Shareholders Meeting 2013:

Chairman’s Address

Dear EBA CLEARING Shareholders and Friends,

Over the past year, EBA CLEARING has added another chapter to its corporate success story. A large number of steps were taken to ready the services of the Company for the current and upcoming challenges facing the industry and to optimally support our users in dealing with these challenges.

And in this year of the great rush towards the SEPA instruments, there is more in our delivery pipeline. We will roll out additional service functionality, processing enhancements and risk mitigation features.

If you only take into consideration the evolution of the STEP2 platform over the past two years, you already get an impressive picture of progress made for the benefit of our user community. But since 2013 marks the end of my third term as a Chairman of the EBA CLEARING Board, allow me to take you on a journey that goes back much further in time, to the beginning of my Chairmanship nine years ago. Let us look back for a moment and measure the long way we have come since.

When I was first elected Chairman at the Shareholders Meeting of 2004 in Budapest, the STEP2 platform was just one year old. And there was only one service running on it: a euro mass payment service for cross-border transactions called STEP2 XCT.

This service had one overnight cycle that settled in EURO1/STEP1. It had done its first file exchange in XML syntax only a couple of weeks prior to the 2004 Shareholders Meeting.

STEP2 XCT handled on average 100,000 payments per day and counted around 50 participants. It did, however, already extend full reach to banks across 14 European countries because of the entry point arrangements that had been put in place.
Since 2004, the Company has developed and implemented on the STEP2 platform three SEPA Services – SCT, SDD Core and SDD B2B. These services were delivered in close co-operation with the service users and always right on time for the launch of the respective EPC Schemes.

The Company also put in place two services for legacy transactions in Italy and Ireland. The two communities have been using these services as stepping stones for their eventual migration to the SEPA Services.

In addition, two national communities, Finland and Luxembourg, have already completed the migration of their domestic volumes to the STEP2 SEPA Services.

Today, the STEP2 SEPA Services settle in TARGET2 and the SCT Service alone counts six settlement cycles a day. The STEP2 SEPA Services extend reach to over 4,700 financial institutions in all 32 SEPA countries.

On average, the platform processes over 5 million transactions per day. In early April, STEP2 SCT had a peak day of 7 million payments.

In the second half of 2013, STEP2 is expected to see a very steep increase in SEPA transactions. The platform offers highly efficient features to handle these very large volumes. They include state-of-the-art batch processing modes for both SCT and SDD and a central matching of R-transactions.

From the third quarter of 2013 on, our users will be able to connect to STEP2 via SWIFTNet, SIANet and EBICS. By the end of the year, they will benefit from an even more robust infrastructure with three processing sites, complying with the highest resilience levels.

But let us return to the past, for a closer look at EURO1.

EURO1 was of course already a well-established large-value payment system in 2004. Thanks to its unique legal basis called the Single Obligation Structure, EURO1 achieves intraday finality of each individual payment message upon processing of the
message. This means that EURO1 qualifies as an RTGS-equivalent net settlement system and generates significant liquidity savings for its participants.

EBA CLEARING has continued to enhance this liquidity-saving capacity over the years. A major improvement was the introduction of the Flexible Settlement Capability – which is known as the Liquidity Bridge – in 2006.

The Liquidity Bridge has enabled intra-day pre-funding and liquidity distribution. It allows the EURO1 Banks to better control their payment flows and to optimise the recycling of their liquidity in the system. Between 2006 and 2011, the number of liquidity distribution windows during the day was increased from two to six.

The Company also introduced the Interactive Workstation in 2006. It supports the participants in managing and monitoring their payment flows in real time.

Because of the intraday liquidity savings that EURO1 allows its participants to generate for their euro payment business, the platform became a valuable tool during the first peaks of the financial crisis that started in 2007.

EBA CLEARING took further steps towards improving the liquidity efficiency of the system in 2009 when the distribution algorithm was enhanced. This brought up the distribution of pre-funded amounts to almost 98 percent.

The success of these measures is reflected in the usage of the system. EURO1 saw new volume records in 2012. The system enables banks to address more than 26,000 BICs across and beyond Europe, also thanks to the EURO1/STEP1 Directory introduced in 2009.

Risk mitigation has become another key focus in relation to EURO1 in the recent years. A number of measures have been implemented as part of the EURO1 Review and Reform Program started in 2011. EURO1 Banks are now in a position to more actively manage and reduce their counterparty risk towards the other participants.

In a phased approach, the mandatory element of the bilateral limits that EURO1 Banks have to extend to every other participant in the system was reduced from 5 million euro
to 1 million euro. At the same time, the maximum discretionary element of the bilateral limits was raised from 25 million euro to 50 million euro. Banks are now able to distribute the limits required to generate liquidity for their payments more in accordance with their own credit risk policies.

Work on risk mitigation issues continues, especially in the light of the new regulatory requirements that are currently in the process of being formally established. EBA CLEARING is committed to further evolving the EURO1 platform in close consultation with its participants – a Risk Managers’ Forum has just been created to further intensify this exchange.

With the milestones I have just mentioned, I wanted to give you an exemplary overview of the services and enhancements delivered by EBA CLEARING since 2004.

Those of you who participated in this evolution, who contributed through working groups or steering groups to the major assessment, consultation, implementation and testing processes that each of these deliveries involved, will have their own very precise memories of the efforts they required and the added value they have delivered.

It would have been understandable if EBA CLEARING had only focused on fine-tuning and improving its existing services over the last year or two, after the deployment efforts of the previous years. But this is not what we chose to do. Instead, we set out to explore new territory. Our objective was to extend the benefits of SEPA to the world of e-commerce.

Two years ago, we announced the start of our e-services initiative at EBAday. And this March, our e-authorisation solution MyBank was launched with 28 participants. Sixteen additional financial institutions have signed up for the second joining window. MyBank is scheduled to be available throughout Italy by the end of the year.

The Europe-wide deployment is expected to gradually follow over the next few months and years. MyBank has been warmly welcomed by e-merchants and other stakeholders across Europe.

The success story of EBA CLEARING does not end here.
The Company will continue to take the responsibility of being a unique, privately owned provider of pan-European payment infrastructure services very seriously.

Together with our banks and partners, we will keep ensuring the smooth operation of our payment systems. We will also continue to enhance our existing services and develop new ones in line with the evolving needs of our users in a truly integrated SEPA environment.

Much has changed since 2004, the year we celebrated the joining of the “New EU10 Member States” and the EPC issued its “Impact Paper towards PE-ACH” and approved its “Roadmap 2004-2010”.

EBA CLEARING grew from 43 to 73 employees during this period. We developed our organisational structure, creating an Investigations and Customer Support Unit under Operations, a Business Continuity and Information Security Management Unit, a Legal and Compliance Department, a Project Management Office, a Marketing Coordination Office, a Chief Risk Officer position and an Internal Audit Department. And we opened representative offices in Frankfurt in 2005 and in Milan in 2008.

But – as the deliverables mentioned earlier do testify – the Company has not lost any of its pioneer spirit or agility. It has even further expanded its capability to foster cooperation in the payment infrastructure space and onboard banks and partners on the journey towards European integration. And in the storm of the very complex payment market situation that we all have experienced in the last five years, EBA CLEARING has always been and, I trust, will continue to be a clear light to help us all in this journey.

I think nobody can deny the great value of biodiversity on Earth. In the transaction business, the country-neutral nature of our Company continues to enable synergies stemming from the biodiversity of different regions, areas, ideas and practices, up to the point where what Yesterday was a point of difference Today can be recognised as a value for the common good.
Finally, let me express a big thankyou to every single person of my Staff in the Bank, to every Member of the Board, to the Staff and the Executives of EBA CLEARING – with my special thanks to Gilbert Lichter – and to you, the Shareholders and Users.

I would further like to thank our Technology Partners for the quality of their services and their support to us. I would also like to express my appreciation to the Overseer and Regulators for the constructive dialogue we were able to entertain throughout the years.

During these nine years, all of you have helped, challenged, supported and encouraged me in my role of Chairman, always reminding me that Europe should not just be something a bit bigger than our own individual countries but rather a new dimension that belongs to us all.

Giorgio Ferrero
Chairman, EBA CLEARING

Berlin, 23rd May 2013