EAPB

ANNUAL REPORT 2019

FACTORS OF GROWTH

Contents

President's foreword

Following the 2019 elections of the new European Parliament, the new Members of Parliament and the new European Commission College have not had much time to set in before facing a number of crisis situations. The Corona epidemic following an initial outbreak in China end of 2019 has become the greatest economic risk for global growth, but not the only one. The trade risks have faded but have not disappeared. Following the UK's exit from the EU, future relations must now be successfully negotiated by the end of 2020. Otherwise, tariffs and quotas would inhibit British-European trade from the beginning of 2021. In addition the wars in the Middle East continue to push refugees to seek shelter in Europe, often stressing the infrastructure capacities of municipalities and regions to welcome people in need.

> "In these difficult times for the European economy and society, public banks stand ready as crucial partners to help municipalities, regions and States to tackle the many difficulties they face. Taking the recent Corona virus crisis as example, more than 60% of our members fund hospitals and other healthcare facilities and therefore play an important role supporting accessible and universal healthcare and the prevention of epidemics."

In these difficult times for the European economy and society, public banks stand ready as crucial partners to help municipalities, regions and States to tackle the many difficulties they face. Taking the recent corona virus crisis as example, more than 60% of our members fund hospitals and other healthcare facilities and therefore play an important role supporting accessible and universal healthcare and the prevention of epidemics.

Public banks also have an important role to play- as they did in the 2007/2008 financial crisis- to act as counter-cyclical investors and keep finance flowing to SMEs. National and regional promotional banks across Europe have the capacity of swiftly responding to the expected sharply reduced access to finance. By providing loans and guarantees, as well as advisory services for SMEs affected by the current crisis and many others, they have contributed an important share to keeping the EU economy running moving forward. For this it has been essential that the EC also put in place the right tools for example by allowing for more flexibility in the State aid rules and coordinating the necessary public investments plans.

Leaders in green and social finance

The quality of public health is also closely dependent on a cleaner environment, air quality and more generally the fight against climate change. This is rightly the number one focus of the new European Commission's announced Green deal. The objectives of the new Green Deal are at the heart of the activities of public banks. Most EAPB members provide specialized sustainable financial debt products. In 2017, 7 members issued green bonds and social bonds of total 6,6 billion EUR. These numbers are growing steadily as in 2019 over 10 billion in new green and social bonds were issued. The EAPB now counts 10 sustainable issuers and constitutes a major pole in this field in Europe.

Moreover, public banks are fully engaged in developing new internal procedures, methodologies and governance structures to play their part in creating a sustainable future. To gather expertise of member public banks and support the Commission in its endeavor the EAPB has put in place a special taskforce to deal with the different interrelated regulatory and funding topics such as climate-related risk, the sustainable taxonomy, green bonds, impact assessment and more issues that need to be addressed to make the Green deal successful.

20 years representing the public banking sector

In September 2020 EAPB will celebrate 20 years of existence. Since its foundation with 9 members the Association has tripled its membership and now gathers member organisations from 14 European member states and three non-member states, indirectly representing the interests of about 90 financial institutions towards the EU and other European stakeholders.

During this time, the EAPB has actively contributed to building the European Banking Union The financial legislative framework today recognizes the specificity of public banks and their public interest missions, e.g. with a well calibrated leverage ratio and the possibility for certain promotional banks to be supervised at national level.

Moving forward, the success of public banks' activities will continue to rely on a stable and efficient regulatory framework. The introduction of Basel IV - the last piece of the Basel Committee's response to the global financial crisis- aims at making the banking sector more resilient so that it can support the real economy. However, we fear that an ill -calibrated introduction of the Standardised Approach for Credit Risks at EU level could increase costs for promotional banks in the distribution of their loans when working together with partner banks. In particular, the proposed abolition of advanced risk modelling techniques as well as the introduction of a lower limit of the outputs of internal models (Output floor) could make the funding of regional and local government and public sector entities more difficult.

More widely, the impact of the Basel IV transposition is estimated to increase the capital requirements of European banks by 21.3% compared to only +1.5% for American banks. In this context there is clear risk to European banks' capacity to face competition with large American and Chinese banks and for the EU's sovereignty and capacity to deal with the challenges ahead.

Well-equipped and prepared to assist the EU in implementing the new MFF and the Next Generation EU recovery instrument

Our second major priority over the past 20 years has been the design of EU promotional policy that would be fully in line with the subsidiarity and better regulation principles. Throughout the multiple Regional policy cycles and from the early phases of the development of EU financial instruments on, to the set up and implementation of the Juncker plan, the EAPB has successfully placed National and Regional Promotional Banks and Institutions at the centre of today's EU promotional and sustainable policy plans. We highly welcome that the European Commission proposal for the Multiannual Financial Framework 2021-27 (MFF) has been combined with a Recovery Instrument to tackle the COVID 19 crisis. The agreement of the European Council from 21 July 2020 on the creation of this instrument, with a mix of loans and grants totalling 750 bn, is a truly historic move for the EU.

However, despite the huge costs stemming from the immediate need to recover from the COVID 19 crisis, the EU should be careful not to cut investments in those sectors which are very important for the future of the EU. While businesses, and in particular SMEs, have been a natural target for support measures during the first phase of the crisis, the public sector must be taken on board over the months to come in strategic recovery planning. In the medium to long term, keeping the public sector up to speed will be essential for the European economy and society. Due to the lockdown restrictions over 2020 many projects are delayed into the new funding period or more support is needed.

In the course of the new MFF, EU financing of sustainable projects will mainly lean on the InvestEU Programme. Therefore cuts to this programme would send the wrong signal. The EAPB and its members have been preparing for this programme for several years. Many of EAPB members are now for the first time undergoing the so-called pillar assessment in order to become direct implementing partners of the European Union for the InvestEU Programme. Other promotional banks will participate in the roll out of the programme as financial intermediaries; they build on continuing the proven cooperation with the EIB Group.

Apart from large infrastructure projects often funded by EU money, there are huge needs for a multitude of small investments into households, SMEs, public buildings. EAPB members play a big role here because these small investments are not in the scope of the EIB and therefore need a local provider of finance. We welcome the newly-created Just Transition Fund will complement InvestEU and existing structural funds and be geared specifically towards the regions facing the biggest challenges in the transition to a low-carbon economy. Important simplifications have been made to the general cohesion policy framework - taking into consideration the long experience of our members- and it is important that the legislative process is finalised in time for the new funding period starting next year.

I am proud to see that EAPB has become an indispensable interlocutor between national and regional promotional banks, municipality funding agencies and public commercial banks on the one side and the EU institutions on the other. I look forward to furthering our contacts with our stakeholders and work together for the benefits of Europe. I wish you an enjoyable read of our Annual report.

Philippe Mills
President of the EAPB

EAPB member NWB Bank finances sustainable energy projects

Location: Groningen, the Netherlands
Beneficiaries: 10.000 businesses, institutions and households

President's foreword
About us
Our thoughts
Our work
Our board

Who we are

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

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.

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.

The combined balance sheet total of all EAPB-members is around EUR 3,200 billion

We represent about 83,000 employees.

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

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.

Agence France Locale
Balance Sheet Total (in bn EUR): 2,2
www.agence-france-locale.fr

Bank Gospodarstwa Krajowego (BGK)
Balance Sheet Total (in bn EUR): 17,8
www.bgk.pl

BNG Bank
Balance Sheet Total (in bn EUR): 137,5
www.bngbank.com

Bulgarian Development Bank (BDB)
Balance Sheet Total (in bn EUR): 1,5
www.bdbank.bg

Finlombarda – Finanziaria per lo Sviluppo della Lombardia S.p.A
Balance Sheet Total (in bn EUR): 0,4
www.finlombarda.it

Hungarian Export-Import Bank (Exim Bank)
Balance Sheet Total (in bn EUR): 3,0
www.exim.hu

Croatian Bank for Reconstruction and Development (HBOR)
Balance Sheet Total (in bn EUR): 3,6
www.hbor.hr

Verband der österreichischen Landes-Hypothekenbanken (Hypoverband)
Balance Sheet Total (in bn EUR): 56,2
www.hypoverband.at

Institut Català de Finances (ICF)
Balance Sheet Total (in bn EUR): 2,3
www.icf.cat

Investitionsbank Berlin (IBB)
Balance Sheet Total (in bn EUR): 17,7
www.ibb.de

Who we represent

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

Institut Valencià de Finances (IVF)
Balance Sheet Total (in bn EUR): 0,6
www.ivf.gva.es/en/inicio

Kommunalbanken Norway (KBN)
Balance Sheet Total (in bn EUR): 46,3
www.kbn.com

KommuneKredit Denmark
Balance Sheet Total (in bn EUR): 30,3
www.kommunekredit.dk

Kommuninvest Sweden
Balance Sheet Total (in bn EUR): 39,5
www.kommuninvest.se

Landeskreditbank Baden-Württemberg (L-Bank)
Balance Sheet Total (in bn EUR): 69,6
www.l-bank.de

Macedonian Bank for Development Promotion
Balance Sheet Total (in bn EUR): 0,3
www.mbdp.com.mk

Malta Development Bank
Balance Sheet Total (in bn EUR): 0,02
mdb.org.mt/en/Pages/default.aspx

MFB-Magyar Fejlesztési Bank Zártkörűen Működő (Hungarian Development Bank LTD)
Balance Sheet Total (in bn EUR): 3,9
www.mfb.hu

Municipality Finance (MuniFin)
Balance Sheet Total (in bn EUR): 35,7
www.munifin.fi

NRW.BANK
Balance Sheet Total (in bn EUR): 149,1
www.nrwbank.com

Nederlandse Waterschapsbank (NWB)
Balance Sheet Total (in bn EUR): 83,7
www.nwbbank.com

Who we represent

Landwirtschaftliche Rentenbank
Balance Sheet Total (in bn EUR): 90,2
www.rentenbank.de

Sächsische Aufbaubank (SAB)
Balance Sheet Total (in bn EUR): 7,5
www.sab.sachsen.de

SFIL
Balance Sheet Total (in bn EUR): 72,7
www.sfil.fr

Slovene Export and Development Bank (SID Bank)
Balance Sheet Total (in bn EUR): 2,3
www.sid.si

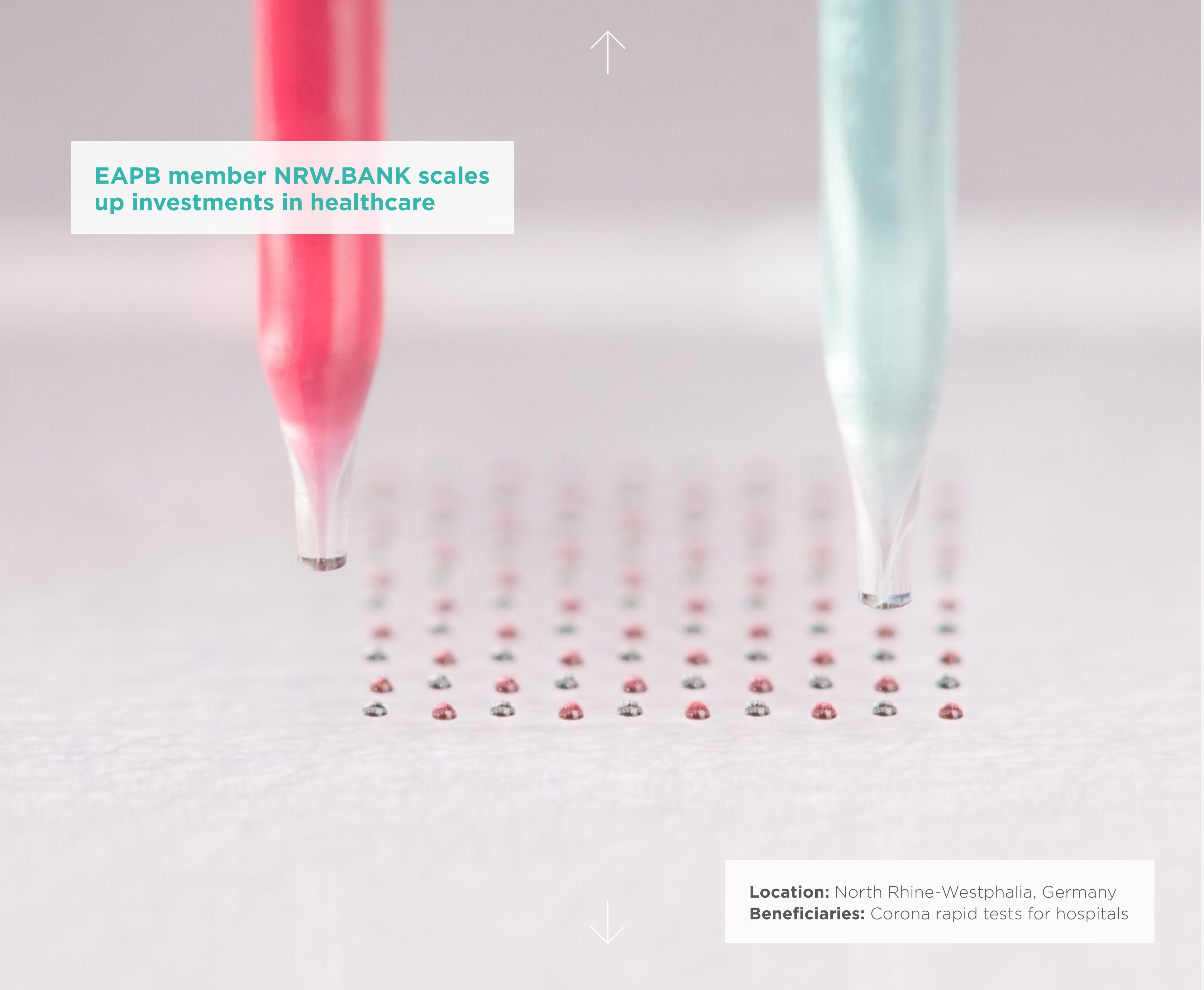
Thüringer Aufbaubank (TAB)
Balance Sheet Total (in bn EUR): 3,7
www.aufbaubank.de

Bundesverband Öffentlicher Banken Deutschlands (VÖB)
Balance Sheet Total (in bn EUR): 2700 (member entities)
www.voeb.de

Wirtschafts- und Infrastrukturbank Hessen (WIBank)
Balance Sheet Total (in bn EUR): 24,1
www.wibank.de

Visit EAPB's website to learn more about our members

* Balance sheet totals as from 2018



EAPB member NRW.BANK scales up investments in healthcare

Location: North Rhine-Westphalia, Germany
Beneficiaries: Corona rapid tests for hospitals

Promotional banks mobilized to help European SMEs amidst the Covid-19 Crisis

The year 2019 was all about the European elections and appointment of the new European Commission. Citizens across all Europe sent clear messages. While the robust increase of voters' turnout proved a high level of public confidence in the European Union, climate and environmental protection was set at the top of EU's agenda for the following years as a result of the popular vote.

" Building on experience gained in the 2009 financial crisis, national and regional promotional banks rapidly topped up and expanded their standard products for SMEs, simplified and streamlined access to these products to cope with the vast demand, and also quickly developed new dedicated financial solutions."

The new European Commission led by President Ursula von der Leyen was inaugurated towards the end of 2019 and soon after unveiled its ambitious programme for the next five years, including, most importantly, the European Green Deal. Moreover, national and regional promotional banks, as prospective implementing partners of the European Union, invested large efforts into the forthcoming InvestEU Programme, due to start in January 2021. Nevertheless, the sudden outbreak of coronavirus in early 2020 and the prompt lockdown affecting most European SMEs reset the agenda dramatically.

A first aid kit for European entrepreneurs

Probably all of us will forever remember the pace of the escalation of the coronavirus outbreak across Europe. Restaurants, hotels and non-essential shops had to close down from one day to another. Wholesale market consequently suffered accordingly. The whole tourism and transportation sector, particularly airlines, got under severe stress. European companies suddenly faced an unprecedented liquidity crisis that had to be immediately addressed by governments.

After years of prosperity, public promotional banks got to quickly respond to the new situation and provide financial means to the suffering businesses. Building on experience gained in the 2009 financial crisis, national and regional promotional banks rapidly topped up and expanded their standard products for SMEs, simplified and streamlined access to these products to cope with the vast demand, and also quickly developed new dedicated financial solutions. These include interest-free loans, new working capital guarantee schemes motivating commercial banks to provide finance to companies in difficulties, or alternative solutions of financing, such as loans flexibly convertible into equity.

Promotional banks as a part of an EU-level response

Right upon the outbreak of the crisis, the EAPB published a set of policy recommendations for State Aid, EU-level financial instruments, and European Structural and Investment Funds, aiming to mobilize all available financial means to tackle the commencing crisis. Subsequently, the European Commission and the EIB Group swiftly topped up the COSME and InnovFin programmes and simplified some of the rules governing them. Around the closing date of this Annual Report, the EAPB Secretariat is negotiating with the EIB Group and the European institutions on the necessary measures that still need to be taken to provide sufficient finance for the European economy. Once again, public promotional banks have an opportunity to demonstrate their indispensable role for a social market economy, where they act as a stabilizing factor for the entire financial sector and an anchor for entrepreneurs.

As mentioned above, the European Commission and the EIB Group delivered very quickly on necessary funding as well as on relaxing regulatory measures governing State Aid law, capital requirements and other regulatory measures facilitating access to finance. These were all essential to address the lack of working capital in private sector across all Europe. While saving small and medium enterprises will be the top policy priority for 2020, the future economic recovery will also require vast long-term investments into infrastructure, health care, science, and environment. Sufficient and smart public investment has the potential to prevent a double-dip recession which we witnessed last time, and lay solid foundations for a sustainable growth.

The European Green Deal must be a part of economic recovery

Once the global health crisis is tackled, it is necessary to grasp this crisis as an opportunity for a better restart. The European elections in 2019 gave a strong mandate to the EU institutions to put sustainability at the top of its political agenda and pursue a net climate neutrality by 2050. Public promotional banks are committed to these goals no less than before the coronavirus outbreak. As public investment is unexpectedly set to increase much more than we thought one year ago, we need to make sure that the recovery will be sustainable. To that end, the EAPB is not forgetting even in these turbulent times to cooperate with the European institution on developing a new framework for sustainability in the financial sector and in the implementation of financial instruments in the forthcoming Multiannual Financial Framework – be it the Sustainability and Climate Tracking in the InvestEU Programme or the Sustainable Finance Taxonomy.

More than ever before, we also perceive the importance and pace of digitalization, which enables many employees to efficiently work from home, thus limiting the economic disruption and allowing access to a certain number of services, ranging from financial services, e-commerce, e-administration to the provision of cultural programmes. The Covid-19 Crisis is a strong push for the digital economy, which will play an indispensable role in decarbonisation. We must therefore ensure that digital innovators can access finance to deliver all the necessary upgrades to the post-Covid economy.

What European policy-makers need to concentrate on now is to deliver a new, robust deal on the Multiannual Financial Framework 2021-27, which should include strong financial means to help Europe recover the Covid-19 Crisis and restart its economy in a sustainable manner. National and regional promotional banks across Europe are ready to work hard in the front line of this sustainable recovery.

Germaine Klein - Filip Chraska

Cohesion policy in the age of Corona: Promotional banks as first responders

Cohesion Policy is the EU's largest funding programme for convergence and regional development. By facilitating long-term investments in line with regional economic structures and financing needs, Structural funds can mitigate persistent market failures. Cohesion policy is characterised by the strategic prioritization of investments and a strong performance orientation. A highly complex multi-layered ruleset has emerged to ensure investments from Structural funds meet these objectives.

" Promotional banks are committed to their public mission. EAPB members stand ready to implement the new Cohesion policy and keep doing what they do best: navigating the crisis, building resilience and investing in a better future."

In March 2020, the Coronavirus took over Europe and public health orders forced millions of workers to stay home and businesses to close their doors. It quickly became apparent that a variety of public support measures would be required to avert massive bankruptcies and cushion the impact of economic losses incurred.

The EU-Commission decided to mobilise the remaining Structural funds under the final year of the Union's multi-annual budget to support Member States in directing funding to where it would be most needed. In an unprecedented effort to fast-track support to the real economy and alleviate national budgets, the EU-Commission adopted the **Corona Response Investment Initiative CRII/CRII+**. The legislative package seeks to frontload investments thanks to cofinancing rates of up to 100% and lifts legal requirements capable of delaying urgently needed payouts.

Promotional banks are long-standing trusted partners for regional development. They combine expertise implementing Cohesion policy with a unique knowledge of local context; enabling them to offer the right mix of financing for their Communities. The banks are uniquely positioned to exploit synergies between European, national and regional funding programmes and ensure efficient use of public resources.

Navigating the crisis

EAPB members are first responders during the Covid-19 Crisis.
Promotional banks across Europe have stepped up to the task. Following the experiences made in the financial crisis, governments continue to rely on promotional banks during the prevailing crisis to implement public policy. The banks have adapted their offer to provide liquidity, support the real economy and protect jobs and livelihoods.

Building resilience

At the same time, public banks continue to focus on building resilience in the communities they serve. Promotional banks promote access to finance of underserved groups, such as SMEs, essential to European prosperity and European jobs. The banks invest in public infrastructure and facilitate grants to marginalized groups.

Investing in a better future

While we are now navigating the crisis, the road to recovery will be guided by the common European strategic priorities, namely, managing the twin transition to a more digital and greener Europe. More than ever, the pandemic highlighted the need for broadly available digital infrastructure and skills. EAPB members will continue to offer innovative financing under Cohesion policy to equip our businesses and citizens for success in the 21st century. Already today, EAPB members are among the top providers of sustainable finance in Europe. The new Cohesion policy is closely aligned to the Von der Leyen Commission's growth strategy for Europe, the European Green Deal. A newly-created Just Transition Fund will complement existing structural funds and be geared specifically towards the regions facing the biggest challenges in the transition to a low-carbon economy.

Promotional banks are committed to their public mission. EAPB members stand ready to implement the new Cohesion policy and keep doing what they do best: navigating the crisis, building resilience and investing in a better future.

The EAPB will continue to closely follow the trilogues on the future Cohesion Policy. The EAPB and experts from our members remain at the disposal of the legislators in designing a policy that speeds up recovery of the European economy and delivers for the citizens.

Irina Pober

Timeline

- May 2018
  Commission tables legislative proposals for the new MFF
- September 2018
  EAPB issues its position paper on the proposals for a new Cohesion Policy
- October 2018
  EAPB Workshop Public banks in implementing financial instruments in EU Cohesion Policy within MFF
- February 2019
  European Parliament adopt its legislative report on CPR
- September 2019
  The newly elected European Parliament takes up office
- October 2019
  European Parliament and Council enter into trilogues
- December 2019
  Provisional agreement reached on blocks 1, 2 and 5 of the proposal. European Parliament suspends political trilogues until MFF is agreed
- since January 2020
  Technical trilogues continue
- March/April 2020
  Commission tables Corona Response Investment Initiative + (CRII+) modifying CPR, ERDF and EMFF (2014-2020). Proposals are adopted via fast-track procedure and directly applicable in all Member States
  Trilogues on the next CP are suspended until further notice
  A revised COM proposal of the next MFF is expected mid-May

Visit EAPB's website to access our position papers.

Towards a sustainable future, the Commission's green finance policies take shape

The year 2019 was one in which European legislators became increasingly interested in sustainable finance. It saw the EU Parliament and Council negotiate on a Sustainable Taxonomy, the EBA receiving new mandates related to sustainability, the ECB co-operate with other central banks on climate change risk, and the Commission launch its new Green Deal. In parallel, public banks are developing new internal procedures, methodologies and governance structures to play their part in creating a sustainable future.

"For public banks, sustainability is often a part of their public mission or a request from their public shareholders. It is therefore positive to see legislative developments that run tandem to banks' objectives."

Issue at stake

Fundamentally, sustainable finance refers to the process of taking due account of environmental and social considerations when making investment decisions. Policies in this area then try to strengthen the role of the financial sector in achieving a well performing economy that delivers on environmental and social goals.

Today's focus on the topic finds its origin in 2018, when the Commission released its "Action plan on financing a sustainable economy" in March. Later that year, it published three legislative proposals that aimed to establish a framework to facilitate sustainable investment (the Taxonomy), regulate disclosures relating to sustainable investments and risks, and create low-carbon benchmarks.

2019 saw an increasingly strong interest by co-legislators as the three proposals were discussed, amended and passed by the Parliament and Council. Particularly on the sustainable taxonomy file, there was a lively debate on scope of the regulation and on whether certain economic activities should be excluded or not. The Sustainable Taxonomy can rightly be called the centerpiece of the Commission's plans in this field. The regulation itself sets out six environmental objectives. Investors that that put their money in companies or projects should be able to evaluate whether the economic activities contribute to one or more of these objectives. If this is the case, and provided that no harm is done the other objectives or labour standards, an investment can be called sustainable according to the legislation.

Naturally, to check if a certain activity complies with the taxonomy, much more specific criteria are needed. It has been the task of a Technical Expert Group (TEG) to develop the first of these criteria and establish for example a threshold CO_2 emission per km for sustainable investments in passenger rail. The TEG presented its final reports in March 2020 drawing widespread attention to importance of details in this field.

Also of importance is to consider how and when the taxonomy will be used. The regulation itself contains certain disclosure requirements for investors such a pension funds or asset managers.
A separate regulation on green disclosures adds to these while also asking the above financial market participants to disclose how they take Environmental, Social and Governance risk into account. Moreover, a voluntary European Green Bond standard was announced in 2019. Giving banks issuing green bonds the chance to issue green bonds with underlyings that are compliant with the taxonomy while also sticking to certain disclosure and reporting practices.
The TEG published specifics on this standard also in March 2020.

At the end of 2019, the Commission presented the EU Green Deal. Sustainable finance is embedded in this strategy that wants to make of Europe the first climate neutral continent. As European funds mobilize private investments to transform the economy, the sustainable Taxonomy, new benchmarks and rules regarding disclosure of climate risks will become all the more important.

Sustainability and net climate neutrality is the flagship policy of the current Commission. The policy-making process is therefore unlikely to get significantly delayed by the Covid-19 crisis. The financial sector should continue monitoring the legislative activities and prepare for the forthcoming changes. The EAPB Sustainable Finance Working Group stands ready to support EAPB members in this process.

EAPB Position

For the EAPB, 2019 was the year in which sustainable finance took centre stage. Alongside the legislative developments, the association contributed to many Commission consultation on the topic, while discussions among members to exchange best practices increased.

In fact, in the November the EAPB created a new working group to specifically bring together experts from the members to talk about topic such as climate-related risk, the sustainable taxonomy, green bonds, impact assessment and more.

Overall, the EAPB is positive about the ongoing initiatives by legislators on sustainable finance. For public banks, sustainability is often a part of their public mission or a request from their public shareholders. It is therefore positive to see legislative developments that run tandem to banks' objectives.

At the same time, members are concerned about the relative complexity of the sustainable taxonomy, the screening criteria, and the reporting requirements. It is yet unsure how the markets will react to the legislation and how widely the environmental criteria and do-no-significant harm criteria will be used. It will be costly and challenging to comply with the relevant conditions and implementation will certainly take time. One of the main challenges for public banks is reconcile the need for new administrative processes with the desire to be relatively small and efficient.

Looking ahead, the EAPB is aiming to continue expanding its knowledge on sustainable finance issues. It is ready to be an interface for EU legislators and agencies as new sustainable initiatives are set to bloom in 2020.

Jeroen van der Donck

Next article

Implementation of the final Basel III standard in the EU
Balancing global standards and European specificities

The Basel III finalization – often referred to as Basel IV - is the last piece of the Basel Committee's response to the global financial crisis. It aims to address the shortcomings of the pre-crisis regulatory framework and to provide a regulatory foundation for a resilient banking system that supports the real economy.

" EAPB wants to ensure that public banks are not unnecessarily restricted in their capacity to finance the real economy and, on the other hand, that the specific business model of promotional banks is not overlooked or put under undue additional burden."

Issue at stake

One of the main objectives of the December 2017 Basel package is to reduce unwarranted variability of risk-weighted assets (RWA) which cannot be attributed to differences in the risk profile of their portfolios. As a wide range of stakeholders lost faith in banks' reported risk-weighted capital ratios at the peak of the financial crisis, the revisions to the regulatory framework aim to restore credibility in the model-based calculation of RWA and improve comparability between banks' capital ratios. More precisely this is done by:

- enhancing the robustness and risk sensitivity of the standardized approaches for credit risk and operational risk, which will facilitate the comparability of banks' capital ratios;
- constraining the use of internally modelled approaches
- complementing the risk-weighted capital ratio with a finalized leverage ratio and a revised and robust capital floor.

Since the agreement of the December 2017 package in Basel, the European Union has moved fast in order to achieve a timely implementation into European law. For instance, the EBA has already submitted two reports to the European Commission (EC) on the effects of implementing Basel IV in the EU as part of a "Call for advice". In these reports, the EBA predicted an average increase in minimum capital requirements for EU banks of 23.6 percent.

Moreover, the EBA recommends that the Basel IV agreement should be implemented in a timely and consistent manner in the EU. Finally, the EBA is also in favor of abolishing existing deviations from the currently applicable Basel requirements (the SME and infrastructure support factors and the exemption of derivatives concluded with public authorities from the CVA charge).

This leads us to the major dilemma facing the Commission in implementing Basel IV. On the one hand the Commission wants to prove itself as a reliable partner in multilateral agreements, and on the other hand it has to ensure that Basel IV does not significantly increase the capital requirements of banks in the EU, in accordance with the demands of ECOFIN and the European Parliament. "We are currently trying to square the circle", said a Commission official when asked about this predicament.

To make the impossible even possible, the Commission has already announced that the implementation of Basel IV should not serve to reverse EU deviations that have already been agreed upon by the co-legislator in the past. At the same time, the Commission is working on solutions that will enable it to take better account of European specificities without deviating from the Basel standard altogether. In order to point out these European specificities and to plead for a proportionate implementation of Basel IV, the EAPB participated in the Commission's consultation, which started on 11 October 2019 and ended on 3 January 2020. Building on our original position papers and the extensive input from our members, the EAPB was able to reiterate its concerns and provide the Commission with possible solutions.

EAPB Position

Our main concerns can be summarized as follows. On the one hand, the EAPB wants to ensure that the public banks are not unnecessarily restricted in their capacity to finance the real economy and, on the other hand, that the specific business model of promotional banks is not overlooked or put under undue additional burden.

In order to ensure the former goal, we recommend not to gold-plate the final Basel III agreement and to apply the output floor only to the capital requirements and buffers described in the Basel text of 2017. Furthermore, we recommend implementing the output floor as a second backstop next to the existing risk-weighted capital requirements and the leverage ratio. This implementation option would ensure that we comply with our international obligations and at the same time respect the guidelines set by the co-legislators regarding the increase in capital requirements. Moreover, we also believe that public banks should remain capable to help their public clients manage their risk through derivative products. Therefore, we would like to maintain the existing exemptions from the CVA-risk framework.

Also, we believe that promotional activities should be considered as a European specificity when implementing Basel IV in the EU which would require some minor adjustments to the overall framework. First, promotional banks that use the SCRA and distribute promotional loans by using partner banks should not see their risk weights increase beyond the 20% risk weight that is currently applicable for some of our members. Secondly, for some promotional banks, the abolition of the A-IRB has would have a major impact on their capital ratios without changing the underlying risk. Although we understand the logic of eliminating the possibility of using the A-IRB for loans to banks, tailor-made solutions should be found for the promotional business. Such tailor-made solutions could adjust the recognition requirements for collateral in the F-IRB approach on the one hand and to introduce a new exposure class, only for the RGLA and PSE currently classified as institution exposures, for which the A-IRB Approach would remain as recommended by the EBA.

Building on its consultation and the recommendations of the EBA, the Commission is preparing its impact assessment and legislative proposal, which it had previously announced for June 2020. Due to the emergence of the Covid-19 Crisis, the timetable had to be adjusted. There are several reasons for this. First, the BCBS adjusted the official timetable for the implementation of Basel IV and postponed the timetable by one year. Second, the crisis inevitably changed the priorities of the Commission, which recognised that the priority was now to support the economy and Member States quickly through targeted measures. Finally, the new working conditions naturally also restricted the Commission, which is why such an ambitious timetable would have been difficult to achieve even without a shift in priorities. On 27 May the "2020 Adjusted Commission Work Programme" was presented. The new banking package was scheduled for Q4, after rumours had it coming next only in 2021. So far, several EU-officals have informally indicated that they do not expect a legislative proposal before December.

As the Commission's legislative proposal has not yet been published as this article is being written, it is difficult to foresee the extent to which our concerns will be taken into account by the Commission. However, the EAPB will continue to interact actively with all relevant key stakeholders in order to ensure that the final building block of the Basel reform package not only addresses prudential concerns but also remains viable for the public banking sector.

For more details on our respective proposals, please read our current position papers.

Dan Esser

Timeline

December 2017
Basel III – Finalization post-crisis reforms (BCBS)

March/April 2018
EC exploratory consultation on the finalisation of Basel III

May 2018
EC sent a comprehensive Call for technical Advice (CfA) to the EBA

August 2019
EBA submits its cumulative impact assessment and advice in the areas of credit risk, operational risk, output floor and securities financing transactions

October 2019 - January 2020
Comprehensive public consultation on Basel IV (EC)

December 2019
EBA submits is macroeconomic impact assessment and advice in the areas of credit value adjustment and market risk

March 2020
Deferral of Basel IV implementation to increase operational capacity of banks and supervisors in response to Covid-19 (BCBS)

December 2020
EC legislative proposal on Basel IV expected

Visit EAPB's website to access our position papers.

Cybersecurity – a new challenge for public banks?

In her political guidelines "A Union that strives for more" Ursula von der Leyen, President of the European Commission, sets out her political agenda for the EU for the years to come. One of the six headline ambitions is titled "A Europe fit for the digital age". This ambition can also be found in the (adjusted) Commission Work Programme 2020 as well as in the structure of the Commission itself. In the following, we willll have a look at some initiatives that will contribute to achieving this goal in a more relevant way for banks.

"Digitalisation does not wait for you, get involved."

Cybersecurity Act

On 27 June 2019 the European Cybersecurity Act entered into force, setting the new mandate of ENISA, the EU Agency for Cybersecurity, and establishing the European cybersecurity certification framework.

The Cybersecurity Act introduces for the first time EU-wide rules for cybersecurity certification. Companies in the EU will have to certify their products, processes, and services. Under the framework, multiple schemes will be created for different categories of information and communication technologies (ICT) products, processes, and services. At the moment, the European Commission prepares the first requests for ENISA to develop certification schemes and set-up the governance structure. While the certification will – at first – remain voluntary, the Commission will later assess whether mandatory certification is required for certain categories of products and services, also within the banking and financial sector.

NIS-Directive

In October 2019, the European Commission had published a report assessing how EU Member States have identified public and private organisations that must put in place cybersecurity measures and report major cyber incidents. These organisations, often called "operators of essential services", are active in crucial areas of the economy and society, such as healthcare, transport, energy, financial infrastructure, water supply and more, and must be particularly resilient to cyber-attacks.

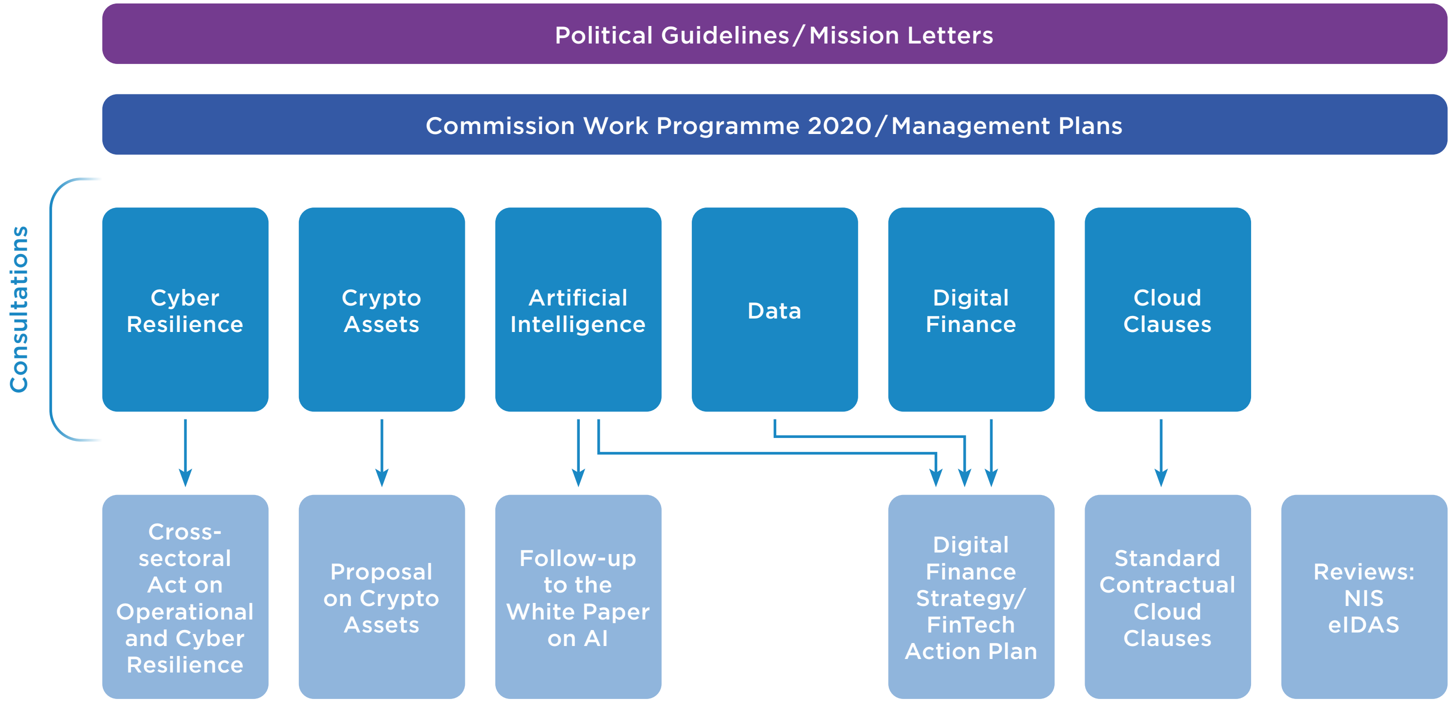
The report assesses if the methodologies for identifying operators of essential services are consistent across Member States and provides recommendations on how to better align them in order to ensure that all critical entities across different sectors and the EU exhibit a similar high-level of cyber-resilience. It is the first step in the European Commission's review of the Directive on Security of Network and Information Systems (NIS Directive) which seeks to raise the level of cybersecurity in key sectors of society; and is foreseen for Q4/2020.

Cyber Resilience

With the financial sector making ever-greater use of ICT, the risk of cyberattacks is increasing. Therefore, the EU intends to update its rules to ensure that financial sector ICT systems can withstand security threats and that third-party ICT providers are monitored as ICT risk is one of the major components of operational risk, which the EU's prudential supervisors continuously assess and monitor as part of their mandate.

Dependence on ICT and data raises new challenges in terms of operational resilience. The increasing level of digitalisation of financial services coupled with the presence of high value assets and data make the financial system vulnerable to operational incidents and cyber-attacks, the Commission concludes. According to a European Parliament report, the financial sector is three times more at risk of being the target of cyber-attacks than any other economic sector. In the recent years, the frequency and impact of cyber incidents has been increasing, with research estimating the total cost to amount to several billions for the global economy.

In November 2019, the European Supervisory Authorities provided guidelines on ICT and security risk management (cybersecurity). These Guidelines establish requirements for credit institutions, investment firms and payment service providers (PSPs) on the mitigation and management of their information and communication technology and cybersecurity. They intend to ensure a consistent and robust approach across the single market. The guidelines will have entered into force on 30 June 2020.



The Way Forward

Overall, the European Commission is considering several possible policy options to achieve an overall increased cybersecurity, especially for the financial sector. Under the Commissions baseline scenario, ICT and security risks under operational resilience rules for financial services would continue to be set by current disparate provisions in the EU financial services legislation and partly by the NIS Directive. However, the information fed into the process could also lead to a general yet bespoke legal framework addressing the digital operational resilience for all regulated financial entities, applying to all financial sectors. The Commission foresees this cross-sectoral financial services act on operational and cyber resilience for Q3/2020.

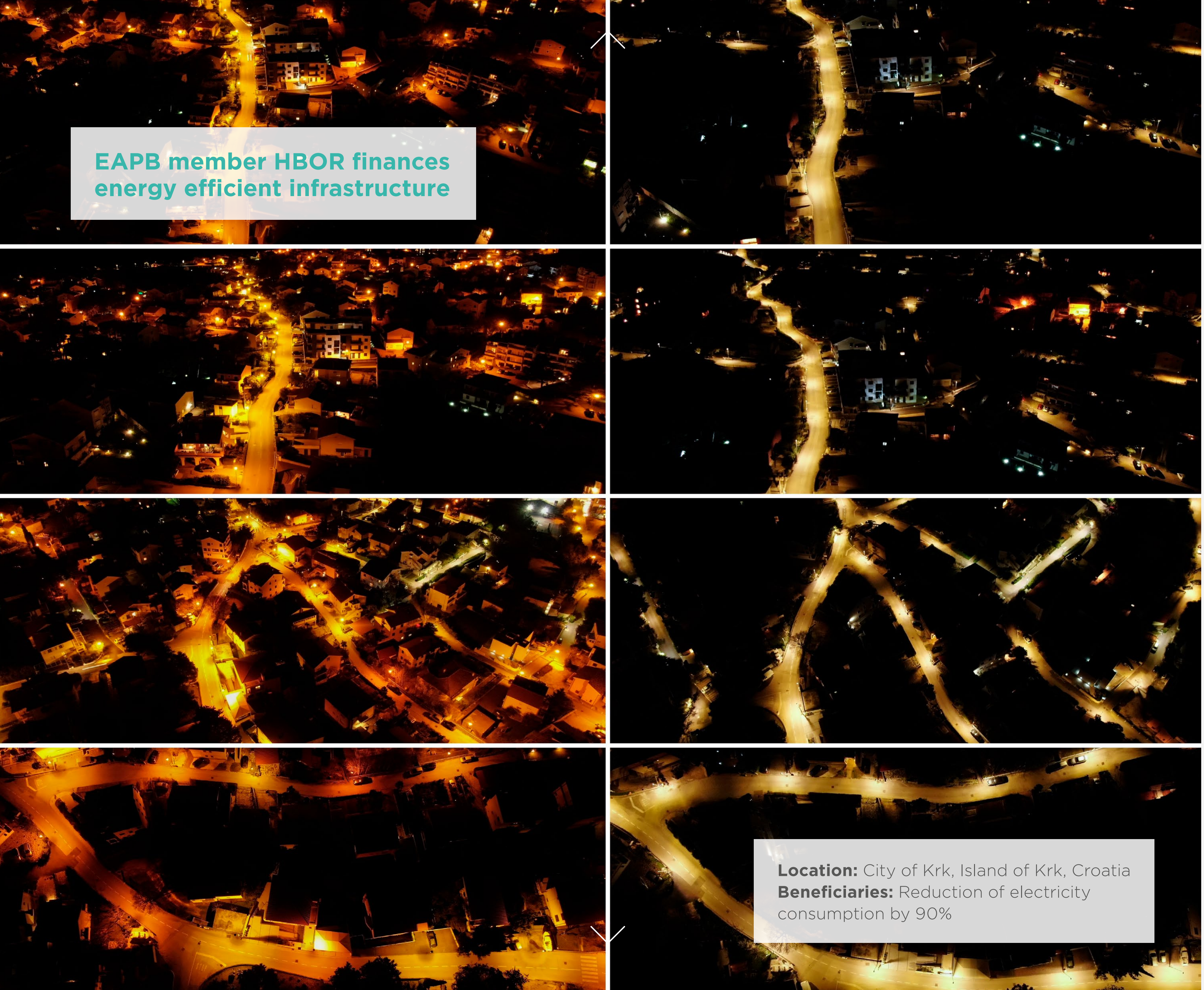
Public Banks – Get Involved

With the ever-increasing challenges for banks, the foreseen, growing standards in cybersecurity will add to them and take their toll. To face these challenges altogether, the EAPB invites all sides, especially its members, to get involved and contribute to the processes to come; to enable a balanced level playing field for all financial markets' participants.

Sebastian Wolpers

Next article

EAPB member HBOR finances energy efficient infrastructure



Location: City of Krk, Island of Krk, Croatia
Beneficiaries: Reduction of electricity consumption by 90%

President's foreword
About us
Our thoughts
Our work
Our board

Overview of EAPB meetings and major events

February

15	**Lunchtime briefing: European Structural and Investment Funds (ESIF): The role of regional & national promotional banks in bridging the investment gap - Brussels**

The lunchtime briefing explored the role of regional and national promotional banks in addressing the investment gap at local and regional level with the support of ESI Funds. Two concrete examples of instruments designed for the specific needs of two regions illustrated the process of setting up and implementing financial instruments, as well as the benefits for the final beneficiaries and for the regional and national economy. EAPB was represented by the Hungarian Development Bank (MFB), the German Public Banks (VÖB) was represented by the Investitionsbank Saxony-Anhalt.

Pictures from the lunchtime briefing are available here.

March

19	EAPB State Aid and Development Committee - Warsaw

Mr. Tomasz Matulka (Director of the BGK International Relations Office) welcomed the participants and briefly presented the hosting institutions. Mr. Dariusz Stachera (BGK), Managing Director, Housing Programmes Division presented the BGK-EIB investment platform for social and affordable housing in Poland. EAPB provided an overview of relevant lobby activities on the upcoming Multiannual Financial Framework. EAPB highlighted actions concerning the InvestEU Programme and reported on the latest developments on State aid legislation.

Ms. Agnieszka Skonieczna Team Leader, DG ECFIN delivered a presentation on the “InvestEU & Pillar Assessment in MFF 2021-27” where she summarized the Commission’s proposal for the InvestEU Programme and the envisaged opportunities for national and regional promotional banks. Ms. Grazyna Bogusz from the External Investment Plan Secretariat at DG DEVCO introduced the European Fund for Sustainable Development (EFSD). Mr. Christophe Mróz from the Council of Europe Development Bank delivered a presentation introducing the CEB statute and activities.

EAPB would like to thank BGK for the support.

May

13	EAPB Compliance Committee - Brussels

EAPB reported on the outcome of deliberations on AML supervision aspects of ESA review and EU ideas for a future AML authority and on the main lobby achievements. The EAPB Secretariat provided an update on the current status of National fourth and fifth AMLD implementation Black Listing of ALM/CFT deficient third countries. EAPB members discussed the structure and responsibilities of the supervising authorities. The Secretariat reported on the latest developments concerning US-sanctions against Iran with special regard to the updated Blocking Statute and reported on the European Commission's proposals for a stronger use of the Euro in international trade.

May

14	EAPB Economic and Financial Committee - Brussels

The EAPB Secretariat reported on the final political steps with regards to the CRD and CRR and presented most of the key provisions that are contained within the CRD/CRR. EAPB reported on the final agreement regarding the BRRD II and SRMR II. The Secretariat gave a short introduction regarding the "Finalisation of Basel III" ('Basel IV') adopted by the BCBS in December 2017 and provided an update on the ESA review. Ms Sini Suonpää, Assistant to MEP Sirpa Piëtikäinen provided insights on MEP Piëtikäinen's opinion on sustainable finance.

May

28 **EAPB Workshop "Public Banks and Sustainable Finance" – Oslo**

The workshop was opened by the Vice-Mayor of Oslo, Mr. Robert Steen who shared insights on how the city of Oslo aims to achieve a zero-emission economy, Bettina Kretschmer from the Directorate General of Environment introduced the different aspects of the regulatory developments of the Sustainable Finance Framework. Mr. Marius Ruud, Senior Vice President at KBN, and Mr. Matjaž Stritih, Director of Institutions and Funds Execution at SID Banka, both described their experiences with issuing green bonds. The increasing role of Social Bonds was made clear by Mr. Tom Meuwissen from Nederlandse Waterschapsbank (NWB) and Mr. Ralf Berninger, Head of Investor Relations at Société de financement local (SFIL). Mr. Meuwissen outlined the success NWB experienced with issuing Water Bonds as well as Affordable Housing Bonds and emphasized the increasing demand from investors for transparency of their investments. Mr. Berninger explained that Social Bonds issued by SFIL used to finance the portfolio of loans to French public hospitals.

Public promotional banks are pioneering in the field of sustainable finance. Since their mandate is to promote sustainable economic and social development, many of them are active in issuing these bonds for years, while others currently seek inspiration to do so as well. Our members consider the goal of an entirely sustainable economy one of their main priorities, especially in view of recent political developments such as the Paris Climate Agreement.

EAPB would like to thank Kommunalbanken Norway (KBN) for the support.

June

12 **General Assembly of the European Association of Public Banks - Düsseldorf**

Mr. Philippe Mills, EAPB President and CEO of SFIL and Mr. Eckhard Forst EAPB Vice-president and Chairman of the Managing Board at NRW.BANK opened the Annual Reception. Ms. Saila Valtonen, advisor to the Deputy Director General, DG ECFIN, European Commission, shared her views on the status of the negotiations regarding the Multi-Annual Financial Framework post 2020.

EAPB would like to thank the NRW.BANK for the support.

October

14 **EAPB State Aid and Development Committee - Barcelona**

Mr. Josep-Ramon Sanroma, Managing Director of Institut Català de Finances, presented the hosting institution and its financing activities. EAPB presented the latest developments on the InvestEU and State aid legislation. Ms. Estelle Goeger, Team Leader InvestEU, DG ECFIN summarized the current workflows of the Commission concerning the preparation of the InvestEU programme. Mr. Emile van Staden, Dutch Ministry of the Economy outlined the business model of the new Invest-NL. Ms. Laure Blanchard-Brunac from the European Bank for Reconstruction and Development (EBRD) delivered a presentation introducing the EBRD and its financing activities.

EAPB would like to thank ICF for the support.

October

15 **EAPB Workshop on Financial Instruments under ESIF – Barcelona**

Mr. Marc Lloveras presented ICF and its Eurocredit for SMEs (ERDF), Mr. Axel Badrichani and Ms. Ieva Zalite (DG REGIO) presented ESIF Financial Instruments in MFF 2021-27. Mr. Thomas Hüttich, Investitionsbank Berlin (IBB), delivered a presentation on ERDF instruments for start-ups in Berlin: microcredits and VC. Dr. Cecília Gyalog, Hungarian Development Bank (MFB), reported on ERDF Energy efficiency instruments for SMEs and private households.

Mr. Josip Grgić, Croatian Bank for Reconstruction and Development (HBOR) provided an outlook on ERDF financial instruments for energy efficiency and public lighting. Mr. Manuel Illueca, Instituto valenciano de finanzas (IVF) delivered a presentation on ESF entrepreneurship microcredits for long-term unemployed people.

Pictures from the workshop are available here.

EAPB would like to thank ICF for the support.

November

5 **EAPB Capital Markets Committee – Brussels**

Ms. Florence Bindelle introduced the European Issuers, a Brussels-based organisation gathering national issuers‘ associations as well as individual issuers across Europe. She subsequently presented the European Issuers‘ views on the development of the Capital Markets Union initiative and the state of play.

EAPB outlined the new distribution of power within the political groups of the European Parliament and highlighted the increased focus on sustainability in the following mandate. The EAPB secretariat provided the committee with an update on the legislation regarding sustainable finance.

November

6 **Kick-off meeting of the Sustainable Finance Working Group – Brussels**

EAPB outlined the new format and the objectives of the Sustainable Finance Working Group. EAPB presented the results of recently circulated questions on co-operation initiatives and sustainability reporting. EAPB members KBN and Munifin reported on their activities and co-operation in the field of impact reporting.

November

28 **EAPB evening reception – Brussels**

Mr. Philippe Mills, EAPB President and CEO of SFIL opened the Annual Reception. He stressed that the ECB has called policy-makers to do more for growth through the use of public finance. Public banks can be part of the answer to that call as they are tasked by their stakeholders to precisely promote growth through investments in local SME and their capacities to export products internationally as well as by investing in the necessary transport, public infrastructure, energy and digital equipment across Europe. Public banks are a cost-effective way of using this public finance.

Ms. Natacha Valla, Deputy Director for monetary policy at the European Central Bank (ECB) delivered the keynote speech on “ECB measures in the European macrofinancial and macroeconomic context”. She focused in particular on the new monetary policy measures, which include an unchanged refinancing operations rate, a decreased deposit interest rate, a new round of bond purchase sand a two-tier system for reserve remuneration. Ms. Valla discussed with participants the macroeconomic efficiency of the monetary policy transmission chain and the impacts on European banks as well as the advantages and disadvantages of a greater ECB role in promoting green finance.

The event was attended by about 150 guests amongst which the CEOs and Board members of our member institutions, our partners at the European Commission, European Parliament and of European Associations similar to ours

Pictures from the Evening Reception are available here.

November

29	EAPB CEOs' Conference – Brussels

Mr. Rolf Wenzel, Governor of Council of Europe Development Bank (CEB) outlined the cooperation of CEB with NPBs. Mr. Benjamin Angel, Director of Treasury and Financial Operations, delivered a presentation on European efforts to strengthen the international role of the Euro. Mr. Sanjoy Rajan, Head of the Energy Security Division, European Investment Bank, presented the new EIB energy lending policy. EAPB reported on its work programme and activities.

December

4	EAPB Economic and Financial Committe – Brussels

EAPB secretariat provided an update on the Basel III finalization and summarized its lobby and outreach activities. EAPB discussed the EBA guidelines on loan origination and provided an overview of the background of EDIS and risk reduction policies. Ms. Marina Cernov, policy officer EBA showcased the results of the EBA's impact studies on the Basel III finalisation. Mr. Tim Segboer, BNG Bank, presented the topic of sovereign risk.

EAPB participation at European Commission expert groups

E02287	Payment Systems Market Expert Group - Type C member
E03226	Structured Dialogue with European Structural and Investment Funds' partners group of experts - Type C member

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

February	
4	EBIC letter on the EU-Wide Stress Test
12	EAPB Position Paper on the Basel III Finalisation Package
April	
7	EBIC response to European Commission Consultation on evaluation of the Consumer Credit Directive
20	EAPB position paper on exploratory consultation on the finalisation of Basel III
25	EAPB response to public consultation on Draft Commission Notice on the recovery of unlawful and incompatible State Aid
June	
27	EAPB answer to State aid fitness check consultation
July	
5	EAPB response to consultation on State Aid regional aid guidelines – Targeted consultation on the ex-post evaluation of the Regional Aid Framework
5	EAPB answer to consultation on State guidelines envi protection and energy – Targeted Consultation for the Evaluation of the Guidelines on State aid for Environmental protection and Energy 2014-2020 (EEAG)
August	
8	EAPB comments on the non-paper on draft investment guidelines
22	Comments on the State of Play regarding InvestEu – Investment Guidelines and GBER
28	EAPB comments on the non-paper on draft investment guidelines

September	
10	EAPB common position on TEG report on EU taxonomy for sustainable economic activities
16	Joint position paper on InvestEU by EAPB AECM ELTI NEFI
23	EAPB response to targeted review of the General Block Exemption Regulation (State aid): extension to national funds combined with certain Union programmes

October	
21	EBIC response to the European Commission consultation on the evaluation of the Consumer Credit Directive
28	EBIC Note on Foreign Currency loans under the Mortgage Credit Directive

November	
14	EAPB comments on consultation on State subsidy rules for health and social services of general economic interest (evaluation)

December	
11	EAPB comments on the trilogue negotiations on the Common Provisions Regulation Bloc 4 - Financial support from the funds (Articles 46-62)
20	EAPB position for the Commission's consultation on Implementing the Final EU Basel III Reforms in the EU

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.

EAPB member Kommuninvest provides financing for energy efficient buildings for public services

Location: Umeå, Sweden
Beneficiaries: New psychiatric ward, Norrland University Hospital

EAPB board and secretariat

Our board

President
Philippe Mills
SFIL
Chief Executive Officer

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

Board Member
Dr. Jürgen Allerkamp
Investitionsbank Berlin (IBB)
CEO

Board Member
Iris Bethge
Association of German Public Banks (VÖB)
Executive Managing Director

Board Member
Tamara Perko
Croatian Bank for Reconstruction and Development (HBOR)
President of the Management Board

Board Member
Josep-R. Sanroma
Institut Catalā de Finances (ICF)
Chief Executive Officer

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

Board Member
Lidwin van Velden
NWB Bank
Managing Director

Our secretariat

EAPB Secretary General
Marcel Roy
European Association of Public Banks (EAPB)
Secretary General

President's foreword
About us
Our thoughts
Our work
Our board

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