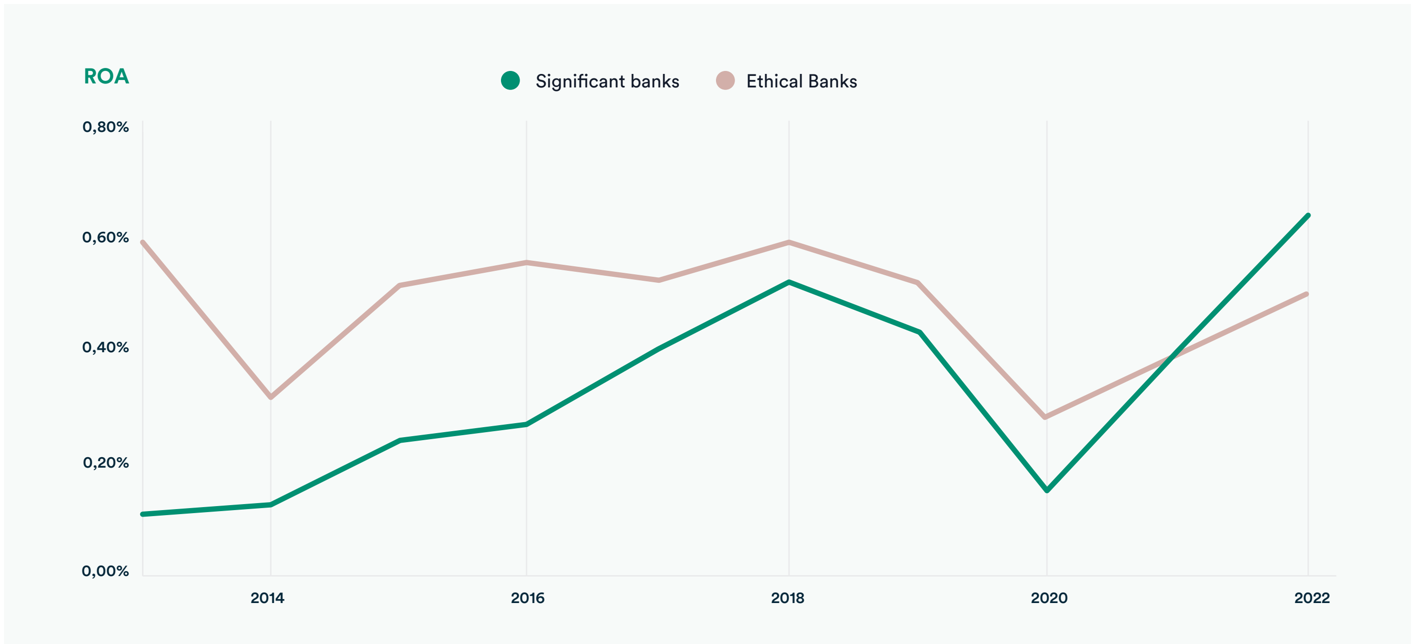
This hypothesis seems to be confirmed by the second indicator used to analyse the fourth hump of the CAMEL model: ROA, or Return on Assets. ROA is calculated by dividing net profit by the total assets of a bank, which include cash, loans, investments in securities, equity holdings, and more.

ROA = Net Profit / Total Assets

While ROE measures the return on capital invested by shareholders, ROA gives an indication of how much return is generated by all of the bank's assets.
This includes all resources employed in its activities, not just the shareholders' capital.
Unlike ROE, ROA is not influenced by the bank's level of capitalisation.

The ROA of ethical banks and significant banks was quite similar in 2022:

YEAR	ETHICAL AND VALUE-BASED BANKS	SIGNIFICANT BANKS	Δ (in pp)
2013	0,61%	0,11%	0,50
2014	0,32%	0,12%	0,20
2015	0,52%	0,24%	0,28
2016	0,56%	0,27%	0,29
2017	0,53%	0,40%	0,13
2018	0,60%	0,52%	0,08
2019	0,53%	0,44%	0,09
2020	0,28%	0,14%	0,14
2021	0,40%	0,40%	0
2022	0,50%	0,65%	-0,15



During the ten-year period from 2013 to 2022, ROA—a measure of profitability that is not influenced by the higher capitalisation of ethical banks—was consistently slightly higher for ethical banks. 2021 and 2022 are the exceptions. In 2021, the ROA was equal for both groups, and in 2022, it was slightly higher for significant banks.
Historically, ethical banks have been somewhat more profitable than significant banks in terms of ROA. However, this difference has disappeared in the last two years.

The Fifth Hump: Liquidity
The fifth and final hump of our analytical camel is liquidity. Liquidity is measured by the ratio of loans granted to customers compared to the money collected from depositors, known as the Loan-to-Deposit ratio (LDR).

LDR = Total Loans / Total Deposits

The Loan-to-Deposit ratio (LDR) is one way to assess a bank's liquidity by comparing the total loans granted to the total deposits collected over the same period. Expressed as a percentage, the LDR provides insight into a bank's liquidity management. A high LDR indicates that the bank might not have sufficient liquidity to cover unexpected withdrawal requests from depositors. Conversely, a low LDR suggests that the bank may not be fully capitalising on its ability to generate income through lending.

Ethical banks keep an excellent liquidity ratio (LDR), ensuring stability and meeting customer needs.

YEAR	ETHICAL AND VALUE-BASED BANKS	SIGNIFICANT BANKS	Δ (in pp)
2013	79%	106%	-27
2014	79%	109%	-30
2015	82%	108%	-26
2016	83%	104%	-21
2017	87%	108%	-21
2018	88%	105%	-17
2019	82%	109%	-27
2020	76%	89%	-13
2021	77%	86%	-9
2022	81%	78%	3
AVERAGE	**81,4%**	**100,2%**	

Throughout the period analysed (2013-2022), ethical banks consistently reported a strong liquidity ratio, with an average LDR of 81.4%. In contrast, significant banks, particularly in earlier years, had a higher LDR, averaging 100.2%, with peaks of 109% in both 2014 and 2019; this is clearly shown in the table. In the last three years, however, the LDR for significant banks has decreased significantly. By 2022, it had fallen 3 percentage points below the LDR of ethical banks. Meanwhile, the LDR of ethical banks had slightly increased, yet remained within the 10-year average.

The ideal LDR range is generally considered to be between 80% and 90%, although there are no specific regulatory requirements for this indicator.

CONCLUSIONS

	CAPITAL ADEQUACY	ASSET QUALITY		MANAGEMENT		EARNINGS		LIQUIDITY
	Tier 1 Ratio	RWA	NPLs Ratio	Cost Income	Loans/Assets	ROE	ROA	LDR
Ethical Banks	23,32%	43,76%	5,78%	65,74%	68,84%	5,93%	0,50%	81%
Significant Banks	17,23%	35,85%	3,53%	52,60%	51,64%	9,18%	0,65%	78%

The CAMEL rating model provides insights in two key areas. Firstly, it is designed to monitor a bank's soundness and overall health. Secondly, it evaluates how effectively a bank fulfils its fundamental functions. The data analysis reveals that some differences are largely influenced by a bank's commitment to extending credit and addressing societal needs.

Ethical banks combine strong capital strength with a focus on lending, effectively addressing the needs of the real economy and the most vulnerable in society.

In other words, while the model and its metrics are highly effective in assessing a bank's health, their application is most relevant to banks of similar size and those that pursue similar business models and objectives. Consider an extreme example: a bank that solely raises capital without issuing any loans, instead investing all its funds in government bonds, would achieve "perfect" ratios according to Basel rules and the CAMEL model. However, the contribution of such a bank to supporting the broader economy, particularly those most in need of credit and financial services, would be questionable.

The data indicates that ethical banks, as a whole, succeed in balancing two crucial elements. The first is maintaining robust capital ratios. The second is providing credit to the real economy, particularly to the most vulnerable segments of society.

While some indicators may appear to favour larger banks over ethical banks, a closer examination suggests that this highlights the "one-size-fits-all" nature of European regulations, which are often tailored for larger banking groups. This is evident in the calculation, monitoring, and management of non-performing loans (NPLs), as discussed in this chapter and the next.

There are numerous other examples. For this reason, ethical finance institutions have long advocated for the recognition of diverse banking models and their unique characteristics. The aim is not to create a "regulatory niche" for ethical finance, but to foster a diverse banking landscape across Europe that better addresses the varied needs of economic sectors, along with the social and environmental challenges we face.

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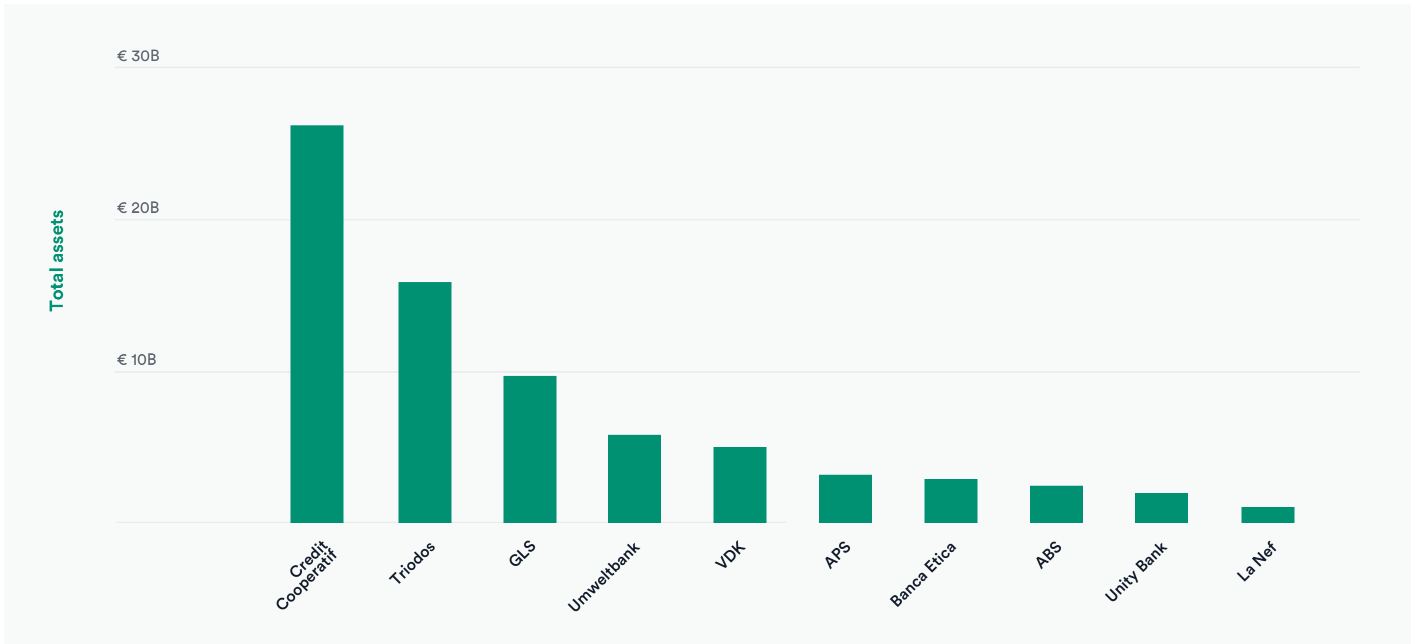


The ten largest ethical banks in Europe by asset volume

Aggregated figures for European ethical banks (2022)

Assets

79.2

billion of euros

Loans

58.2

billion of euros

Deposits

61.1

billion of euros

Methodological Note

The calculation methodology used for all indicators is the simple average of the individual indices calculated for each bank, applied across all years of the historical series.

Appendix I. The Sample of European Ethical Banks

Belgium
Credal
Hefboom
VDK Bank

Denmark
Merkur Cooperative Bank

France
Caisse Solidaire (until 2018)
Group Crédit Coopératif
La Nef

Germany
GLS Bank
UmweltBank

Greece
Bank of Chania
Cooperative Bank of Karditsa

Italy
Banca Popolare Etica

Malta
APS Bank

Norway
Cultura Bank

Netherlands
Triodos Bank

Poland
Tise

United Kingdom
Charity Bank
Ecology Building Society
Unity Trust Bank

Serbia
3Bank (formerly Opportunity Bank Serbia)

Spain
Caixa de Pollença

Sweden
Ekobanken

Switzerland
Alternative Bank Schweiz (ABS)
Freie Gemeinschaftsbank BCL

Hungary
Magnet Bank

Appendix II. The Sample of 'Significant Banks'

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

Belgium
KBC Group NV

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

Finland
Kuntarahoitus Oyj
Nordea Bank Abp

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

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

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

Ireland
AIB Group plc
Bank of Ireland Group plc

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

Latvia
AS "Citadele banka"
Lithuania
Šiaulių bankas

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

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

Portugal
Banco Comercial Português, S.A.

Slovenia
Nova Ljubljanska banka d.d.

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

Managing Non-Performing Loans: Challenges and Ethical Approaches in the European Banking Sector

Andrea Baranes, Fondazione Finanza Etica

IMPROVING BANKS SOLIDITY

After the crisis following the subprime mortgage bubble of 2008-2011, the European institutions undertook a regulatory path to strenghten the banking sistem. Despite this rightful objective, the measures adopted could have negative impacts, particularly on the most fragile individuals and those already excluded from accessing to credit and financial services. Such impacts are linked to the management of problematic loans or Non-Performing Loans - NPLs. Simplifying, all banks must face the possibility that some of the loans they provide may have difficulties, or may even not be repaid. The increase of such loans in the bank balance leads to losses and eventually in the worst cases to bank stability and solvency problems.

Following the subprime mortgage crisis, EU regulations aim to strengthen banks but risk further excluding the most vulnerable from credit and financial services.

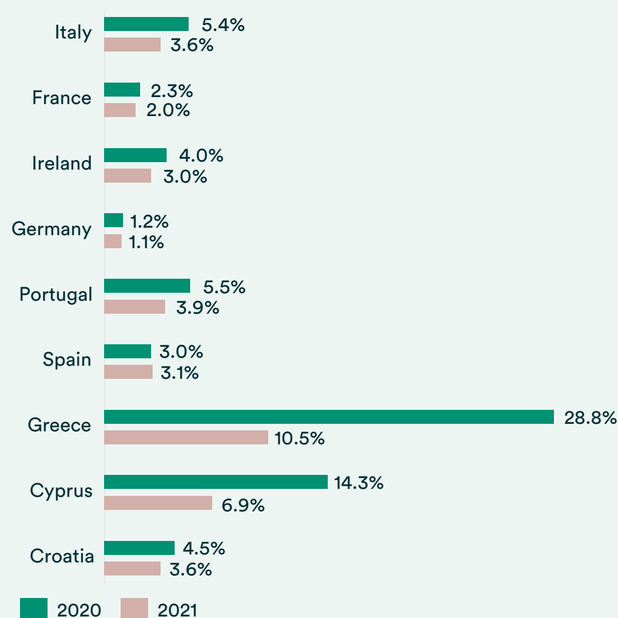
To deal with this eventuality and to prevent it, institutions act along various lines. The main considerations include how to identify when a loan becomes a problem loan; what the bank should do with it; how solid it must be to bear possible losses.

PROBLEM LOANS

Different definitions of "non-performing loan" could be provided: delays or problems on the payment of the principal and/or the interests; changes or amendments to the original contract between the bank and the customer (for example a renegotiation of the expiry of some mortgage payment); in general if particular events identified by the regulator occur. Central Banks usually introduce a classification ranging from past-due or delays of payments to the actual bad debts (subjects in a state of insolvency or similar).

Tighter rules for managing NPLs limit banks' flexibility, impacting vulnerable groups and restricting access to credit in challenging social settings.

When a bank has an NPL in its portfolio, it is required to set aside a certain amount of capital to cover the possible losses. This amount is linked to the actual probability that a certain loan will not be repaid, and how much can realistically be recovered. The bank then proceeds with write-downs and provisions. It reduces the value of the loan in the balance sheet to reflect the amount deemed recoverable.



EUROPEAN DEFINITIONS OF NPL

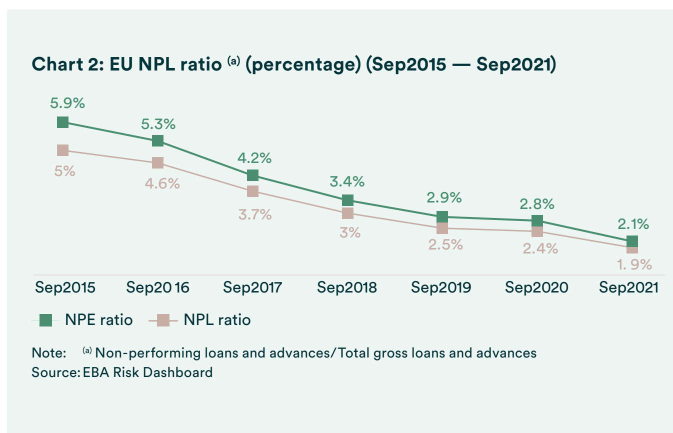
On one hand it is necessary to establish clear and shared criteria for defining NPL, to prevent arbitrariness and the potential for having banks to manipulate the figures to obscure their true exposure. On the other hand, however, the adopting overly strict criteria may eliminate flexibility and hinder the ability of negotiating.
Up until a few years ago, in case of borrower's problems,

the banks could meet the client's needs by reviewing some elements of the financing contract or some deadlines. This flexibility allowed customer to overcome temporary difficulties. However, if the same changes in the contract poses the risk of classifying the loan as NPL, the bank will seek to avoid these challenges as much as possible.
Not all the changes (often referred to as forbearance measures) in the contract automatically imply its classification as NPL, but the criteria progressively got stricter. This is a problem mainly for the weakest subjects (both in terms of accounting and financial soundness), i.e. for the non profit companies, social economy and more broadly for those who already face major difficulties in accessing financial services.
Even further upstream, banks will tend not to grant credit or offer under worse conditions (greater guarantees or higher interest rates) - to those entities that could potentially present problems in the future.

NON PERFORMING EXPOSURE

In considering the amount of problem loans in a bank balance, a fundamental distinction is between gross and net NPLs. The former do not take into account devaluations and provisions already made in the balance sheet, the latter do. To clarify with an example, a bank could report that out of a total loan portfolio of 100 it has a total value of NPLs equal to 5. However, it has set aside 3 of its own capital to deal with possible losses. It will then be said that the gross NPLs are equal to 5% of the total, while the net NPLs are 5 - 3 = 2%. The European Central Bank requests that the ratio between gross NPLs and total loans remains within 5%.

Chart 2: EU NPL ratio [a] (percentage) (Sep2015 — Sep2021)



Note: [a] Non-performing loans and advances/Total gross loans and advances
Source: EBA Risk Dashboard

The decision to consider gross or net NPLs is not merely formal; it carries significant implications for banks' business model and the economy as a whole.
Consider the case of a financially stable bank generating profits. This bank could decide to set aside a part of these profits every year to be able to grant loans to weak subjects who are normally excluded from access to credit. These loans could surely be riskier (and therefore lead to a higher level of gross NPLs) but thanks to the profits set aside, the bank could cover this greater risk without problems (i.e. use its capital to cover the possible losses and therefore have a very low net NPL).

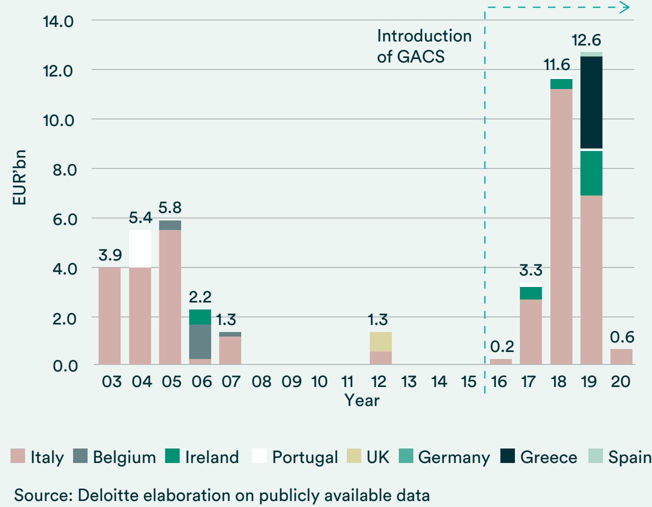
SHAREHOLDERS VS STAKEHOLDERS

In this particular banking business model profits generated would in practice be used for redistribution and for social purposes, enabling credit to financially vulnerable individuals or entities whose activity has positive social or environmental impacts. This is what ethical finance tries to do, considering finance and credit as tools to serve society and the planet. However, by taking into account gross NPLs rather than net NPLs when evaluating is solidity makes this policy and business choice becomes significantly more challenging if not impossible to implement.
Somehow, definitions and management of NPLs serve as yet another example of how banking regulations are often "one size fits all" and tailor-made for larger banking groups, those such groups are those listed on the stock exchanges having the main objective in distribuing dividends to their shareholders.
However different models exist, where profit is not primarly aimed at rewarding shareholders but serves as a mean to enhance bank's stability and to be reinvested in the real economy benefitting all stakeholders.

SECURITISATIONS

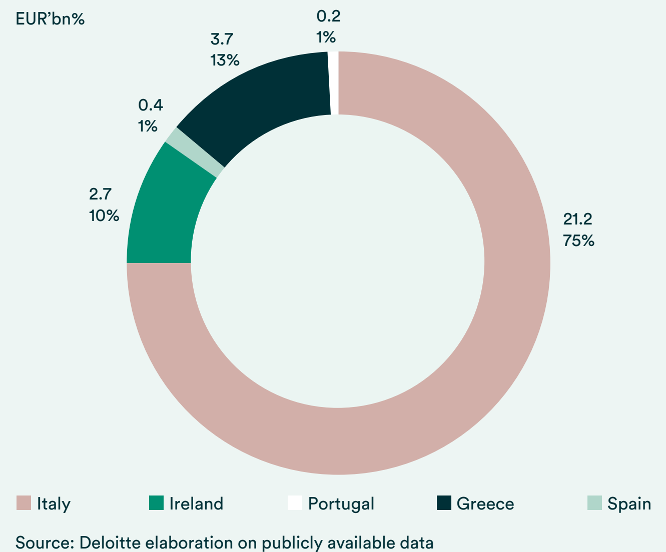
If on the one hand the regulatory interventions have concerned definitions and classification of NPLs, on the other hand they dealt with what to do and how to manage these loans. The basic idea is to push banks to reduce their exposure to NPLs. Once again, if the objective itself seems absolutely right, the problem lies in the operation that is used to achieve it: credit assignment and subsequent securitization.
Let's try to explain the rationale with a simplified example. A bank grants a loan of 100 to a customer. If the customer encounters difficulties and fails to repay the loan, the bank could then resell it at a discounted price, say 20, to a third party. It is true that the bank has to bear a loss of 80, but it gets back at least part of the money and, importantly, eliminates it definitely gets rid of the problem loan which will no longer appear on its balance sheet.
NPL ratio and coverage ratio will improve and the bank will free up equity capital for other operations. Meanwhile, the entity that purchases the problematic loan for 20 will aim to recover the largest possible sum in order to maximise the profits from the transaction.
The word securitization derives from the fact that a series of credits are transformed into securities.
Simplifying (the mechanism is complex and involves various parties), the subject that buys the bank's distressed credits, issues bonds whose is contingent on how much such credits can be repaid or generates a cash-flow (for example by reselling the property of a borrower who has defaulted on their mortgage).

European deal volume 2003-2020 by notes' notional



Source: Deloitte elaboration on publicly available data

Country deal volume 2016-2020 by notes' notional



Source: Deloitte elaboration on publicly available data

SPREAD OR MULTIPLY THE RISKS?

According to the promoters of this operation, securitizations would allow the risk to be better distributed across financial markets, making it more manageable.

Meant to spread risk, securitisations can actually amplify it and threaten financial stability, as demonstrated by the 2007 subprime crisis.

However, when things go wrong the risk does not simply spread, it multiplies. Such a mechanism is at the basis of the 2007 crisis. Banks granted home mortgages even to "subprime" customers with no income or guarantee, as through securitizations they resold these loans on the markets. When some subprime customers stopped paying their mortgages, the whereabouts of the corresponding securities became unclear, leading to widespread panic
It seems paradoxical – to say the least – that the regulatory process born in response to the worst financial crisis in recent history and decisively due to securitizations, has ultimately promoted a further push on securitizations as a solution for the banking system.

IMPACTS ON THE PRODUCTIVE ECONOMY

The impacts are not limited to the financial system. As previously mentioned, the securitized loan will be acquired by specialised companies (known Special Purpose Vehicles or SPVs) which aim to recover as much as possible in the shortest time possible.
In the model without credit assignment and subsequent securitizations - in which the bank retains the loans on its balance sheet (called originate to hold) - the bank itself will try to understand what the customer's needs are and how to solve the problems. This has always been the approach of ethical finance, which considers finance as a tool will try to adapt and find the best solutions to meet the needs of its customers, even in difficulties.
On the contrary, with securitizations (originate to distribute model) the bond of trust and collaboration between creditor and debtor is severed. As a result, risks increase upstream, as banks will tend to lend without necessary due diligence. Furthermore, but above all, after securitization, debtors often find themselves at the mercy of companies such as SPVs, typically registered in some tax haven, and whose sole objective is to maximise profits in the shortest possible time. In other words, with the securitization model the level of NPLs in bank balance sheets may rapidly shrink, as we witnessed in EU data from recent years.
At the same time, however, the problems are dumped on the productive economy. Businesses and citizens who are indebted and facing difficulties, yet could potentially resolve their issues if a dialogue with their their bank still existed, end up dealing with completely unfamiliar financial companies that offer no opportunity for negotiation or resolution.

BANKS	COUNTRY	TOT. ASSETS (thousands)
KBC Group NV	GERMANY	355.872.000€
Aareal Bank AG	GERMANY	47.331.000€
Bayerische Landesbank	GERMANY	266.554.000€
COMMERZBANK Aktiengesellschaft	GERMANY	477.438.000€
DekaBank Deutsche Girozentrale	GERMANY	97.395.900€
Deutsche Bank AG	GERMANY	1.336.788.000€
Deutsche Pfandbriefbank AG	GERMANY	53.007.000€
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	GERMANY	627.273.000€
Goldman Sachs Bank Europe SE	GERMANY	1.347.216.986€
Landesbank Baden-Württemberg	GERMANY	324.174.000€
Münchener Hypothekenbank eG	GERMANY	52.538.230€
Morgan Stanley Europe Holding SE	GERMANY	1.102.807.846€
Norddeutsche Landesbank -Girozentrale-	GERMANY	114.631.000€
AIB Group plc	IRELAND	129.752.000€
Bank of Ireland Group plc	IRELAND	151.324.000€
ALPHA SERVICES AND HOLDINGS S.A.	GREECE	78.018.691€
Eurobank Ergasias Services and Holdings S.A	GREECE	81.460.000€
National Bank of Greece S.A.	GREECE	78.113.000€
Piraeus Financial Holdings S.A.	GREECE	75.661.000€
Banco Bilbao Vizcaya Argentaria, S.A.	SPAIN	713.140.000€
Banco de Sabadell, S.A.	SPAIN	251.379.528€
Banco Santander, S.A.	SPAIN	1.734.659.000€
Bankinter, S.A.	SPAIN	107.507.032€
CaixaBank, S.A.	SPAIN	592.234.000€
Unicaja Banco, S.A.	SPAIN	99.003.053€
BNP Paribas S.A.	FRANCE	2.666.376.000€
BPCE S.A.	FRANCE	1.531.134.000€
Crédit Agricole S.A.	FRANCE	2.167.621.000€
HSBC Continental Europe	FRANCE	237.099.000€
RCI Banque SA	FRANCE	60.424.000€

BANKS	COUNTRY	TOT. ASSETS (thousands)
Société Générale S.A.	FRANCE	1.486.818.000€
Banca Mediolanum S.p.A.	ITALY	73.598.890€
BANCA MONTE DEI PASCHI DI SIENA S.p.A.	ITALY	120.172.918€
Banca Popolare di Sondrio, Società per Azioni (S.p.A.)	ITALY	55.016.149€
Banco BPM S.p.A.	ITALY	189.685.895€
BPER Banca S.p.A.	ITALY	152.302.794€
Credito Emiliano Holding S.p.A.	ITALY	65.041.592€
FinecoBank S.p.A.	ITALY	36.268.885€
Intesa Sanpaolo S.p.A.	ITALY	975.683.000€
Mediobanca - Banca di Credito Finanziario S.p.A.	ITALY	90.568.420€
UniCredit S.p.A.	ITALY	857.773.000€
Bank of Cyprus Holdings Public Limited Company	CYPRUS	25.434.615€
Hellenic Bank Public Company Limited	CYPRUS	19.989.000€
AS “Citadele banka”	LATVIA	5.404.279€
Akcin bendrov Šiauli bankas	LITHUANIA	4.184.531€
Bank of Valletta plc	MALTA	14.358.442€
HSBC Bank Malta p.l.c.	MALTA	7.174.805€
ABN AMRO Bank N.V.	NETHERLANDS	379.581.000€
BNG Bank N.V.	NETHERLANDS	149.057.000€
Coöperatieve Rabobank U.A.	NETHERLANDS	628.513.000€
ING Groep N.V.	NETHERLANDS	967.817.000€
Nederlandse Waterschapsbank N.V.	NETHERLANDS	73.285.000€
Addiko Bank AG	AUSTRIA	5.996.400€
BAWAG Group AG	AUSTRIA	56.523.000€
Erste Group Bank AG	AUSTRIA	323.865.000€
Raiffeisen Bank International AG	AUSTRIA	207.057.000€
Banco Comercial Português, S.A.	PORTUGAL	89.860.541€
Nova Ljubljanska banka d.d., Ljubljana	SLOVENIA	21.577.496€
Kuntarahoitus Oyj	FINLAND	46.360.060€
Nordea Bank Abp	FINLAND	594.844.000€

NPL MANAGEMENT BY COOPERATIVE BANK OF KARDITSA (CBK)

Ethical banks often take a different approach to managing non-performing loans (NPLs) compared to traditional corporate/mainstream banks. Here's how Cooperative Bank of Karditsa (CBK), as an ethical bank, has managed to differentiate itself from any other mainstream bank in the management of its NPLs.
Focus on Prevention:

- **Stronger Relationship Management**: CBK typically prioritises building strong relationships with its borrowers. This allows for earlier identification of potential problems and proactive intervention to prevent defaults. CBK has a close relationship with the local community, and this is something which can indeed facilitate the establishment of strong ties.
- **Targeted Lending**: CBK sometimes focuses on loan purposes with lower inherent risk or offers loans with stronger creditworthiness criteria while mainstream banks used to be in principle very open to lending in the context of "ticking the box" and reaching the KPIs that are set as a lending goal.
- Work Out Strategies:
- **Restructuring and Workouts**: CBK is more willing to work with borrowers in difficulty restructuring loans, offering flexible repayment plans. This helps borrowers get back on track and avoid foreclosure. CBK is very insistent on finding a mutually acceptable and viable solution to have debts settled. Managing debts in a small local community is quite challenging and demanding because of the close interpersonal relationships. However, CBK has managed to drastically reduce the NPE ratio below 10% through the active management of its portfolio. We treat overdue debtors with honesty and fairness, equally and respectfully. Although the Bank has a set of legal means to collect debts, we use them as the ultimate means to meet a solution. Our recipe is therefore a combination of open communication with the debtor and enforcement measures if need be.
- **In-house NPL management**: CBK is dealing with its overdue customers in-house and is neither securitizing nor transferring the NPLs to third parties, e.g. Loan and Credit Claims Management Servicers or assigning their management to them.
- Like any bank, CBK ensures its profitability from interest on our loans and fees from banking operations. However, the commissions charged to the customers are on reasonable levels and counterbalance actual work or/and expense with reasonable profit. The Bank's tariff of operations is competitive and reasonable, hence CBK decided to keep the interest rates on existing loans stable, fully absorbing the increase in Euribor.
- Social Responsibility:
- On September 8, 2023, that is within the first 24 hours that "DANIEL" disastrous flooding phenomenon stroke in Thessaly region, CBK announced the suspension of all loan obligations for a period of three months for punctual borrowers, both individuals and businesses, and the suspension of all enforcement measures for a period of six months for borrowers with overdue debts.

It took official authorities to react partly likewise almost 2 months after the disaster occurred, proving the quick reflexes of our Bank and the assumption of its social-asides its financial-responsibility to support the local community. More specifically, in virtue of Decision No 165455/2023 (Gazette B 6444/10.11.2023) of the GR Minister of Economy and Finance, the suspension of the liquidation process against those affected by "DANIEL" for a six-month period was announced.
Quick and relevant to the above response on behalf of our Bank was also demonstrated during the very first severe flooding phenomenon, "IANOS", which affected Karditsa region in September 2020, with the governmental authorities proceeding afterwards-and after the Bank's announcements- to decisions related to the suspension of liquidation measures.
Overall, ethical banks often aim to strike a balance between financial responsibility and social impact when dealing with NPLs. They might prioritise working with borrowers to find solutions and minimise negative consequences for communities, even if this means accepting lower recoveries on the loans themselves.

MISCELLANEOUS INFORMATION RELATED TO THE GR CONTEXT

From September 2023 to date, fines totalling €1,825,000 have been imposed by the Greek (GR) Ministry of Development.
On 23/05/2024 the GR Ministry of Development imposed administrative fines totalling 305,000 euros on three "Loan and Credit Claims Management Companies" for violation of legislation, following an examination of complaints to the General Directorate of Market and Consumer Protection of the General Secretariat of Commerce.
Among the grounds on which the fines are based, are the following:

- Information of borrowers by representatives of the companies on the existence of an overdue debt, where either the borrower paid the loan instalments regularly or had been subject to the provisions of Law 3869/2010 for debt settlement of indebted households.
- Unfair and misleading practice by representatives of the companies. The employees displayed offensive behaviour by using insulting expressions against debtors while informing them of the existence of an overdue debt.
- The companies were found to be unresponsive to requests from borrowers to send a dossier and service account numbers for the payment of the amounts stipulated in the court settlement.
- Non-response of the company to several emails sent by the debtors in order to settle the debt.
- Unjustified delay by the company in responding within a reasonable time to efforts to settle overdue debts of borrowers.
- Unreasonable delay in processing borrower requests for a statement of payments and loan servicing account number.

DIFFERENT SOLUTIONS

Different tools exist that could help reduce NPLs and more broadly enhance the solidity of the social economy and the financially weakest. In recent years, several European institutions have put forward an array of financial instruments. Unfortunately, such instruments mainly provide liquidity to the banking system. Liquidity may help in fostering credit, but has no usefulness in trying to reduce NPLs and the risks in granting loans to more fragile subjects.

On the contrary, instruments such as credit guarantees and special guarantee funds would be needed, as well as the possibility to strengthen the assets of those requesting a loan (i.e. equity and quasi-equity instruments). Something has been developed along this direction, but the tools available are still too few and too weak to be able to respond to the demands. More "patient capital" and a different approach and vision should be developed. The financial needs of a multinational company are not the same as those of the social economy. As a tool and not an end, finance must be able to respond to different economic and social contexts and to provide appropriate solutions this implies the need to recognize the specificities of different banking models and promote a sort of "banking biodiversity".

For this reason, ethical finance advocates for the development of regulations that acknowledge these differences and enable the financial system to respond with the most appropriate tools for the different situations that may occur.

PART 2

AN INCREASINGLY ARMED EUROPE

AN INCREASINGLY ARMED EUROPE

Mauro Meggiolaro and Simone Siliani, Fondazione Finanza Etica

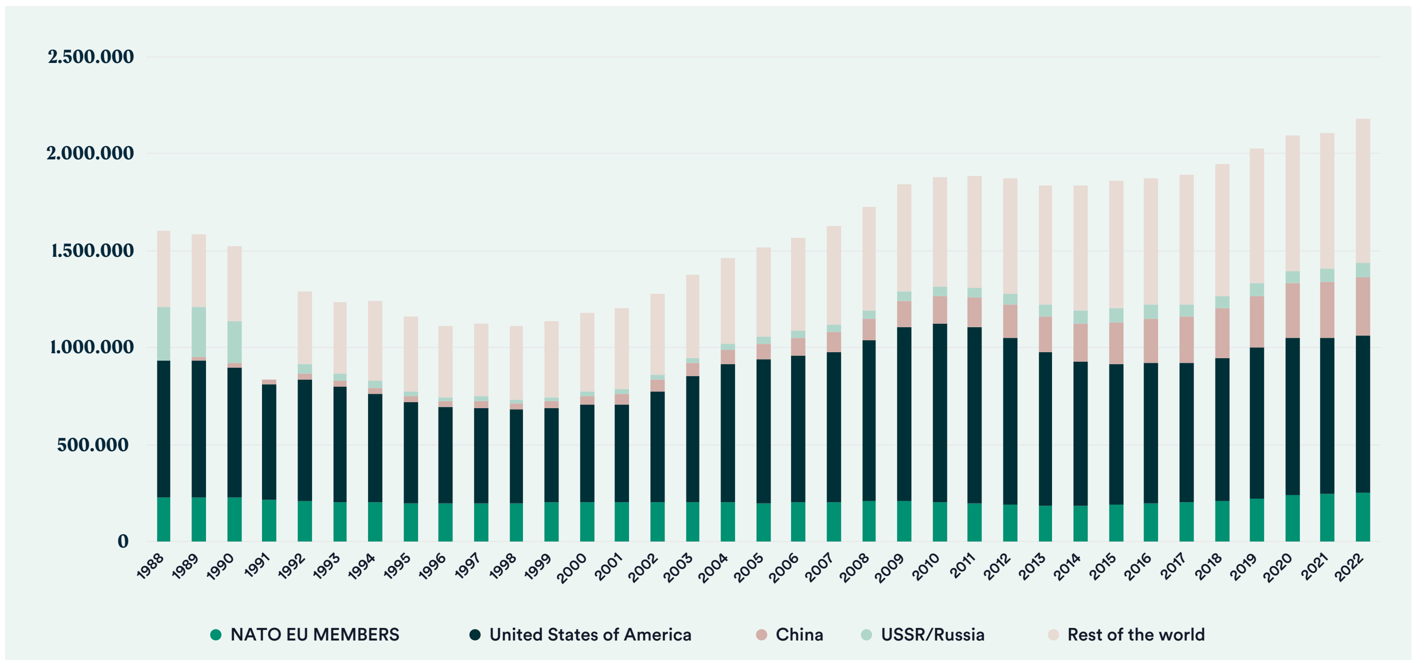
MILITARY SPENDING AND ITS IMPACT ON PUBLIC BUDGETS[4]

In the past decade, the military expenditure of NATO member countries in the European Union (based on NATO definitions and data) has increased by nearly 50%, rising from €145 billion in 2014 to a budget forecast of €215 billion in 2023 (calculated at constant 2015 prices): an amount greater than the annual Gross Domestic Product of Portugal. With the war in Ukraine, military spending for 2023 is expected to increase by almost 10% in real terms compared to the previous year. Overall, NATO countries in the EU spend 1.8% of their GDP on the armed forces, approaching the 2% target set by NATO.

In a decade, Germany has increased its real military expenditure by 42%, Italy by 26%, and Spain by 59%. In all countries, the increase is entirely due to the acquisition of weapons and equipment; in 2023, arms expenditure in NATO EU countries reached €646 billion (+168% over the decade); Germany has tripled its spending, reaching €13 billion; Italy has reached €59 billion; and Spain €43 billion. EU arms imports (based on SIPRI data) have surged and tripled between 2018 and 2022; half of all imports come from the United States.

The European Union has aligned with this push towards militarisation. After considering military spending and research and development for a long time as areas under the sovereignty of member states, since 2019 military research and production have become activities also funded by the EU budget.

The rise in military spending by NATO's EU countries has diverted resources away from social and infrastructure policies, sacrificing crucial investments in economic growth and public well-being.



Trend of Global Military Spending from 1988 to 2022 (in Trillions of $ at Constant 2021 Prices). Re-elaboration of Bonaiuti et al. 2023 based on SIPRI data.

4 Partly extracted from Chiara Bonaiuti, Paolo Maranzano, Mario Pianta, Marco Stamegna, "Arming Europe. Military expenditures and their economic impact in Germany, Italy, Spain", Greenpeace Italy, November 2023 [https://www.greenpeace.org/static/planet4-italy-stateless/2023/11/d4d111bc-arming-europe.pdf]

The European Union has established the **European Defence Fund** allocating €79 billion to the research and production of new armaments during the period 2021-2027. €27 billion have been allocated to the European Defence Research Programme, about €500 million annually for collaborative weapons research. The European Defence Industrial Development Programme has €53 billion, with about €1 billion annually allocated annually to technological projects related to arms acquisition. Member states are expected to provide additional funding to support these initiatives.

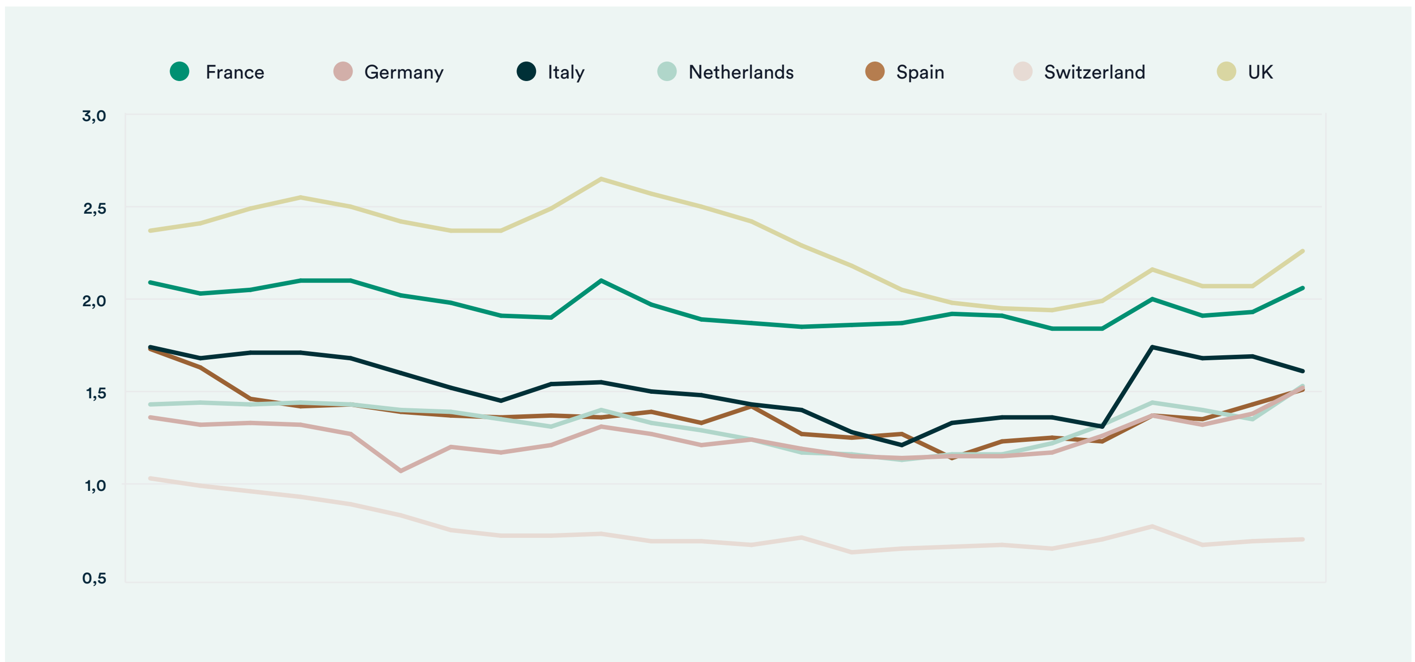
The **European Peace Facility** has also been established with €12 billion over the same period for military aid and supplies to non-EU countries.

The economic stagnation that has characterised EU countries in recent years starkly contrasts with the significant increase in military spending and arms purchases. Overall, in NATO EU countries, between 2013 and 2023, real GDP increased by 12% (just over 1% on average per year), total employment by 9%, and military spending by 46%, almost four times more than GDP.

When focusing on new investments, capital formation increased by 21%[5]. However, within this overall increase, arms acquisitions surged by 168%, which is eight times higher. In Germany, Italy, and Spain, gaps in growth rates of these indicators are substantially similar. **Armaments are absorbing an increasing share of resources countries dedicate to new productive capacities, technologies, and infrastructures**. In a context of public finance difficulties, this increase in military spending has come at the expense of other public spending items.

Overall, in NATO EU countries, total public spending increased by 20% in real terms over the last decade (about 2% on average per year), while military spending grew by more than double with an increase of 46%, compared to more contained increases in education (+12%), environmental protection (+10%), and health (+34%).

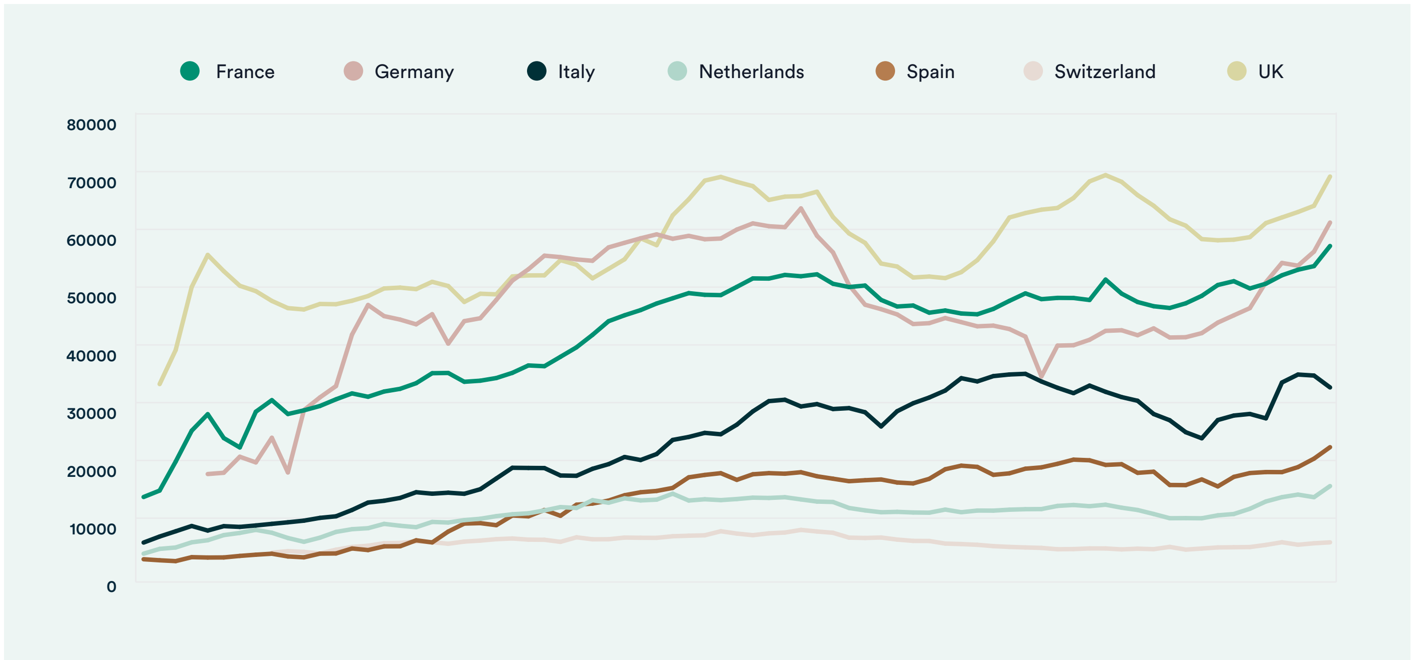
The purchase of arms can be compared to capital investments in public spending. In NATO EU countries, these increased by 35% over a decade. In contrast, arms purchases grew by 168%, almost five times as much. Germany and Spain are substantially in line with EU trends, while Italy shows a lower spending dynamic due to public finance issues.



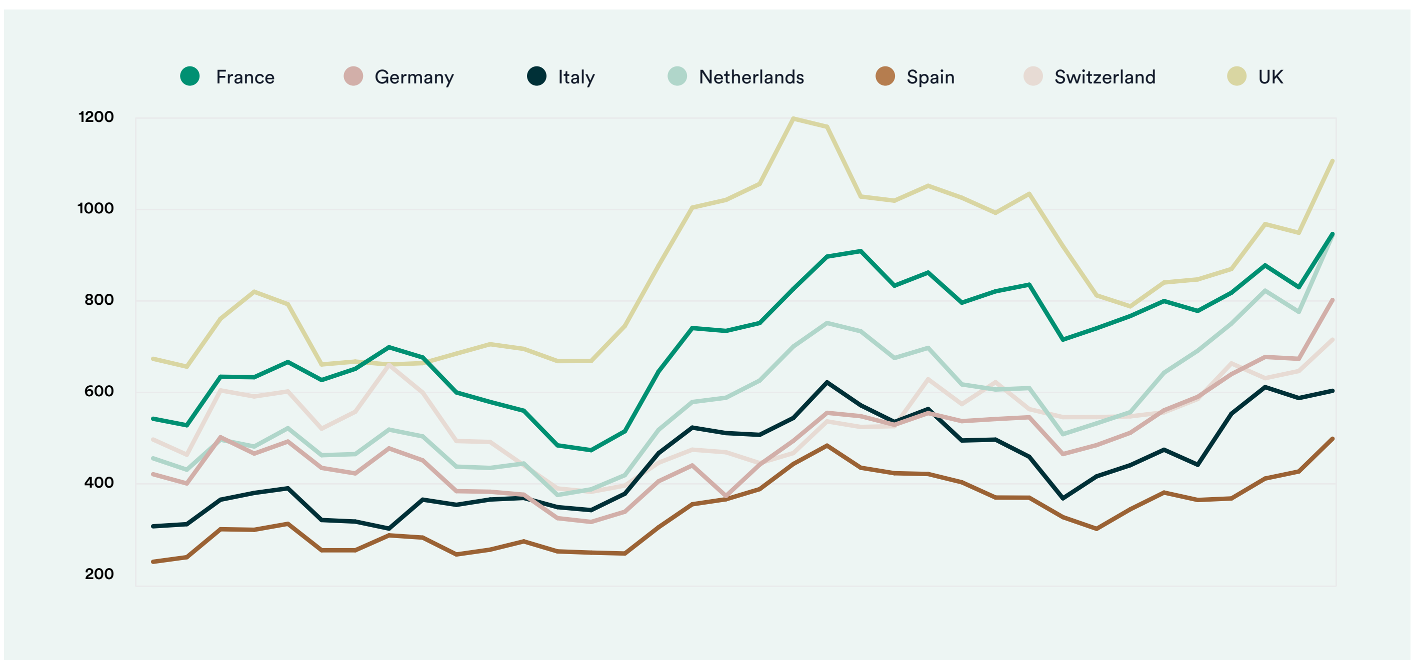
Military Spending Trends in Major European Countries from 2000 to 2023 as a Percentage of GDP.
Our elaboration on SIPRI data. https://www.sipri.org/databases/milex

Although this brief analysis focuses on the last ten years, it would be misleading to claim that the return to war is a phenomenon of just the past few years. In recent decades, war has never stopped. Scrolling through United Nations statistics or SIPRI reports over the past 75 years, war is a constant of the post-World War II and post-Cold War periods.

5 Capital formation is the net accumulation of capital during an accounting period for a specific country. The term refers to additions of capital goods, such as equipment, tools, transportation assets, and electricity. Source: Investopedia.



Military Spending Trends in Major European Countries from 1948 to 2023. Our elaboration on SIPRI data.
Data in Millions of Dollars (at Constant 2022 Prices and Exchange Rates). https://www.sipri.org/databases/milex



Per Capita Military Spending Trends in Major European Countries from 1948 to 2023. Our elaboration on SIPRI data.
Data in Millions of Dollars (at Constant 2022 Prices and Exchange Rates). https://www.sipri.org/databases/milex

Is an alternative to rearmament possible,, or, as much of the press and many European political parties now claim, is it inevitable to defend Europe and the West from increasingly concrete and insidious external threats?

As Giulio Marcon explained in his essay “Politica della Guerra e politica della pace” published within Greenpeace Italy’s “Economia a mano armata 2024”[6], there is no (armed) realism of governments opposed to an idealism of peace (which rejects arms): instead, it is about different policies, opposing strategies, irreconcilable visions.
The politics of war are based on rearmament, nationalism, the dominance of economic interests and raw materials, power politics, the ideology of geopolitics, areas of influence, a liberal and unequal economy.
The politics of peace, on the other hand, are based on disarmament, conflict prevention, international cooperation, international democracy, and the role of supranational

6 https://www.greenpeace.org/static/planet4-italy-stateless/2024/05/23b76034-ebook_2024_def_web.pdf

organisations. On an economy of justice and equality.
Ethical banks have always worked to promote the politics of peace with their financing and investments.

THE EVOLUTION OF FINANCIAL POLICIES TOWARDS THE ARMS SECTOR

It's not only ethical banks that have adopted exclusion policies.
Other financial actors, both public and private, have also adopted more or less stringent policies to exclude these companies from their operational horizons. The most prominent example is The Government Pension Fund of Norway, one of the largest in the world, invested in over 9,000 companies and owning, on average, 1.5% of all shares in publicly listed companies worldwide. In September 2024, the Fund's Ethics Committee added General Dynamics and Larsen & Toubro to the list of companies excluded from its portfolio. The former is a US-based corporation, while the latter is based in India; both are involved in the production of key components for nuclear submarines.

Ethical banks promote peace through responsible investments, supporting cooperation and social justice over rearmament and inequality.

Traditionally, banks have been quite cautious about financing industries in this sector due to regulations, ethical considerations, and reputational risks. The European Commission's Directorate-General for Defence Industry and Space recently observed in a questionnaire that two-fifths of small and medium-sized enterprises (SMEs) in the sector have faced difficulties accessing financial services. These companies are now over-indebted, having been suddenly compelled to strengthen their production capacities following years of low investment, particularly after the Russian invasion of Ukraine in 2022. Moreover, anti-money laundering regulations, geopolitical and financial risks associated with client countries, and the long duration of contracts (8-10 years) have further contributed to banks' reluctance towards the sector.
However, we are witnessing a strong push to break down taboos and reservations surrounding the financing of companies in this sector.
Firstly, this is due to the sharp rise in the value of shares of these companies in financial markets, which have more than doubled since the war in Ukraine. Their increased financialisation, coupled with intense lobbying pressure, has led to the breaking of the biggest taboo: excluding armaments from ESG (environmental, social, and governance) or sustainable funds. A recent study by Morningstar, commissioned by the Financial Times, shows that around one-third of European and UK ESG funds currently have €7.7 billion invested in the sector (compared to €3.2 billion in the first quarter of 2022).
Certainly, part of this growth is due to the appreciation of these companies' shares in the stock markets, but a significant portion is also the result of ESG funds opening up to the sector, encouraged by rhetoric framing defence as a "social value." The same Morningstar research highlights that the number of European ESG funds holding more than 5% of shares in aerospace and defence companies has risen from 22 to 66 in the past two years. While the percentage of the sector's total assets, which amount to over €1.5 trillion, remains below 1%, this shift is more than merely symbolic: the military industry does not want to be excluded or remain marginal within the ESG world, whose influence and importance have grown considerably in recent years.
As a result, the value of the MSCI Europe Aerospace & Defence Index has grown by 1.8 times since 2022, driven by the appreciation of shares of companies in the sector on the stock exchanges. In the United States, the value of ESG funds' exposure to the sector increased from €779 million in the second quarter of 2022 to €1.2 billion in the second quarter of 2024.

THE INTERDEPENDENCE BETWEEN MILITARY SPENDING AND PRIVATE FINANCE

There is an undeniable connection between the impact of wars on public budgets and private finance, creating a cycle where one directly fuels the other. Consider the case of NATO countries, including Italy, which have been asked to increase military spending in response to the war in Ukraine. When a state decides to boost military expenditure to 2% of its GDP, it essentially becomes a client, commissioning new armaments from the defence industry for its Ministry of Defence. As these companies see their order books grow, they require additional liquidity and financial services, which they must obtain from banks, thereby feeding into private finance. This same private finance is tapped when these companies, needing funds and other financial services, secure contracts abroad, often with state approval. In some countries, like Italy, the largest firms in the sector are partially state-owned, despite their private legal status, further tightening the bond between public and private finance. This entire dynamic underscores the need for greater transparency in the sector, given the involvement of public resources. This is the driving force behind the "ZeroArms project" we are introducing here.

European ethical banks exclude the arms sector, avoiding reputational risk and promoting responsible investments in line with human rights and international peace.

The financing of arms manufacturing companies presents a particularly complex challenge for banks. This sector is often shrouded in a certain degree of opacity due to strategic considerations, and it carries significant reputational risks for the banks involved. Banks may be implicated in financing of controversial armaments prohibited or restricted by international treaties, or in funding states involved in armed

conflicts and human rights violations. Additionally, there is a risk that the funded productions could, through illegal and hard-to-trace channels, end up in the hands of entities other than those officially registered and authorised.
For these reasons, many ethical banks in Europe have chosen to exclude this sector from their operational focus, as described below. Generally, many banks adopt specific policies to manage these risks while also seeking to capitalise on the opportunities offered by a rapidly expanding industry.

THE " DRAGHI REPORT"

Simone Siliani, Fondazione Finanza Etica

As we were preparing to publish this Report, Mario Draghi presented his report[7] on the Future of European Competitiveness to the European Parliament's group leaders. The chapter on Defence aims not only to outline an unprecedented role for European institutions in an area traditionally under national competence, but more importantly, to propose a new configuration for the defence industry — an area where the European Union has the tools and authority to intervene without breaching the Treaties. It is essential, within this section of our Report, to at least touch upon some aspects of Draghi's work. In particular, it is worthwhile here to reference the relationship between the military industry and public spending, its connection to private finance, and the issue of European regulations and instruments for sustainable finance.
Regarding the first point, Draghi notes that public spending on defence in Europe is too low compared to the United States and China. These two superpowers are objectively incomparable with Europe, even at institutional level. Unlike Europe, they are unitary states with strategic positions both objectively and historically distinct from those of the 27 sovereign states comprising the European Union. What stands out is the bluntness with which Draghi identifies the reasons for this insufficient spending: "*The absence of demand* [i.e., the long period of peace in Europe, ed.] *and long-term procurement planning has deprived the European defence industry of the ability to predict potential demand, which has in turn been reflected in decreasing industrial capacity*". In other words, if there had been more wars or threats, the situation might be different. From the perspective of industrial policy for the sector, the call for increased public spending — and consequently greater public debt in some countries — must be considered carefully. Only Member States have the authority to spend in this area. Therefore, any increase in spending should be paired with integrated investments in R&D and transnational industrial collaboration. In this latter area, Draghi sees opportunities and tools for direct EU intervention, some of which are already in place.
The second issue is access to private finance, for which Draghi hopes all doors can be opened to the military industry. He criticises the European Investment Bank (EIB) for excluding support for the military industry, even though it uses various financial tools to address major market failures. According to Draghi, this exclusion negatively impacts the broader financial sector. He overlooks the fact that companies in this sector are among the most financialised and are already heavily supported by public funds. However, this is evidently not enough.
The former Italian Prime Minister argues that exclusion criteria, or at least restrictive measures, prevent the military industry from fully accessing the benefits of EU financial tools and private finance. To achieve this goal, Draghi believes that the rules designed to ensure competition in this sector should be relaxed. He suggests encouraging the consolidation of the sector into a smaller number of larger companies, facilitated by Member States' support, while ensuring that states are not involved in the governance of these companies. In other words, Draghi calls for special market conditions for the sector, including market guarantees and regulations (as well as financial support) from the states, while ensuring total freedom from state interference.
Finally, the issue of ESG funds and European sustainable finance regulations comes into focus. Draghi explicitly calls on the Commission to ensure a clear interpretation that would allow military companies to access financial instruments governed by European Sustainable Finance and ESG regulations. This is already happening in practice, as we point out in this Report.

7 https://commission.europa.eu/document/download/ec1409c1-d4b4-4882-8bdd-3519f86bbb92_en?filename=The%20future%20of%20European%20competitiveness_%20In-depth%20analysis%20and%20recommendations_0.pdf

OPACITY AND TRANSPARENCY IN ARMAMENTS FINANCE: ZEROARMS. ASSESSMENT OF FINANCIAL SECTOR ENGAGEMENT WITH THE MILITARY INDUSTRY

Simone Siliani, Fondazione Finanza Etica

Arms industry, by its very nature, is an opaque sector often covered by industrial and strategic secrecy. Financial resources underpinning arms industry are also enveloped in this lack of transparency. This is a significant issue since these resources are mostly public, coming from state budgets, and increasingly from private finance. Both areas, in different ways, are characterised by transparency criteria. Italy is the only country in Europe with specific legislation on the trade of arms with third countries – Law 185/90 – which focuses on transparency. Meanwhile, global and European regulations related to finance have been increasingly geared towards enhancing transparency, partly in response to numerous crises and scandals over the past decades.
We must therefore acknowledge that the veil of opacity surrounding the arms production and trade sector is a significant problem. This extends to the financial resources enabling the sector to thrive, regardless of one's views on its existence. Democratic entities, financial sector watch dogs, citizens, and their civil society organisations all have a public interest in and a fundamental role in monitoring the connections between finance and arms. The fragility and, in some respects, non-existence of this oversight should be a concern for each of these actors.
Fondazione Finanza Etica in collaboration with the Italian Rete Italiana Pace e Disarmo have sought to address this issue. They have developed an unprecedented tool aimed at tracing the connections between financial institutions and the arms sector. ZeroArms is designed to highlight the breadth and complexity of *financial interactions* with producers of military materials, dual-use goods, and small arms and light weapons. It also covers the intermediaries that facilitate their sale and export. It goes beyond the scope of Law 185/90, which only covers export operations. Additionally, the term "*financial interaction*" is very broad, encompassing all possible services provided to these companies, such as opening credit lines, direct financing, bond placements, opening current accounts for receipt of payments, participation in projects and sponsorships, and direct investments. For such a wide range of analysis, the issue of information retrieval and validation, including dialogue with financial institutions, is crucial.
This tool uses all the most authoritative publicly accessible information sources or specialised databases. Equally important, if not more so, is engaging with the banks themselves: they are encouraged to provide verifiable information through a specific indicator that significantly influences the final rating. This engagement offers the opportunity to correct, explain, and justify the information gathered by researchers, who compile the profiles for each bank considered.
This method highlights transparency as a major goal, rewarding the entire rating process. The second, equally important goal is to encourage the evaluated financial institution to undertake substantial policy and practice changes towards the arms industry. This tool was developed following the drafting of a Policy or "Code of Responsibility" concerning financial interaction with arms production and trade sector. This work aimed explicitly at promoting positive and improved decisions and practices in this area by the financial sector. The importance of this goal, especially at a time when international situations and state policies are driving increased arms spending and greater financial exposure to this sector, led us to develope another assessment tool: "**ZeroArms**". This tool shares the same objective as the policy: greater transparency and influencing decisions within the financial world regarding this sector.
This tool for measuring and evaluating the degree of financial institutions' involvement in the military industry is not about "naming and shaming" or passing moral judgement on their choices. Instead, it is a rigorous and objective method of providing information, demonstrating that behind every free choice lies a responsibility towards savers and the public, and that no choice is mandatory. The adopted method is based on the principle that a lower score indicates better bank behaviour, suggesting less involvement in "armed affairs," with a score of zero being the best result.
The basic mechanism involves assigning preliminary scores in a detailed matrix, with possible modifications following more in-depth analysis or provision of further information by the subject under analysis. Each institution involved in the military industry's activities starts from a preliminary evaluation framework. This framework can be improved by providing information or by changing practices over time.
In each section of the tool, financial activities related to arms production are considered according to three specific categories of activity: equity participation in arms sector companies, financing companies or specific military development programs, and involvement in the sale or export of military products (through insurance, credit facilitation, or payment receipt).
The initial application of the rating, with results released at the end of October each year, analysed the top 10 Italian banks by size, along with the four banks associated with Etica Sgr and Banca Etica itself. Over time, the collected data will be updated, and the pool of analysed financial institutions will be expanded. This tool can thus potentially become the most comprehensive, updated, and verified source of information on the involvement of Italian financial institutions with the arms industry.

EUROPEAN ETHICAL BANKS: TOTAL EXCLUSION FROM THE ARMS SECTOR

Barbara Setti, Fondazione Finanza Etica

In a context where military spending by NATO countries within the European Union has drastically increased over the past decade, with a 50% rise pushing total expenditure beyond the annual GDP of Portugal, European Union appears increasingly committed to allocating a growing share of public resources to the defence production sector. This surge in military spending and arms purchases, which has reached record levels particularly in the wake of the war in Ukraine, is having a significant impact on public budgets, often at the expense of other critical areas such as education, healthcare, and environmental protection.
However, in stark contrast to this trend of increasing militarisation of the economy and finance, European ethical banks, affiliated with the Global Alliance for Banking on Values (GABV) and FEBEA, are adopting a radically different approach.
Between December 2023 and February 2024, GABV conducted a survey[8] among its 71 members, representing some of the world's most influential value-based banks, to assess their stance on excluding arms from banking and financial operations. The survey results are unequivocal: none of the banks affiliated with GABV has any "material[9]" financial exposure, and none actively or knowingly finances the production and trade of arms. Most of the affiliated banks have adopted explicit policies that go beyond the exclusion of so-called controversial weapons, extending the prohibition to the production and trade of any type of weapon. In only a few instances was minimal exposure found to companies involved in the production of dual-use products and services, which can be utilised for both military and civilian purposes.
In particular, all 18 European banks affiliated with GABV apply strict exclusion criteria. The results of this survey, along with the conclusions from the 6th Report[10] in the "Finance for Peace" section, clearly indicate that all ethical banks associated with GABV and FEBEA adhere to strict exclusion criteria regarding the financing of the arms sector.
The table highlights the commitment of European ethical banks to excluding the financing of activities related to the arms sector. The banks listed, belonging to both alliances (GABV and FEBEA), have all adopted stringent exclusion criteria, as confirmed by the sources cited (6th Report, GABV Questionnaire, or the Charter of Values of the respective associations). This clearly reflects a strong and consistent alignment among these institutions in promoting ethical finance, avoiding any involvement with the arms sector.

	Country	Source	GABV	FEBEA
3Bank	Belgium	QGabv	X	
ABS	Switzerland	QGabv	X	X
APS	Malta	loro sito		X
Banca Etica	Italy	6R, QGabv	X	X
Bank of Karditsa	Germany	6R, QGabv	X	X
Caisse Solidaire	France	QGabv	X	
Caixa de Pollença	Spain	FEBEA CoV		X
Crédit Cooperatif	France	FEBEA CoV		X
Cultura Bank	Norway	6R, QGabv	X	X
Ecology Building Society	United Kingdom	GABV CoV	X	
Ekobanken	Sweden	QGabv	X	X
GLS	Germany	6R, QGabv	X	X
Hefboom	Belgium	6R		X
La Nef	France	FEBEA CoV		X
Magnet Bank	Hungary	6R, QGabv	X	
Merkur	Germany	6R, QGabv	X	X
Tise	Poland	FEBEA CoV		X
Triodos	Netherland	6R, QGabv	X	X
Umweltbank	Germany	6R, QGabv	X	X

8 https://www.gabv.org/resources-research/finance-for-war-finance-for-peace-how-values-based-banks-foster-peace-in-a-world-of-increasing-conflict/

9 Material in this sense means investment or lending to any organisation with an arms related turnover equal or higher than 5%. This does not cover firearms used for hunting, sports and recreation.

10 https://finanzaetica.info/wp-content/uploads/2022/10/Report-6th.pdf

GABV MILAN DECLARATION

Interview with Martin Rohner, GABV Executive Director

"Milan Declaration: A Statement for Peace"[11] was released at the conclusion of the 2024 GABV Annual Meeting in Milan, Italy, on 28 February 2024. It calls on the financial industry to stop financing the production and trade of weapons and arms, encourages institutions to introduce or expand existing policies that curb finance for the weapons and arms industry, and asks that they disclose these transparently.
We have asked Martin Rohner, executive director of GABV, about the reasons for the statement and what the next steps will be.

Martin, what are the reasons behind the Milan Declaration?
The Global Alliance for Banking on Values is a movement of frontrunners in values-based and responsible finance. We believe that banks have a role to play in shaping our society and environment. When we gathered in Italy for our global annual meeting last February, we wanted to send a message to the financial industry about the importance of banks living up to their responsibilities. Especially now, when there are conflicts in so many parts of the world, not just in Ukraine and the Middle East. As banks, we wanted to take a stand to inspire others and, more importantly, to highlight the relationship between the financial industry and the financing of arms and war. This is what we have done in the report "Finance for War. Finance for Peace"[12], accompanying the Declaration. We, the members of the GABV, do not finance arms as a matter of principle. With the Milan Declaration we wanted to call on the rest of the industry to follow our example.

What are the next steps? Are you planning to engage directly with financial or political institutions?
For us, this was really a campaign around our global annual meeting, which was held in Italy. It was very much inspired by Banca Etica, who hosted the meeting. We had quite a bit of media attention across Europe, which we were very pleased with. However, we do not intend to continue the campaign in a proactive way. The declaration is and will remain our stand. If we are approached by the media, academics or other players in the financial industry, we will engage with them and explain our position and also show that it is possible to do banking without financing arms and weapons.

If banks and financial institutions should not invest in the defence sector, who should?
We do not deny the right of a state to defend itself. But the financing of arms should not be seen simply as a business opportunity and a way of making money. I think that's the message we want to be very clear about. Defence is inherently a public function. It must be publicly financed. And it cannot be left to the free market, otherwise it will lead to an excess of trade in arms and weapons. And that, in turn, will increase the risk of violence or conflict. We believe that arms are not just a product like any other, but must be strictly controlled and it must be in the mandate of governments to finance arms and weapons.

If a mainstream bank stops lending to a defence company, it will almost certainly lose an important customer to a competitor. So why should a mainstream bank adopt the Milan Declaration?
I think that in the long run the benefits will be greater for those banks that refrain from financing arms. That's why it's very important that this kind of financing is made transparent, that it's clear to the general public what the bank is financing with the money, so that customers can decide which bank to choose. Profits from defence are very short-term profits that are likely to damage the bank's reputation in the long term. This is particularly true for banks that claim to support the Sustainable Development Goals. How can you invest in arms and support sustainable development at the same time? Financing arms is actually at odds with any definition of sustainable finance. Conflicts are marred by human rights abuses. Corruption in the arms sector is widespread. Banks would do well to avoid being associated with this industry in the first place. I believe that if a bank decides to divest from the defence sector, it has a lot to gain in terms of brand reputation and customer loyalty. Everyone will see that they're being bold and taking a stand on such an important social issue.

Do we need more regulation regarding the investment in weapons?
I don't think we need more regulation. We need better regulation. Regulation in the ESG field is not very effective. We need to rethink it to make it more effective. And in the case of arms financing, it would probably be a good thing if there were clearer rules. Because it is in the interest of society as a whole, every society. Every society has an interest in having peace rather than conflict and war.

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11 https://www.gabv.org/declarations/milan-declaration-a-statement-for-peace-2024/
12 https://www.gabv.org/wp-content/uploads/2024/02/Finance-for-War.-Finance-for-Peace.pdf

PART 3

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Introduction

Gianluca Salvatori, Euricse

After the financial crisis of 2008 and the further crises of the last fifteen years, the importance of the contribution of social economy organisations to people's well-being and to economic, social and environmental sustainability is increasingly recognised. This is reflected in the position taken by international organisations such as the ILO (Resolution on Decent Work and the Social and Solidarity Economy, June 2022[13]), the OECD (Council Recommendation on the Social and Solidarity Economy and Social Innovation, June 2022[14]) and the United Nations (Resolution "Promoting the Social and Solidarity Economy for Sustainable Development", April 2023[15]). But a key role is played above all by the European Commission, which, after approving the Action Plan for the Social Economy (2021), recently (November 2023) formulated a recommendation of the European Council to the member states, advocating the need to promote national policies in favour of the social economy.

Supported by the European Commission, the social economy promotes organisations that prioritise social and environmental goals over profit, contributing to sustainable and inclusive development across the European Union.

At the basis of this recognition, which goes against an approach that for decades has considered the social economy a marginal phenomenon, there is the awareness that organisations and enterprises also operate on the market that do not have profit as their sole objective and that, on the contrary, are inspired by an economic vision that focuses on producing public goods and common goods, in order to reorganise society to maximise the likelihood that future generations will have at least the same standard of living and quality of life as ours.

In the European definition[16], the social economy refers to organisations, both productive and non-productive, positioned between the public sector, sharing its general interest objectives, and the private for-profit sector, sharing its private nature and, to some extent, the management methods. In the European tradition, characterised by very different cultures and legal systems, five categories of entities fall under the definition of social economy: cooperatives, mutual societies, associations (including all non-profit organisations), foundations and social enterprises. All these entities have grown considerably in recent years, becoming an essential component of European development strategies not only in social policies but also in economic and industrial ones.

According to estimates by the European Commission, 2.8 million social economy organisations operate in the member states, representing around 10% of all European enterprises. Employment in the sector is estimated at around 13.6 million people, or 6.2% of the EU total, plus several million volunteers.

In particular, the social economy is recognised for its ability to contribute to economic development in accordance with principles of environmental and social sustainability: a role that does not confine the social economy to a residual area delimited by market failures or the disinterest of other actors.

In its Action Plan, the European Commission defined the social economy on the basis of four distinctive features:

- it comprises organisations of a private nature, independent of public authorities
- in which people's interests and social or environmental objectives prevail over the pursuit of profit
- obliged by law or statute to reinvest the majority of their profits in activities of collective or general interest

13 https://www.ilo.org/resource/ilc/110/resolution-concerning-decent-work-and-social-and-solidarity-economy

14 https://www.lavoro.gov.it/temi-e-priorita/Economia-Sociale/Documents/Recommendation-Council-Social-Solidarity-Economy-Social-Innovation.pdf

15 https://www.ilo.org/resource/news/ilo-welcomes-new-un-resolution-social-and-solidarity-economy

16 https://social-economy-gateway.ec.europa.eu/about-social-economy/social-economy-definitions-and-glossary_en#:~:text=OECD%20definition,%2C%20more%20recently%2C%20social%20enterprises

- managed according to democratic or otherwise participatory criteria.

This definition has no legal value as European Union aims is to promote a process of recognition and valorisation that respects the specificities of individual national contexts. This is why the European strategy does not focus primarily on the issue of legal recognition, but considers the creation of sectoral support policies, advantageous taxation, adequate mechanisms for access to public and private funding and a revision of the state aid rules based on the recognition of the social and employment function of social economy organisations as a priority.

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Social Economy. A unique ecosystem that needs multilevel support to sustain society

Sarah de Heusch, Social Economy Europe

WHY SOCIAL ECONOMY IS CRUCIAL NOW MORE THAN EVER

As discussed in the previous chapter, the social economy (SE) has gained increasing recognition in recent years, particularly from key global institutions. While the previous chapter focused on the regulatory framework and the recommendations developed by these organisations to promote SE, this chapter delves into the transformative role that SE can play in addressing global challenges. The OECD, for example, has highlighted how SE can pioneer new business models, provide essential services, and contribute to a fairer, greener, and more digital economy. This recognition not only reaffirms the importance of SE but also underscores its ability to build long-term resilience in the face of emerging challenges. The resolutions by the United Nations and the ILO, adopted in 2023 and 2022 respectively, have reiterated the central role of SE in promoting inclusive and sustainable development by creating decent jobs, reducing inequalities, and fostering social cohesion. SE is increasingly seen as a key enabler of the Sustainable Development Goals (SDGs), with the ILO particularly acknowledging its significance in ensuring decent work, social protection, and social justice on a global scale.

Social economy, supported by EU policies, offers innovative and inclusive solutions to environmental, economic, and social challenges, actively involving citizens in the change.

By linking these aspects to the previous discussions, this chapter aims to provide a deeper understanding of the crucial role that SE is playing in transforming our economies and societies.

When it comes to the EU, the EC has adopted a Social Economy Action Plan (SEAP) which paves the way for concrete actions to boost SE until 2030. The EU recognizes social economy as participating in all the above, and proposes support ranging from social policies to industrial strategy. SE also answers major challenges in key areas of concerns for EU citizens such as purchasing power and access to vital services and goods like housing, food, energy, as well as access to health. For each of these, SE has a solution based on a specific approach to property which is collective and not individual, which promotes dialogue and counters back greed-driven inflation. All can be provided through profitable - yet not profit-driven - businesses and associations. SE often develops activities in fields left out by the market and the State.

With SE, the purpose is first of all to answer societal needs through activities. It is a diverse approach to economy that embeds the economy in society. Increasingly, environmental sustainability is understood as part of the social objective as, at minimum, there cannot be societal wellbeing without a healthy environment. The second principle of social economy is to reinvest most of its surplus in the social objective. This is a unique feature of SE, together with the democratic governance, which is the 3rd key principle of SE. This practice can be centred on a closed community or extend as far as to multi stakeholders engagement with all those impacted by the association or enterprise.

SOCIAL ECONOMY IN EUROPEAN POLICIES

Needn't to say that in moments of great transitions, such as the ones we are currently living with the necessity of solving the environmental challenges and embracing the inevitable digital shift, SE's unique approach to dialogue and democratic practices are an invaluable asset. Beyond these fundamental economic shifts, the European Union is stuck in the middle of geopolitical tensions and wars in which it is dealing with its shrinking political and economic power and its high dependency on external resources within a global supply chain it no longer controls. If the EU acknowledges its need to reindustrialize, and recognizes SE as an ecosystem, it hasn't yet realised how much SE can help in such an objective. First of all because social economy is active in all sectors of activities, secondly because it can involve citizens in this common effort, thirdly because it enables citizens to be actors of these changes. Some political trends want everybody to be entrepreneurs, in SE we can support those who want to be entrepreneurs, but most of all SE empowers anyone to be an active actor of their lives and of society.

Undoubtedly, the European Union legislature in 2019-2024 was one of the most prolific for social economy as it has designed the Social Economy Action Plan. This has paved the

way for different types of actions (from recommendations for legal changes to actions to be implemented). As an industrial ecosystem, SE and proximity has its own (digitalization & green) Transition Pathway and skills upskilling and reskilling strategy[17] (through its own Large Scale Partnership). SE ecosystem is very different from the other 13 ones as SE is not based on a sector of activity, rather on its modus operandi (see the 3 principles that guide SE). The EC also developed a Social Economy Gateway which is meant to be a one-stop shop regarding SE in the EU, with information about the SE ecosystem in the different EU countries, key organisations and funding opportunities. One of the biggest outcomes of the SEAP is probably the Council recommendation on condition frameworks for SE[18]. This policy was adopted by all EU MS and provides a string of recommendations to improve the SE ecosystem all over Europe. Measures envisaged range from labour and social issues (such as access to labour market, social inclusion, skills, social innovation, sustainable economic development and territorial cohesion) to more technical aspects such as : access to public and private funding, access to markets and public procurement, state aid, taxation, social impact measurement and management as well as visibility and recognition.
All this would never have been possible without the support of the EC (of course), but also the European Parliament and in particular the Social Economy Intergroup, as well as the support of the 2 consultative bodies: the European Economic and Social Committee (group III in particular) and the Committee of Regions.

THE CRUCIAL ROLE OF MEMBER STATES IN BOOSTING SE

Now that the European Union has set out such an ambitious action plan, it still has to implement it with the support of the SE ecosystem, of course, with proper and adapted financial support, and most of all with the support of MS who play a crucial role in supporting the flourishing of the ecosystem. In fact, national governments are key players as members of the EU council, and as such they should be guarantors of the coherence amongst different policies adopted by the EU and that affect SE, as they have a double role of transmitting national concerns to the EU and of implementing EU policies in their national context. Regarding the recommendation in particular, Member States are supposed to implement them in their national and regional contexts in order to support the development of SEE through adapted policies, support mechanisms and dialogue with practitioners. In fact, one of the recommendations is to develop structural communication between social economy actors and authorities (when it isn't already the case) to develop policies and actions in line with the needs of the local ecosystem. It is recommended to support representative organisations and develop a structured dialogue with them such as is the case in Spain (with CEPES) and France (with ESSFR). It is even recommended to make them part of social dialogue. Anyhow, SE is considered as having to be embedded in all national policies.
If some MS don't seem to grasp the extent of SE or confuse it with social impact movement (which is a restrictive view), fortunately, most EU MS have decided to go even further than the aforementioned European agreements. Already since 2015, the Luxembourg Declaration monitoring committee was composed of 6 countries and its purpose was to advance policies supporting SE. This committee, in particular thanks to the Spanish and Belgian EU presidencies, now counts over 20 MS that engage in further pursuing the SEAP. During the SE event of San Sebastian (November 2023), 19 MS signed the San Sebastian Manifesto in which they committed to developing an ambitious roadmap for the SE, including the implementation of the European Social Economy Action Plan by 2030, fostering cooperation among Member States and various institutions. Key initiatives include implementing the recommendation for a social economy framework, advancing the green and digital transitions, and promoting youth entrepreneurship.
In February 2024, over 20 MS, and particular Ministers responsible for Social Economy, signed the "Liège Roadmap for Social Economy in the European Union"[19] in which they invite the Council of the European Union (of which they are part) and the European Commission to engage to pursue 25 points which can be resumed as follows. As announced in San Sebastian Manifesto, the overarching objective is to strengthen and implement the SEAP by 2030, which also entails supporting SE in future EU policy orientations and the EU work programmes (2024-2029), monitoring and supporting the effective implementation of SE framework conditions.
In particular the roadmap also points out more specific actions of the SEAP and recommendation to Council, such as ensuring recognition of SE entities at EU level to promote their internationalisation; promoting gender equality in SE public policies; integrating the SE into European projects, traditional economy value chains as well as a third player in public-private partnerships. Regarding funding in particular, it is suggested to fund and support the development of SE consortia, incubators, clusters, and micro-projects as well as to promote access to European funding for SE entities and federations. It also encourages MS to ensure taxation systems support the development of the SE, and facilitate access to public procurement for SE entities. Regarding EU legislation, it envisages an analysis of State aid rules and regulations to address and solve challenges faced by SE entities and enterprises. It even considers promoting the best use of the General Block Exemption Regulation (GBER) to support SE entities. In general, it encourages the deployment of supportive regulatory frameworks and strategies for the SE at national and regional levels.
The roadmap also aims at supporting awareness-raising

17 https://pact-for-skills.ec.europa.eu/about/industrial-ecosystems-and-partnerships/proximity-and-social-economy_en
18 https://social-economy-gateway.ec.europa.eu/council-recommendation_en
19 https://socialeconomy2024.eu/wp-content/uploads/2024/02/LiegeRoadmap-SocialEconomy-3-final_propre.pdf

of social economy principles and values in education and towards the general public. It encourages the creation and development of educational curricula and skills centres dedicated to the SE. It advocates for the creation of statistical tools adapted to the SE at various levels as well as for conveying a study on SE's economic and financial data among the EU.
To enable all this, the roadmap supports the establishment of national and regional SE coordinators in public institutions, calls for the appointment of a European Commissioner responsible for the SE as well as support for the effective operation of the Monitoring Committee of the Luxembourg Declaration. Finally, the governments are also pushing for a follow up on the effective implementation of this Liège Roadmap for SE in the EU.

WAYS AHEAD

For SE to flourish across the EU, clearly the EU legislature 2024-2029 must pursue and implement all these initiatives. At EU level, especially given the challenges of shortage of supply chain and the geopolitical tensions, SE must be considered as an essential ecosystem of the EU Industrial strategy. That is the only way to ensure the reindustrialization of the EU is adapted to the XXIst century by relying on companies that integrate social and environmental costs, locally rooted and globally competitive. Europe is the cradle of democracy and has a unique approach of individual freedom and collective solidarity, which, to survive, must broaden and further penetrate the economic world through enterprises and associations like SE that promote direct democratic participation. SE, like democracy, isn't a given, it requires to be nurtured and supported. All the actions proposed in the SEAP and the Liège roadmap are essential.
SEE strongly believes that a flourishing European SE ecosystem needs strong cooperation with all levels of power. Through engaged MS government both at national level and within the Council. Thanks to an EC commissioner in charge of SE who is responsible for linking the ecosystem to all transversal policies. Because SE is active in all sectors of activities and is impacted by a wide range of legislation, SE also needs an Intergroup in the EU parliament to ensure a structured and continuous dialogue between the ecosystem and the MEPs. And finally, at grassroot level, SE organisations and enterprises can support all this by federating their voice at local, national and EU level. This not only strengthens SE's visibility, it also allows it to create synergies and mutualize costs of representation and implementation of actions. And all SE organisations and enterprises have a role to play to strengthen and grow the ecosystem. Ethical and cooperative banks have a particular role to play as they are part of the ecosystem and have a very good knowledge of the SE needs and functioning. They can play a major role in increasing credits and investments for SE enterprises and organisations through various financing tools, while being key informant as to necessary adjustments by EU and national funds.

The social economy is the future of the European Union, meeting people's needs and addressing global challenges with sustainable solutions that strengthen democracy, solidarity, and work.

Social economy is the future of the EU, economy, people and the planet, it shouldn't be left aside because of the renewal of the European Parliament and EC representatives or even in front of what some consider as "more urgent issues" such as geopolitical tensions and wars. SE is one of the strongest solutions to raising geopolitical concerns, as it responds to the needs of people while strengthening EU reindustrialization, democracy, solidarity and power of initiatives.

Governance and Social Goals in European Ethical Finance. Structures and Practices

Jordi Ibañez, Fundación Finanzas Éticas
Valentina Patetta, FEBEA

The commitment to transform finance, which drives the Ethical Finance movement in Europe, stems directly from the will of its members and shareholders, and is reflected in its governance system. The coherence and comprehensiveness of the impact they generate are understood through the existence of a socially empowered and motivated base driven by the aim of transformation. The desire to maintain this idiosyncrasy of its social base drives the entities to organise around participatory governance structures, generally of a cooperative type, and to maintain a preference for limiting the distribution of surpluses as a natural selection tool for their members and as a way of equitably distributing the added value between the investor and the saver.

Ethical Finance, rooted in participatory governance and social objectives, is part of the Social Economy, promoting transparency, fairness, and collaboration with the local business community.

The FEBEA values charter highlights this dual aspect of ethical banks: "*An ethical bank does not aim solely at profit even though a fair profit is necessary to ensure the viability and economic sustainability of the bank; thus, ethical bank profits are mainly reinvested in the promotion of the bank's social objectives, and capital remuneration may be limited. Transparency, collaborative management, strong territorial integration, ethical management of salaries, and autonomy are the basic principles of ethical finance*".

Participation and the primacy of social utility are also the central axis of the Social and Solidarity Economy. For this reason, Ethical Finance feels part of this movement of transformative economies. This sense of belonging and this way of being, naturally give rise to a wide range of collaboration experiences and alliances with this socio-economic sector. It is difficult to describe all of them at the European level, but we can describe ethical finance entities within the framework of some of the most important values of the Social and Solidarity Economy, so the integrity sought in their impact and the motivation to weave these spaces of connection will be understood. To systematise the presentation, we will make a brief review of their governance forms, social objectives, and territorial roots.

CORPORATE GOVERNANCE

The most common legal form in FEBEA is definitely the cooperative form. Eleven member entities are proper cooperatives present in countries such as France, Italy, Denmark, Greece, Spain, and Belgium. Of these, seven have a banking licence (Banca Etica, Cassa Rurale Bolzano, La Nef, Merkur, Cooperative Bank of Chania, Cooperative Bank of Karditsa, and Credit Cooperatif). Four others operate as financial service cooperatives: Hefboom, Coop57, Credal, and Sefea Holding.

As is appropriate to this legal form, the administrative bodies are generally elected democratically in all cases under the principle of one person, one vote. The exception is in Greece (Chania Bank and Cooperative Bank of Karditsa), where cooperative societies by shares have a legal regime that provides for a vote proportional to the number of shares, although with two limits: no person can have more than 35% of the voting rights, and those who own more than 5% of the voting rights cannot jointly represent more than 50% of the votes. This legal regime is also used by two other Italian entities (Cassa Rurale di Bolzano and Banca Etica); however, here the law imposes the formula of one person, one vote.

Most cooperatives also set a limit on capital subscription or voting rights, such as Banca Etica (1%), Credit Cooperatif, La Nef (5%), or the two Greek banks (with the aforementioned voting rights limitation) to limit the effective control by one member. In the particular case of Coop57, the voting rights limit operates depending on the type of member, so collaborating members cannot have more than 30% of the voting rights, and working members at most 3%.

Ethical finance relies on cooperatives and other legal forms to ensure participatory governance, transparency, and social inclusion.

We also found two non-profit savings banks. The first, Caixa Colonya, is based in the Balearic Islands, Spain. Its governing bodies follow the principles of one person, one

vote. Its general assembly consists of 36 councillors, half of whom are representatives of the depositors, another six represent various public administrations, six represent entities representing collective interests, and six represent the workers themselves. The other case is Cultura Bank, a Danish savings bank whose creation in 1996 was the evolution of the Cultura Lånesamvirke cooperative. Its composition is equally divided among depositors, workers, and shareholders, as the bank issues share certificates to increase its capital. Additionally, the statutes provide for the participation of a municipal representative.

We also find three financial entities with legal forms belonging to the social economy according to their state legislation: FemuQui on the Island of Corsica, Community Finance Ireland, and France Active. The first, although constituted as a joint-stock company managing funds, was created with the aim of promoting territorial development and is recognised as a Social Solidarity Company and is regulated by the French social and solidarity economy law in force since 2014. According to this law, Social Solidarity Companies have as their main objective the pursuit of social utility; their profitability is affected by this purpose, the remuneration policy is very limited, and their capital cannot be traded on financial markets. Therefore, the law allows for the creation of investment vehicles capable of attracting local capital and linking it to local development. FemuQui is accredited by the Finansol seal of Solidarity Finance. It has a complex governance system that allows its Board of Directors to have a majority of small business owners on the island and maintain control over the company's financial activities. Additionally, the board has a large majority of volunteer directors (14 out of 17) to ensure alignment with the founding mission.

The second entity with another legal form belonging to the social economy is Community Finance Ireland. It is recognised as a Community Benefit Society according to the Cooperative and Community Benefit Societies Act (Ireland 1969 and 1976), according to which the society is registered as a "charitable" society. This form of organisation has some particularities that ensure popular governance. Firstly, shareholders can be part of it with minimum popular contributions of 250 euros. Additionally, these people must be registered with their names and surnames in the member register. Finally, the organisation is community-based, so all decisions of the general assembly as well as the board of directors (Board of Directors) are made under the principle of one person, one vote.

Finally, the third entity in this category is France Active. France Active is a national association made up of a set of territorial associations whose main general objective is to promote social entrepreneurship through support instruments and financing mechanisms, with a special emphasis on social economy projects. To this end, it has created two investment vehicles with public-private collaboration. Therefore, France Active is a second-level association that also operates non-profit and with a democratic governance system.

In the ecosystem of ethical finance, we also find a group of entities with legal forms not belonging to the social economy but controlled by cooperative entities or non-profit entities.

First, we find Socoden in France, a joint-stock company owned by representative entities of French cooperativism. This entity was created in 1965 to help cooperative entities in difficulty. Also in France, we should highlight SIDI, a limited company managed by a management company owned by four non-profit institutions linked to cooperation organisations in the Catholic world. They are joined by the Epargne Solidarité Développement association, which brings together 1,564 small investors. Like the other French cases mentioned above, SIDI also has Finansol accreditation.

Another case of a non-cooperative company but controlled by social economy entities is found in Poland, where we find the Social and Economic Investment Company, or as everyone knows it: TISE. A joint-stock company created in 1991 by BISE, a Polish bank, the Foundation for Social and Economic Initiatives (FISE), and the French investment fund SIDI, which we have just mentioned. TISE's main activity is financing micro, small, and medium-sized enterprises, non-governmental organisations, and social enterprises. After a long journey linked to Credit Cooperatif, at the beginning of 2024, TISE announced the transfer of all its shares to the Polish cooperative bank Pozna ski Bank Spółdzielczy (SGB Group), one of the main cooperative banks in Poland. The fourth case is Cassa Centrale in Italy, the parent company of the Cooperative Banking Group. As such, and also by legal imposition, it operates on the principle of proportionality of shares, establishing that at least 60% of the capital, and therefore of the vote, must be in the hands of other cooperative banks where the principle of one person, one vote already applies.

In this model, we also find the centenary Maltese bank APS Bank, controlled by non-profit religious organisations that have more than 70% of the capital of the SA.

To finish, we find the only case of an independent joint-stock company: the Swiss ABS Bank. An entity created in 1990 with a cooperative vocation but ultimately chose the joint-stock company model to facilitate access to the banking licence. To maintain a popular vocation, the bank's statutes limit the maximum capital that a member can have in the company to 5%. The labour structure is organised in a clearly horizontal manner, with a wide participation of women in administrative and management positions, a collegial management, and an association formed by the bank's employees who have a seat on the board of directors.

ENTITY TYPE	NUMBER
Cooperatives	11
Controlled by cooperatives or non-profit entities	5
Savings banks	2
Other forms of social economy	3
Independent joint-stock companies	1
Total full members	**22**

TERRITORIAL ROOTS AND PARTICIPATION

All FEBEA member entities have strong territorial roots, generally belonging to a single European Union State. The only exception is Banca Etica, which has its members distributed in Italy and Spain after an integration approved by the respective general assemblies. This merger recognises the same rights to members of both states and maintains a strong participatory life within the deliberation and cultural promotion processes. Territorial attachment in some cases is even confined to a community level, as is the case with the two Greek banks and the Cassa Rurale di Bolzano, which are linked to the development of a specific territory within a single State, or in the case of Cassa Centrale, which, as the parent company of the Cooperative Banking Group, links its activities to the territories where affiliated cooperatives are operating. This is also the case with Corsican FemuQui and Caixa Colonya. The territorial roots of the entities in relation to cooperative governance do not prevent some of these entities from carrying out operations in other countries following their social objectives, as is the case with Credit Cooperatif or Banca Etica, but political power is always linked to territorial development. Another particular case is SIDI, whose social base is French, but its investments are aimed at social and environmental transformation projects in southern countries.

Ethical finance entities combine strong local roots with participatory governance, promoting local development and inclusion while remaining open to national and international collaborations.

The effort to encourage the participation of members is significant in most cases. This effort includes all types of members and territories. Among the notable cases of promoting territorial participation, we can highlight Banca Etica, France Active, Credit Cooperatif, and Coop57 with territorial participation structures. The participation model developed by ABS Bank concerning its employees, which we have seen previously, is also very interesting. Networking is also a constant in most FEBEA entities. This networking is manifested in various ways: in high cultural activity, commercial agreements with Third Sector or Social Economy networks, support programmes, and technical assistance, as in the case of Credal or in product creation dynamics, as in the case of Caixa Pollença with the ethical savings book.

SOCIAL OBJECTIVE

All FEBEA members have a clear orientation towards transformation or community development of their home community, explicitly leaving aside the maximisation of shareholder value that governs the vast majority of the conventional financial sector. The cooperative sector is legally obliged to allocate reserves higher than those of other companies, with the most extreme case being that of Italian cooperative banks that must allocate 70% reserves.

Ethical finance institutions prioritise social goals, maintain strong financial reserves, limit returns, and promote fair wages.

But the result distribution policies generally exceed legal criteria to ensure that corporate decisions are made more concerning the social objective than the benefit of the partner/shareholder. In some cases, this option also implies no distribution of results, as is the case with the two France Active savings banks or collective interest entities. In other cases, the economic return is limited to updating the value of the share capital, as is the case with Credit Cooperatif. In others, this update materialises at the time of the recovery or sale of the shares, as is the case with Banca Etica or Merkur.

Despite this limitation on the return of value to members, most entities offer higher returns for their own financing mechanisms that do not have political rights, so the attraction of investors with a profile that requires a higher return does not have effective decision-making power in the cooperative. In some cases, series B shares are issued, deposit certificates, subordinated securities, or the creation of funds or other investment schemes managed by these entities but open to a wide range of investors, as is the case with Sefea FemuQui. All these measures, along with more than acceptable economic results that are transformed into reserves, ensure that despite the difficulties, ethical finance entities have capitalisation ratios higher than those of other financial entities, as the present report demonstrates once again.

The primacy of the social objective also imposes certain salary limitations in many cases. In some cases, maximum salary ranges are established between the highest-paid and the lowest-paid employee. It is also common to replace individual awards for executives with performance bonuses for the entire staff.

This way, entities ensure the union of the interests of members and workers. This is the case, for example, with Caixa Pollença, which has a salary policy based on the collective agreement for savings banks and imposes no variable remuneration for employees to ensure the social orientation of the entity. These same practices are also extended to entities such as Coop57, FemuQui, or Banca Etica, whose variable returns are applied equitably to the entire workforce.

In the graph, we classify the 22 FEBEA member entities according to the emphasis their statutes place on the social objective.

SOCIAL OBJECTIVE	ENTITIES
Improving the conditions of a territory, its members, and cooperation	Casa Rurale Di Bolzano, Chania Bank, Karditsa, Cassa Centrale Banca, Tise, Caixa Pollença, Femuqui
Common good or transformation	Banca Etica, Hefboom, La Nef, Merkur, Coop57, Credal, Sefea, Cultura Bank, Abs
Social Economy entities	Credit Cooperatif, Community Finance Ireland, France Active, Socoden
International cooperation	Sidi
Social commitment and economic and environmental progress	Aps

ETHICAL FINANCE: TAILORED CREDIT FOR THE SOCIAL ECONOMY

A cornerstone of ethical finance's commitment to the social economy lies in its specialised lending approach outlined in the FEBEA Charter. This approach emphasises directing funds towards transformative initiatives that serve the common good and generate positive impacts on both people and the planet.
Ethical finance organisations tailor their lending strategies to the unique needs of the social economy. This deep understanding allows them to provide the "appropriate type of capital" for each entity. They achieve this through a nuanced approach to financial analysis integrating traditional credit assessments with evaluations of the social-environmental value generated for the community. This enables them to offer solutions even to organisations that might not appear viable based on purely financial criteria.
Building on this understanding, ethical finance institutions adopt a flexible lending approach tailored to the specific needs of social economy organisations. Their deep community roots and strong relationships allow them to create customised loan structures that consider the size, sector, and development stage of each organisation.
Examples include microloans for early-stage ventures and patient capital designed to facilitate long-term social impact.

LA NEF: FINANCIAL PRODUCTS TAILORED TO ORGANISATIONAL SIZE

La Nef provides two distinct financial product ranges designed to cater to organisations of varying sizes and sectors:

For Startups and Small Entities with an Annual Revenue of Less Than €3 Million:
It aims to support smaller scale projects and organisations that contribute positively to their communities in environmental, social, or cultural ways. This product suite is ideal for entities at the nascent or developmental stage of their operations, offering financial solutions that align with their growth and impact objectives.

For Established Entities with an Annual Revenue Exceeding €3 Million:
This range addresses the needs of larger companies, local governments, significant associations, and head network associations that influence environmental, social, or cultural domains.
Designed for larger scale operations and higher financial requirements, these products provide robust support for expansive projects that have substantial impacts on their communities.
In addition, ethical finance organisations combine innovative instruments such as crowdfunding platforms with flexible loans or public-private schemes.

BANCA ETICA: 'BANDO IMPATTO + CON FONDO ETICA SGR'

The IMPATTO+ Call for Proposals is an initiative by the Banca Popolare Etica Group to support projects of significant economic or social interest. Selected projects will gain access to the Produzioni dal Basso crowdfunding platform, and upon reaching 75% of their fundraising goal, will receive an additional contribution of up to 25% of the remaining amount from Etica Sgr. This donation is made possible by the "Microfinance and Crowdfunding Fund" established thanks to the voluntary choice of Etica Sgr clients to donate 0.1% of their invested capital to support social innovation projects.
Beyond lending, they also offer a range of specialised services designed to strengthen the social economy sector, including training programmes, mentoring opportunities, and access to valuable networks. These comprehensive services underscore the key role that ethical finance plays in nurturing and advancing the social economy.

HEFBOOM: BEYOND THE FINANCIAL SUPPORT

Hefboom offers customised consulting and a wide range of training courses for the broad social-profit sector, including cooperative enterprises and non-profit organisations.

Hefboom goes beyond financial support by offering a variety of services, including:

- Support for start-up organisations;
- Administrative and financial follow-up service;
- Corporate governance training;
- Community building support

Conclusions to the 7th Report

Anna Fasano, President of Banca Etica

The European Union redefined its political representation in September 2024. This decision affected the institutions that will govern during this legislature, following a year in which its economy generated over 18 trillion dollars in GDP. Brussels faces the challenge of **determining how to shape the future for approximately 750 million inhabitants, along with the pace for making this vision a reality**. Banca Etica and the networks of ethical finance (FEBEA and GABV) aspire to make a positive and diverse contribution to this future, guided by a vision of full sustainability. Their collaborative and resolute approach is reflected in the business model of ethical banks, as highlighted in this report. Realising this contribution requires the development of innovative financial tools that support individuals and economic activities aligned with collective growth, while respecting communities and ecosystems. It also involves engagement activities and targeted collaborations with operators and savers/investors, along with concrete actions to influence the mainstream financial system through open and transparent dialogue with all stakeholders.

The European Union needs to decide whether to continue the positive momentum of the Green New Deal and implement the Action Plan for the Social Economy. If properly funded and focused on inclusive and sustainable development, these two key policies could greatly improve Europe and serve as a model for others.

The climate and energy challenge is of utmost urgency, particularly as many member states are periodically struck by catastrophic natural events. However, certain stakeholders continue to advocate for the easing of community regulations intended to facilitate the ecological transition by introducing delays and pitting short-term, singular interests against the needs of entire communities and local economies. This creates a genuine paradox, particularly in light of the **serious and escalating environmental and social consequences resulting from the current neoliberal development model reliant on fossil fuels**. Fossil fuels have triggered the two most severe inflationary waves in the past 60 years: the oil crisis of the late 1970s and the more recent gas crisis, both fuelled by speculative dynamics that influence price determination.

As public services guaranteed to individuals deteriorate in many countries, including Italy, and economic inequalities continue to grow, **we are now awaiting confirmation on the definition of a future European social taxonomy**. This taxonomy should offer clear regulatory guidance for financial investments. At a minimum, a framework agreement is needed to reorganise the numerous regulations related to corporate social responsibility, providing a unified direction for leaders and stakeholders alike. Following the approval of the European Action Plan for the Social Economy, there is optimism that national implementations will increasingly promote and support vital economic entities and organisations - such as social enterprises, cooperatives, associations, and foundations - that ensure territorial cohesion. **It is essential for ethical finance to advocate for the social economy's space, which prioritises individuals and their needs, to be defended and further expanded**. This urgency is heightened by the alarming rise of militaristic perspectives and the troubling trend towards the privatisation of essential public services. Both dynamics divert valuable resources from peace, public social and healthcare services, environmental policies, and the energy transition.

At this point, we should ask ourselves: what resources do we have to support the vision of development and finance we aspire to, as well as the European future we imagine?

First and foremost, we must recognise the need to rely on a diverse mix of financial and social levers. Achieving the goals of the 2030 Agenda cannot happen without collaboration with various stakeholders, **including the community of savers and investors**. Through their choices regarding personal asset allocation, individuals can guide policymakers and the financial sector in the right direction. Promoting the model of ethical finance and applying its principles and values while increasing awareness of finance that prioritises long-term benefits over short-term profit is an effective way to encourage individuals to stop inadvertently supporting harmful financial circuits and organisations that neglect community well-being. This approach also involves rejecting arms and fossil fuels in favour of defending rights and the environment. **Opening an account with an ethical bank is not merely an individual act; it is a social responsibility that sends a clear signal capable of influencing broader change**. Such actions can contribute to the virtuous transformation of the current financial system and even the political and institutional landscape.

On the other hand, **the Europe and planet we envision represent a goal that requires greater, consistent, and proactive contributions from private finance**. This finance,

at all levels, can be engaged to support the journey of community policies towards common well-being. For this reason, we aspire to engage more effectively with those who today pursue different economic and financial models, confident that **ethical finance is not only possible but also effective and profitable, as demonstrated by the history of ethical finance institutions worldwide and the data in this report**. Active participants in the ethical finance movement must define a credible framework for a fair, just, clean, and peaceful society, beginning from a position of constructive dialogue. They should also amplify their lobbying and advocacy efforts to bring other key players in the global economic and financial system on board. Outlining a singular horizon of integral sustainability, rooted in shared principles and values, is essential to embrace the interests and needs of individuals, stakeholders in European public policies, and private finance operators. This horizon should be established and become somewhat binding for the years to come. If supported by a united purpose among the economy, finance, and European politics, it has the potential to positively influence other continents and regions.

If the path toward greater accountability in the European political, economic, and financial system shows signs of weakening, we risk witnessing a situation similar to that which has occurred across the ocean. There, **some major American investment firms, which just a few months ago proclaimed themselves champions of the energy transition, are now shifting their stance and invoking financial performance as the sole benchmark for assessing their business**. This shift occurs while ignoring, and sometimes actively opposing, the demands from civil society and critical shareholders, often taking advantage of short-sighted political support influenced by industry lobbyists and immediate electoral interests.

This risk must be absolutely averted, as **such a scenario would push Europe back into the past, erasing at least a decade of collective progress and hope for younger generations**.

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