2014

EUROPEAN BANKING SECTOR

FACTS & FIGURES

European Banking Federation

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Federation

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The data contained in this publication has been compiled from publicly available information released by the European Central Bank, European Commission, Eurostat, the European Banking Authority, national competent authorities and members of the European Banking Federation.

About the European Banking Federation

Launched in 1960, the European Banking Federation is the voice of the European banking sector from countries in the European Union and the European Free Trade Association. Members of the federation are 32 national banking associations. The EBF represents the interests of some 4,500 banks, large and small, wholesale and retail, local and cross-border financial institutions. Together these banks account for over 80 percent of the total assets and deposits and some 80 percent of all bank loans in the EU alone.

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INTRODUCTION

The fifth edition of *EBF Facts & Figures* on the European banking sector that you are holding in your hands provides a comprehensive overview of trends in the banking sector, both at a European as well as a national level. This year, we are proud to say that a record 31 national banking associations have contributed to this publication.

For the European banking sector, the year 2014 will go into the history books as the year of the biggest-ever health-check for the industry. Before the launch of the Single Supervisory Mechanism in November, the European Central Bank, the European Banking Authority, together with national supervisors, concluded the comprehensive assessment of bank balance sheets that involved more than 6,000 experts and some 25 million data points.

The abundance of data on the balance sheets generated by this massive data-mining exercise has given deeper insights into the financial quality of European banks. Its objective was to create more transparency and to build confidence by enhancing the quality of information available on balance sheets, and to enable all stakeholders to assess the soundness and trustworthiness of banks.

As EBF we believe this exercise proves that the European banking sector is robust, and that there is no reason to believe that a financial crisis like in 2008 can repeat itself. The results should dispel any lingering doubts on the health of the European banking sector.

Anyone studying the European banking sector will see the outcome of the unprecedented comprehensive assessment as a natural first stop. It also makes for a natural addition to *EBF Facts & Figures*, which is why we have included a special chapter on the assessment.

Our members represent some 4,500 banks in 32 countries. Our industry is undergoing constant change, driven by new regulation as well as changing consumer behaviour. These changes can be measured, in facts as well as figures. Please enjoy this publication for what it aspires to be: a simple but useful reference guide with facts and figures on the European banking sector.

Wim Mijs
Chief Executive, European Banking Federation

CHAPTER 1

ECONOMY, CAPITAL AND PROFITABILITY

The EU economy

After the contraction that marked 2012, the EU economy expanded by a stagnant 0.2% in 2013. This growth rate was considerably below that of international partners, such as the United States (2.2%), and Japan (1.5%).

The ongoing deleveraging in the corporate, household, government and financial sectors is the key factor making the EU economy less dynamic compared to other parts of the world.

Investment and job creation in particular have continued to feel the hit. Capital expenditure in the euro area has fallen from a level of around 23% of GDP prior to the crisis to 18% in 2013. Similarly, the number of unemployed people is estimated to have risen to seven million in the same period.

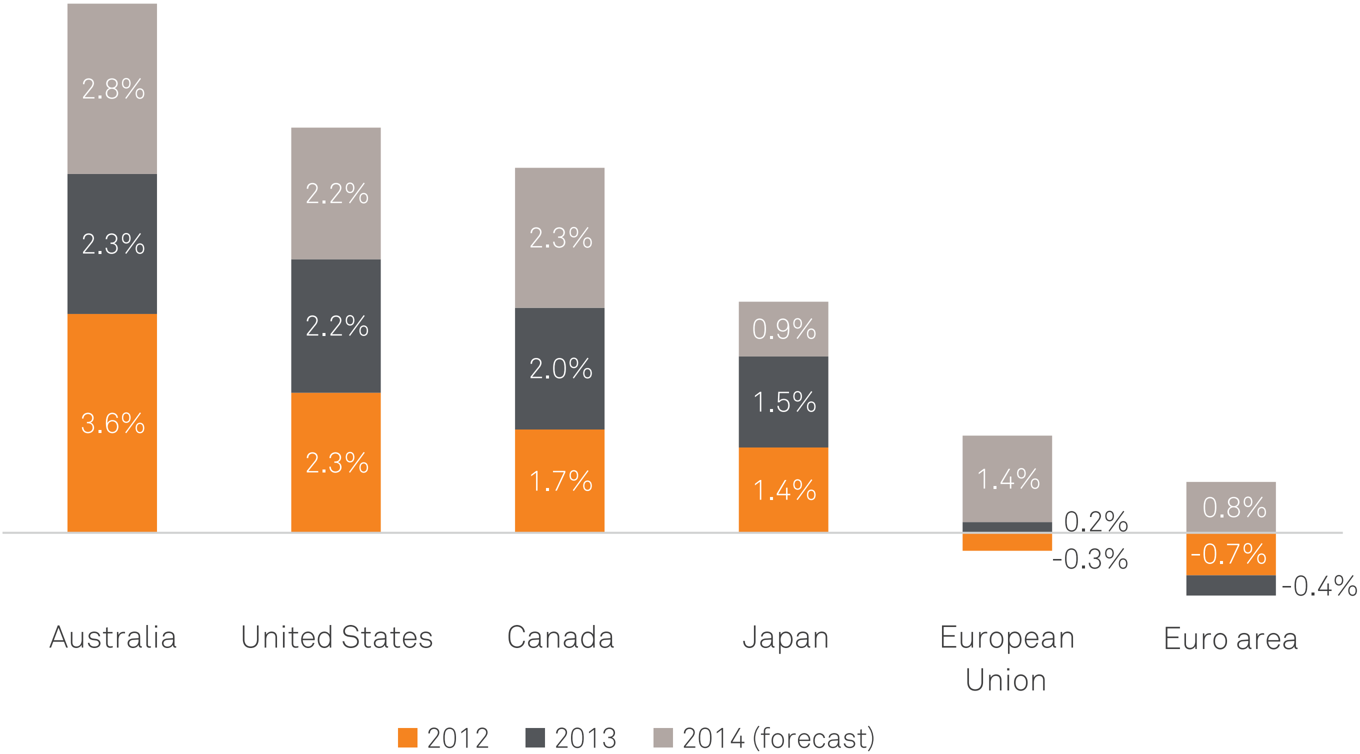
As a result of a number of different forces, including declining commodity prices and the weaker than expected economic environment, inflation in the euro area has remained below expectations. In an increasing number of countries, prices are declining.

Consequently, a scenario of protracted stagnation and low inflation in Europe is increasingly taking shape. This would make it more difficult to achieve the relative price and fiscal adjustments that remain necessary to enable the EU to meet pressing challenges including high unemployment and debt sustainability.

To counter the risk of the EU entering this scenario, policy makers have tried to streamline their efforts towards reigniting economic growth in the EU.

While overall progress across Europe remains insufficient, in a number of euro area countries, including Spain, Ireland and Portugal, efforts to implement the

Figure 1: Real GDP growth
%



much needed structural reforms appear to be both continuing and beginning to bear fruit.

The new European Commission president, Jean-Claude Juncker, has presented a plan that would produce €315 billion in investment over three years. To contribute further to the goal of boosting investment, the European Commission intends to press ahead with a series of proposals to unlock capital and savings, under two far-reaching projects: long-term financing and capital markets union.

The European Central Bank has repeatedly cut its main interest rates – introducing negative deposit rates. Partially as a result of these measures, the Euribor rates, especially short-term rates, are now close to entering the territory of negative interest rates.

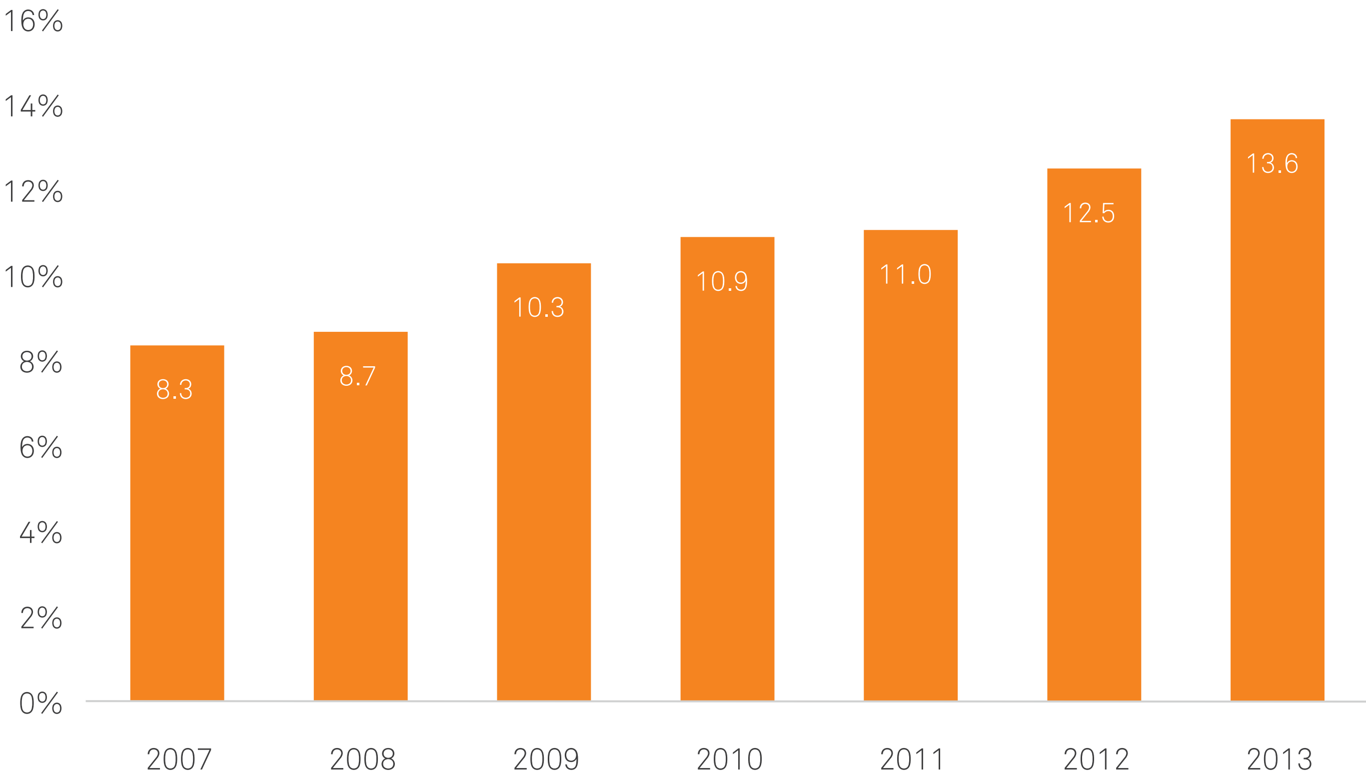
In an even more resolute attempt to counter deflation, and to reduce the financial fragmentation presently restraining credit flow to the euro area periphery, the ECB also launched a quantitative easing programme in October 2014. This package includes asset-backed securities programme and covered bond purchase programmes, as well as the targeted longer-term refinancing (TLTRO) operation launched in June.

Bank capital

Soon after the onset of the financial crisis, new regulations were introduced at the EU and international levels. Bank solvency and liquidity requirements tightened considerably. Driven by these developments, EU banks have been strengthening their capital base in a number of ways

In particular, EU banks have pursued efforts to increase their ratio of equity capital to total risk-weighted assets (RWA). This index, defined as the Tier 1 ratio, climbed from 8.3% in 2007 to 13.6% in 2013. This ratio is now

Figure 2: Tier 1 capital ratio
EU-28, %



slightly above the ones of US banks, 13%, and Japanese banks, 12.5%.

Considering 2013 only, the Tier 1 capital ratio of EU banks increased by 1.1%. Among the largest countries, this index has moved from 13.8% to 15.2% in Germany, 13.3% to 13.2% in France, 12.3% to 14.4% in the United Kingdom, 10.5% to 10.6% in Italy and 9.8% to 11.8% in Spain.

Banks' enhanced financial strength will enable financial institutions to be more resilient in case of external shocks. Furthermore, financial stability in the European Union will benefit from the progressive implementation of the banking union, an important phase being the ECB's take up of its role of euro area supervisor from November 2014.

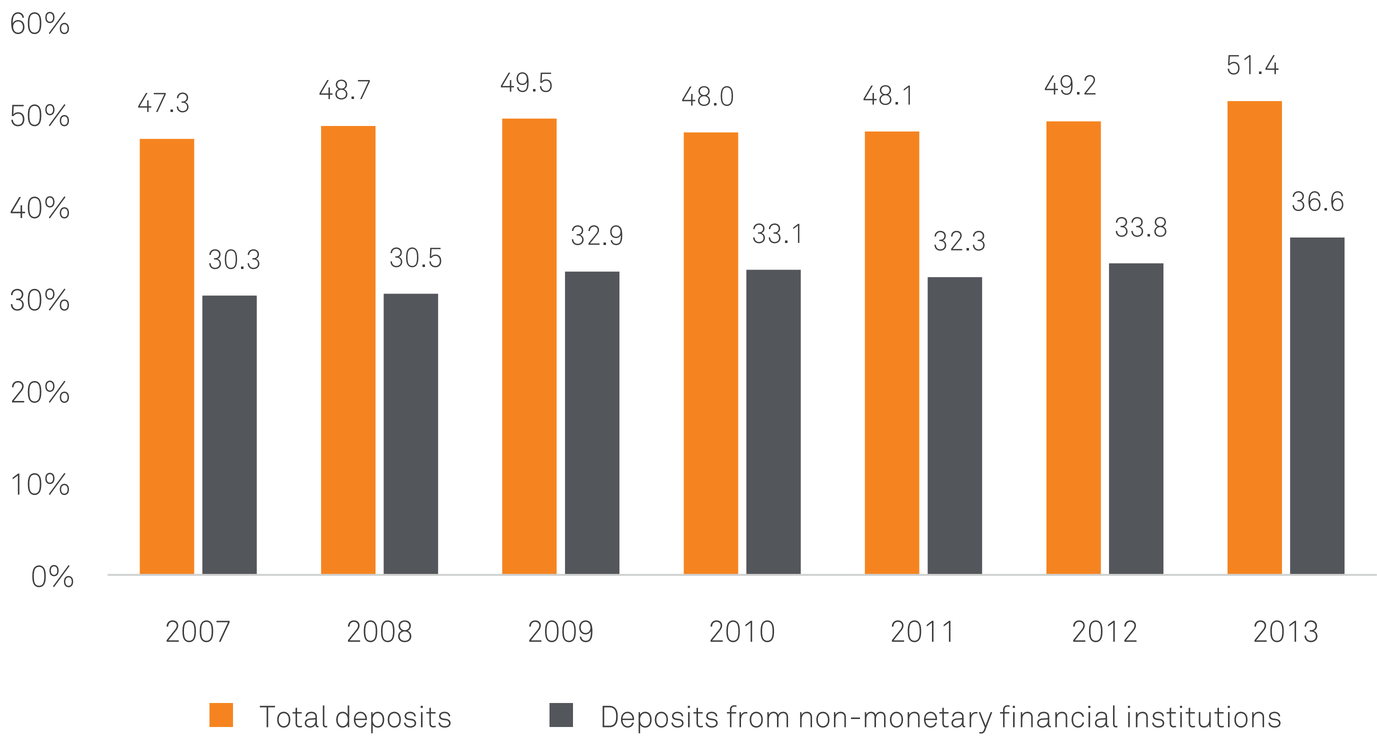
Bank funding

Reflecting bank shifts towards greater reliance on deposits as a source of funding, the share of deposit liabilities over total assets has increased significantly since 2007. In particular, an increase from 49.2% to 51.4% was observed in 2013.

The rise in the share of non-banks' deposits to total assets has been even more pronounced. In 2013, this climbed from 33.8% to 36.6%.

The overall figures mask the very heterogeneous reliance on deposit liabilities across the EU banking sector. At the end of 2013, the lowest shares were recorded in Denmark (27.3%), Sweden (32.6%), and Ireland (38%). This reflects, in part, different banking models, for example the well-developed covered bond markets in Scandinavia. On the other side of the spectrum, some 73.4% of Slovakian banking sector assets were financed by deposits. This

Figure 3: Deposits in EU banks as a share of total banking assets
%



rate was 69.5% in Slovenia and 67.5% in the Czech Republic.

The growing reliance on deposits as source of funding, combined with stagnant credit growth to businesses, highlighted in chapter three, led to a steady decrease in the EU loan-to-deposit ratio since 2007, and a reduction in banking leverage. This ratio fell from around 125% in 2008 to 109% in 2009.

Bank profitability

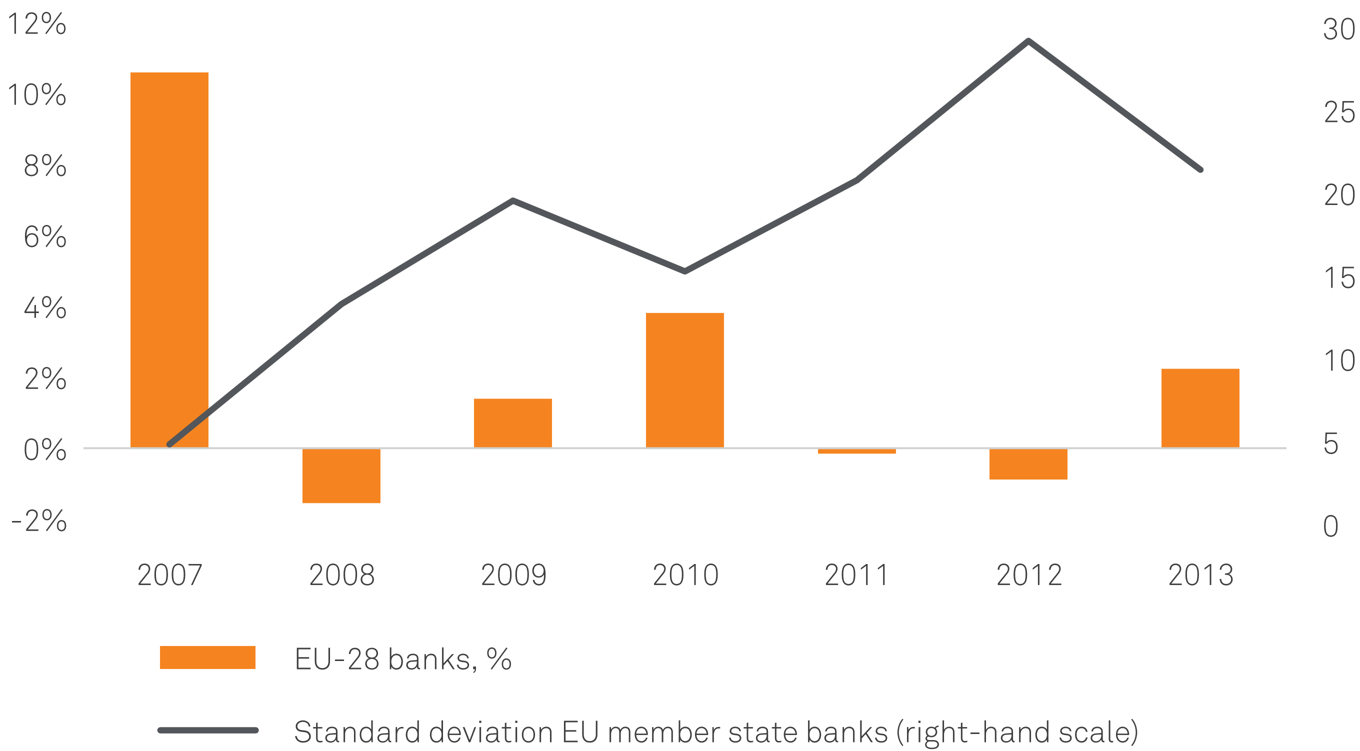
Since 2008, return on equity (ROE) - a key indicator to assess the bank sector's attractiveness for investors - in the EU banking industry has remained subdued. As a result of the severe impact of the euro area crisis, this ratio has been negative in the years 2008, 2011 and 2012. It recovered slightly in 2013, but the 2.2% average rate recorded in 2013 was still considerably lower than the 10.6% seen in 2007.

The return on equity across EU countries has diverged since 2008. As an evident sign of growing fragmentation, particularly across the euro area, the dispersion around the average return on equity in 2013 was more than twice that prior to the crisis.

Reflecting this, the ROE average in the banking sector was -90.2% in Slovenia, -45.8% in Cyprus and -13.2% in Ireland. Conversely, this ratio was on average 11.4% in the Czech Republic, 11.1% in Sweden, and 10.7% in Estonia.

In the largest EU economies the return on equity in 2013 was 1.3% in Germany, 6% in France, 2.2% in the United Kingdom, -11.5% in Italy, 5.8% in Spain and 5% in the Netherlands.

Figure 4: Return on equity



CHAPTER 2

STRUCTURE, ASSETS AND DEPOSITS

Number of banks and staff

The long standing trend of rationalisation of the number of credit institutions continued into 2013. Over the past decade, the number of EU-28 credit institutions declined by around 1,500 institutions, falling to 7,726 in 2013. This financial consolidation has only slightly slowed down in the last year (with a fall of 2.1% against the 2.5% the year before). The countries having experienced the largest contraction in absolute terms were Cyprus (-36 units), Germany (-27) and Spain (-24).

In line with this trend, the staff employed in the banking sector also continued to shrink. EU-28 banks now employ 2,940,121 people, 3.9% less than in 2012. Including EFTA countries, the number of staff in the banking sector reached 3,080,753, 3.7% less than in 2012.

Not surprisingly, the five countries with the largest number of jobs in this sector are the five largest EU economies: Germany (651,000), the United Kingdom (over 421,000), France (almost 416,000), Italy (almost 307,000) and Spain (some 215,000).

Looking at the average number of inhabitants per bank staff in the EU member states, the number of citizens for every banker ranges from 20.5 in Luxembourg to more than 354 in Lithuania, a difference of more than 17 times.

Branches and subsidiaries

The rationalisation taking place in the EU banking sector has largely involved bank branches. In the EU, the total number of branches fell by 4% in 2013, down from 219,715 to 211,002. The total amounts of the assets held by branches have fallen, however, to a more limited extent: 2.3%.

Figure 5: Total number of credit institutions

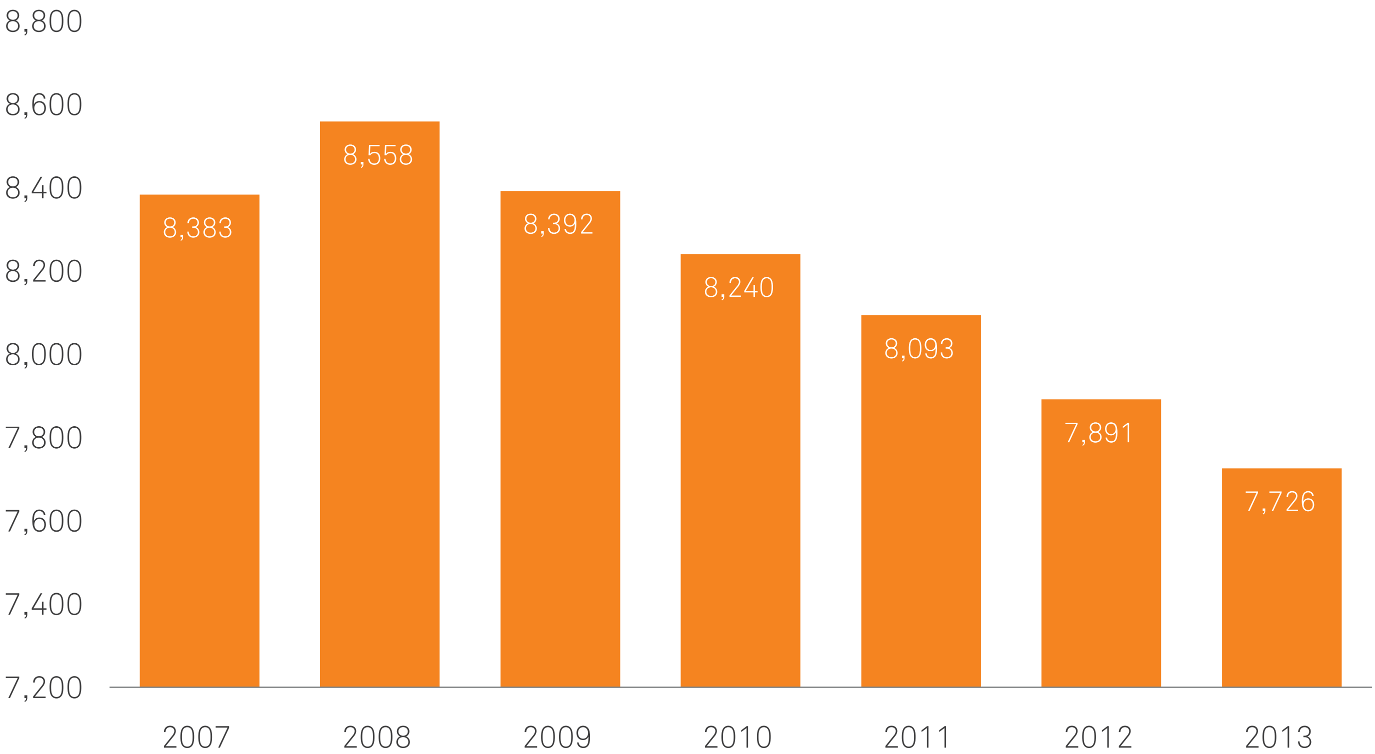
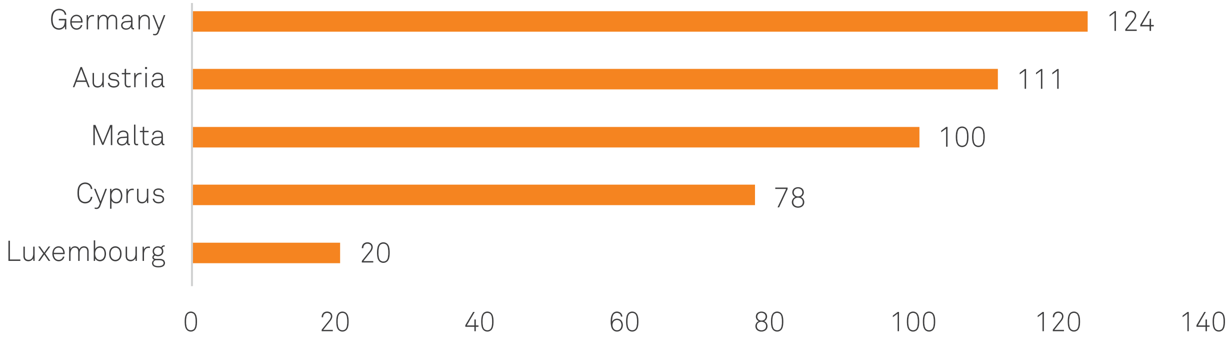


Figure 6: Inhabitants per bank staff

EU countries with the lowest number of inhabitants per bank employee



EU countries with the highest number of inhabitants per bank employee

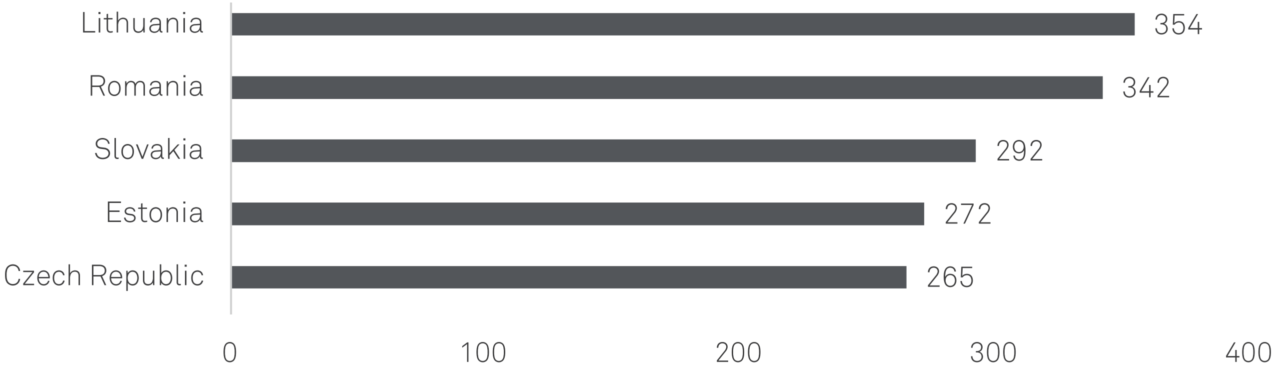
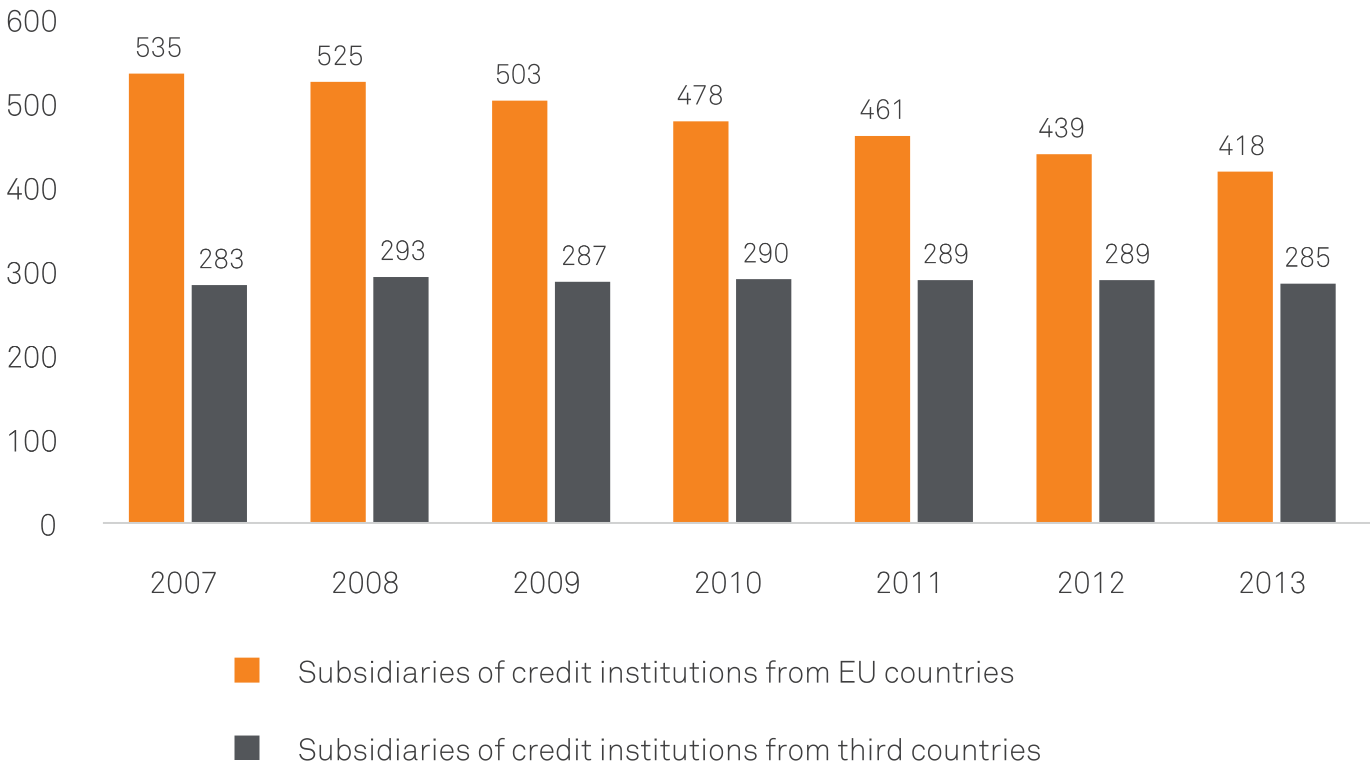


Figure 7: Credit institution subsidiaries



The overall number of subsidiaries has also been declining, but this trend has been almost entirely driven by subsidiaries of banks from other EU countries. As a result, the share of subsidiaries from third countries has climbed from 34.6% to 40.5% between 2007 and 2013. The total number of subsidiaries in 2013 in the EU was 703, of which 418 were from EU countries and 285 from third countries.

Assets

In terms of balance sheets, the year 2013 was marked by a considerable decline in the total assets held by EU banks. This stock amounts to €42.5 trillion, 6.6% less than in 2012. The share of these assets coming from the euro area has remained stable at 74.4%.

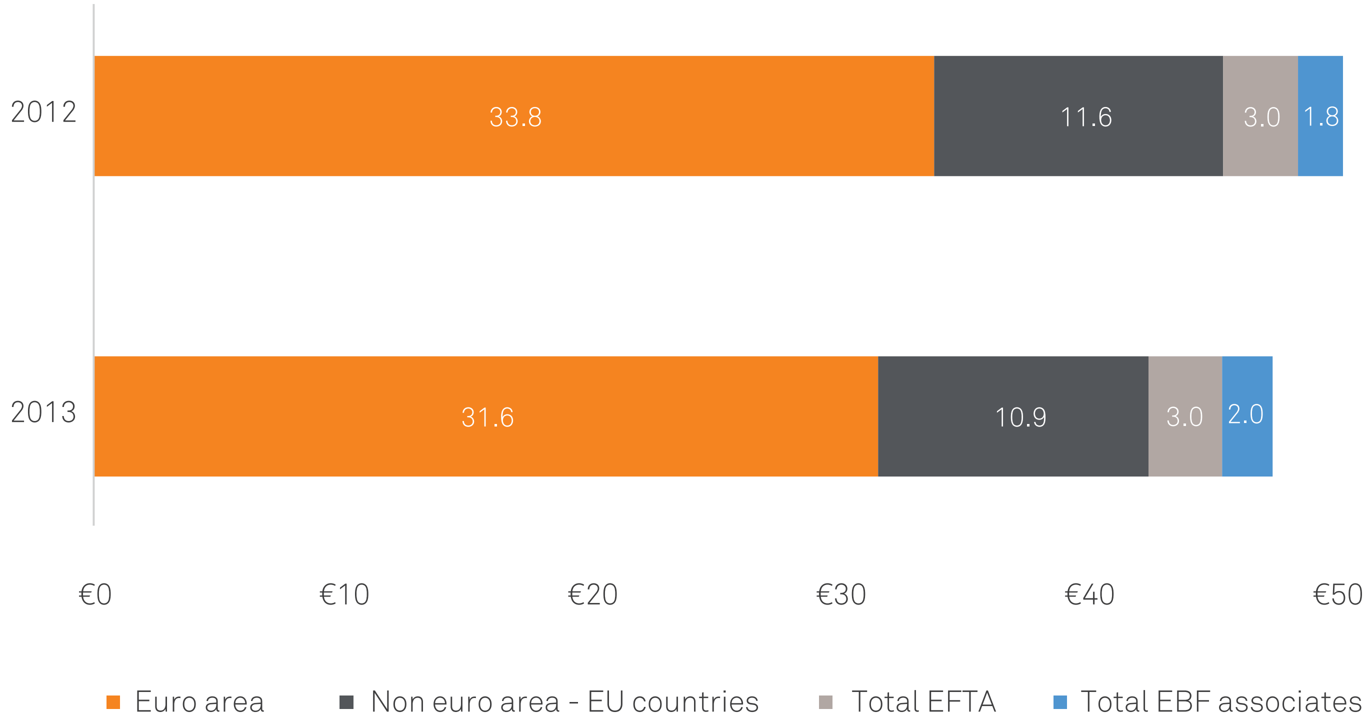
In absolute terms, the largest contribution to this fall came from some of the largest EU economies, including Germany (-€697 billion, 8% of total assets), and the United Kingdom (-€664 billion, 7% of total assets). But the countries that have experienced the strongest deleveraging in relative terms were Cyprus (-30%), Ireland (-13%), Finland (-12.5%), and Spain (-12%).

Conversely, eight EU countries have seen an increase in the total assets of their banks in 2013. This group mostly includes EU central and east European countries. In particular, the total assets between 2012 grew by 4.4% in Bulgaria, 4% in Hungary and 2.5% in Latvia.

While EU banks are deleveraging, leverage across other large global economies is increasing. For example, the total assets of commercial banks in the United States have increased by some 7% in 2013.

Figure 8: Total assets in EU banks

€ trillion



Deposits

Having been on the increase since 2007, the European Union's bank deposits slightly contracted in 2013, by 2.5%. This contraction was generated in the euro area.

In total, the 76.2% of all EU deposits are held by banks headquartered in the euro area. This share has changed very marginally in the last few years.

Between 2012 and 2013, significant deposit outflows took place in Cyprus (-28.5%), Ireland (-17.1%) as well as Greece (-15.9%). At the same time, strong growth in the stock of deposits was registered in Latvia (44.5%), Bulgaria (8.5%) and Hungary (4.8%).

In terms of the geographical share of the outstanding deposits, Germany alone holds the 20.5% of the total. It is followed by the other largest economies such as United Kingdom, France, Italy and Spain.

Figure 9: Total deposits in EU banks
€ trillion

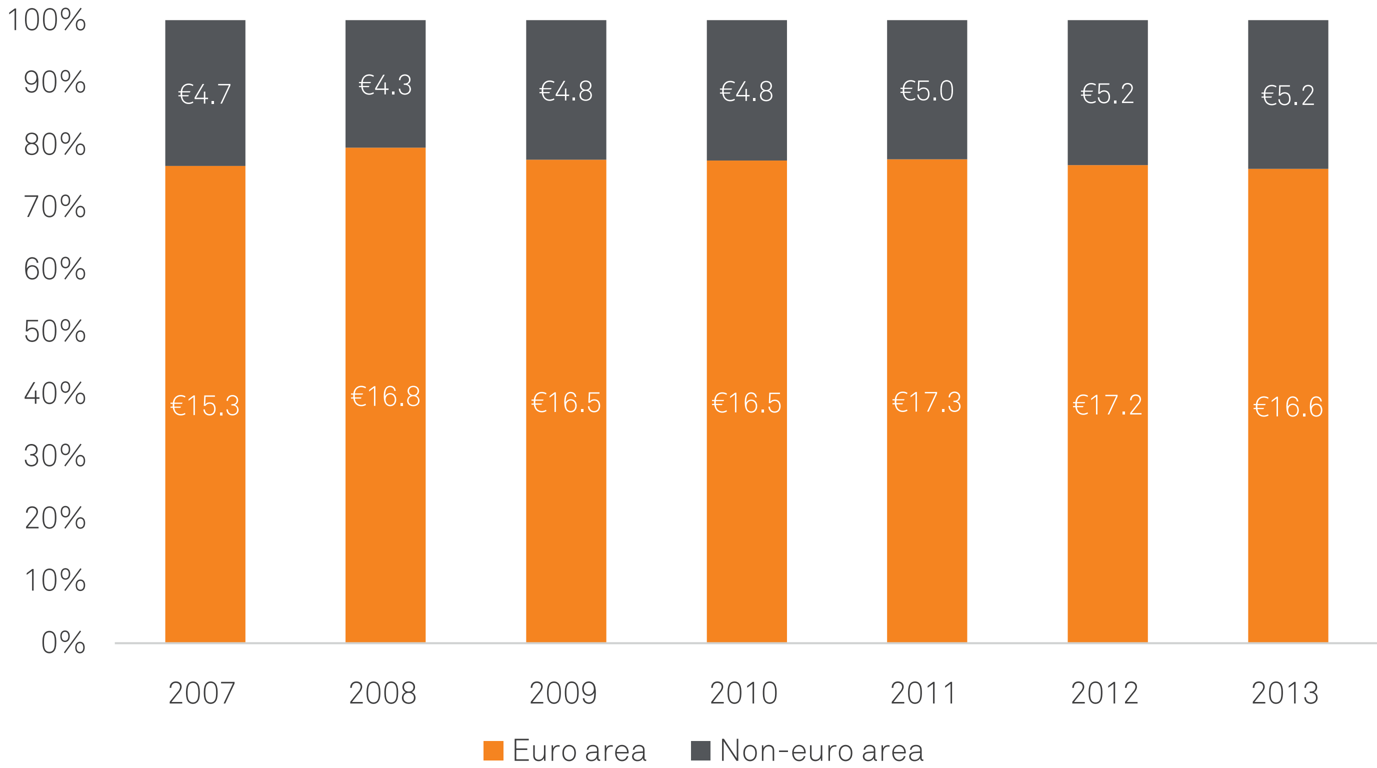
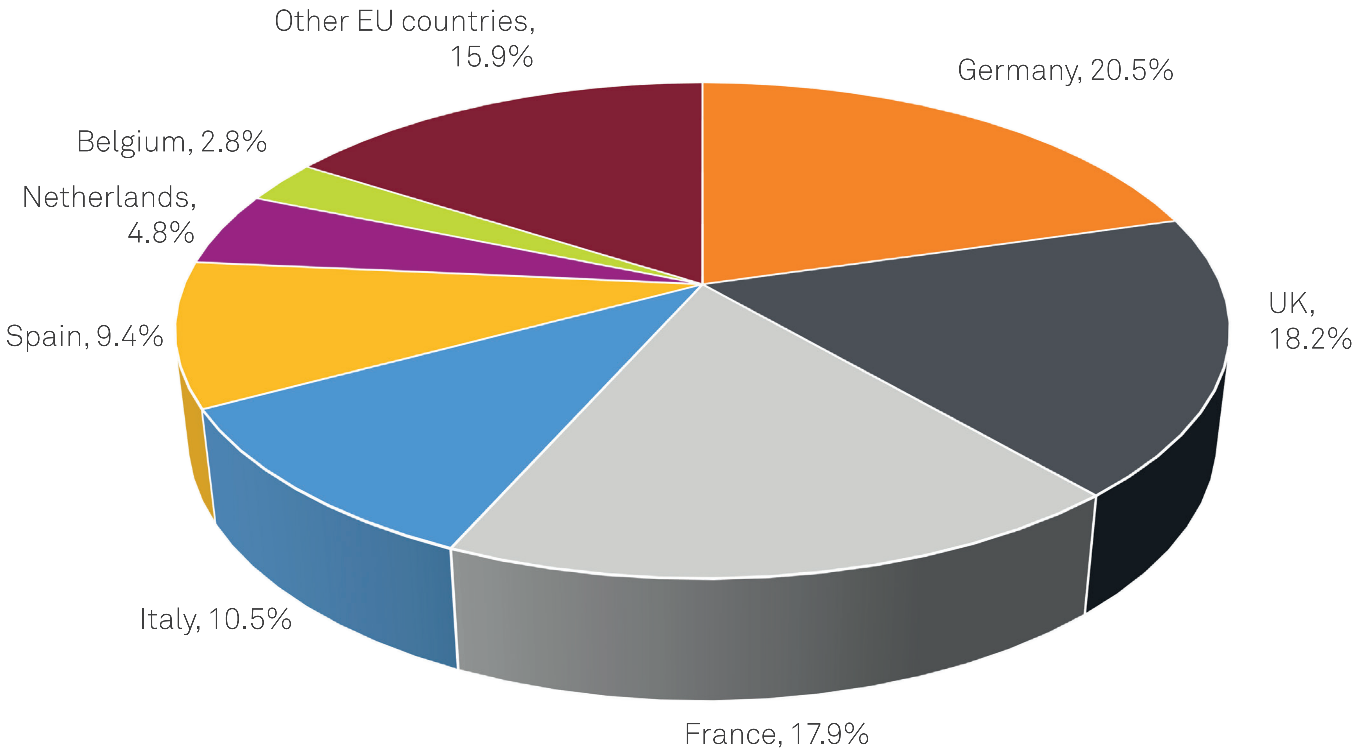


Figure 10: Bank deposits
Share by country



CHAPTER 3

LENDING AND MARKET FINANCING

General trends

European banks play a leading role in financing the economy, by providing the 80% of euro area business financing. US business, by contrast, fund 15% of their activities through loans, and the remainder through securities. That is why the lending capacity of banks is of utmost importance in Europe, where SMEs in particular are dependent on bank loans.

Corporate demand for bank loans has been low due to lacklustre economic growth while overall demand remained sluggish in Europe. In addition, increased risk aversion in favour of rebuilding the capital base has played a strong role.

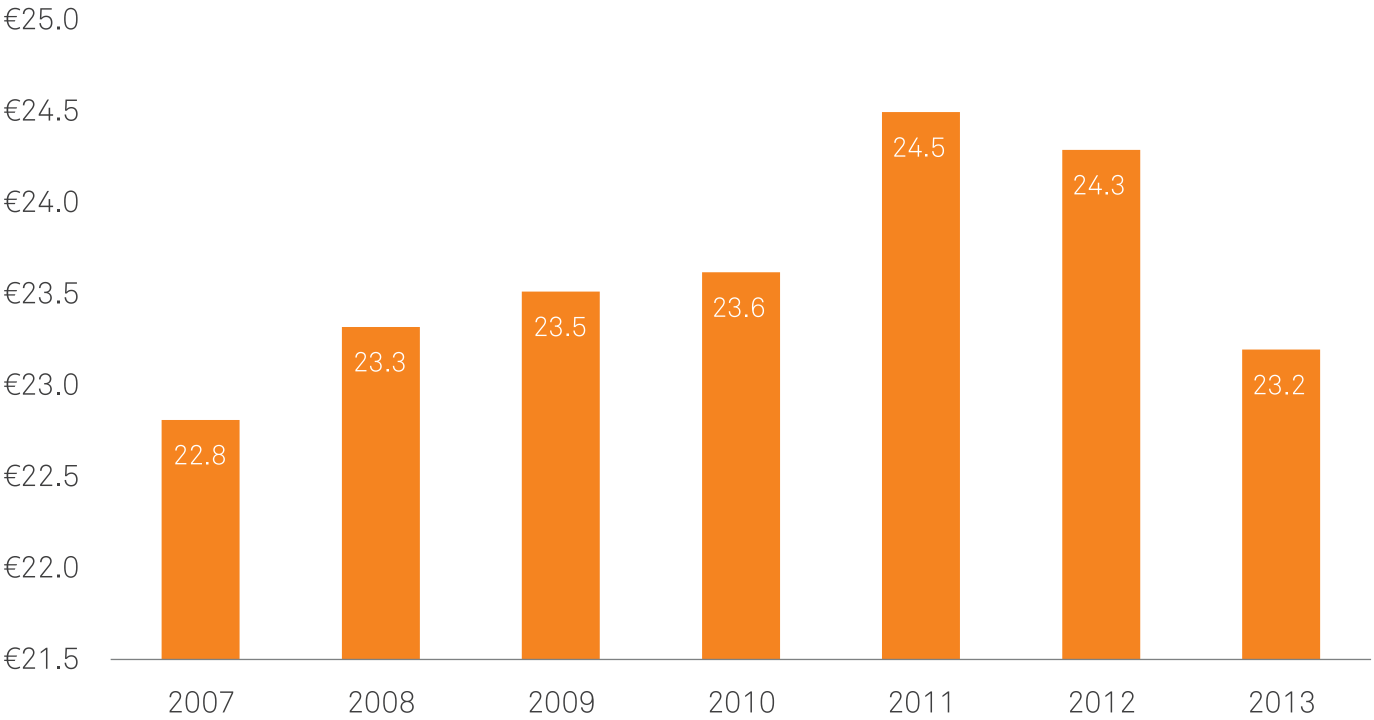
Further, bank lending availability has become tighter as the financial crisis peaked and led to increased funding costs for banks, compounded by the cost of implementing new regulations aimed at increasing financial stability. Higher funding costs for banks led to higher loan spreads for bank customers.

While economic sentiment slowly started to improve in the last months of 2013, the vicious circle of mute growth, investment and credit demand continues to hold back a pick-up in lending activities.

In 2013, the volume of loans provided by EU banks was €23.2 trillion, equivalent to about 1.6 times of the EU's GDP. While a contraction of €900 billion was recorded in 2013, the volume of loans still remains in line with pre-crisis levels of around €23 trillion.

Figure 11: Total monetary financial institution loans

EU-27, € trillion



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Loans by geographic area and sector

Trends across countries since the crisis have been extremely divergent. In France, banks have increased their lending by €663 billion between 2007 and 2013. This rise was €205 billion in Sweden, €98 billion in Poland, €96 billion in Finland and €94 billion in the Netherlands. At the same time, credit volumes contracted in a group of euro area countries, including Spain (-€354 billion), Ireland (-€269 billion) and Belgium (-€188 billion).

However, contracting credit volumes do not necessarily mean a contraction of the financing of the economy. The decline can be due to a decrease in interbank lending or an increase in securitisation (both elements have no negative impact on the financing of the real economy).

For example, the contraction in Belgium is mainly due to interbank lending and lending to foreign counterparts. Lending to households or non-financial companies ('the real economy') actually increased during the period. Some technical elements need be to be taken into account as well (in Belgium approximately €100 billion of securitised loans are not included in the figures).

73.3% of total lending comes from the euro area. Prior to the crisis, this share was above 77.8%. The contraction has been relatively greater in the countries most severely affected by the sovereign bond crisis. In Greece, Ireland, Italy, Portugal and Spain together, weak demand led to a substantial fall in loans. The €5.1 trillion of loans provided to the economy in these five countries is 16.5% below the pre-crisis peak.

Most loans provided by EU banks go to households (€7.5 trillion, 32% of the total). Of this, around 80% is provided for the purchase of real estate. The second and third groups of recipients of EU bank financing are other financial institutions (27% of the total), and non-financial corporations (22% of the total). Only 5% went to governments.

Figure 12: Change in total monetary financial institution loans, 2007-2013

€ billion

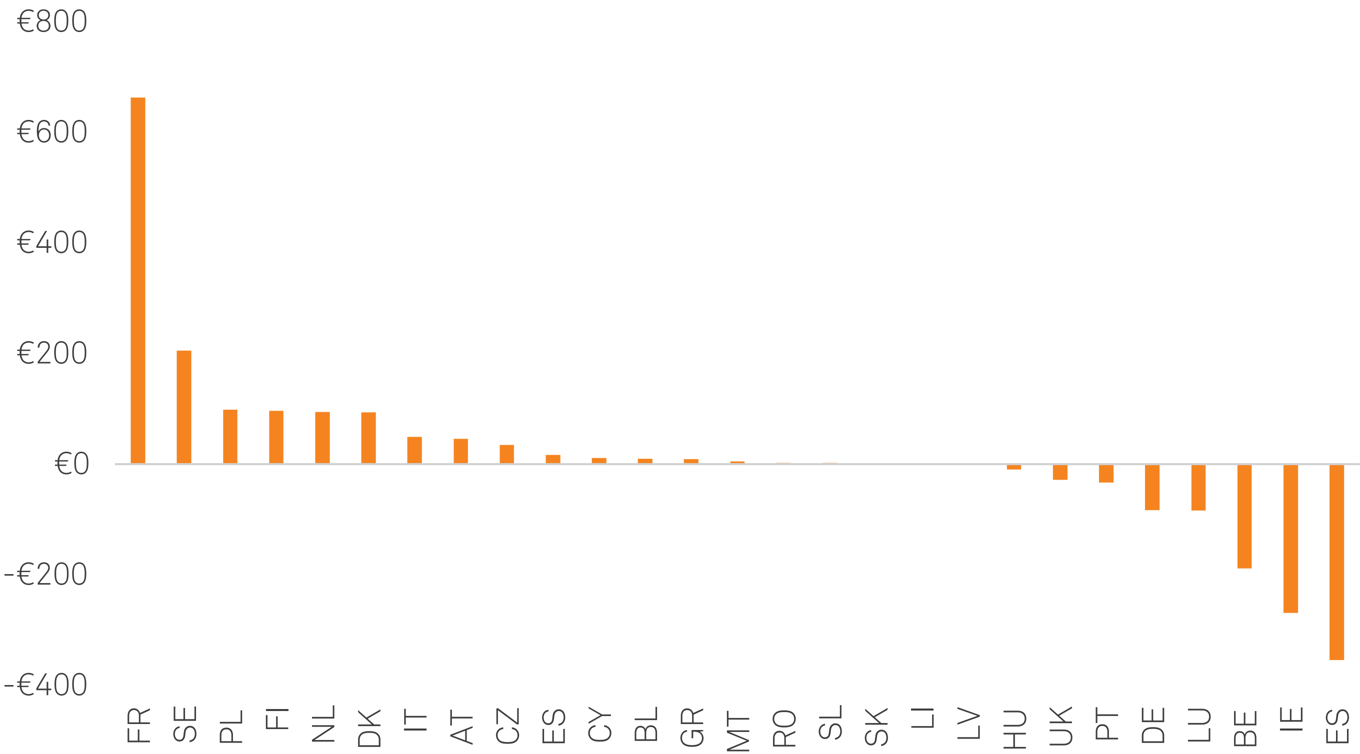


Figure 13: Total loans in Europe by geographic area
€ trillion

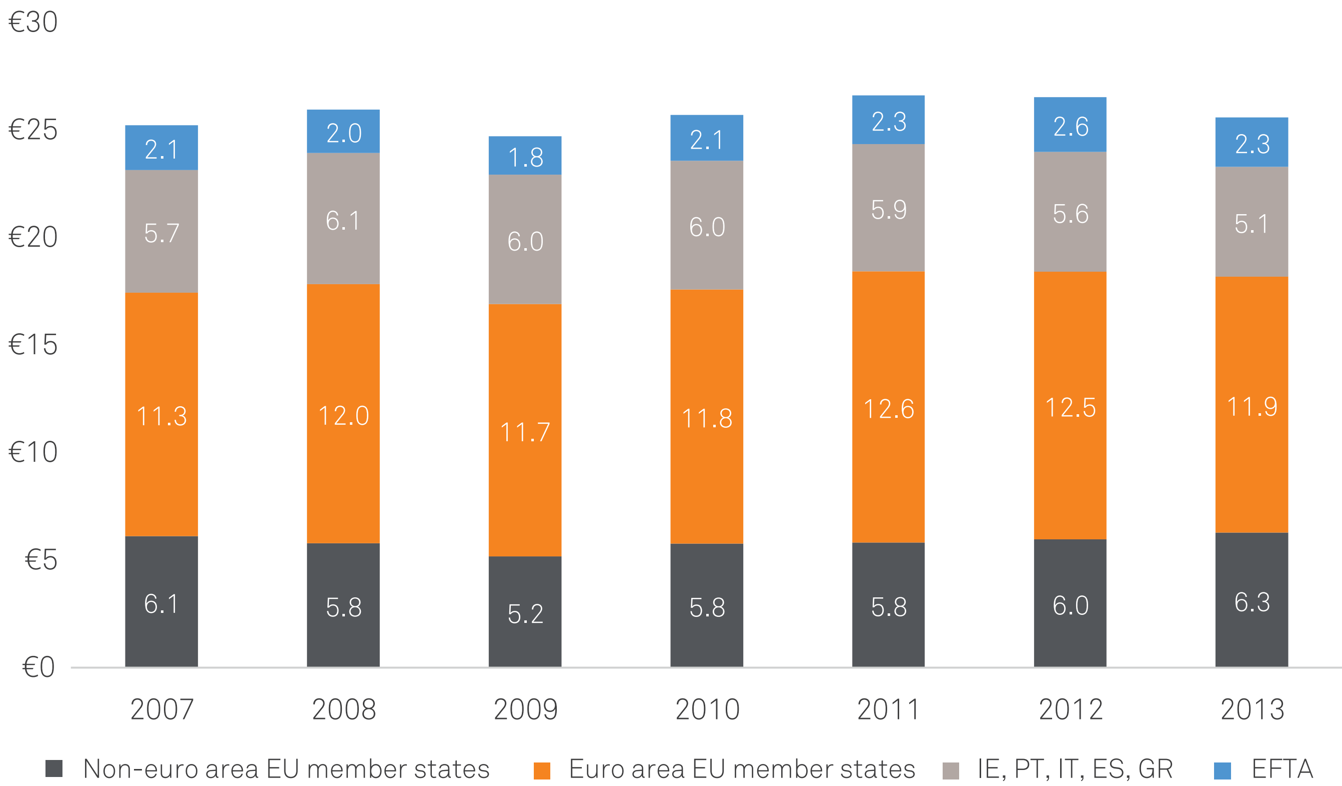
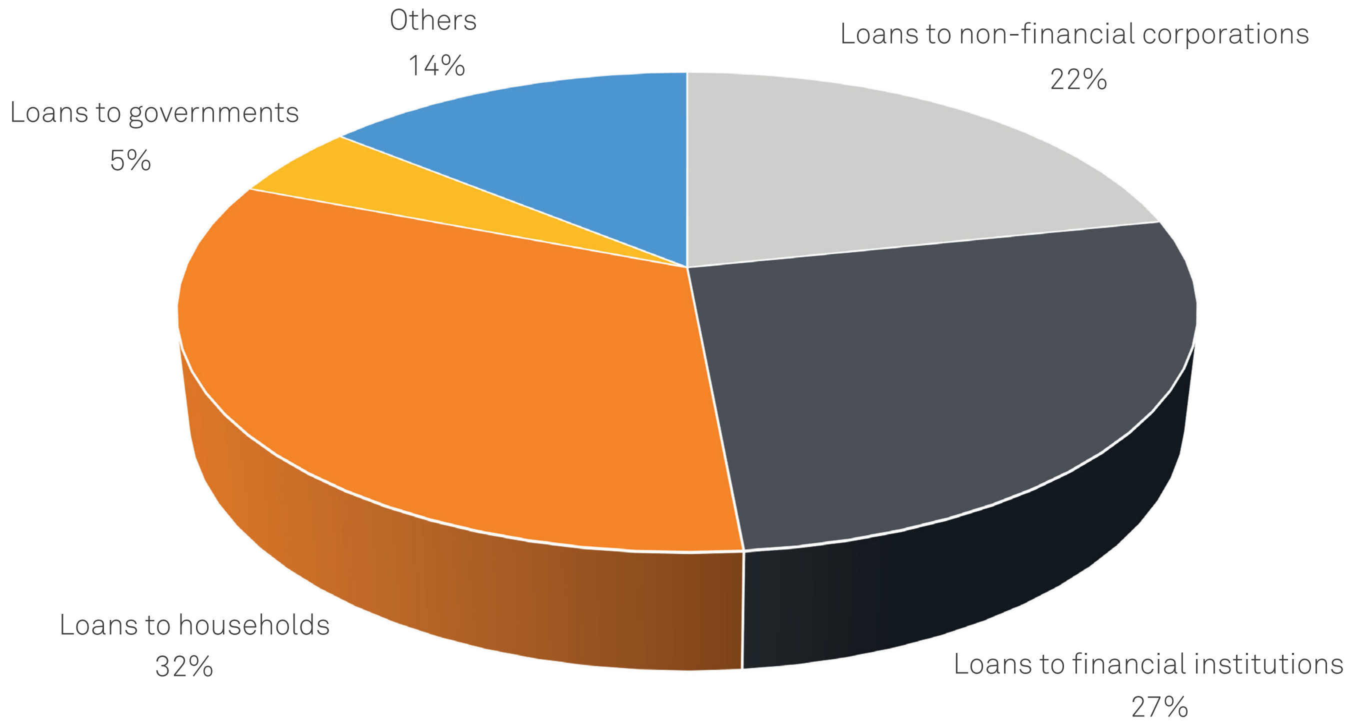


Figure 14: EU bank loan volumes by sector, 2013



Loans to non-financial corporations

The protracted weakness of the EU economy in 2013 has led to a decline in the outstanding volume of loans to businesses. In 2013, the volume of these loans fell by €232 billion (or -4.4%).

This contraction came, to a substantial extent, from the euro area periphery, still struggling with anaemic economic growth. In particular, loans to non-financial corporations fell by €99 billion in Spain, and by €50 billion in Italy.

The increasing credit risk helps explain the trend in these countries. In Spain and Italy the share of non-performing loans has moved from 2.6% and 5% in 2008 to 7.9% and 12.9% in 2013. Similar trends have been leading to an increase in losses on loans by the banks operating in a number of euro area countries.

This trend, underscored by the weak economic environment, is confirmed by further evidence coming from the ECB's lending survey.

Assessing the ECB's lending survey responses, it is possible to aggregate the factors that have led to a tightening (or an easing) of credit standards to SMEs. This analysis shows that the adverse economic situation is by far the main factor driving the tightening in countries including Spain, Italy and France.

As the survey illustrates, the position is very different in Germany, a core euro area member state. Less affected by the economic crisis, the answers concerning this country are much more balanced. Overall, the only factor positively contributing to an easing of credit standards to SMEs has been the increased bank, and non-bank, competition.

Figure 15: Loans to non-financial corporations

EU-27, € trillion

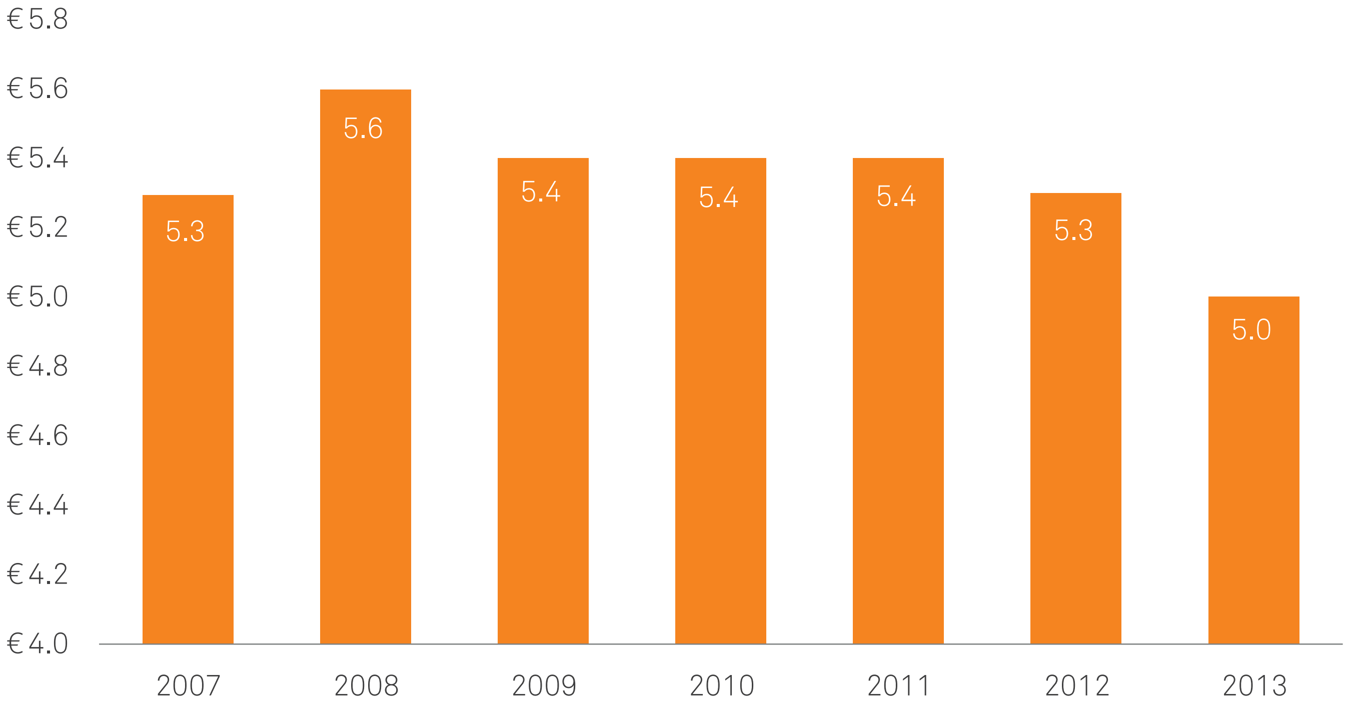


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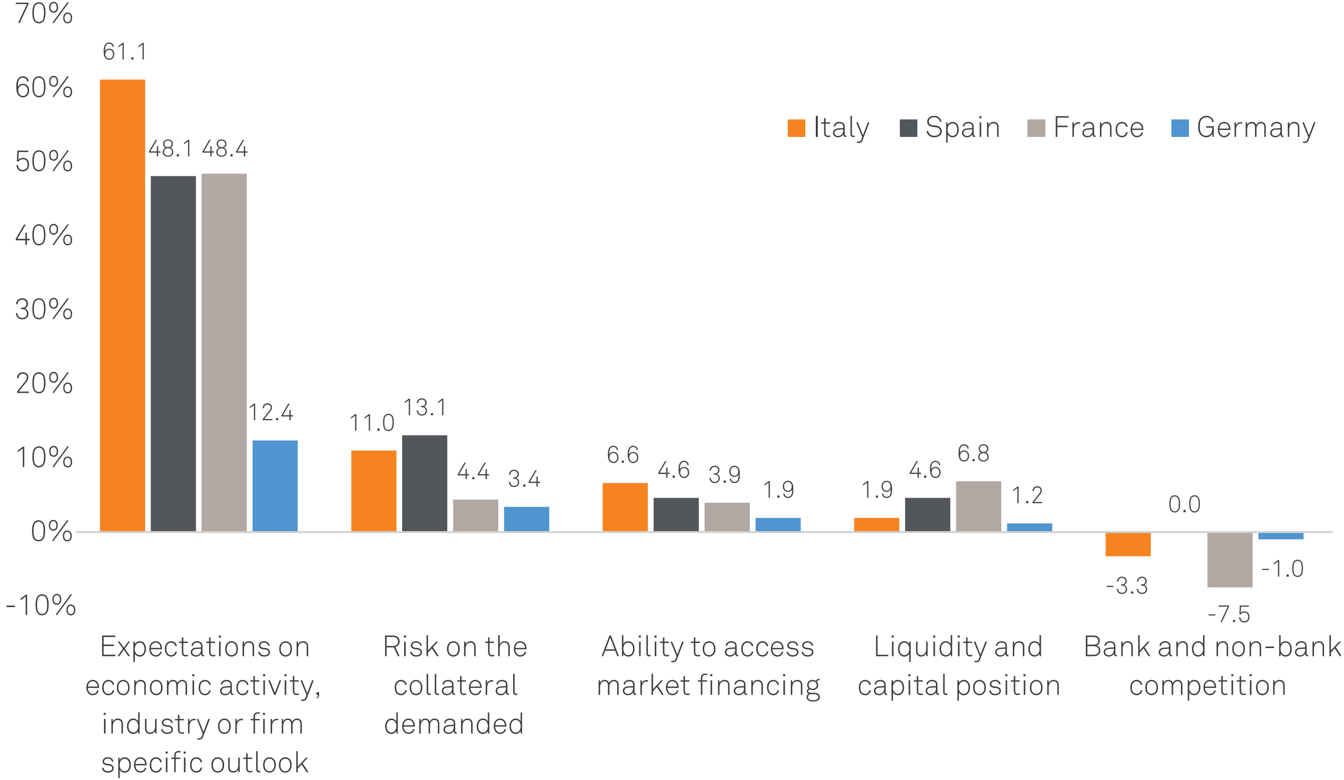
Figure 16: ECB lending survey, factors affecting credit standards applied to approval of lending to SMEs, Q2 2008 - Q2 2014
Net % of factors contributing to tightening of credit standards



Euro area non-financial corporations financing through capital markets

Large companies have recently tried to finance their activities by issuing more bonds. Generally, large corporations with more than 250 employees and external credit ratings are able to tap the into capital markets directly to issue commercial paper and bonds.

During the worst years of the financial crisis, bond markets, on average, have been more favourable towards euro area companies than euro area financial institutions. Consequently, a number of large companies in Europe have switched the focus of their financing towards capital markets.

This trend is clearly visible in the securities issues statistics provided by the European Central Bank.

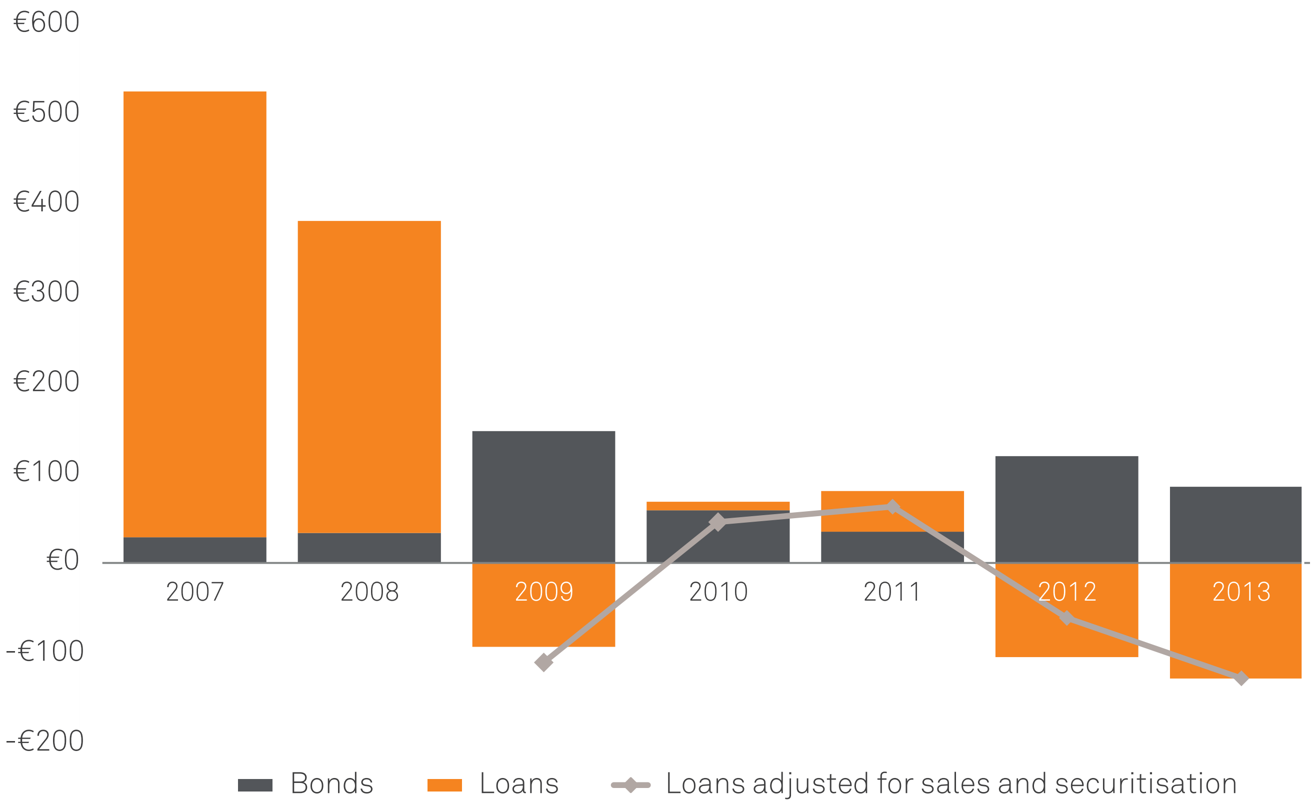
Until 2008, the loans granted by credit institutions increased faster than corporate bonds: the total loan stock to non-financial corporations in the euro area stood at the end of 2008 at €4.827 billion and the total stock of bonds at €569 billion. The share of bond financing represents 10.5% of total financing.

By the end of 2013, loan stocks have decreased by €4.8 billion, down to €4.3 billion. At the same time, bond stocks have almost doubled in size, to €973 billion, 18.3% of total of loan and bond financing.

The amount of bonds issued by non-financial corporations has clearly complemented bank loans in recent years. In 2013, non-financial corporations in the euro area issued €84.6 billion in bonds on a net basis.

In spite of the increasing trend in the euro area corporate bond market, new issues are very concentrated in some countries. In 2013, 76% of new bonds (on a gross

Figure 17: Annual net funding of euro area non-financial corporations
€ billion



basis) were issued in France, Germany, Italy and the Netherlands. France holds the largest corporate bond market in absolute terms. At the same time, there were almost no corporate bond issues in a number of smaller member countries.

Among other smaller economies, Portugal has a relatively large bond market for its size: in 2013, €10.9 billion in new corporate bonds were issued in the country, which constitutes 6% of the total euro area gross issues. Bond markets in Austria, Belgium, Finland and Spain also play an important role in financing companies.

Well-functioning capital markets are of utmost importance for corporate finance, investments and growth in Europe. Banks play an important role in capital markets, as market makers, by enhancing the liquidity of secondary markets and thus lowering the cost of finance. It is essential that corporate financing is not hampered by impairing the market making activities of banks.

CHAPTER 4

FOCUS: COMPREHENSIVE ASSESSMENT

Banks recapitalised in 2014

In October 2014 the European Central Bank (ECB), the European Banking Authority (EBA) and national bank supervisors in the EU completed their comprehensive assessment of the 130 most significant EU banks. This assessment was seen as the biggest-ever financial health-check of European banks. The risk analysis involved both a point-in-time asset quality review of large banks in the eurozone by the ECB and forward-looking stress tests by national supervisors under coordination by EBA.

The exercise aimed to increase transparency by enhancing the quality of information available on banks' balance sheets; to identify possible problems well in advance and correct them; and to build confidence in the European banking sector, enabling all stakeholders to assess the soundness and trustworthiness of banks. More than 6,000 officials and experts were involved in the assessment.

The ECB coordinated the asset quality review, which applied to some 130 eurozone banks, covering 85% of total bank assets. The review covered portfolios holding risk-weighted assets (RWA) worth €3.72 trillion, equivalent to 58% of total RWA. An average of 1,250 files per bank were reviewed. European banks made available more than 25 million data points on credit files, collateral and provisioning.

The forward-looking stress tests were coordinated by EBA and conducted by the national competent authorities, covering 124 banks in 22 member states, including non-euro countries such as the United Kingdom, Poland and Sweden. The group of banks covered at least 50% of each national banking sector and together covered approximately 70% of the EU banking sector.

According to the ECB, euro area banks have strengthened the resilience of their balance sheets by more than €200 billion since the exercise was announced in July 2013.

The comprehensive assessment required significant efforts of individual banks and was a comprehensive task for the industry, notably in a number of countries that have carried out restructuring programmes during the past years.

Capital raised in 2014

Between January and September 2014, eurozone banks raised €49.9 billion in Common Equity Tier 1 (CET1) capital, according to the ECB. Eurozone banks raised €4.6 billion through AT1 instruments between January and September. These AT1 instruments, known as Additional Tier 1, are convertibles or write-down instruments that meet the requirements of the EU Capital Requirements Regulation (CRR). Banks in Germany and Italy were the ones that raised the most CET1 capital.

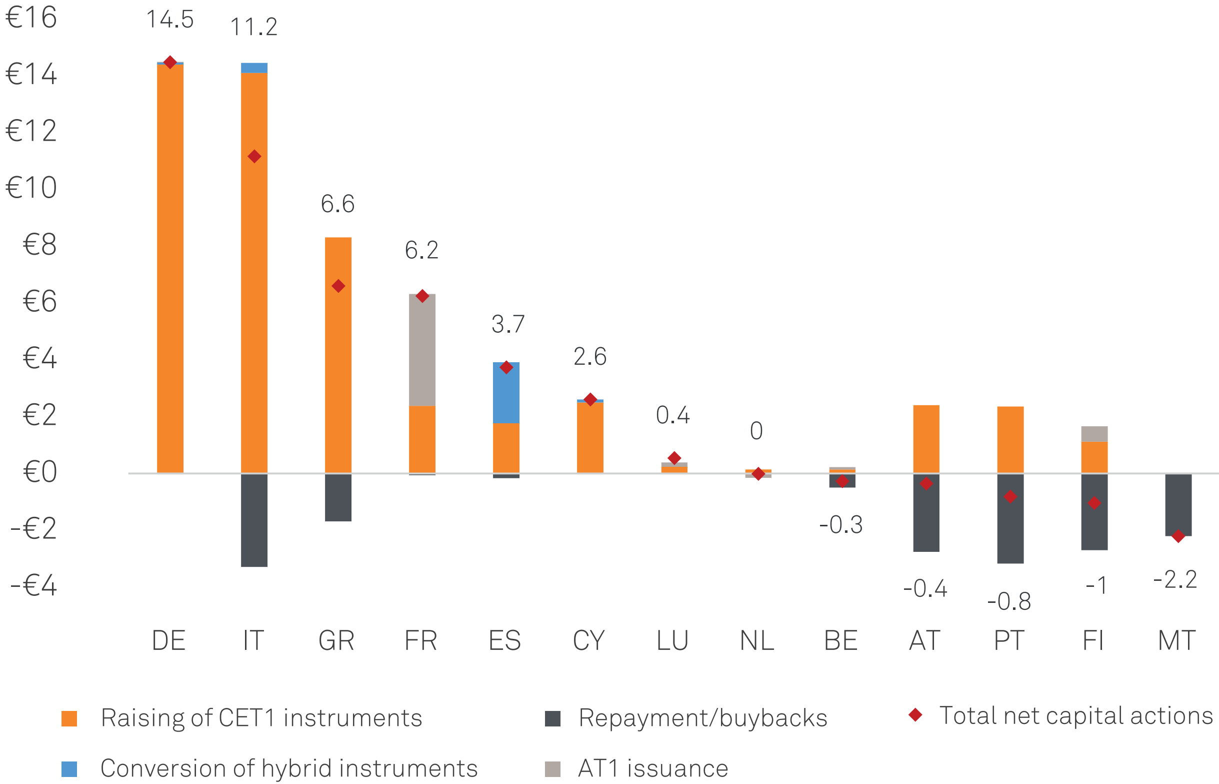
The EBA analysis, which includes the most significant banks in all EU member states, said EU banks raised €53.6 billion in equity and €39.1 billion in contingent convertible instruments during this period.

The CET1 ratio measures the most loss-absorbing capital of a bank (shares and reserves) in relation to its risk-weighted assets (RWA). After concluding its assessment, EBA said the Core Tier 1 ratio for major EU banks was 11.6%, up from 9.2% in December 2011.

The asset quality review of the ECB concluded that banks faced an overall capital shortfall of €24.6 billion at the end of 2013. The capital raised between January and September 2014 had an overall offsetting impact on this shortfall of €15.2 billion, leaving the European banking sector at the end of September 2014 with a need to raise €9.5 billion.

Figure 18: CET1 issuance of eurozone banks by country, including issuances between 1 January and 30 September 2014

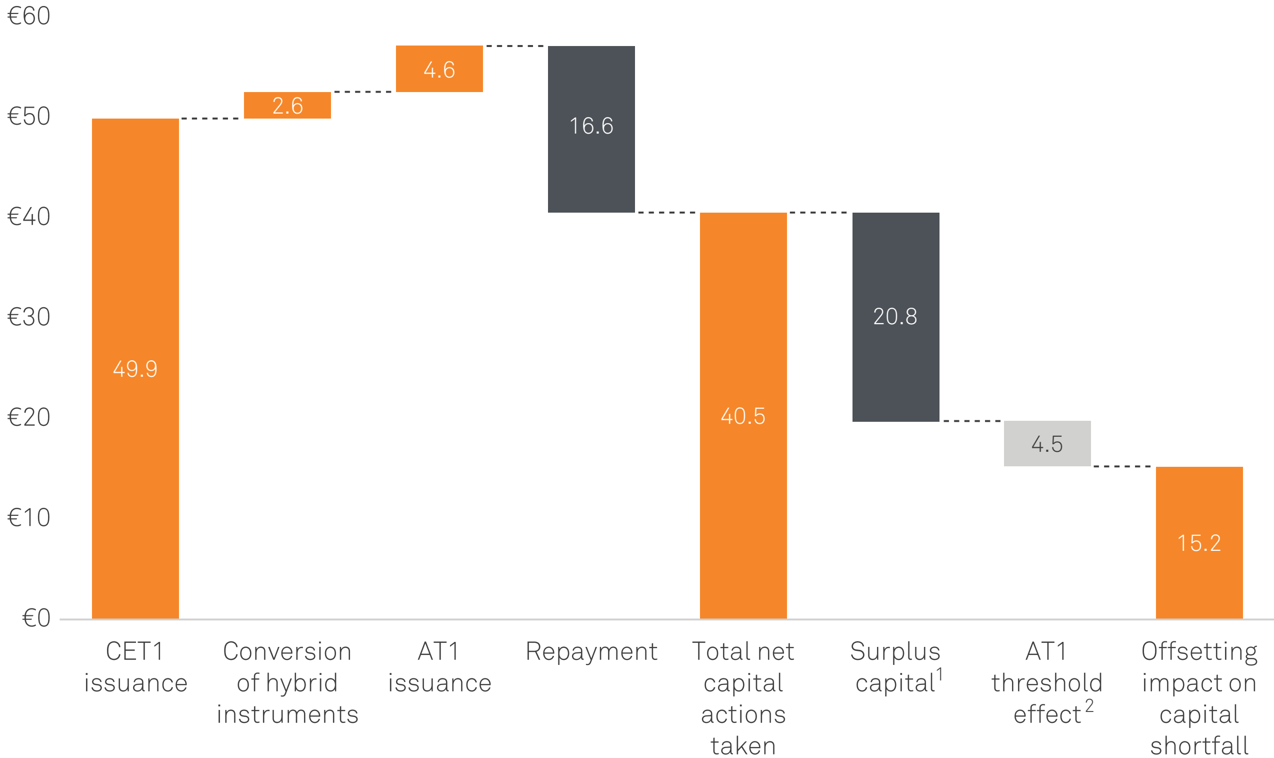
€ billion



Source: ECB

Figure 19: Aggregated capital actions undertaken by eurozone banks in 2014

€ billion

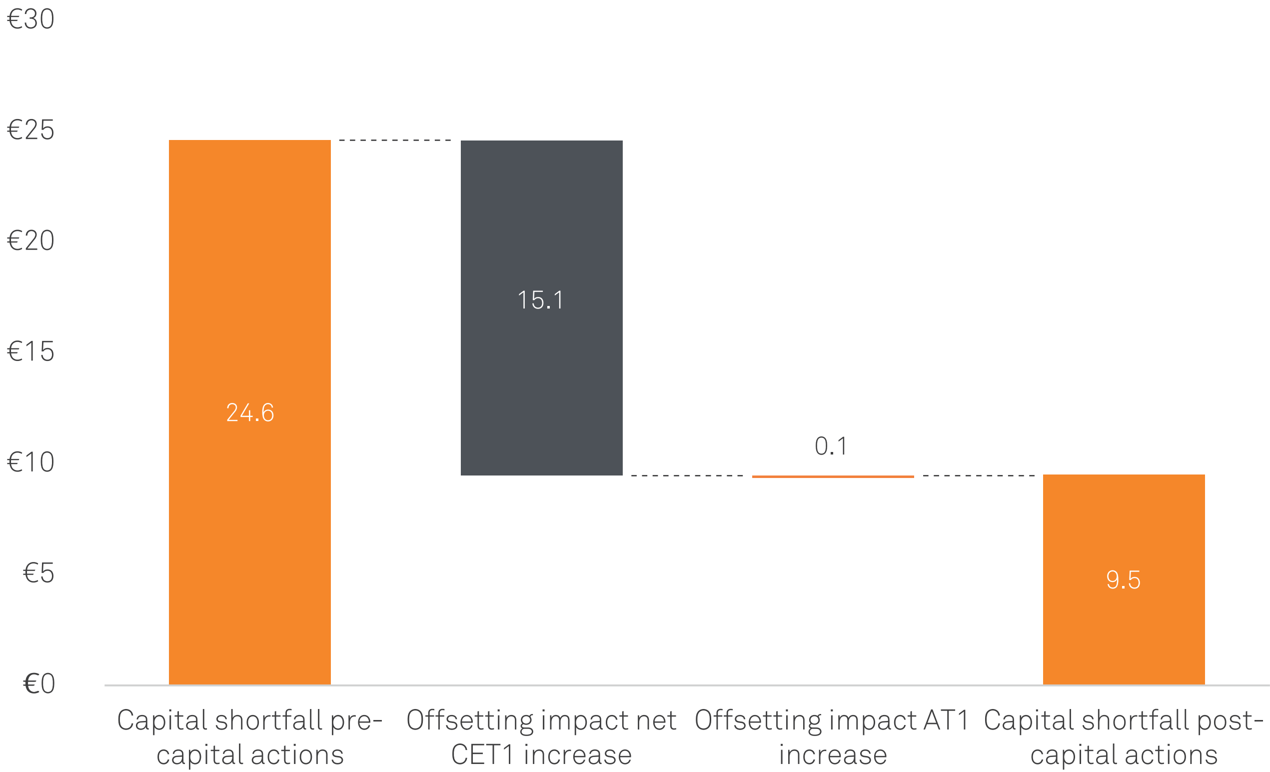


1. Capital not used due to absence of capital shortfall.
2. AT1 not eligible for use in comprehensive assessment.

Source: ECB

Figure 20: Impact of capital actions on the aggregated capital shortfall

Eurozone, € billion



Source: ECB

When further subtracting capital measures announced by two Greek banks the actual capital shortfall decreases to €7 billion. For a sector that holds more than €26 trillion in assets such an amount appears to be manageable.

Less than 10 banks were identified as being in need of a recapitalisation because of the shortfall and have been given nine months to deliver on an agreed capital plan.

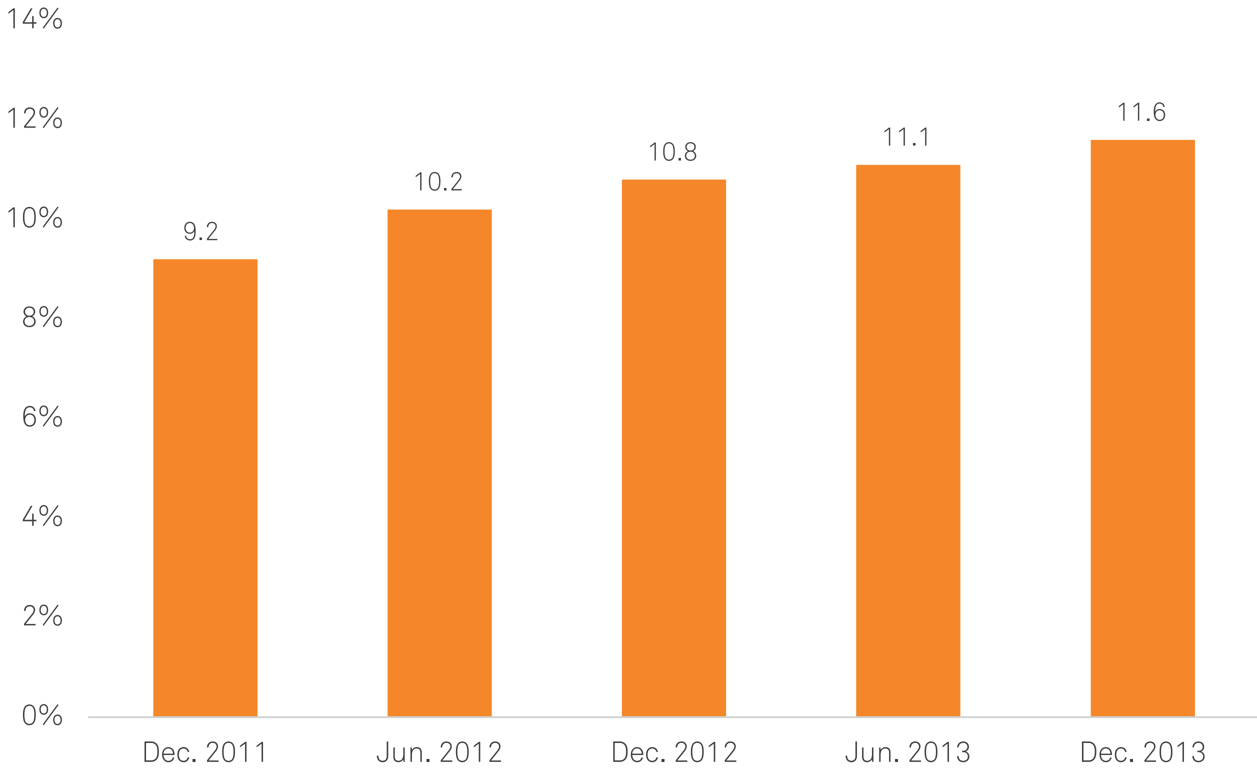
Stress test scenarios

The results of the ECB asset quality review helped EBA create a starting point for its stress tests. EBA tested the biggest EU banks both on a baseline scenario and on an adverse scenario. To pass the baseline test, banks had to demonstrate that their ratio of capital to RWA could remain above 8% in the next three years. In the more severe adverse scenario, which simulated a severe recession and a bond market collapse, banks were required to keep their ratio above 5.5%.

As a result of the ECB's asset quality review, EBA made a downwards adjustment to the CET1 ratio that it applied as the starting point for its stress tests, reducing it by 40 basis points from its own, original number to 11.1%. When applying the adverse scenario of the EBA stress test, this ratio for the sample banks in the stress test fell by 260 basis points to 8.5% over the three-year period to 2016. That's above the minimum of 5.5% that the banks were required to demonstrate.

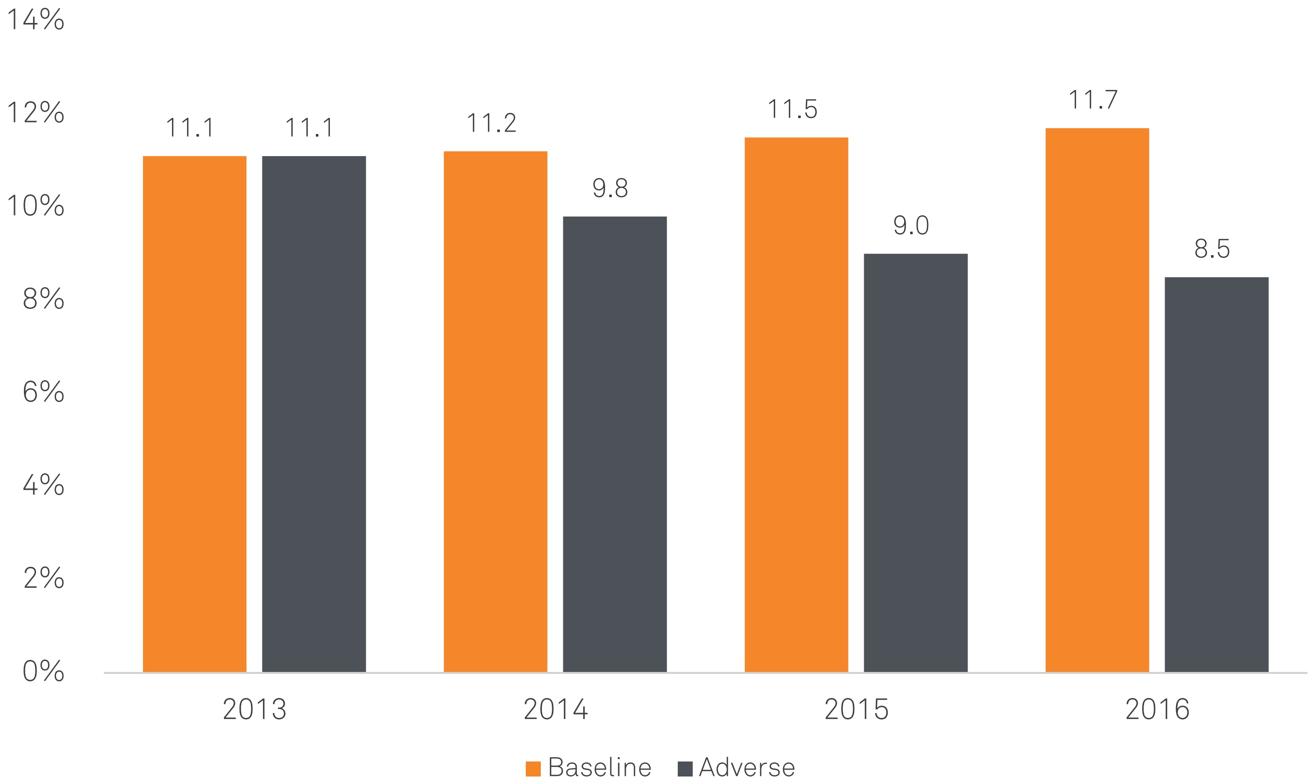
EBA noted a significant dispersion regarding the impact across countries, with decreases in the CET1 ratio ranging from values close to zero to values above 500 basis points. Following the significant strengthening of capital ratios in recent years however, 56% of the banks in the test sample showed a ratio above 8% even in the adverse scenario.

Figure 21: Evolution of CET1 capital ratios from 2011 stress test to December 2013 for major EU banks



Source: EBA

Figure 22: Evolution of aggregate CET1 ratio under EBA stress test scenarios



Source: EBA

Conclusion

The European Banking Federation has concluded from the results of the comprehensive assessment that the sector is very robust and capable of sustaining a severe recession. The analysis confirms that European banks now hold significantly more capital.

The assessment was a precondition towards the creation of a truly European banking landscape, with a single supervisor and the application of the same set of rules for all banks. In recent years, banks have proactively aligned with the numerous regulatory reforms that have been introduced at the international level as well as the European level. As a result, banks now hold significantly more capital and have greater overall resilience.

EBA and ECB's comprehensive assessment at a glance

- In total, **130 banks** participated in the comprehensive assessment.
- They hold assets worth **€22 trillion**, accounting for over **80% of total banking assets** in the euro area.
- Under the ECB's supervision, over **6,000 experts** from national competent authorities and third parties contributed to the comprehensive assessment.
- A detailed review was performed for over **800 specific portfolios**.
- More than **119,000 borrowers were analysed** in depth.
- The asset quality review (AQR) resulted in an **aggregate gross impact of €47.5 billion** on participating banks' asset carrying values as of 31 December 2013.
- In total, **€136 billion of new non-performing exposures** were identified.
- On combining the AQR with the adverse scenario of the stress test, the comprehensive assessment results in **a theoretical capital depletion of €263 billion** over a three-year horizon.
- The frontloading of capital strengthening measures by the banks has amounted to **more than €200 billion** since July 2013.

Source: Introductory remarks by Danièle Nouy, Chair of the Supervisory Board of the ECB, European Parliament's Economic and Monetary Affairs Committee, 3 November 2014; also see www.bankingsupervision.europa.eu

CHAPTER 5

COUNTRY-BY-COUNTRY OVERVIEW

AUSTRIA

VERBAND ÖSTERREICHISCHER
BANKEN & BANKIERS

www.voebb.at

Austria has a highly developed banking sector. Access to banking services, measured by number of inhabitants per bank branch, is among the highest in Europe (1,673 inhabitants per branch in 2010). The Austrian banking sector consists of 790 banks with a total of 4,359 branches (2013 year-end numbers). Employment in the industry reached about 77,700 people at the end of 2013 after peaking at over 80,000 employees in 2008 and only very slowly departing from these numbers during the last years.

The Austrian banking sector can be divided into seven subsectors (joint stock banks and private banks, savings banks, state mortgage banks, *Raiffeisen* credit cooperatives, *Volksbanken* credit cooperatives, building and loan associations and special purpose banks). The biggest sectors are the "joint stock banks and private banks", the *Raiffeisen* credit cooperatives and the savings banks.

Austrian banks' geographical focus apart from their home country is Central and Eastern Europe (CEE), branching out into Central Eastern and South-Eastern European (CESEE) countries.

The Austrian banking sector's unconsolidated total assets amounted to €927 billion (2013 year-end numbers). Corporate financing of Austrian non-financials is dominated by loans and internal financing. Austrian non-financial corporations continue to benefit from significantly lower funding costs than undertakings in other euro area countries. They pay on average between 30-40% less in interest than companies in the euro area. Financing through bonds and equity instruments have tentatively been gaining ground over the past years, especially prior to 2008 and during the then ensuing crisis.

One noteworthy detail about loans to households used to be the relatively high proportion of foreign currency loans. Owing to interest rate differentials and favourable exchange rate developments compared to euro-denominated loans, foreign currency loans offered lower financing costs for borrowers and used to be a popular financing method. The euro's depreciation since the beginning of the financial and economic crisis in 2008 has prompted regulators to introduce stricter rules by considerably tightening standards for granting foreign currency loans. Aiming at a significant reduction of the overall volume of foreign-currency denominated loans to consumers, they can now only be granted to people with sufficiently large income in the relevant foreign currency, and to individuals who are considered top-rated debtors. Compared to the autumn of 2008, when the authorities first imposed a halt to the granting of new foreign currency loans, the volumes have declined by more than 40%.

Deposits are the private households' preferred way of holding financial assets in Austria. Insurance products rank second, albeit at significantly smaller volumes than deposits. They are followed by stocks and interest bearing securities.

In March 2012, Austrian authorities came up with a package of 'sustainability-boosting' measures for large and internationally active Austrian banks and their subsidiaries active in Central and Eastern Europe. The ultimate goal being the increase of capital buffers, rebalancing the funding position of their exposed subsidiaries and preparation of recovery and resolution plans for potential crisis situations. This goal shall be reached, inter alia, by (i) a timely implementation of the Basel III rules, (ii) making credit growth in the future conditional on the growth of sustainable local refinancing (comprising mainly local deposits). Thus in the future, subsidiaries that are particularly exposed must ensure that the ratio of new loans to local refinancing (i.e. the loan-to-deposit ratio including local refinancing) does not exceed a certain ratio. These measures reflect the spirit of the Vienna Initiative and promote a sustainable growth model underpinned by strengthened capitalisation, while at the same time proactively preventing pronounced boom-bust cycles. They strengthen the retail business model of large Austrian banks. Monitoring results from the end of the third quarter of 2013 indicate that a large majority of subsidiaries have sustainable business models.

The Austrian banking sector generally displays solid numbers regarding regulatory capital, the cost-to-income ratio, the return on equity, as well as profits before taxes. The institutions' efforts to improve their capital ratios, especially with the imminent burden and prospect of the CRD IV, are in full progress. The regulatory burden emanating from the EU and its subordinated authorities are further aggravated by various national regulations including a yearly general levy for banks totalling €500 million, and a capital gains tax.

BELGIUM

www.febelfin.be

The Belgian banking community is characterised by the presence of a large variety of players who are active in different market segments. BNP Paribas Fortis, KBC, Belfius and ING Belgium are the four leading banks (with a cumulated balance sheet of 58% of the sector total) offering an extensive range of services in the field of retail banking, private banking and corporate finance. To this must be added a number of smaller institutions which are often active in a limited number of market segments.

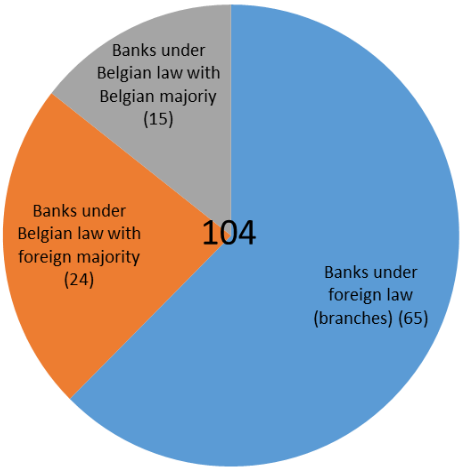
A number of institutions have specialised international niche activities, such as Euroclear (one of the world's biggest players in the field of clearing and settlement services), The Bank of New York Mellon (custody) and SWIFT (the global provider of secure financial messaging services, which of course does not have the legal status of a bank). At the end of 2013, the total number of credit institutions in Belgium amounted to 104.

The Belgian banking community also has a very strong international character thanks to its geographical location and the presence of international institutions such as the European Commission or NATO: 86% of those 104 banks have a foreign origin (i.e. being active in Belgium either as a branch or as a subsidiary of a foreign bank), 14% have a Belgian majority shareholdership.

At the end of 2013, the number of bank branches in Belgium was almost 3,800. If one adds to this the number of points of sales held by independent banking agents, then this number reaches almost 7,200. In addition, there are almost 15,000 ATMs, including more than 8,000 cash dispensers. About 57,000 people are bank employees in Belgium, the total number of staff workers in the financial sector at large being more than 130,000 (out of a total Belgian workforce of about 4.5 million people).

At the end of 2013, Belgian banks' total assets (on a consolidated basis) amounted to more than € 960 billion. Loans granted to households, independent and liberal professions make up the biggest part of those assets (more than one fifth of the total assets), with corporate lending to non-financial companies and interbank

Number of banks established in Belgium (end of December 2013)



claims (each taking up about 15% of the total assets) coming next. Another important balance sheet item is investment in debt securities issued by companies and public sector entities.

Traditionally, almost 60% of liabilities are made up of customer deposits (including more than €230 billion savings deposits of Belgian households).

The 2008 banking crisis has had a major impact on the Belgian banking sector. The government has given its support to three important banks (by means of capital injections and/or government guarantees). As a result, the banks concerned have reduced their balance sheet total by eliminating (national or foreign) activities or selling/closing subsidiaries and foreign branches. This becomes clearly apparent in the ratio between the Belgian banking sector's balance sheet total (on a corporate basis) and the GDP: at the end of 2007, this ratio amounted to more than 400%, but by the end of 2013, it had been reduced to less than 280%. Notably, however, lending to households and non-financial corporations did not suffer from this reduction of the balance sheet, for indeed it has grown considerably throughout most of this period.

The difficult situation (also at the level of the eurozone) has also entailed a reduction of the exposure to foreign counterparties as well as a return to the principal strategic markets. There has also been a substantial decrease of Belgian banks' leverage (debt to equity ratio) from 31.4 at the end of September 2008 to 14.8 at the end of June 2014. This has been achieved by both downsizing the volume of exposures and increasing equity capital.

The financial crisis has also led to far-reaching changes regarding the structure of bank supervision in Belgium.On 1 April 2011, this structure evolved into a new bipolar supervision model ("Twin Peaks"). As a result, the FSMA (Financial Services and Markets Authority) has transferred its competence in the field of micro-prudential supervision to the National Bank of Belgium (NBB, i.e. the central bank), but it continues to take charge of the financial markets and products supervision as well as consumer protection in the field of financial services. Moreover, the supervision of financial institutions' compliance with the codes of conduct, marketing of financial products and financial education has been added to its competence. Since the introduction of the Twin Peaks model, the NBB has been given the responsibility for the macro- and micro-prudential supervision of banks.

In the fourth quarter of 2014, the introduction of the Single Supervisory Mechanism (SSM) will fundamentally change the landscape of supervision again.

BULGARIA

www.abanksb.bg

In 2013, the dynamics of the balance sheet of the Bulgarian banking system was dominated by domestic banks. As of December 2013 the share of domestic banks in the country was 30% in terms of the bank assets. Concentration in the sector remained very strong, five banks held approximately 50% of all assets in the banking system at the end of the year. The liquidity in the banking system was kept at its usual high levels as banks continued to hold excess reserves on their accounts in the BNB (the central bank of Bulgaria). During the year the upward trend of resources, attracted by banks, was maintained. The increase of the banks' loan portfolio was modest during the year. The slowdown in the amount of loans in euro and other foreign currency was made up by an increase in the amount of loans in national currency: BGN. The share of gross loans and advances in BGN rose to 36% from the year end and the biggest increase in loans denominated in national currency was registered in the corporate sector.

Bank capital reached 11.2 billion BGN at the end of the year. The current year's total positive financial result and the increase in the issued capital and reserves had a positive effect for the system. The total capital adequacy of the banking system was 16.85% as the Tier 1 capital adequacy ratio was 16.04%. The capital surplus in the banking system did not experience any significant change compared to the previous year, 2.7 billion BGN. During the year, credit risk continued to determine the trends in the balance sheets of credit institutions as well as their behaviour. The structure of the capital requirements for the main types of risk – credit risk, market risk and operational risk – did not experience any significant changes. The share of credit risk accounted for 58% in the total capital requirements, the share of operational risk was 7,7% and the share of market risk was about 1%. The level of the credit risk was influenced by the different techniques used for managing the worsened portfolios by restructuring, sales and write-offs.

Banking system profitability in 2013 remained at an acceptable level. The return on assets was 0.70% at the end of the year and its relatively low value was owing to the slower growing profit rate in the banking system. The level of return on equity was 5.64% and influenced by the growing own funds in the banking system. The level of the main liquidity indicators, such as the liquid asset ratio and the loans to deposits ratio, remained stable throughout the year. The growth of the attracted funds by the banks was supported by an increase in the liquid assets. The liquid assets' ratio rose to 27% in December 2013 reaching its highest monthly value over the year.

The supervisory policy of the Bulgarian National Bank was concentrated on the implementation of CRD IV/CRR. That legal package initiated a number of legislative changes, e.g. in the Law on Credit Institutions, the main legal act in the field of banking in Bulgaria, the revoking of major legal acts as the ordinances in the field of capital adequacy as well as large exposures and risk exposures. New statutory instruments covering areas such as bank risk management and capital buffers were implemented. The supervisory reviews of credit institutions through off-site monitoring and on-site inspections are a key aspect of the banking supervision in Bulgaria. Regular financial and supervisory reporting was based on quarterly analyses and CAEL ratings, reflecting bank risk degrees and developments. Bulgarian banks keep the leading role in payment transactions in the country. The majority of payment transactions in national currency in terms of value according to the BNB data are performed through RINGS (86.5%). The rest of the payment transactions are executed through BISERA (11.9%) and BORICA (1.6%). RINGS is the gross-real time settlement system operated by the BNB. BISERA and BORICA are operated by Borica-Bank service AD, a joint-stock company in the way BISERA is for settling customers' transfers at a designated time and BORICA is for servicing card payments in Bulgaria. The payments in euro are settled through the national system component of TARGET 2, which is operated by the BNB and BISERA 7-EUR. Government securities are settled through the book-entry government security system run by the BNB while the registration and servicing of corporate securities is performed by the Central Depository. Despite the fact that the EU Regulation 260/2012, establishing technical and business requirements for credit transfers and direct debits in euro is going to apply from October 2016, almost all banks and foreign bank branches in the country have already handled SEPA credit transfers, even though Bulgaria was still a non-euro area country in late 2013. The share of those payments was about 51% of all customers' credit transfers denominated in euro at the end of 2013.

CROATIA

HRVATSKA UDRUGA BANAKA CROATIAN BANKING ASSOCIATION

www.hub.hr

At the end of 2013, the banking sector in Croatia consists of 35 credit institutions, 29 banks, one savings bank, and five housing savings banks. There are also four representative offices of banks from EU countries. A downward trend in the number of banks was continued for the fourth consecutive year: in September of 2013. bankruptcy proceedings were opened against the small Centar bank.

The number of banks in domestic ownership was 14, while 16 banks (including one savings bank) were owned by foreign shareholders. Their share in total assets of all banks is almost 90%. Most of them are owned by Austrian and Italian shareholders, while shareholders from France, Hungary, San Marino, Serbia (savings bank) Switzerland and Turkey each have one bank in their ownership. Two largest banks are members of Italian banking groups.

The year 2013 was not a good year for the banking sector in Croatia. Pre-tax profits decreased by 70%, and half of banks reported losses. The return on average assets (ROAA) was 0.2% and the return on average equity (ROAE) fell to 0.9%. This was their lowest level since 1998.

The trend of deleveraging, which started in 2012, continued in 2013. Sources from parent banks declined 7.7% (22% in 2012). The growth rate of deposits was the lowest in the last 16 years. Nevertheless a mild growth in domestic sources, household and corporate, was sufficient to satisfy the modest credit growth.

Total assets of credit institutions at the end of 2013 increased by modest 0.7% in comparison to the end of 2012 according to monetary statistics of the central bank. In comparison to the end of previous year, at the end of 2013 net loans decreased nominally 1.5%, mainly as a consequence of the weak demand. On the other hand, an increase of the exposure toward the Government and public enterprises was recorded.

2013 was the fifth year of the recession in Croatia. The quality of loans continued to deteriorate. At the end of the year classified loans represented 15.7% of total loans. The largest contribution came from corporate loans. Household loans indexed in Swiss francs deteriorated significantly and exceeded 10%.

Around two thirds of bank assets and liabilities are in foreign currencies or kuna indexed in foreign currencies. Direct exposure to currency risk is low but indirect exposure (so-called currency induced credit risk) is high. According to the Croatian National Bank, almost three quarters of total bank loans at the and of 2013 were exposed to currency-induced credit risk.

Nevertheless the capital adequacy at the end of the year reached 21% which was a slight increase in comparison to 2012. This fact signifies the stability of the banking sector in Croatia.

CYPRUS

ASSOCIATION OF CYPRUS BANKS

www.acb.com.cy

Commercial banking & key figures

The banking sector in Cyprus comprises domestic banks, international banks with Cyprus based subsidiaries or branches and co-operative credit institutions (CCIs). Beyond the traditional deposit and lending services (to households, corporations, SMEs), banks in Cyprus operate under the "universal banking model" as they offer a diverse range of products and services. Deposits from customers have traditionally been the main source of funding for banks.

As from November 2014, the CCIs and Cooperative Central Bank, together with three other Cyprus credit institutions will be among the European credit institutions that will come under the direct supervision of the ECB, as part of the Single Supervisory Mechanism provisions.

Banking developments during 2013

As a precursor to the provision of economic assistance to Cyprus by the Troika, a decision was taken by the Eurogroup in March 2013 that resulted in a substantial reduction in the size of the banking system in relation to the economy as well as in the resolution of the second largest bank in Cyprus and the restructuring and recapitalisation of the largest bank in Cyprus.

A comprehensive framework was put in place for the recovery and resolution of credit institutions and the resolution of Cyprus Popular Bank and Bank of Cyprus. The Bank of Cyprus became fully recapitalised through the full contribution of the shareholders and bondholders of the bank and through the conversion of 47.5% of the uninsured deposits into equity (bail-in).

Insured depositors in both banks (representing over 95% of the total number of account holders in the two affected banks) have been fully protected.

Banking sector – statistics (31 December 2013)

	Banks	Coops
Deposits (€ million)	33,690	13,314
Loans (€ million)	48,473	14,744
Branches	330	350
Personnel	8,457	2,648
Branches per 100,000 inhabitants	41	44

Source: Central Bank of Cyprus, Co-operative Central Bank

Recapitalisation of the banking sector

The state acquired 99% of the cooperatives using €1.5 billion of state aid as part of the Troika programme. The two largest banks were recapitalised in recent months using private sources, including foreign participation, and without use of state support. As a result, the ECB's comprehensive assessment of significant Cypriot credit institutions concluded in October 2014 that capital buffers of the Cypriot banks, including the recapitalisation amounts that took place or were announced during 2014, more than cover the capital needs for which the asset quality review and the baseline scenario of the stress test were calculated. Measures designed to fill small capital needs that arise in the adverse scenario have already been taken or initiated.

Cyprus banking structure - Number of branches, employees & ATMs

	Banks	Branches	Employees	ATMs
2011	12	429	9,372	449
2012	12	384	9,273	423
2013	11	288	7,529	360

Source: ACB's regular member banks

Restrictive measures

Immediately following the decisions taken at the two Eurogroup summits in March 2013, restrictive measures on transactions were imposed, resulting from the deposit bail-in undergone by the banking system and the severe blow to depositor confidence. The restrictive measures have been gradually relaxed, and in May 2014, all restrictions on domestic transactions were lifted. Currently, there are still capital controls restricting the cross-border movement of capital. An ongoing easing of restrictive measures until complete removal remains a top priority for the authorities.

Financial transparency

Cyprus has been handed a clean bill of health according to independent evaluations which discredited accusations of a weak anti-money laundering (AML) system. The two parallel audits, conducted during April 2013, by Deloitte Financial Advisory (Italy) and Moneyval of the Council of Europe, set as a precondition for the international bailout, bear witness to the island's commitment to strict implementation of effective anti-money laundering measures. The outcome of the assessments indicates a solid level of compliance across the sector. The findings made no reference to systemic deficiencies, according to the Central Bank of Cyprus. On the contrary, the reports indicated that the standard building blocks are in place, the AML preventive measures and procedures in banks are sound, and in general, the banks have a high level of compliance with the statutory and regulatory requirements, which in some areas are more demanding than the EU and international requirements. In September 2013, the CBC's AML Directive enforced further AML controls on banks. The CBC also adopted a 2014 plan, aimed at strengthening the effectiveness and adequacy of resources of its AML supervisory function. The AML regime in Cyprus will continue to apply, and to follow the FATF and EU recommendations on AML; it will be strengthened where and when necessary.

The road ahead

The results of the recent comprehensive assessment by the ECB are very positive for the Cyprus banking system. They show that the actions taken in 2014 and all the efforts and measures to strengthen the banking sector were more than satisfactory. The results of this exercise should help strengthen depositors' confidence in Cypriot banks and contribute to efforts for economic growth.

CZECH REPUBLIC

CZECH BANKING ASSOCIATION

www.czech-ba.cz

As of 31 December 2013, a total of 44 entities held a banking licence (i.e. one more than at the beginning of 2013), 21 of which were branches of foreign banks and five building societies.

The structure of the banking sector is fairly stable. Four large banks (over CZK 250 billion in assets) held approximately 58.7% of assets, 53.8% of gross loans and 59.7% of client deposits at the end of 2013. The competitive nature of the market can be seen in the dynamic growth in the market share of mid-sized banks and even of some small banks that are new to the market; the partial decline at the end of the year is due to the greater share of large banks after including the assets of the Slovak branch of UniCredit Bank.

At the end of 2013, the volume of assets amounted to CZK 5.163 billion, which was an increase of 11%, year-on-year. More than half of this increase can be attributed to the CNB's intervention in November 2013, which led to the depreciation of the CZK (around 7%). The volume of client loans grew by 6.6% year-on-year to CZK 2.514 billion. The volume of client deposits in domestic banks also continued to grow to CZK 3.405 billion, i.e. by 6.2% year-on-year. This means banks still have a very comfortable liquidity position, with a sector-wide ratio of client loans to client deposits of 73.8% as of December 2013.

Loans to households increased by 4.5%, year–on-year, in 2013. The main factor driving this growth was mortgage loans (+6.6%), which was primarily motivated by the low interest rates and low real estate prices. Housing loans account for 78% of household loans. Consumer credits registered slight recovery, increasing by 1.7% year-on-year at the end of 2013.

The overall quality of the credit portfolio improved slightly in 2013. The share of non-performing loans declined to 7.15% in the segment of corporate loans and to 3.04% in the segment of housing loans.

The Czech banking sector has continued to enjoy excellent capital adequacy. As of 31 December, 2013, the capital ratio for the sector stood at 17.22%. Most of the capital is made up of high-quality Tier 1 capital (Tier 1 capital ratio came to 16.90%). All banks are compliant with the minimum Tier 1 CAR requirement of 8%.

The net profits were lower than the record levels from 2012 by 4.5%, but still stood at CZK 61.4 billion and the sector still achieved high values of return on assets (1.28%) and Tier 1 capital (18.48%).

The stability and resilience of the Czech banking sector is regularly confirmed by the central bank's stress tests, some of which work with very adverse economic scenarios in the form of a deep economic decline with other sensitivity analysis. The Czech National Bank's (CNB) last round of stress tests was published in August 2014 and re-confirmed the very healthy status of the domestic banking sector.

DENMARK

www.finansraadet.dk

The composition of Danish credit institutions has been evolving over the last decade. Owing to the increase in the consolidation of the Danish financial sector, the number of credit institutions has declined from 196 in 2000 to 95 at the end of 2013, whereas the employment figures have been much more stable. In 2000, 48,498 people were domestically employed in the Danish banks compared to 43,457 at the end of 2013. The sector is managing assets of €1,047bn (2013), an increase from €615bn in 2000 with an annual average growth rate of 7%.

Since the beginning of the financial crisis, Danish banks have slowly recovered, but are still suffering from low earnings. Danish banks had negative return on equity in 2008 (-5.0%) and in 2009 (-3.6%). Today, the figure is improved and the return on equity was 3.8% in 2013. The Danish banking sector had an overall solvency ratio of 22.4% in 2013, which is 8.1 percentage points higher than in 2008. In addition, the core capital ratio rose from 10.8% in 2008 to 19.5% in 2013.

The financial sector in Denmark is among other things characterised by the special Danish mortgage system. Danish mortgage bonds are securities with high credit quality and extremely high liquidity. Therefore, the government has for several years worked hard to ensure that Danish mortgage bond liquidity will be accredited in line with government bonds in the EU's new liquidity rules for credit institutions. The Commission has now published the final LCR requirement where the government's view is accepted.

Denmark maintains a fixed exchange rate policy vis-à-vis the euro area. This means that the aim of the monetary and foreign exchange rate policy is to keep the Danish Krone stable in relation to the euro. The Danish Central Bank maintains this aim – independently without governmental interfering – by adjusting its monetary policy rates and by selling and buying foreign currency in the market. Consequently, the Danish monetary policy rates tend to follow the monetary policy rates, which the European Central Bank (ECB) controls. By obligation, the exchange rate has to be around 7.4 DKK/€, where fluctuations in the order of +/- 2.25% are acceptable. Since the beginning of the currency cooperation in 1999, the exchange rate has stayed within this fluctuation band. Before this, the monetary policy rates were fixed with regard to the German D-Mark, officially initiated in 1982.

The Danish Financial Supervisory Authority (FSA) is a part of the Ministry of Business and Growth, and their main task is supervision of financial enterprises (mortgage credit institutions, banks, pensions and insurance companies, etc.). By monitoring that enterprises have adequate own funds to cover their risks (supervision of solvency), the Danish FSA plays an active role in stabilising the financial markets in Denmark. Their authority, in declaring enterprises incapable of managing their business, makes them quite powerful. In addition to supervisory activities, the Danish FSA assists in drawing up financial legislation, and issues executive orders for the financial area.

In addition to the Danish FSA, the Ministry of Business and Growth has established - by agreement between the Danish state and the Danish financial sector – the Financial Stability Company in 2008. Its main purpose is to wind up distressed banks. Twelve enterprises have been incorporated in the Financial Stability Company since 2008.

The Financial Stability Company's banking licence was deposited with the Danish FSA at the end of June 2014. The company will proceed with the remaining winding up as a payment institution.

The financial basis of the winding-up rules is based on the existing banking sector through guarantees provided by the Deposit Guarantee Fund. The assets of the winding-up department in the Deposit Guarantee Fund totalled DKK 6.0bn at the end of 2014, which the financial sector guarantees. So far, the Financial Stability Company has taken over banks, accounting for a market share of around 5%. However, the Danish government has made a profit of DKK 12.2bn on rescuing banks owing to sector contributions.

The Danish Bankers' Association is generally in favour of the intentions of a banking union in Europe. The banking union aims to reduce the risk of financial instability by establishing a single European Supervisory Authority and a single European Resolution Authority for distressed credit institutions. This will help contribute to a solid foundation for the internal market for financial services, and it will further contribute to make the conditions of competition more uniform in favour of Danish companies and customers.

Nevertheless, the Danish Bankers' Association assesses that, despite the stated advantages, there are several elements of uncertainty which await clarification before Danish participation in the banking union be assured. The Danish government will present its views on a possible participation in the banking union by the end of 2014.

ESTONIA

Estonian Banking Association

www.pangaliit.ee

The Estonian banking sector consists of 17 banks of which eight are licensed credit institutions in Estonia and nine are operating as branches of foreign credit institutions. Banking sector assets constitute €19.79 billion accounting for 110% of Estonian GDP. The Estonian banking sector is dominated by Scandinavian banking groups holding 95% of banking sector assets.

The market is chiefly divided between Swedbank, SEB Bank, Nordea Bank and Danske Bank. Banks are serving 2.2 million corporate customers through 165 bank branches. Estonian customers hold 1.8 active current accounts per inhabitant and 1.25 active internet bank accounts per inhabitant. Estonian banks have issued 1.4 bank cards per inhabitant, 80% of issued cards are debit cards, and 20% credit cards. More than 55% of retail payments are initiated by bank cards and more than 99% payment orders are initiated electronically already from 2009. Only 4% of the population receives income entirely or partially in cash.

Banks hold €13.97 billion worth of deposits and operate loan portfolios valued at €14.64 billion. The growth of deposits in the real sector in recent years has allowed banks operating in Estonia to base their financing on domestic retail deposits. Cash flows from domestic repayments of loans and the increased deposits from the real sector are enough to finance the current loan turnover. The banks have not required any additional resources to fund domestic lending activity since the fourth quarter of 2008. Alongside domestic deposits, deposits by non-residents in banks in Estonia have also sharply increased since the second half of 2012. The growth in deposits has allowed the banks to pay back the funds they received from their parent banks and decrease their dependence on being financed by them. Though the banks in Estonia need substantially less funds from their parent banks, they are not completely independent of the financing circumstances of the parent banks. Hence, negative developments for the parent banks would probably have an effect on the price of funds of Estonian banks and on their lending offers.

Estonian banks maintained stability through the crisis years without external intervention. Various crisis management procedures set in place multilaterally by EU institutions, central banks, and banks operating in the region, etc., helped to sustain financial stability. The year 2013 was a successful one for banks operating in Estonia and net income rose by 25% and Estonian banks earned € 440 million. However 28% of earnings consisted of dividends from subsidiaries and 7% of revaluation of previously non-performing loans. Without those income articles the decrease of net profit of 7.5% would have been witnessed.

FINLAND

FFI | Federation of Finnish Financial Services

www.fkl.fi

The Finnish banking sector consists of 291 credit institutions, of which 256 are domestic deposit banks, and seven other are domestic credit institutions. The rest of the banks are branches of foreign credit institutions. The biggest banking group by means of market share is OP-Pohjola group, which consists of almost 200 local cooperative banks. The second largest bank is Nordea Bank Finland and the third is Danske Bank Finland. Other major Scandinavian banking groups are also operating in Finland.

The Finnish banking sector total assets constitute €466 billion, accounting for approximately 232% of Finnish GDP. The market is chiefly divided between the three largest banking groups, which together hold 75% of loans to private sector.

The Finnish banking sector as a whole serves customers through 1,448 bank offices all around Finland and directly employs almost 30,000 persons. Both the total number of offices and employees decreased by approximately 6.5% from the previous year owing to cost pressures and the changes in customer behaviour towards e-banking.

The Finnish banking sector holds €128 billion of private deposits and operates loan portfolio valued at €199 billion. The corporate loan portfolio in Finland went up by 6%, growing much faster than the European average. Rapid growth can be explained by a rapid increase in the loans to non-profit housing companies which grew as much as 14% during the last year. Loans to commercial companies increased only 1% in the same period. Demand for corporate loans (housing companies excluded) was below average throughout the year while corporate funding was mainly taken for working capital, and investments were rare. Corporate funding became slightly more expensive as banks raised their spreads in response to new regulations, but it still remained at a low level in European comparisons.

The annual growth in housing loans kept slowing down throughout the year. At the beginning of the year the annual growth was still at 5.5% decreasing to 2.3% during the year. The volume of new housing loans was 20% less than in the previous year. Low consumer confidence and rising unemployment made the demand for housing loans to stay below long-term average while tight loan conditions made the interest spreads climb. However, the average interest rate for new housing loan drawdowns was 1.98% in Finland, which is the lowest rate in the whole euro area.

Approximately 60% of Finnish banks' funding comes from private sector deposits, but the numbers vary greatly between banks. Private deposits grew by about 5.5% compared to the previous year. Company deposits grew fast at an annual rate of 7.1%, but household deposits shrank, mainly because households transferred their assets from fixed-term deposits to other forms of capital such as mutual funds.

Long-term bonds account for roughly 30% of Finnish credit institutions' funding. Of these, about 42% are covered bonds backed by residential mortgage. In contrast, short-term bonds make up approximately 10% of the above-mentioned funding. Their proportion has been decreasing for several years. By favouring longer maturity periods, banks prepare for upcoming regulation (NSFR) that requires more long-term funding in proportion to granted loans.

Finnish banks moved to the new regulatory environment (CRR/CRD IV) in good shape. The capital adequacy ratio of the Finnish banking sector was 16.0% at the end of the year. Measured in Core Tier 1 capital, the ratio climbed to 14.8%. Finnish banks' return on equity (ROE) and efficiency declined slightly when compared to the previous year; average ROE fell from 8.5% to 8.1% and efficiency ratio (costs/profits) from 62% to 57%. The efficiency ratio has been falling for several years, but last year's noticeable drop was also a result of the new local banking tax, which was collected for the first time in 2013 and totalled €133 million.

FRANCE

FEDERATION
BANCAIRE
FRANCAISE

www.fbf.fr

Structure of the French banking system

The French banking system is dominated by five vertically integrated universal banks and their subsidiaries: BNP Paribas, Société Générale, Crédit Agricole, BPCE and Crédit Mutuel. Except the latter, these are Global Systematically Important banks (G-SIB). Three out of the five are cooperative banks. Moreover, in France, there are two public banks, La Banque Postale (LBP) and the Banque Publique d'Investissement (BPI).

In the country there are 634 credit institutions authorised by the Prudential Control and Resolution Authority (Autorité de Contrôle Prudentiel et de Résolution, ACPR), including 303 general-purpose credit institutions (including branches of companies in the European Economic Area operating under freedom of establishment), 18 municipal credit banks, 266 financial companies, three specialised financial institutions, as well as investment service providers. 74% of the these credit institutions are owned by banking groups, including 54% by French mutual banking groups, and 27% were controlled by shareholders in other economic sectors (manufacturing, trade and service groups, insurance groups, other financial groups or a mix of shareholders, private individuals or the public sector).

The French banking and financial system is very open to international markets. This is seen in the large number of foreign-owned institutions in France and the presence of French-owned credit institutions in other countries. Out of the 634 credit institutions, 186 are foreign-owned (29%).

A resilient model

The majority of French banks operate according to the 'universal banking' model, in the sense that diversification of business lines serves to more efficiently protect a universal bank from idiosyncratic shocks that adversely impact individual lines of business: domestic retail banking (households, corporates, SMEs), international retail banking, specialised financial services (consumer credit, leasing, etc.), corporate and investment banking, and asset management and conservation.

The results of this model are robust since the net income of the six major French banks (including LBP) in 2013 is €20 billion. Retail networks generate 61% of French banks' revenue (46.5% in France, 14.5% abroad), investment banks 17%, insurance and asset management 14%, and specialised financial services 10%. Their common equity Tier 1 ratio is above 10%.

Lending is at the heart of the activities of French banks

Outstanding loans to the economy have increased by 2.4% at end-August 2014 year-on-year to €197 billion, which is significantly faster than the French GDP. The bulk of outstanding loans, that is to say €1,010 billion, comprised loans to individuals (home loans and consumer loans). Corporate loans outstanding represented €825 billion (+2.1% year on year). The share of micro and small-enterprises (VSEs and SMEs) is significant with outstanding loans up +2.2% year on year, at €375.9 billion.

The financing model is evolving

Today, some 36% of corporate debt (€1,279 billion) stems from a call on the market, which represents €465.9 billion at end-December 2013 mainly due to large companies and partly to intermediate-sized enterprises. Companies are assisted in this process by corporate and investment banks.

Some key figures on French banks

France has a mature retail banking market with 99% of French residents over the age of 18 in possession of a banking account ('basic banking rights'). There are 71 million current accounts in France. The banking sector is one of the leading private economic sectors in France. It accounts for around 2.8% of the French GDP. There are 39,359 bank branches and 82.3 million cards in France. Banks are leading employers with 377,000 employees.

GERMANY

www.bdb.de

Germany's banking system comprises three "pillars"—private commercial banks, public-sector banks, and cooperative banks—distinguished by the legal form and ownership structure.

The private-owned commercial banks represent the largest segment by assets, accounting for 36% of total assets in the banking system. They include both big and small banks, banks operating worldwide and banks with a regional focus, universal banks and banks specialising in individual lines of business. An important feature of the private banks is that they compete keenly not only with banks in other sectors of the industry, but also among themselves.

The private banks play a key role for German export economy: they are involved in 80% of German exports and maintain almost three quarters of the German banking industry's foreign network.

The public banking sector comprises savings banks (*Sparkassen*), *Landesbanken* and the DekaBank. and acts as the central asset manager of the Savings Banks Finance Group, representing 29% of total bank assets.

There are currently 417 savings banks. They are normally organised as public-law corporations with local governments as their guarantors/owners. The basis for their activities is set out in the savings bank acts and savings bank regulations of Germany's federal states. Their business is limited to the area controlled by their local government owners. Other than this regional focus, their business does not differ in any way from that of the private commercial banks. As a result of the so-called "regional principle", savings banks do not compete with one another.

Landesbanken were originally designed to act as central banks for the savings banks. In recent years, however, they have been increasingly involved in wholesale funding, investment banking, and international business activities, thus directly competing with commercial banks. The *Landesbanken* are owned by the federal states and the regional associations of the savings banks. During the financial crisis, several *Landesbanken* required state support. At present, there are still eight *Landesbanken*.

In the past, savings banks and *Landesbanken* were backed by state guarantees (*Gewährträgerhaftung* and *Anstaltslast*). The state guarantees were of key importance to *Landesbanken* since they enabled them to obtain AAA ratings and lower their funding costs. These guarantees were terminated in July 2005. Grandfathering arrangements remain valid until 2015, however.

The cooperative sector consists of cooperative banks (*Volks- und Raiffeisenbanken*) and two central cooperative banks (DZ Bank AG and WGZ Westdeutsche Genossenschaftszentralbank eG). It accounts for around 55% of institutions by number and 14% of total bank assets. The cooperative banks are owned by their members, who are usually their depositors and borrowers as well. By virtue of their legal form, cooperative banks have a mandate to support their members, who represent about half their customers. But cooperative banks also provide banking services to the general public. Like the savings banks, cooperative banks have a regional focus and are subject to the regional principle.

The number of banks in Germany has dropped sharply in recent years, and by 46% since 1995. Consolidation to achieve economies of scale has taken place largely within the existing "pillars", and mostly in the savings bank and cooperative sectors. In most cases here (in opposite to mergers in the private sector), consolidation has been the result of stress rather than proactive business considerations. After the mergers between Deutsche Bank AG and Postbank AG and between Commerzbank AG and Dresdner Bank AG, the potential for consolidation in the private sector has probably been largely exhausted.

GREECE

HELLENIC BANK ASSOCIATION

www.hba.gr

One of the main results of the 2007-2009 international financial crisis was that several banks and other financial institutions around the world were exposed to insolvency. This resulted, inter alia, in negative effects on the real economy, obliging several governments to adopt rescue packages and recovery plans in order to support or even bail out individual banks. Such government interventions created serious fiscal imbalances. This was not the case for Greece. Greek credit institutions were not exposed to the risks that triggered the international financial crisis. As a result, the spillover effects on the Greek banking sector were limited. Accordingly, there was no need for a bank rescue package. However, liquidity conditions were strained during that crisis, since Greek credit institutions had restricted access to wholesale market liquidity for their lending operations, while maturing interbank liabilities put additional pressure on their liquidity position, thus rendering necessary the adoption of a recovery programme, mainly for precautionary purposes, to support liquidity in the economy.

However, the Greek banking sector was negatively and severely affected by the current and ongoing sovereign debt crisis and the ensuing bail-out and adoption of an IMF-style adjustment programme. These steps led to substantial fiscal consolidation and structural reform to rebalance the economy, albeit at a cost of a 23.5% drop in GDP. The transmission of problems from the government to the banking sector was set in motion, in particular, through:

- the successive downgrades of Greece's sovereign and Greek bank ratings, and the subsequent loss of confidence and deposit flight, which led to a severe tightening of liquidity conditions in the economy, amidst soaring non-performing loans as a result of the worst ever recession faced by a European country in a period of peace;

- the private sector involvement (PSI) in Greece's debt exchange offer; out of a total of €205.5 billion in bonds eligible for the exchange offer, approximately €199 billion (96.9%) have been exchanged with a nominal discount of 53.5%; the total gross PSI loss for the Greek credit institutions was €37.7 billion (€28.2 billion for the four "core banks"); and

- the voluntary buyback of bonds from the private sector; the buyback "retired" €31.8 billion in exchanged bonds, including €14.1 billion from Greek credit institutions (or 44% of the total amount).

After the onset of the Greek sovereign debt crisis, the need to reinforce the stability of the Greek banking sector became imperative. This triggered important initiatives, which made use of:

- ear-marked institutional measures;

- micro-prudential supervisory and regulatory measures;

- reorganisation measures and resolution tools; and recapitalisations following stress tests.

Following the recent restructuring of the sector, the number of credit institutions operating in Greece has been reduced drastically but the degree of concentration increased considerably. All in all, 18 credit institutions have merged with, or been acquired by, other banks. The Greek banking sector currently consists of:

- four systemically important credit institutions which have been recapitalised by the Hellenic Financial Stability Fund accounting for more than 90% of total deposits and assets, while it accounted for 63% in 2008;

- another 36 credit institutions, of which six small commercial banks, ten Greek cooperative banks;

- the branches of 16 credit institutions incorporated in other EU member states, and the branches of four credit institutions incorporated in third countries (outside the EU).

A first round of recapitalisation took place in May-June 2013 with the participation of the Hellenic Financial Stability Fund (HFSF), and private sector investors. The latter received warrants issued by the HFSF, exchangeable with credit institutions' shares acquired by the HFSF over a period of time, with the explicit purpose of returning full-ownership of credit institutions to the private sector. Subsequently, during March–April 2014, the four systemic credit institutions attracted additional share capital amounting to €8.4 exclusively from the private sector, and mainly from foreign investors.

Main challenges for the Greek banking sector

In the current conjuncture, the main challenges for the Greek banking sector are described herewith.

The first challenge is the preservation of its solvency. This has already been achieved for the four systemically important credit institutions through their extensive recapitalisations, which have enabled them to reach Tier 1 capital ratios of the order of 15% or higher.

The second is the maintenance of its liquidity, while creating conditions for gaining gradual independence from the European Central Bank financing. The above will lead to the efficient granting of credit to viable enterprises in order to support, as much as possible, the Greek economy's growth.

The third is the management of the large stock of non-performing loans, which is very close to a peak as new formation has been substantially declining over the last 12 months. This is expected to be supported by a new framework for the speedier and more efficient run-down of problematic loans to be introduced from the beginning of 2015.

Finally, the European banking union, underway, provides a totally new dimension to the operation of the Greek banking system. More specifically, the ECB directly supervises the four systemically important Greek credit institutions as of November 2014. This implies, as intended, that the link between the Greek public sector and the Greek banking system will be weakened, to the benefit of the stability of the banking system in the medium to long term.

ICELAND

SAMTÖK FJÁRMÁLAFYRIRTÆKJA
Icelandic Financial Services Association

www.sff.is

Although the Icelandic banking sector was hit hard during the financial crisis of 2008 the transformation and restructuring of the banks laid solid foundations for the continuation of highly developed banking services. The commercial banking sector now consists of four universal banks. Three of them are established on the basis of the three large banks that failed during the crisis of 2008. The fourth survived the crisis but has been restructured and recapitalised after a change of ownership.

Along with those four major banks the banking sector is made of one investment bank, and eight small saving banks that operate in the rural areas. The banks and savings banks operate 102 branches all around Iceland and employ around 3,400 people.

During the crisis of October 2008, the parliament passed emergency legislation which gave deposits priority over the claims in default estates of deposit institutions. The legislation also granted the Icelandic FSA power to take control over failing financial institutions and dispose of assets and liabilities and set up new banks. Most domestic assets and liabilities, including deposits, were transferred to the new banks at fair value and at the same time other assets and liabilities remained in the estates of the default banks. Today the ownership of two of the major three banks is primarily in the hands of the estates of their predecessors and the Icelandic state is the owner of the third one. In autumn 2014, the government declared that it would sell its 30% stake in the bank over the next few years.

The restructuring of the banking system implies a huge balance sheet adjustment. Total assets have shrunk from 14,900 billion ISK in September 2008 to 3,007 billion ISK at the end of 2013 or what amounts to ten times GDP to under two times GDP. The banks are predominantly funded with domestic deposits which are around 1,567 billion ISK or around 100% of GDP at the end of July 2013. On average 47.5% of total financing of the banks comes from deposits, 18.4% from equity and 21.3% from bond issuance: first and foremost the issuance of contingent and covered bonds. Total loans in the banking sector amount to 1.9351 billion ISK.

All of the major banks have been profitable since the start of operation four years ago but with irregular factors, such as sale of assets and revaluation of loan books contributing to the return on equity. The average interest rate margin has risen reflecting partly the increased share of retail deposits in bank funding. Capital adequacy ratios (CAR) have risen well above the 16% requirement by the regulator and are now generally in the 20- 25% range of risk weighted assets.

Since the Icelandic economy was highly leveraged when the financial crisis broke out in 2008, debt restructuring has been a key issue in the banking sector over the last four years. Some 220 billion ISK of household debt has been written off in the last four years through various forms of payment and debt restructuring. This amounts to little less than 13% of GDP. The write downs of corporate debt amount to 1,000 billion ISK. The banking sector has been able to go to those extreme measures without challenging the 16% capital adequacy ratios required of the new banks is but all of them have CAR above 20%. This debt restructuring along with a gradually improving overall economic performance has led to steady improvement of delinquency ratios. Overall household debt has been brought down from 127% of GDP when it peaked in 2009 to 99% at the end of June 2013. Even more drastically, corporate debt that peaked at over 300% of GDP close of 2008 has been lowered to 122% end-June 2013. This deleveraging reflects the combined effect of debt write-downs and effort by households and corporates to reduce debt.

IRELAND

Banking & Payments Federation Ireland

www.bpfi.ie

Credit institutions in Ireland employed some 36,000 people at the end of 2012. Gross value added (GVA) by the banking sector was estimated at €8.8 billion in 2011, equivalent to 8.7% of total GVA by businesses (excluding agriculture) in Ireland, according to the Central Statistics Office.

There were more than 20 banks and building societies with significant business with Irish resident household or non-financial corporate credit or deposit markets at the end of 2013, according to the Central Bank of Ireland (CBI). These included three Irish-owned banking groups: two of them majority-owned by the government (AIB Group and permanent TSB Group), while the government also had a minority stake in the Bank of Ireland Group.

The Irish-owned banks have undergone significant restructuring since 2010. In February 2013, the Irish Bank Resolution Corporation Act 2013 was enacted and a special liquidation order was signed by the Minister for Finance placing the Irish Bank Resolution Corporation, formed through the merger of Anglo Irish Bank and Irish Nationwide Building Society in 2011, into special liquidation. In March 2013, the Eligible Liabilities Guarantee Scheme, which provided a government guarantee for certain liabilities incurred by participating institutions closed to all new liabilities. Most building societies in Ireland have given up their mutual status and been merged into banking groups.

Credit institutions in Ireland include more than 400 credit unions, which are not-for-profit, member-owned financial cooperatives funded primarily by member deposits that compete with banks in the personal lending and deposits markets. Each credit union operates a single branch and its membership is drawn from a specific community, industrial or geographic group. The government established the Credit Union Restructuring Board as a statutory body to facilitate and oversee the restructuring of credit unions, including the merger of some small credit unions.

On-balance sheet loans outstanding to Irish resident non-financial corporations totalled €88 billion end-2013, of which €56 billion were to small and medium-sized enterprises. Housing loans of €123 billion included €39 billion in securitised loans, while a further €15 billion was outstanding in personal lending.

An Post, the state-owned postal service operator, provides a range of financial services and offers some cash-based banking services in its offices to customers of partner banks. Some €18 billion was held in national savings schemes and administered by An Post on behalf of the National Treasury Management Agency.

Ireland has emerged as a major international financial services centre. It was the sixth-largest exporter of fee-based financial services and insurance services in 2013 according to UNCTAD. Ireland supports the full range of banking activities, including corporate and investment banking, funds industry services, asset management, corporate treasury, securitisation, leasing and asset finance, trade finance, and wealth management. Many operations provide services to other parts of their group, services as diverse as middle and back office operations supporting a trading operation to management of group liquidity.

ITALY

ABI Associazione Bancaria Italiana

www.abi.it

Structure of the banking industry

Italy represents the fourth largest banking market in Europe (after Germany, the United Kingdom and France) with an estimated total asset value of around €4,000 billion at the end of the first semester 2014. It accounts for approximately 9% of total European banking assets.

The Italian banking sector is totally private and is highly diversified in terms of bank size and legal form. At the end of 2013 the Italian banking sector comprises 77 banking groups - of which two are of a size on par with the leading European banks - and 524 banks not belonging to a group. In particular, these banks comprise 51 limited liability banks, 375 mutual banks (banche di credito cooperativo), 19 cooperative banks (banche popolari) and 79 branches of foreign banks. A significant proportion of non-bank financial intermediaries also belonged to banking groups.

In 2013, the five largest groups held 47% of total banking assets (excluding the foreign component) while 24% was held by another 15 groups and large and medium-sized banks. Small and minor banks, mainly mutual banks, accounted for more than 20% of the total and the branches of foreign banks about 8%. The remaining 9% of Italian banking assets were held by 33 subsidiaries of foreign companies and banks.

Italian banks basically adopt traditional banking models, which consist mainly in raising funds from customers and lending to firms and households. In 2012, according to ECB data, loans accounted for 68% of total banking assets, about ten percentage points higher than the euro area average (58%). In addition, at the end of 2013, bank lending to households and businesses (€1,400 billion) represented 91% of gross domestic product. Bank loans comprise almost two-thirds of the debt financing of companies; more than one-third of the financial wealth of households is invested in deposits and bonds. The stability and the proper functioning of the banking system are fundamental for the Italian economy and for its growth prospects.

Italian banks and the recent global financial crisis

The performance of Italian banking groups has been, and continues to be, conditioned by the particularly weak macro-economic situation. In particular, the difficulties that have affected the Italian banking system over the past five years can be traced back to two different phases of the international crisis. In a first phase, the instability originated by US sub-prime residential mortgages was transmitted to the Italian banking system through the wholesale funding market. The monetary policy measures adopted by the ECB and other main central banks, designed as a response to stabilising financial markets and avoiding a liquidity crisis, had serious consequences for lending to the real economy. In this phase, Italian banks were much less affected by the crisis than other banks, especially those operating in investment banking and asset management. This was mainly due to their business model, based on the traditional intermediation of (mostly domestic) savings, and to the prudence of the regulatory and supervisory framework. By contrast, the intensification of euro area sovereign debt risks during the second phase, from mid-2011, heavily affected Italian banks by exacerbating their difficulties in accessing international markets and increasing their funding costs. The weakening macro-economic scenario, low short-term interest rates, tensions with the cost of funding and deteriorating credit quality have all put pressure on revenues and badly hit the performance of Italian banks and banking groups: an overall loss of €20.6 billion was reported in 2013 owing to the very large provisions made for loan losses and goodwill impairment.

Even so, the system's capital ratios remained in line with those reported in 2012. Italian banks have continued their progress towards meeting the new capital requirements that will apply under Basel III, when it becomes fully operational. In the early months of 2014, ten banks completed or announced capital increases amounting to nearly €11 billion. The consequent average improvement in the core Tier 1 capital ratio of the 15 banks subject to comprehensive assessment will be about one percentage point.

In 2013, lending growth over the full year was negative owing to the weakness of demand and supply-side policies that still took a prudent approach towards firms. The decrease in lending reduced the need for banks operating in Italy to raise funds. However, improved market conditions from the middle of the year did allow leading Italian banks to issue further international bonds; some banks also began to repay the funds obtained through three-year refinancing operations with the European Central Bank.

In the same year, total funding also declined owing - in particular - to a reduction in Italian banking liabilities towards the Eurosystem.

The funding gap – being the share of loans not financed by deposits or by bonds held by households – decreased to 11.2% in 2013 from 13.7% in 2012.

LATVIA

Association of Latvian Commercial Banks

www.bankasoc.lv

In 2013, the banks in Latvia experienced stable and moderate growth in accordance with the overall economic development of the country. In 2013, Latvia's GDP increased by 4.4%, and unemployment decreased to 9.5%. The banking sector has also recovered from the crisis; the profitability of banks has resumed; high capital adequacy and liquidity ratios have been ensured; the quality of loan portfolio of banks is gradually improving and the export potential of the financial services of Latvian banks is growing.

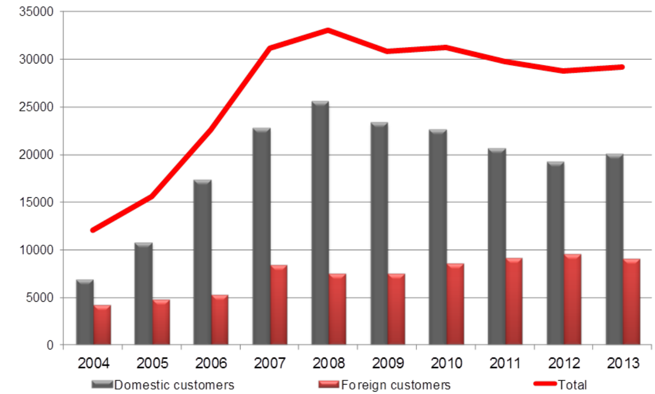
Bank operations

In 2013, there were 28 banks and foreign bank branches operating in Latvia; 19 of them were credit institutions registered in Latvia and nine were branches of EU member state banks. Throughout the year the consolidation of the financial sector continued, and one bank left the Baltic regional market, including Latvia.

The assets of Latvian banks increased by 1.4% in 2013 and reached €29.2 billion at the end of the year. Latvia's accession to the Eurozone at the beginning of 2014 materially influenced the asset increase (as the automatic money clearings were the most convenient, the cheapest and simplest way of exchanging from lats into euros, a significant amount of cash of legal entities and private individuals was transferred into the bank deposit accounts in 2013. At the end of 2013 the amount of deposits in the banks was €19.5 billion, thus increasing by almost 10% during the year.

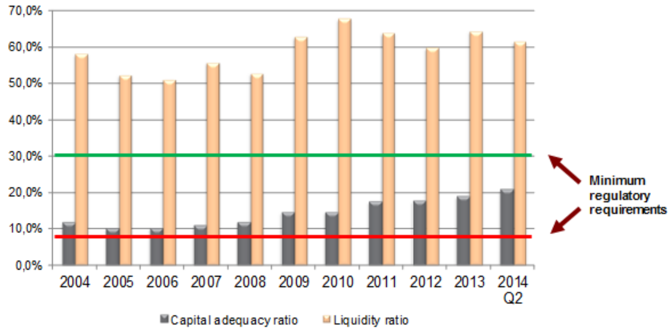
After three years of loss, 2013 was the second consecutive year in which the banking sector was generally making a profit: €246 million. The profitability was positively influenced by the increase in net interest income and net commission income, as well as further stabilisation of the loan portfolio quality and consequently, lower provisions for doubtful debts.

Assets, € millions



As in the majority of other EU member states, the loan portfolio of Latvian banks continued decreasing in 2013 (by 6.5% during the year); however, the pace of decline slowed down compared to 2012. At the end of 2013 the loan portfolio amounted to €15.6 million. The credit portfolio was adversely influenced by the banking sector consolidation process, as well as the procedure of clearing the bank balance sheets from non-profit bearing loans and their inability to amortise the volume of newly granted loans. Financing of the corporate sector, i.e., loans to companies, is the most essential support for bank operations. Less activity was observed in the financing of private individuals.

Capital adequacy and liquidity ratios, %



During 2013, the capitalisation of the banking sector remained high, and several banks strengthened their capital base both by including the profit of the current year of operations therein and by increasing the share capital. At the end of 2013 the capital adequacy ratio of the banking sector reached its historically highest level, 18.9% (the minimum capital adequacy requirement is 8%). Likewise, the liquidity of the banking sector was maintained on a high level. At the end of December 2013 the liquidity ratio was 64.4%, thus exceeding the set minimum requirement (30%) more than twice.

Special activities in 2013

In 2013, banks spent considerable time, finances and human resources on ensuring maximum convenient introduction of euro. The investment paid off with the rapid and efficient introduction of the euro. The banks played a major role in replacement of currency, and the work was performed very successfully. There was no interruption in payment card settlements, automatic money clearings were performed without any problems, the ATMs started handing out euros during the first half hour, and the payment systems operative without delay. Moreover, a long-term positive effect was observed: the volume of money clearing transactions increased in the second half of 2013.

Regarding financial education, banks and the Association of Commercial Banks of Latvia have been active in its promotion for several years. As a result of cooperation with the public authorities and other non-governmental partners, the first Financial Education Week was held in 2013. The work at the National Financial Literacy Strategy for 2014-2020 was also initiated.

Regulation and supervision

In Latvia, the activities of credit institutions are governed by the special Credit Institution Law, as well as other laws and regulations of the supervisory authority. The operations of banks are supervised by the Financial and Capital Market Commission, an independent and professional supervisory authority. Banking regulations, including the norms for preventing money laundering and terrorist financing, fully comply with the highest EU and international standards to ensure credible, transparent and efficient operation of banks.

In 2013, the banks in the SSM were announced. In case of Latvia, the ECB took over the supervision of the three largest banks according to their assets: Swedbank, SEB banka and ABLV Bank.

In Latvia, depositors interests are safeguarded by the Deposit Guarantee Fund, whose funding is ensured by bank contributions on a regular basis; as well as deposits up to €100,000 being guaranteed by the state. In 2010, the financial stability fee was introduced in Latvia; its volume is established by a special law and is calculated in view of bank assets. Instead of accumulating the fee in a special fund, it is credited to the total revenues of the state budget.

LIECHTENSTEIN

LIECHTENSTEIN BANKERS ASSOCIATION

www.bankenverband.li

The Principality of Liechtenstein is a constitutional hereditary monarchy on a democratic and parliamentary basis. The country is situated in the middle of Europe, embedded between Switzerland and Austria on the Alpine Rhine, with a population of about 37,000.

In Liechtenstein, the national economic significance of the financial centre is disproportionately high, compared with other countries. Securing a financial centre with long-term orientation based on continuity and sustainability is thus of fundamental importance for Liechtenstein. The financial sector contributes a total of 27% of Liechtenstein's GDP and generates more than a third of state revenue. Alongside industry, trades and other service, it is thus one of the central pillars of Liechtenstein's national economy.

By the end of 2013, there were 17 banks licensed in Liechtenstein. Thus, the banking industry plays a major role in the Liechtenstein financial centre. Their activities traditionally focus on private banking and wealth management. They do not engage in investment banking and carry comparatively low risks. Owing to the very limited home market, the banks in Liechtenstein are very internationally oriented and have about 60 representations in more than 20 countries. The three biggest Liechtenstein banking groups have expanded their presence abroad in recent years in order to open up areas for growth.

Thanks to Liechtenstein's membership in the European single market, the banks enjoy full freedom of services throughout the entire European Economic Area (EEA). This makes it possible to offer financial products from

Liechtenstein, based on the Swiss franc, and authorised throughout the entire European Union (EU). Consequently Liechtenstein's financial service providers benefit from the free movement of capital and services. The membership in the EEA and the close relationship to Switzerland, as part of the Swiss economic area, is unique worldwide and enables the Liechtenstein financial centre to offer its clients the combination of financial strength, stability and the so-called EU passport. On the other hand the same legal requirements apply to banks in Liechtenstein as in all EU countries. As of July 2014, Liechtenstein has implemented 99.3% of the EU single market directives according to the EFTA Surveillance Agency (ESA).

Liechtenstein banks have solid and high-quality equity capital resources. During the financial crisis, no bank required aid by the state. They already meet the core capital ratio stipulated by the CRD IV with a Tier 1 ratio of 20.6%. Liechtenstein has traditionally stood for political stability, debt-free national budget and conditions favourable to business. Liechtenstein's AAA rating by Standard and Poor's, confirmed in March 2014, underscores the country's reliability.

For some time now, Liechtenstein has been on the path toward greater international integration and cooperation in tax matters. With the "Governmental Declaration" issued on 13 November, 2013, the country reaffirmed its commitment to the applicable OECD standards of cooperation on tax matters and declared ready to implement automatic exchange of tax information (AEOI) based on the future OECD standard. In February 2014, Liechtenstein joined the so-called Early-Adopters' Group. Of course, the difficult international market environment also influenced the development of the Liechtenstein financial sector over the past years. Liechtenstein banks and their foreign group companies managed client assets to the total amount of CHF 195 billion (+6%) and the consolidated net inflow of new assets reached nearly CHF 7.9 billion. The cost-income-ratio was at a remarkably low level, but is under pressure owing to the extraordinary difficult market conditions (strong Swiss franc combined with exceptionally low interest rates), as well as the increasing regulatory and administrative costs.

LITHUANIA

ASSOCIATION OF LITHUANIAN BANKS

www.lba.lt

The Lithuanian financial system is dominated by the banking sector. Currently seven commercial banks hold a licence from the Bank of Lithuania. Alongside those, eight foreign bank branches and two foreign banks' representation offices are based in the country. The banking sector represents 81.4% in terms of financial sector assets. Other credit institutions include 76 credit unions and one Lithuanian central credit union. The total assets of these small credit institutions operating under the special law makes up 2.7% of total financial sector assets. Leasing, insurance, capital market and pension funds makes up another 15.9% of total financial sector assets.

The Lithuanian banking market is dominated by universal Scandinavian banks such as Danske, DNB, Nordea, SEB and Swedbank and is highly concentrated. The three largest banks (AB SEB bank, Swedbank, and DNB bank) that would fall under direct ECB supervision are owned by high-rated Scandinavian banking groups and hold more than 70% of the domestic market.

The Lithuanian banking sector's total assets amounted to € 22.4 billion in 2013 (64.8% of GPD). Banks serve 181,000 active corporate customers through 380 bank branches. Staff decreased by approximately 400 employees in 2013, to 7,600. Lithuanian private persons are operating 1.16 active current accounts per inhabitant and 1.29 internet bank accounts per inhabitant. Lithuanian banks have issued 1.21 bank cards per inhabitant.

The year 2013 was a successful one for banks operating in Lithuania. They remained highly resilient to potential adverse developments. The capital adequacy ratio improved as the capital of the banking sector remained broadly unchanged and the risks undertaken by the sector decreased. The capital adequacy ratio reached 17.6% and the capital was almost entirely classified as the highest tier. Recent stress-testing results have revealed that the banking sector is capable of withstanding severe shocks, but some banks should boost their capital reserves.

The banking sector's operations were profitable. Average ROE during last three years stands at 10.8%. Loan portfolios showed improvements in quality, and the banking system has made notable progress accommodating non-performing loans (NPL).

Despite the continued prevalence of low interest rates, the amount of deposits within banks has increased. At the same time, the liabilities of the domestic banking system to parent banks followed a downward path. Over the recent years loan-to-deposit ratio decreased from 176% peak in 2008 up to 105% in 2013 indicating banking sector funding shift towards domestic financial resources. The share of non-resident deposits in Lithuanian banks is minimal (3% of total deposits).

In total, the banking market over the recent years has become more competitive, more resilient to external and internal challenges and better prepared to work in the new economic environment. Lithuania's entry to the euro area from 1 January 2015 will most likely benefit the country's long-term borrowing. In particular, the demand for the country's bonds among foreign investors will increase as the country will gain access to a wider array of European support funds and reduce its currency risks, which will drive down the cost of its debt instruments.

LUXEMBOURG

Association des Banques et Banquiers, Luxembourg
The Luxembourg Bankers' Association
Luxemburger Bankenvereinigung

www.abbl.lu

Today, the financial sector plays a key role in the Luxembourg economy, but contrary to conventional wisdom, it is not synonymous with the country's economy: 65% to 70% of the economy is made up of other industries and services.

Banks based in Luxembourg conduct activities across different strategic pillars of banking leading to a broad sophisticated product offer as well as a diversified customer base:

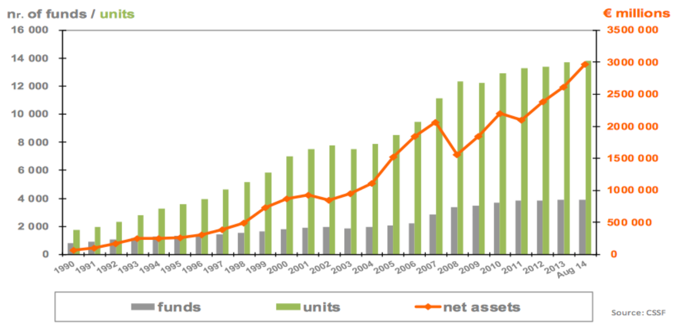
- wealth management;
- asset management and investment funds;
- international loans;
- insurance; and
- structured finance.

Luxembourg's reputation as an international financial centre is based on its ability to deliver tailor-made and innovative solutions to an international client base. Luxembourg is the leading wealth management centre in the euro area. In line with the financial centre as a whole, local private banks, financial advisers and family offices specialise in handling international clients who often have complex business and family profiles stretching across several countries or even continents. Over the past ten years, Luxembourg's private banking sector developed strong geographical diversification.

The proportion of non-EU private banking clients increased from 33% in 2008 to 43% in 2013, showing a growing appetite for Luxembourg beyond European borders.

Historically, the Luxembourg government actively participated in turning the international political intentions into reality for more transparency and tax compliance. Luxembourg is now fully compliant with the new OECD standards, which have set up rules for a well-balanced equilibrium between transparency, compliance and clients' needs for a high level of privacy protection. As a result, the Luxembourg Government has also decided on 10 April 2013 to introduce automatic exchange of information on interest income as from 1 January 2015. The changes are further milestones in the process of development of the Luxembourg financial centre as a modern and transparent centre whose genuine international character and data protection regime as well as its product diversity will be key assets for customer satisfaction provided to Luxembourg's present and future clientele worldwide.

The Luxembourg financial centre is a major worldwide distribution platform for investment funds. Collective investment management has been developing since the mid-1980s. Today, Luxembourg is the world's second investment fund centre after the United States, and Europe's first with around €3,000 billion in assets under management.



In the wake of the 2008 financial crisis, many financial groups have had to reorganise and restructuring their businesses internationally. These changes have also had an impact on the Luxembourg banking centre, where the number of banks has decreased, giving way to fewer but larger entities via mergers and acquisitions.

In the last few years, however, new banks from third countries have established their European hubs in Luxembourg, among which – but not exclusively – three of the six largest Chinese banks, including ICBC, the world's largest bank. In addition, many international banking groups are today establishing their competence centres in Luxembourg, either in private banking, fund administration, custodian services, and in treasury management, or as booking centres for international loans.

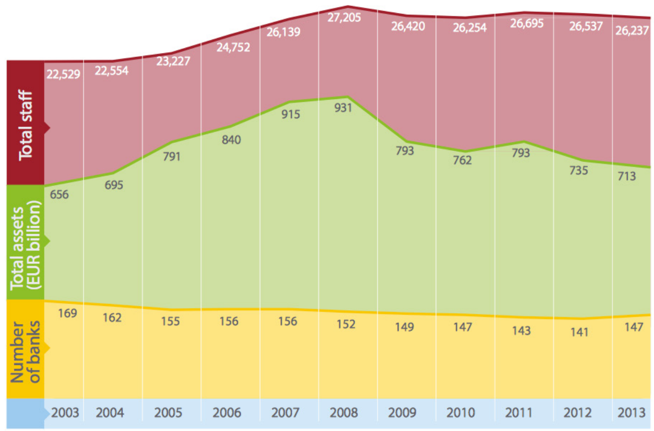
Trends observed in 2013

- For the first time since 2005, the number of bank has increased, defying expectations;
- Despite this increase, the number of staff actually decreased slightly mainly owing to restructuring measures within several banks;
- Total assets decreased 3%, to €713 billion, following further reductions in risk weighted assets;
- Tier 1 capital significantly increased: 77% of Luxembourg banks had a Capital Adequacy Ratio above 15%;
- Liquidity ratio slightly increased to 70%, which is over double the 30% required threshold.

Luxembourg finance for the future

Throughout its history, Luxembourg has always been a place of contrasts, built on traditions with well-established roots, while at the same time open to innovation. In this respect, there are numerous examples of how the financial centre shapes its own future:

- Luxembourg aims to become one of Europe's most attractive places to trade in renminbi, be it through listing, issuing instruments or as a point of access;



Source: CSSF

- Luxembourg is also strongly promoting responsible Investing, where investors seek to achieve both a financial return and do social good;
- Luxembourg also plans to open up to new market segments, including in the developing area of Islamic finance;
- Luxembourg also has ambitions to become a European hub for the digital economy; on account of its huge data processing capacities and the availability of skilled workers from around the globe, Luxembourg will be able to prepare EU-wide financial services solutions for the world of tomorrow.

MALTA

Malta Bankers' Association

www.maltabankers.org

Over the past two decades, the banking sector in Malta has grown from four retail banks serving the local population to 26 licensed banks, only three of which are Maltese majority-owned. The other banks originate from various EU and non-EU jurisdictions, including Austria, Australia, Belgium, Germany, Greece, Kuwait, Portugal, Turkey and the United Kingdom. As such, around 75% of the banking sector's total assets of around €50 billion are foreign-owned.

The sector is very diverse in terms of inter-linkages with the domestic economy, and can be split into three groups according to the extent of linkage with the Maltese economy.

1. Five "core domestic banks", whose assets (around €14.5 billion) represented 202% of Malta's GDP at the end of 2013, and which employ 82% of the sector's workforce numbering around 4,000 employees. Two of these banks are the local market leaders, owning over 80% of this group's assets, and operating 63 of the 92 core bank branches in the Maltese islands. The core banks exercise a conservative business model consisting mainly in the raising of deposits and the granting of loans to Maltese residents.

These banks rely mainly on resident deposits for their funding, and have a stable deposit base thanks to the high propensity to save by Maltese households. Their loan-to-deposit ratio is low at around 70%, and this insulated the banks from the volatility on the international wholesale markets during the financial crisis. In effect, the banks did not need any government support, nor did they need to resort to the ECB's long-term refinancing operations to any meaningful degree to improve their liquidity. On the asset side, over 98% of total loans are to Maltese residents, with the banks applying prudent lending norms and loan-to-value ratios, as well as a cautious valuation of collateral. Their investment portfolios are also widely diversified in well-rated securities.

Overall, the core domestic banks are characterised by a sound capital base (Tier 1 CAR of around 11%), high liquidity and a healthy profitability (return on assets of 1.4%, and a return on equity of around 20%). These positive features were acknowledged in the International Monetary Fund's Report on Malta for 2013, which attributed Malta's remarkable economic resilience in the past few years to its sound banking system and robust export growth.

2. Nine "non-core domestic banks", whose assets (€ 5.3 billion) represented 74% of Malta's GDP as at the end of 2013. These banks undertake some business with Maltese residents, but not as their core activity. As such, resident deposits only represent around 18% of total liabilities for this banking group. On the asset side, resident assets likewise account for only 10% of total assets, which are largely diversified between non-resident loans to companies and banks, as well as a mix of corporate, Government and other banks' debt securities. With a Tier 1 capital adequacy ratio of around 23%, these banks have a good shock absorbing capacity to cover a potential deterioration in asset quality. Considering also their limited exposure to the domestic economy, these banks are not deemed to pose a threat to domestic financial stability.

3. Twelve internationally-oriented banks which are mainly subsidiaries and branches of large international institutions. These banks have almost no links to the domestic economy, with resident liabilities and resident loans both standing at less than 0.5% of the respective totals. Their combined assets, amounting to €30 billion as at the end of 2013, represented around 413% of Malta's GDP. They fund themselves mainly through the wholesale market or through their parent banks, and deal mainly with intra-group activities. Overall, this group is also very well capitalised, has strong liquidity and is profitable. Here again, therefore, the very low level of business carried out with residents, and the fact that these banks have negligible contingent claims on the Deposit Guarantee Scheme, mitigates

possible concerns regarding the size of their asset base in relation to GDP, or the threat which they might pose to domestic financial stability.

Since 2002, the Malta Financial Services Authority (MFSA) has assumed full regulatory and supervisory powers as the single regulator for financial services in Malta. The MFSA is therefore the sole regulator for all banking, investment and insurance business carried out in or from the Maltese islands. On the other hand, the Central Bank of Malta is primarily responsible for maintaining price stability through the formulation and implementation of monetary policy. It is also responsible for the promotion of a sound financial system and orderly capital markets. To this end, a Joint Financial Stability Board, set up between the MFSA and the Central Bank of Malta, focuses on macro prudential aspects of financial stability, extending its remit to the entire financial sector.

THE NETHERLANDS

Nederlandse Vereniging van Banken

www.nvb.nl

The Dutch banking sector is characterised by its relatively large size, high level of concentration and its international orientation. Measured against the size of the Dutch economy, the Dutch banking sector is large from an international perspective. Nonetheless, Dutch banking has shrunk considerably in the past years. The size of the assets relative to the GDP of the Netherlands has decreased from 600% in 2008 to 400% in 2013.

The banking sector continues to make a significant contribution to the economy, about 7% of GDP. Regarding the high degree of concentration: the four largest banks in the Netherlands have a combined share of about 80% of total banking assets. They play an important role in providing payment services to other financial institutions and consumers. About 90% of Dutch consumers have their savings in deposits at one of the four largest banks. These banks have a comparable share in the mortgage market.

The Dutch banking industry is internationally oriented, which fits in the open, export-oriented, Dutch economy. The Dutch banking market is emerging solidly from the continued period of global economic turbulence. The sound stress test results as published by the new supervisor ECB on 27 October 2014 confirm the strong capital position that the seven major Dutch banks currently enjoy.

The Dutch banking sector aims to remain competitive at national, European and global level, thus ensuring the health of the national and European economy. Whilst Dutch banks have returned to the “basics of banking” focussing in particular on taking deposits and granting loans, the Dutch banking sector has benefited from ever increasing diversity and external investment with a number of well- known European banks expanding their operations in the Netherlands over the period.

Future-oriented banking

The awareness of its importance in the economy and society is primarily the responsibility of the banking sector itself. In that perspective, the implementation of the self-regulatory Banking Code in the Netherlands throughout 2010 was the cornerstone of the Dutch Banking Association's (NVB) strategy for restoring trust in the banking sector. The report (2013) of the Committee on the Structure of Dutch Banks (the 'Wijffels Committee') laid significant foundations for the further strengthening of Dutch banks. It paid great attention to the stability of the industry and the importance of competition and diversity in Dutch banking. The committee also called on banks to set out the role they want to play in society in a social charter. The Dutch banks are keen to pick up this gauntlet.

By introducing a Social Charter, updating the Banking Code and implementing a bankers' oath (with the associated rules of conduct and disciplinary system) across the board, the banks want to demonstrate what they stand for and what they want to be held accountable for in the ongoing renewal process: as individual banks and as an industry at the heart of the community.

The Social Charter, the Banking Code and the rules of conduct associated with the bankers' oath together form a package called 'Future-Oriented Banking'. The Social Charter describes the (preferred) position of the sector as a whole in society and the shared values of the sector. The Banking Code safeguards sound administration in every bank and the rules of conduct make the responsibility of every individual employee at the bank explicit. These building blocks visualise the way in which the sector wishes to achieve an ethical, customer-oriented and sustainable sector.

NORWAY

www.fno.no

The Norwegian banking sector is characterised by a few large commercial banks and by numerous savings banks. At the end of 2013, the Norwegian banking sector consisted of 106 savings banks, 18 commercial banks and 54 finance/mortgage companies. In addition, there were 42 branches of foreign banks and credit institutions in Norway. A substantial part of the banking system (approx. 25%) in Norway consists of foreign bank branches (mostly Scandinavian).

At year-end 2013, the aggregate assets of the entire banking sector (including foreign entities) amounted to €615 billion, corresponding to 171% of Norway's total GDP (in nominal terms). The financial intermediation sector contributes to approximately 7% of national GDP and the industry employs around 50,000 people. There were 1,061 branches by the end of 2013, and the overall number of inhabitants per bank branch was around 4,800. As more and more people are using banking services online, the number of branches has decreased significantly over several years.

Norwegian banks are solid and profitable, and loan losses are at a very low level. Return on equity was 11.9% in 2013. Norwegian banks have also strengthened their financial position in recent years by retaining a larger share of their profits and by issuing new equity. The overall capital adequacy ratio for Norwegian bank groups was 14.8% by the end of 2013. In addition, increased liquidity buffers and longer-term funding have put Norwegian banks in a better position to tackle a new tightening of liquidity.

Norwegian banks fared relatively well during the financial crisis and incurred limited loan losses. Profits were however somewhat poorer than in the years prior to the crisis. The main challenge facing Norwegian banks during the financial crisis was liquidity shortage, owing to the heavy dependency on foreign funding sources which subsequently dried up. There was, however, no solidity crisis and no severe credit contraction in Norway. Also, the negative consequences were mitigated by government liquidity support.

Norwegian banks' liabilities largely comprise retail deposits, covered bonds and senior bonds. Large banks have a considerably larger share of market-based, international funding than smaller banks, which base their operations largely on depository funding and inter-bank loans. Small Norwegian banks are dependent on funding provided to them by the large banks. More than 80% of small banks' interbank debt is to the large banks.

Bank deposits are guaranteed by the Norwegian deposit guarantee scheme and have thus proven to be a stable source of funding, also during the financial crisis. The guarantee provided by the Banks' Guarantee Fund covers up to NOK 2 million (approx. €245,000) per depositor per bank. Bank deposit structures are dominated by household deposits, which represents about 35% of all non-financial sector deposits, while (non-financial) corporate deposits represent about 22%. The deposit-to-loan ratio (customer deposits as a share of gross loans to customers) for banking groups as a whole was 57% at year-end 2013. This figure has been quite stable for some time.

In recent years, banks' covered bond issues have been an increasingly popular source of funding. The interest rate paid by banks' residential mortgage companies on covered bonds is lower than the rate paid by banks when issuing senior bonds, owing to the lower risk associated with covered bonds. Moreover, covered bonds have met investors' need for secure and liquid investments in Norwegian securities, and this has enabled mortgage companies to issue covered bonds on particularly good terms.

There has been a high demand for bank loans in Norway the last couple of years, with a credit growth at 7% in 2013. However, this is still lower than before the crisis. Credit to households has had the strongest growth rates over the last years, which must be seen in conjunction with the steep rise in housing prices. Households stand for 58% of total loans outstanding, 85% of which comprised lending for house purchase. Loans to non-financial corporations represented 33% and local governments 8%.

Norwegian banks strongly support the progress in the stability and governance of the European financial sector, as well as the increasing harmonisation of regulation and supervision throughout Europe, in order to ensure a level-playing field and improve the functioning of the market economy. The new regulatory framework is based on the EU's Capital Requirements Directive, but the Norwegian supervisory practice in the capital area has been stringent from a European perspective. Implementation is set to take place earlier in Norway than scheduled in the international framework.

POLAND

ZWIĄZEK BANKÓW POLSKICH

www.zbp.pl

Poland has the largest banking industry of the countries comprising the most recent wave of the EU enlargement. A growing economy, with rising credit demand, makes Poland a favorable destination for investment in the banking sector. It has a competitive landscape, focused on domestic business and playing an important role in financing private households, SMEs, big infrastructure projects, and project financing.

Along with the rest of the economy, and owing to strict supervision, the Polish banking system is showing resilience and has avoided serious problems during the financial crisis. Despite a slowdown in the economic growth observed in the second quarter of 2012 and the first quarter of 2013, the banking sector remained stable in 2013.

The Polish Financial Supervision Authority (Komisja Nadzoru Finansowego - KNF) is a public administration body responsible for state supervision of the Polish financial market. The Authority includes seven members: the chairman of the KNF, two vice-chairs and the representatives of the Minister of Finance, the Minister of Labour and Social Policy, the President of the National Bank of Poland, and the President of the Republic of Poland. An institution responsible for operating the deposit guarantee scheme is the Bank Guarantee Fund (Bankowy Fundusz Gwarancyjny – BFG). Due to the transposition of BRRD provisions to national legislation, BFG will receive new powers of resolution authority.

At the end of 2013, the Polish financial landscape was characterised by 41 commercial banks and a branch network of 571 cooperative banks. The Polish banking sector is dominated by foreign-owned institutions: foreign owners hold majority stakes in most commercial banks, totalling 63.2% of the sector's assets. Cooperative banks are members of two associating banks; despite the large number of these institutions, their market share is under 7% of total assets of the sector. Due to preparation for the new requirements of CRD IV package, the cooperative banking sector is in the process of establishing the Institutional Protection Scheme.

In 2013, the Polish banking sector's assets reached the value of €338,966 million. Banks' deposit structures are dominated by household deposits, while corporate deposits represent about 34% as a share of all non-financial sector deposits. The total banks asset to GDP ratio is estimated around 86% and non-financial sector deposits to GDP is 47.5%.

In Poland, there is a high demand for bank loans. The bulk of credit was granted to households: 62.3% of total loans, of which 60.5% consisted in lending for house purchase. Loans to non-financial corporations represented 31.2%. In recent years, the loan-to-deposit ratio was quite stable, at around 103.1%. Despite the limited lending growth, it can be considered satisfactory compared to most EU countries (at the end of March this year, the annual growth rate of loans to households in the euro area was -0.1%, consumer loans -1.9%, mortgages 0.5% and corporate loans -3.0%, while in Poland these indicators respectively were at the level of 4.7%, 3.7%, 4.5%, 4.8%). It is also worth noting that Polish banks register a high level of profitability: in 2013, return on equity stood at 10.1% return on assets at 1.1%.

Polish banks are well prepared to meet new CRD IV/CRR requirements. They maintain a strong capital base (own funds increased from € 31.1 billion end-2012 to €33.6 billion end-2013, the solvency ratio increased from 14.7% to 15.8%, the Tier 1 ratio increased from 13.1% to 14.2%). The gradual improvement of the main capital adequacy ratios is visible. According to KNF calculations, the Common Equity Tier 1 (CET1) ratio was estimated at 13.9% at the end of March 2014.

Polish banks are characterised by a good liquidity position. The basic liquidity ratios remain stable and are at a satisfactory level (the positive liquidity gap - € 37.6 billion as end-2013, whereas the liquidity coverage ratio was at the level of 1.50 remaining considerably above the required minimum of 1.00).

Furthermore Poland is the European leader when it comes to the development of innovative banking services and modern payment systems. At the end of the second quarter of 2013 the number of clients with the access to online banking services amounted to almost 23.4 million, representing an 11% increase in comparison to the second quarter of 2012. Year-by-year mobile payments have a bigger share in the total amount of all transactions. In 2013, the number of direct debit payments increased by 32.6% compared to 2012. There was also an increase of 20.3% in the number of non-cash transactions made with cards. The share of their quantity and value in all card transactions amounted to 32.1%.

The Polish financial sector strongly supports the improvements of the stability and governance of the European financial sector. While being exposed to the global downturn, regional uncertainties and declining asset quality, the Polish banking sector may still be considered as a promising growth market with economic growth prospects in 2014 expected to be at a much higher level than in 2013.

PORTUGAL

PORTUGUESE BANKING ASSOCIATION

www.apb.pt

The Portuguese banking system comprises 150 institutions, of which 58 are banks (29 being branches of foreign banks), 88 are mutual agricultural credit banks and four are savings banks. Its assets amounted to €515 billion at the end of 2013, which corresponded to approximately 310% of nominal GDP. At the same date, the six largest banks accounted for approximately 75% of the assets of the entire sector. However, despite this evidence of concentration, the Herfindahl Index suggests the market to be moderately concentrated.

Portuguese banks are mainly focused on the credit activity and play a key role in the financing of companies, particularly SMEs, therefore loans and advances to customers represented around 50% of the total assets at the end of 2013. At the same time, deposits from customers are the main source of funding, representing around 43% of the sector's total balance sheet. This solid deposit base has been crucial for Portuguese banks to achieve the deleveraging goals suggested by Banco de Portugal under the Economic and Financial Adjustment Programme, which recommended the eight largest banking groups to have a loan to deposit ratio of 120% by the end of 2014. By December 2013, the ratio stood at 117%.

Regarding capital adequacy, the recapitalisation process, undergone by Portuguese banks, have allowed them to fulfil all the requirements imposed both by Banco de Portugal and the European authorities. At the end of 2013, Portuguese banks showed an aggregated solvency ratio of 13.3% and a core Tier 1 ratio of 12.3% (as defined by the National Central Bank). The Common Equity Tier 1 (CET1) ratio, calculated according to the CRR/CRD IV, was 11.9% as of the end of March 2014, clearly above the required 7% minimum. Moreover, the funds used by three institutions under the State Recapitalisation Scheme, which amounted to €5.6 billion in the form of hybrid instruments and special shares, have almost been repaid, remaining €1.6 billion by August 2014.

The main challenge for Portuguese banks has been profitability which has been negative since 2011. The high volume of credit impairments has been a heavy burden for net income, driven essentially by the increase of non-performing loans. Banco de Portugal performed four special on-site inspections to the eight largest banks, aimed at evaluating the sufficiency of the impairments registered for the loan portfolios, as well as validating the data that supports the calculation of their solvency position.

The traditional intermediation activity that characterises the Portuguese banking sector implies that it has one of Europe's widest networks of branches, almost 5,700 units at the end of 2013, meaning that one branch serves close to 1,850 inhabitants, on average. The number of employees was around 53,000. Additionally, the Portuguese banking system also provides access to a wide range of technology based services to its customers, enhancing the value added to them. The network of ATMs, around 17,000 units, is the largest in Europe when adjusting for the population, corresponding to around 620 inhabitants per ATM.

ROMANIA

www.arb.ro

During the crisis, the Romanian banking sector did not need to be bailed out with public money while the main banking prudence ratios stood at adequate levels. The Romanian banking sector, comprising 40 credit institutions, has demonstrated its structural stability and has managed, without major difficulties, to overcome the challenges related to a higher NPL rate and the optimisation of loan portfolios considering the regulatory constraints. The main challenges to financial stability continue to be credit risk and the risk of external contagion.

Maintaining financial discipline is a sine qua non condition to keeping the stability of the banking system. The NPL rate generated by the players of the real economy affects banks' performance indicators, especially as regards their relationship with investors who could interpret unfavourably the banking sector's stability and credibility. More provisions are needed to cover losses affect profitability and lending. The NPL rate of 17.23% in August 2014 is to go down by some percentage points after banks have written off from their balance sheets the non-performing loans for which there are no reasonable expectations to work them out but which are fully or partially provisioned, based on banks' accounting policies, agreed with external auditors. The NPL coverage with IFRS provisions and prudential filters continues to be comfortable (89.9%), being one of the highest levels compared with the countries in the region.

The solvency rate kept being a high one, namely 16.95% in June 2014. Prudential filters will be removed gradually during the implementation of additional capital requirements to comply with Basel III (the time interval 2014-2019), by 20% yearly. Implementing the Basel III Accord provisions will be done step by step starting on 1 January 2014. A challenge is financial and banking groups adapting to the solvency and liquidity requirements imposed by the Basel III provisions that could lead to shrinking exposures and changing business models.

Financial intermediation stood around 35% at the end of 2013, expressed as weight of non-government credit against the GDP, down from the threshold of 40% registered in 2011, the drop being generated by the shrinking of credit institutions' balance sheets. Measured as weight against the GDP of net bank assets, the ratio dropped to 57.6% in 2013 for an asset volume of about €81 billion. The economic growth outlook generated by the raising of European funds, financial intermediation standing at 35% and banks' penetration at about 53%, all make Romania an attractive destination for investors in banking sectors.

The structure of the Romanian banking sector at the end of 2013 included two banks with fully or partially state-owned capital, three institutions with majority private domestic capital, 25 banks with majority foreign capital, nine branches of foreign banks and one credit cooperative. The weight of the assets of institutions with foreign-owned capital against total assets of the Romanian banking sector went up from 83% in December 2011 to 90% at the end of December 2013.

As regards shareholders' origin function of assets, the banks with Austrian capital hold a market share of 37.1%, followed by French capital with 13.5% and Greek capital with a market share of 12.3%.

The first five banks of the system were holding on 31 December 2013 weights of 54.4% as regards the assets' aggregated volume, 52.9% of loans, 54.3% in deposits and 54.85% of total own funds, according to the National Bank of Romania's data for the year 2013.

The saving rate has been on an upward trend, standing in 2013 at 25% as weight against the GDP, up from 21.6% in 2012 according to the NBR data. The increase of the saving rate against the GDP shows the constant trust as regards placements. The advance of domestic savings has compensated for the reduction of financing from parent banking companies from €20.3 billion on balance in 2011 to €13.4 billion on balance in January 2014. We have been witnessing an orderly financial disintermediation. Placements must be profitable, otherwise financing goes away to where it finds better returns.

The existing lending regulatory constraints in Europe, the disposition to save, the reluctance to apply for new loans taking into account the lack of trust in the development of the economy during times of crisis and the restructuring of banks' portfolios have made that the loans-to-deposits ratio in the banking sector be but one step away from its equilibrium level, going down to 105.36% in March 2014. Currently, the range of eligible customers has shrunk and bankers are now "running" after the customers of other banks, after good customers or after business-oriented ones if we are to refer to companies. The yearly dynamics of non-government credit kept being negative, despite a relative improvement in the development of loans denominated in the domestic currency.

With unemployment increasing, the significant cutting of wages and the downsizing or even stopping of some companies' business have all contributed to the steady drop of the loan reimbursement capacity with direct consequences upon the quality of banks' loan portfolios which at its turn led to an increase in the volumes of the provisions that credit institutions had to establish.

Thus, the banking sector marked three years in a row of losses during 2010- 2012, while in 2013 it made a profit, though a rather symbolic profit as it happens. The Romanian banking sector continued to be on a positive trend as regards profitability in the first three months of 2014, ROE standing at 0.67% and ROA at 6.30% at the end of March. Banks have adapted their loan portfolios, while they have re-dimensioned their branch networks and the number of employees at the same time. The number of bank outlets stood at 5,492 at the end of December 2013, while the number of bank employees was adjusted to 58,600.

European economies are 70-75% dependent upon bank financing. This share is 92% in Romania. Breaking the vicious circle between banks' debts and sovereign debts, improving the supervision of the European banking sector and solving the problems of banks undergoing a crisis without using, mainly, public money, are steps to be implemented via the European banking union.

90% of the banking sector's assets are held by credit institutions with foreign capital. The risks involved in the process of outlining, transposing and complying with regulations pertain to the possibility of shrinking exposures and withdrawing the capital of the credit institutions with foreign capital.

SLOVAKIA

www.asocbank.sk

After the banking crisis in the late 1990s the Slovak banking sector has been transformed into one of the soundest, most stable and profitable banking sectors in the European Union.

Profitability and stability enable banks in Slovakia to focus on innovation. Slovak banks are leaders in the use of new technologies in the day-to-day banking e.g. contactless cards, contactless mobile payments and peer-to-peer payments. According to the Visa Europe, Slovakia is the country with the one of the highest penetration of contactless cards in Europe.

Slovak banks have avoided the financial crisis without any government support. The main reason has been the banking sector's orientation to conservative banking functions: receiving deposits and providing loans in

Banking innovations: First time in the world, first time in Slovakia

ATM	1967	1989	(22 years)
POS	1982	1993	(11 years)
internet (direct) bank	1995	2000	(5 years)
internet banking	1994	1998	(4 years)
chip payment card	1997	1999	(2 years)
contactless card	2006	2008	(2 years)
mobile banking	2008	2010	(2 years)
mobile contactless payment	2010	2012	(2 years)
peer to peer payment	2012	2013	(1 year)

domestic currency. As we now witness, the traditional banking business model fared well in the financial crisis. Our banking sector consists of 27 financial institutions. The majority of them are universal banks, focused on retail and corporate banking. In Slovakia there are three specialised banking institutions: building societies. Since privatisation (1999-2001) most of the banks in Slovakia are controlled by foreign entities, mainly banking groups from Austria, Italy and Belgium. Only 4 banks are now fully controlled by domestic investment groups or government.

The Slovak banking sector is concentrated in the hands of three major players (Slovenska Sporitelna, VUB Banka and Tatra banka) who control up to 54% of banking assets. Despite this concentration, some new players have entered the market in recent years and market share of small and medium-sized banks has increased.

In comparison to the national GDP, the banking sector is one of the smallest in the EU. The assets to GDP ratio is 82% and Slovak banks directly contribute more than 3% to GDP. Slovakia has some of the most stable and soundest banks in the euro area. According to study of the World Economic Forum (*The Global Competitiveness Report 2013-2014*), Slovakia has the fourth soundest banking sector in the euro area. Slovakia is also among the four countries in the euro area to have avoided the crisis in the banking sector without government support.

One of the principal differences between Slovak financial institutions and banks in most of EU countries is their liquidity position. Funding of Slovakian banks is based primarily on domestic client deposits. The loan to deposit ratio is still one of the lowest in the EU (89%). Therefore, the Slovak banking sector is well insulated from shocks, and banks can support the economy.

Retail loans have been dominating the domestic lending market and Slovakia has the one of the highest retail loans growth rate in the EU (10% on year to year basis). The main reasons are low interest rates and stable property prices. On the other hand in 2013 the outstanding amount of corporate loans decreased significantly but this year we can see slight improvement.

Thanks to retail banking growth, most Slovak banks have remained profitable. After the profitability decrease in 2012 (due to the highest bank levy in the eurozone and decline in the interest rate margin), banking sector profits again increased last year (more than 11% to €549 million). ROE increased from 9.65% to 11.69% in 2013.

In the last few years more than 50% of net profits have supported the capital bases of Slovak banks. The Tier 1 capital ratio, a core measure of the financial strength of banks, increased on average to 16% (2013) with the lowest individual level at 13.09%. Every bank exceeded 9%, the minimum level of Tier 1 according to the central bank's recommendation.

One of the potential risk factor for the Slovak banking sector has been a national bank levy, which is the highest in the Monetary Union. In its latest report on the Slovak economy, the IMF repeated its recommendation to reduce the bank levy as the high levy could be burdensome on financial intermediation.

SLOVENIA

ZBS | Združenje bank Slovenije
The Bank Association of Slovenia

www.zbs-giz.si

At the end of 2013 there were 17 banks, three savings banks and three branches of foreign banks operating in the Slovenian banking sector. The total assets of all banks amounted to €40.4 billion, which was equivalent to 115% of GDP at the end of 2013, down from €46.1 billion and 130% of GDP in 2012. This was for the fourth consecutive year that total assets of banks declined, a sign of a strong contraction in the credit activity of banks and a result of the still ongoing deleveraging process, begun in 2009. A rapidly evolving process of credit quality deterioration after year 2008 has culminated in record high proportion of non-performing loans in mid-2013 and in unprecedented high levels of loan loss provisions weighing on profitability of individual banks and also having a deteriorating impact on capital adequacy of banks.

Following the deteriorating situation in the banking system in general and in some individual banks specifically, the central bank (Bank of Slovenia) and the government decided to conduct a comprehensive review of the banking sector, that consisted of asset quality review and bottom-up and top-down stress tests, in the second half of 2013. Earlier in 2013 the Bank Asset Management Company (BAMC) was established as a government-owned company with the task of facilitating the restructuring of banks with systemic importance facing severe solvency and liquidity problems. After the publication of the comprehensive review results in December 2013 the following measures to stabilise the banking system were implemented (Financial Stability Review, 2014):

- the recapitalisation of three systemically important banks (NLB, NKBM, Abanka Vipa) and two smaller banks (Factor banka, Probanka) already in the orderly wind-down process since September 2014;

- recapitalisation with government securities included in the portfolios of the troubled banks;

- the write-down of the subordinated instruments (bail-in); and

- the transfer of selected non-performing claims from NLB and NKBM to the BAMC.

Owing to these measures the government deposits in banks declined, some of the troublesome assets were substituted by government securities and the equity positions of the concerned banks were improved, raising the average capital adequacy ratio to roughly 15%. The government also announced the intention to privatise NKBM and Abanka Vipa and to reduce its participating interest in NLB to no more than 25% plus one share in the medium-term (EC, Macroeconomic imbalances, Slovenia, 2014).

Despite some encouraging signs of economic recovery (e.g. growth of exports, growth of the industrial production) and despite the forecasted 2% annual growth for 2014 published by the national IMAD institute in September (IMF October forecast +1.4%; EBRD September forecast +0.7%) the deleveraging process in corporate sector is not completed yet and banks have not restored credit growth yet. So the 2014 mid-year data (end-June) reveals a 31% reduction in credit to corporate sector and 3.6% decline in loans to households on a year on year basis. The decrease in corporate loans cleaned up for the effect of the transfer of non-performing assets on BAMC is somewhat smaller, i.e. about 12%, but still shows a noticeable deterioration in credit activity of banks. At the same time the level of non-performing loans on banks' balance sheets is still relatively high, not leaving much space for the improvement of banks' profitability, which performed with a weak 5% ROE in mid-year 2014. On the other hand the household deposits grew by 1.6% and non-financial corporations' deposits by 12.8% up to June 2014, on a year on year basis, while the liabilities towards banks from the rest of the world declined by 27% (y-o-y) up to end-June 2014, reflecting further reduction of wholesale funding in the funding structure of banks. So, the share of wholesale funding came down from roughly 33% in December 2008 to only 12% of total liabilities of banks in June 2014. Similarly, a contraction of the liabilities towards the ECB was detected as well in the first half of 2014, since they came down from €3.7 billion in December 2013 to €1.9 billion in June 2014, which was a 49% decrease in six months only. The aforementioned changes in credit activity and liability structure of banks culminated in the declining loan to deposit ratio, which for the first time after 2004 dropped below 100%, more precisely to 97% in June 2014, while the peak level of 162% was reached back in 2008.

The new government that took office in September this year is expected to intensify efforts for the restructuring of the corporate sector that is necessary for the revival of the economic growth and indirectly also for the recovery of the banking sector. The Bank Association of Slovenia has also contributed to these efforts by initiating, together with the Bank of Slovenia and Ministry of Finance, the general principles of financial restructuring in the corporate sector. The purpose of the principles is to facilitate restructuring negotiations between troubled debtors and their creditors with the aim of coordinating the creditors and finding the surviving solutions for the indebted companies.

SPAIN

www.aebanca.es

Spanish activity in 2013 was characterised by the intense deleveraging of balance sheets, narrowing margins, and the continuation of major provisioning and capitalisation efforts, resulting from Spanish banks' policy of cleaning up their balance sheets and strengthening their solvency that had been under way since the start of the crisis.

This process took place in the unfavourable context of an economic recession and low interest rates, accompanied by a rise in the value of the euro against the dollar and the currencies of the main countries in which our institutions operate abroad.

On the asset side the deleveraging is visible in the contraction in the balances of the typical investment accounts: fixed-income securities and loans and advances to customer portfolios; and on the financing side, the significant drop in resources obtained on the negotiable securities issue market, and in particular, funds borrowed from central banks and financial intermediaries, for which the balance, net of asset positions, is now a quarter of that reached in mid-2012 during the height of the euro crisis. These changes have been accompanied by a moderate increase in customer deposits, a significant reduction in derivatives trading activities, and in particular, a further increase in capital.

The length of the financial crisis, with interest rates being kept low for accommodative monetary policy reasons, and the contraction in economic and financial activity, have meant that the main margins on consolidated income statements have been shrinking since 2009 in terms of returns on total average assets, and this trend continued in 2013. We hope that this will be reversed with the economic recovery and the return to positive growth rates.

The major provisioning and write-down effort continued in 2013, although this was less intense than the exceptional effort made in 2012. Nonetheless, levels were similar to the average of the four previous financial years (2008-2011) at around 1% a year of average total assets.

This said, the most significant feature of how Spanish banking groups' business has evolved is the sustained effort over recent years to raise their solvency levels. The core-capital ratio, indicating top quality capital, has been rising year after year since the start of the crisis and even accelerated in 2013.

As a result, write-downs, capitalisation and deleveraging have been the main focus of Spanish banking groups' management, as they weather a climate of reduced business, narrowing margins, and high default rates in 2013. And, as they ready themselves for both the anticipated scenario of a more vibrant economy as growth returns, and for the implementation of banking union.

Review of the financial assistance programme for Spanish banks (conducted by the Bank of Spain)

The fourth review of the financial assistance programme for Spanish banks took place from 16-27 September 2013. As on previous occasions, a delegation from the European Commission, in liaison with the ECB, and accompanied by the EBA, the European Stability Mechanism and the International Monetary Fund (the latter in its role as programme monitor) met Spanish authorities, financial institutions and other private institutions. The main conclusion of the European and international institutions, as reflected in their public statements, is that the programme is moving ahead as envisaged. Practically all the structural reforms of the financial sector have been accomplished.

Consequently, the framework of governance, regulation and supervision of the banking sector has been strengthened, enhancing its resilience in the face of potential future shocks. The restructuring of the institutions, which have received assistance, is progressing at a sound pace and the plans approved by the European Commission are being met under the latter's terms.

The Spanish banking sector's liquidity situation and financing structure have continued to improve, against the background of progressively stabilising markets and access once more for Spanish banks to funding markets. Spanish institutions' solvency position remains comfortable following the recapitalisation of parts of the banking sector, the transfer of real estate-related assets to SAREB (asset management vehicle for the restructured entities), and the improvement in results so far in 2013 compared with those in 2012.

Nonetheless, the broad economic setting advises maintaining close surveillance and supervision over the banking system, providing for sustained, proper diagnosis of the shock resilience and solvency of the Spanish banking sector to head off possible problems.
Lastly, the IMF recommends the adoption of pan-European policies, such as pushing ahead towards banking union and applying additional monetary policy measures.

SWEDEN

Svenska Bankföreningen
Swedish Bankers' Association

www.swedishbankers.se

Number of banks

There are four main categories of banks on the Swedish market: Swedish commercial banks, foreign banks, savings banks and co-operative banks. In December 2013, Sweden had a total of 118 banks. The number of commercial banks and foreign bank branches in Sweden has increased from 48 in 2003 to 67 in 2013. The increase is due to the fact that, among other things, more foreign banks have been established in Sweden. In addition, the number of Swedish commercial banks has increased, including securities firms and credit market companies that has become banks

Swedish commercial banks

Swedish commercial banks are divided in three categories. The largest are the four big banks: Swedbank, Handelsbanken, Nordea and SEB. These banks are important players on most segments of the financial market. The second category is savings banks that have been converted into joint stock companies, often with Swedbank as a shareholder. The third category constitutes other Swedish commercial banks with a diverse business focus and ownership structure. Most of the other commercial banks were formed during the mid-1990s and later. At first these banks were mainly focused on the retail banking market and distributed their products and services online, but also through retail stores for example. In recent years several new banks have a background in securities trading and financing business. The newly established banks have in course of time increased the selection of financial products and many of these banks are today regarded as universal banks.

Foreign banks

The first foreign bank was established in 1986, when foreign banks were first allowed to open subsidiaries. During a few years, in connection with the financial crisis in the beginning of the 1990s, the number of foreign banks declined. Foreign banks were permitted to open branches in 1990 and, since then, they have increased. In December 2013, they amounted to 30. Most foreign banks focus on the corporate banking and securities market. The largest foreign bank is Danske Bank which at the same time is the fifth largest bank in Sweden.

Savings banks

There are numerous independent savings banks in Sweden and they are active in regional or local markets. Most savings banks operate in co-operation with Swedbank as regards technical solutions and the provision of a common range of products and services. The number of savings banks has declined due to small savings banks having merged.

Co-operative banks

A co-operative bank is an economic association that has as its purpose to produce bank services for its members. To be able to use the bank services of a co-operative bank the customer must become a member by paying a member share. There are two small co-operative banks in Sweden.

Number of banks in Sweden

Type of bank	**2003 (Dec)**	**2013 (Dec)**
Swedish commercial banks	27	37
- *big four banks*	*4*	*4*
- *former savings banks*	*12*	*14*
- *other commercial banks*	*11*	*19*
Foreign banks	21	30
- *subsidiaries*	*2*	*1*
- *branches*	*19*	*29*
Savings banks	76	49
Cooperative banks	2	2
Total	**126**	**118**

Source: The Swedish Financial Supervisory Authority (Finansinspektionen)

SWITZERLAND

SwissBanking

www.swissbanking.org

The Swiss financial centre, with banking as the leading sector, is in many areas among the global market leaders. Banking is a key sector for Switzerland as a small and open economy:

- as centres of innovation, banks generate momentum for the entire economy and create value added;
- as employers, banks offer a large number of skilled jobs paying above-average salaries;
- as taxpayers, they contribute a considerable share of public-sector funding.

Of utmost importance is their role as reliable providers of financial services to the economy. The generous supply of credit experienced no restrictions during the last financial crisis. Moreover, interest rates and bank interest margins have remained low. Switzerland benefits as a business location from very favourable financing conditions on an international level.

Value added

Including insurers and other financial service providers, the financial sector as a whole accounts for 11% (CHF 63.5bn) of value added in Switzerland. The banking sector alone creates CHF 35.2bn of value added, corresponding to 6% of Switzerland's gross value added.During the global financial crisis in 2008 and 2009, the Swiss banking sector's real value added fell by more than 10%. In a time of rapid global economic change, stricter regulatory conditions and protectionist tendencies abroad have amplified the challenges facing banks. At the same time, rising risk premiums and falling margins have hampered their earning power. These adverse developments came about after the crisis broke out in 2007, and they caused value added in the banking sector to grow very little over the last ten years. Very dynamic developments in the area of technology are currently leading to substantial efficiency gains. The Swiss banking sector is thus expected to grow faster than the economy over the next few years.

The benefits banks create for other economic sectors remain high, since a thriving banking sector is an important consumer of goods and services. This interconnectivity means that for every 100 bank employees, another 80 jobs are created in other economic sectors through indirect effects. Alongside the CHF 35.2 bn generated by the Swiss banking sector, the indirect effects create an additional CHF 12.0 bn of value added in other sectors, leading to a total 7.8% share of Switzerland's overall economy.

Employment

More than 194,000 people or 5.6% of the entire Swiss workforce are employed in the financial sector. Of these:

- 105,735 work for banks and securities dealers;
- 36,300 work for other financial services providers (e.g. independent asset managers, etc.); and
- 2,282 work for insurance companies.

In 2012, banks trained over 3,700 commercial apprentices or about 10% of all commercial apprentices in Switzerland.

Taxes

The financial centre (including staff and shareholders) pays CHF 18.3bn in direct and indirect taxes. This represents about 14% of all federal, cantonal and municipal tax receipts. Thereof, CHF 10.5bn can be attributed to the banking sector alone.

Number and size of banks

The Swiss banking sector is characterised by its large variety of banking institutes with differing business models. As of year-end 2013, there were 284 banks, 3,270 branches and 6,820 ATMs in Switzerland. In addition, banks in Switzerland dispose of 253 branches abroad. The aggregate balance sheet of all the banks in Switzerland grew by 2.6% to CHF 2,850bn in 2013 (approx. € 2,350bn). This result was due, in particular, to the increase in liquid assets and financial investments. The total credit made available by the banks was totalling CHF 1,056 bn (approx. €870 bn).

UNITED KINGDOM

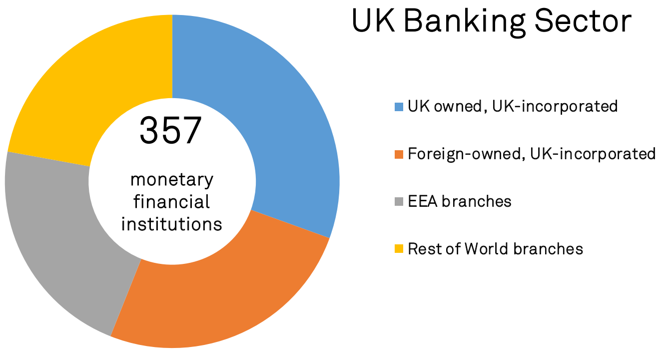
The voice of banking

www.bba.org.uk

The UK is the fourth largest banking sector in the world. It hosts more foreign banks than any other financial centre, holds assets equivalent to €8.8 trillion at the end of 2013, is the largest sector in Europe and the largest financial centre in the World for cross border banking.

The sector employs some 440,000 people (one-third in London) who pay over £17bn annually in income tax and national insurance, around 10% of the national total. Banking sector output is the equivalent of 4.6% of the UK's GDP and, in a significant contribution to the UK's balance of payments, accounts for more than half the net exports of financial services (some £27bn in 2012).

Foreign direct investment into the UK banking sector averages £3.8bn a year, whereas outward direct investment averages £5bn. The average annual return



on cross-border investment is £5bn net for the UK.

Domestic banking in the UK is concentrated, with the main high street banking groups accounting for around two-thirds of retail activity. Banks in the UK operate around 150 million current and deposit accounts for households, with some 50 million operated on-line. Plastic card holding has increased rapidly over the last decade with 58 million credit cards and 96 million debit cards now in issue. They can be used across a network of 68,000 automated teller machines and a consequence of the growth in 'distance-and-convenience banking' has been a contraction in branch networks, though there are still 9,700 bank branches and 11,700 post offices where transactions can be made.

Almost half (45%) of the UK banking sector aggregate balance sheet is held by non resident MFIs and only around one-third is denominated in British pounds. More than half (57%) of the balance sheet relates to the banking activities of UK-resident counterparties.

Many UK banks were impacted by the financial crisis due to exposures to sub-prime securities and the subsequent deterioration of UK credit and funding markets. Liquidity in the UK's banking system was at its highest level for some 17 years in 2007, but excessive leverage (overly large balance sheets relative to equity) and the rise of complex financial products contributed to disproportionate risk taking. In the five years leading up to the crisis, UK bank leverage increased from around 20 times to up to 40 times in 2008, but as funding pressures increased and liquidity from wholesale markets reduced, banks became reluctant to commit funding to interbank markets. Leverage in 2011 returned to assets being 20 times capital and is expected to fall further as banks transition to higher capital requirements.

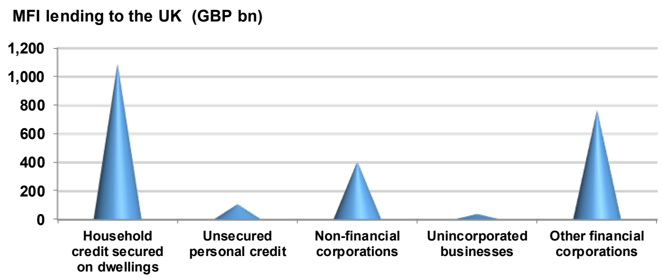
In 2008, the UK Government nationalised Northern Rock, part-nationalised Bradford & Bingley (previously mutual building societies), brokered a merger of Lloyds TSB and Halifax Bank of Scotland and provided recapitalisation and guarantees for the enlarged Lloyds Banking Group (65%) and Royal Bank of Scotland Group (70%). UK Financial Investments Limited was established to manage the UK Government's investments in financial institutions.

The largest banking groups operating in the UK today are Barclays, Lloyds Banking Group, HSBC, RBS Group and Santander. They are supplemented by international banks such as Standard Chartered, Citigroup and

JPMorgan and a tier of medium sized retail providers such as Clydesdale Bank, Co-operative Banking Group and the recently-launched TSB (a sale of 631 branches by the Lloyds Banking Group, in compliance with state aid rules). There is also an emerging group of 'challenger' banks such as Virgin Money, Tesco Bank, Sainsbury's Bank and Metro Bank who are building their retail customer bases, together with local banks in Northern Ireland and mutual building societies providing household savings and finance. Overseas banks operating in niche areas such as corporate and trade finance, providing banking for ex-patriot or local communities or participating through branches in the UK wholesale markets add to the varied spectrum of banking in the UK.

The provision of finance by MFIs is spread throughout the UK economy, with outstanding credit of £2.4bn provided to UK residents at end-2013.

In July 2012, the Bank of England and the UK Government launched a Funding for Lending Scheme (FLS) designed to incentivise MFIs to boost their lending to the UK real economy. The scheme provides funding for an extended period, with both the price and quantity of funding linked to lending performance. The scheme allows participants to borrow UK Treasury Bills in exchange for eligible collateral, with the fee charged and the amount that can



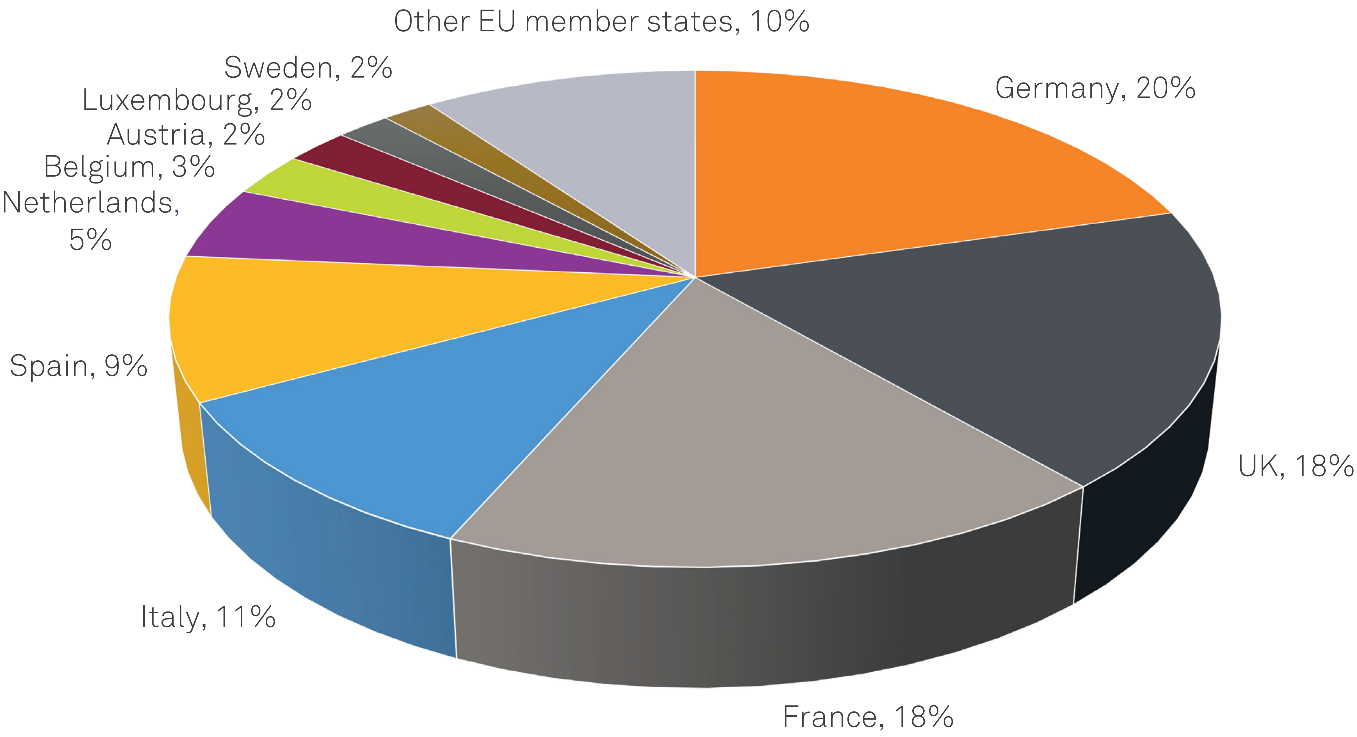
be borrowed dependent on their lending growth. The FLS was extended to January 2015, with incentives to boost lending towards small and medium sized enterprises (SMEs) and expanded to include non bank providers of credit to the UK real economy.

Regulation of MFIs in the UK changed fundamentally in 2013. The Bank of England was, in addition to its responsibility for monetary stability, given statutory responsibility for financial stability, bringing together macro and micro prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in a new Prudential Regulation Authority, whilst organised financial markets and conduct of business is regulated by a separate Financial Conduct Authority.

STATISTICAL ANNEX

Figure 23: Share of total deposits in the EU-28

Total deposits: €21,873,218 million



** A break-down of chart data can be found from page 139.*

Figure 24: Share of total capital and reserves in the EU-28

Total capital and reserves: €3,449,271 million

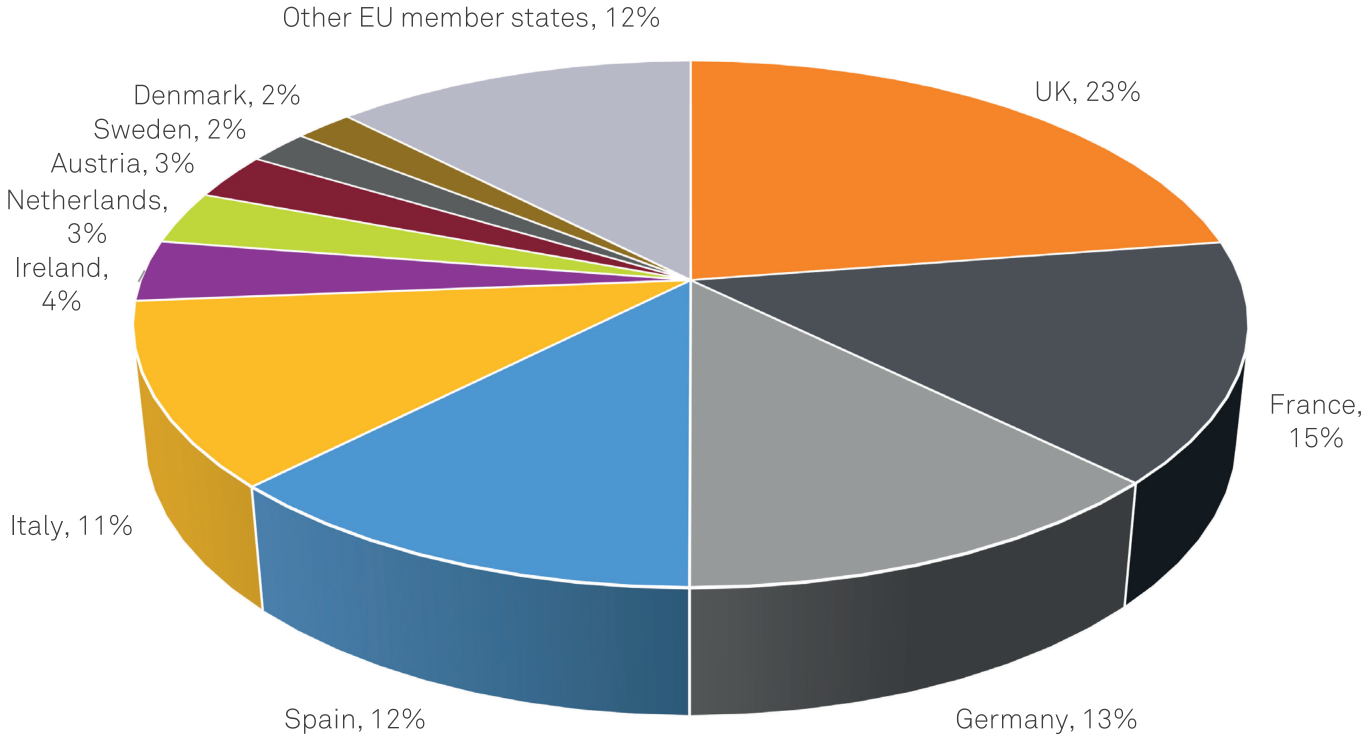
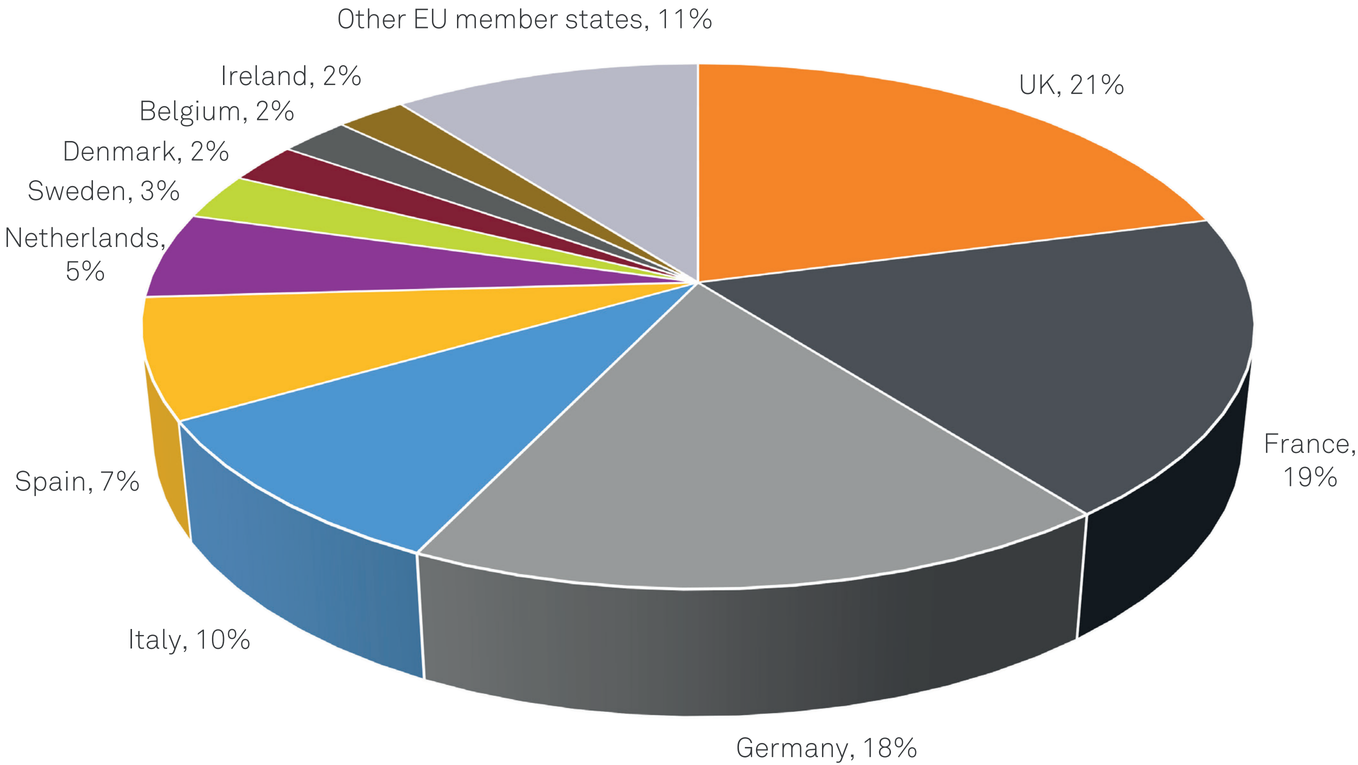


Figure 25: Share of total assets in the EU-28

Total assets: €30,473,039 million



** A break-down of chart data can be found from page 139.*

Figure 26: Share of the total number of banks in the EU-28
Total number of banks: 7,726

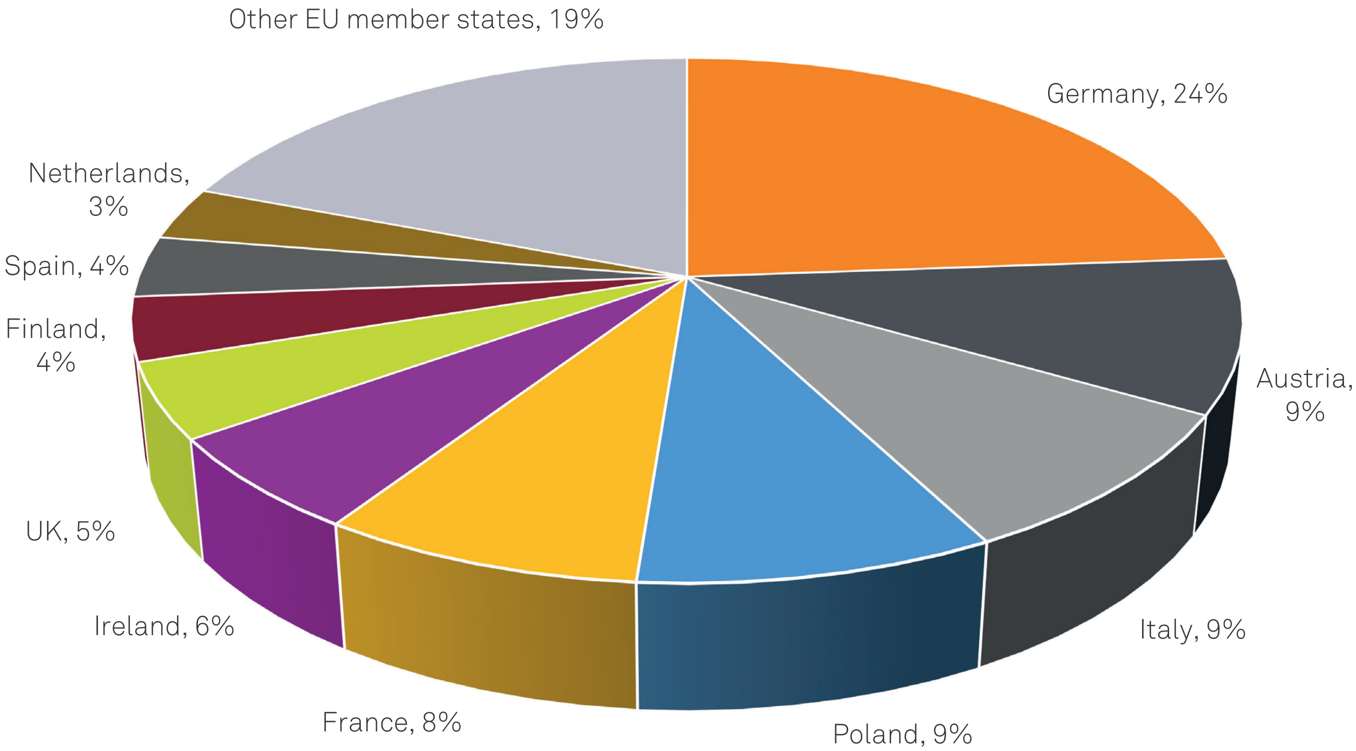
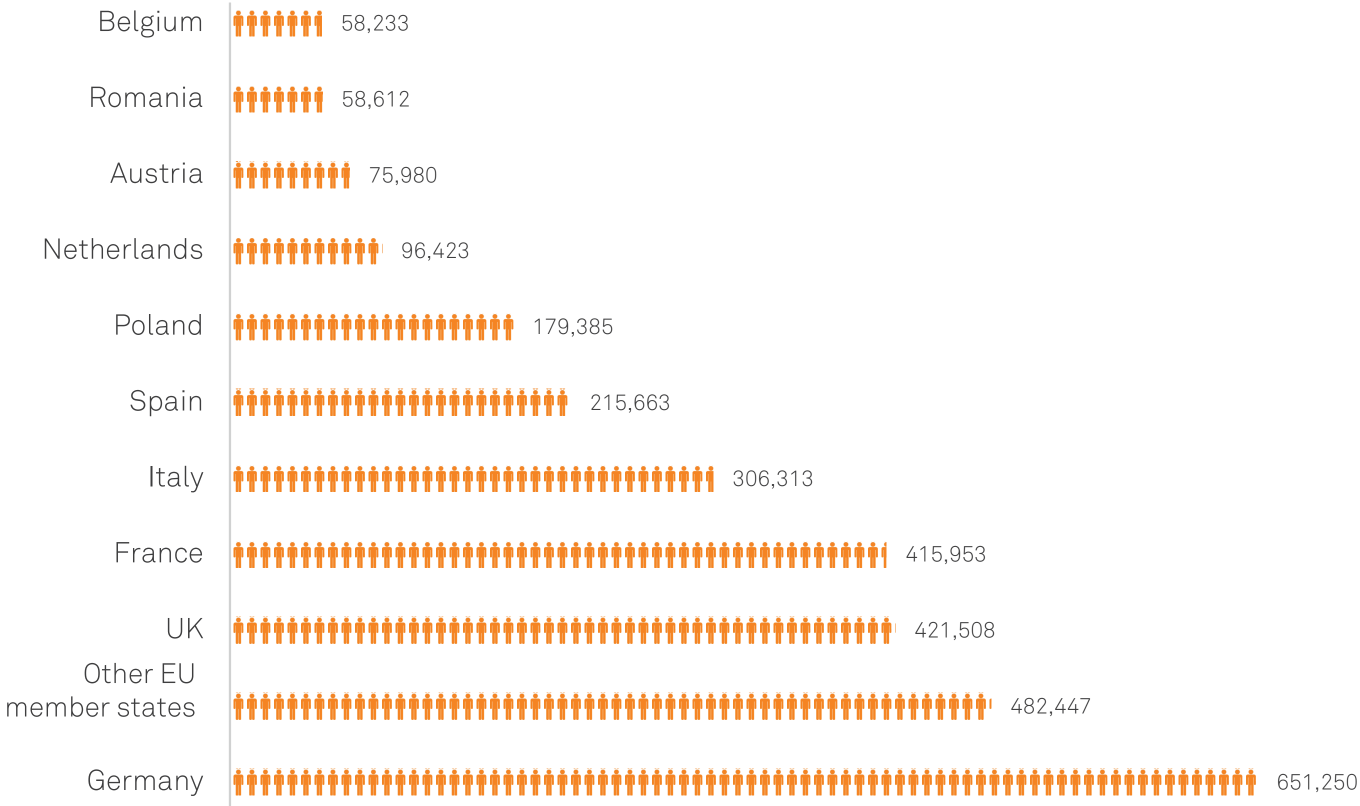


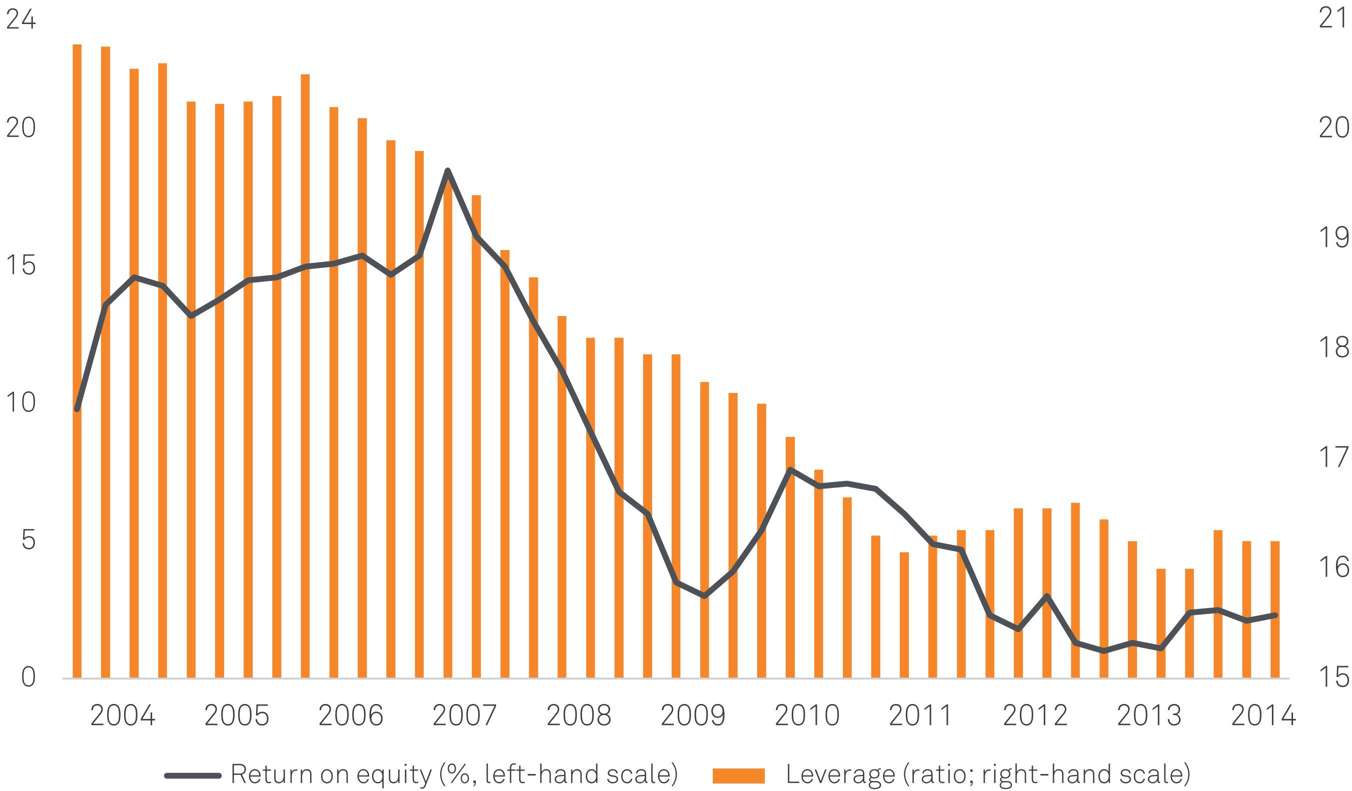
Figure 27: EU bank staff



** A break-down of chart data can be found from page 139.*

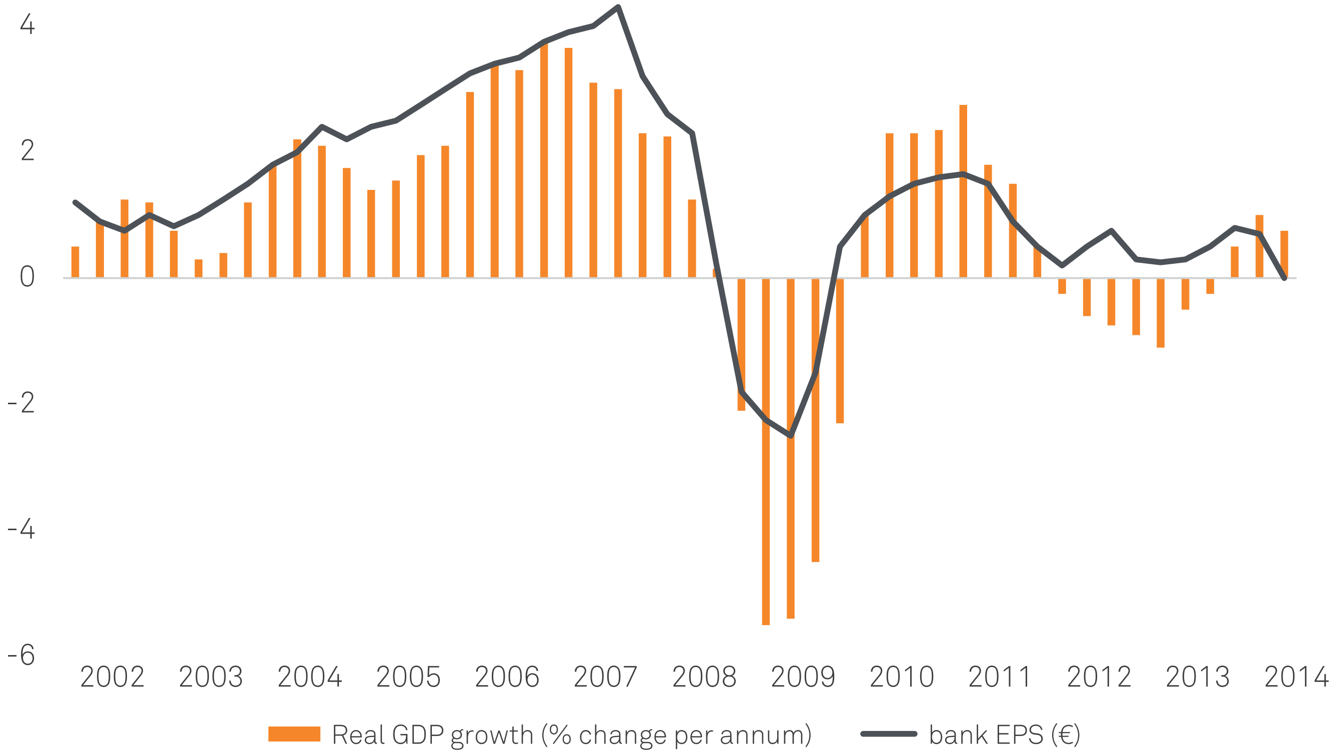
Figure 28: Return on equity and leverage of euro area significant banking groups

Q1 2004 - Q3 2014; medians



Source: ECB (EBA and Bloomberg)

Figure 29: Annualised earnings per share (EPS) for selected large euro area financial institutions and real GDP growth in the euro area
Q1 2002 - Q2 2014



Source: ECB (ECB, European Commission and Thomson Reuters)

Country-by-country statistics - Eurozone EU member states

	Number of banks	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Austria	731	915,105	553,294	511,214	98,725	75,980
Belgium	103	1,021,568	469,940	617,928	60,590	58,233
Cyprus	101	90,198	63,581	52,635	16,207	11,142
Estonia	31	19,951	16,385	13,449	2,704	4,861
Finland	303	525,312	263,833	183,439	26,391	22,402
France	623	7,881,631	4,334,755	3,908,181	509,400	415,953
Germany	1,842	7,528,947	4,429,237	4,482,598	437,559	651,250
Greece	40	407,407	246,206	266,776	58,263	51,242
Ireland	458	1,016,950	360,963	386,260	129,259	31,776
Italy	694	4,047,885	2,382,174	2,301,355	390,598	306,313
Latvia	63	29,258	20,434	13,747	2,907	10,029
Luxembourg	147	914,817	393,022	430,624	57,447	26,237
Malta	27	50,333	14,922	19,636	7,675	4,197
Netherlands	253	2,250,131	1,268,028	1,041,558	112,343	96,423
Portugal	151	515,328	284,089	308,545	51,333	57,556
Slovakia	28	61,129	41,109	44,873	8,920	18,540
Slovenia	23	46,354	32,313	32,216	4,017	11,218
Spain	290	3,150,735	1,828,885	2,046,168	426,912	215,663
Eurozone	**5,908**	**30,473,039**	**17,003,170**	**16,661,202**	**2,401,250**	**2,069,015**

Country-by-country statistics - Non-Eurozone EU member states

	Number of banks	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Bulgaria	30	47,410	32,987	31,150	5,679	32,756
Croatia	35	57,944	44,864	35,145	10,916	21,646
Czech Republic	56	190,868	114,914	128,863	22,376	39,742
Denmark	161	1,048,300	634,588	285,992	68,710	36,367
Hungary	189	116,064	65,896	62,437	17,146	40,750
Lithuania	91	24,035	18,348	13,873	3,348	8,392
Poland	691	361,627	250,302	230,311	51,496	179,385
Romania	39	91,396	64,675	51,459	17,707	58,612
Sweden	168	1,214,496	693,523	395,313	71,970	53,594
UK	358	8,895,348	4,315,786	3,977,473	778,673	421,508
Non-Eurozone	**1,818**	**12,047,488**	**6,235,883**	**5,212,016**	**1,048,021**	**892,752**

EU-28	**7,726**	**42,520,527**	**23,239,053**	**21,873,218**	**3,449,271**	**2,961,767**

Country-by-country statistics - EFTA and wider Europe

	Number of banks	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Iceland	13	19,402	12,686	10,655	-	3,582
Liechtenstein	16	46,522	31,188	30,143	4,784	1,901
Norway	136	579,341	454,075	343,422	53,845	29,414
Switzerland	283	2,325,281	1,811,750	1,666,514	134,363	105,735
EFTA	**448**	**2,970,546**	**2,309,699**	**2,050,733**	**192,992**	**140,632**

	Number of banks	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Albania	16	8,804	4,045	7,315	737	6,708
Armenia	21	5,271	3,323	2,885	-	11,405
Azerbaijan	43	20,385	15,423	12,476	3,389	15,000
Bosnia & Herzegovina	27	11,845	58	7,255	1,630	10,357
Moldova	14	4,556	2,522	3,103	488	10,933
Monaco	35	101,800	19,000	32,900	-	2,871
Montenegro	11	2,959	2,414	2,098	398	2,303
Russia	859	1,277,204	898,970	618,234	63,410	1,166,185
San Marino	7	6,091	3,977	5,046	569	26,380
Serbia	30	24,858	14,725	15,085	7,332	604
Turkey	49	590,377	356,942	322,304	66,018	214,226

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