

Theory of Change

How European Ethical Bank turns underserved demand in local communities into productive credit - by helping community organisations become last-mile lenders on shared infrastructure, using authentic sustainability as part of how we judge risk, and building a replicable, growth-agnostic model of community banking.

SECTION 01

The change we are making

Four mechanisms, working at the same time

Getting a banking licence and raising capital are preconditions. They are not the change. The change happens when four things start working together at the same time.

First, we help existing community organisations - cooperatives, ethical lenders, mission-driven non-bank financiers - become last-mile lenders. They already know their members and their territory. What they lack is the infrastructure and the compliance coverage to lend at scale. We provide that, and they keep doing what they do best.

Second, we put authentic sustainability into the bank's risk models, not as a marketing layer but as a real input into credit decisions. A loan that strengthens local life is treated, by policy and over time by the regulator, as a safer loan.

Third, we run a credit policy that improves local circularity and liquidity in productive sectors. Money created through lending is directed toward the parts of the real economy that have been underserved for a generation.

Fourth, we build an innovative governance model designed to be replicated rather than scaled. Success looks like 30 community-focused banks across the EEA using the same infrastructure, not one big bank with branches everywhere.

The picture, read from the bottom up

Layer	What it looks like
Impact	The real-economy financing gap (around EUR 475B) starts to close. Community-focused banking is copied across the EEA - target 30 countries within five years.
Outcomes	Local lenders increase their lending capacity without losing their brand or their members. Real-economy credit becomes cheaper than speculative credit. Gross loan yield moves from around 3.0% in 2027 toward 2.0% by 2031. The safety cushion (Common Equity Tier 1, CET1) sits in the 14-18% range; the loan-to-deposit ratio (LTD, how much of community money is lent out) stays at or below 85%.
Outputs	Five to eight anchor partners at launch, with more joining each year. A loan book focused on six productive sectors (habitats 30%, production 25%, energy 15%, food 15%, education 7.5%, inclusion 7.5%). A FairShares charter that locks the mission in place and caps surplus at 10% of revenue.
Activities	Onboard and equip partners with a single licence and a single core system. Embed our sustainability scoring (Common Good Matrix, CGM v5.1, and the UN Research Institute's Sustainable Development Performance Indicators, UNRISD SDPI) inside the risk engine. Decline business lines that contradict the mission: consumer credit as a profit centre, fossil-fuel expansion, arms, gambling, speculative derivatives.
Inputs	Underserved real-economy demand. An existing network of competent local lenders. A mature sustainability methodology. A FairShares governance form. A three-class capital stack: A-Type stewards, B-Type strategic partners (at least 10% of their own lending pipeline, first-loss), C-Type permanent patient capital.

The four mechanisms reinforce each other. Pricing under Mechanism 2 helps Mechanism 1 by making the offer attractive to partners. Mechanism 3 follows naturally as productive lending volume grows. Mechanism 4 lowers

the cost of entry for the next institution that adopts the model.

01

Mechanism 4 in plain words

Without Mechanism 4, EEB risks being remembered as an interesting one-off. We do not want a successful experiment; we want a category. Four things make that possible.

Pillar	What it does
From exception to category	Establishes last-mile, community-focused banking as a recognised European model. The conversation shifts from 'can EEB work?' to 'how many institutions like this does Europe need?'
Shared infrastructure	Targets a critical mass of at least five banks or consortia running on the same cloud-native core. Infrastructure becomes common ground, not a competitive moat.
Regulatory recognition	Pursues formal citation of CGM 5.1 and authentic sustainability methodology by European supervisors (European Banking Authority, EBA; European Central Bank, ECB) and national regulators, so the approach is no longer ours alone.
Open methodology	We publish the methodological 'source code' - whitepapers, multi-tenant protocols, governance templates - so others can copy the model. Replication is treated as success, not competition.

SECTION 02

What the model needs to begin

Capital is the fifth input, not the first

Money is not what makes this work. Four other things have to exist first: a documented gap in real-economy financing across Europe; a network of competent local lenders who have the relationships but not the infrastructure; a mature methodology for measuring authentic sustainability; and a governance form that prevents mission drift. Capital makes the build possible. It does not produce the change.

Input	Where it comes from	Why we need it
Real-economy demand	Around EUR 475B annual EU financing gap (sources: European Investment Bank, EIB; ECB Survey on the Access to Finance of Enterprises, SAFE; European Commission Social Economy data)	Without proven demand there is nothing to allocate to
Last-mile lenders	Cooperative banks, ethical lenders, mission-driven NBFIs, community finance	We do not originate. Partners do. Shared infrastructure makes no sense without them
Sustainability methodology	CGM v5.1, UNRISD SDPI, Authentic Sustainability	Lets ecological and social signals enter credit decisions in a defensible way
FairShares governance	A-Stewards, B-Strategic, C-Catalytic share classes; mission lock; surplus cap at 10% of revenue, with anything above flowing into a cost-reduction fund (lower fees, lower loan rates, mission reserve)	Prevents mission drift, hostile capital concentration, demutualisation, IPO exit
Capital stack	A-Type (mission stewardship, non-tradable while in role); B-Type (at least 10% of the partner's planned pipeline, first-loss on the local portfolio, revenue-share return); C-Type (permanent patient capital, 5+ year horizon, return through equity value and chosen area of impact)	Funds the build, absorbs early risk, aligns partner incentives, and crowds in DFI capital (EIB, InvestEU)

What partners keep, what they share

The most common concern we hear from local ethical and cooperative banks is not about cost. It is the fear that joining shared infrastructure will mean giving up the brand, the member relationship, or the right to make their own credit decisions. Our architecture starts from the opposite premise: local autonomy is the asset, and the core platform is the commodity. The split is written into the constitution, not renegotiated case by case.

What the partner keeps	What the shared core provides
Brand, name, identity, member communication	The banking licence (a Lithuanian Specialised Bank, UAB, with an EU-wide passport)
Member and client relationships, local governance	Treasury, payments, cards, IBAN, FX
Local credit judgement within a shared policy floor	KYC, AML, GDPR, DORA engine and audit trail
Pricing within the sustainability framework	The risk model scaffolding (CGM 5.1, SDPI) and the engine that estimates worst-case losses (Value-at-Risk, VaR)
Territory, sector focus, language, channel mix	Final credit approval and prudential calculation
The right to leave with the member book intact	Cloud-native multi-tenant core, security, uptime

Who pays for migration

The second blocker is migration cost. Data migration, parallel-run, staff retraining and regulatory re-mapping are funded out of the C-Type catalytic pool and the shared operating budget. A partner joining in Year 2 inherits the work done for the partner who joined in Year 1. That is the entire point of one licence and one core. Partners contribute operating fees only against live volume.

SECTION 03

What we actually do

Activities, ordered by what produces the change

These activities are listed by causal weight, not by chronology. Equipping partners and writing the credit policy is what produces the change. Securing the licence and building the platform are what make those activities legal and operational. Both matter, but they sit downstream of the mission.

Activity	What it produces	Owner
Onboard last-mile partners under our Banking-as-a-Service model (BaaS, six steps: map needs, Letter of Intent (LoI), capacity assessment, five-year business plan, revenue-share, at least 10% capital commitment)	Origination across up to 30 EEA countries without our own branches	Partnerships
Write the credit policy: authentic sustainability inside the model, public-bank-style pricing (cost of funds plus expected loss, minus guarantees, plus capital and opex)	Real-economy credit cheaper than speculative credit by design. Gross yield moving from 3.0% in 2027 toward 2.0% by 2031	Risk and ZEF
Keep the methodological dialogue with regulators alive (EBA, ECB, national)	Sustainability metrics moving from a supervisory add-on (Pillar 2, where regulators ask for extra capital case by case) toward formal recognition inside banks' own risk models (Internal Ratings-Based, IRB) and eventually treatment as eligible credit protection under the Capital Requirements Regulation, Article 194 (CRR Art. 194)	Risk and Echoes Srl SB
Build and run the cloud-native multi-tenant core	Low marginal cost per additional partner. Single audit surface	Technology
Secure and maintain the UAB licence (Lithuania) with EU passporting	Legal capacity to lend, take deposits, create money in the regulated sense	Echoes Srl SB and legal
Publish the methodology	A replication kit that lets the next institution start two years ahead of where we did	Echoes Srl SB

SECTION 04

What we will have built

Concrete deliverables in the first five years

Outputs are what someone outside the organisation can point to and verify. They are not impact, and they are not outcomes. They are the things we either have or do not have by a given date.

Output	Target	How it is verified
Anchor partners on shared rails	5 to 8 at launch, at least 3 added in Year 1	Signed BaaS agreements; live partner cores in production
Productive loan book	Six verticals (habitats 30%, production 25%, energy 15%, food 15%, education 7.5%, inclusion 7.5%)	Loan tape; quarterly portfolio review
FairShares charter in force	Mission lock, surplus cap 10% of revenue, exclusion list	Filed statutes; annual governance audit
Geographic reach	Up to 30 EEA countries via the UAB passport by Year 3	Passporting notifications; live partner footprint
Replication kit published	Whitepapers, protocols, governance templates, open under a permissive licence	Public repository; citation tracking

SECTION 05

What changes for the people involved

From outputs to lived effect

Outcomes are the shift in behaviour, capacity and economics that we expect to see if the outputs land as designed. They are still measurable. They are not yet the long-term societal impact.

Outcome	Indicator	Cadence
Local lenders grow their lending capacity without losing brand or members	Partner loan-book growth; member retention; brand-recall surveys	Annual
Real-economy credit becomes cheaper than speculative credit, by policy	Gross yield trajectory 3.0% (2027) -> 2.0% (2031); expected-loss differential	Quarterly
Capital adequacy and liquidity stay within prudent bounds	CET1 14-18%; LTD <= 85%; Liquidity Coverage Ratio (LCR, short-term cash buffer) > 110%	Quarterly
Productive sectors gain credit access	Share of new lending in the six chosen verticals; first-time-borrower share	Annual
Partners share governance, not just infrastructure	FairShares board composition; surplus distribution; cost-reduction fund deployments	Annual

SECTION 06

The longer arc

What this is ultimately for

Impact is the part we do not control directly. It depends on outcomes holding, on other actors joining in, and on macro conditions not turning against us. We name it anyway, because a theory of change without an end state is just a workplan.

Two things would have to be true in 2031 for us to say the model worked. First, the European real-economy financing gap is measurably narrower than the roughly EUR 475B baseline. Second, the model itself has been copied: at least a handful of institutions of the same type are operating across the EEA, citing the same methodology and using compatible infrastructure. If only the first is true, we have built a useful bank. If both are true, we have helped open a category.

The leverage that makes this plausible is simple. Each euro of A-Type or C-Type capital supports roughly ten euros of productive lending through the deposit-creation mechanics of a regulated bank. B-Type capital does similar work at the partner level. The model is therefore not about how much capital we raise; it is about how productively each euro is put to work, and about how many partners we equip to do the same.

SECTION 07

What has to be true, and what can go wrong

Listed openly, because transparency is part of the offer

We list these openly so that the load-bearing beams are visible to partners, investors and regulators. The most important one is how regulators come to recognise authentic sustainability. That recognition does not arrive in a single moment - it grows in stages.

How recognition grows over time

Stage	What it looks like	What it means for us
Early	Authentic sustainability is used inside our own scoring as an extra layer	Mostly a signalling effect; the advantage comes from how we run the bank, not from rules
Middle	A supervisor formally accepts the method inside our internal risk model	Real cost advantage starts to show; other banks can point to our precedent
Mature	Authentic sustainability counts as collateral and lowers capital requirements	Full pricing edge over speculative lending; the approach becomes a sector standard

Mechanism-level assumptions

Assumption	If it fails
Last-mile partners adopt the shared licence rather than build their own	The federation collapses into a single-bank model
Regulators recognise authentic sustainability in risk and collateral (the stages above)	Cost advantage compresses; value proposition shifts toward shared-core economics
Deposit creation through productive lending works as theorised once licensed	Lending becomes funding-constrained; the multiplier collapses
B-Type first-loss layer stays attractive to partners at the 10% level	Federation is under-capitalised at partner level; risk re-concentrates on EEB

Operational and macro assumptions

Assumption	If it fails
UAB licence granted on the 2026 horizon with EU passporting from Year 1	Timeline slips; pressure on the C-Type pool to extend runway
FairShares exclusions hold (consumer credit, cards-as-profit, securities, speculation, fossil, arms)	Mission drift; outcomes 2 and 3 weaken
A-Type stewardship survives the founder transition	Mission lock weakens over time

Assumption	If it fails
Surplus cap at 10% and the cost-reduction fund mechanic stay enforced	Surplus is captured rather than recycled into lower borrower rates
No eurozone crisis severe enough to interrupt SME credit demand	Outcome volumes miss

SECTION 08

How we will know

Two views of the same numbers

We report the same indicators in two ways. The first view is written for partners and members: what we are tracking and why it should matter to you. The second view is the regulatory format, kept intact so supervisors and auditors can read it without translation.

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A. Plain-language view (for partners and members)

What we track	Why it matters to you
Our safety cushion (CET1)	How much of the bank's own money stands between a bad year and your deposits. Higher means safer.
Responsible use of community money (LTD)	How much of what people deposit we actually lend back into the real economy, without overreaching.
Ability to pay you on any given day (LCR)	Whether we hold enough liquid cash to meet withdrawals even in a stressed week.
What our lending earns (gross loan yield)	Whether the loan book is priced to sustain the bank without squeezing borrowers.
Real-economy gap we are closing	How much of Europe's underserved financing need is being met by partners on our infrastructure.
Partners running on the shared core	How many cooperative and ethical institutions are live on the platform, and how fast that is growing.
Where the loans actually go	The mix across housing, renewables, agriculture, care, education and SMEs - the six real-economy lanes.
What we do with surplus	How much surplus is returned through lower fees, lower rates, or the mission reserve, instead of being extracted.

What this means for us: the plain-language view is not a marketing layer. It is the same data, described in the terms a partner would use when explaining the bank to their own members. If a number moves in the regulatory table, it moves here too.

B. Regulatory view (for supervisors and auditors)

Cadence is how often we expect to publish each indicator. Sources are kept short; full definitions live in the methodology pack.

Layer	Indicator	Cadence	Source
Impact	EU real-economy financing gap (delta vs baseline)	Annual	EIB / ECB SAFE
Impact	Number of institutions running compatible infrastructure	Annual	Public registry
Outcome	Gross loan yield	Quarterly	Internal

Layer	Indicator	Cadence	Source
Outcome	CET1, LTD, LCR	Quarterly	Regulatory reporting
Outcome	Partner loan-book growth and member retention	Annual	Partner data
Output	Anchor partners live on shared core	Quarterly	Platform telemetry
Output	Loan book mix across the six verticals	Quarterly	Loan tape
Output	Surplus distribution and cost-reduction fund deployments	Annual	Audited accounts
Activity	Partner onboarding pipeline status	Monthly	Internal CRM
Activity	Regulatory dialogue milestones	Quarterly	Internal

SECTION 09

Governance that protects the theory

How the model keeps its shape over time

A theory of change is only as durable as the governance that protects it. The FairShares form, the three share classes, the surplus cap and the mission lock are not bureaucratic preferences. They are what stops the model from drifting into the institutions it was designed to be an alternative to.

A-Type stewards hold the founding stake. They cannot trade it while they hold the stewardship role. B-Type strategic partners take a first-loss position on their own portfolio and earn through revenue share. C-Type investors provide permanent patient capital with a 5+ year horizon and choose their area of impact. None of these classes can, alone or together, vote the mission out.

The 10% surplus cap is the part most people ask about. It is simple: above 10% of revenue, additional surplus flows into a cost-reduction fund that lowers fees, lowers loan rates, or feeds the mission reserve. The bank is allowed to be profitable. It is not allowed to capture profits at the expense of the borrowers and partners it exists to serve.

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