EAPB

Actors of growth

ANNUAL REPORT 2015

Contents

President’s foreword

The year 2015 was first marked by efforts to push forward the completion of the Banking Union which includes stronger prudential requirements for banks, improved depositor protection and rules for managing failing banks, and which established a single rulebook for all financial actors in the 28 Member States of the European Union. The EU institutions agreed to establish a Single Supervisory Mechanism and a Single Resolution Mechanism for banks. As third pillar to a fully-fledged Banking Union, in November 2015, the Commission put forward a proposal for a European Deposit Insurance Scheme (EDIS), which is supposed to provide a more uniform degree of insurance cover for all retail depositors in the Banking Union.

Read more

“We believe that striking the right regulatory balance is a prerequisite for allowing national and regional promotional banks and institutions to fully play their role in the so called Juncker plan.”

In 2015 the EU also launched its investment plan to bring back growth to the European economy granting a major role for national and regional promotional banks in this endeavor.

Looking forward, EU is starting to recognize in 2016 that in its rush to fix the root causes of the last financial crisis it may have overregulated smaller and less complex institutions, including national and regional promotional banks, by imposing on them the same rules as large international financial institutions. 2016 will therefore be led by the question on how to implement the key principle of proportionality into meaningful and specific measures to alleviate disproportionate administrative burdens and correct the unexpected consequences on certain business models.

This Annual Report contains some ideas - notably on State aid, the introduction of a leverage ratio, the design of the Single Resolution Fund and the developments of new capital requirement rules to come from international regulators- on how to adapt the new rules to the specific activities of national and regional promotional banks taking into consideration their mission to fund their economy in line with public policies for example in the areas of the development of small and medium-sized enterprises, public infrastructure and the environment.

The challenges faced stem from the fact that NPBs have a public mission, but at the same time must align themselves with market principles, which can be a source of conflict. Legal rules and regulations may cause difficulties in practice for promotional banks: regulations intended to ensure a level playing field in the free market are often not suitable for the promotional tasks these banks have to carry out in a non-competitive manner in their role as promotional entities. We believe that striking the right balance is a prerequisite for allowing national and regional promotional banks and institutions to fully play their role in the so called Juncker plan. The report also contains an overview of public banks' best-practices which the Association has brought forward in the discussion on a Capital Markets Union, a key component of this investment plan.

We happy to share these ideas as well as an overview of our activities to promote the role of public banks with a larger public and whish you a good read.

Philippe Mills
President of the EAPB

EAPB members help expand renewable energy

Who we are

The EAPB is the voice of the European public banking sector.

May 2000

The European Association of Public Banks (EAPB) was founded on 4 May 2000.

EAPB gathers member organisations from 14 European member states and 3 non member states.

We represent the interests of over 30 public banks, funding agencies and associations of public banks throughout Europe...

...representing indirectly the interests of about 90 financial institutions towards the EU and other European stakeholders.

The combined balance sheet total of all EAPB members is around EUR 3,500 billion

We represent about 190,000 employees.

EAPB members constitute an essential part of the European financial sector with a market share of around 15%

Currently there are 14 direct and indirect EAPB members, which have signed projects to contribute to financing under EFSI of an amount of over EUR 2.5 billion in five countries across Europe.

What we do

Advocating to the European institutions in the area of Banking- and Financial Services legislation and EU funding programs.

Establishing contacts with the EU institutions as well as with other European banking associations, credit institutions and promotional institutions in all European countries.

Representing the EAPB members to professional organisations, media and the general public.

Encouraging exchange of **experience** and **co-operation** among public sector banks in Europe.

Regularly and rapidly **informing** its members of all relevant financial, political and legal developments and of measures adopted by the European institutions in the fields of banking law, and European economic and financial policies.

Who we represent

EAPB members are national and regional promotional banks, municipality funding agencies and public commercial banks. They provide financial services and funding for projects that support sustainable economic and social development with, amongst others, activities ranging from the funding of companies and the promotion of a greener economy to the financing of social housing, health care, education and public infrastructure at national, regional and local level.

Bank Gospodarstwa Krajowego (BGK)
Balance Sheet Total (in bn EUR): 12
www.bgk.pl

Bank Nederlandse Gemeenten N.V. (BNG)
Balance Sheet Total (in bn EUR): 153,50
www.bngbank.nl

Bulgarian Development Bank (BDB)
Balance Sheet Total (in bn EUR): 0,82
www.bdbank.bg

Erste Group Bank AG
Balance Sheet Total (in bn EUR): 196,287
www.erstegroup.com

Finlombarda – Finanziaria per lo Sviluppo della Lombardia S.p.A
Balance Sheet Total (in bn EUR): 0,38
www.finlombarda.it

Hungarian Export-Import Bank (Exim Bank)
Balance Sheet Total (in bn EUR): 1,93 bn
www.exim.hu

Croatian Bank for Reconstruction and Development (HBOR)
Balance Sheet Total (in bn EUR): 3,36
www.hbor.hr

Verband der österreichischen Landes-Hypothekenbanken (Hypoverband)
Balance Sheet Total (in bn EUR): 60,02
www.hypoverband.at

Who we represent

Institut Català de Finances (ICF)
Balance Sheet Total (in bn EUR): 3,67
www.icf.cat

Investitionsbank Berlin (IBB)
Balance Sheet Total (in bn EUR): 20,14
www.ibb.de

The Republic of Srpska Investment-Development Bank (IRBRS)
Balance Sheet Total (in bn EUR): 1,20
www.irbrs.org

Kommunalbanken Norway (KBN)
Balance Sheet Total (in bn EUR): 48,35
www.kbn.org

KLP Kommunekreditt AS
Balance Sheet Total (in bn EUR): 2,50
www.klp.no

KommuneKredit Denmark
Balance Sheet Total (in bn EUR): 27,05
www.kommunekredit.dk

Kommuninvest Sweden
Balance Sheet Total (in bn EUR): 37,51
www.kommuninvest.se

Landeskreditbank Baden-Württemberg (L-Bank)
Balance Sheet Total (in bn EUR): 70,19
www.l-bank.de

Landesanstalt für Aufbaufinanzierung Bayern (LfA)
Balance Sheet Total (in bn EUR): 22,13
www.lfa.de

Macedonian Bank for Development Promotion
Balance Sheet Total (in bn EUR): 0,23
www.mbdp.com.mk

MFB-Magyar Fejlesztési Bank Zártkörűen Működő (Hungarian Development Bank LTD)
Balance Sheet Total (in bn EUR): 3,57
www.mfb.hu

Municipal Bank PLC
Balance Sheet Total (in bn EUR): 0,63
www.municipalbank.bg

Municipality Finance (MuniFin)
Balance Sheet Total (in bn EUR): 30
www.munifin.fi

Investitions- und Förderbank Niedersachsen (NBank)
Balance Sheet Total (in bn EUR): 5,67
www.nbank.de

Who we represent

NRW.BANK
Balance Sheet Total (in bn EUR): 143,84
www.nrwbank.com

Nederlandse Waterschapsbank (NWB)
Balance Sheet Total (in bn EUR): 80,64
www.nwbbank.com

Landwirtschaftliche Rentenbank
Balance Sheet Total (in bn EUR): 88,84
www.rentenbank.de

Sächsische Aufbaubank (SAB)
Balance Sheet Total (in bn EUR): 7,61
www.sab.sachsen.de

SFIL
Balance Sheet Total (in bn EUR): 88
www.sfil.fr

Slovene Export and Development Bank (SID Bank)
Balance Sheet Total (in bn EUR): 3,57
www.sid.si

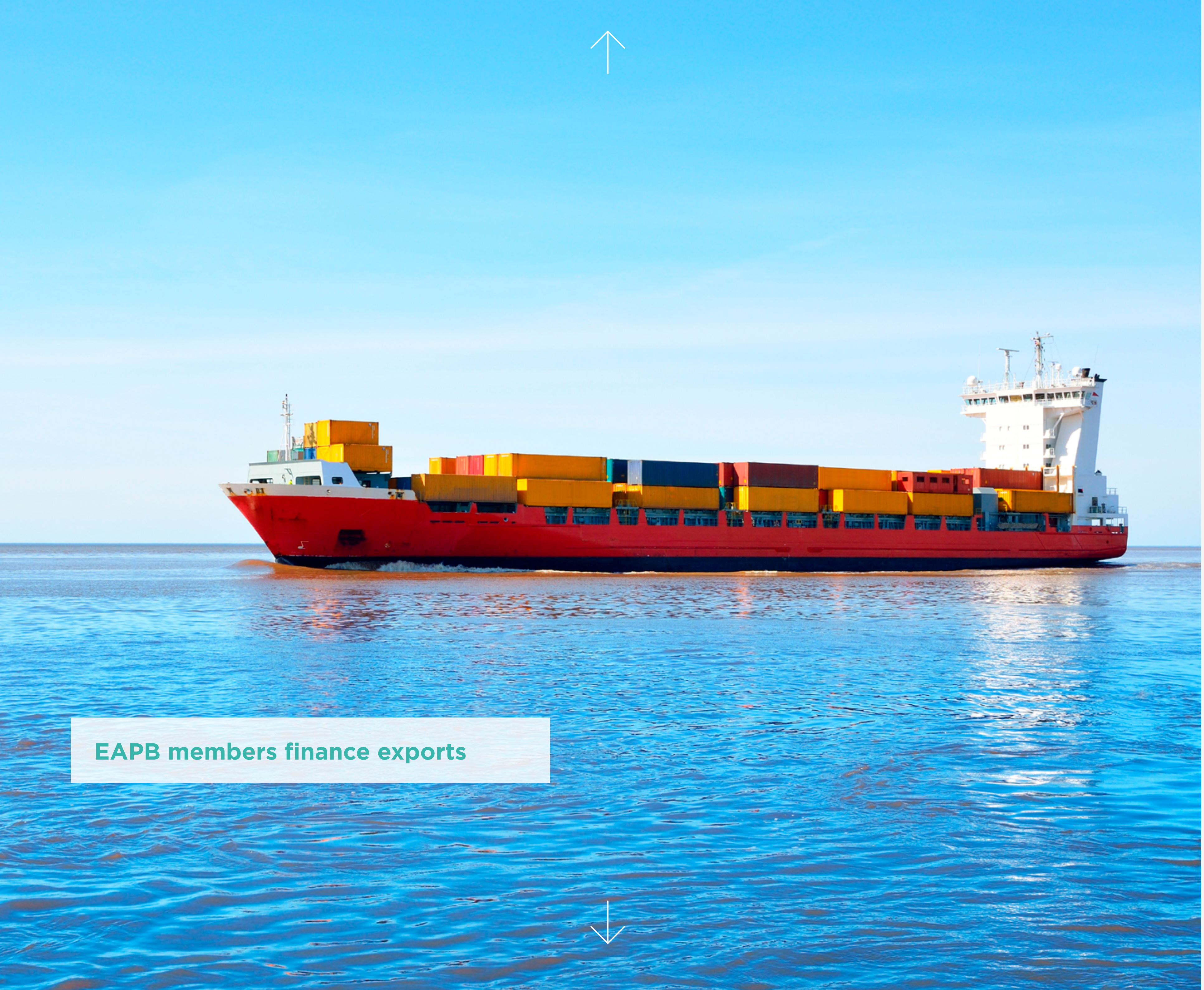
Thüringer Aufbaubank (TAB)
Balance Sheet Total (in bn EUR): 3,95
www.aufbaubank.de

Bundesverband Öffentlicher Banken Deutschlands (VÖB)
Balance Sheet Total (in bn EUR): 2685 (member entities)
www.voeb.de

Wirtschafts- und Infrastrukturbank Hessen (WIBank)
Balance Sheet Total (in bn EUR): 15,86
www.wibank.de

Visit EAPB's website to learn more about our members

* Balance sheet totals as from 2014



EAPB members finance exports

Why national and regional promotional banks (NPBs) are the cornerstone of the Investment Plan for Europe

NPBs are the grassroots of European public investment. The EU should avoid putting obstacles to their action.

“ The economic hardship over the past years has shown that countries and regions without NPBs which have been hit by economic turmoil could not set up the necessary promotional structure fast enough to respond to economic shocks without external help.”

EC underlines NPBs potential

On 22 July 2015 the European Commission adopted a communication on the role of national promotional banks in supporting the Investment Plan for Europe. This followed the creation of many new national and regional promotional banks across Europe, e.g. in the UK, France, Ireland or Spain. With this recommendation to put in place NPBs, the European Commission has made a timely and useful contribution to help Member States all over Europe to set up National and Regional Promotional Banks. However its approach also bears certain risks.

First the Commission rightly recognizes that when public resources are scarce, NPBs can play an important role in mobilizing private funding and optimizing public investment. From the start of the financial crisis in 2007 until today, national and regional promotional banks across Europe have as a matter of fact demonstrated their capacity of swiftly responding to the sharply reduced access to finance as confirmed by a study of Deutsche Bank Research from December 2015. By providing loans and guarantees, as well as advisory services for SMEs affected by the crisis and many others, they have contributed an important share to keeping the EU economy running during the crisis years. They have also played a key role in jump-starting investments in national, regional and municipal infrastructure projects across Europe.
The EAPB moreover fully supports the Commission’s efforts when it comes to sharing best-practices and believes Member States and regions without

NPBs can learn and benefit from its members' financial instrument expertise which will be a key asset for the implementation of the Juncker plan and to bring back Europe's economies back on track. There is also great potential in further cooperation of these institutions with the European Investment Bank and the European Investment Fund to better target public funding as suggested by the European Commission. Several cooperation projects have already seen the light, notably with the support of the European Fund for Strategic Investments (EFSI) adopted in 2015 and a key pillar of the Investment Plan for Europe announced by President Juncker in 2014. Joint cooperation platforms may also be a good step forward - and a welcome add-on to existing networks- to foster a mutual understanding on effective due diligence procedures and the use of the right mix of financial instruments on given projects.

EC destabilizing well functioning existing models

However, in the willingness to provide guidance from a European perspective lies also the risk for the success of many projects on the ground. The main reason why NPBs could play the above mentioned role effectively is that are deeply anchored in their territories and know their local economies, regions, municipalities and SMEs and their needs very well. In their individual investment decisions and strategies they able to take into account local economic specificities and different public-interest objectives. Different communities may have different public-interest priorities, be it in the field of environmental issues, infrastructure or the right mix of income-level for households living in social housing. A top-down and one-size-fits all approach would not be consistent with this reality on the ground.

Having this in mind, the Committee of the Regions (CoR) has criticized the European Commission's decisional practice regarding the approval of aid for new NPBs which may hamper their operational capacity and complicate the foundation process, for example by restricting the public-interest objectives an NPB is allowed to pursue. They further point out that the foreseen evaluations after 5-7 years of a promotional bank's effectiveness should be done on a longer-term basis (10-15 years), reflecting the timeframe of the long-term investment projects (in opposition the private sector short-sightedness).

The CoR raises fundamental points. The economic hardship over the past years has shown that countries and regions without NPBs which have been hit by economic turmoil could not set up the necessary promotional structure fast enough to respond to economic shocks without external help. The need for flexible structures has also been highlighted by the recent migration crisis where many NPBs provided emergency funding for housing facilities as well as other support measures for an adequate integration into society. This means that the necessary promotional institutions must be in place permanently or at least on a longer time horizon in order to respond quickly and scale up their activities when and where necessary.

This should be kept in mind when the European Commission advises Member States and regions on possible NPB models and approves the conditions for their foundation.

Julien Ernoult

Timeline

25 June 2015
Adoption of the EFSI Regulation

4 July 2015
Entry into force of EFSI

22 July 2015
Adoption of Communication on NPBs by European Commission

14 Oct. 2015
Appointment of Managing Director/Deputy Managing Director of EFSI Investment Committee

Autumn 2015
Full launch of IPE

7 May 2016
Adoption by Committee of the Regions of Opinion on NPBs

30 June 2020
End of investment period

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The Leverage Ratio – Regulatory Panacea or Pandora's Box?

Limited applicability of a risk-insensitive measure in low-risk promotional banking

" EAPB calls for a proportionate calibration of the LR specifically taking into account the business models of public and promotional banks and the exceptionally low risk inherent to promotional loans granted by public and promotional banks for the fulfillment of policy objectives."

Issue at stake

In 2016, along with the discussions on a European Deposit Insurance Scheme (EDIS), a set of accompanying regulatory measures is designed and expected to be implemented in the Banking Union. Among these measures, public and promotional banks monitor with particularly great interest the finalisation of the leverage ratio (please see timeline) as its final framework may have significant consequences on their business models.

The debate on the introduction of a leverage ratio (LR) started in the aftermath of the global financial crisis when the Basel Committee on Banking Supervision (BCBS) designed a third installment of the Basel Accords (Basel III) as a reaction to pre-crisis deficiencies in banking regulation. The intention was not to only strengthen banks' capital positions but to also reduce the risk of excessive leverage in the banking system with a risk-insensitive LR. With the transposition of Basel III in European legislation, this debate also gained momentum in European fora. Nevertheless, up until now, the fundamental question on whether the LR can succeed in constituting a panacea to excessive leverage for all bank business models remains unresolved with international and European regulators disagreeing on the appropriate calibration of the LR. While voices are being uttered on setting LR requirements of up to 5% (e.g. ECB Financial Stability Review November, 2015), there is also quantitative evidence that even a 3% LR would already be too high and could force banks to engage in more risky activities in order to comply with the LR requirements. For example, the

BCBS Basel III monitoring exercise from September 2015 revealed that a fully phased-in Basel III leverage ratio of 3% would act as a frontstop measure for 59 out of 198 banks in the BCBS sample or approximately some 30% of the participating banks (BCBS, 2015). For these entities, the non-risk based LR would become the binding requirement as it would need more capital to comply with 3% of LR as opposed to the capital required for compliance with risk-based ratios. This would be in contradiction to the original intention of regulators to design the LR as a backstop to risk-based ratios. Consequentially, this would imply that after the phase-in of all Basel III arrangements, banks with low average risk weight on their assets would perceive the LR as a frontstop.

With fully loaded Basel III requirements implying a LR of 3%, capital conservation buffer of 2.5% and minimal risk-based Tier 1 capital ratio of 6%, it can be shown that banking entities with average risk weight of less than 35.3% (3 % / 8,5 % = 35,3 %) perceive the LR as frontstop.

EAPB position

For public and promotional banks with large-volume, but low-risk and low-margin activities, the frontstop effect of the LR would even be amplified since for these low-risk banks, a 3% LR would imply an even higher capital requirement as opposed to the requirement based on the risk-weighted capital charge. Not only would this result in public and promotional banks having to hold inefficient capital, they would also have to reduce their promotional activities due to the LR provisions. Such repercussions would be in contrast to the European Commission's goal of reviving growth in Europe with the so-called "Investment Plan for Europe" and imply ineffective regulation which jeopardies public finance. This would come along with adverse effects on the real economy due to the important role of public and promotional banks in the provision of finance for municipalities, small- and medium-sized enterprises (SMEs), infrastructure or social housing – much needed investments in particular in times of a significant refugee influx in Europe. Therefore, EAPB calls for a proportionate calibration of the LR specifically taking into account the business models of public and promotional banks and the exceptionally low risk inherent to promotional loans granted by public and promotional banks for the fulfillment of policy objectives. As a matter of fact, a proportional and differentiated treatment of public and promotional banks and loans would be consistent with other regulatory frameworks and already existing exemptions in the Capital Requirements Regulation and Directive (CRR/CRD IV) and could allow maintaining key economic and social policy goals of the European Union. The introduction of the LR will open Pandora's box for promotional lending, if the business models of public and promotional banks are not recognized and promotional loans are not excluded from the calculation of the LR exposure measure.

Alina Gilitschenski

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Timeline

1 January 2013 - 1 January 2017
LR observation period with LR of 3%

1 January 2014
Start of regulatory reporting of LR

1 January 2015
Start of public disclosure of LR

17 January 2015
Publication of the LR delegated act 2015/62 in the EU Official Journal

26 June 2015
EU Commission call for advice to EBA

July 2016
EBA LR calibration report publication
December 2016: EU Commission legislative proposal on LR expected

1 January 2018
Planned introduction of LR as binding Pillar 1 requirement

Capital Markets Union (CMU) displays first actions

Securitisation and Schuldscheindarlehen - Financial instruments with strong growth potential

"EAPB supports harmonisation efforts bringing lower developed markets closer to the levels of those that are further advanced."

Background

The Capital Markets Union (CMU) project is a key priority of the Juncker Commission as well as of the EAPB. The objectives of the CMU are to integrate and extend capital markets in Europe, comprising all Member States. This shall unlock frozen capital and contribute to economic evolution, while promoting jobs and growth. The Commission is putting focus on leveling the access to finance for SMEs, through a series of legislative and non-legislative measures. According to the Green Paper and the Action Plan tabled by the Commission in 2015, the CMU is quite ambitious, and pursues multiple objectives ranging from capital market issues such as venture capital, covered bonds, business angels'-investment, crowdfunding and cross-border distribution of investment funds, to capital requirements, Solvency II, supervisory convergence, long-term-investment, insolvency law and taxation. Amongst such overarching themes, the Commission has put forward some short-term objectives. These aspire to bring to life the 315 billion-investment pact ("Juncker Plan"), and the EU Long-Term investment fund, which has been an early milestone, realised by an EU regulation mid-2015.

For Europe's national and regional promotional banks (NPBs), the CMU signals new regulation requirements albeit to a lesser extent compared to the legislative frenzy in the aftermath of the financial crisis. Commissioner Hill has promised to produce new legislation only where this is deemed indispensable. A welcome effect of this new political approach is the revision of the existing financial legal framework. A simplification of the framework would cut down unnecessary legislation introduced reactively to the financial crisis. Moreover, the CMU aims, among others, at enhancing best business practices; this places EAPB in a favorable position to advance its own positions; promoting the use of certain financial instruments.

EAPB position

The EAPB has identified the CMU as an important initiative with strong potential and pin-pointed it as one of the association's core activities. The EAPB decided to take the role of a constructive partner to the EU Institutions, by sharing its' members expertise, and by proposing selected financial instruments for cross-border promotion. One such instrument is high-quality Securitization, where in particular Asset-Backed Commercial Papers (ABCP) can well be further developed in order to securitize real-economy receivables. Another instrument offering potential for growth is the, Schuldscheindarlehen (bonded loans).Both instruments have proven to be simple, transparent and safe; they offer considerable opportunities to boost capital markets in the EU and their targeted use could lead to the removal of legal obstacles.

Overall, the Capital Markets Union was not conceptualized to replace banks' products and services but to complement them. Capital markets won't need to be rethought from scratch. European operators can largely build upon existing models. Many markets are well-functioning, and sufficiently regulated in varying degrees across Europe; Therefore, the EAPB supports harmonisation efforts bringing lower developed markets closer to the levels of those that are further advanced.

In 2016 and the years to follow, the CMU will dictate EAPBs agenda. The EU legislative framework for venture capital funds is subject to change and a new directive harmonizing insolvency laws is expected in autumn 2016. In the meantime, the Commission is identifying legal obstacles contained in taxation law, in order to remove as many of them as possible. The primary objective of the CMU is to simplify the system and consequently reclaim withholding tax in cases of double taxation. Furthermore, a new common corporate tax base is in the pipeline for 2016. In addition, the launch of a new Prospectus regulation is probable by the end of this calendar year absence political intervention.

The Capital Markets Union might, at the end of the day, not be an all encompassing revolution, but it is an engaging opportunity that bears great potential for NPBs. The CMU enhances funding options for capital seeking investors, banks and capital market actors. A progressive framework with reduced regulatory burden could contribute to the fundamental freedom of capital flows, but also extend integration of markets and subsequently bring Member States a bit more closely together.

Thorsten Guthke

Next article

Timeline

13 February 2015
Publication of the Green Paper on: Building a Capital Markets Union.

23 April 2015
EAPB/VÖB Workshop on Private Placement and securitisation;

5 May 2015
EAPB/VÖB Workshop on Infrastructure financing

8 June 2015
Commission Conference on "Next steps to build a Capital Markets Union" in Brussels.

30 September 2015
Publication of the Action Plan on Building a Capital Markets Union

16 October 2015
EAPB/VÖB Workshop on securitisation

30 November 2015
Commission: Legislative proposal for a new Prospectus regulation

8 March 2016
EAPB position paper on the proposed regulation on the prospectus regime.

Review of the risk-weighted Capital Framework

Fine tuning of Basel III or Emergence into the Era of "Basel IV"?

" The combined effect of the proposed changes will lead to a fundamentally new capital framework and thus, constitute the emergence into a new "Basel IV"-era."

Finalisation of "post-crisis reforms"

In the course of 2015, the Basel Committee on Banking Supervision (BCBS) has been gearing up to significantly revamp the current regulatory framework for banks in order to finalize its so called post-crisis reforms. One of the related key aspects is the review of the architecture of the risk-weighted capital framework. The BCBS' main intention is to improve the simplicity, comparability and risk sensitivity of the current framework by fundamentally revising the standardized and internal models to calculate risk-weighted assets (RWAs). Considering the substantial deviations from the present Basel III-standards, the current initiatives are often referred to as being part of a new set of "Basel IV"-standards. From a bank's perspective the recent consultative documents give rise to concern in terms of higher capital requirements. This in turn could severely hamper loan origination and thus, endanger economic recovery and growth.

One of the first topics which the BCBS addressed in the course of its comprehensive review was the operational risk framework. After a first consultation phase in 2014, the BCBS developed a second consultative document in 2016 in which it outlined its intention to withdraw internal modelling approaches. In turn, it developed a standardized measurement approach (SMA) which is intended to constitute a single non-model-based method for operational risk. Another part of the BCBS' early actions with regard to the capital requirements framework was its revision of the minimum capital requirements for market risk. In this regard a final standard has been issued in January 2016. Besides a revised standardized approach (SA) and internal ratings-based (IRB) approach, the modifications among others include a revised boundary between the banking book and the trading book. The new standards on market risk will have to be implemented by January 2019. In the context of the banking book the BCBS has also issued a new standard concerning the minimum capital requirements for the interest rate risk in the banking book (IRRBB) which is supposed to be implemented by 2018.

Considering the importance of RWAs for credit risk, the envisaged regulatory changes to the credit risk framework will most likely have the strongest implications in practice. This especially holds true for the proposed SA for credit risk. In a first consultative document the BCBS for instance intended to remove the use of external ratings for bank and corporate exposures which could have led to risk weights of up to 300% in certain cases. These modifications among others would have led to disproportionate effects and a significant increase in capital requirements. After many stakeholders including the EAPB raised strong concerns about the new standards, the BCBS adjusted its proposals and decided to launch a second round of consultation in December 2015. Nevertheless, several problematic issues remained in the text.

In March 2016 the BCBS continued its review of the risk-weighted framework by publishing a consultation paper on revised IRB approaches for credit risk (i.e. the advanced IRB and the foundation IRB). Based on various analyses the BCBS found that internal models have led to a significant variability in RWA. Therefore, it expressed its intention to restrict the use of internal models. According to the BCBS this should be done by removing IRB approaches for certain portfolios like e.g. exposures to banks and financial institutions. In addition to the capital floors which will derive from the SA, the BCBS will provide greater specification of parameter estimation practices.

EAPB's preliminary assessment

In general, the EAPB supports the BCBS' intention to make the current capital framework simpler, more comparable and more risk sensitive. However, EAPB is of the opinion that the BCBS' current proposals still contain many critical aspects which need to be tackled. One of them is the envisaged function of the SA for credit risk as a floor for capital requirements calculated under the IRB approach for credit risk. An output floor in the proposed range of 60%-90% would lead to strong disincentives to use internal models. Further, EAPB shares the view that the removal of IRB approaches for certain asset classes would contravene the aim of the BCBS as it would result in less risk-sensitive capital requirements.

Overall, the combined effect of the proposed changes will lead to a fundamentally new capital framework and thus, constitute the emergence into a new "Basel IV"-era. Beyond that and irrespective the BCBS' intention not to significantly raise capital requirements, the envisaged changes would lead to higher capital requirements for certain business models and concerning certain asset classes. Therefore, it would be of utmost importance to conduct an overall impact analysis covering all the different new standards, once the BCBS has finished its separate work strands. Based on the results, partial revisions, especially concerning the level of risk-weights, should be done in order to avoid discriminatory effects for certain business models and asset classes. Only that way, the BCBS could achieve its goal to not significantly raise capital requirements for banks.

Implementation of the new credit and operational risk framework in the EU: Commission proposal not to be expected before the second half of 2018. Basel IV could further hamper banks' lending capacity and have negative economic implications. In the light of the particular importance of this topic the EAPB has been closely monitoring the respective developments and participated in several consultations of the BCBS.

Roman Hametner

Next article →

Timeline

Review of the Credit Risk Framework

Standardized approach:

→ Final standard expected to be published: Q4 2016

→ Scheduled Implementation date: tbd

Internal ratings-based approach:

→ Consultation: March – June 2016

→ Final standard expected to be published: Q4/2016

→ Scheduled implementation date: tbd

Review of the Market Risk Framework

→ Publication of final standard: January 2016

→ Implementation date: January 2019

Review of the Operational Risk Framework

→ Consultation on the SMA: March – June 2016

→ Final standard to be published: Q4/2016

→ Scheduled implementation date: tbd

(Implementation by the European Commission: not starting before Q4/2016 (rather 2017))

Contributions of promotional banks to the Single Resolution Fund – taxpayers' money for bank bail-out again?

National and regional promotional banks (NPBs) have to contribute to the Single Resolution Fund although they are highly unlikely to ever benefit from such fund.

" EAPB believes that the specification given by EBA is too narrow and therefore strongly calls for a comprehensive approach to the term "promotional loans" in the context of the derogating provision of the Delegated Regulation."

Issue at stake

This year for the first time, the Brussels based Single Resolution Board (SRB), the resolution authority for Eurozone banks chaired by Dr. Elke König, former president of the German Federal Financial Supervisory Authority (BaFin) is responsible for calculating the individual contributions of banks to the European Single Resolution Fund (SRF). In 2016, the contributions collected from Eurozone banks in the previous year by national authorities are gradually being transferred to the European fund managed by the SRB.

The centralized fund has been established in order to resolve failing banks without resorting to taxpayers' money. It is built-up through contributions of banks in Member States participating in the Banking Union with a target level of 1% of the covered deposits of these banks. The SRB also assumes full resolution powers for those banks under its direct responsibility (120 significant banking groups and cross-border banking groups). The SRB, in Brussels' jargon with a sly wink also known as the "start-up authority", still has to prove its credibility given the limited staff resources facing a huge task being – directly and indirectly – responsible for roughly 4,000 banks in the Eurozone.

NPBs have not been exempted from the obligation to pay contributions to the Single Resolution Fund. Neither the argument that NPBs with public ownership and explicit or implicit state guarantees would hardly ever benefit from such fund nor that the contributions paid to the fund are in the end taxpayers' money could convince politicians to exempt NPBs as such. The integrity of the whole financial system served as the knockout argument for the obligation of the whole banking sector to build up the SRF regardless of the likelihood that the individual institution would ever benefit from the fund. However, statutory measures reducing the amount of contributions by NPBs are foreseen in Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 which deals with ex ante contributions to resolution financing arrangements and specifies the calculation basis for the contributions. The Delegated Regulation allows for an exemption of liabilities with regard to promotional activities from the calculation basis for contributions to the SRF. Nevertheless, the definition of promotional loans in the derogating provision of Article 5 paragraph 1(f) of the Delegated Regulation and its interpretation differed largely between the national resolution authorities. The European Banking Authority (EBA) addressed the question raised by national resolution authorities regarding exclusions of liabilities matched by promotional loans, i.e. whether the definition of promotional loans allows for a wide interpretation comprising also auxiliary promotional transactions. EBA argues for a narrow approach limiting the possibilities for exemptions to promotional loans in a strict sense not going beyond the wording of the paragraph.

It remains to be seen how the SRB is going to approach the issue. The extent of exemptions from the calculation base for individual contributions in 2016 is yet unclear.

EAPB position

EAPB believes that the specification given by EBA is too narrow and therefore strongly calls for a comprehensive approach to the term "promotional loans" in the context of the derogating provision of the Delegated Regulation.

In tangible terms, liabilities matching directly granted promotional loans should be deducted from the calculation basis as well as those matching pass-through loans and any liabilities in support of the promotional business. This supportive business comprises for example the generation of earnings allowing for interest-rate rebates for promotional loans, to cover administrative expenses or to comply with prudential requirements.

The European legislator clearly states in a recital of Delegated Regulation (EU) 2015/63 that NPBs have been set up in order to pursue public policy objectives of a Member State's central, regional or local government. When granting loans they aim to fulfill these public policy promotional purposes. NPBs have close ties to their regional or national governments and are public entities which retain their gains and often pay no dividends or in case dividends are paid, these are given to the public ownership for the benefit of the public sector

EAPB stresses that the promotion of public policy objectives is an aspect that prevails in all promotional business activities. Most of the loans granted by NPBs benefit from a guarantee from a central, regional or local authority or are directly granted to local or regional government authorities. EAPB therefore urges to exempt the direct and indirect lending activities as well as the supportive business of NPBs aiming at facilitating the promotional lending activities from the calculation basis for the contributions to the SRF. Given their low risk profile, their stable business models and their purpose they were established for it would be highly unlikely that NPBs and funding agencies would ever benefit from the Single Resolution Fund.

Susanne Mulch (former employee)

Timeline

17 January 2015
Publication of Delegated Regulation (EU) 2015/63

March 2015
EAPB Guidance paper on interpretation regarding Delegated Regulation (EU) 2015/63

30 October 2015
EBA Q&A specifying the interpretation of Article 5 paragraph 1(f) of Delegated Regulation (EU) 2015/63

January 2016
EAPB position paper on contributions to the Single Resolution Fund

February 2016
EAPB meeting with representatives of the Single Resolution Board

Our members support startups and innovative SMEs

Overview of EAPB meetings and major events

February

27	State aid and Development Policy Committee – Brussels

The State aid and Development Policy Committee took place on February 27 in Brussels. Astrid Bartels, DG Growth of the European Commission and Paul Samsonoff, European Investment Fund, EIF delivered a presentation on COSME Financial Instruments. Futhermore, a presentation on Horizon 2020 / Innovfin was given by Jean-David Malo, DG Research of the European Commission.

The EAPB Secretariat reported on the state of play regarding the set-up of the European Fund for Strategic Investments (EFSI) in the framework of the EU Investment Plan. In addition, Mr. Paolo Zaggia from Finlombarda gave a short overview concerning the main findings and recommendations following the FIN-EN project.

Several ad-hoc sessions were organized to faciliate the exchange with recently created promotional banks and agencies. Representatives were invited from the British Business Bank, the UK Green Investment Bank, the French BPI France, the new Portuguese Finance Institution Instituição Financeira de Desenvolvimento, the French Agence France Locale and the Strategic Banking Corporation of Ireland.

March

5	Compliance Committee – Brussels

On March 5, EAPB invited Mr. Gerhard Hütz, Director General and European Investment Bank (EIB) Group Chief Compliance Officer, at the EAPB premises to present the EIBs internal compliance structure. The Committee further exchanged best-practices and experiences with EIB compliance staff on internal antimony laundering/counter terrorism financing procedures, the implementation of sanctions against Russia as well as on FATCA implementationa spects. The participants were further informed on recent developments regarding revised corporate governance principles for banks issued by the Basel Committee and their affect on the compliance function.

6	Legal Affairs Committee – Brussels

The meeting of the Legal Affairs Committee took place in Brussels on March 6. Mr. Miroslaw Galar, DG TRADE, and Mr. Petr Wagner, DG FISMA European Commission, presented the current state of play of the bilateral negotiations between the European Union and the United States (U.S.) Furthermore, the Eurostat's statistical treatment of European public banks was presented to the Committee participants.

April

16	Capital Markets Committee – Brussels

On April 16, EAPB held its 3rd meeting of the EAPB Capital Markets Committee at the EAPB premises. Ms. Tatyana Panova from the European Commission, DG FISMA, gave a presentation outlining the features of the CMU project. The presentation prompted a lively discussion among the participants.

23	Capital Markets Union-Breakfast – Brussels

On April 23, the Association of German Public Banks (VÖB) and the European Association of Public Banks (EAPB) jointly organized, at the Representation of the State of Hessen to the EU, a breakfast meeting dedicated to the Capital Markets Union. The national and regional promotional banks engaged in a constructive dialogue with representatives of the European Parliament, European Council and the European Commission. The session focused on two key elements of the Green Paper, Private Placements and Securitization Market. Two market experts provided insights and illustrated best practices as well as concrete proposals. Each presentation was followed by an open discussion with the audience.

May

18	CEO Workshop on Local Finance – Paris

On May 18, the EAPB CEO Workshop on Local Finance took place at the premises of the Société de Financement Local (SFIL) in Paris. Mr. Phillippe Mills, Chief Executive Officer of SFIL, presented the organisation's business profile and activities to the participants. Mr. Aidan Brady, the CEO of the recently established Local Capital Finance Company (LCFC) outlined the business model of the first municipal bonds agency in the United Kingdom. The EAPB secretariat presented issues relevant to Local Finance and the European Fund for Strategic Investments (EFSI).

May

15-17 **EAPB participates as a speaker at the first Innovative Enterprise week conference: Access to Finance for Research, Innovation and SMEs 2015 – Riga**

Organised under the Latvian Presidency, the first Innovative Enterprise Week conference: Access to Finance for Research, Innovation and SMEs 2015 was held on June 15-17, in Riga. The event brought together high-level policy-makers, financial intermediaries and representatives of the research, innovation and business communities to discuss topics of importance for Europe, among them how the financial instruments, facilities and accompanying measures launched under Horizon 2020 can enhance access to finance for research, innovation and SMEs.

EAPBs Secretary General, Mr. Marcel Roy delivered a presentation on the role of national and regional promotional banks (NPBs) in fostering long term financing for Research and Innovation in Europe. Mr. Roy stressed the importance of NPBs in keeping the EU economy running during the crisis years. Mr. Roy presented examples of NPBs jump-starting investments in national, regional and municipal infrastructure projects across Europe. Forms of co-operation between the activities of the European Investment Bank and NPBs were also elaborated.

Photos and video diaries from each conference day are available on the conference website at www.innoweek2015.eu. Videos can be retrieved here https://vimeo.com/innoweek2015/videos, whereas photos can be viewed at https://www.flickr.com/photos/innoweeklatvia/.

June

25 **EAPB organises General Assembly – Düsseldorf**

On June 25, the European Association of Public Banks (EAPB) organized its semestrial General Assembly in Düsseldorf, Germany. The event was kindly hosted by the NRW.BANK.

The general assembly serves as a platform to discuss the current challenges and prospects facing EAPB. In his opening speech, EAPBs President Mr. Ron Walkier highlighted: "A year ago we started a transformation process for making our association an outstanding provider of political intelligence as well as a natural platform of exchange for our members. There are still numerous challenges for us to face together but I strongly believe that EAPB is on the right track to meeting its goals."

On this occasion EAPB announced that Finlombarda S.p.A. has joined EAPB as its 33rd member. At the meeting Mr. Bilian Balev, Executive Director at the Bulgarian Development Bank was appointed new board member of the EAPB.

October

6	**Capital Markets Committee Meeting – Budapest**

On October 6, EAPB organised its 4th Capital Markets Committee meeting at the premises of the Hungarian Development Bank Ltd. (MFB) in Budapest.

Dr. Csaba Polacsek, Deputy State Secretary for national financial services and postal affairs delivered a speech on the role of capital markets in Hungary's economic development.

Delegates from the National Bank of Hungary presented the European Commission's "Action Plan on building a Capital Markets Union" and subsequently provided an update on Benchmarks regulation. Mr. Imre Ligeti, presented on behalf of the Hungarian National Bank, "Trends, risks and vulnerabilities in the financial and capital markets"

Mr. Zsolt Nagygyörgy, Compliance Officer, at MFB shared his experiences and insights as member of ESMA's Securities and Markets Stakeholder Group.

October

14 **EAPB organises Open Days Workshop on Public Banks supporting local and regional finance and development – Brussels**

On October 14, the EAPB held a workshop on the role of Public Banks in supporting local and regional finance and development on the occasion of the Open Days 2015. The Open Days is a series of around 100 seminars, workshops, which are organized by the Committee of the Regions (CoR) and the European Commission's Directorate General for Regional and Urban Policy (DG Regio).

The workshop brought together over 70 representatives from national and regional governments, EU-Member States, EU Institutions as well as from various stakeholder organisations (banking sector Industry and SME associations).

The workshop`s agenda included contributions from Ms. Pauline Bieringa (Managing Director at Bank Nederlandse Gemeenten), Mr. Pekka Averio (President and CEO, Municipality Finance Plc.), Mr. Francois Laugier (Deputy CEO at Société de Financement Local), Dr. Jörg Hopfe (Executive Director at NRW.BANK), Mr. Marcel Roy (Secretary General at the European Association of Public Banks).

The panel shared insights, provided an overview of their organization`s activities and showcased best practices. The workshop provided a platform for the Public Banks to present their different business models. Each one of these models reflected the distinctive needs of the different regions municipalities, local markets and SMEs. A vivid debate emerged on the need of tailored regulation that considers local specificities, refuting a one size fits all approach.

Feel free to access the pictures of the workshop here:

October

14 **EAPB participates at Open Days Workshop, “The future of financial instruments for cities – Brussels**

On October 14, EAPB participated at the Open Days workshop on the future of financial instruments for cities. The workshop was jointly organised by the EAPB, the City of Manchester, DG REGIO, European Investment Bank, Metropolitan area of Lille, the city of the Hague and URBACT.

The audience summed up to 150 participants coming from the European Commission, public financial institutions, national and regional representations to the European Union, academia, think tanks and European associations.

EAPB Secretary General, Mr. Marcel Roy, presented the local banks’ outlook on financial instruments for cities, focusing on the challenges and the opportunities in setting up and implementing those instruments.

Pictures of the workshop are available here:

October

15	State Aid and Development Committee – Brussels

On October 15 the Meeting of the EAPB State Aid and Development Committee was held in Brussels. Mr. Pierre-Emmanuel Noel, from the European Investment Bank (EIB) delivered a presentation on the European Fund for Strategic Investments - Infrastructure window. Mr. Noel gave a general overview of the EIB and the EIB Groups's role in the Investment Plan for Europe.

Mr. David Gonzales Martin and Mr. Lionel Grandi, both delegates from the European Investment Fund (EIF) delivered a presentation on the European Fund for Strategic Investments - SME window. Mr. Martin informed the audience on the possibilities for financial intermediaries in terms of debt and equity financing instruments under EFSI.

Subsequently Mr. Grandi informed the participants on the possibilities under the Erasmus+ Master Loan Guarantee Scheme 2014-2020. He outlined the specific features and informed on the Application & Selection process for the Financial Intermediaries interested in this programme.

Mr. Stefan Appel, Head of Unit, DG Regio, European Commission, gave a short overview over the two programs, the European Structural and Investment Funds (ESIF) and the European Fund for Strategic Investments (EFSI) programs and indicated the respective financial means and the target sectors.

October

16 **EAPB-VÖB Workshop on Securitization at the Representation of the State of Hessen to the EU**

On October 16, EAPB with the support of VÖB, organised a workshop on Securitization at the Representation of the State of Hessen to the EU.

The Workshop targeted EAPB member organizations as well as a selected number of representatives from other public financial institutions, European institutions and stakeholders organizations. With over 30 participants, the final conference reached a wide audience.
The workshop provided a general overview on operational and policy aspects related to Securitization. In this context, EAPB brought together an exceptional lineup of speakers. Mr. Ward Mohlman, (DG FISMA, European Commission) presented the Commission proposals for the regulatory framework under the Capital Markets Union initiative. Ms. Cornelia Holthausen, (Principal Adviser in DG-Market Operations, European Central Bank) shared ECB views in the field of securitization. Mr. Francesco Battazzi (EIF) delivered a presentation on EU policy on SME access to finance and securitization. Dr. Christian Peter (Vice President, ABS, ABCP, Structuring, KfW) presented KfW Promotional securitisation activities and Mr. Volker Meissmer (Securitization Grundsatzfragen & Conduit Management, Landesbank Baden-Württemberg) shared market insights and approaches to high quality Securitisation.

Pictures of the workshop are available here:

November

10 **EAPB holds congress on the role of national and regional promotional banks in Europe – Barcelona**

On November 10, the European Association of Public Banks (EAPB) jointly organised with the Institut Catalã de Finances (ICF), its annual event in Barcelona, Spain. The event summoned over 120 high level participants from national and regional governments, public financial institutions, the banking and financial sector and the EU institutions.

EAPB brought together an exceptional line-up of speakers to discuss the current challenges and prospects of national and regional promotional banks in Europe as key actors of growth in the light of the new European Banking Union framework. Representatives from the Bank of Spain, the European Central Bank and KPMG provided an overview on the European regulatory and supervisory framework. Subsequently, EAPB members and representatives from EU Institutions shared their views on financial instruments and promotional policy in the Member States.

A video of the event is available here:

Feel free to access the pictures of the event here:
password: eapb2015

December

10 Economic and Financial Affairs Committee – Brussels

EAPB's Economic and Financial Affairs Committee took place in Brussels on December 10. The EAPB Secretary-General reported on EAPB exchanges with European and international banking supervision entities throughout the second half of 2015.

Futhermore, the EAPB secretariat elaborated on the current state of play concerning the regulatory technical standard (RTS) on MREL (the minimum requiremnet for own funds and eligible liabilities) and the implementation of the TLAC (total loss absorbing capacity).

In the following, members exchanged on their experiences with national resolution authorities (NRA) on interpretations of "promotional loans" vis-à-vis ex-ante payments to resolution financing schemes.

A presentation and question and answer session was held by the EuropeanFinancial Reporting Advisory Group (EFRAG). Filippo Poli and Martin Svitek from EFRAG presented to the EAPB ECOFIN Committee their work and a discussion paper investigating arguments in favour and against the relevance of the statements in their current form for banks and insurance companies.

15 EAPB organises first online communications workshop – Brussels

EAPB´s first online communications workshop took place on December 15. The overarching objective of this initiative is to create a platform to exchange best practices and envisage new forms of cooperation in the field of communications within the EAPB network. In this context, EAPBs communication plan was presented and aspects of the upcoming EAPB website were introduced.

EAPB participation at European Commission expert groups

Expert group for the structured dialogue with European structural and investment funds’ for the programming period 2014-2020

Payment systems market expert group

Derivatives expert group

Clearing and settlement code of conduct monitoring group

Expert group for automatic exchange of financial information

President’s foreword

About us

Our thoughts

Our work

Our board

EAPB comment letters and position papers and EAPB contributions to comment letters and position papers from the European banking industry

February

10	European Banking Industry Committee (EBIC) comments on EBA consultation papers on draft guidelines on credit worthiness assessment and on arrears & foreclosure.
10	EBIC response to the consultation paper on the proposal for guidelines on product oversight and governance (POG) arrangements for retail banking products.

March

16	EAPB letters to MEPs on National Promotional Banks definition and Institutions in EFSI regulation.
20	EBIC's response to European supervisory authorities joint committee consultation paper on guidelines for cross selling practices JC/CP/2014/05.
27	EAPB position paper on the Basel committee for banking supervision consultation paper 'revisions to the standardized approach for credit risk' (BCBS 307).
31	EBIC letter on simplifying prudential regulation.

April

7	EAPB letters to MEPs on the European Fund for Strategic Investments (EFSI).

May

8	EAPB comments on the Regulation on Securities Financing Transactions (SFT).
11	EAPB letters on banking structural platforms.
12	EAPB comments on a proposal for a regulation on structural measures improving the resilience of EU credit institutions.
13	EAPB response to public consultation on an EU framework for simple, transparent and standardised securitisation.
13	EAPB response to the review of the prospectus of the prospectus directive.

June

30	EAPB comments on EFRAG'S assessments on IFRS 9 financial instruments.

July

10	EAPB response to second joint consultation on draft RTS on risk-mitigation techniques for OTC derivative contracts not cleared by a CCP.

August

6	EAPB comments on the consultation on draft regulatory technical standards on the CSD regulation (ESMA/2015/1065).
28	EAPB position paper on Basel committee on banking supervision consultative document on interest rate risk in the banking book.
30	EAPB response to Capital Markets Union (CMU) green paper.

September

18	Securitisation: EAPB proposal high quality ABCP based on auto loans and leases.

October

7	EAPB position paper on EU Commission public consultation on long term finance and on possible impact of the CRR and CRD IV on bank financing of the economy.
22	EBIC comments on the consultative document titled "general guide to account opening" of the Basel committee on banking supervision of July 2015.
27	EAPB position paper on the "European deposit insurance scheme".

December

3	EAPB position on simple, transparent and standardised securitization.
17	EAPB position on ECB public consultation on draft regulation and guide on options and national discretion.

You can find EAPB comment letters and position papers on our website.

You can find EAPB contributions to comment letters and position papers from the European banking industry on EBIC's website.


Our members' investments
improve transport

EAPB board and secretariat

Our board – Status 15/11/2016

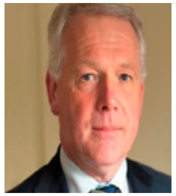
President
Philippe Mills
SFIL
Chief Executive Officer of SFIL

Vice – President
Eckhard Forst
NRW.BANK
Chairman of the Managing Board

Vice – President
Tomas Werngren
Kommuninvest of Sweden, Local Government Debt Office
President and CEO of Kommuninvest

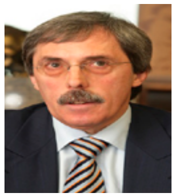
Board Member
Bilian Balev
Bulgarian Development Bank AD
Executive

Board Member
Liane Buchholz
Association of German Public Banks (VÖB)
Executive Managing Director of VÖB



Board Member
John C. Reichardt
Bank Nederlandse Gemeenten N.V. (BNG)
Executive Board Member of BNG Bank

Board Member
Josep-Ramon Sanromà i Celma
Institut Català de Finances (ICF)
Chief Executive Officer of ICF



Board Member
Sibil Svilan
Slovene Export and Development Bank Inc. (SID)
President of the Board and CEO

Board Member
Matthias Wierlacher
Thüringer Aufbaubank
President of the Board of the Thüringer Aufbaubank

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