



ESBG

THE EUROPEAN VOICE OF SAVINGS
AND RETAIL BANKING

◀ Looking back

The achievements of 2007

▶ Looking forward

The challenges of 2008






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▶ The tree on the cover of this annual report symbolises positive and sustainable growth. A tree is firmly rooted in the past and reaches out with confidence to the future. Its fruits are a symbol of life, and its branches provide shelter. These symbols and values are shared by WSBI and its members throughout their daily work and activities.

FOREWORD



The creation of the European Union is a unique phenomenon. Our continent is growing together and the European idea has achieved political, cultural and economic dynamics beyond what could be hoped for when the first steps to unite Europe were taken. Regarding the economic development of Europe, there are no precedents for an undertaking like the introduction of the Euro or the integration of our markets. Consequently, there are no clear paths and no proven recipes to follow. Much of the success of the European endeavour ultimately depends on the sound judgement of law makers and the support of Europe's citizens and companies. What we also need, is independence of the mind. As Europeans we should value our diversity, and strive for European solutions to European challenges. The integration of our financial services industry is among the greatest of these challenges. The big gain for Europe lies in the establishment of a competitive and efficient financial environment, as well as in clarity of rules for market players and consumers throughout Europe. In order to succeed at all this, market regulation is necessary and we applaud the EU law makers for their efforts, and for recognizing that in order to achieve efficient integration we do not have to pay the price of losing the diversity of our financial system, which is essential to serve the diverse individual needs of consumers best.

The prospects are good. The integration of Europe's financial services sector is ongoing. European law makers have constructed a legal framework creating equal business conditions for all market participants, and taking into account the diversity of Europe's financial systems. As a result, European banks compete on a level playing field and same business conditions are guaranteed to all market players.

From the perspective of the customer, pluralism and the competition between different banking models lead to a wide range of products and services, better prices, and, as a rule, more bank branches and a more stable and continuous overall supply of financial services. Furthermore, in pluralistic markets customers can freely choose the business model they identify with most closely and which meets their demands best.

This variety is increased by the fact that different banking models learn from each other. Products that once were the specialty of commercial banks have long been adopted by savings and cooperative banks. And business ideas developed by savings banks are being taken up by commercial banks. A variety of business models drives exchange and competition in product development, stimulates innovation and ultimately benefits to customers.

Pluralism in business models also results in well balanced provision of financial services. Different types of banks identifying with different corporate and social values ensure that financial development is not single-minded or myopic.



▲ Heinrich Haasis, ESBG President



▲ Chris De Noose, ESBG Managing Director

For example, in the case of savings banks the economic development of their regions of origin is part of their business plan. This includes guaranteeing access to finance for SMEs, and general access to financial services, without which economic development would come to a standstill.

Pluralism thus clearly creates an additional dimension for competition and promotes economic development. There remains the question how in the future integration will be realised on our pluralistic markets. A specific answer to this question cannot be given as yet, since it is up to market forces to shape the European financial landscape.

In particular with respect to retail financial services, very much depends on how the demand for retail banking products develops. Nevertheless it is a fact that retail customers strongly value reputation, cultural background and geographic proximity of their bank. More so, anonymity and the absence of bank branches can be a true deterrent for customers, whose trust and confidence rest on close contact with and personal counsel from their bank. In order to deserve and keep this trust, banks have to be able to flexibly react to their customers' needs. For these reasons, seeking to achieve integration by full harmonization and standardisation would be fruitless and potentially harmful. It is impossible to predict the consequences of forcing one restrictive set of rules onto a market, where many coexisting models already achieve great results. Instead of dogmatically interpreting integration in the narrowest way, we should concentrate on how to best achieve the beneficial outcomes for which the concept of integration stands.

Against this background it is of utmost importance for regulators to take into account the realities of the markets for retail financial services. Retail banking markets have already reached a high degree of integration and demonstrate impressive efficiency and competitiveness. Further integration must mainly be market-driven and will work through many channels. It is important to keep up choices for Europe's consumers. The success of integration therefore rightly is appraised in view of our pluralistic markets. As it has held true in the individual member countries as well as on a European level, pluralism will ensure intense competition and dynamic market interaction for the future, too.

It is the variety of our business models that guarantees that market integration will hold its promises to consumers.

Heinrich Haasis
ESBG President

Chris De Noose
ESBG Managing Director



ONE GAME, MANY PLAYERS: PRESENT AND FUTURE OF EUROPEAN RETAIL BANKING MARKETS

Europe's retail banking markets are distinguished by the Member States' different traditions and business culture. As a result, on a European level – as for a long time already on a national level – banks with different business models coexist and compete. In fact, it is because of the diversity in Europe's retail financial services landscape, that the European banking sector is much more than just the sum of its parts. In a regulatory context this is reflected in Europe's legal framework, where European lawmakers have ensured that *all* market participants compete under the same business conditions on one level playing field.

On the political stage, too, the benefits of a pluralistic retail banking sector are clearly recognized. ESG is gratified to observe that, for example, in the European Parliament, a majority of Members consistently show a clear appreciation of the benefits of diversity in business models.

Pluralism is an asset for Europe for many reasons. Competition between banks with different business models benefits consumers via lower prices and a greater variety in offers. Pluralism also guarantees continuous financial sector development, and stability of financial infrastructure. Importantly, pluralistic markets are less prone to 'herd behavior', contributing to financial stability.

More specifically with view on savings banks, it is a fact that their ambition to ensure equal economic opportunity and widespread economic activity is part of their business model. Also, given that local presence and commitment go hand in hand with local expertise, the strengths of savings banks as reliable partners of SME's are self-evident.

The developments in Europe's retail banking sector clearly demonstrate that competition between players with different business models is thriving. Nevertheless some market participants have questioned whether different legal forms of market players are compatible with the integration of Europe's retail financial services. These concerns, however, are unfounded. For competition to be beneficial for consumers, it has to take place on the market for retail banking products, where competition indeed is fierce – and is becoming even fiercer – according to the principle 'same business, same risk, same rules'.

Consequently it would be misleading to argue that true market integration is conditional on the unfettered competition on the market for banks themselves. There certainly is a lot of scope on the European banking landscape for mergers and acquisitions of commercial banks, but consolidation for its own sake is not a goal of integration.

**“Competition between banks
with different business models
benefits consumers via
lower prices.”**



Future prospects

One should never forget that Europe is part of a world, which at the moment is undergoing an unprecedented dynamic evolution. In the banking sector, the foundations for the future role of Europe are being laid now. ESBG Members are strongly supportive of any measure further promoting competition in the retail financial services area. However, it has to be recognized, that the success of efforts towards further integration and even greater competitiveness – whether coming from law makers or from market players themselves – depends on whether they are compatible with customers' demands.

Consequently, the future strength of Europe's retail banking sector depends on how closely banks listen to consumers and enterprises. For example, in retail banking local presence remains essential, given that demand is local. Direct counsel and support are demanded and deeply cherished by the customers. It also means that successful retail banks are those able to individually react to their customers' needs, which requires not only a keen interest of the management in customers' needs, but also the flexibility to quickly adapt to regional economic conditions.

With view on competition and integration, the message is clear. Consolidation of retail banks will reduce the number of banks in the market. Whether the consolidation process really creates synergies and efficiency gains depends on two factors: Firstly the merging banks need to be indeed the best matches, and secondly, the objective of increasing efficiency gains is the *real* driving force behind the merger.

However, more important for Europe's future is that all citizens in all regions benefit equally from the integration process. This goal is better achieved by promoting organic growth or cross-border cooperation among individual banks or bank networks. These strategies are already being followed by ESBG Members, achieving the successful integration of local enterprises and consumers into the European market. The dynamic and challenging environment of a pluralistic banking sector is essential, where pluralism will also guarantee that the interests of the broad base of the European citizens and enterprises will always be the main driving force for financial sector developments.

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- ▶ ESBG's views and positions with regards to the developments in the retail banking market



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ASSET MANAGEMENT

Our position

The ESG fully supports all efforts to make the internal market for investment funds work in an optimal way, in particular as regards Undertakings for Collective Investment in Securities (UCITS), which have developed to a real European brand.

Explanation

Following a Green Paper published by the European Commission in 2005, discussions on possible changes to the UCITS Directive, adopted in 1985 and then amended and complemented several times, are ongoing. In addition to the decision made by the Commission already in 2007 to extend the range of "eligible assets", i.e. those assets in which UCITS can invest, to take account of market developments, the Commission has been working on the preparation of targeted legislative changes to the Directive. The scope of the ongoing discussions is quite broad, going beyond immediate changes to the Directive, addressing issues such as the possible creation of an EU private placement regime and the issue of Open-Ended Real Estate Funds.



"The simplified prospectus needs to be understandable for the average investor and usable in the selling process."

The ESG is in favour of the creation of a private placement regime only provided certain conditions are fulfilled. In particular, such a regime should be clearly distinguished from the EU rules on public offering, the list of products covered by the regime should be well-defined and it should target knowledgeable investors only. As regards open-ended real estate funds, it is the ESG's view that all the discussions to come need to be based on a solid analysis of the situation in the different Member States. As such, the ESG welcomes the Commission's decision to set up an expert group, in which it intends to actively contribute.

The Commission is expected to publish in 2008 a proposal for legislative changes to the UCITS Directive; the main topics for discussion will probably be the envisaged introduction of a management company passport and the simplified prospectus. At the occasion of a consultation by CESR on the latter issue in autumn 2007, the ESG expressed its view that the simplified prospectus needs to be understandable for the average investor and usable in the selling process. The ESG is looking forward to actively participating in the upcoming discussions.



BANKING SUPERVISION

Our position

In 2007, the debates on the EU supervisory framework gained pace, notably in the light of the ongoing market turmoil. For a number of years now, ESBG has defended the view that Europe needs an evolutionary approach that builds on the existing supervisory framework and promotes practical arrangements to make the supervision of EU credit institutions more efficient. The main elements of the ESBG position were summed up in a Resolution, adopted by the General Assembly in November 2007 and included in this annual report on page 30.

Explanation

The debate on the architecture of prudential supervision in the EU is certainly not new, but the importance of this topic is increasing in proportion with the growth in cross-border banking business. The central question is how the roles and responsibilities for the supervision of individual entities should be optimally distributed in a complex market (27 Member States plus 3 EEA countries), where a significant part of legislation is designed centrally, and where a lot of assets are held by groups operating in several countries.

“The ideal supervision framework combines a strong role for the national supervisors with enhanced coordination and convergence at EU level.”

Since financial markets are ever developing, there is no reason to believe that the discussions on the EU supervisory architecture will come to a final conclusion. Nonetheless, for ESBG some directions of thought are clearly preferable to others. Therefore the ESBG General Assembly decided on 30 November 2007 to publish a Resolution summarising ESBG’s views on the future of EU banking supervision and taking stock of the recent regulatory and business developments, as well as drawing on the first insights from the current market turmoil.

In our opinion, the important merits of the current EU supervisory architecture have to be recognised. Currently, the responsibility for supervision and intervention in case of crisis lies with the same authority, and the principle of “same business, same risks, same rules” is guaranteed. It is therefore not clear which alternative structure would represent an improvement. In this context, ESBG argues that to extend in 2008 the competences of a consolidating supervisor – as defined in Article 129(2) of the Capital Requirements Directive – to the Pillars 2 and 3 of the Basel II framework would certainly be premature.

For ESBG the ideal framework combines a strong role for the national supervisors with enhanced coordination and convergence at EU level. In particular, the Resolution underlines the important role played by national supervisory authorities, given their in-depth knowledge of the local market. On this background, however, further progress towards a convergence in supervisory practices is indispensable, especially in order to avoid supervisory arbitrage.

ESBG is adamant that alterations to the supervisory structure should not lead to one type of business model (e.g. cross-border vs. local) or type of entity (e.g. large banks vs. small banks) being favored over others. Most importantly, the goal of ensuring financial stability must have precedence over any other objective, such as the creation of European champions. Here the Resolution clearly underlines the essential role of pluralistic structures for the stability of the financial system, which must be accounted for in any reforms to Europe's supervisory architecture.



CAPITAL REQUIREMENTS DIRECTIVE

Our position

In 2008, a first review of the Capital Requirements Directive (CRD) will be conducted. The ESBG supports the Commission's intention to improve the EU capital requirements framework and the work conducted to achieve this. At the same time, the proposed changes should not result in increased burden for Europe's entities.

Explanation

The Commission is expected to propose in mid-2008 a number of changes to the Capital Requirements Directive (CRD), adopted in 2006. Some of the changes to be proposed by the Commission relate to the core of the Directive, and will therefore require the co-decision procedure; other proposals for changes relate to the annexes of the CRD and will therefore have to be adopted through comitology.

The ESBG generally welcomes the Commission's intention to investigate the opportunity of introducing changes to the CRD – as part of the Commission's aim to reduce the burden for the industry, in line with the Better Regulation principles.

This being said, the ESBG believes that a prudent approach needs to be followed in this field, as the Capital Requirements Directive applied fully only as of 1 January 2008. What Europe's entities need as a matter of priority is stability and legal certainty.

Against this background, as regards possible changes to the CRD, a distinction has to be made between technical changes which would not result in a strong need of adaptation for the firms and more substantial changes, which would require modifying IT structures and procedures. Introducing such changes at this stage would undoubtedly be premature.





CAPITAL REQUIREMENTS DIRECTIVE: TREATMENT OF NATIONAL DISCRETIONS AND OPTIONS

Our position

The ESBG supports the efforts made to identify those options and national discretions in the CRD which should be removed. At the same time, the ESBG does not share the political objective of removing from the CRD *any* option or discretion, as in our view some options and discretions were introduced for valid reasons, and should therefore be maintained.

Explanation

The CRD contains a number of national discretions and options. Efforts are currently being made to limit the number of these discretions and options, on the ground that they (1) are a source of competitive distortions in the single market and (2) that they make it more difficult for firms to conduct business on a cross-border basis. The Committee of European Banking Supervisors (CEBS) has been mandated by the Commission in 2007 to advice on the best way forward as regards the treatment of discretions and options in the CRD.

A number of CEBS officials have expressed the view that options and discretions in the CRD should be phased out. CEBS suggests furthermore working in the medium term with a policy commitment accepting the introduction of options and discretions for the facilitation of the transition to a new regulatory setting. CEBS considers that options and discretions might be subject to sunset clauses limiting their application to a fixed standard period of time.

The ESBG acknowledges and indeed shares the rationale behind the goal of removing the national discretions and options contained in the CRD. However, the ESBG notes that the options and national discretions were introduced by a political decision during the adoption of the CRD. As such, their removal should also be the result of a political decision. This being said, the ESBG is supportive of the work carried by CEBS in this field, which will result in a good basis for the upcoming discussions.

In general, the ESBG does not share the view that in the medium to long term, the objective should necessarily be to remove all the options and discretions in the CRD. In particular, it is important to remind that many discretions or options were introduced to take account of the specific circumstances in different Member States (e.g. legal environment). As a general rule, these discretions and options should be maintained as long as the specific legal issue is maintained.

“The ESBG does not share the view that the objective should necessarily be to remove all the options and discretions in the CRD .”



COMPANY LAW, ACCOUNTING AND AUDITING: SIMPLIFYING THE RULES

Our position

The ESBG in general supports the idea of simplifying the EU acquis in the areas of company law, accounting and auditing. At the same time, the ESBG stresses the importance of ensuring that the simplification measures do not affect information needs, transparency requirements and legal rights of the different stakeholders.

Explanation

The European Council of March 2007 underlined the importance of reducing the administrative burden facing the EU businesses. The EC has outlined the way for achieving this objective by adopting a simplification programme. European company law, accounting and auditing have been identified as priority areas within this initiative, as analyses carried out by a number of Member States have shown that administrative costs caused by EU rules in these areas are particularly high. As a consequence, in July 2007, the EC consulted on measures aiming at the simplification of the business environment for EU companies in the areas of company law, accounting and auditing. The proposed measures would remove or reduce a range of administrative requirements that are considered outdated or excessive.



CONSUMER CREDIT

Our position

ESBG recognises the progress made with the revised Consumer Credit Directive (CCD) proposal compared to the original proposal tabled by the Commission in 2002. This being said, ESBG is still concerned about the ability of the Directive to fulfil its objectives: increase consumer confidence and consumer credit activity in the European Union. ESBG will monitor the implementation phase.

Explanation

In 2007, ESBG focused on presenting proposals to address the outstanding problems identified in the revised proposal for Consumer Credit Directive on which discussions continued under the German EU Presidency in the first half of 2007. Germany took forward the negotiations at Council level presenting new proposals which finalised on 21 May 2007 reaching an agreement on a compromise package.



At European Parliament level, ESBG contributed to the European Parliament's impact assessment expressing particular concerns as regards the provisions relating to overdrafts, pre-contractual information, early repayment and the right of withdrawal. The results of the impact assessment were presented on 27 April 2007 but however not considered by the Council during its discussions.

On 20 September 2007, the Portuguese Presidency sent the Council Common Position to the European Parliament, which subsequently started the debates for the 2nd reading of the proposal. ESBG actively participated in the various discussions organised by the European Parliament on this topic, notably in the Workshop organised by the EP Committee on Internal Market and Consumer Issues in October 2007.



CSR: ENDORSEMENT OF THE CSR VOLUNTARY APPROACH BY THE EUROPEAN PARLIAMENT

“ESBG was pleased with the endorsement of the CSR voluntary approach by the European Parliament.”

Our position

ESBG was pleased with the endorsement of the CSR voluntary approach by the European Parliament in its March 2007 Report, as proposed by the Commission in the 2006 Communication on CSR. ESBG had the opportunity to dialogue with the Rapporteur, MEP Howitt (UK, Socialist group), and to provide background information and experiences of European savings banks' long-standing CSR involvement, at local level.

The European Parliament however expressed its willingness to keep the binding pressure through some of its recommendations, such as the proposal to introduce some legislative requirements as to social and environmental reporting, alongside financial reporting, for certain types of companies. But the Commission made clear that it does not intend to change its business-driven, voluntary definition of CSR.

Explanation

The European Commission now expects European businesses to deliver on CSR, especially through the CSR Alliance of companies that it launched in 2006 at the same time as the Communication. The main objective was to invite businesses to deepen their commitment to CSR.

“ESBG supports the CSR Alliance of companies.”

On behalf of its members, ESBG expressed an early public support to the Alliance, as did 15 Spanish Cajas de Ahorros and Lloyds TSB. Following a call to members' further mobilisation disseminated in August 2007, Erste Bank Austria, OTP Bank Hungary, Groupe Caisse d'Épargne France, Montepio Portugal, a number of German Sparkassen and BCEE Luxembourg officially joined the Alliance, which at the end of 2007 counted more than 200 supporters¹.

It is in this context that ESBG has initiated an “open coalition” with other stakeholders, as encouraged by the Commission, to define concrete CSR solutions/projects. These working groups are referred to as laboratory meetings (“Labs”). ESBG Lab will focus on “*Business' involvement to enhance social inclusion at local level*” and will define the keys for success of projects based on the empowerment of socially and financially excluded people, through social entrepreneurship or the expansion of access to finance/financial services, including microfinance activities. This will serve ESBG's argument in favour of further recognition of CSR activities developed at local and regional level, as they bring a key contribution to European competitiveness.

Based on initiatives developed by European savings banks (e.g. Parcours Confiance, CNCE; Die Zweite Sparkasse, Erste Foundation; Entrepreneurship projects for young people, BBK Gätze Lanbidean Foundation), a list of core principles shared by the different schemes and which, in the savings banks' experiences, were key building stones to reach their objectives were identified. An open discussion with potentially interested stakeholders (social NGOs, employment agencies, local authorities etc) will be organised to enrich the initial findings.

ESBG also continued its involvement in specific EU CSR projects, through a contribution to DG *Employment, Social Affairs and Equal Opportunities* workshop on CSR and the local employment development,

- ▶ the definition of the European Commission microfinance policy driven by DG *Regional Policy*,
- ▶ the support to DG *Internal Market's* work to improve financial literacy of European citizens, one of the priorities identified in the 2007 Green Paper Consumer-related initiatives,
- ▶ the participation to DG *Enterprises and Industry* event on “Responsible Entrepreneurship”, as an occasion for an exchange of experience and ideas about how to encourage and support a greater uptake of CSR amongst SMEs in Europe.

ESBG also investigated the opportunity to launch some initiatives to mobilise members and promote their achievements in the field of environment, and, as a first step, contributed to the European Commission consultation on the Green paper on Adaptation to climate change.





DISTANCE MARKETING OF FINANCIAL SERVICES

Our position

ESBG is currently involved in the revision of the Distance Marketing of Financial Services Directive (DMFS) launched by the European Commission in 2007. ESBG believes that so far, one of the main outcomes of the ongoing revision is that more coherence and coordination is needed as regards different European pieces of legislation (e.g. anti-money laundering legislation versus distance marketing of financial services directive).

Explanation

On 15 March 2007, the European Commission (DG SANCO) informed about its intention to start the revision of the Distance Marketing of Financial Services Directive (DMFS) through the organisation of workshops and studies on the positive and/or negative impacts of the Directive.

In order to properly assess the impacts of the DMFS Directive, the Commission carried out an impact assessment. ESBG members contributed to the impact assessment sending responses on specific questions concerning the implementation of the Directive, such as the experiences in distance selling of financial services cross-border and the legal problems faced.



EUROPEAN CONTRACT LAW INITIATIVE- COMMON FRAME OF REFERENCE

Our position

ESBG actively follows the debate on European Contract Law expressing its concerns on the best way to achieve a coherent and consistent European legislative framework.

Explanation

On 25 July 2007, the European Commission published its Second Progress Report on the Common Frame of Reference (CFR). The main objective of the report was to update interested parties on what has happened since the publication of the First Progress Report.

On 28 November 2007, the European Commission organised a Workshop on information requirements in financial services legislation within the framework of the CFR-Net. The aim of the workshop was to discuss the draft reports submitted by the researchers involved in the project. During the workshop the researchers presented their draft reports on general rules on pre-contractual information duties, insurance contracts and consumer credit.

Following that meeting, the Study Group on a European Civil Code and the European Research Group on Existing EC Private Law (the 'Acquis Group') presented the first academic Draft of a Common Frame of Reference (DCFR). The European Commission received the material in December 2007. The Draft contains "Principles, Definitions and Model Rules of European Private Law" in an interim outline edition. One purpose of the text is to serve as a draft for drawing up a 'political' CFR, although the Commission has stated several times that if a CFR emerges, it would not necessarily have the same coverage and content as this draft.



EUROPEAN INITIATIVES ON REDRESS MECHANISMS

Our position

ESBG is strongly supportive of providing consumers with effective and efficient dispute resolutions and redress mechanisms. ESBG therefore welcomes the recent Commission's initiatives to reinforce the systems for redress and enforcement in Europe. However, ESBG believes that further assessment of the existing redress schemes at national level is necessary before introducing any EU legislation in the field. ESBG is therefore closely monitoring the European Commission initiatives in this area.

Explanation

In June 2007, during a Conference on Redress Mechanisms organised by the University of Leuven (Belgium), the European Commission informed about its intention to evaluate the systems of redress mechanisms in Europe, and the ways in which they could be improved. Commissioner Kuneva, responsible for consumer affairs, stressed that before taking any measure, she would like to have more information and feedback from the Member States, the European Parliament and the stakeholders. She has therefore invited all stakeholders to contribute to the debate by sending comments on their experiences and views on this issue.



Following this line of action, DG SANCO invited ESBG and other stakeholders to an informal meeting on 31 October 2007, to explain the current state of play of the work of the Commission on the issue of Collective Redress. In addition, the Portuguese Presidency organised a conference on collective redress in Lisbon on 9-10 November. The conference counted on the participation of the European Commissioner on Consumer Protection, Meglena Kuneva and the European Commissioners for Competition, Neelie Kroes. Commissioner Neelie Kroes is also preparing a White Paper on damages actions for breach of the EC antitrust rules, that will set out in concrete terms some ideas for the follow-up to the Green Paper published on 19 December 2005. The White Paper will cover a full range of problems faced when bringing damages actions for competition law breaches. One of those issues will be collective redress.



“The ESBG supports the European Commission’s initiative to place financial education high on the agenda.”

FINANCIAL EDUCATION

Our position

The ESBG supports the Commission’s initiative of placing financial education high on the agenda and promoting best practises in this field. The ESBG member banks, as financial institutions, believe in the benefits of increasingly empowered consumers as this will indeed contribute to an efficient and well-functioning financial system for all market players. Moreover, ESBG members have traditionally been involved to a large extent in creating and participating in financial literacy schemes at local level and therefore have a significant amount of experience to share with other actors, as best practises. A number of ESBG members are also involved in the European Stock Market Training, a multinational financial education programme for students. The latter has received great attention at EU level for its interdisciplinary approach, involving linguistic, economic, mathematical and cultural aspects.

Explanation

Consumer empowerment has been in the focus of the European Commission in recent initiatives targeting the retail financial services sector, such as the Green Paper on Retail Financial Services and the Single Market Review. One of the means recognized for achieving a higher level of consumer confidence is financial education. In December 2007, the Commission adopted a Communication on Financial Education, stressing a number of factors which would contribute to a better understanding of financial services amongst European consumers. The Communication gives a number of recommendations to the Member States on how to address the issue at national level. The Commission also sets out a number of principles to guide stakeholders who are involved in financial education schemes, and announces some practical initiatives to encourage the sharing of experiences.

The adoption of the Communication follows a wide-reaching study of currently existing financial literacy schemes in the EU and research in the 27 EU Member States undertaken on behalf of the Commission. The study, for which the ESBG was a partner, contains a number of initiatives from ESBG Members.

Starting in spring 2008, the European Parliament will bring forward their views on the best way of increasing the financial capability of the EU citizens in a report on *"Improving consumer education and awareness on credit and finance"*.



FINANCING SMES

Our position

As decentralized financial institutions with local and regional ties, Europe's retail and savings banks have a long-standing relationship as partners of SMEs and micro enterprises. With a locally rooted network, our member banks are proximity banks and their local presence is one of the reasons why ESBG members are the main providers of finance for SMEs in many European countries. As partners of SMEs, the ESBG is committed to take an active part in working towards a better business and financial environment for European SMEs.

The EBSG believes in the importance of pursuing a dialogue with SME representatives for improving mutual understanding of the credit decision making procedure and moreover, the ESBG determinedly seeks to promote and facilitate SMEs' access to finance.

Explanation

The 5th Commission Roundtable – a forum for exchange of views – between bankers and SMEs was finalized through a concluding high-level meeting hosted by the German Presidency on the 11th of May 2007. The Roundtable was launched by DG Enterprise of the European Commission in the beginning of 2006 with the aim to continue the dialogue between bank and SME representatives that had been ongoing through four previous roundtables since the beginning of the 1990s.

The dialogue between banks and SMEs continues after the Roundtable, and in the upcoming meetings the forum will discuss the financial market turmoil and its impact on SME lending, the Small Business Act of the Commission – containing some provision on access to finance and expected to be finalized before June 2008 –, microcredit and state aid reform. Up to now, the Commission has not formally announced the start of the 6th Roundtable but has stressed its commitment to continue functioning as a facilitator in the dialogue between banks and SME representatives.





IFRS FOR SMES

Our position

The ESBG has reservations concerning the project of introducing an accounting standard for SMEs, as it is not clear that SMEs will truly benefit from it. In any event, the ESBG believes that IFRS should not be imposed on SMEs, but stay optional.

Explanation

The International Accounting Standards Board (IASB) has been working for some time on the development of an accounting standard for SMEs. An exposure draft of the IFRS for Small and Medium-sized Enterprises (IFRS for SMEs) was released in February 2007. Additionally, in June 2007, the IASB launched a programme for field testing the proposals of the exposure draft during the comment period to help identifying aspects of the exposure draft that may need reconsideration.

The European Financial Reporting Advisory Group (EFRAG) issued in April 2007 a draft Comment Letter on the IASB's exposure draft. EFRAG is in general supportive of the project. However, it believes that the proposed standards can be further improved and to that end it has made a number of remarks. The European Parliament has indicated on several occasions that it is not really content with the proposed standards for SMEs, considering that it is too complicated and will not benefit SMEs. This issue will be addressed in an own initiative report of the Parliament on IFRS and the governance of the IASB, for which MEP Radwan (Germany, EPP-ED/Conservative group) is the Rapporteur. The European Commission also referred to the IFRS for SMEs project in its recent Communication on a simplified business environment for companies in the areas of company law, accounting and auditing. The EC doubts that the current IASB work on SMEs accounting would provide sufficient elements to simplify the work of European SMEs.

It is expected that the IASB will review the comments on the exposure draft and the results of the field tests during the first half of 2008 and decide on possible modifications. The publication of a final IFRS for SMEs is expected late in the second half of 2008.



IAS 39 CARVE-OUT ON MACRO-HEDGE ACCOUNTING

Our position

The ESBG believes that it is important to find a solution to ensure that all European banks can implement the hedge-accounting provisions. This solution must take into account the risk management practices applied by banking organisations.

Explanation

In October 2004 IAS 39 was partially endorsed. The standard was adopted with the exception (“carve-out”) of certain provisions on the fair value option and hedge accounting. The carve-out relating to hedge accounting was decided to ensure that all European banks could implement hedge accounting under the new regulation. The carve-out is intended to be temporary and is planned to be eliminated in 2009. For that reason, the EC has urged the IASB and the European banking industry to intensify work to find an acceptable solution which accommodates both the needs of companies and financial markets.

Under IAS 39, it is not allowed to hedge mismatches between fixed rate assets and fixed rate liabilities, although such practice is widespread amongst banks Asset Liability Management (ALM) departments. This practice is also supported by international supervisors as being adapted to interest risk management, especially in a fixed-rate environment. The IASB has repeatedly refused to introduce in its standard a new hedging approach in line with risk management.

In September 2007, the IASB published an exposure draft of proposed amendments to IAS 39. The exposure draft reaffirms a set of rules which is not applicable in a fixed-rate environment – such as the one existing in a number of European countries –, as it does not allow banks to hedge their risks. Additionally, it is incompatible with the carve-out as it, notably, proposes to amend a paragraph that is not adopted in the EU. Moreover, the exposure draft does not take into account the discussions that are underway between European banks and the IASB.





MICROCREDIT

Our position

The ESBG embraces and would like to call for a more comprehensive approach towards microcredit. It is important to acknowledge that there is a wide-ranging variety of institutions offering microcredit in Europe, all with diverse aims and targets, but still actively contributing to reach a higher level of financial inclusion in Europe, whether they are banks, non-banks or other types of institutions. In this respect, the development of a clear definition of Microfinance Institution (MFI) would be necessary, to clarify the scope of the planned EU actions. Given the local dimension of microcredit, ESBG believes that the EU focus should primarily be on facilitating microcredit at national, regional or local level, before looking at the creation of a single market for microcredit per se.

Explanation

The issue of microcredit has increasingly called the attention of European and national financial authorities, as an important tool to encourage entrepreneurship and MSME (micro, small and medium-sized enterprises) development. In this context, a European Commission Expert Group published the report “The Regulation of microcredit in Europe” in April 2007, providing a number of recommendations on how regulation could further support the development of the microcredit offer and acknowledging the savings banks' contribution to microcredit. On 13 November, the Commission (under the leadership of DG Regional Policy) adopted a Communication to improve access to finance for micro-entrepreneurs and socially excluded people, by microcredits, giving them the opportunity of self-employment. The main aspects of the initiative are recommendations to Member States for promoting a more favourable environment for the development of microcredit, the setting up of a new European-level facility with staff to provide support for the development of non-bank micro-finance institutions and the setting up of a micro-fund in the new facility.

“The ESBG embraces calls for a more comprehensive approach towards microcredit.”



MORTGAGE CREDIT

Our position

ESBG believes that any action at European level on the integration of European mortgage markets, has to demonstrate the potential benefits for both the consumers and the industry alike. ESBG therefore continues monitoring closely the Commission's initiatives in this area, namely the “White Paper on Mortgage Credit”.

Explanation

The European Commission's Directorate General Internal Market published on 17 January 2007 the final reports of the two experts groups on mortgage markets, namely the Mortgage Industry and Consumer Dialogue (MICD) and the Mortgage Funding Expert Groups (MFEG). The MICD discussed four main areas, pre-contractual information, advice, early repayment and annual percentage rate of charge (APRC). Although the outcome of the MICD was not conclusive, the Commission welcomed the useful contributions and the willingness to have constructive discussions expressed by both consumers and industry representatives. As regards the MFEG report, it underlined that the European mortgage funding market would facilitate mortgage integration and would contribute to improve efficiency, product diversity and efficient competition of mortgage markets.

Both reports were considered by the European Commission when drafting its White Paper on Mortgage Credit that was finally published in December 2007.

In its White Paper on Mortgage Credit, the Commission does not propose any concrete legislative measure, following a cautious and evidence based approach. ESBG welcomed the Commission's intention to develop further the policy orientations presented in the White Paper in close cooperation with all stakeholders and to subject them to individual impact assessments. This is a clear commitment to the Better Regulation principles, which is particularly needed in the area of mortgage credit, where not well thought-through measures could have unintended, damaging consequences.

PREVENTION OF MONEY LAUNDERING AND FUNDING OF TERRORISM

Our position

In the context of fighting money laundering and the financing of terrorism, the ESBG believes that close cooperation between the regulators and the banking industry is of utmost importance in order to create a regulatory system which can provide all parties with an increased protection against financial crime. As regards the 3rd AML directive (2005/60/EC), the ESBG and its members have focused on ensuring that the Directive and its implementing measures are feasible, appropriate and not disproportionately prescriptive. The ESBG has throughout the process supported the view that a risk-based approach requires flexibility as regards its implementation by the credit institutions, avoiding too detailed measures.



It has been acknowledged by the European Commission that legislation in the area of anti-money laundering, which implements rules on the identification of customers, could possibly result in restrictions on the cross-border mobility of clients. In order for the impact of these problems to be properly identified, the ESBG welcomes the recommendation made by the Expert Group on Customer Mobility in Relation to Bank Accounts, that the Commission should further analyse the impact of anti-money laundering rules on customer mobility in the EU.

Explanation

The ESBG continues to take an active part in the dialogue between the European Commission and the financial services industry on issues related to anti-money laundering and counter terrorist financing. Issues recently discussed in this context are the risk-based approach and the June 2007 Financial Action Task Force (FATF). Guidance; data protection issues; third country sanctions; customer mobility; compliance at group level, the Regulation on information accompanying funds transfers (2006/1781/EC), e-banking and the treatment of trusts. In the near future, the Commission intends to carry out a survey to identify the barriers faced by EU financial institutions for the application of an anti-money laundering policy at group level. The industry will be invited to bring their views and provide relevant information on the matter.

Moreover, the ESBG shortly intends to take an active part to the work of the FATF, through the recently created Consultative Forum. The Forum has been set up to provide private sector bodies with the opportunity to raise issues with the FATF for discussion and possible future work on particular issues where this would be of value.



PAYMENTS: EVOLUTIONS IN THE FIELD OF SEPA

Our position

ESBG and the rest of the banking industry continue to try and mobilize public administrations and large corporates to become early adopters of the SEPA Credit transfer scheme, in order to promote a rapid mass migration. As for the SEPA Direct Debit Scheme, ESBG and the rest of the banking industry await the harmonious transposition of the Payment Services Directive in all Member States. With regards to SEPA for Cards, ESBG regrets the uncertainty created just prior to the launch of the SEPA for Cards by the EC Competition authority's ruling on Mastercard. This ruling will lead market participants to reassess their strategies and makes the "third European debit card scheme" called for by authorities more of a challenge.

Explanation

The Single Euro Payments Area project consists of three important elements: the credit transfer scheme, the direct debit transfer scheme and SEPA for cards.

The SEPA Credit Transfer Scheme has been launched on 28th January 2008 as scheduled with the participation of over 4000 banks in Europe (of which over 700 are from the savings banks community). This Scheme is based on a new data exchange standard and a single set of interbank rules that will over time replace existing national schemes. The banking industry continues to try and mobilize public administrations and large corporates to become early adopters, in order to prompt a rapid mass migration.

The SEPA Direct Debit Scheme will only become a pan-European instrument after harmonious transposition of the Payment Services Directive in all Member States. The banking industry still expects this to occur by November 2009. Until then greater clarity is expected from the EC's competition authorities as regards the permissible business model which will allow for wide acceptance of this important payment instrument.

With regards to the ambitious goal ("any card in any terminal) of SEPA for Cards, the European Commission's (DG COMP) ruling on Mastercard, forcing the latter to withdraw within 6 months its Multilateral Interchange Fee on the grounds that it inflates the cost of card acceptance for retailers without leading to proven efficiencies, has created uncertainty among market participants.

Indeed, even if interchange as such is not banned, it needs to produce acceptable technical and economic progress, and consumer benefits (e.g. improving the security of payments to combat card fraud) must be evidenced. The EC positioned its decision as providing guidance for all fall-back MIFs on debit and credit consumer cards including Visa's, which has been subject to an exemption until end 2007. With this ruling the EC highlights its unease at reconciling the goal of "any card at any terminal" in SEPA with fears that the related convergence translates into price increases. This ruling (and the longer uncertainty period opened by MasterCard's appeal) will lead market participants to reassess their strategies and makes the "Third European debit card scheme" called for by authorities more of a challenge.





PAYMENTS: DEVELOPMENTS IN THE AREA OF CASH

Our position

Since early 2003 the banking industry has engaged the Eurosystem about the place of cash in SEPA. 6 years after the introduction of the physical Euro more needs to be achieved: cash distribution, handling, and costs, remain largely unchanged.

Explanation

Achieving a genuine internal market for cash services requires greater harmonization in National Central Bank operational rules and conditions. The Banknote Recycling Framework December of 2004 and the Roadmap for more convergence of NCB cash services in February 2007 are steps in the right direction.



PAYMENTS: INFRASTRUCTURES, CLEARING AND SETTLEMENT MECHANISMS

Our position

The ESBG invites Clearing and Settlement Mechanisms to publish a “minimum single service level”, provide transparency on their capabilities regarding full reachability, and a glossary of services accompanying the publication of their pricing tables. Maintaining the pluralist offer in the retail market requires the capability for all payment service providers to have direct access to the payment infrastructure.

Explanation

With the unbundling concept meeting with greater acceptance and the Payment Services Directive shifting responsibility and liability for transaction execution to the originating bank, and mandating D+1 execution, larger market participants will take advantage of bilateral relationships. Provider consolidation will ensue, with clearing infrastructures potentially competing for bank clients in the retail market. The adoption of new messaging standards (ISO 20022) will spearhead the move to more common channels, but interoperability and interchangeability between clearing and settlement mechanisms (CSMs) should be reinforced further.



E-INVOICING

In August 2007 the European Commission released the final report of its Informal Task Force on e-Invoicing. The report reviewed the European Electronic Invoicing (EEI) initiative and urged developing e-invoicing initially for the Business-to-Business and Business-to-Government spaces. The report identifies 3 barriers to address: legal issues, trust and operational issues, and standardisation. Late 2007 the EC formed an expert group with 30 members from industry associations, public sector bodies and representatives of the interests of enterprises, consumers, financial service providers and standardisation organisations. ESGB is proud to have been retained by the European Commission for contributing to this Expert Group.



DATA PRIVACY: THE SWIFT CASE

Mid-2006 the European Parliament, the Belgian National Central Bank, and the Article 29 Working Party of the European Commission launched an inquiry when the press reported that US anti-terrorist agencies had been given access to data exchanged over the SWIFT financial messaging “even in the fight against terrorism and crime fundamental rights remain guaranteed, they insist therefore on the respect of global data protection principles”. As under Directive 95/46/46 SWIFT member-users are considered joint data “controllers”, financial institutions were requested to ensure they inform their clients about how personal data are processed and which rights data subjects have. WSBI engaged into a dialogue with SWIFT on this matter to ensure the interests of its members remained safeguarded. WSBI reviewed the measures that SWIFT contemplated to address the situation (including actions to ensure transparency, reviewing contractual clauses, formulating a new data protection policy, adhering to the Safe Harbor framework, and regionalizing its message processing architecture). Throughout the process WSBI maintained the dialogue with the Article 29 Working Party.

This renewed prominence of data privacy issues led the ECB (beyond ensuring that European payments systems, and in particular the TARGET systems, are fully compliant with European data protection law) to recall in its Report on the “Eurosystem’s views of a SEPA for cards” that: “card payments contain personal data, a topic that is extensively protected by EU legislation. The conditions under which the transfer of data outside the EU is organised have to be clarified”.





PAYMENTS: BALANCE OF PAYMENTS REPORTING

National reporting obligations for banks for intra-internal market payment transactions are an antinomy. Even if the banking industry has been pursuing since 2002 a discontinuation of such obligations, no practical improvement can be expected before 2012.



SECURITIES CLEARING AND SETTLEMENT: DEVELOPMENTS IN TARGET 2

TARGET 2, the new European Real Time Gross Settlement system operated by the Eurosystem replaces the decentralised TARGET system with a single technical platform, providing financial institutions and ancillary systems with a more homogeneous payment service in central bank money throughout the eurozone. TARGET2 provides banks with the capability to centralise their payments back-offices and liquidity management.

ESBG participates in the Target Working Group of the three European Credit Sector Associations that successfully contributed to preparatory work since 2002, notably through review of user requirements and technical specifications, and testing and migration scenarios. The Group will continue to be the user counterparty of the Eurosystem as regards operational aspects.

TARGET2-Securities (T2S) is an initiative of the Eurosystem to reduce the cost of post-trading in Europe by providing by 2013 an integrated securities settlement infrastructure based on a "Single Shared Platform". Currently the Eurosystem, users and Central Securities Depositories draft the user requirements in a T2S Advisory Group in which ESBG participates. The Governing Council of the ECB is currently due to decide in July 2008 on the project. If a go-ahead is given, system specifications are to be completed by end 2009, with preparations and testing activities for a 2013 launch.

CCBM2 is the third component in the settlement infrastructure built by the Eurosystem. It is expected that a second consultation will be launched by the Eurosystem in March 2008 on the market requirements for this central collateral management platform. The main objective of CCBM2 will be to increase the efficiency of the collateral management system of the central banks, optimise the cost of mobilising collateral for counterparties, and enhance their liquidity management.



SECURITIES CLEARING AND SETTLEMENT: CODE OF CONDUCT

Responding to a regulatory initiative, the three European Credit Sector Associations had elaborated a Pan-European Code of Conduct for Securities Clearing and Settlement which was launched at the end of 2006. The Code addresses service unbundling and accounting separation, price transparency and comparability issues, and access and interoperability of Market Infrastructures. The ECSA's are now monitoring with the European Commission the implementation of the self regulatory principles.



PAYMENTS: INTERNATIONAL PAYMENTS FRAMEWORK (IPF)

The objective of the International Payments Framework (IPF) project initiated in 2007 is to create rules, standards, operating procedures and guidelines to improve the execution of cross-border payments in multiple currencies through a member service agreement. This is to be achieved through interoperability between existing domestic or regional payment systems, and settlement procedures leveraging existing practices, with bank members providing transaction volume.

Signatory institutions will be able to rely on the common set of rules to provide certainty to their end-customers (credit transfers in Euro within the EU and EEA not qualifying as cross-border credit transfers in this context any longer). Upon completion the project would contribute to lowering processing costs and eliminating complexities in international non-urgent payments. Member benefits will include simplification of back office processing, global reach, certainty, improved returns on investment, risk improved client value and liquidity management.

Over the past 12 months, representatives from 30 organizations including WSBI have been investigating the feasibility of the Framework. Should the resulting specifications find sufficient endorsement, in a second phase (tentatively scheduled from April 2008 to December 2009) the components of the Framework will be developed and the member organization to administer it established.





ESBG RESOLUTION ON THE “FUTURE OF THE EU BANKING SUPERVISORY STRUCTURE”

In light of the current financial market turmoil, as a follow-up to the entry into force of Basel II and due to the adoption of Solvency II in the insurance sector, the question of the future of EU banking supervisory structure is currently receiving particular attention. In this context, at their meeting on 30 November 2007 in Berlin the General Assembly of the European Savings Banks Group (ESBG) has adopted the following resolution on the future of the EU banking supervisory architecture.

The current context

The ESBG:

- ▶ Underlines that in recent years, significant changes have been introduced in the EU, some of which impacting on the credit institutions directly (e.g. adoption of the Capital Requirements Directive – CRD, Markets in Financial Instruments Directive – MiFID) and others indirectly (e.g. adoption of the Lamfalussy process, establishment of CEBS/CESR);
- ▶ Believes that in relation to the EU supervisory architecture, these changes have had a number of positive effects, such as improving consultation practices and enhancing transparency; appreciates the real efforts of all stakeholders in these areas;
- ▶ Highlights that the efforts requested from Europe’s banking sector have been considerable and that the long-term effects of all these changes cannot be foreseen at this stage, as experience is still missing;

Future supervisory architecture – the Lamfalussy process

The ESBG:

- ▶ Strongly believes that a period of reflection and of analysis of the functioning of the new environment is necessary;
- ▶ Does not believe that the current financial market turmoil modifies this assessment; an in-depth analysis of the causes and consequences of the current situation is necessary before contemplating new policy measures;
- ▶ Supports therefore the Commission’s view that a 'revolutionary approach', as requested by some pan-European players, consisting of introducing wide-ranging changes to the current supervisory model, is neither feasible nor desirable for the following reasons:
 - The current supervisory architecture has important merits (e.g. ensuring that the responsibility for supervision and intervention in case of crisis lies with the same competent authority / Member State; guaranteeing respect of the principle of “same business, same risks, same rules”; proximity of the competent authority); it is therefore not clear which, if any, structure would represent an improvement;

- The changes introduced recently must be integrated in the day-to-day practice of competent authorities and banks before informed conclusions can be drawn;
- Changing structures is not necessarily the right way to address problems; instead, practical, non legislative solutions prove to be often more efficient;
- ▶ Believes that the distribution of roles and responsibilities between home and host supervisor(s) as foreseen in the CRD is the right one for the time being; believes that the EU institutions were right in introducing in the CRD a review clause specifically on the functioning of the consolidating supervisor mechanism (Art. 129(2)); believes therefore that the announcement made by the Commission to propose extending already next year the present competences of a consolidating supervisor to Pillar 2 and Pillar 3 of the Basel II framework is premature;
- ▶ Supports an evolutionary approach, which in the short to medium term would mean finding practical arrangements to enhance the efficiency of supervision in the EU; specifically, underlines the importance of enhancing supervisory cooperation and the convergence of supervisory practices throughout the EU; welcomes therefore some of CEBS' initiatives, such as the development of operational networks; believes that creating a common European supervisory culture is an important step in the right direction; believes that the drafting by CEBS of clearly understood minimum standards for banking supervision would help in achieving these objectives;
- ▶ Takes note of the views expressed recently by several bodies, such as the Commission, CEBS and the Inter-Institutional Monitoring Group on the Lamfalussy process and more generally, on the supervisory architecture;
- ▶ Generally welcomes CEBS' contribution to the Lamfalussy review; however, does not share all of its conclusions; in particular, does not believe that a phasing out of all options and discretions in the CRD is an adequate policy objective, as some of these options and discretions were introduced for good reasons and do not raise particular level playing field concerns; in addition, is concerned that some of the measures envisaged by CEBS would de facto transform CEBS into an EU law-making body;
- ▶ Supports the conclusions of the final report of the Inter-Institutional Monitoring Group (IIMG), especially its assessment of the functioning of the Level 3 Committees, in terms of progress made, challenges ahead and equipment needed;
- ▶ Believes however, that the introduction of a Qualified Majority Vote at Level 3 would be counterproductive for the general acceptability of the Level 3 Committees' guidelines, i. e. in those Member States that voted against the majority;
- ▶ Underlines, in relation to the Solvency II project, that in spite of their commonalities, the insurance and banking sectors also feature distinct characteristics; wishes to warn against attempts to apply the exact same rules in the two sectors, in particular in the supervision area, without an in-depth analysis of the differences.



Conclusions

The ESBG:

- ▶ Highlights the importance of maintaining a strong supervisory regime for banks in the European Union, given their central role in the economy and the necessity to protect depositors' money.
- ▶ Points out that further progress towards a convergence in supervisory practices has to be achieved, especially in order to avoid supervisory arbitrage.
- ▶ Points out that the following elements are of paramount importance for any supervisory architecture in the EU:
 - It has to be efficient – supervisors' resources must serve essentially their main goals, notably ensuring the protection of depositors and the stability of the financial system;
 - It has to maintain a close contact with the supervised entities and markets; in the specific EU context, the ESBG underlines the important role played by the national or local supervisory authorities, given their in-depth knowledge of the local market;
 - It has to be neutral as regards the conditions of competition.
- ▶ Stresses in this context that the supervisory structure should **not** be used to:
 - Favour one type of business model over another (e.g. cross-border vs. local)
 - Favour one type of entity over another (e.g. large banks vs. small banks)
- ▶ Points out the essential role of pluralistic structures for the stability of the financial system;
- ▶ Emphasizes that the goal of ensuring financial stability must have precedence over any other objective, such as the creation of 'European champions'.

The ESBG is willing to actively participate in the forthcoming discussions on the future of the EU banking supervisory structure.



▶ Business cooperation:
facilitating cross-border
projects



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The promotion and facilitation of cross-border business cooperation projects between its members is one of the strategic priorities of ESBG. The objective is to capitalise on the local strength, similar business approach and outreach represented by the some 870 savings and retail banks with 84,300 outlets world wide, which constitute the membership of ESBG.

The approach is to identify some potential business cooperation projects in a small group of top managers, which are opened up to all interested members once they have been ratified by the ESBG decision-making bodies. Business cooperation is also interpreted in a broader sense to include exchanges of information and best practice between members in a wide range of business related topics. Some recent projects to have emerged from this process are outlined below.

THE INTERNATIONAL BUSINESS NETWORK

The International Business Network (IBN) was launched in 2007 in order to facilitate the cross-border activities of the small and medium-sized enterprise (SMEs) customers of ESBG member banks as well as their private customers, who wish to enter into a banking relationship with partners abroad.

The **SME service** is targeted at account managers so that they can provide an end-to-end account opening solution for their SME customers in a partner bank in another country. The main focus is to provide quick and easy access to reliable and useful information on an Intranet platform concerning account opening conditions and the timeframe required to open an account in the various participating banks and countries. This Intranet service is backed up by a network of contact persons, who can provide a tailor-made service for account opening and the establishment of related banking services in the bank of choice. The language of the IBN service offer presented on the site is English with links back to the websites of the participating banks.

It has now been decided to expand the International Business Network to include a service for private customers, which was developed over the course of 2007. The nucleus of the IBN **Private Customer Service** is to provide quick and easy access to information on requirements for opening an account abroad as well as the possibility to arrange an account opening appointment in a participating bank in the country of choice.

The IBN private service will be launched as a pilot project in the course of 2008. It will be available to the general public and accessible on the Internet site: www.bankservicesinternational.com.

Customers of ESBG savings banks can avail of this service either online or via their account manager, who can also provide them with such value-added services as a referral letter. This should facilitate quick and easy access to credit and finance facilities in the partner bank.

The International Business Network is a prime example of a service that can be offered by ESBG members to smooth the way for persons and SMEs, who wish to enter into a banking relationship with partners abroad, thanks to the local strength, similar business approach and global outreach represented by the ESBG membership.

Other business cooperation initiatives that are under review at present include:

- ▶ possibilities for cooperation in the field of real estate, in such areas as real estate investment funds, property management funds, public private partnerships, etc.;
- ▶ FIN-URB-ACT: a European network project carried out in cooperation with some 10 European cities to exchange information and best practice and develop policy recommendations on using local SME support structures (i.e. local authorities, chambers of industry and commerce, etc.). The overall objective is to work together in an integrated approach in order to improve access to finance for SMEs and make the best local use of EU Structural Fund support, both in the form of traditional grants as well as relatively new non-grant instruments such as loans, guarantees, convertible instruments and risk capital;
- ▶ an ESBG Charter on Responsible Business with special provisions for action in the field of the environment and climate change.

ADVANTAGE OF THE INTERNATIONAL BUSINESS NETWORK

More and more SMEs are venturing abroad and need reliable partners in the financial sector to assist them on their road to internationalisation. Membership of the International Business Network will add an international dimension to the image and service of the participating banks and provide an incentive for SMEs to use them for international business. This should help to consolidate or increase customer loyalty and also to generate revenue by increasing the participating banks' share of wallet of their SME customers and expanding the customer base through reciprocity.



ESBG CHARTER FOR RESPONSIBLE BUSINESS

ESBG Charter for Responsible Business

Preamble

ESBG member banks all over Europe enjoy a long history of socially responsible banking. Although their organizational structure differs from country to country, they share important values in their business policy, which are embedded in the three “R”s:

- ▶ **Retail:** active in providing retail financial services for individual consumers, households, small and medium-sized enterprises (SMEs), local authorities;
- ▶ **Regional:** broad decentralised distribution network, providing local and regional outreach;
- ▶ **Responsible:** socially responsible approach to business and bringing a return to society.

ESBG member banks have a strong commitment to sustainable development and address their corporate social responsibility (CSR) as an integral part of their business. Accordingly, ESBG recommends a commitment to the following responsible principles:

1. Fair and clear relations with customers

In order to build and maintain a long-term relationship of confidence with customers, ESBG member banks:

- ▶ Provide clear and honest information on products and services and other terms and conditions of use;
- ▶ Advertise responsibly and ensure the visibility of information on products and services both in the branches and on Internet sites;
- ▶ Provide advice that meets the needs of customers and promote products and services that are appropriate to their personal circumstances and risk profile;
- ▶ Consider all cases of financial difficulty sympathetically;
- ▶ Inform and communicate with customers and deal with customer complaints quickly and efficiently.

2. Promotion of accessibility and financial inclusion

As fair partners for all segments of society, ESBG member banks:

- ▶ Serve all segments of the population without any discrimination on the basis of age, gender or ethnic background, so as to ensure financial inclusion in society;
- ▶ Promote savings and facilitate access to modern financial products and services that are tailored to the financial profile of the person concerned, including those with lower incomes or modest means;
- ▶ Ensure accessibility and proximity banking close at hand by means of their dense network of branches throughout the country, including low-populated and economically disadvantaged areas, and via a well developed range of electronic access channels;
- ▶ Make branches and access channels accessible to persons with physical disabilities or impairments.



3. Environment-friendly business

ESBG member banks recognise that the environmental challenge is becoming one of the main collective hazards ever experienced worldwide. As part of their strong commitment to corporate social responsibility (CSR), ESBG and its members wish to make a contribution in favour of the planet and are aware of the need to:

- ▶ Recognise the risks and opportunities caused by environmental issues for their business;
- ▶ Consider the impact of their business on the environment, both direct in terms of own operations and indirect in terms of customers and suppliers;
- ▶ Pay attention to the impact of the business on climate change and global warming and how climate change and global warming impacts on the business;
- ▶ Incorporate the environmental dimension in banking offers, operations and processes as well as in relations with suppliers, as appropriate;
- ▶ Promote products and services that respect social, environmental and sustainable development criteria.

4. Making a responsible contribution to the community

It is part of the role and identity of ESBG member banks to:

- ▶ Link their business objectives and success to the needs of the local communities and society in which they operate, over and beyond their customer base;
- ▶ Provide financial services throughout the country and contribute to the economic and social development in all regions in which they operate;
- ▶ Drive local economic dynamism by financing economic development projects, including small and micro projects aimed at creating jobs and reducing social exclusion;
- ▶ Support local civic commitment and contribute to social welfare through donations and community partnership programmes in such fields as culture, research and development, education, social welfare and the preservation of natural and historical heritage.

5. Responsible employers

In their role as responsible employers and as part of their philosophy, ESBG member banks:

- ▶ Are equal opportunity employers that do not discriminate on any grounds;
- ▶ Provide high-quality jobs and good working conditions for their employees in all the regions in which they operate;
- ▶ Promote a corporate culture of staff identification with the employer and a strong value orientation of the responsible role of the savings bank in the region;
- ▶ Provide employees with the opportunity to achieve a good work-life balance;
- ▶ Promote training and life-long learning opportunities in order to facilitate career advancement;
- ▶ Pursue a responsible relocation and redundancy policy towards employees in case of reorganisation or restructuring.

6. Communication

Transparency is key. Communication of activities and policies plays an important role for responsible business. Accordingly, ESBG will:

- ▶ Publish the Charter and a list of the subscribers;
- ▶ Invite the subscribers to communicate publicly on the implementation of the Charter principles;
- ▶ Gather evidence and communicate publicly on the implementation of the Charter at a European level. This information will be updated on a regular basis.



▶ Training and consultancy



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With effect from 1 February 2008, the former Training and Consultancy Departments of WSBI-ESBG have merged into a single combined unit. This step is a response partly to how WSBI members' training and consultancy needs have evolved in recent years, and also in recognition that consultancy projects nowadays usually are no longer restricted just to the provision of advice on professional banking matters, but also frequently include components aimed at bringing bank staff to agreed standards of proficiency through a variety of training methodologies.

It is also planned that the activity should evolve beyond providing training and assistance only in developing and transition countries, and will explore as well how the services may be adapted to meet the needs of WSBI-ESBG members in advanced economies. Training and consultancy offered to regulatory and supervisory authorities will continue, as will delivery of sector-wide programmes and projects, and feasibility and policy formation studies on behalf of the multilateral community where appropriate.



TRAINING

WSBI Member banks' main objectives are to increase revenues, reduce costs and increase customer satisfaction. In these respects, banks seek both to change their ways of working and their culture in order to achieve higher performance levels. These aims provide considerable grounds for training, and it is anticipated that demand from members should be sustained in 2008.

An overview

Training seminars have been provided to WSBI member since the mid-1990s, tailor made to their evolving needs. Over the years the number of events, topics and methodologies has increased in order to respond more closely to member' needs, with the objective to prepare them to become ever more competitive retail banks. Today, we are able to offer training in more than 20 topics. Training seminars are also an opportunity for exchanging best practices between banks that have gone through similar experiences over the recent past and that share similar values in terms of access to finance.

CLIENT STORY

Postbank Uganda



The bank has the specific mission to provide financial services (savings, loans and payments) to low and middle income segments in urban and rural areas. This role is part of the government's plan for reducing poverty through the facilitation of access to finance to micro-entrepreneurs and rural farmers in remote parts of the country. Considering the challenge generated by high competition, the bank needed increased capacity building in order to improve its competences and management skills, especially in branch

management as well as in risk management so as to better address the needs of low income earners.

The reactions of the trainees were very positive: "The 20 day program on branch management was a "great learning experience on the whole. We have learnt the need to refocus our attention on the customer; customer relationship management is a must in order to achieve high business volumes. There is need for us to be more cautious of the risks involved in all our activities; both operational and credit risk, we need to identify them, try to avoid them and also effectively manage them when they occur. More importantly, there is need to focus more on branch profitability above other things by aligning marketing expenses to revenues accruing from particular products. Much of this can also be achieved through team work, because as a team, our goals are ultimately the same and together we can achieve much more.

For continuity purposes, we request a Training of Trainers course through our trainers at the World Savings Bank Institute to enable us transfer effectively the very same knowledge that we have acquired to the rest of the bank staff. This will go a long way in improving all PostBank operations and we will be in position to meet our goals and objectives in an effective manner."

Taking stock of 2007

Taking into account the regional profile of member banks and their objectives to improve services at branch level, the focus of 2007 was to target branch managers and offer training contents addressing technical and human aspects. Accordingly, our training activity was enriched in 2007 with a new 20 day program on Branch Management for directors of branches and head office department heads. 30 executives from Postbank Uganda have benefited from this program, which includes five modules on marketing, risk management, financing microfinance institutions, management simulation and leadership. In addition to this new program, the calendar of activities included a range of diversified training courses- regional and national - for members in Africa, Asia, Latin America and new European member states. As a consequence, training activity in 2007 reached figures never attained previously in terms of training days, numbers of attendees and geographical outreach.

Prospects for 2008

Building on the above, we aim to extend the number of participants in Branch Management courses. A new challenge for WSBI-ESBG will be to provide training services to member banks that are already operating as fully fledged retail banks in emerging countries, taking full advantage of our network of international experts and experience. Therefore, WSBI-ESBG will investigate and propose new areas for training including in specific topics regulated at European and international levels where WSBI-ESBG has in-depth knowledge, e.g. Anti-Money Laundering, payments and remittances. At the same time, we will continue to enrich our range of services in key operational banking disciplines related to industrialization, customer culture, performance management, as well as areas directly linked to savings and retail banks' values such as corporate social responsibility, and topical subjects covering the environment and ethical products.

WSBI-ESBG is working in close partnership with its Member Banks and creates demand-driven programs that meet their specific training requirements. In ongoing dialogue, we adapt all course curricula and training methodologies without losing sight of the international context and the values and culture of savings and retail banks.

“Training activity in 2007 reached figures never attained before in terms of training days, number of participants and geographical outreach.”



CLIENT STORY

ESBG Consultancy finalises a project for Postbank, a member of the South African Post Office (SAPO) group.

The study was commissioned to assist SAPO in designing an appropriate regulatory framework to govern the activities of Postbank as it establishes itself as a distinct corporate entity and consequently enters into the arena of regulated financial institutions. We asked Ms. Totsie Memela-Khambula, Managing Director of Postbank why she commissioned the study.



▲ Totsie Memela-Khambula

Totsie Memela-Khambula: The new board of SAPO is aware of the changing legal and business context in our country which will impact on the corporatisation of Postbank, but also sees perspectives and opportunities in the international landscape. The board wanted to do a regulatory benchmarking of the Top 10 comparable institutions and wanted to know how this institutions were regulated once they were corporatised/privatised, taking into account the corporatisation of Postbank.

So why did you think of ESBG to do this consultancy mission?

From the beginning, we wanted to work with a specialised consultancy, that does not have a “one size fits all approach” but endeavours to deliver tailored work for its clients. And ESBG Consultancy, thanks to the efforts that have been done by its parent organisations ESBG and WSBI in the field of postal savings banks and postal institutions, has acquired a very extensive and specific knowledge. This was very important to us.

How do you evaluate the work of ESBG Consultancy?

They did good research and approached a wide range of stakeholders: the South African Reserve Bank, National Treasury, Ministry of Communications, and Postbank committee (subcommittee of the SAPO board). The experts were very business minded and came up with some very good practical guidelines, which we will now sell to our stakeholders. Overall, I would certainly recommend ESBG consultancy services, because of their particular understanding of our situation “in the field”.



CONSULTANCY SERVICES

In 2007, volume growth was the order of the day, focusing closely on WSBI member needs or the financial sectors in which they operate. Based on our close relationships with our members and with the multilateral community, the added value we deliver to WSBI members should continue to increase during 2008.

An overview

WSBI-ESBG has been active in consultancy since the early 1990s when the European Commission launched the Tacis programme, which benefited – amongst others – WSBI member banks in the former Soviet Union. Since then, consultancy has developed and evolved into one of WSBI-ESBG's core activities. More than 50 contracts have been delivered worldwide covering about 70 countries. Through the participation of ESBG members in delivering contracts, it has also been successful as one of the most consistently active forms of business cooperation with and between member banks, and has contributed significantly to increasing the visibility of members' business models towards external stakeholders.

Background to 2007

Despite continuing political instability in some parts of the world, developing and emerging markets have increased their contribution to global economic growth, although the G8 continues to cite Africa as the major development challenge. Global integration is entering a new phase, with global trade growing faster. WTO membership is expanding, which increases the need for banking sectors to become more sophisticated. Brazil, Russia, India and China (the 'BRIC' countries) continue to increase their global influence, and their banking sectors are developing even faster than had been forecast. Expansion of the Eurozone to the newer EU accession countries has commenced, and discussions have started relating to convergence of currencies within East Africa and Asia. These broad evolutions create the sort of environments in which regulatory and banking sector projects are initiated that have a direct or indirect impact on existing or potential WSBI member banks. Our project portfolio in Africa is increasing. We have performed a large project in China that followed its accession to WTO. We are active in Russia, have started to break into Latin America and are following opportunities in India. And we have established a sound track record in payment systems projects. Accordingly, WSBI-ESBG continues to adapt to the market environment in which our members operate.



Taking stock of 2007

ESBG Consultancy Services won 10 new contracts in 2007, as well as continuing the delivery of existing contracts. Contracts were undertaken during the year in Angola, Azerbaijan, China, Egypt, El Salvador, Kyrgistan, Mongolia, Pakistan, Russia, South Africa, Sudan, Syria, Vanuatu, and Vietnam. Additionally, an EU funded study relating to financial literacy was performed, a study of WSBI members in India, Mexico, Tanzania, and Thailand was undertaken on behalf of CGAP, and ESBG continued as framework contractors for the EU, the EBRD and the FIRST Initiative (multi-donor supported).

The types of project performed ranged across access to finance, institutional and financial sector governance and reform, and the introduction of bank regulations for non-bank financial institutions. A relatively new field in which WSBI-ESBG has entered is payment systems reform. And consultancy projects also include training components for member banks and central banks on topics such as bank supervision, IFRS, Basel II, bank marketing and other bank management skills. During the year, we have also assisted one WSBI member with its IT strategy development. The majority of contracts performed are supported by the multilateral community, but it is also encouraging to see a growing trend of banks (including WSBI members) in emerging markets seeking to meet their consultancy needs without the support of external donors.

“WSBI-ESBG has identified an increased pipeline of opportunities that directly or indirectly benefit WSBI members worldwide.”

Prospects for 2008

As a consequence of the close relations maintained with the multilateral community, WSBI-ESBG has identified an increased pipeline of opportunities that directly or indirectly benefit WSBI members worldwide. These include regulatory, institution building and other organisational and operational initiatives in which WSBI-ESBG has a long track record, and also involves new fields coming on stream that impact banks relating to, e.g., implementation of environmental directives, project financing relating to energy efficiency, trade finance, and other relatively new areas. Further, it is intended during the coming year to build on the approaches received from WSBI members in emerging markets during 2007 that wish to initiate their own projects without the need for external support.

WSBI-ESBG differs from other advisory firms in the market in that we are not management consultants; we are bankers helping bankers, drawing on the intellectual capital of a unique worldwide network of banks. As such, we not only offer technical knowledge based on our international experience, but we and our experts are also grounded in the philosophy and culture of our consultancy clients.



OVERVIEW

The following table gives an overview of training and consultancy projects managed during 2007:

Training projects

- ▶ 18-19 January 2007 ▶ Bangkok, Thailand
Government Savings Bank of Thailand (GSB)
Workshop ▶ **Marketing Policies**

- ▶ 11-13 April 2007 ▶ Dakar, Senegal
PosteFinances
Workshop ▶ **Commercial Management**

- ▶ 13-14 June 2007 ▶ Dakar, Senegal
African Regional Members
Seminar ▶ **The use of Plastic Money**

- ▶ 04-29 June 2007 ▶ Brussels, Belgium
Postbank Uganda (First group of 15 people)
Scholarship ▶ **Branch Management Course**

- ▶ 02-06 July 2007 ▶ Brussels, Belgium
WSBI members in Central and Eastern Europe
SIM ▶ **Bank Management Simulation**

- ▶ 23-25 July 2007 ▶ Nairobi, Kenya
ASBEA
Seminar ▶ **Entrepreneurial Branch Management**

- ▶ 01-26 October 2007 ▶ Brussels, Belgium
Postbank Uganda (2nd Group of 15 people)
Scholarship ▶ **Branch Management Course**

- ▶ 14-16 November 2007 ▶ Nairobi, Kenya
Kenya Postbank
Workshop ▶ **Entrepreneurial Branch Management**

- ▶ 21-23 November 2007 ▶ Abidjan, Ivory Coast
Savings Bank
Workshop ▶ **Commercial Management**



WSBI / ESBG Financial Sector Development Project Selected Experience

- ▶ 2008-2010 ▶ Vietnam
SECO (Switzerland)
Training and Capacity Building Programme to the Banking Universities.
Development and delivery of specialised short term bank training programmes to Lecturers of the Banking Academy in Hanoi and the Banking University in Ho Chi Minh City.
- ▶ 2007-2008 ▶ Azerbaijan
World Bank
Advisory Services for detailed assessment of national Payment System Architecture and preparation of Strategic Plan for next 3 years for continuation of reform in payment system.
- ▶ 2007-2008 ▶ El Salvador
Delivery of Training to the Financial Institutions associated to FEDECRÉDITO in 'Recovery and Coverage', Marketing of Savings Products, ' Microcredits and Credits for SMEs' and in the 'Qualification of Credit Applicants'
- ▶ 2007-2008 ▶ Angola
FIRST Initiative (World Bank)
Development of NBFI Regulatory and Supervisory Frameworks in line with international standards in order to promote the development of the Non-Bank Financial Institutions sector in a diverse, modern, safe and sound manner.
- ▶ 2007-2008 ▶ Syria
EuropeAid
Management Skill Development Training Programme for the Banking Sector, improving the institutional capacity by developing skills of staff and management of Central Bank of Syria and the 6 state-owned banks through building of managerial knowledge
- ▶ 2007 ▶ Regional EU
European Commission DG Market
EU Study on Financial Literacy Schemes. Identification of schemes for financial education at ESBG members, analyzing best practice.
- ▶ 2007 ▶ Pakistan
Delivery of Presentations and Training on practical implementation of Basel II to Association of Chartered Certified Accountants and State Bank of Pakistan.

- ▶ 2007 ▶ Mongolia
Diagnostic Review of IT Network Architecture, Hardware, Software Security, Safety and Integration of Databases of Savings Bank of Mongolia, followed by a report presenting findings, challenges, solutions and recommendations and budget estimates for upgrading and maintenance costs.
- ▶ 2007 ▶ South Africa
Conducting a regulatory benchmark with Postal Savings Banks at the Postbank of South Africa. Assist Postbank with developing a regulatory benchmark, based on international best practice from postal savings banks that have already been corporatised. Presentation of trends & developments in postal banking.
- ▶ 2007 ▶ Vanuatu
EuropeAid
Needs Assessment Study at Vanuatu Financial Services Commission. Identification of weaknesses in the Commission, including proposals for modernisation / improvement with a SWOT analysis and an impact assessment of proposed measures on national and regional level.
- ▶ 2006-2007 ▶ Sudan
FIRST Initiative (World Bank)
Improving Access to Finance for Farmers in the Gezira Region.
Development of a plan to improve access to finance, in conjunction with World Bank's efforts to improve agricultural productivity.
- ▶ 2007 ▶ Uganda
Belgian Technical Cooperation
Training of cadres of Uganda Post Bank, mainly in areas relevant to Microfinance; evaluation, audit, financial analysis and credit risk management, management information systems, regulation, efficiency, etc. The training took place in Brussels, Belgium





ESBG MEMBER LIST

For up-to-date contact details, please visit ESBG members at www.savings-banks-directory.com

COUNTRY	MEMBER
Austria	Österreichischer Sparkassenverband (Austrian Savings Banks Association)
Croatia	Hrvatska postanska banka d.d. (HPB) (Croatia Postal Bank)
Czech Republic	Ceska Sporitelna AS
Denmark	3S Group
Finland	Säästöpankkiliitto (Finnish Savings Banks Association)
France	Groupe Caisse d'Épargne - Fédération Nationale des Caisses d'Épargne - Caisse Nationale des Caisses d'Épargne
Germany	Deutscher Sparkassen- und Giroverband e.V. (DSGV) (German Savings Banks Association)
Greece	Greek Post Office Savings Bank
Hungary	Országos Takarékpénztár és Kereskedelmi Bank Rt. (OTP)
Iceland	Samband Íslenskra Sparisjóða (Icelandic Savings Banks Association)
Italy	Associazione di Fondazioni e di Casse di Risparmio Italiane (ACRI) (Italian Savings Banks Association)
Latvia	Latvijas Krajbanka
Luxembourg	Banque et Caisse d'Épargne de l'Etat (BCEE)
Malta	Bank of Valletta Plc
Netherlands	SNS Reaal
Norway	Sparebankforeningen I Norge
Poland	Powszechna Kasa Oszczednosci Bank Polski SA
Portugal	- Caixa Económica da Misericórdia de Angra do Heroísmo - Montepio
Romania	Casa de Economii si Consemnatiuni
Russian Federation	Sberbank
Slovak Republic	Slovenska Sporitelna
Spain	Confederación Española de Cajas de Ahorros (CECA) (Spanish Confederation of Savings Banks)
Sweden	Swedbank
Turkey	Vakifbank Türkiye Vakıflar Bankası TAO
United Kingdom	Lloyds TSB Bank plc

ESBG – The European Voice of Savings and Retail Banking

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising about one third of the retail banking market in Europe, with total assets of €5,215 billion (1 January 2006). It represents the interests of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

ESBG members are typically savings and *retail* banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their *region*. ESBG member banks have reinvested responsibly in their region for many decades and are one distinct benchmark for corporate social responsibility activities throughout Europe and the world.



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Published by ESBG. Copyright June 2008