EUROPEAN ASSOCIATION
OF CO-OPERATIVE BANKS

ANNUAL REPORT 2017

The voice of **3.135** local and retail Banks | **80.5** million Members | **209** million Customers

European Association of Co-operative Banks A.I.S.B.L.

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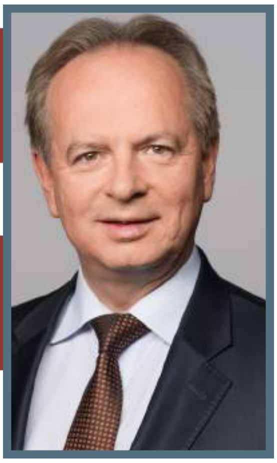
Contents Table

PRESIDENT'S ADDRESS



Gerhard Hofmann
President

The year 2017 was a year of important changes in international and European politics and regulation. The US welcomed Donald Trump as its new president and several EU Member States held elections that had the potential to change their relations with the EU. In addition, negotiations started on the UK's exit from the EU. Remarkably, economic growth continued for the fifth year in a row and broadened within the eurozone. The year 2017 was also reassuring for co-operative banks, which continued to excel in client-related activities and steadily increased their capital levels and thus their robustness.

Inspired by Brexit and election fevers in the different Member States, the President of the European Commission Jean-Claude Juncker presented a White Paper on the future of Europe in March, which was complemented by a reflection paper in May with intended measures to achieve the deepening of the Economic and Monetary Union. The latter paper contained the ingredients for many of the EACB work streams this year and occupied many co-operative banks' meeting room discussions. This related to the banking package, the intended finalisation of the Banking Union, the Capital Markets Union and the review of the role of the European Supervisory Authorities.

In fact, the review of the legal framework for banking and for the resolution of banks, on which the rapporteurs in the European Parliament had published their proposals, were a central topic throughout the year. The agreement at Basel at the end of 2017 set the agenda for further modifications. At the same time the quite controversial work continued on the third pillar of the Banking Union, a European Deposit Insurance System.

The review of the Corporate Governance Guidelines of the EBA received particular attention both by the members and the secretariat. Intensive efforts were undertaken by the EACB to have co-operative particularities reflected. These efforts will continue during the forthcoming implementation of the EBA Guidelines.

Also featuring high on the co-operative banks' agenda were the implementation of several large and impactful pieces of legislation on the product side of the banks and, beyond that, on the strategic reflection that this legislation forces upon them. This refers particularly to the impact of financial markets regulation on co-operative banks' service offer to their members and clients, and on payments and data protection legislation in combination with digitalisation of the co-operative banks' role as financial service providers in general.

2017 was also the year of Sustainable Finance with a new prominent role taken up by EU Institutions and EU leaders to ensure the rapid transition required by the Paris Agreement. The EACB has been active in the new initiatives. Indeed, supporting the initiative of the EU on climate related issues is in the very nature of co-operative banks whose mission is to accompany members, clients and the communities they belong to in the long term.

The sheer volume and unprecedented levels of detail of recent EU legislation remains a challenge for co-operative banks and most other banks. This is why, apart from providing technical input to regulatory discussions and maintaining a technical and political dialogue with the European authorities, the EACB in close co-operation with its members also engages in a more fundamental policy discussion aimed at raising awareness of the unintended consequences of legislation for banking industry diversity.

Additionally, the EACB observes that the further integration of European financial and capital markets, even if to be welcomed in principle, is often all too easily translated into proposals for standardised approaches across all banks and all Member States ('one size fits all' approach). Legislators and supervisors should be encouraged to resist this easy way out, if it wants to preserve the unique tissue of banking structures in Europe and thus its diversity. The co-existence of joint stock company modelled and cooperative member-governed banks side contributes not only to a healthy and very necessary portion of bank-financed SME activity but also to financial stability as these models react differently to market stimuli.

I am convinced that the EACB made good headway in raising awareness on this issue in 2017, even though it is too early to rest on our laurels. Promoting the co-operative difference and bringing our influence to bear is an ongoing challenge. And if the EACB made good progress, this is also thanks to the EACB team and its manager, Hervé Guider, and to the 200 national experts of our 28 member organisations. The dedication and motivation of the staff of the secretariat and the member organisations is vital in developing and nourishing the relationship with regulators and supervisors and I would like to extend my sincere gratitude to all of them. I wish you enjoyable reading.

Hervé Guider
General Manager

WELCOME TO THE EACB

The 2017 annual report reflects the Association's steady activities and illustrates the commitment of the 200 experts who regularly provide support to the staff of the General Secretariat in Brussels. Decisions taken with a view to harmonising the regulatory framework in order to promote competition and competitiveness, strengthening the prudential framework to make banks stronger and more resilient, and measures taken to provide tools for resolution authorities all add new constraints and costs for co-operative banks. The objectives are shared, but the means used call into question the real willingness to recognise the diversity of co-operative banks in the European banking landscape. Our efforts to convince the legislator to introduce proportionality are gradually bearing fruit, even if we would like to see more significant and tangible progress. We are also asking for stability and simplicity in the evolution of the regulatory framework so that we can already comply with and digest post-crisis legislation, adapt computer systems and give ourselves the means to invest in better services for our members and customers. Finally, we expect Europe to protect and defend the European model of banking intermediation, which means that many enterprises, especially the smaller ones, are supported and accompanied by their local or regional banks. Market-based financing of the economy is complementary to bank financing but not an alternative or substitute.

The EACB's action relies on permanent dialogue with the competent authorities, both politically and technically, and the leaders of co-operative banks are at the forefront in defending and promoting the co-operative model. This dialogue is necessary to make known real and specific concerns and expectations. This dialogue is more effective if the decision-making process is democratic, open and transparent. Thus, we consider that the weight given to Level 2 in the legislative process is becoming excessive, particularly with the adoption of Guidelines by European supervisory authorities. We will keep a close watch on the progress of the reform of these institutions.

Dialogue also requires ambitious and targeted communication. We continued our communication plan by developing new tools to establish ourselves in the world of digital communication both internally and externally. But this goes hand in hand with the organisation of more traditional events, such as the biannual Convention on Cooperative Banks, which is a unique event for and by cooperative banks around the world. It is also our desire to open ourselves up to academics by being a think tank on co-operative banks, but also to invite representatives of co-operative banks to participate in seminars on Europe and facilitate the drafting of the legislative framework.

I hope that reading this annual activity report will raise your awareness about the EACB, its teams in Brussels and co-operative banks in general.

ABOUT THE EACB

THE ASSOCIATION

The **EACB** is the leading trade association for the co-operative banking sector with **28-member institutions** and co-operative banks located in **23 countries worldwide**. As the representative of the world's largest co-operative banking cluster, the EACB is the voice of **3,135 small, regional and large member banks** at European and international levels. An international non-profit based in Brussels, the EACB is recognised by EU regulators and supervisors as a key interlocutor for co-operative banks.

WHAT IS THE EACB?

As the official representative of co-operative banking to the international and European institutions, the **EACB** is committed to providing a high-quality, credible voice for co-operative banks. In this regard, the EACB supports the code of conduct on lobbying of the European Commission and is registered in the EU transparency register book (Transparency Book Register 4172526951-19).

The EACB has the largest and most comprehensive policy resources for co-operative banks worldwide.

> The association represents, promotes and defends the values of the co-operative banking model in Europe and on the global stage.

Democracy is central to these values with the principle of '**one person one vote**' at its core. Other values include a strong commitment to social engagement and close proximity to customers.

The co-operative banks have proved to be **resilient** to the effects of the economic crisis. The **EACB** emphasises the unique characteristics of its members in order to enhance the **diversity** and plurality of the European banking industry for the benefit of Europe's citizens and SMEs.

The EACB is fully dedicated to its members. In line with the **co-operative values**, each full member is given the same weight in the decision-making process, regardless of its size, country of origin or financial contribution. Furthermore, our credo, **'Everything we do – Everything you know'**, ensures the commitment of the EACB Secretariat to inform, consult, consider and respect all members' opinions and advice.

WHO WORKS FOR THE EACB

The high-level expertise and professionalism of its secretariat, working hand in hand with more than 200 **national experts** actively involved in the EACB's specific technical working groups, allows the EACB to make relevant contributions to the consultations of the international and European Institutions, European Parliament committees, expert panels and other relevant hearings.

Furthermore, through a broad range of information, trainings, staff expertise and an **EU think tank on co-operative banks**, the EACB provides its members and stakeholders (study tours, other co-operative organisations, visiting delegations of co-operative bankers, etc.) with the tools for increasing their awareness and knowledge of European issues. It helps keep them up to speed with legislative and regulatory developments. It is also a valuable platform on which members can defend and promote their banking model. For details of the EACB's team, please visit our website: **www.eacb.coop** or see annex.

WHAT IS THE EACB'S AGENDA FOR ACTION?

The **EACB's** value lies in its position as a leading trade association interacting and triggering debate with international and European institutions. As a **privileged interlocutor** for co-operative banks with policymakers and standards setters, the **EACB** is also considered a **reliable source of information** that delivers solid and representative opinions on key issues with regard to the legislative agenda affecting co-operative banks.

Diversity is an element of financial stability.

Laws and regulations should be tailored to take into due consideration a bank's charter, business model, location and risk profile. It is of the utmost importance for decision makers to avoid the negative economic consequences of burdensome and a full harmonisation of banking regulations that would induce a full harmonisation of the banking models. **Diversity is an element of financial stability.**

1. **Better understanding of our business model** - research is one of the ways to achieve it
2. **"Fit to purpose" legislation** - to balance efficiency and financial stability while reflecting market realities and diversity to be effective
3. **Simplicity to drastically reduce compliance costs** - compliance with complexity is an impediment for many banks and co-operative banks
4. **Implementation** - to be carefully timed and phased in
5. **Proportionality** - to calibrate regulation on the size, activities and complexity of bank risk
6. **Impact assessment** - all kinds of ownership banks should be part of the representative sample

THE CO-OPERATIVE DIFFERENCE

Co-operative banks are the main pillar of diversity in the European banking sector. They account for about 20% **of the market** of EU bank deposits and loans, and they are thus a major feature of the sector. For this reason, they play a pivotal role in the European economy. With **3,135** locally operating banks and **58,000 outlets**, co-operative banks are widely represented in the European Union. They serve **209 million customers** – around half of the population of the EU – mainly consumers, retailers, SMEs and communities.

WHAT MAKES THE CO-OPERATIVE BANKING MODEL DIFFERENT ?

• Member ownership:

Co-operative banks are private institutions. They are owned by their members, who are also their customers (e.g. local entrepreneurs, craftsmen, farmers and households). Diversity of member ownership entails a consensus-driven approach and prevents a strong focus on only one stakeholder. This customer-centric aspect is a distinguishing feature of co-operative banks and is hard to replicate outside the co-operative model.

• Maximisation of members' benefit/surplus in a long-term relationship:

Compared to shareholder banks, which are primary focused on maximising their shareholders' profit, co-operative banks are focused on maximising their members' value (i.e. customer satisfaction, earnings stability, etc.) in a non-speculative, long-term strategy

• 'One person – one vote' democratic governance, with a bottom-up approach:

By becoming a member, customers elect the leaders and have a say in the decisions and policies of their banks. The bottom-up approach or inverse pyramid structure is very specific to co-operative banks. It ensures that the interests of members are the top priority of their banks. In contrast to commercial banks, customers and members of co-operative banks are represented in the banks' governance structures and involved in the daily life of their banks (i.e. board meetings, membership councils, general assemblies, etc.).

• Resilience:

Co-operative banks have a lower risk appetite than shareholder-based banks. With their long-term orientation, they also maintain, on average, higher capital reserves. Thanks to their deep roots in local economies, co-operative banks anticipate and adapt to local circumstances. For these reasons co-operative institutions can adapt to changing circumstances and reinvent themselves more freely than other banks.

• Strong commitment to social values:

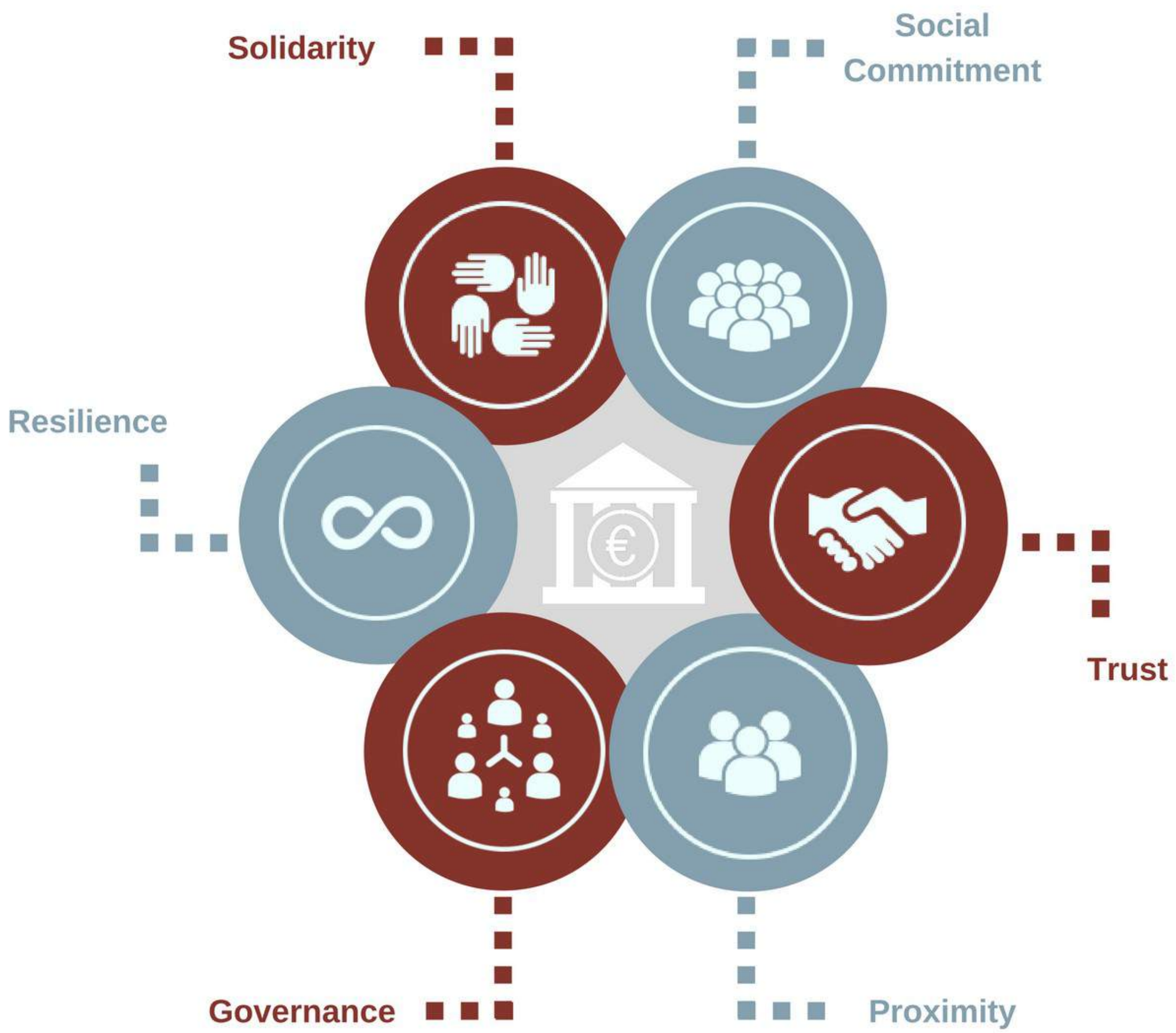
Co-operative banks have a long tradition of commitment to social values and solidarity. They were originally created in the 19th Century in Europe to fight against financial exclusion of social groups and alleviate the plight of rural populations. Furthermore, as local contributors, co-operative banks are part of the economic and social environment of their customers. They naturally take initiatives that aim to improve their clients' environment. A proportion of the banks' earnings are invested in local economic initiatives that also benefit the local community.

• Proximity to customers:

Thanks to their extensive and decentralised networks of branches, co-operative banks reach even the most remote areas. Through their members, they are locally rooted and an integral part of their community. They understand their customers and speak their language. Co-operative banks are dedicated to sustaining the real economy by creating and fostering local jobs, accompanying key territory actors and giving local communities the means for their own social and economic development. As a result, co-operative banks are often the main employer and serve as financial partners of local households and businesses. Overall, they finance one-third of SMEs in Europe.

WHAT MAKES THE CO-OPERATIVE BANKING MODEL

Different ?



TESTIMONIES OF THE CHAIRMEN

TESTIMONIES OF THE CHAIRMEN OF THE EACB WORKING GROUPS

The activities of the **EACB** are articulated around **Working Groups** and **Task Forces**, covering topics from banking legislation to customer policy, CSR and Social Affairs. The **Executive Committee**, which is comprised of 40 appointed members, endorses recommendations put forward by the Working Groups' members. The testimonies of the chairpersons of these Technical Working Groups for the 2017 activities follow.

Banking Regulation Working Group

"Throughout 2017 the regulatory clock was set spinning rapidly. The prudential framework for banks in the EU and more generally internationally will soon be massively overhauled. The reforms of the Basel Committee for banking supervision on the approaches for credit risk are coming to an end, with the implications for the real economy and capital requirements for banks to be seen. At the same time the European Commission launched a legislative process with its proposal for the risk reduction measures package which will lead to a very important review of CRR, CRD and BRRD. In this context, the novelties will be numerous, ranging from changes to the trading book/market risk and the introduction of the NSFR to proposals to amend the SREP and the pillar two requirements, including the pillar two guidance, as well as the proposals dealing with the interest rate risk in the banking book. Clearly, the other issue at stake is the redefinition of the practical application of the proportionality principle, an element of crucial importance for avoiding unnecessary regulatory burden. A substantial relief regarding administrative burden for small- and medium-size banks without creating competitive disadvantages or uneven playing field for others is needed, and at the same time a wider perspective on proportionality will be sought to recognise that certain elements need to be tailored more specifically for co-operative banks of all sizes, taking into account the business model, risk level, local and non-complex activity .

We also focused on the preparatory work for the IFRS9 introduction, and its interplay with the 2018 EU-wide stress test, on which we believe that a reasonable compromise has been reached. The SSM has been progressing in its work to foster supervisory consistency and convergence and we have played an active role in the dialogue for both significant and less significant institutions.

The EACB working group on Banking Regulation has actively and constantly engaged with regulators, supervisors and policymakers, and it will continue to do so to ensure that reforms are fit for purpose, proportionate to risks and business models' specificities, and do not result in unintended consequences for lending to the real economy."

Holger Mielk, BVR

Elisabeth Delahousse,
FNCA

Consumer Policy Working Group

"Retail banking remains the core business of co-operative banks. The European Commission presented on 23 March 2017 a Consumer Financial Services Action Plan which includes 12 Actions. The goal of the Commission is to develop a real Single Market, using digitalisation as a tool.

We fully support a competitive and effective Single Market for retail financial services, though one needs to be realistic as regards the level of integration that can be achieved. Indeed, the Rome 1 Regulation, tax law, culture, language, currency and the preference for face-to-face contact, at least for some products, are major obstacles to cross-border offers. Of these Actions, three were identified as a concern by the Consumer Policy Working Group: Action 3 'Easier product switching', Action 7 'Deeper Single Market for consumer credit' and Action 9 'Better creditworthiness assessments'.

The EACB actively worked with its members to draft a position paper that was presented to the Commission. At the same time, the European Parliament reacted to the Commission's Action Plan with a report on which the EACB was heavily involved.

The Commission is presently formulating ideas as to how to organise the follow-up on the 12 Actions. The Consumer Policy Working Group will provide the Commission with input as to how co-operative banks operate and what our consumers expect: new ways of offering benefits to customers, through multichannel services, while keeping strong personal ties."

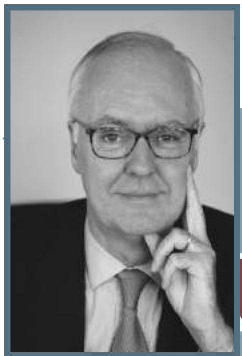
Corporate Governance and Company Law Working Group

"After a long period of focusing on various consultation procedures concerning corporate governance issues, 2017 was one of suspense over what lessons the policymakers, namely the European Banking Authority and the European Central Bank, would take from our statements and explanations. Now having the guidelines on the table (e.g. on the assessment of the suitability of members of the management body and key function holders and on internal governance) we can see that a whole range of the work of the EACB's working group on Corporate Governance and Company Law has been considered in the final versions. Nevertheless, the potential implementation of the guidelines would still be incompatible with co-operative groups in Europe, especially the formal independence criteria. Questions remain concerning how to adapt the requirements to the specific co-operative structures. Looking ahead to the next consultations (e.g. on outsourcing management), the working group will continue monitoring and actively influencing the developments, maintaining constructive dialogue with the relevant bodies and authorities, where we can underline the specific needs and particularities of co-operative banks and networks. Finally, the working group provides a constant, helpful and effective platform for the members to share their experience on national and individual implementations of the governance requirements."

Frank Brogl, DZ Bank

CSR & Co-operative Affairs Working Group

"In 2017 was a special year. Social responsibility in finance entered a new era, with a strong impetus from EU political top leaders to reorient public and private flows to green and sustainable growth. That is why the new Task Force on Green and Sustainable Finance, under the aegis of the CSR and cooperative affairs working group, has liaised with the relevant working groups to demonstrate in the field of climate finance the necessity of taking into account the retail banking and co-operative model. Through this Task Force the EACB made substantial progress with various initiatives. By being involved in the work of the EU Commission High Level Expert Group on Sustainable Finance (HLEGSF), EACB underlined the importance of placing the local and retail banking dimension at the heart of the EU sustainable finance initiative that is too often only focused on capital markets. The EACB engaged with several contacts with MEPs and UNEP-Finance (becoming Supporting members), particularly in the context of the European Parliament's Initiative Report on Sustainable Finance. The EACB also organised an event, 'Towards a Sustainable Finance Framework in EU: the role and views of co-operative banks', at the European Parliament with the support of MEPs. Finally, it published two important documents: the first one brings together the policy messages and views of co-operative banks on sustainable finance, and the second is an inventory of best practices and data showing the sector's contribution to financing climate change action."



Etienne Pflimlin,
Crédit Mutuel

Udo Milkau, DZ Bank

Digitalisation and the Use of Data ad hoc Working Group

"Digitalisation and the Use of Data Working Group (DUD WG) was established in 2017 to work on the challenges of digitalisation, which is a cross-functional approach. Digitalisation is changing the way firms create value. Today, one will hear frequently that "data is the new oil", a phrase coined by Clive Humby (2006), and later used inter alia by European Consumer Commissioner Meglena Kuneva (2009) and German Chancellor Angela Merkel (2015). However, the data to be monetised is usually clients' data, which is – in the case of banking – traditionally kept in bank accounts. Co-operative banks have always worked with the understanding that they are a guardian for the data provided by customers and members. From the perspective of current regulation, there is some ambiguity: the European General Data Protection Regulation (GDPR) does not only regulate data protection, but in parallel "portability of data". The revised Payment Services Directive (PSD2) allows access-to-accounts (XS2A) for third parties with a mandate by the customer. And for non-personal data (but what data are non-personal today?), a "free flow of data" is discussed on European level. Unfortunately, there is no definition of "ownership" of data in these regulations, whereas the different civil laws in Europe may have some inconsistencies. In the past two decades, the global internet giants introduced a model of "reversed" value creation, in which services for customers are "for free" but paid for by digital traces of personal data, and in which advertisers paid for the output of data aggregation. Consequently, the DUD WG has also engaged in a dialogue with the European Commission and supervisors about the development of digitalisation, financial technology (e.g. the FinTech consultation) and digital business models in Europe – in the competitive situation between the two current digital hot spots in the West and in the East."

Financial Markets Working Group

"Financial markets continue to be in a state of flux due to the ever-evolving regulatory framework that is producing unsettling implementation challenges, and competition from FinTech's. All these, of course, have a large impact on co-operative banks' business models and offering to clients.

In 2017 our banks continued to work hard on and be challenged by the implementation of complex and multi-level pieces of legislation such as MiFID II and PRIIPs, which were due to go live this year. Brexit added further complications in areas where the stability of financial markets and a level playing field between EU and other non-EU jurisdictions needed to be ensured. At the same time, the Capital Markets Union project has been moving forward where some initiatives that could have been more ambitious and some others which, if well designed, could have a positive effect and contribute to growth. They could also allow co-operative banks to better diversify risks and unlock capital in order to continue financing and boosting economic growth in their regions. The new workstream on sustainable finance furthermore brings major opportunities as well as challenges. The ongoing revision of the derivatives regulatory framework and the proposal for a review of the European Supervisory Framework will also have a significant impact and careful consideration must be given.

In general, what is needed is a more holistic approach to legislation, which in many cases seems to be designed in silos, and better analysis of the problems and how they should be addressed. In this landscape co-operative banks have to become more creative to address new competition while not compromising their distinct characteristics and nature and the offering of high-quality services to their clients."

Mathias Bauer , RBI

Jussi Snellman,
OP Financial Group

Payment Systems Working Group

"During 2017, co-operative banks have had to make considerable adjustments to their payment services and infrastructures. These changes were partly driven by the revised Payment Services Directive 2 (PSD2), which became applicable in January 2018. The implementation preparation for PSD2, however, has been littered with uncertainties because a number of key implementation rules were not finalised in time by the regulator and have still not been. This being the case, co-operative banks faced important challenges, such as which choices to make in securing the access of non-bank actors to customer data, how to report fraud data and security incidents or how to address operational and security risks. EACB has endeavoured to obtain certainty in these areas for members by participating in the different consultations and stakeholder dialogues that have been taking place on these topics. In addition to PSD2, further innovation undertaken by the industry, including the EACB, in the framework of the European Payments Council (EPC), in the field of electronic payments has also had its impact on co-operative banks' payment service development. Co-operative banks, each in their own pace, are preparing to implement the EPCs' SEPA Instant payment which will allow making the funds of a transaction available to the payee in 10 seconds or less instead of two days as happens today. Finally, the EACB has actively supported the activities of both the European Payments Council and the Euro Retail Payments Board in various fields such as e-invoicing or payment initiation services."

Mike Velthaak,
Rabobank

Recovery, Resolution and Deposit protection Working Group

''After the publication of the European Commission proposals on recovery and resolution at the end of November 2016, the EACB Working Group on Recovery, Resolution and Deposit Protection discussed the implications of these proposals for co-operative banks, such as the creditor hierarchy, the impact of Total Loss Absorbency Capacity (TLAC) and the Minimum Requirement of own funds and Eligible Liabilities (MREL). When talking about recovery and resolution, the EACB continued to argue that authorities should take into account the co-operative nature of our members including co-operative mutual solidarity systems as well as the principles of proportionality. For 2018 we will make sure that we are fully engaged in discussions on finalising the banking structural reform including our efforts on highlighting the conditions of a European Deposit Insurance System (EDIS) or, better, a EDRIS.''

CO-OPERATIVE BANKS IN THE SINGLE MARKET

THE EUROPEAN CENTRAL BANK (ECB) & THE SINGLE SUPERVISORY APPROACH: CHALLENGES AND DIALOGUE, INCLUDING IFRS 9 IMPLEMENTATION AND THE

In 2017 the **Single Supervisory Mechanism (SSM)** continued the work to further develop tools and foster convergence in the **Supervisory Review and Evaluation Process (SREP)** and to provide increased transparency to banks on supervisory expectations. This resulted in an intense year for both institutions and supervisors with the launch of numerous supervisory activities that required resources and strong engagement.

As **non-performing loans (NPLs)** were a key supervisory priority for the year, the SSM issued its guidance on the management of NPLs in March with a view towards a common approach for actively managing legacy assets and fostering consistent processes for their reduction for all Significant Institutions (SIs). Over the year following the release of the Council Action plan on NPLs, the ECB indicated that it will adjust and tailor the methodology for **Less Significant Institutions (LSIs).**

In October, the ECB launched a consultation on an addendum to the Guidance, outlining a proposal for a prudential backstop for NPLs with precise timeframes for banks to build full provisioning of new NPLs. Any deviations from the addendum would need to be adequately explained in order not to trigger supervisory measures (in case of weak arguments and evidence). The draft addendum specified quantitative supervisory expectations for minimum levels of prudential provisions for new NPLs (exposures newly classified as non-performing as of 1 January 2018). In this context the **EACB highlighted the need to avoid any mechanical solution that would impair the nature of Pillar 2 measures**, which by definition are institution specific and must remain so to avoid adverse effects on the industry as a whole. Also, the European Parliament has kept a high level of engagement on the file, questioning the legal basis of the SSM approach, which also came under the scrutiny of the Council.

The **EACB** maintained an open dialogue with the SSM both at technical and political level, both on elements related to the supervisory process of Significant Institutions (SIs) and on methodologies for oversight of LSIs. Therefore, during the year numerous meetings and dedicated workshops were organised to allow exchange on the supervisory projects and practices (e.g. on capital and liquidity planning, risk drivers etc.). This provided members with an essential platform to present relevant issues to supervisors and allows the latter in return to have a comprehensive view on the co-operative banks' business model, organisation, risk-management practices with a view to **stimulating adequate calibration of supervisory initiatives.**

The **EACB** has consistently highlighted the importance of a **proportionate approach** that is mindful of different risk profiles and the complexities of institutions.

In 2017 supervisors were also in charge of producing the methodology for the EU wide stress test to be held during 2018. In this context, the stress test will rely on **IFRS 9** data for the first time in the first year of implementation of the new accounting standard. Together with other industry representatives, the **EACB** had pointed out on multiple occasions and in several letters that the final stress test timeline had to consider practical and operational issues linked to the introduction of IFRS 9. Following intensive and open debate, the EBA board of supervisors eventually decided to adjust the timeline in order to have reliable data for the stress test and to afford banks sufficient time to fulfil their accounting and audit cycles. The stress test data will thus be provided in mid-2018 and results published on 2 November, 2018.

Regarding IFRS 9, the EACB also hosted SSM officials for a workshop on supervisory expectations of the readiness of LSIs to implement IFRS 9. During the meeting the **EACB emphasised the need to tailor expectations in a proportionate way** to appropriately take into account the degree of sophistication of LSIs in avoiding mechanistic approaches and the creation of burdensome administrative processes

THE AN IMPORTANT YEAR FOR THE EUROPEAN BANKING RESOLUTION FRAMEWORK. THE IMPACT OF ESTABLISHING THE SRB AND SRF ON THE BANKING UNION/BANKING INDUSTRY: RELEVANT LEVEL 2 REGULATORY PRODUCTS AND CASES

Over 2017 stakeholders had a first concrete experience of SRB's approach to concretely applying the resolution framework to institutions assessed as failing or likely to fail by the ECB. In June 2017 the SRB took its first resolution decision concerning a major bank, Banco Popular, which was orderly resolved. The case of Banco Popular stimulated the debate on the need to develop the existing Single Resolution Fund to also face severe liquidity stress situations and not only loss absorption.

Other crisis cases were managed in June 2017: the SRB decided that for Veneto Banca and Banca Popolare di Vicenza the conditions for resolution were not met due to the lack of public interest for undergoing resolution and both banks were wound down under normal insolvency proceedings at national level. The liquidation of Veneto Banca and Banca Popolare di Vicenza raised some important questions in the context of Banking Union, such as whether the definition of critical functions and public interest – key elements in the context of liquidation – should be clarified.

The Italian cases were intensively discussed in the Recovery, **Resolution and Deposit Protection Working Group (RRDPWG)** with particular regard to the fact that the SRB did not see any public interest in the resolution of these banks.

In 2017, the SRB has started to develop binding **minimum requirements for own funds and eligible liabilities (MREL)** targets for major banking groups, and it will continue this activity in a more structured way for all Significant Institutions in 2018.

The **EACB** attended two Industry Dialogue Meetings (in January and November) organised by the SRB. The meetings focused on Liability Data Reporting, MREL state of play, Critical Functions and Administrative Contributions. Also, the **EACB President** was also a panellist at the annual conference of the SRB which focused on **"building resolvability together"**. It is indeed essential that resolvability is seen as a journey that requires effort and input from the industry too, as it cannot be achieved by authorities alone. For 2018 the **EACB** will continue developing its technical dialogue with the SRB and support the call for increased **transparency** on the activities of resolution authorities and a balanced and **proportionate approach** towards recovery and resolution planning and execution.

Last year, the EBA published for consultation its draft Regulatory Technical Standards on simplified obligations for institutions when drafting their recovery and resolution plans. The **EACB** was deeply involved in the consultation phase and provided EBA with detailed feedback on the need to adjust the RTS in a less mechanical and more proportionate way that truly reflects the **burden for small, non-complex institutions** in preparing recovery and resolution plans.

In 2017 a consultation paper on resolution issues for financial co-operatives was issued by the **International Association of Deposit Insurers (IADI). EACB** members discussed this paper intensively and, in their reply to the consultation, pointed out that demutualisation should be seen as a last resort tool in a resolution context. Moreover, the **EACB** explicitly asked the IADI to be informed about and involved in any further work in the area of co-operative banks resolvability.

Finally, in the course of 2017, the **EACB** regularly informed members of SRB activities and publications. In this context, it is worth mentioning that at the end of 2017 members were informed about the publication of the SRB work programme for 2018 and the MREL policy for 2017.

COMPLETING THE BANKING UNION

Risk reduction measures package: a comprehensive review of the prudential and resolution framework

In November 2016 the Commission published its proposals for the risk reduction measures package, entailing a review of **CRR, CRD, BRRD, SRMR**. The proposal aimed to take stock of and implement pending internationally agreed reforms of the prudential and resolution frame-

work (e.g. TLAC and adjustments to the MREL, NSFR, Pillar 2 framework including interest rate risk, the Fundamental Review of the Trading Book etc.).

Over the course of 2017, the **EACB** became actively involved from an early stage in the developments of the legislative process, exchanging with Commission officials, providing detailed input on both the prudential and the resolution proposals and engaging in dialogue with the co-legislators to support the achievement of a balanced outcome of the reforms.

Our efforts were devoted to highlighting on multiple occasions, including joint events with the European Parliament, that **the key objective should be to design a prudential framework that is sound without hindering the capacity of institutions to continue financing the real economy**. It is essential that reforms do not undermine the stability of institutions and ultimately of the financial system. In this regard, maintaining and expanding the scope of the SME supporting factor and the proposal for a dedicated treatment for infrastructure investment is a positive step. Overall, co-operative banks have supported progress that adequately reflects well-functioning institutional arrangements and market conditions.

In this context, it seems appropriate that the introduction of Basel accords (e.g. for market risk and counterparty credit risk) is carried out via a phasing in and monitoring period in order to avoid the EU front-running, especially given that global policymakers are still considering adjustments to the framework.

In the course of 2017, the co-legislators agreed to fast track certain parts of the proposal. This was particularly the case for the implementation of IFRS 9 and its phase-in arrangements that entered into force on 1 January 2018, and the proposal for a revised investor creditor hierarchy with clear rules for a new class of senior unsecured debt to be issued by institutions that would rank junior in insolvency. These two legal acts were approved by the European Parliament and Council in December 2017.

The **EACB** advocated for and much appreciated the fast completion of this first set of proposals which provided legal certainty for institutions.

The CRD and CRR review including TLAC

Following up on the Commission proposal on 22 November 2017, the European Parliament published the draft report by MEP Peter Simon on **the review of CRR/CRD** that once finalised will represent the negotiating position for the trilogue with the Council. The trilogue is expected to take place in the second half of 2018.

All in all, the draft report introduces numerous significant measures compared to the Commission proposal, especially in the area of **sustainability**, of the treatment of certain loans and some aspects regarding **the principle of proportionality** (including the definition of institutions that could benefit from principle, a simplified NSFR, reduced reporting obligations), and certain elements of cross border capital and liquidity waivers. Some other areas were not sufficiently addressed, such as market risk, the maximum distributable amount (MDA) trigger for distribution limitations and remuneration. In other regards, for instance the Leverage Ratios additional buffers for G-SIIs and O-SIIs, the draft report even seems to go beyond recently finalized Basel standards.

Given the importance and ramifications of the topic, 2018 will require considerable negotiating efforts from the co-legislators. At Council level the discussions are intensively proceeding among the national delegations, and while progress is being made, much remains to be agreed on contentious issues such as cross-border waivers, remuneration thresholds and Pillar 2 measures to address macroprudential risks.

The **EACB will maintain a strong engagement** to support co-legislators in achieving balanced solutions, which adequately reflect **co-operative specificities** and the reality of market conditions for funding aspects (i.e. design of the NSFR), the treatment of interest rate risk (which must remain institution specific), appropriate grandfathering criteria for TLAC eligible liabilities, adequate remuneration rules and so on.

The BRRD and SRMR review including the creditor insolvency hierarchy

Also following up on the Commission's proposal, on 27 September 2017 the Parliament published the draft report for the **BRRD** and **SRMR** review by MEP Gunnar Hökmark.

Compared to the legislative proposal, the draft report

addressed many concerns. However, work is still needed to reflect the specific structures and legal arrangements of co-operative groups in resolution in particular.

For instance, recognition is needed for co-operative groups organised with institutions affiliated to a central body to fulfil MREL at consolidated level. Also, the question of internal MREL remains to be addressed at the level of the Banking Union. Moreover, adjustments will be needed to take into account the significance of the institution and the importance of the information for the capital market for the definition and fulfilment of reporting requirements for the MREL. An intense debate on the moratorium tool is also ongoing.

The **EACB** will continue to advocate for **appropriate recognition of co-operative aspects** in the legislative review.

GLOBAL DEVELOPMENTS: BCBS ONGOING ACTIVITIES IN REDESIGNING THE PRUDENTIAL REQUIREMENTS (SA FOR CREDIT RISK, RESHAPING IRB MODELS, OPERATIONAL RISK, FLOORS FOR INTERNAL MODELS, SUPERVISORY BEST PRACTICES)

On 7 December 2017, following months of intense negotiations the GHOS agreed on the final package of reforms of the Basel Committee that close the **Basel III regulatory reform**, often referred to also as Basel 3.5 or Basel IV.

The overall aim of the latest set of finalised reforms was to restore credibility in the calculation of risk-weighted assets (RWAs) and improve the comparability of banks' capital ratios. The **EACB has maintained a strong engagement** on the developments of the Basel discussions and has on multiple occasions emphasised that the aim was already being pursued by dedicated workstreams ongoing in the EU (e.g. by the EBA and the ECB) and that significant capital increases had to be avoided given that other regulatory tools already strengthened the capital base of institutions.

The agreed reforms introduce an output floor for internal models, substantially modify standardised approaches, constrain the use of the internal models, improve the operational risk framework, and introduce a leverage ratio buffer. The revised output floor is set at 72.5% and limits the regulatory capital benefits for a bank using internal models. It will be phased in from 2022 and will only become fully effective as of January 2027.

During the negotiating phase the **EACB has strongly warned** of the risks of impairing the risk sensitivity of the overall capital framework and altering the level playing field with solutions that aim to fit all jurisdictions regardless of market conditions and legal frameworks.

The **EACB** welcomed the European Commission indication that the agreement will be subject to a thorough consultation and impact assessment to evaluate the consequences for the EU economy before it is translated into EU law. Any legislative proposal would be independent from the CRR amendments that were proposed by the Commission in November 2016 and that are currently being negotiated by the European Parliament and the Council.

Also, the EBA indicated in a statement that it supports the aim of the global agreement to restore credibility and comparability of regulatory capital metrics. However, in a first very preliminary analysis from December 2017, the EBA highlighted that, under the revised international standards, minimum required capital (MRC) for an EU sample of banks would increase by 12.9% in weighted average terms.

The **EACB** will closely follow the European initiatives and engage with policymakers to ensure that, when the reforms are implemented in the EU, unintended consequences for the markets and the real economy are avoided, including credit crunches and an alteration of the level playing field *vis à vis* other jurisdictions with internationally active banks.

COMMUNICATION ON THE BANKING UNION INCLUDING ONGOING EFFORTS ON THE PROPOSAL FOR ESTABLISHING A EUROPEAN DEPOSIT INSURANCE SCHEME AND PLAN FOR EU ACTION ON NPL

On 11 October 2017, the European Commission released its **Communication on the completion of the Banking Union.** The communication took stock of what has been achieved in creating this union and what measures are still needed to complete it. It urged the European Parliament and the Council to progress quickly in the adoption of measures to tackle remaining risks in the banking sector and suggests new actions to reduce non-performing loans and to help banks diversify their investment in sovereign bonds. In particular, the communication aimed to give new impetus to the negotiations on the **European deposit insurance scheme (EDIS)** and maps out the path towards the setting up of a last resort common fiscal backstop for the single resolution mechanism.

With regard to a European Deposit Insurance System, the Commission stepped back from its proposal and now suggests introducing EDIS more gradually and moving towards a co-insurance mechanism in which national DGSs and EDIS would contribute in parallel from the first euro of losses. However, discussions would be conditional on progress being achieved in reducing the level of NPLs and other legacy assets, and on further adjustments to the DGSD to ensure enhanced harmonisation.

The Communication also touched upon the need to move forward on developing a backstop for the Single Resolution Fund (SRF), which is occupying an increasingly relevant place in the debate on the completion of the Banking Union and the deepening of the Monetary Union. The work will be articulated within the Commission's forthcoming package of proposals for the deepening of the Economic and Monetary Union, which will include a proposal to transform the European Stability Mechanism into a European Monetary Fund.

The **EACB** is fully committed to following the developments and engaging in discussions to avoid unintended detrimental consequences and to foster a conducive debate that supports an adequate legislative solution. The vast majority of EACB members have reservations regarding the EDIS project. An **EDRIS** system is proposed instead. The SRF backstop will also require careful consideration and in-depth assessment of the policy options that will be suggested.

With regards to NPL reduction policies, the ECB initiatives are only a first step. Many other channels will now address the question of NPLs at European level. The Council conclusions of the 11 July 2017 on an EU NPL action plan identified a number of actions, including designing possible prudential backstops that address the potential of provisioning.

Among other measures, the Council suggested 2018 SSM guidance on NPLs for less significant institutions, EBA general guidelines on NPL management for all banks in the EU, and detailed guidelines on banks' loan origination, monitoring and internal governance addressing issues such as transparency and borrower affordability assessment.

Other elements would envisage reinforced reporting and disclosure and actions to develop an EU market for NPLs (currently discussed in a Commission consultation) including the possibility of establishing an EU standard for national asset management companies.

CORPORATE GOVERNANCE DEVELOPMENTS

As in 2016, corporate governance aspects retained a crucial spot in 2017 activities.

ECB activities

Following a public consultation issued in late 2016, the ECB published in May 2017 its final guide on **what is fit and proper**. Though not binding, the guide aims to harmonise the application of assessment criteria (experience, reputation, independence of mind, time commitment and collective suitability) on the suitability of management body members.

During the consultation phase, the **EACB closely engaged with the SSM**, organising ad hoc meetings to point out the specificities of co-operative banks governance and to provide detailed technical input on various aspects of the suggested approach. A position paper was also established.

Over the course of 2018, the **EACB** will maintain its dialogue with the ECB at both technical and at the highest level on the most sensitive aspects of corporate governance, especially in view of the “comply or explain” procedure concerning the EBA/ESMA GLs on fit and proper and internal governance in which the ECB is involved as a competent authority and the revision of its guide with the view of **protecting the diversity of the banking models**.

EBA Draft GL (Fit proper & Internal Governance)

In September 2017 the EBA issued its final Guidelines (GLs) on fit and proper governance (joint EBA and ESMA GLs on the assessment of the suitability of members of the management body and key function holders) and GLs on internal governance.

The **EACB** has developed an intensive dialogue with the EBA during both the consultation and follow-up phase. In the first phase, the **EACB** played an active role in advocating proper consideration of the governance structure of co-operative banks in the GLs; a bilateral meeting with EBA experts took place and a position paper was established.

The **EACB** has reiterated on multiple occasions the need to avoid mechanical or too formalistic approaches that would not reflect the nature of the notion of independence of board members in co-operative groups. **The particular nature and local roots of co-operative banks must be understood as a real value for the good management of the institutions and the protection of diversity .of banking models** – which improves financial stability.

Although the final GLs turned out to be better and clearer than those suggested by the consultation paper, we remain seriously concerned, particularly regarding the requirements on formal independence and the assessment of key function holders by competent authorities. In both cases, the new rules would not be in line with some members' national company law and go beyond what is imposed by the CRD IV.

In the follow-up phase, the **EACB** has developed an open dialogue with the EBA and the ECB to see if the more challenging suitability requirements could be applied to co-operative banking groups, in light of **the principle of subsidiarity**, hierarchy of norms, **proportionality**. In this context, the EACB invited EBA experts to make further explanations and clarification on the GLs, within the Corporate Governance Working Group meeting. Meetings with the ECB were also organised.

Remuneration policy

The European Parliament and the Council discussions on the European Commission's proposals in CRD V with regards to remuneration policies seem to support the proposed thresholds that would allow smaller institutions and staff with low level of variable remuneration to fully waive the complex rules on variable remuneration. However, many aspects still require a more in-depth assessment and careful consideration from policymakers. **The EACB will remain strongly focused** on the legislative process to ensure that such elements are taken into account.

DEVELOPMENTS AFFECTING RETAIL BANKING OFFER OF CO-OPERATIVE BANKS

CONSUMER FINANCIAL SERVICES AT LARGE

In Following the consultation on the Green Paper on Retail Financial Services in 2016, the Commission finally published its Consumer Financial Services Action Plan in March 2017.

Since then the EACB has been engaged in a dialogue with the Commission as well as the European Parliament on its own-initiative (INI) report on the Action Plan on Retail Financial Services.

The objective of the dialogue was to affirm EACB members' support in principle for a competitive and effective Single Market for retail financial services as outlined by the Commission in its action plan. The aim was also to highlight some important reservations with regard to some aspects of the proposed approach.

In particular, the EACB members underlined the relatively low demand for cross-border operations as shown by Eurobarometers. A total of 373 respondents surveyed in 2012 and 446 in 2016 emphasised that before introducing new legislation it is crucial to evaluate the impact of the six pieces of legislation (Mortgage Credit Directive, Payment Accounts Directive, PRIIPs, MiFID 2, PSD2, etc.) that have not yet begun to be implemented in many countries or completed. EACB members also asked for realistic ambitions for the level of integration of retail financial services markets that can be achieved, taking into account such factors as culture, language, tax law, civil law, AML duties and currency (for the non-eurozone) along with the fact that financial services are different from goods in terms of ease of purchase. These factors still stand in the way of full market integration.

In addition, members expressed their concerns on some of the actions of the Action Plan, notably Actions 9 'Better Creditworthiness Assessments' (on which a Workshop with the Commission will take place in January 2018), 7 'Deeper Single Market for consumer credit' and 3 'Easier product switching'. Regarding Action 1 'Lower charges on non-euro transactions', members of the Payment Systems Working Group (PSWG) were involved in the consultation process launched by the Commission in July.

BANK ACCOUNTS AND PAYMENTS

Towards implementation of key legislation

Payment Accounts Directive (PAD)

Following the European Banking Authority (EBA) public consultation on standardised terminology to be used by banks when communicating with clients about bank accounts and on cost disclosure documents to be provided to clients under the **Payment Account Directive (PAD)** launched in September 2016, the EBA published in 2017 its final proposals for approval by the European Commission and subsequently Council and European Parliament.

In that phase, the **EACB** addressed a position paper to the Commission highlighting its concerns about some aspects the approach proposed by EBA, particularly the proposed **Fees Information document (FID)** and the **Statement of Fees (SoF)**. The EACB members believe the EBA's final proposal goes too far and interpret the mandate given by the PAD too broadly. Members also expressed their disagreement with the EBA's approach for packaged products for the FID, which is in contradiction with the mandate given in the PAD to have a short document. Members suggested that it would be more appropriate (as well as in the interest of keeping the relevant documentation short) to provide the consumer with a single example of the package that is the 'most commonly used'.

Revised Payment Services Directive (PSD2)

Ahead of the application date of PSD2 in January 2018, 2017 was of critical importance for the implementation of the new payment services framework. Co-operative banks launched their internal implementation projects within a highly uncertain environment as the work of the EU institutions to develop essential complementing rules was not entirely completed. In this context, the **EACB** contributed to several EBA public consultations that were launched in 2017. In view of ensuring consistency between PSD2 and its resulting set of guidelines and regulatory technical standards, the **EACB** provided feedback in 2017 to six PSD2-related consultations covering topics ranging from the security measures for addressing operational risks to the reporting of payment fraud. Indeed, achieving a high level of security in the provision of electronic payments was a constant goal of the EACB action in this field.

The **EACB** took special effort to ensure that the RTS, which sets the way in which TPPs should access the accounts held by co-operative banks, allowed for the client's funds and data to be secured. Additionally, the **EACB** also raised the need to align the different PSD2 timelines and called for the rapid adoption of the new rules to bring much-needed legal certainty. In this context, the **EACB** worked on several public statements, events, letters and various bilateral meetings and discussions with the Commission services and MEPs.

2018 will also witness the emergence of several reporting systems related to payments and security incidents. Accordingly, in 2017 one of the EACB priorities was to achieve a lighter reporting system that respects **the diversity of the European banking sector.** For instance, ensuring the possibility of delegating the reporting of payment security incidents to the central body of a co-operative bank or network was an essential request to make the PSD2 framework workable for EACB Members.

Regulation on the Transfers of Funds

Regulation 2015/847/EU on the information accompanying transfers of funds is a cornerstone of the stability and reputation of the EU financial system. The free movement of capital is a fundamental condition for the smooth functioning of the EU internal market, but it can nevertheless be abused by criminals. In this context, the development of appropriate guidelines was crucial to support payment services providers to deal with the transfer of funds that lack the required information about the payee or the payer. In 2017, the **EACB** contributed to the public consultation on draft guidelines of the Joint Committee of the three European Supervisory Authorities (ESAs) to prevent transfers of funds being used for money laundering (ML) and terrorist financing (TF).

Self-regulatory initiatives in the area of payment services

In 2017, both the **Euro Retail Payments Board (ERPB)** and the **European Payments Council (EPC)** played a fundamental role in the self-regulatory initiatives undertaken by the payment industry.

Under the chairmanship of a board member of the ECB, the ERPB is a strategic body tasked with providing guidelines and directions for the further development of the European payments market. It held two meetings in 2017 that gave a serious impetus to the payments sector.

As one of the seven supply-side members of this board, the **EACB** actively monitored and contributed to the definition of the requirements for an integrated payment initiation market in Europe. This work stream, which is of strategic importance considering its important links with the implementation of PSD2, will continue during 2018 under a new multi-stakeholder framework. The ERPB also continued the work on setting out measures to overcome the fragmentation of the e-invoicing market in the EU and reviewed the work of the multi-stakeholder body looking into pan-European P2P payments.

On the side of the EPC, during 2017 the **EACB increased its presence** in several EPC working groups dealing with legal aspects and the cybersecurity of payment systems.

Additionally, it is worth noting that the banking industry through the EPC officially launched the **SEPA Instant Credit Transfer Scheme** on 21 November 2017 and that 933 banks started offering instant payments. It is expected that a critical mass of SCTInt scheme participants will be reached by November 2020. Key discussion for the roll out of the instant payment scheme focused on the availability of clearing and settlement mechanisms to support it. The **EACB** participated in a number of exchanges and meetings with the ECB and clearing houses with a view to ensuring that the access to these mechanisms suits the needs of co-operative banks.

Finally, in 2017 the EPC started an internal exercise to review its functioning from a strategic point of view. The EACB feed the discussions at board level and will continue to do so in 2018 in the framework of a newly created board working group.

INVESTMENT SERVICES

Getting ready for the implementation of MiFID II and PRIIPS

MiFID 2 is designed to close loopholes in the existing legislation on Markets in Financial Instruments, which is the cornerstone legislation for investment services in Europe. It ensures that financial markets are safer and more efficient, investors are better protected, high-frequency trading is regulated and speculative commodity trading is curbed. The complexity of the file and the need for NCAs and ESMA to make data available for market participants to be able to comply with the requirements led co-legislators to extend the date of application until 1 January 2018.

Where the **EACB** activities in previous years were focused on level 1 and level 2 legislation provisions, the attention in 2017 shifted towards the supervisory convergence measures that ESMA was working on (guidelines and Q&As) focusing on investor protection topics such as product governance and how the so called target market should be defined. Indeed, these rules constitute a new important pillar introduced by MiFID II that affects the design of the products and provision of service that – in combination with other rules – could lead to changes and even limit the products and services offered to retail investors. Such an outcome, of course, clearly affects the **co-operative banks business model** and service offering due to their retail business focus. Level 3 measures should not create an additional layer on top of level 1 or level 2 and impose additional restrictions and burdensome obligations. At the same time, the **EACB** worked on some market related issues such as the implementation of the trading obligation, given that ESMA was preparing the relevant draft Regulatory Technical Standard (RTS). The aim of EACB was to ensure that ESMA, the European Commission and the market participants will have enough data to better assess the implications of the clearing obligation for the market and thus ensure a better and smoother phase-in of the clearing obligation.

In addition, acknowledging that MIFID II/MIFIR is a very complex piece of legislation with many uncertainties when it comes to its actual implementation, the **EACB** served as an **exchange platform**, allowing its members to discuss remaining challenges, potential implementation solutions and best practices.

In parallel to their work on MiFID II/MiFIR, the EACB members focused on the implementation of another important investor protection legislation: the regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs). It introduces a key information document (KID – a simple document giving key facts to investors in a clear and understandable manner) covering not only collective investment schemes but also other 'packaged' investment products offered by banks and insurance companies. It has been introduced to improve the quality and comparability of information provided to retail investors in the EU on often complex investment products and will start to be applied along with MIFID II.

A great deal of uncertainty surrounds the scope and im-

plementation of level 2 measures that specify the required format, content and underlying methodology to be used when preparing KIDs. The **EACB** thus urged both the EC and the European Supervisory Authorities (ESAs- namely ESMA, EBA and EIOPA) to clarify these aspects so as to allow market participants to fulfil their obligations and the KID to provide useful, clear and not misleading information to retail clients so as to allow them to take informed decisions. This resulted in the EC and ESAs issuing a communication and Q&As respectively to provide some further guidance, but it seems that lack of clarity and inconsistencies still remain and need to be addressed.

The **EACB** is currently monitoring the relevant developments and the implementation of both MiFID II and PRIIPs and is ready to take appropriate action if and when necessary.

Review of the Regulation of Over the Counter (OTC) Derivatives (EMIR)

EMIR came into force on 16 August 2012 and introduced requirements aimed at improving the transparency of OTC derivatives markets and at reducing the risks associated with those markets. In order to achieve these aims, EMIR requires that OTC derivatives that meet certain requirements are subject to the clearing obligation and that risk mitigation techniques apply to all OTC derivatives that are not centrally cleared. In addition, all derivatives transactions need to be reported to Trade Repositories (TRs). Despite the fact that the clearing obligation recently came into force (the first clearing of Interest-Rate Swaps started in April 2016) and that the margin requirements for non-centrally cleared contracts started to apply even more recently, the Commission is currently undertaking a review of EMIR as required by the Regulation itself and come up with a EMIR Refit proposal in May 2017.

The **EACB** has long been advocating for the need to provide solutions for **smaller co-operative banks and building societies** that cannot obtain access to the institutions that are supposed to clear derivative transactions. This lack of access means that they are at the risk of not being able to hedge their risks for fixed interest rate mortgages, for example. And this in turn means that they would either have to stop offering these or not comply with the law.

As a positive reaction to **EACB** efforts, the EC proposal now provides for an exemption of smaller financial counterparties with a limited volume of activity in OTC contacts. In addition, the proposal for the review of EMIR provides for some changes that aim to make the reporting of OTC derivatives less burdensome and more efficient. The **EACB** is now finalising its position on the

EMIR Refit proposal which it plans to share with co-legislators to ensure that the positive changes are maintained, while a few redundant provisions which create unnecessary administrative burden without added value are removed.

In this context, the **EACB** is also following discussions around making clearing arrangements more effective and accessible at international fora including the FSB.

Moreover, the **EACB** is monitoring the developments around Brexit such as its implications for derivative markets, considering that the UK is a clearing hub. In this context, it is looking into the EC proposal on the procedures and authorities involved for the authorisation of CCPs and requirements for the recognition of third-country CCPs (CCP relocation) focusing on clearing members, banks and end users of CCP services.

The Capital Markets Union project

On 30 September 2015, the Commission adopted an action plan setting out a list of key measures to achieve a true single market for capital in Europe (CMU). The EACB has been focusing on the relevant initiatives in this context:

Review of the Prospectus Regulation:

This CMU action plan involved the revision of the Prospectus Directive with the objective of improving certain requirements in order to alleviate the burden for companies which draw up a prospectus (especially SMEs) and to make the prospectus a more valuable information tool for potential investors. The new Prospectus Regulation, which will replace the previous EU Directive, entered into force on 20 July 2017 and its provisions will begin to apply on a rolling basis, with full application from 21 July 2019. Even though the revision was not as ambitious as EACB would have hoped for, during the course of 2017 the EACB followed the relevant work stream and the preparation of the level 2 measures with a view to ensuring that the Prospectus Directive fulfils its purpose, and that the concerns and specificities of smaller issuers, including co-operative banks, are adequately taken into account while red tape is reduced. The EACB participated at a dedicated workshop organised by the EC in March 2017 for market participants and responded to the relevant ESMA consultation on the design of the level 2 measures, raising relevant points also in meetings with the ESAs.

Creation of a securitisation framework

The EC proposed a securitisation framework that consists of a proposal for a Securitisation Regulation setting out the criteria for simple, transparent and standardised' (STS) securitisation and of a proposal to amend the Capital Requirements Regulation in order to have a proper capital treatment for these kind of products. The overall objective is to promote a safe, deep, liquid and robust market for securitisation, which is able to attract a broader and more stable investor base to help allocate finance to where it is most needed in the economy.

The file has attracted the attention of the EACB as it shares the view that a well-functioning securitisation market – supplementing bank loans as a main financing instrument – is essential to support growth and provide sufficient credit to companies, particularly SMEs. Securitisation is indeed a very important element, also from our perspective as co-operative banks, as it occupies a middle ground between direct bank lending and pure capital markets funding. In other words, it allows smaller banks (for instance within co-operative networks) to finance their lending to SMEs and individuals through access to the capital markets that makes it possible to generate high-rated securities backed by this kind of retail lending. It also allows for the better diversification of risks and unlocks capital to improve local lenders' ability to continue financing and boosting economic growth in their regions.

With this in mind, the EACB followed the relevant discussions between the co-legislators, raising its concerns and providing proposals for further improvements. The aim was to enhance the effectiveness of this initiative and to support, in particular, smaller regional and decentralised banking groups in their core activities. The final outcome was not what the EACB expected and its members have concerns about whether it will lead to an efficient securitisation market.

Nevertheless, the EACB will follow the upcoming EBA/ESMA work on securitisation framework to ensure that the concerns of its members are taken into account.

Other relevant initiatives

Along with these important topics, the EACB has been monitoring other initiatives that are relevant for EACB members, including:

- Covered Bonds framework: the EC is working on this topic and is expected to make a proposal soon. The EP has already issued its own initiative report on this topic.
- Expected future work in dismantling remaining Giovannini barriers which make it difficult for investment service providers to extend their reach beyond their home country, particularly concerning securities law. In April 2017 the Commission launched a public consultation (consultation on conflict of laws rules for third party effects of transactions in securities and claims) and established an expert group on conflict of laws regarding securities and claims. The group will provide the Commission with specialist advice from experts on private international law and financial markets as a sound basis for policymaking. Moreover, in February 2016, the Commission established the European Post-Trade Forum (EPTF) to help review progress in removing barriers to cross-border clearing and settlement. In August 2017, the EPTF published its report and the Commission launched a consultation on how to further reduce barriers to post-trade services across financial markets. The EACB responded to relevant consultation and is monitoring relevant developments in that regard.
- The EACB is also following the Commission's ongoing work on distribution of retail products. A legislative proposal has not yet been published, but further action could be triggered. The EC is undertaking three workstreams:

1. Study undertaken by DELOITTE on distribution systems of retail investment products across the EU.
2. The EC's mandate to ESAs for Recurrent reporting by the ESAs of cost and performance of the principal categories of long-term retail investment and pension products.
3. The EC's feasibility study on the development of a centralised hub for mandatory disclosure requirements and related services.

This might be relevant for EACB members as co-operative banks are major distributors of retail investment funds.

How co-operative banks adjust

Co-operative banks use digital technology to create new ways to interact with existing clients and to make banking more convenient. The extent to which digital technology is used is likely to be different depending on the kind of product. Simpler and relatively straightforward products (e.g. payments, simple bank or savings accounts) are easier to digitalise. On the other hand, for products that are more sensitive (e.g. mortgages or other credit, investment products, insurance) customers rely more heavily on face-to-face contact and prefer an infrastructure that supports it. On the whole, co-operative banks expect to use a range of channels in a flexible way that allows them to tailor their approach to the preferences and needs of their customers. Of course, co-operative banks are not all at the same stage in using FinTech solutions and products. Some co-operative banks already use them and invest a lot in them and became key players, while others are preparing to do so in order to offer more bespoke products.

With the aim of giving EACB members a platform in which they would be able to exchange experiences, listen to and learn from each other about the various ways in which co-operative banks are confronting today's digital challenges, the **EACB organised a second Co-operative Bank Digital Day** in June 2017 following the success of the first one in December 2016. This was the right time to start having these workshops with EACB members, considering the amount of work and initiatives the Commission as well as other (non-)EU institutions have launched and will build on in the field of digitalization. During the workshop, EACB members were able to present their real-life case studies to assess with participants what worked and what didn't, how they built on past errors and how to embrace new challenges. They touched upon a variety of topics, including: how co-operative banks are shaping their role to be fit for increasingly digitally aware and demanding customers; e-identification and e-signature; the opportunities and issues with the new legislation linked to data (i.e. the General Data Protection Regulation and the second Payment Systems Directive); automated financial advice; and the impact of digitalisation on proximity and governance, two of the key co-operative banking values.

Regulatory/supervisory context

2017 was the year in which the buzz of FinTech led different European and international authorities to issue discussion papers and consultations on the topic. FinTech is generally seen as having a potentially big impact on the

financial services industry, and such focus came as little surprise. Indeed, the **EACB participated in four different consultations:**

- On 23 March, a consultation by the Commission aimed to gather feedback on the impact that new technologies are having on financial services and whether the regulatory and supervisory framework fosters technological innovation in line with its three core principles of technologic neutrality, proportionality and integrity.

- On 4 August, the EBA consulted on a discussion paper on its approach to FinTech. The discussion paper entailed an EU-wide FinTech mapping exercise conducted to gain better insight into the financial services offered and financial innovations applied by FinTech firms in the EU, as well as their regulatory treatment. It identified proposals for future work in six areas: (i) authorisation and sandboxing regimes; (ii) the impact on prudential and operational risks for credit institutions, electronic money institutions and payment institutions; (iii) the impact of FinTech on the business models of these institutions; (iv) consumer protection and retail conduct of business issues; (v) the impact of FinTech on the resolution of financial firms; and (vi) the impact of FinTech on anti-money laundering and countering the financing of terrorism.

- On 31 August, the Basel Committee on Banking Supervision (BCBS) issued a consultation paper outlining a range of principles and observations for banks and supervisors. The paper assesses how FinTech could affect the banking industry and the activities of supervisors in the near to medium term. It also identified 10 key observations and related recommendations for consideration by banks and bank supervisors.

- On 21 September, the European Central Bank (ECB) conducted a consultation on guidance for the supervisory assessment of license applications to FinTech banks, outlining its approach and the elements on which it would focus its assessment.

The overall **EACB messages** across the different consultations can be summarised as follows:

- **The need to agree on a common understanding in defining the term FinTech** highlighting that the use of technologies by financial services firms is not new per se. We expressed support for the definition used by the Financial Stability Board.

- **The need to hold back on any major new legislative initiatives** and

  - only adjust certain measures, concerning pre-contractual information, for example, to the reality of digital communications.

  - draft principle-based rather than rule-based regulation that is proportionate, consistent in terms of setting a level playing field for newcomers (whether large tech firms or start-ups) and incumbent players, technology-agnostic and justified by measurable data concerning any kind of misconduct or market misuse.

- **The need for any supervisory initiatives**

  - to ensure the same standards in terms of consumer protection and a level playing field in terms of prudential requirements and supervision.

  - To be seen under a holistic perspective that includes instant payments as a development to take into account.

- **The need for licensing requirements** to ensure that FinTech banks uphold the same standards as all credit institutions and that capital requirements should clearly be adjusted to cater for the risks entailed by their business model. The principle of 'same services, same risks, same rules and same supervision' should always apply, and the use of customers' credit scoring criteria based on sources of information that may differ from those of classic banks should not be considered any different than those already in place in other banks.

COMPLIANCE WITH ANTI-MONEY LAUNDERING REQUIREMENTS

In 2017, the **EACB** pursued its work in the field of anti-money laundering (AML) and counter terrorist financing (CTF) by contributing to different consultations and participating in several meetings with the EU institutions. Overall, regulatory developments in this field were mainly driven by the risk-based approach.

In July 2017, the **EACB** answered the consultation paper of the Joint Committee of the ESAs on Draft Joint RTS on the measures that credit institutions shall take to mitigate the risks of money laundering and terrorist financing where the law of a third country does not permit the application of group-wide policies and procedures. In such cases, co-operative banks should adopt additional risk-based policies and procedures to manage the resulting ML/TF risk.

Following up on the work initiated in 2016, the **EACB** participated in March 2017 in the last meeting organised by the Commission to consult the private sector on possible mitigating measures to address risks of money laundering and terrorist financing affecting the internal market and relating to cross-border activities. The resulting report of the European Commission on the supranational risk assessment was published on 26 June 2017.

In the light of the terrorist attacks that hit the EU over the past few years, the fight against the financing of terrorism became a priority of the EU in 2017. The Commission explored different options for a new EU system for tracking terrorist financing. The **EACB** met several times with the Commission services and contributed to an online questionnaire with the aim of providing early feedback on this topic. At the end of 2017, the EC launched a public consultation on how to broaden the access of law enforcement authorities to centralised bank account registers, putting forward a wide range of possible options including legislative initiatives. In particular, the EC is envisaging different ways to ensure that other bodies than Financial Intelligence Units and AML authorities such as law enforcement authorities, including Asset Recovery Offices, and anti-corruption authorities gain access to the automated centralised registers of bank/payments accounts established under the revised 4th AML Directive. Alternatively, the EC might also consider putting forward non-legislative proposals that will most likely include the promotion of informal best practice at EU level that is specially addressed to those Members States in which law enforcement authorities don't have access to these registers.

CO-OPERATIVE (BANKS) Social Responsibility & SMEs Financing

The recent global financial crisis as well as the current reflection and concerns over the impact of climate change have reinforced the demand for a more responsible, trustworthy and sustainable banking sector and society at large. Responsibility has traditionally been for co-operative banks a cornerstone of their way of doing business. Owned by their clients/members, co-operative banks are key players at local and regional level in fuelling economies, empowering people and financing projects, thus reinvesting in the societies to which they belong. In line with those principles, they act in a responsible, long-term oriented and sustainable manner and encourage their clients/members to do so.

CO-OPERATIVE SOCIAL RESPONSIBILITY: THE CO-OPERATIVE BANKS' ENGAGEMENT IN GREEN AND SUSTAINABLE FINANCE

In order to match the rapid developments at EU and international level the EACB has established in 2017 a new **Task Force on Green and Sustainable Finance** under the aegis of the **CSR and co-operative affairs working group**, composed of members with high-level and cross-functional expertise (sustainability managers, risk managers, accounting, retail banking etc.). Through the Task Force the EACB made substantial progress on a range of initiatives. It was deeply involved in the work of the **EU Commission High Level Expert Group on Sustainable Finance (HLEGSF),** meeting its Chairman Christian Thimann, contributing to its interim report published in July 2017 and responding to the related consultation. In its answer, the EACB underlined the importance of placing the local and retail banking dimension at the heart of the EU sustainable finance initiative, thus broadening the approach that is too often only focused on capital markets.

The EACB also organised an event, **'Towards a Sustainable Finance Framework in EU: the role and views of co-operative banks'** (sse p.30) at the European Parliament with the support of MEPs Sirpa Pietikainen, Molly Scott Cato (rapporteur Initiative Report Sustainable Finance) and Paul Tang (shadow rapporteur).

The European Parliament's draft report was expected in February 2018, while the HLEGSF was due to issue its final recommendations in January 2018. EC Vice President Valdis Dombrovskis announced in December 2017 the Commission's ambitious action plan entailing both legislative and non-legislative measures for spring 2018.

The EACB continues its strong involvement to ensure that its views will be taken into account. To this purpose two key documents were published at the end of 2017:

- the EACB Policy Paper, which contains the views of co-operative banks on the EU sustainable finance's initiatives; and
- the leaflet, "The engagement of co-operative banks in green, sustainable finance and the fight against climate change", which provides concrete examples and figures.

Moreover, in 2017 the EACB continued to be represented in the **EU Commission's Energy Efficiency Financial Institutions Group**, a key area for many EACB members active in energy efficiency mortgages. The EACB also became a Supporting Institution of the **UNEP Finance Initiatives** with the aim of intensifying dialogue and strengthening collaboration at international level and among members.

Finally, the EACB keeps uploading dedicated **CSR webpages** to showcase co-operative banks initiatives and projects and their specific approach to environmental, social and governance goals. The weekly updated page displays members' best practices.

FINANCING OF SMALL AND MEDIUM-SIZED ENTERPRISES

Servicing SMEs is in the very nature of co-operative banks, which are deeply anchored to the local economy and whose mission is to accompany members and clients, as well as the community to which they belong in the long term. In this context on 6 June 2017 after discussion with the European SME organisations, the EACB together with four other European banking associations (EAPB, EBF, EMF-ECBC and ESBG) presented a set of high-level principles regarding the communication between SMEs and banks around loan applications. The principles aim to support necessary dialogue by providing better information – both from a business to a bank when finance is sought and from the bank to the business when finance cannot be provided – where initiatives to facilitate this dialogue have not been developed at national level. Of course, there are important differences between Member States, individual banks and indeed individual SMEs as to the way the SME financing process and the interaction between them is organised. These principles have been designed in such a way as to allow local markets to adjust them to their specific circumstances and respect national frameworks already in place.

COMMUNICATION & RESEARCH

In line with its communication policy, the EACB has continued to inform policy and opinion makers of the concerns and expectations of co-operative banks. During the course of 2017, several initiatives and activities were undertaken by the EACB to communicate the distinctive features of co-operative banks. This was particularly relevant given that new regulatory building blocks keep following one another, often without coherence between them, and that alignment of business models is an emerging phenomenon.
The EACB has also increased and further developed the organisation of public events in this area, improved the availability of data on the sector, published new studies and continued to expand research activities. A selection of relevant activities for 2017 is provided below.

PUBLIC EVENTS

EACB 7th Convention on Co-operative Banks: 'Co-operative Banks: looking ahead to drive societal and economic growth'

In On 28 March 2017, the EACB organised its 7th Convention on Co-operative Banks in Brussels that focused on the theme, 'Co-operative banks: looking ahead to drive societal and economic growth'. This was a landmark event for co-operative banks to discuss the key topics for the sector in an open dialogue with members, authorities, European institutions, academics and stakeholders. The topic of future developments was addressed around three panels: i) co-operative banks adapting to a changing regulatory and supervisory context; ii) designing new proximity models in the era of digitalisation; and iii) the future of Europe. High-level speakers included European Commissioners, MEPs , the EBA Chairman, co-operative banks leaders and former Italian prime minister Enrico Letta via a video link.

Roberto Gualtieri, chairman of the ECON committee at the European Parliament emphasised that "the role of co-operative banks is key in ensuring a healthy pluralism and diversity of banking across Europe, by focusing on local economy and on long-term credit financing rather than on short-term profit maximisation, with the relevant contribution to financial inclusion and social cohesion". He added that the ECON committee is fully engaged to ensure pluralism and diversity of banking models within the Banking Union. During the discussion, however, it emerged that although regulators are acknowledging the importance of preserving diversity in banking and that they see proportionality as a tool to achieve it, the question remains on what can be done to make the regulatory framework more cost effective and better aligned with the business activities and risk models of co-operative banks.

On the topic of digitalisation, interesting case studies showed how advanced and innovative co-operative banks can be by centring their action around members' digital needs, in line with their main goal of promoting members' value. However, it is clear that the regulatory environment plays an important role that in supporting the digital transformation. A level playing field with other digital financial service providers is necessary, especially for customer data. The exchanges in the final panel on the future of Europe have raised several questions on the post-Brexit environment and if the EU is at a turning point. MEPs and researchers expressed their views on the Heads of States Rome's Declaration (60th Anniversary of the Rome Treaties), on the EU Commission White Paper and on the European Parliament's report regarding the future of the EU.

Indeed, the Rome Declaration shows the importance of both preserving and reforming the Union. Within the Banking Union, co-operative banks continue to reiterate that improvements in the area of proportionality are essential to give room to the diversity of the co-operative banking features and indeed the diversity of the banking sector. The Union must allow for more freedom of choice for consumers, increased competition and act as a inbuilt stabiliser that adds to financial stability. Co-operative banks, via their local mission of financing the real economy and the proximity they have with their customers, can contribute to bringing the European project closer to the people To this end, the EACB listed 10 recommendations in its document, 'Co-operative Banks Declaration: the way forward' that is downloadable on its website.

Event at European Parliament on 'The CRR/CRD IV review: Impact on Financing the Real Economy and Co-operative Banks'

On In November, the EACB, together with the European Parliament SMEs intergroup organised a breakfast discussion on the topic of 'The CRR/CRD IV review: Impact on Financing the Real Economy and Co-operative Banks' at the European Parliament, which was hosted by MEP Othmar Karas, chair of the SMEs intergroup, and MEP Kay Swinburne, vice chair. Speaking at the event, MEP Peter Simon, rapporteur on CRR/CRD IV review and representatives from the EU Commission, SMEs and co-operative banks highlighted the importance of co-operative banks as "backbone for SME financing" and the necessity of diversity in the European banking landscape for maintaining a strong and healthy economy. They agreed to strengthen the principle of proportionality to enable this diversity, which is about more than just size and should firstly consider risk profiles, activity, organisational settings and ownership structures.

With regards to a more proportionate application of the regulation to smaller and less risky and complex institutions, stakeholders agreed that the Commission's proposal on the CRR/CRD IV Review is a step in the right direction with, for example, the recalibration and extension of the SME supporting factor or simplifications in reporting and disclosure requirements. They highlighted that the regulation should not to be a burden on local banks: reporting and disclosure requirements must be reduced in order for them to keep playing a strong role in financing the real economy. In the same way, stakeholders argued that an easing of requirements on recovery and resolution planning could be warranted for less complex institutions.

Event at European Parliament on "Towards sustainable Finance in EU: the role of co-operative banks"

On 30 November, the EACB organised a lunchtime debate on Sustainable Finance at the European Parliament that was hosted by MEP Sirpa Pietikäinen. In the run-up to the final recommendations of the European Commission's High-Level Experts Group on Sustainable Finance and the EP Report on same topic, the debate offered a

platform for dialogue with stakeholders. Speakers included representatives of the Commission and the MEPs, Molly Scott Cato (rapporteur Initiative Report Sustainable Finance), Paul Tang (shadow rapporteur) and Sirpa Pietikainen (shadow rapporteur), who all acknowledged the importance of co-operative banks. As local and regional banks, co-operatives play a key role in financing the energy transition (investment or savings products, project financing, green financing of SMEs, energy efficiency of private and public buildings, and green bonds), due to their long-term engagement with their members, clients and the communities to which they belong. From this perspective, co-operative banks consider that a greater emphasis must be placed on the retail side of green financing. It is vital to promote tools that are conducive to regional green growth via SMEs, households and local actors.

However, the current complexity of the regulatory framework and its continuous motion is heavily affecting local co-operative banks and local players. Additionally, there is a risk that regulation will lead to a less diverse banking environment, and thus undermine the sustainability and stability of the financial framework in Europe. These are key issues to address in the debate on sustain-

RESEARCH AND SURVEYS

The EU think tank on co-operative banks in Europe and relations with research centres

The growing interest of the academic community and stakeholders in the specificities of the co-operative banking model and the need to stimulate further research on the sector were among the reasons for setting up the Think Tank on Co-operative Banks in Europe in 2008. The Think Tank is composed of around 20 academic experts in the co-operative banking field and provides an important platform for discussion and exchange of information. In 2017 the Think Tank organised a workshop in collaboration with Center for Relationship Banking and Economics (CERBE) on the 'Challenges and opportunities for co-operative banks' that consisted of interesting presentations and country-by-country analysis of how the current regulatory framework, digitalisation and market developments are impacting the development of co-operative banks and future trends. Moreover, the EACB has strengthened its collaboration with other think tanks and research institutions specialised in co-operative finance, such as the International Research Centre on Co-operative Finance (HEC Montreal) and EURICSE. In particular, EACB is a partner of EURICSE's yearly workshop on co-operative finance and sustainable development that held its eight event in 2017.

EACB Award, Brussels

Stimulating new research : The EACB Award for young researchers on co-operative banking

In 2017 the EACB, in collaboration with its academic Think Tank, awarded the winners of its fifth award for young researchers on co-operative banks. The initiative aims to raise interest and knowledge of the co-operative banking model among researchers, specifically younger ones, and the academic community as a whole. Despite the role played by the co-operative banking system in Europe, it is estimated that only 1% of research is devoted to co-operative banks. Following careful examination, the scientific committee selected Ivana Catturani and Erika Dalpiaz, as winners for their research, 'An analysis of Italian banks' risky attitude through alternative classification'. The second best paper award was given to Ulrich Haskamp for his work on 'Spillovers of Banking Regulation: The Effect of the German Bank Levy on the Lending Rates of Regional Banks and their Local Competitors'. The award ceremony took place during last year's 7th Convention (See section VII a above). A new call for papers for the 'Sixth EACB Award for Young researchers' was launched with a deadline for submitting paper of 31 January 2018. The scientific committee is currently in the process of evaluating the submissions, and the winner will be announced in the spring.

TIAS and EACB publication: 'Snapshot of European Co-operative Banking 2017, TIAS School for Business & Society'

In 2017 the EACB continued its collaboration with the Business School of Tilburg University and Eindhoven University of Technology (TIAS) with the release of the publication, '***Snapshot of European Co-operative Banking 2017, TIAS School for Business & Society'.*** This edition, which follows previous ones, has the aim of contributing to a greater understanding and increased awareness of the co-operative banks model, in light of present market perspectives and crucial regulatory and supervisory developments. The publication analyses the overall performance of 18 European co-operative banking groups in 13 European countries over the period 2011-2014 compared to the rest of the banking sector. The report contains the following highlights:

- The long-term trend of an expanding member base continued in 2015: co-operative banks welcomed **1.6 million new members.**

- Divergent balance sheet developments between co-operative banks and entire banking systems persisted in 2015. Total assets of co-operative banks remained stable, while those of all other banks shrunk by almost 2%. Since 2011, total assets and retail loans of all other banks contracted, whereas they grew at co-operative banks, emphasizing co-operative banks' commitment to **finance the real economy**.

- According to the analysis of the average return on equity (ROE) for the period 2002-2015 the ROE of co-operative banks exhibited a **more stable** pattern over a longer time period. Moreover, the levels of ROE of co-operative banks has outperformed the rest of the banking sector since 2008, showing that different banking models are causing different reactions to economic upswings and recessions. This underscores the need for **diversity in banking** for the sake of stability.

- The analysis also looks at other indicators including market shares, cost/income ratio and Tier 1 Capital.

The report concludes that co-operative banks engage in fewer and more stable businesses which secures stability in their performance. **Their contribution is key to diversity in banking.** The impact of (new) banking rules varies across banks with different ownership structures. However, the analysis shows that in recent years there has been a tendency towards convergence in many financial indicators, possibly owing to the regulatory framework. Regulatory measures should not enforce convergence of business models nor the introduction of aspects of listed banks into well-capitalised, co-operative banks with viable business models.

EACB Course, Brussels

Available on our website

Training : the EACB Course

The post-financial crisis regulatory reforms have set a totally new environment for financial institutions. Co-operative banks are facing challenges related to the new legislative framework: Basel 3, the Banking Union and the new consumer protection and investor rules. In this context, the EACB launched a new training programme, **'The EACB Course on EU Regulation and Supervision of Co-operative Banks'**, which is offered to EACB Members and co-operative bankers from national, regional, local federations or from central institutions. This course is a unique opportunity to gain an introduction to how the EU works, the new regulatory and supervisory framework in Europe for co-operative banks, and the role of the EACB as a lobbying association. Three sessions were organised in 2017, attracting 31 participants from a range of countries. The course was moreover an excellent opportunity for networking, sharing experiences and exchanging practices among co-operative banks. The feedback was very positive and has encouraged the EACB secretariat to continue to hold the training sessions in 2018. For more information, visit the dedicated page of our website.

DIGITAL COMMUNICATION

Our website

The website (www.eacb.coop) provides a key platform on which to communicate the strengths of co-operative banks, the specificities of their business model and the role of the EACB in advocating their concerns in a constructive dialogue. Last year, we launched a new public section of the website with the aim of providing high-quality information in an easily accessible way. The **'News' section** provides fast access to what's happening at the EACB, as well as the wider co-operative banking field, and the **'Virtual library'** offers access to the latest research publications on co-operative banks. **A new members section** was launched in May.

Newsletter: EACB's Monthly Interview

A new newsletter concept, the **'EACB Monthly Interview'**, was also launched in 2017. Every month we interview an expert, chairmen of our working groups, and policymakers/opinion formers, such as MEP Othmar Karas or EFRAG President Jean-Paul Gauzès, on a specific topic touching co-operative banks. So far eight newsletters have been issued on a range topics including: Digitalisation, CRR/CRD IV review, Financial reporting, Sustainable Finance and PSD2.

Social media channels

Social media is clearly a really important communication tool for making announcements and advertising events. It allows for extremely quick and easy access to information, as well as the opportunity to interact with the public. The EACB is now active on **Twitter/LinkedIn/Facebook/YouTube**.

Focus on Twitter

The EACB has been present on Twitter since April 2012 and has now more than 950 followers including EU representatives, journalists, bloggers and members. Vladis Dombrovskis, EU Commissioner for Euro and Social Dialogue, is also following the EACB Twitter account!

Over 2017, the visibility of the EACB on Twitter considerably increased. Indeed, the account was visited 24,300 times compared to 9,000 in 2015.

All the EACB team is on now on Twitter, following and covering the topics of their working groups. This ensures a good coverage and allows them to be quickly informed on the latest trends.

The communication team launched various online campaigns with the view to informing the public of the co-operative banking business model.

GLOSSARY OF ABBREVIATIONS

AML: Anti-Money Laundering
BRRD: Bank Recovery and Resolution Directive
CEO: Chief Executive Office
CMU: Capital Markets Union
CRR/CRD: Capital requirements regulation and directive
CSR: Corporate Social Responsability
DG CONNECT: Directorate-General for Communications Networks, Content and Technology
DG FISMA: Directorate-General for Financial Stability, Financial Services and Capital Markets Union
DGS: Deposit Guarantee Scheme
DSM: Digital Single Market
EACB: European Association of Co-operative Banks
EBA: European Banking Authority
EC: European Commission
EDIS: European Deposit Insurance Scheme
EIB: European Investment Bank
EIOPA: European Insurance and Occupational Pen sions Authority
EMIR: European Market Infrastructure Regulation
EPC: European Payments Council
ERPB: European Retail Payments Board
ESAs: European Supervisory Authorities
ESMA: European Securities and Markets Authority
FRTB: Fundamental review of the trading book
FTTF: Financial Technology Task Force
GDPR: General Data Protection Regulation
IRB: Internal Ratings Based model
ITSs: Implementing Technical Standards
KID: Key Information Document
MIFID2: Revised Directive on Markets in Financial Instruments
MIFIR: Regulation on Markets in Financial Instru ments (MiFIR)
MREL: Minimum Requirement For Own Funds And Eligible Liabilities
NODs: National Options And Discretions
NPLs: Non-Performing Loans
NSFR: Net Stable Funding Ratio
PAD: Payment Accounts Directive
PRIIPs: Regulation on key information documents for packaged retail and insurance-based invest ment products
PSP: Payment Service Provider
RTS: Regulatory Technical Standards
RWAs: Risk-Weighted Assets
SA: Standardised Approach
SRB: Single Resolution Board
SREP: Supervisory review and evaluation process
SRMR: Single Resolution Mechanism Regulation
SSM: Single Supervisory Mechanism
TLAC: Total Loss-Absorbing Capacity requirements

ANNEXES

KEY STATISTICS (FINANCIAL INDICATORS) ON 31.12.16

	ECONOMIC INDICATORS					
European Union Countries and dataproviding institution	Total assets (EUROmio)	Total deposits from customers (EUROmio)	Total loans to customers (EUROmio)	Net profit after taxes (EUROmio)	Total equity (EUROmio)	Leverage Ratio (%)
Austria						
Österreichische Raiffeisenbanken	279,649	189,424	186,955	1,572	18,636	n.a.
Österreichischer Volksbanken	24,466	20,018	19,386	-79	1,692	n.a.
Bulgaria						
Central Co-operative Bank	2,541	2,279	1,104	14	214	8.4
Cyprus						
Co-operative Central Bank	14,101	12,568	12,034	7	1,306	8.5
Denmark						
Nykredit	188,537	8,806	158,000	717	9,552	4.6
Finland						
OP Financial Group	133,747	60,077	78,604	915	10,237	7.4
France						
Crédit Agricole	1,722,849	693,260	773,964	4,825	98,628	5.7
Crédit Mutuel	793,522	358,195	415,052	3,278	50,504	6.1
BPCE	1,235,240	531,778	666,898	3,988	69,136	5.0
Germany						
Co-operative Financial Network	1,215,780	774,302	733,155	5,898	98,569	7.3
Greece						
Association of Cooperative Banks of Greece (a)	2,539	1,880	2,647	n.a.	171	6.7
Hungary						
SZHISZ	7,219	5,009	3,487	-0.5	870	11.5
Italy						
Federcasse (BCC)	217,600	160,680	132,500	-97	19,900	11.5
Lithuania						
LCCU Group	449	396	251	-1.71	38	8.52
Luxembourg						
Banque Raiffeissen	7,501	6,312	5,419	17	372	4.9
Netherlands						
Rabobank	662,593	347,712	452,807	2,024	40,524	5.5
Poland						
National Union of Co-operative Banks (KZBS)	35,767	24,730	17,785	149	2,841	11.8 [6]
Portugal						
Credito Agricola	16,699	11,726	8,651	58	1,243	7.4
Romania						
Creditcoop	245	175	170	0.3	30	12.2 **
Slovenia						
Dezelna Banka Slovenije d.d.	846	768	599	2	55	5.7
Spain						
Unión Nacional de Cooperativas de Crédito	93,604	72,923	53,529	384	7,786	8.3
Banco de Crédito Cooperativo (BCC)	39,166	31,131	29,102	76	2,954	6.3
United Kingdom						
Building Societies Association	426,254	297,036	341,248	1,917	24,082	5.0
Total [9]	7,120,915	3,611,185	4,093,347		459,340	
Non-European Union Countries						
Canada						
Desjardins Group	182,708	113,532	117,722	1,209	16,472	8.1
Japan						
The Norinchukin Bank / JA Bank Group [10]	882,947	516,557	69,217	1,697	57,902	6.6
Switzerland						
Raiffeisen Schweiz	189,174	147,651	161,824	703	13,421	6.8
Total (Non-EU)	1,254,829	777,740	348,763		87,795	

PROFITABILITY INDICATORS				CAPITAL SOLIDITY INDICATORS
European Union Countries and dataproviding institution	ROA (%)	ROE after taxes (%)	Cost/Income Ratio (%)	Total capital ratio (%)
Austria				
Österreichische Raiffeisenbanken	0.56 **	8.6	71.5	10.2 (tier 1 ratio)
Österreichischer Volksbanken	-0.32	-3.8	84.5	15.1
Bulgaria				
Central Co-operative Bank	0.55	7.0	60.1	15.6
Cyprus				
Co-operative Central Bank	0.05	0.6	55.6	15.4
Denmark				
Nykredit	0.38	8.0	40.1	23
Finland				
OP Financial Group	0.70	9.4	52.4	23.1
France				
Crédit Agricole	n.a.	n.a.	64.3	19.3
Crédit Mutuel	0.43	6.7	63.5	18.9
BPCE	0.32	6.9	69.0	18.5
Germany				
Co-operative Financial Network	0.49	6.2	67.0	16.1
Greece				
Association of Cooperative Banks of Greece (a)	n.a.	n.a.	n.a.	n.a.
Hungary				
SZHISZ	n.a.	n.a.	85.3	23.7
Italy				
Federcasse (BCC)	-0.04	-0.5	69.7	17.3
Lithuania				
LCCU Group	-0.39	-4.3	75.7	17.6
Luxembourg				
Banque Raiffeissen	0.23	4.6	74.1	13.4
Netherlands				
Rabobank	0.30	5.8	67.1	25.0
Poland				
National Union of Co-operative Banks (KZBS)	0.50 [6]	5.2 [6]	70.0 [6]	17.1 [6]
Portugal				
Credito Agricola	0.35	4.7	73.1	14.4
Romania				
Creditcoop	0.12	0.4	99.2	30.6
Slovenia				
Dezelna Banka Slovenije d.d.	0.28	4,57	73.4	12.0
Spain				
Unión Nacional de Cooperativas de Crédito	0.41	5.5	55.9	n.a.
Banco de Crédito Cooperativo (BCC)	0.19 **	2.6 **	62.2	13.0
United Kingdom				
Building Societies Association	0.47	10.1	58.1	25.3
Total				
Non-European Union Countries				
Canada				
Desjardins Group	0.69	8.0	74.0	17.9
Japan				
The Norinchukin Bank / JA Bank Group [10]	0.19	3.1	84.2	19.5
Switzerland				
Raiffeisen Schweiz	0.37	5.4	63.9	16.9
Total (Non-EU)				

OTHER INDICATORS						
EU Countries	Nb Employees Full-time equivalent	Nb Clients	Nb of legally independent local OR regional co-operative banks	Nb of branches (in home country)	Nb members	Nb of domestic ATMs
Austria						
Österreichische Raiffeisenbanken	29,000	3,600,000	434	1,500	1,700,000	n.a.
Österreichischer Volksbanken	4,180	1,180,000	16	402	688.000 [b]	n.a.
Bulgaria						
Central Co-operative Bank	2,105	1,680,145	n.a.	306	6,457	552
Cyprus						
Co-operative Central Bank	2,677	702,000	18	246	201,000	176
Denmark						
Nykredit	3,648	1,067,000	59	43	328,000	49
Finland						
OP Financial Group	12,227	4,357,000	173	442	1,747,000	n.a.
France						
Crédit Agricole	138,000	52,000,000	39	11,000	9,300,000	n.a
Crédit Mutuel	81,657	30,700,000	18	5,247	7,700,000	8,861
BPCE	108,000	31,200,000	32	8,000	9,000,000	n.a.
Germany						
BVR	181,740	> 30,000,000	972	11,787	18,435,585	18,701
Greece						
Association of Cooperative Banks of Greece	864	352,285	9 **	112	163,628	n.a.
Hungary						
National Federation of Savings Co-operatives (a)	8,231	1,573,054	65	1,491	42,035	1,013
Italy						
Federcasse (BCC)	30,475	6,000,000 **	335	4,311	1,250,992	5,413
Lithuania						
Association of Lithuanian credit unions (a)	518	5,551	60	94	143,445	1,158
Luxembourg						
Banque Raiffeissen	611	114,754	13	42	27,490	52
Netherlands						
Rabobank	40,029	8,700,000	103	425	1,927,000	2,141
Poland						
National Union of Co-operative Banks (KZBS)	31,452	n.a.	558	4,602	979,842	3,881
Portugal						
Crédito Agrícola	4,054	1,400,000	82	673	400,000	1,520
Romania						
Creditcoop (a)	2,015	603,811	41	744	653,706	n.a.
Slovenia						
Dezelna Banka Slovenije d.d. (a)	348	121,416	1	85	318	38
Spain						
Unión Nacional de Cooperativas de Crédito	12,223	7,149,883	43	3,303	1,450,359	3,554
Banco de Crédito Cooperativo (BCC)	6,036	3,517,495	20	1,191	1,428,000	1,271
United Kingdom						
Building Societies Association	32,650	23,000,000 [7]	44	1,551	23,000,000	1,437
Total [8]	732,740	209,024,394	3,135	57,597	80,572,857	
Non-European Union Countries						
Canada						
Desjardins Group	47,655	n.a.	313	767	n.a.	2,097
Japan						
The Norinchukin Bank / JA Bank Group	3,601	n.a.	687	7,805	3,640	95,000
Switzerland						
Raiffeisen Schweiz	9,276	3,745,135	270	955	1,876,687	1,670
Total (Non-EU)	60,532		1,270	9,527	1,880,327	

MARKET SHARE				
EU Countries	Domestic market share deposits (%)	Domestic market share loans (%)	Mortgage market share (%)	Market share SMEs (%) [1]
Austria				
Österreichische Raiffeisenbanken	30.2 **	28.6	26.0 **	n.a.
Österreichischer Volksbanken	3.5	4.3	7.9 **	n.a.
Bulgaria				
Central Co-operative Bank	5.7	4.3	1.8	n.a.
Cyprus				
Co-operative Central Bank	26.0	22.0	36.0	8.0
Denmark				
Nykredit	5.4	30.8	41.2	n.a.
Finland				
OP Financial Group	38.5	35.4	39.4	37.8 [3]
France				
Crédit Agricole	24.4	21.4	30.2	29.5
Crédit Mutuel	15.5	17.1	20.1	16.2
BPCE	21.5	20.7	26.2	n.a.
Germany				
BVR	21.4	21.1	28.5	33.4
Greece				
Association of Cooperative Banks of Greece	1.0	0.8	n.a.	15
Hungary				
National Federation of Savings Co-operatives (a)	10.0	8.0	8.4	11.3
Italy				
Federcasse (BCC)	7.7	7.2	9.8	n.a.
Lithuania				
Association of Lithuanian credit unions (a)	2.0	1.0	1.0	n.a.
Luxembourg				
Banque Raiffeissen	22.0 [5]	14.0	14.0	9.0
Netherlands				
Rabobank	34.0	n.a.	21.0 [2]	43.0
Poland				
National Union of Co-operative Banks (KZBS)	9.8	7.2	2.2 [6]	12.8
Portugal				
Crédito Agrícola	6.8	4.5	3	7.5
Romania				
Creditcoop (a)	n.a.	n.a.	n.a.	n.a.
Slovenia				
Dezelna Banka Slovenije d.d. (a)	3.1	2.23	n.a.	n.a.
Spain				
Unión Nacional de Cooperativas de Crédito	6.0	4.5	n.a.	n.a.
Banco de Crédito Cooperativo (BCC)	2.2	2.6	n.a.	n.a.
United Kingdom				
Building Societies Association	18.4	n.a.	21.5	n.a.
Total [8]				
Non-European Union Countries				
Canada				
Desjardins Group	41.9 [8]	22.4 [8]	35.9 [8]	22.4 [8]
Japan				
The Norinchukin Bank / JA Bank Group	10.3	n.a.	n.a.	n.a.
Switzerland				
Raiffeisen Schweiz	13.2	n.a.	17.4 **	11.0 **
Total (Non-EU)				

* Table elaborated in collaboration with TIAS School for Business and Society of Tilburg University and based on Members input

** These indicators are calculated by TIAS which bears the full and sole responsibility. These figures are neither reported nor formally approved by the respective co-operative banks.

1)Cooperative banks do not apply a similar definition of the SME sector.

2)Market share new mortgages

3)Market share corporate loans

4)Just FTEs;, no parttime employees are included

5)Market share domestic deposits instead of total deposits

6)Data refers to co-operative banks without the two Polish affiliating banks

7)Total number of clients equals total number of members, because every customer has to be a member.

8) Market shares in the province of Québec

9) Totals are based on reported data, i.e. data for some co-operative banks were not available. Due to some reclassifications, the number of independent local or regional co-operative banks and domestic branches are not comparable to those reported for 2015.

10) Economic indicators and Profitability indicators are The Norinchukin Bank figures. Other indicators and market share indicators are cooperative group (JA Bank) figures.

a) data 2015

b) data 2013

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