European Banking Federation

EU Banking Sector: Facts and Figures

2010

European Banking Federation (a.i.s.b.l)

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Launched in 1960, the European Banking Federation is the voice of the European banking sector from the European Union and European Free Trade Association countries. The EBF represents the interests of almost 5,000 banks, large and small, wholesale and retail, local and cross-border financial institutions. Together, these banks account for over 80% of the total assets and deposits and some 80% of all bank loans in the EU only.
The EBF is committed to supporting EU policies to promote the single market in financial services in general and in banking activities in particular. It advocates free and fair competition in the EU and world markets and supports the banks' efforts to increase their efficiency and competitiveness.

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BANKS AT THE HEART OF THE ECONOMY

The financial sector of the EU-27 creates an annual **added value** of 6.5% of the EU's GDP.

EU-based banks contribute 17% to the total **Corporate Income Tax** receipts.

EU BANKS TOP THE CHARTS

Of the 100 **highest-ranked banks** by Tier 1 capital world-wide, almost half are European banks, holding 45% of Tier 1 capital and 60% of assets.

THE WORLD'S LARGEST BANKING SYSTEM

The overall **bank** population in the EU-27 is almost 7,000 (of which the EBF represents 5,000 commercial banks), and almost 229,000 **branches**.

Looking at the EU-27 plus EFTA region, the overall bank population comprises 7,454 entities, with almost 234,000 branches.

Banks in the EU-27 **employ** 3.1 million people, while those in the EFTA region employ an additional 133,000 people.

Banks manage an equivalent of 144% of EU-27 GDP in terms of **loans** extended to households and enterprises, and hold an equivalent of 135% of GDP in **deposits**.

EU-27 bank loans to households for **house purchases and consumer credit** amounts to some EUR 5.7 trillion, representing an average of about EUR 11,400 per EU inhabitant.

Over EUR six trillion is held by the EU-27 banks in **deposits from private individuals** (38% of total bank deposits). This represents some EUR 12,000 per EU inhabitant. From 2011, Bank depositors in the EU will be uniformly covered by the Pan-European Depositguarantee Scheme to an amount of EUR 100,000 per depositor.

The total value of EU-based bank assets is around EUR 41 trillion. The figure for the EU-27 and EFTA countries is over EUR 43 trillion.

The euro area's banking system is the largest in the world, holding consolidated assets three times those of the US system, and almost four times those of the Japanese. European banks provide three quarters of **credit intermediation** services between lenders and borrowers, as opposed to only about a third in the US, where non-bank financial institutions prevail.

SOUND BANKING PERFORMANCE

The European cross-border banks are getting back in shape after the crisis: their **cost-to-income ratio** has decreased to 59%, their **return on risk-weighted assets** has recovered to 0.6%, and their overall **solvency ratio** is up to 15%.

MODERN AND ACCESIBLE PAYMENTS SYSTEM

The **number of bank card transactions** in the EU-27 stands at almost 32 trillion, or 999 transactions per second of every day of the year. Card payments account for nearly 40% of all transactions.

Number of ATMs in the EU-27 amounts to almost 434,000, which is an average of 1,200 inhabitants per ATM.

The **number of electronic-money purchase transactions** in the EU-27 is almost 913 million, which is 1,700 transactions per minute of every day of the year. The **value of e-money purchases** has increased more than tenfold since 2004, amounting to around EUR 23 per this kind of transaction.

GENERAL OVERVIEW

Although affected by the financial crisis, the European banking sector stands strong in global competition. In 2009, a third of the 1,000 highest ranked banks world-wide according to their Tier 1 capital were EU banks, holding more than half of all global bank assets[I]. Looking at the top 100, almost half are EU-based, holding an even more significant fraction of the sample asset base.

The role of banks in the economy and society

The word "bank" derives from the Italian word 'banco', meaning the bench, the workplace of Italian merchants engaged in the transfer of 'Ore' coins from one customer to another. Today, the EU Capital Requirements Directive defines a bank as an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account[II]. In other words, a bank is a legal entity that carries out an economic activity consisting of accepting deposits, granting loans, issuing electronic money instruments and undertaking other activities.

The evolution of banking has been remarkable: banks are present in the daily life of millions of Europeans. By servicing accounts, facilitating transactions and payments, writing mortgages and leases, and by providing advisory services, banks support entrepreneurs and businesses as well as private individuals in all parts of society.

The primary role of banks is **financial intermediation**, i.e. channelling of resources from lenders to borrowers with the view to putting the existing assets to best economic use. This activity involves two important elements: risk assessment and maturity transformation. To assess the risk that the banks take by engaging in each transaction, the bank analyses *inter alia* the borrower's ability to pay, the economic environment of the countries where the activity is taking place, the probability of the exchange rate fluctuations, and so on. In order to keep daily operations running smoothly, banks have to perform maturity transformation, i.e. to match short-term borrowing with the long-term lending.

In Europe, a universal banking model is prevalent. Universal banks are free to engage in all forms of financial services, make investments in client companies, and function as much as possible as a "one-stop" supplier of both retail and wholesale financial services.

A well-developed financial infrastructure helps citizens save for the future, helps companies borrow to invest and expand, and facilitates trade of goods and services. **Financial intermediaries** offer products and services to manage and share risk and ease pooling of capital to where it is needed most. The scale of banks' operations in Europe in 2009 was striking: banks managed an equivalent of 144% of EU-27 GDP as loans extended to households and enterprises, and held an equivalent of 135% of GDP in deposits.

Banks have a large stake in society as important **job creators**, as they employ 3.1 million people around the European Union[III]. Not surprisingly, the countries with the largest number of jobs in this sector are the countries with the largest financial centres in Europe: Germany, France and United Kingdom; followed by Italy and Spain.

The financial sector creates an annual **added value** of around 6.5% of GDP in the EU-27[IV]. While not enjoying any tax privileges and not being able to recover VAT paid to their suppliers, banks alone contribute a massive 17% to governments' **corporate income tax** receipts[V], without considering the social security contributions and personal income tax receipts as an industry with high-skilled employees.

However, even more significant are the **multiplier effects** of banking activity in the real economy. By extending credit to economic agents, banks facilitate economic growth. Allowing firms to cut costs through advances in financial innovation makes production more efficient and frees more capital for the rest of the economy. A very tangible example is the time that the average individual saves by paying invoices online, or by replacing much of the cash handling with card payments. The broad presence of banking and finance in today's society explains why banks are sometimes referred to as an economic engine. In the same jargon, by improving the efficiency of the banking system, more output can be produced with the same amount of fuel. As a consequence of this enhanced productivity in the financial services industry, people all around Europe are able to benefit from the results.

Well-functioning **payments systems** help citizens and businesses pay the bills more easily than ever before, arrange automated transfers, shop online, or simply withdraw cash anywhere with ease and convenience. For example, nowadays 1,700 e-money purchase transactions are performed every minute of every hour of every day of the year in the EU.

Nowadays, **private customers** have unlimited opportunities as far as bank services are concerned. In the fight for market share, the financial institutions continuously offer new products to their customers. As a result of fierce competition, the cost of opening an account, along with all basic customer services, has been reduced thus benefitting the client, sometimes to the point of a zero-gain for the bank.

Financial institutions are competing in making offers to **undertakings** and entrepreneurs. Banks offer assistance in domestic and foreign settlements, in the management of liquidity and in accessing funding sources. In addition, banks offer customised financial packages of banking products and services to meet corporate needs. Communication with the bank is usually based on the use of modern electronic banking systems (including Internet banking). Currently, every third European uses on-line banking[VI]

These elements illustrate the benefits that can be obtained through financial intermediation in Europe – making a reality of the world's largest economic environment.

The future is in financial integration

In an increasingly integrated European market for financial services, banks offer cross-border services and maintain an infrastructure that is crucial for the smooth functioning of the real economy. Improving and developing financial market integration is high on the European Commission's agenda with two main cornerstones being the principles of mutual recognition and maximum harmonisation. Implementation of a single passport allows banks established in one EU Member State to offer its services elsewhere within the Union without additional authorisation[VII]. Vast progress has been made, but there is plenty of room for further integration, especially on the integration of cross-border supervision to match the integration of cross-border business, since large firms need large banks both at the EU level and globally.

The EBF is a long-standing supporter of European integration. The two EBF reports on integration of European financial services markets can be accessed following the links: 2007 report, and 2009 report.

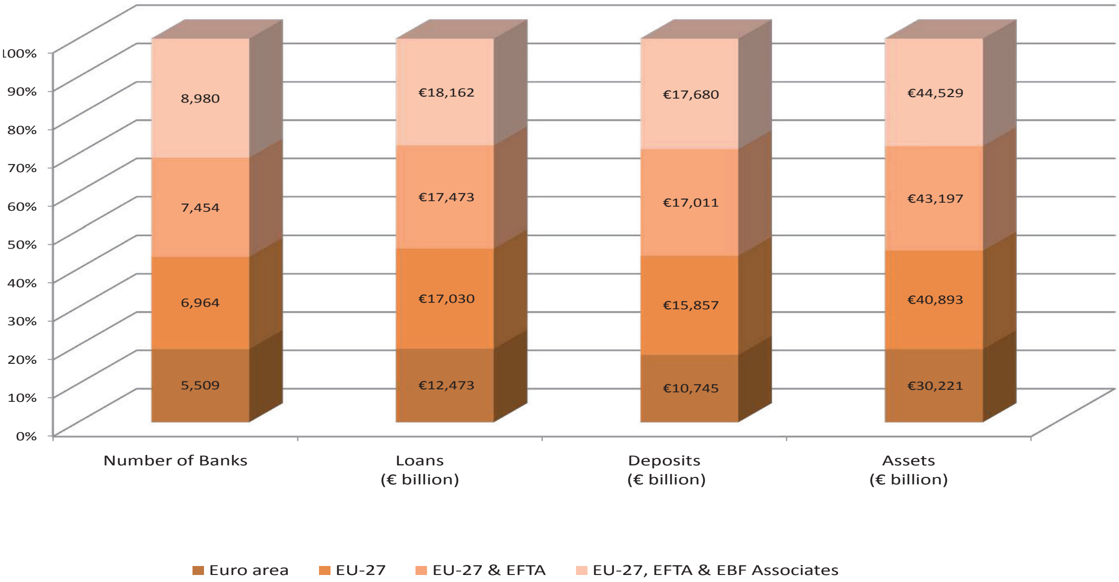
I. PORTRAIT OF THE EUROPEAN BANKING SECTOR IN FIGURES

Size of the banking sector in Europe

In 2009, the overall **bank** population[VIII] in the EU-27, EFTA countries and the EBF Associates, put together (see Annex II for a complete list of countries) amounted to 8,878 entities[IX]. Of those, about 78% operate in the European Union and 62% in the euro area. Banks' **branches** the EU-27 totalled almost 229,000 in 2009, of which 80% resides in the euro area. Comparison of the euro area financial system with those of the USA and Japan are presented in the next chapter.

The EBF represents almost 5,000 commercial banks based in the EU-27 and EFTA countries, which is around 65% of the total bank population of that area.

GRAPH 1. SIZE OF THE BANKING SECTOR IN EUROPE'S REGIONS, 2009



SOURCE: EBF MEMBERS AND ASSOCIATES

All banks in the EU-27, EFTA and EBF Associate countries manage aggregated **assets** worth EUR 44.5 trillion, some two thirds of which originate in the euro area countries. The EU banking sector manages **loans** to the amount of EUR 17 trillion, of which three quarters were granted by the institutions operating in the countries of the euro area. The aggregate amount of **deposits** collected within the EU Member States is over EUR 15.9 trillion with a similar proportion held by banks residing in the euro area.

From here onwards in the report, the analysis is based on all types of banks operating in the EU-27, unless stated otherwise.

EBF member countries' banking developments

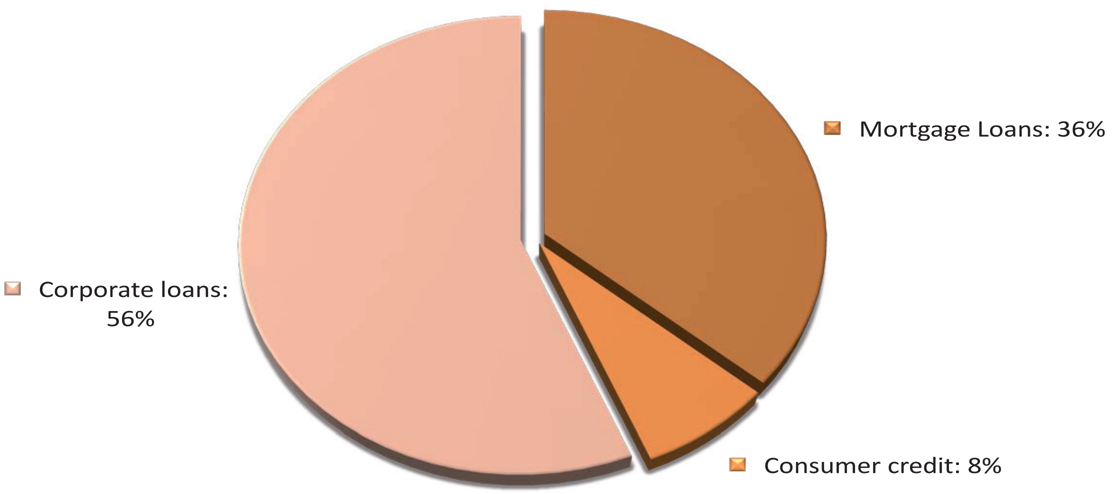
The 27 EU Member States and EFTA countries significantly differ from each other in many respects. These differences relate to the size of the countries' territories, the size of the population, their respective GDP, the national bodies of law, and so on. Therefore, historically, financial markets in each of the EBF Members have adapted to the national particularities.

Bank **loans** granted in the UK and Germany exceeded EUR three trillion, while in Estonia, Lithuania, Malta and Latvia the amount of extended credit was less than EUR 25 billion. The EU-27 average is just over EUR 630 billion (see Graphs 3a and 3b).

Regarding the **loans *per capita*** statistic, the leading country is Luxembourg, where the average share of loans per inhabitant equalled EUR 345,000. Luxembourg is followed by Ireland with an average loan per resident being EUR 133,000. At the other end are Romania, Bulgaria, Poland, Lithuania, Slovakia, Hungary, Czech Republic and Latvia where the average value of loans *per capita* ranges between EUR 2,000 and EUR10,000. This significant difference illustrates the depth and maturity of the Western European financial markets, allowing them to provide more credit to the economy than their Eastern neighbours.

By the end of 2009, the cumulative aggregate sum of bank **loans to households for housing purchase and consumer credit** amounted to some EUR 5.7 trillion (around 44% of total issued loans), an average of about EUR 11,400 *per* EU inhabitant.

GRAPH 2. COMPOSITION OF BANK LOANS IN THE EBF MEMBERS, 2009 (%)



SOURCE: EBF MEMBERS

Examining the value of **total deposits** in the EU, a similar situation is observed: the largest deposit base is in the United Kingdom (EUR 4.3 trillion), Germany, France, Spain and Italy; while the lowest is in the central and eastern European countries, such as Estonia (EUR 9.7 billion), Lithuania, Latvia and Malta. The average size of an EU country's deposit base in 2009 was EUR 587 billion.

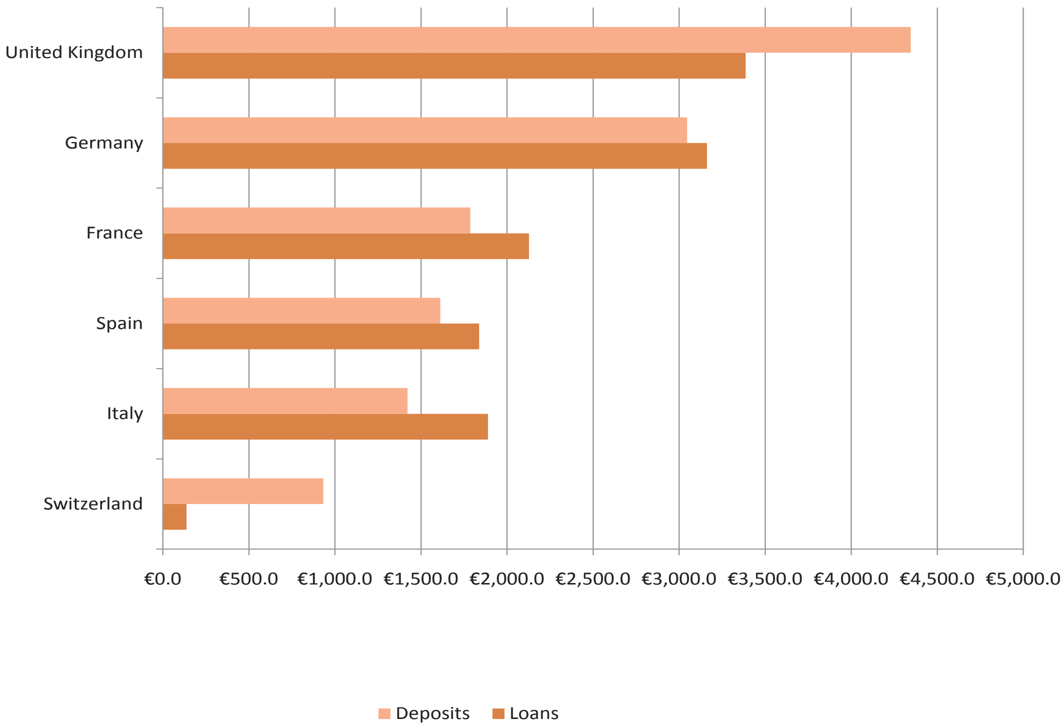
By the end of 2009, a cumulative aggregate of over EUR six trillion had been **deposited by private individuals** (which represents 38% of total bank deposits), or some EUR 12,000 *per* EU inhabitant.

Comparing **deposits *per* inhabitant** across the EU countries, the differences in development are remarkable. The country with the highest average value of deposits *per* resident in 2009 was Luxembourg (some EUR 531,000). From 2011, the pan-European Deposit Guarantee Scheme will cover the European bank depositors uniformly to an amount of EUR 100,000 *per* depositor.

Luxembourg took advantage of the benefits of the European Integration, which has allowed cross-border activity to thrive. Thanks to its favourable geography and legal framework it managed to attract business from all over Europe and beyond.

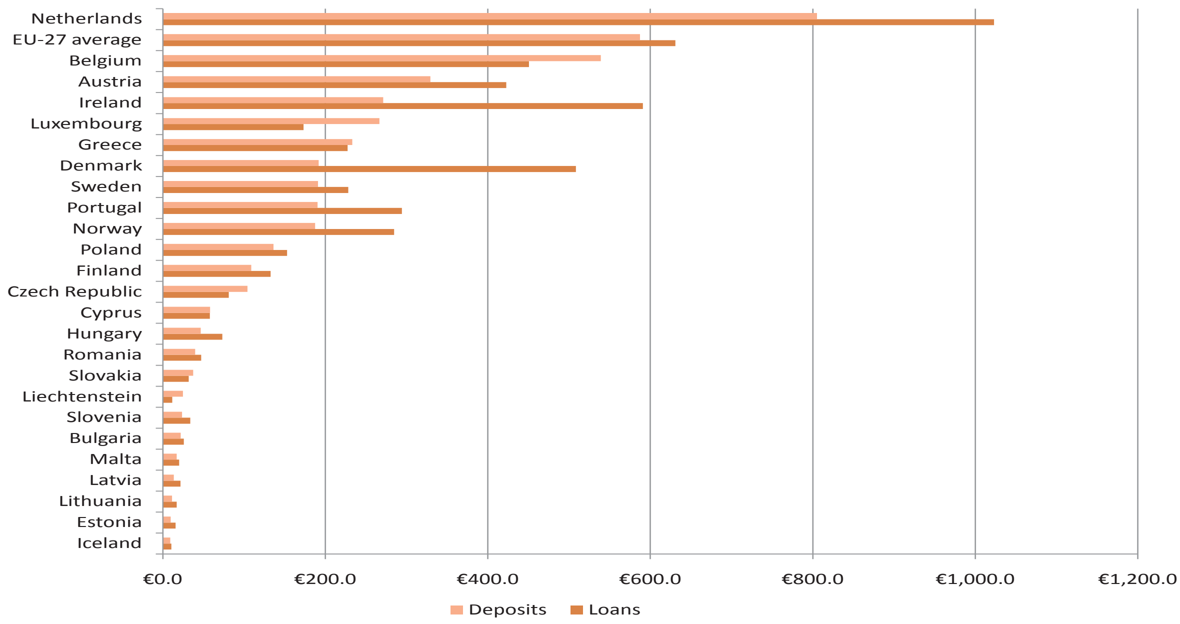
Cyprus comes second with deposits averaging EUR 73,000 *per* inhabitant, followed by the United Kingdom, where the value of deposits per inhabitant is EUR 70,000. At the other extreme of this line-up is Romania (EUR 1,800 *per* inhabitant).

GRAPH 3A. COUNTRIES WITH THE HIGHEST TOTAL VALUE OF LOANS GRANTED AND DEPOSITS TAKEN, 2009 (BN EUR)



SOURCE: EBF MEMBERS

GRAPH 3B. TOTAL VALUE OF LOANS GRANTED AND DEPOSITS TAKEN IN THE REMAINING EBF MEMBER COUNTRIES, 2009 (BN EUR)

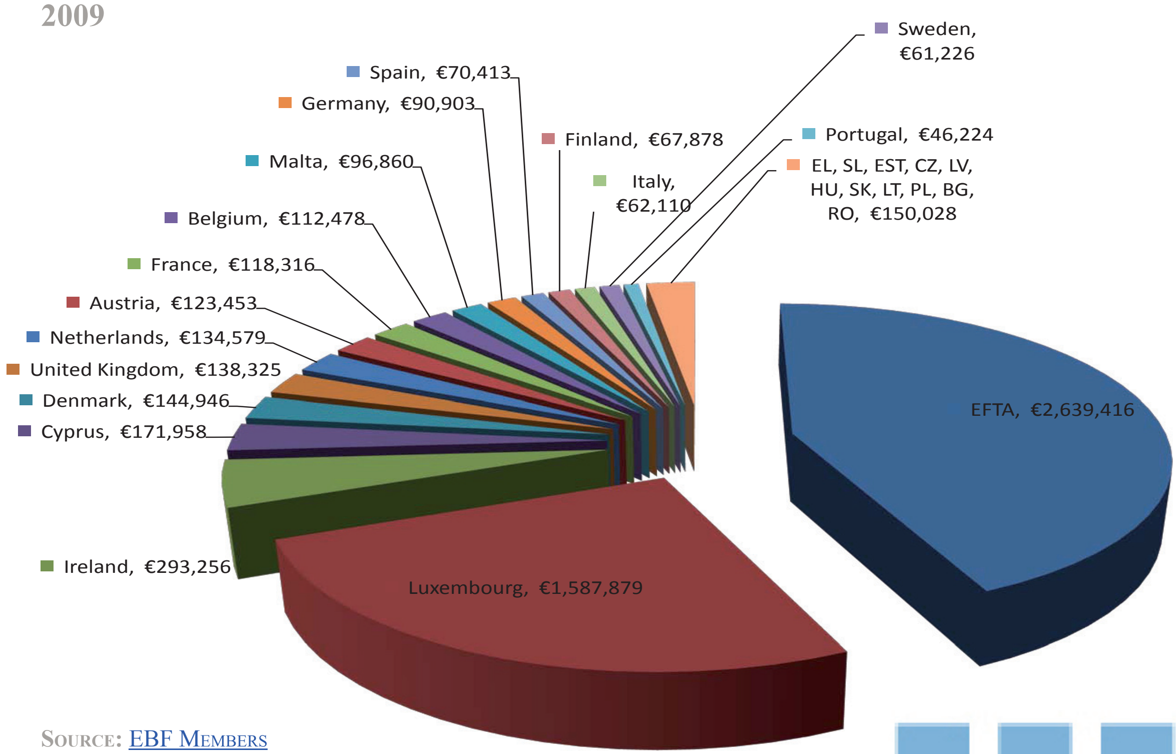


Source: EBF Members

Inevitably, the value of **bank assets** is also highly uneven across the EU Member States. Assets of the five largest countries - Britain, France, Germany, Italy and Spain - account for 75% of the EU total. On the other hand, the financial sectors of the 12 new EU Member States plus Finland comprise less than a cumulative 3% of the EU total.

The total value of the EU-27 aggregated assets is around EUR 41 trillion, an average of EUR 1.5 trillion per Member State. The country with the highest value of assets is the United Kingdom (EUR 8.6 trillion), and the smallest amount of assets is in Estonia (EUR 20.6 billion).

GRAPH 4. EBF MEMBER COUNTRIES' BANK ASSETS PER INHABITANT, 2009



Source: EBF Members

An interesting statistic to observe is the number of **inhabitants *per* bank branch**. At one extreme is Latvia, where each branch welcomes an average of 9,700 citizens, while at the other is Cyprus where a branch provides services to an average of 861 inhabitants. The average number of inhabitants *per* bank in the EU-27 is almost 3,700.

Financial transactions and payments systems in the EU-27

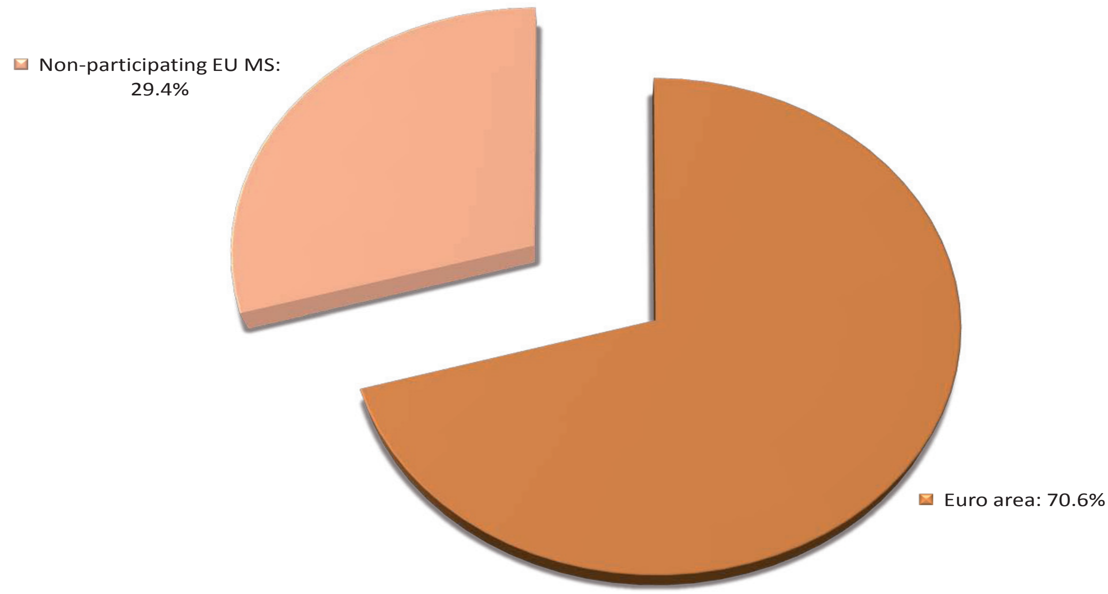
Following a major industry initiative, and with support of the European authorities, banks have been heavily involved in developing a Single Euro Payments Area (SEPA). It is designed for citizens, companies and other economic actors to be able to make and receive payments in euro whether between or within national boundaries, on the same basic conditions, rights and obligations, regardless of their location within the EU. It was introduced in 2008, with the full implementation to be completed by 2011.

With an improved payments' infrastructure, a general thrive of e-banking is observed, gradually pushing out the cash transactions from the daily life of citizens. This tendency brings about safer, faster and easier transactions, improving the overall efficiency of the work of banks with their clients.

The total number of **transactions**[X] that took place in the EU-27 in 2009 is over 82 billion, an average of 2,600 transactions *per* second of every day of the year.

Germany and France, each carried out over 16 billion transactions, while Malta, Bulgaria and Cyprus less than 100 million. Over 70% of the total number of European transactions took place in the euro area.

GRAPH 5. TOTAL NUMBER OF TRANSACTIONS, 2009 (% OF EU)

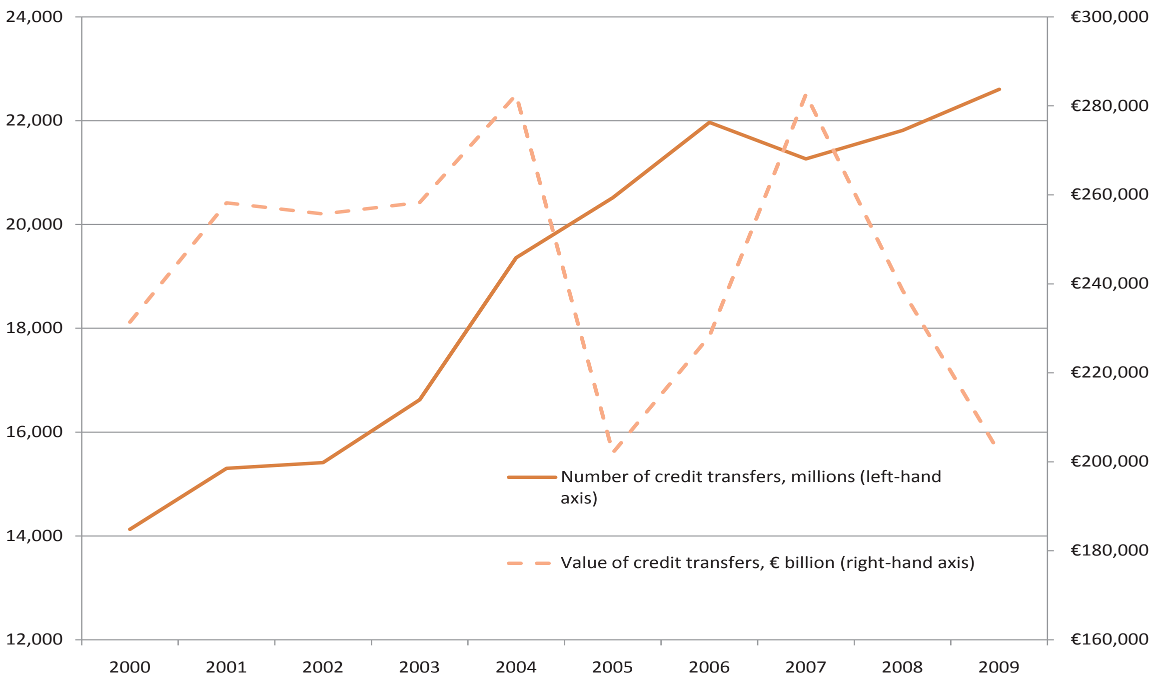


Source: European Central Bank's Statistical Data Warehouse

The most frequently used cashless payment instruments in Europe are: credit transfers[XI], direct debits[XII], cards[XIII]and cheques[XIV]. Electronic money[XV] (e-money) is a new but fast-growing tool which may become a major payment instrument in the future.

Number of credit transfers[XVI] in the EU-27 amounted to 22.6 billion by the end of 2009, which represents just over 45 credit transfers *per* EU inhabitant. In 2009, credit transfers represented 90% of total national payments.

GRAPH 6. NUMBER AND VALUE OF CREDIT TRANSFERS IN THE EU

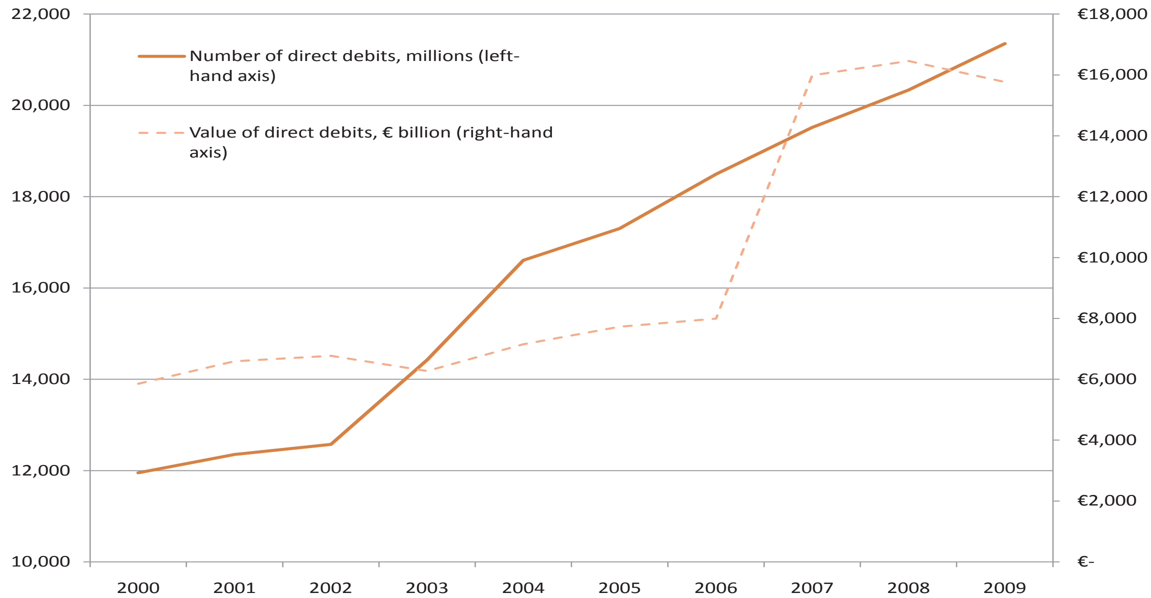


Source: European Central Bank's Statistical Data Warehouse

Credit transfers are most popular in Finland, Luxembourg, and Austria. In 2009, each inhabitant of Finland initiated an average of 144 transfers. In Luxembourg this indicator was also high, at 130. In the third place among EU Member States is Austria with the result of 113 credit transfers per inhabitant. The least number of credit transfers was carried out in Greece, Bulgaria and Romania, between three and nine *per* inhabitant, illustrating the continued importance of cash in their economies.

The **number of direct debits** has been steadily growing, by the end of 2009 representing over 21 billion transactions of this kind, or over 40 direct debits per person that year. Share of direct debits as a percentage of total national payments has more than doubled since 2004 and represented 7% in 2009.

GRAPH 7. NUMBER AND VALUE OF DIRECT DEBITS IN THE EU



SOURCE: EUROPEAN CENTRAL BANK'S STATISTICAL DATA WAREHOUSE

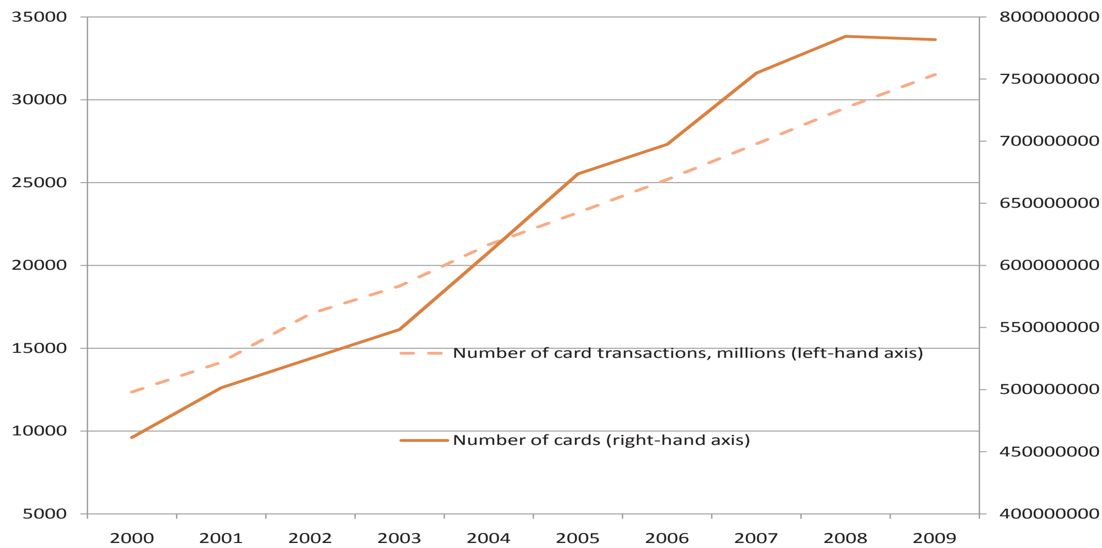
The number of all cards used in the EU-27 has been growing very fast. By the end of 2009, 780 million cards had been issued, which is roughly 1.5 cards *per* EU inhabitant.

Comparing the number of **cards per EU inhabitant** in different EU countries, the United Kingdom leads the charts with the average of 2.6 cards per inhabitant. At the bottom of the ranking are Romania, Poland, Hungary, Czech Republic and Slovakia, where not every inhabitant has a bank card.

The EU citizens have more and more **bank cards with a credit function**. By the end of 2009 the figure stood at 142 million, which means that more than every fourth EU inhabitant has a bank card with a credit function.

Using bank cards is becoming ever more popular. At the end of 2009 **the number of bank card transactions** reached almost 32 trillion. This makes it 999 transactions *per* second of every day of the year. That year, card payments accounted for nearly 40% of all transactions.

GRAPH 8. NUMBER OF CARDS AND CARD TRANSACTIONS IN THE EU

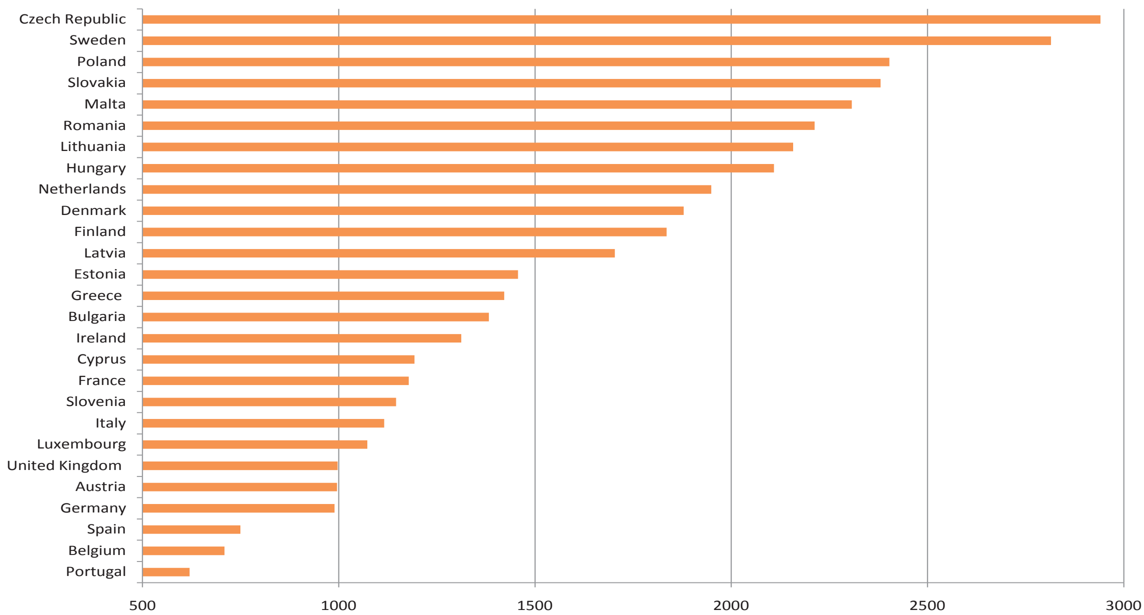


SOURCE: EUROPEAN CENTRAL BANK'S STATISTICAL DATA WAREHOUSE

The **Number of ATMs** in the European Union has been steadily increasing, totalling almost 434,000 by the end of 2009, which is an average of 1,200 inhabitants *per* ATM, a 22% increase since 2004.

As far as convenience and accessibility of banking services are concerned, Portugal leads in terms of the number of **inhabitants *per* ATM**, the parameter being 620 in 2009. At the same time the least number of inhabitants *per* ATM was registered in the Czech Republic, Sweden and Poland. In each of these countries there are between 2,400 and 2,900 inhabitants *per* device.

GRAPH 9. NUMBER OF INHABITANTS PER ATM, 2009

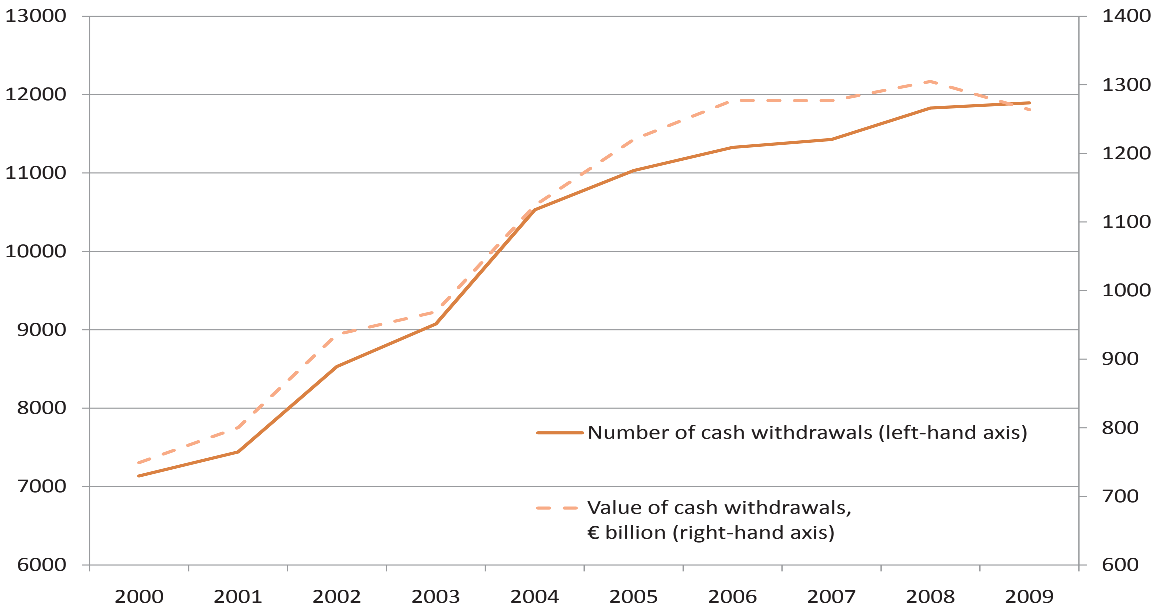


SOURCE: EUROPEAN CENTRAL BANK'S DATA EXTRACTED FROM THE STATISTICAL DATA WAREHOUSE, EBF CALCULATIONS

The number of cash withdrawals for domestically issued cards amounted to almost 24 withdrawals *per* EU inhabitant. At the same time, the domestic growth of **the value of cash withdrawals** was slower**.**

The average **value of cash withdrawn** in 2009 per EU inhabitant was EUR 2,500. However, the value of cash withdrawals per card has been falling steadily for some years, at the end of 2009 standing at almost EUR 1,800. This shows that the total value of cash withdrawals has grown due to the fact that more cards were issued over the period in consideration.

GRAPH 10. NUMBER AND VALUE OF CASH WITHDRAWALS IN THE EU

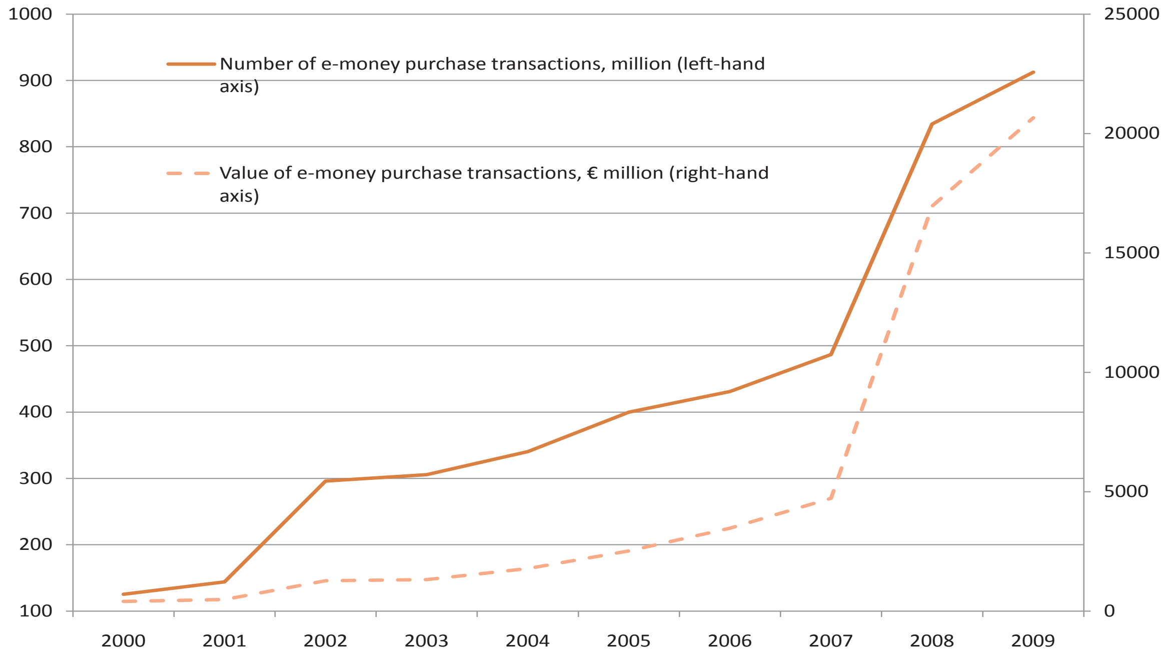


SOURCE: EUROPEAN CENTRAL BANK'S STATISTICAL DATA WAREHOUSE

The **number of** electronic-money[XVII] purchase transactions in the EU-27 has been growing fast, in 2009 reaching almost 913 million, which is 2.7 times more than in 2004. It means roughly two e-money purchase transactions per citizen per year, in other terms, 1,700 transactions *per* minute of every hour of every day of the year. Such figures illustrate the importance of this type of payment for facilitation of economic activity in the EU.

The **value of the e-money purchases** has increased more than tenfold since 2004, by the end of 2009 reaching almost EUR 21 billion. That makes it around EUR 23 *per* e-money purchase.

GRAPH 11. NUMBER AND VALUE OF E-MONEY PURCHASE TRANSACTIONS IN THE EU



SOURCE: EUROPEAN CENTRAL BANK'S STATISTICAL DATA WAREHOUSE

2. THE EUROPEAN BANKING SECTOR IN A GLOBAL CONTEXT

The degree of globalisation of the European banking sector can be considered in two ways: on the one hand, the openness of the EU to foreign banks' subsidiaries and branches, and on the other, the readiness of European banks to go abroad to compete with banks in other jurisdictions. This section will consider both aspects in turn.

The EU is becoming more and more open and attractive to foreign banks from the point of view of ease of establishment. In this respect, the efforts of the European Union authorities to create a Single Market for financial services and to harmonise the bank regulation and supervision across borders over the past decade are commendable[XVIII]; which now acts as a catalyst to the overall process of globalisation.

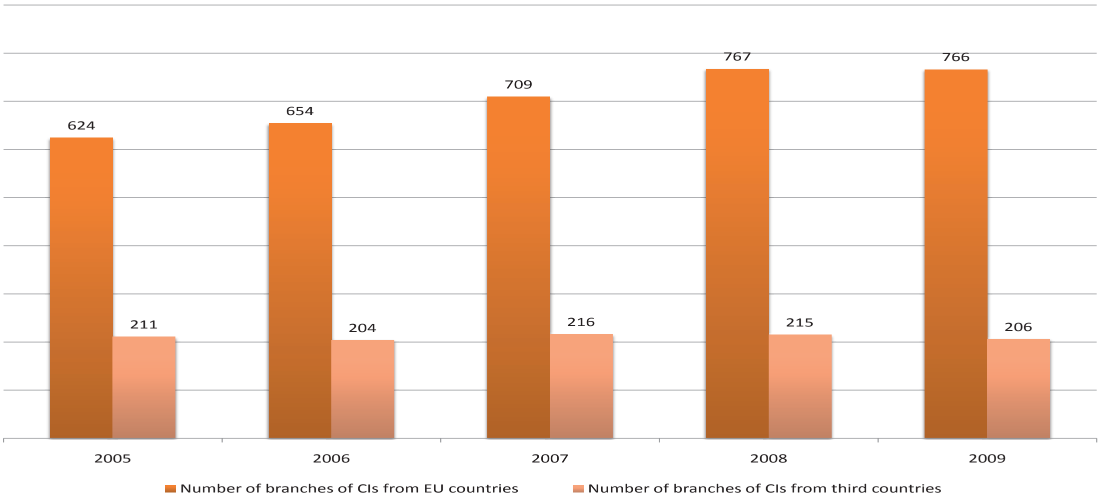
There are two main ways in which a bank can establish its presence abroad: either by opening a branch or a subsidiary in another country. This decision is based on a number of important considerations, such as the type of reporting requirements practised in that country (e.g. International Financial Reporting Standards (IFRS) or national Generally Accepted Accounting Principles (GAAP), Common Reporting System (COREP), Financial Reporting (FINREP) or tax treatment, and the situation with the home-host supervisory rules, to name but a few. What is more, taking into account the competitive aspect, when going abroad, mother banks have to strike the right balance between cost-efficiency, profit-maximisation, and the ability to meet foreign countries' financial needs.

In this context, individual banks' choice of whether to establish a branch or a subsidiary in other countries must remain independent, uninfluenced by the regulators or politicians.

For a number of years a trend of establishment of **branches**[XIX] has been dominating that of subsidiaries in the EU (see Graph 12 below). In practical terms it means that a branch established in another country legally reports only to the home supervisor according to the home-based rules, rather than to the host supervisor. This reduces the cost of reporting for that bank, and simplifies the supervision of that banking group for the home supervisor.

At a consolidated[XX] bank level, there were 972 foreign bank branches in the EU in 2009, of which 766 were from other EU Member States, which is an average of 28 different banks represented in each EU country via branches, and 206 from third (i.e. non-EU) countries, which is an average of 7 different banks represented in each EU country via branches. The number of bank branches from third countries is rather stable and shows only marginal growth.

GRAPH 12. NUMBER OF BANK BRANCHES IN EU MEMBER STATES

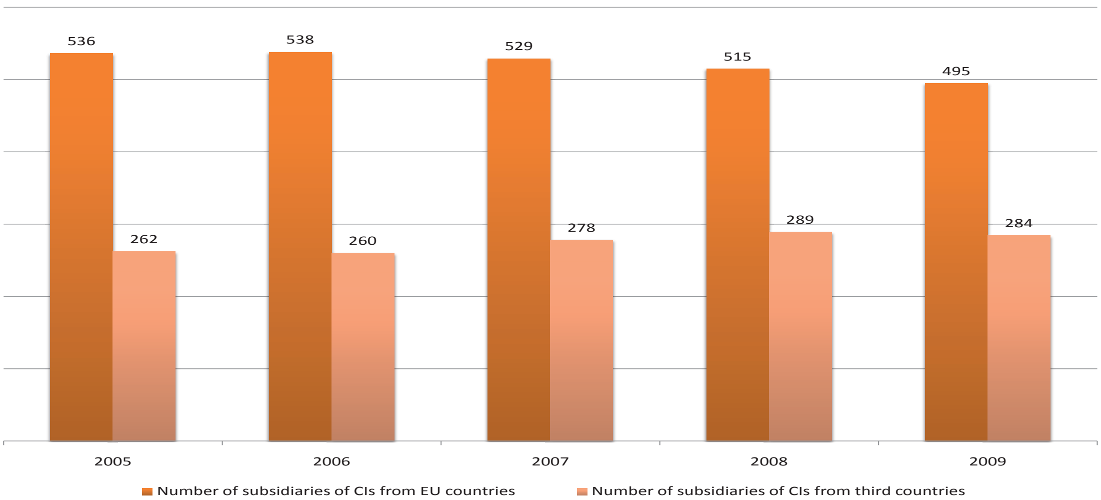


SOURCE: EUROPEAN CENTRAL BANK'S 2010 REPORT "EU BANKING STRUCTURES"

Of all EU member States, the UK hosts the largest number of branches of other EU banks: 77 from EU Member States and 91 from other countries. In Germany, 85 branches of EU Member States' banks operate. On the other hand, only one operates in Malta.

By contrast, banks from third countries do not bring many of their branches into the EU. Aside from the number mentioned above in the UK, branches of third countries' banks can be found mainly in France (23) and Germany (19). In countries such as Austria, Estonia, Hungary, Latvia, Lithuania, Romania, Slovenia, Slovakia, Czech Republic and Poland there are no foreign branches from outside the EU at all.

GRAPH 13. NUMBER OF BANK IN EU MEMBER STATES



SOURCE: EUROPEAN CENTRAL BANK'S 2010 REPORT "EU BANKING STRUCTURES"

Looking at the presence of foreign banks in the EU, at a consolidated level, 779 bank **subsidiaries** operated in the European market in 2009. Of this number, 495 subsidiaries were from the EU Member States (an average of 18 different banks'subsidiaries in each EU country) and 284 from third countries (an average of 10 subsidiaries in each EU country). The historical trend appears relatively stable, although since 2006 a decline in the number of bank subsidiaries from European countries, and a gradual increase from third countries, can be observed. Most bank subsidiaries from European countries are established in Luxembourg (73) and France (66), and their lowest number is in Estonia (4) and Lithuania (4).

Considering the level of bank representation from third countries in the EU, the highest number is observed in the United Kingdom (78) and France (55), while the lowest is in Cyprus, Romania, Sweden, and Greece (one in each of them).

From a perspective of European banks in the world, a useful comparison could be made across the US, Japanese and the euro area banking sectors[XXI] (euro area bank assets represent 2/3 of total EU bank assets). Table 1 below illustrates that the euro area's banking system is the largest in the world, holding consolidated assets three times those of the US system, and almost four times those of the Japanese.

TABLE 1. COMPARISON OF CONSOLIDATED EURO AREA, U.S. AND JAPANESE BANKING SECTORS

	Euro area	U.S.A.	Japan
Number of banks	6,458	6,839	148
Total assets (trillion)	31.1	11.8	0.8
Assets / GDP (%)	346.6	121.1	168.8
Regulatory capital	12.5	14.2	9.6
Tier 1 capital	9.4	11.4	6.8
Liquid asset ratio	5.9	19.3	16.0
Share of banks in credit intermediation	73.8	23.6	52.6
Population (million)	501.1	310.6	127.1

SOURCE: INTERIM REPORT ON CUMULATIVE IMPACT ON THE GLOBAL ECONOMY OF PROPOSED CHANGES IN THE BANKING REGULATORY FRAMEWORK BY THE INSTITUTE FOR INTERNATIONAL FINANCE

The euro area banks are relatively well capitalised, especially compared to those of Japan. The level of bank capitalisation and liquidity are being addressed by the new regulatory framework for banks, known as Basel III.

An important observation must be made about the role of the European banking sector in credit intermediation. Across the three geographical territories in consideration, it is the highest in Europe. In the USA, just over one-fifth of all credit supply is provided by banks, just over half in Japan, while almost three-quarters in the euro area. This means that the regulatory regime and economic conditions in Europe are paramount to banks' capacity to lend and consequently to the economic strength of the region.

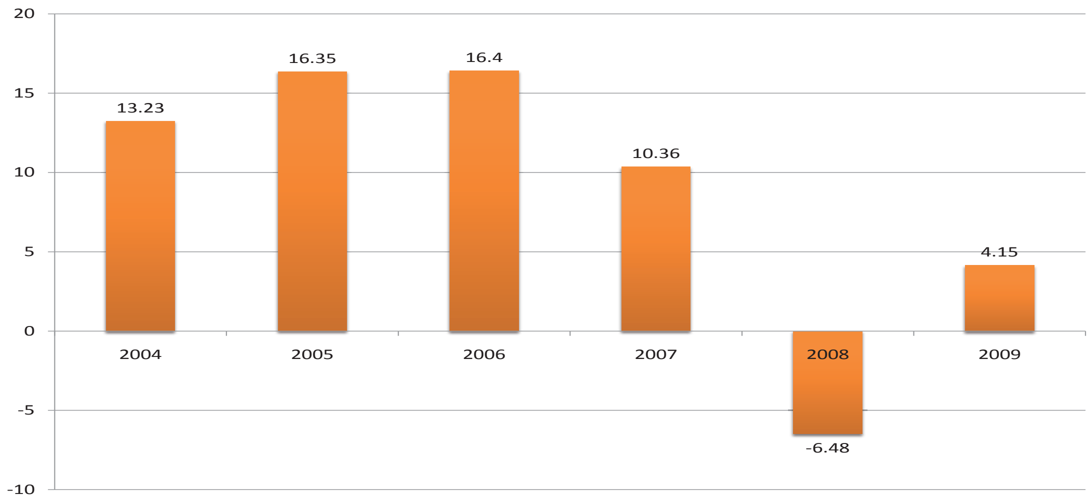
Moreover, most of the largest European banks are global banks, operating in the USA, Japan, Latin America, etc. This raises the question of compatibility of different regulatory regimes around the globe. In this context, the onset of new regulatory requirements for banks (Basel III) and the revised supervisory architecture (European Banking Authority and European Systemic Risk Board) are both welcome since they will help strengthen banks' solvency and liquidity in an environment of improved supervisory oversight. Nevertheless, if not implemented worldwide and in synchronisation, the new rules for banks may distort the level playing field across financial institutions operating across jurisdictions, to the detriment of the European banks.

3. CONDITION OF THE EUROPEAN BANKING SECTOR

Following a decade of outstanding performance, the EU banking sector, in 2008, was hit by the financial and economic crisis. A year later, the gradual recovery started, but a number of uncertainties with regard to future growth, financial regulation and supervision, financial reporting, etc, remain unanswered. The financial condition of the euro area's cross-border banks[XXII] - which can be extrapolated to the rest of the European banking sector – provide some illustrations of the current financial situation in Europe.

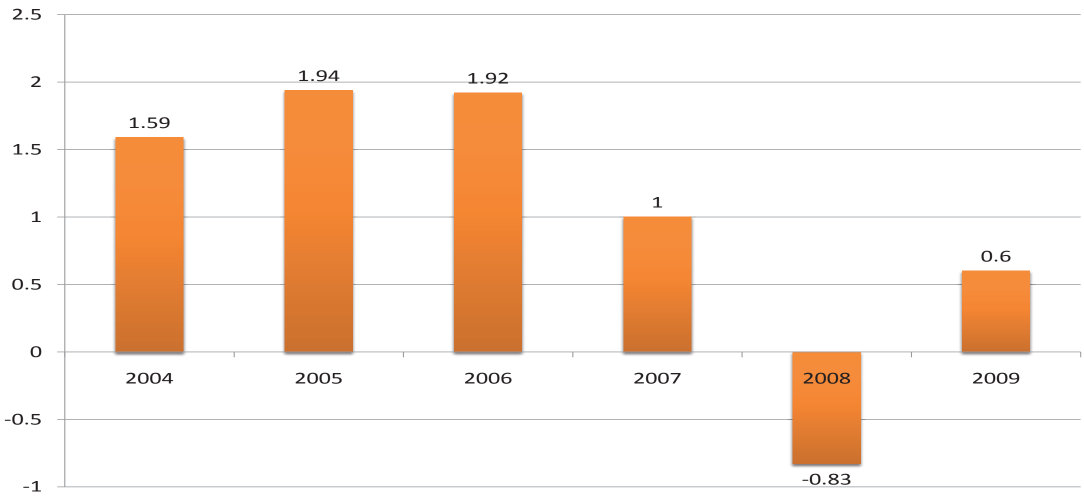
Over a pre-crisis period of 2001-2007 banks' Return on Equity (RoE) was at the same level as that of non-financial corporations, namely at 12.8%[XXIII]. After the trough of the crisis in 2008, RoE went into negative, the European cross-border banks' performance started recovering in 2009[XXIV]: banks' **return on shareholder equity** (a proxy for ROE) picked up to over 4%. The **return on Risk-Weighted Assets** (RWA) came back up into positive, and the **cost-to-income ratio** has come down to 59% from over 87% a year before. The situation is expected to improve further in 2010.

GRAPH 14. RETURN ON SHAREHOLDERS' EQUITY (%)



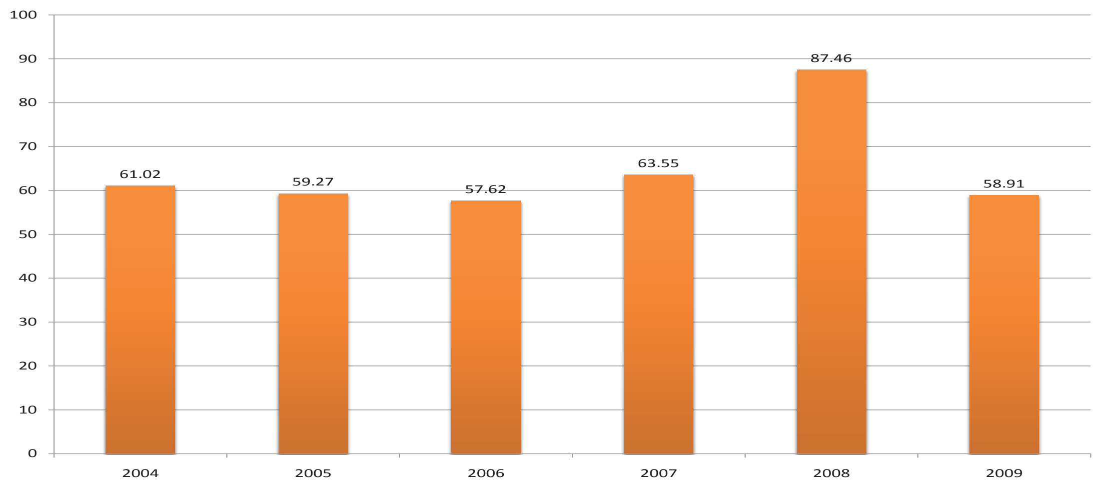
Source: European Central Bank's "Financial Stability Review", June 2010

GRAPH 15. RETURN ON RISK-WEIGHTED ASSETS (%)



Source: European Central Bank's "Financial Stability Review", June 2010

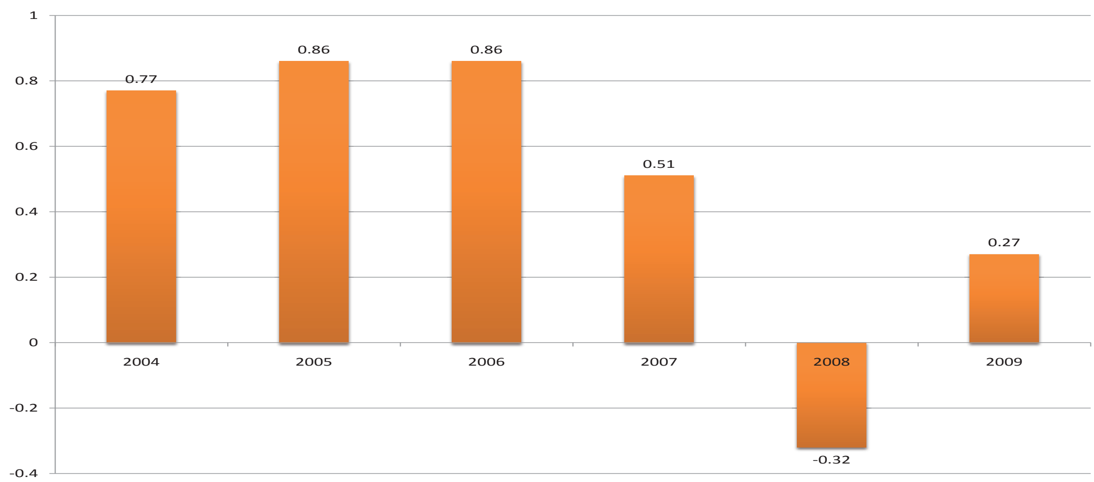
GRAPH 16. COST-TO-INCOME RATIO (%)



SOURCE: EUROPEAN CENTRAL BANK'S "FINANCIAL STABILITY REVIEW", JUNE 2010

The main reason behind this dramatic change in performance during 2008 and 2009 has been the massive write-downs of bad loans in the banks' books. Due to excessive underwriting, and the deteriorating economic climate, the ECB estimates the total potential write-downs on loans in the euro area for the period from 2007 to 2010, to amount to EUR 360 billion. By the end of 2009 the euro area banks had ensured provision against losses to the estimated amount of about EUR 240 billion, representing two thirds of all potential write-downs estimated to have taken place before the end of 2010. It must be noted however that the mortgage-related loan losses are much lower in the EU than in the US.

GRAPH 17. NET INCOME (% OF TOTAL ASSETS)



SOURCE: EUROPEAN CENTRAL BANK'S "FINANCIAL STABILITY REVIEW", JUNE 2010

In anticipation of the currently discussed wave of regulatory changes following the Basel Committee for Banking Supervision's proposals, the European banks are reinforcing their capital and liquidity positions: the **overall solvency ratio** of the European cross-border banks has increased to over 15% in 2009 from an average of almost 12% in the pre-crisis years.

Annex 1: Methodological note on comparability of presented information

Data presented in this document comes from different sources. The two main sources are the European Banking Federation collated statistics, and data published on the European Central Bank website, Statistical Data Warehouse or specific ECB reports. When comparing the figures within this brochure, it is important to keep in mind that the methodology of data collection is different.

The EBF collects data from their Members and Associates, which in the majority of cases, is the data published by their respective National Central Banks or national statistical bureaus. Where it is not the case, it is the data collected by the national banking associations. Once the national data is collected by the EBF Secretariat, it is then simply summed (aggregated) to arrive at a total.

The ECB collects the data from the National Central Banks and from the national supervisors, and then aggregates and consolidates it. "The aggregated balance" sheet of the MFI sector is the sum of the harmonised balance sheets of all the MFIs resident in the euro area. The consolidated balance sheet of the MFI sector is obtained by netting the aggregated balance sheet positions between the MFIs in the euro area." This is why the consolidated figures tend to be lower than the simply aggregated ones.

Annex II: Comparaison of National Banking Sectors in the EBF Member and Associate Countries (2009)

Country	Banks	Branches	Employees	Assets (bn €)	Loans (bn €)	Deposits (bn €)
Euro area countries						
Belgium	102	4,201	62,199	€1,217.80	€450.6	€539.2
Germany	2,121	39,441	663,000	€7,436.10	€3,161.2	€3,046.0
Greece	66	4,079	65,682	€418.65	€227.4	€233.1
Spain	352	44,431	269,483	€3,238.24	€1,837.0	€1,611.8
France	313	38,545	458,370	€7,656.70	€2,127.8	€1,785.9
Ireland	80	809	38,178	€1,306.69	€590.9	€271.3
Italy	788	34,036	328,582	€3,747.74	€1,889.2	€1,421.5
Cyprus	155	927	12,598	€137.23	€57.9	€58.2
Luxembourg	149	0	26,416	€797.22	€173.1	€266.5
Malta	19	135	3,582	€40.00	€20.0	€17.0
Netherlands	93	2,358	79,700	€2,231.00	€1,023.0	€805.0
Slovakia	26	1,042	18,750	€53.01	€31.9	€37.4
Slovenia	22	741	12,154	€51.61	€33.9	24
Austria	855	4,172	78,794	€1,033.95	€422.6	€329.2
Finland	325	1,606	24,879	€363.24	€132.5	€108.7
Portugal	43	6,400	56,965	€491.72	€294.2	€190.5
European Union's non-euro area countries						
Bulgaria	30	6,038	34,230	€ 36.14	€25.7	€22.1
Czech Republic	39	1,992	37,864	€ 157.87	€81.1	€104.1
Denmark	149	1,760	45,935	€ 802.24	€508.5	€191.8
Estonia	16	237	4,000	€ 20.58	€15.6	€9.7
Hungary	47	1,690	33,000	€ 114.96	€73.1	€46.6
Latvia	29	231	12,628	€ 30.63	€21.8	€13.5
Lithuania	11	729	9,947	€ 24.34	€17.0	€11.4
Poland	643	14,890	175,016	€ 258.21	€152.8	€136.3
Romania	42	6,425	67,898	€ 78.09	€47.27	€39.7
Sweden	117	1,934	40,193	€ 571.89	€228.3	€191.0
United Kingdom	332	10,120	431,665	€ 8,577.29	€3,385.7	€4,346.2
EFTA countries						
Iceland	4	129	3,610	€ 0.02	€10.5	€9.2
Norway	146	1,184	20,100	€ 444.62	€284.7	€187.5
Liechtenstein	15	0	1,930	€ 83.28	€ 11.58	€24.8
Switzerland	325	3,458	107,546	€ 1,776.33	€136.4	€931.7
EBF Associates						
Albania	16	533	6,384	€ 6.42	€ 3.26	€5.0
Andorra	5	55	1,522	€ 13.39	€ 6.90	€11.1
Armenia	22	410	8,402	€ 3.00	€ 1.74	€1.6
Azerbaijan	46	627	12,500	€ 11.45	€ 8.58	€ 4.80
Bosnia & Herzegovina	30	739	10,593	€ 10.54	€ 6.90	€ 7.77
Croatia	32	1,281	21,960	€ 51.89	€ 33.76	€35.2
Moldova	15	1,146	10,884	€ 2.27	€ 1.27	€1.5
Monaco	37	80	2,700	€ 75.40	€ 10.00	€25.0
Montenegro	11	85	2,293	€ 3.03	€ 2.40	€1.8
Russia	1,058	3,183	0	€ 678.29	€ 371.43	€298.5
Serbia	34	0	31,182	€ 22.67	€ 13.80	€10.7
Turkey	45	9,027	172,402	€ 372.68	€ 171.48	€228.6
Ukraine	175	1,386	0	€ 80.79	€ 57.53	€37.7

Source: EBF Members and Associates

NOTES

[I] The Banker's Rankings Database of top 1000 banks

[II] For a complete definition, see Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions, Article 4 (1), http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32006L0048:EN:HTML

[III] Eurostat, National Accounts aggregates and employment by branch, http://epp.eurostat.ec.europa.eu/portal/page/portal/national_accounts/data/main_tables , 2010-07-07

[IV]NASA category J-K: Financial intermediation, real estate, renting and business activities. Source: Eurostat

[V]Source: European Commission's Issues note "Financial Sector Taxation" from 19/08/2010, http://www.europolitics.info/pdf/gratuit_en/277754-en.pdf, page 6

[VI] Deutsche Bank Research publication ""E-Banking Snapshot", November 2010, source: http://www.dbresearch.com/MAIL/DBR_INTERNET_EN-PROD/PROD0000000000264269.pdf

[VII]Source: European Commission, Internal Market, http://ec.europa.eu/internal_market/bank/index_en.htm, 2010-07-07

[VIII]**MFIs** "comprise resident credit institutions and other resident financial institutions, the business of which is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credits and/or make investments in securities."
A **Credit Institution** is (a) an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account; or (b) an electronic money institution according to the Directive 2000/46/EC of the European Parliament and Council of 18 September 2000, on the taking up, pursuit and prudential supervision of the business of electronic money institutions".
According to the European Central Bank, the EU financial institutions are classified as follows:

- **Monetary financial institutions** (MFI) – on 1 January 2010 in the EU there were 10 192 MFIs, of which:
    - o 82% are credit institutions (i.e. commercial banks, savings banks, post banks, credit unions, etc.),
    - o 17.2% are money market funds;
    - o 0.2% are other institutions (central banks, and 2 other institutions)
- **Investment funds;**
- **Financial vehicle corporations.**

[IX]EBF figures. See methodological note in Annex I for clarification between the data used in this brochure related to aggregation done by the EBF and consolidation of data performed by the ECB. See Annex II for the list of EBF Members and Associates

[X]**Transaction** is an economic flow that reflects the creation, transformation, exchange, transfer or extinction of economic value and involves changes in ownership of goods and/or financial assets, the provision of services, or the provision of labour and capital.

[XI]**Credit transfers** are instructions from the payer to his/her bank to debit his/her bank account and to credit the beneficiary's bank account. Credit transfers are the most widely used payment instrument in Europe. They account for around one-third of all non-cash payments.

[XII]**Direct debits** are pre-authorised debits on the payer's bank account that are initiated by the beneficiary. They are often used for recurring payments. Around one-quarter of all non-cash payments are effected as direct debits.

[XIII]**Payment cards** (debit or credit cards) are cards issued by a credit institution or card company. They indicate that the holder of the card may charge his/her account at the bank (debit card) or draw on a line of credit (credit card) up to an authorised limit.
Four types of cards exist:
(1) a credit card (where the due payment is spread out over several months (up to a year) and only a fraction of it is paid each month; the interest rate applies to this type of payment), it is mostly used in the USA and the UK;
(2) a deferred debit card (where the credited amount on the card is debited in full within one month after the transaction);
(3) a debit card (where the customer's account is debited within a few hours to a few days after the transaction is made) mostly used in the EU, and
a pre-paid card (which can be charged with a limited amount of money and used for limited payments).

[XIV]A **cheque** is a written order from one party (the drawer) to another (the drawee, normally a bank), requiring the drawee to pay the indicated sum on demand to the drawer or to a third party specified by the drawer. Use of cheques is still high in some countries (especially in France, Ireland, and Portugal) but diminishing. In most euro area countries cheques are practically non-existent.

[XV]**Electronic money** (e-money) is a monetary value (claim on the issuer) which is stored in an electronic device and accepted as means of payment by undertakings other than the issuer. E-money can take the form of pre-paid cards, or it can be stored on a personal computer.

[XVI]This sub-section are based on the data from the ECB's Statistical Data Warehouse, section on Payments: http://sdw.ecb.europa.eu/browse.do?node=2746

[XVII]The ECB defines e-money as follows: a monetary value, represented by a claim on the issuer, which is: 1) stored on an electronic device (e.g. a card or computer); 2) issued upon receipt of funds in an amount not less in value than the monetary value received; and 3) accepted as a means of payment by undertakings other than the issuer.

[XVIII]The two crucial elements here are the Financial Services Action Plan (FSAP) of 1999 and 2005, http://europa.eu/legislation_summaries/internal_market/single_market_services/financial_services_general_framework/l24210_en.htm.

[XIX]This section is based on the information published by the European Central Bank on the EU credit institutions, the dominating majority of which are banks.

[XX]This section is based on the European Central Bank's report "EU Banking Structures" 2010. Note that in this report, the ECB treats each bank's branches as one, and each bank's subsidiaries as one. This explains the stark difference with the EBF figures, where the actual number of all banks' outlets is counted individually. Here, the consolidated numbers imply that each bank based in country X and represented in a country Y via branches counts as one unit, no matter how many physically registered branches of that bank there in a country Y.

[XXI]This comparison is based on the June 2010 Interim Report "Cumulative Impact on the Global Economy of Proposed changes in the Banking Regulatory Framework" of the Institute for International Finance, source: http://www.ebf-fbe.eu/uploads/10-Interim%20NCI_June2010_Web.pdf

[XXII]The European Central Bank developed a concept of LBCGs, which are banking groups that work across several jurisdictions and whose size and nature of business is such that their failure or inability to operate would most likely influence adversely the smooth functioning of financial markets or other financial institutions operating within the system. Already in 2005, 14 such euro area banking groups accounted for one third of the total euro area assets. Today, the ECB analyses 20 such financial institutions. Source: http://www.ecb.int/press/key/date/2007/html/sp070628.en.html

[XXIII]Bank for International Settlements, Annual Report 2010, page 75, Table VI.1, http://www.bis.org/publ/arpdf/ar2010e.pdf

[XXIV]This sub-section of the report is based on the ECB's Financial Stability Review, June 2010, http://www.ecb.int/pub/fsr/html/index.en.html (Table S2, page 188 of the PDF)

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