European
Banking
Federation

EU Banking Sector:

The world's largest banking system in the world's largest economic space

Facts and Figures 2011/2012

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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NUMBER OF BANKS & BRANCHES

By the end of 2010, the number of banks in the EU had fallen by 2.2% to 6,825, 5,404 of which were euro area based banks. Bank branches also registered a decline of 1.9%, to 215,000, on the account of a rise in popularity of online banking.

BANK ASSETS

During 2010, banks' assets grew by 3.5%. This increase was mostly as a result of asset growth of foreign subsidiaries and foreign branches of overseas' banks operating in the EU.

BANK LOANS & DEPOSITS

In 2010, European banks registered a high deposit growth of nearly 8%, just over €17 trillion, and loan growth of 4.4%, approaching €17.7 trillion. Loan to deposit ratio stood at 103%.

PAYMENT VOLUMES AND TYPES OF PAYMENT METHODS

In 2010, the total number of non-cash payments in the EU increased by 4.4% to 86.4 billion, of which card payments accounted for 39% of all transactions, while credit transfers accounted for 28% and direct debits for 25%. Number of card transactions rose to 1,082 per second of every day of the year. Each Automatic Teller Machine (ATM) in the EU served 1,160 citizens.

RETURN ON EQUITY, COST-TO-INCOME & NET INCOME

Compared to the previous year, the overall condition of EU banks in 2010 improved slightly: return on equity (RoE) for all EU-27 banks equalled 4.96%. The same trend was observed in the return on risk-weighted assets. The cost-to-income ratio fell to 58.2%, but net income remained significantly below the pre-crisis levels.

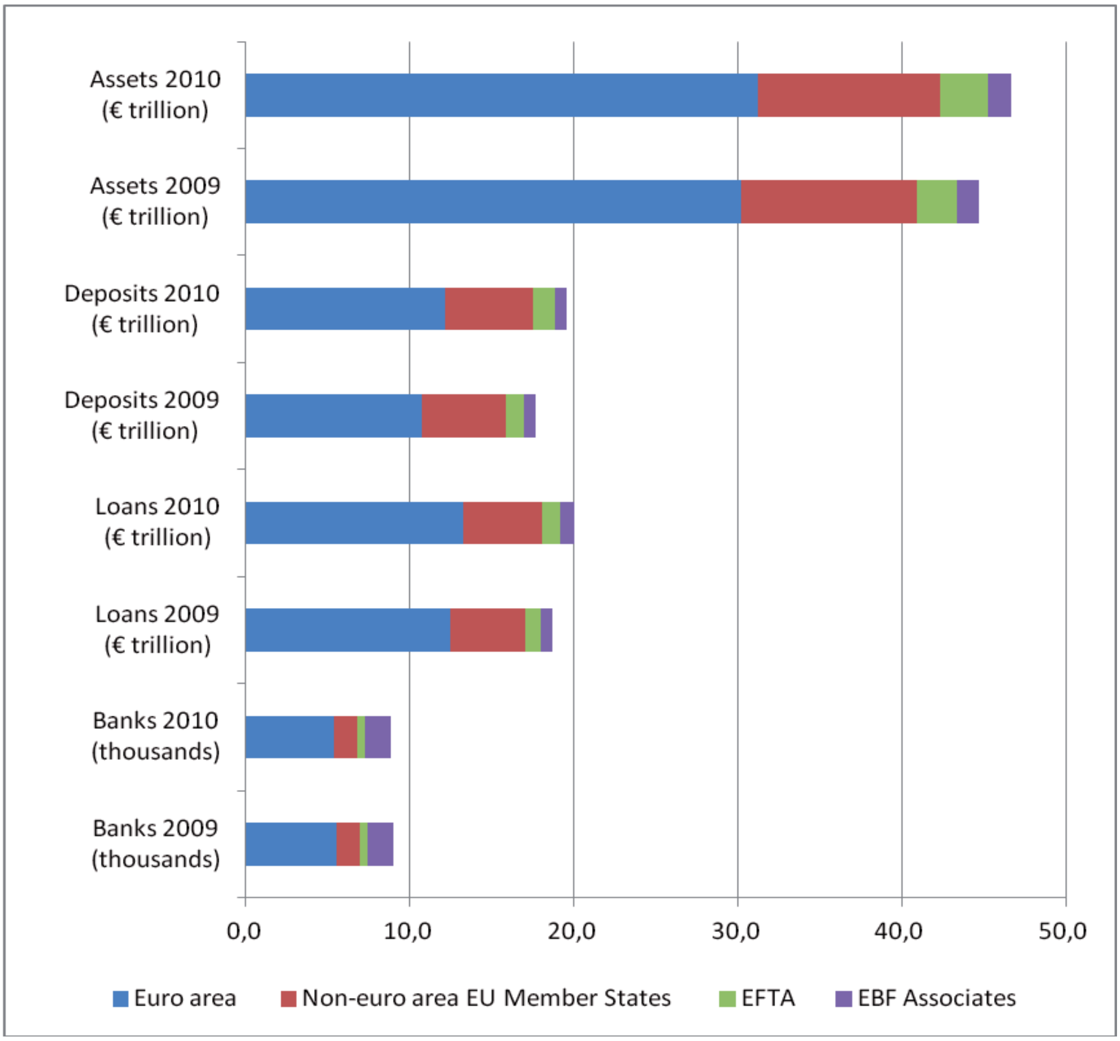
TIER 1 CAPITAL

At the end of 2010, EU-based banks had a Tier 1 capital ratio of 10.4%, an improvement compared with the pre-crisis levels of e.g. 7.7% in 2007.

1. European Banking Sector in Figures

Against the broader backdrop of globalisation and the efforts to create a Single Market in the EU, the European banking sector has been undergoing a structural transformation. The crisis has added to the momentum for change, (see Chapter 2 for an overview) but it has also brought some elements back to national level. In addition, after an era of overspending, and in view of high unemployment and the persistent economic uncertainty, society is turning away from consumption and more towards saving/deposit making, the figures presented below, reflect this fact.

FIGURE 1: SUMMARY TABLE OF THE BANKING SECTOR IN EUROPE'S REGIONS (SOURCE: EBF) [1]



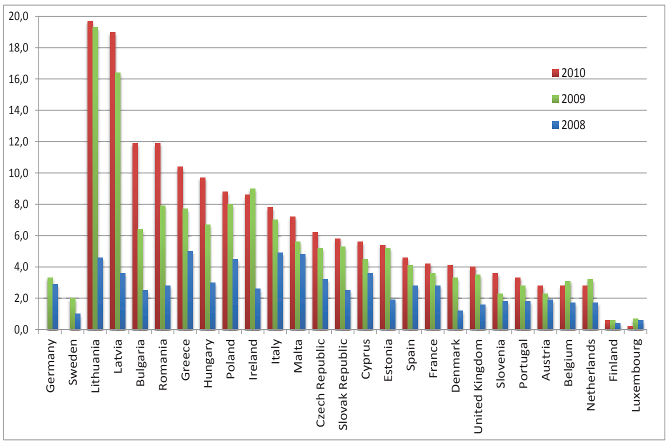
During the past half-decade, the number of banks in the EU has been gradually declining. By the end of 2010, the number of banks in the EU-27 fell by 2.2% to 6,825, of which 5,404 were banks based in the euro area.

Following a slight decline in the number of bank branches in the EU-27 in 2009, the same trend was registered in the following year, namely a fall of 1.9%, to 215,000. With the progress in new technologies (and direct banking options increasingly available) this trend is likely to continue in the future.

[1] http://www.ebf-fbe.eu/index.php?page=statistics

After a decline in the aggregated assets of banks operating in the EU in 2009, total assets restarted growth in 2010, reaching a 3.5% increase. According to the ECB data[2], the 2010 increase in total assets of banks operating in the EU was mostly due to the asset growth of foreign banks' subsidiaries and branches operating in the EU, rather than EU domestic banking groups and stand-alone banks.

FIGURE 2: NON-PERFORMING LOANS, % OF TOTAL LOANS (SOURCE: IMF) [3]



After an era of high spending and debt, EU citizens and businesses started putting more money into bank deposits; European banks registered a high growth in deposits of almost 8% in 2010, reaching €17.1 trillion. This phenomenon can be partly explained by the fact that the Deposit Guarantee Schemes in the EU now amount to €100,000, a significant increase in most Member States compared with the heterogeneous pre-crisis regime (of at least €22.000). Given the current monetary policy stance, as well as banks' competing for deposits, the conditions for putting money in a bank have become more attractive for individual and corporate clients alike. Not unimportantly, the EU economy has been going through a difficult patch after having slumped by over 4% in 2009, with persistently high unemployment levels of close to 10%, and fiscal austerity programmes in a number of countries. These conditions are generally more conducive to less spending and more saving in line with the rainy day philosophy.

After total bank loans shrank by 2% in 2009 in the EU-27, they grew by a healthy 4.4% in 2010 to reach €17.7 trillion, mostly owing to continued lending to citizens for house purchases. The dynamics of bank lending components such as consumer credit, or credit to non-financial corporations, remained negative at the end of 2010. This development is accompanied by a persistently high rate of non-performing loans in most EU Member States. Figure 2, based on the IMF data, illustrates this fact.

Dynamics of the Loan-to Deposit Ratio in EU-27, percent

Over the last decade, the general trend can be observed of bank deposits growing faster than bank loans. Between 2000 and 2010, deposits in EU-27 grew by 87%, while loans by 65%. This dynamic brought an improvement to the Loan-to-Deposit ratio, which by the end of 2010 stood at 103%.

[2]http://sdw.ecb.europa.eu/browseSelection.do?DATASET=0&sfl1=3&sfl2=4&REF_AREA=526&sfl3=4&sfl4=4&CB_ITEM=31000&node=71390
[3]http://fsi.imf.org/fsitables.aspx

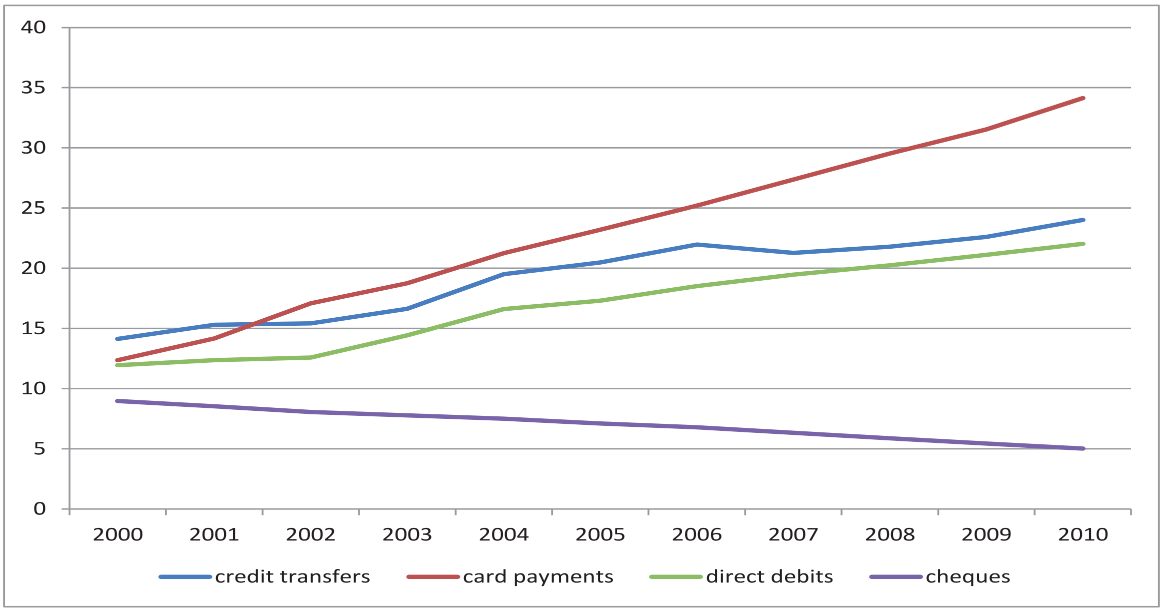
Payments

The ECB reports[4] that the total number of non-cash payments in the EU, using all types of instruments, increased by 4.4% to 86.4 billion in 2010 compared with the previous year. Card payments accounted for 39% of all transactions, while credit transfers accounted for 28% and direct debits for 25%. In 2010, the EU-27 average number of transactions per EU Member State was 3.2 billion. In this period, the number of transactions using all types of payment instruments, per million of inhabitants, was registered at the level of 172,836 (it was 163,527 in 2009); an increase of 5.7% per annum.

The number of credit transfers within the EU in 2010 increased by 3.8% to 24 billion. The importance of paper-based transactions continued to decrease, with the ratio of paper-based transactions to non-paper-based transactions falling to around one to five. The number of cards with a payment function in the EU remained relatively stable at 726.7 million compared with 725.2 million in 2009. This represented around 1.45 payment cards per EU inhabitant. The number of card transactions rose by 6.7% to 33.9 billion, with a total value of €1.8 trillion, which corresponds to an average value of around €52 per card transaction. In 2010, the average number of card transactions per million EU inhabitants was around 68,051, i.e. 5,000 more than in 2009.

Transactions made with the SEPA Credit Transfer[6] (SCT) have grown since the introduction of the SCT in early 2008. By the end of 2010, the SCT share reached 16% of all EU credit transfers.

FIGURE 4: USE OF THE MAIN PAYMENT INSTRUMENTS IN THE EU, BILLIONS OF TRANSACTIONS (SOURCE: ECB)[5]



[4]http://www.ecb.int/press/pr/date/2011/html/pr110912.en.html
[5]http://sdw.ecb.europa.eu/browseSelection.do?DATASET=0&DATASET=1&sfl2=4&REF_AREA=376&sfl3=4&node=3447413
[6]http://www.ecb.int/paym/sepa/elements/instruments/html/index.en.html

In 2010, the total number of e-money purchase transactions stood at just over 1 billion (around 2 transactions per EU inhabitant), a rise of 19.3% compared with 2009. The share of e-money purchase transactions in total payments has been slowly increasing during last 10 years, reaching 1.25% in 2010.

In 2010, the total number of Automatic Teller Machines (ATM) in the EU decreased slightly by 0.2% to 434,200. This is equivalent to 1,160 inhabitants per ATM. The number of Points of Sale (PoS[7]) terminals increased by 3.0% to 8.8 million, which is equivalent to 57 EU inhabitants per PoS.

The relative importance of each of the main payment instruments varied across EU countries in 2010. The biggest difference was observed for credit transfers, the usage of which ranged from 10% in Luxembourg to 72% in Bulgaria[8].

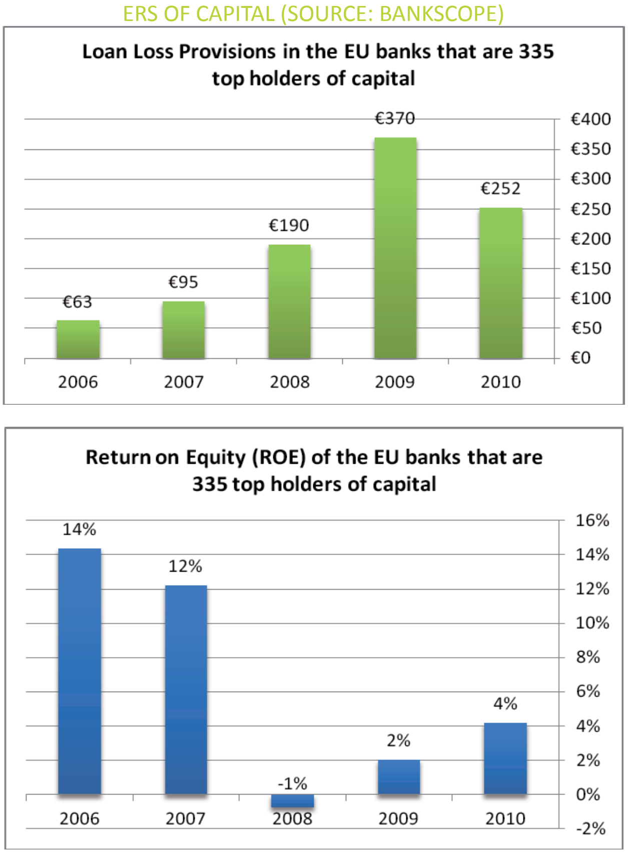
[7] A device allowing the use of payment cards at a physical (not virtual) point of sale. The payment information is captured either manually on paper vouchers or by electronic means.

[8] For more information, see here: http://www.ecb.int/press/pr/date/2011/html/pr110912.en.html

2. Condition of the European banking sector: implications of the crisis for governments and banks

The financial and economic crises, started in 2007, followed by a and sovereign debt crises in 2009, continue to send shockwaves throughout Europe. In short, there was a chain reaction that took its roots in an implosion of the financial sector, caught on to the economic fall-out, revealing the sovereign debt crisis, and the loop closing with the banks suffering from the sovereign troubles. All these events have put the policy makers around the table in an attempt to create a back-stop to the unfolding events. Below is a brief overview of each of these elements.

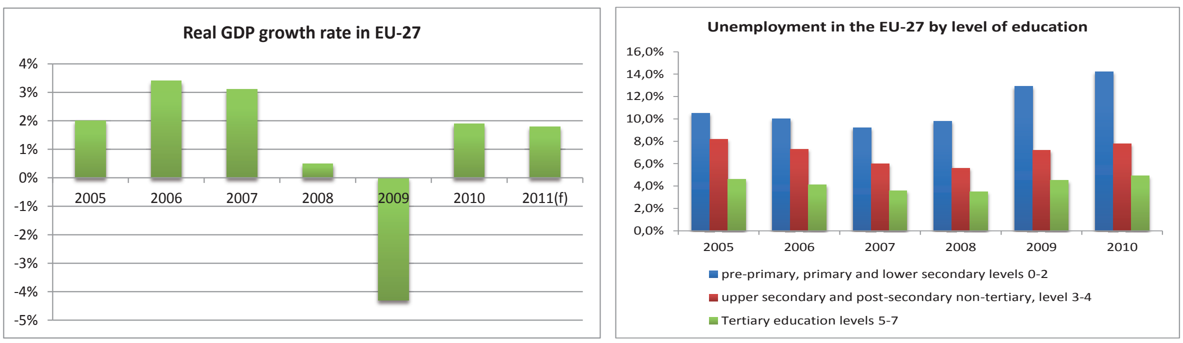
FIGURE 5: LOAN LOSS PROVISIONS, € BILLION (LEFT) AND RoE, % (RIGHT) OF SELECTED EU BANKS THAT ARE THE 335 TOP HOLDERS OF CAPITAL (SOURCE: BANKSCOPE)



- **Financial turmoil:** when the crisis broke out, some financial institutions around the world found themselves holding large amounts of poor-quality, inadequately-rated securitised obligations. As the financial and economic situation around the world was worsening, many loans became non-performing, and resulted in large-scale write-downs and a retrenching of liquidity. A significant slowdown in fresh lending growth due to an economic reversal and the lack of confidence on the liquidity and funding markets turned away many potential investors, leaving banks short of capital and with significantly reduced returns on equity.

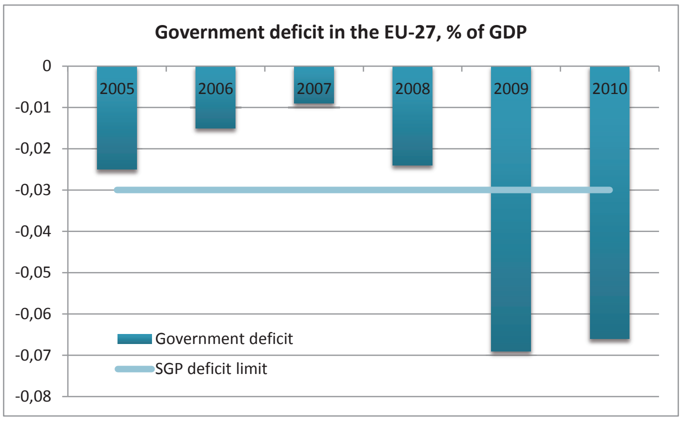
- **Economic fallout:** businesses were affected by the financial implosion both in the US and Europe, and saw a fall in their economic activity. In 2009, this translated into a GDP contraction by over 4% on both sides of the Atlantic. This created a snow-ball effect of unemployment climbing to some 10% and uncontrollably rising government deficits. This resulted in unsustainable public debt levels in many industrialised countries.

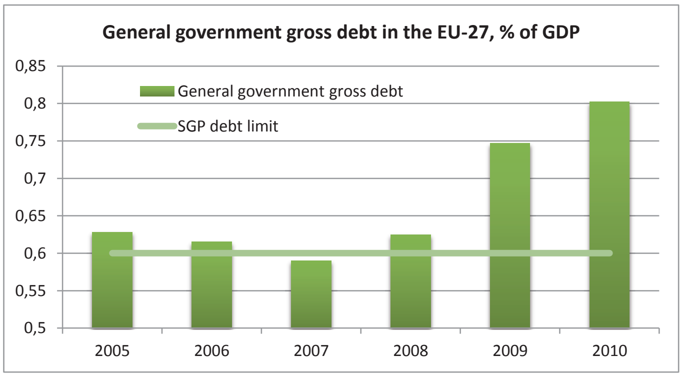
FIGURE 6: REAL GDP GROWTH RATE (LEFT) AND UNEMPLOYMENT (RIGHT) IN THE EU-27 (SOURCE: EUROSTAT)[9]



[9]http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home

FIGURE 7: GOVERNMENT DEFICIT (LEFT) AND GROSS DEBT (RIGHT) IN THE EU-27, % OF GDP (SOURCE: ECB)[10]





- **Sovereign over-indebtedness:** many EU governments practised poor economic governance in the years preceding the crisis. This, coupled with a rush in some countries to prevent an economic depression and to save the failing financial institutions from collapse, made government deficits quickly go beyond the Stability and Growth Pact limit of 3% of GDP. Consequently, the mounting gross debt has grown by a third, between 2007 and 2010, to an average of 80% of GDP in the EU-27.

- **Regulatory reform** in the field of financial services legislation: policy-makers resolved to enhance the resilience and stability of banks by increasing the capital and liquidity requirements, establishing an EU crisis management and resolution framework, and a host of other regulations that weigh on the capacity of the banking sector to support growth.

- **Reinforcement of the EU economic governance:** the EU Leaders woke up to this multidimensional crisis and agreed to: a) establish a bailout fund (European Financial Stability Facility); b) strengthen the economic policy coordination in the EU; and c) toughen the rules by introducing sanctions to ensure respect of the Stability and Growth Pact.

Costs incurred by the public and private sectors as a result of the current financial and economic crisis are significant. State aid extended to financial institutions in most EU countries will take a while to be repaid and its effects phased out of the market.

[10]http://sdw.ecb.europa.eu/browse.do?node=2018789

Public sector costs

Public authorities have been keeping track of the financial support that the governments provided to the European financial institutions during the crisis. According to the European Commission's State Aid Scoreboard[11], published in autumn 2011, the total maximum amount approved by the European Commission as available in the form of state aid (recapitalisation, asset relief, liquidity measures, and guarantees) is equivalent to 37% of the EU-27 GDP. However, the actual amount received by the European financial institutions stood at 13% of the EU-27 GDP, mostly in the form of liquidity support measures (€1.2 billion), and bank solvency support measures (€0.4 billion).

According to Eurostat's supplementary tables on the financial turmoil[12] (end of 2010), the cumulative cost incurred by the general governments of those European countries that extended state aid to their financial sector, stood at over € 90 billion (or around 16% of the total amount used by the financial institutions during the crisis). This represents around 0.7% of the EU-27 GDP. However, figures vary widely from one EU Member State to the next. In some countries, by the end of 2010, banks had re-paid capital injections to their respective governments, with profit. These countries include France (government earned € 2.4 billion), Spain (€ 1.5 billion), Denmark (€ 724 million), Greece (€ 405 million), Sweden (€ 395 million), Belgium (€ 189 million), Italy (€ 128 million), Cyprus (€ 30 million), Slovenia (€ 28 million), and Hungary (€ 12 million). In some other countries, capital injections are still being paid out.

Private sector costs

Private sector costs are to be found in various domains. These include: the drop in market value of some financial institutions on the stock markets; downgrading of some of the financial institutions' credit rating; the rising cost of borrowing; and, the difficulty in attracting equity investors to reinforce banks' capital positions.

Independent researchers have been analysing bank profitability during the crisis and possible further shifts in bank business strategies. For example, *Credit Suisse* estimated[13] that the credit market asset losses in Europe so far have accumulated to €184 billion. What is more, in the context of the on-going sovereign debt crisis and prevailing difficulties in the funding market, further credit market losses may potentially amount to an additional €213 billion, of which sub-prime assets would be €52 billion; sovereign losses €125 billion; and, one year of higher funding costs €37 billion.

[11]http://ec.europa.eu/competition/state_aid/studies_reports/2011_autumn_en.pdf

[12]Data was retrieved on 28 November 2011 from http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/supplementary_tables_financial_turmoil

[13]Credit Suisse (15 September 2011): *'European Banks',* Europe, Equity Research

Stability and strength of European banks

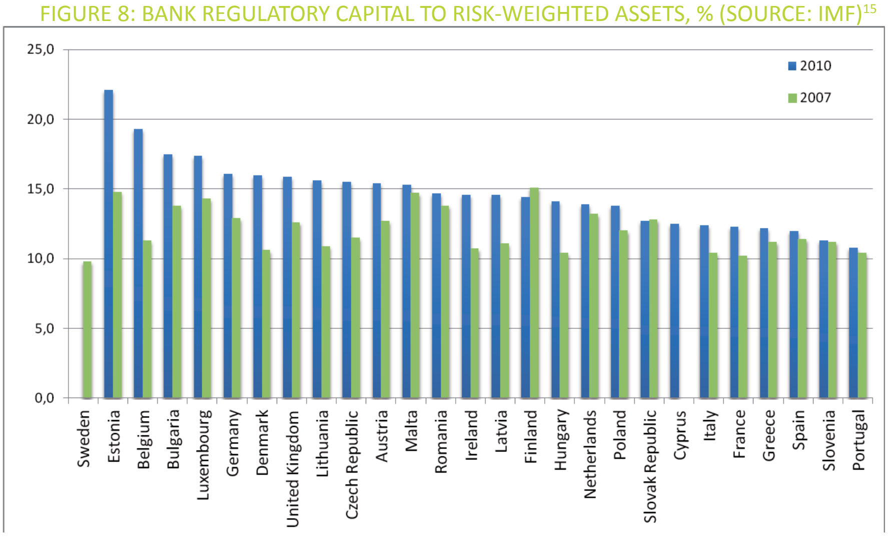
At the end of 2009, the European Banking Federation estimated that to comply with the Basel III capital requirements, European banks may need fresh capital to the magnitude of around €1–1.5 trillion. Some early movers have already successfully raised the necessary amount of equity on the markets, even before the final text of the Capital Requirements Directive IV has been agreed upon. However, many banks are struggling to raise additional capital in the dried up capital markets for a number of reasons: falling returns on bank equity; prolonged elevated economic uncertainty; and lack of confidence on the side of investors because of banks' high exposure to the sovereign debt crisis in certain EU economies.

In light of the on-going sovereign debt crisis in a number of EU economies, the EU Leaders decided in October 2011, that by mid-2012, 70 major EU banks should hold 9% of the highest quality capital (Core Tier1). The European Banking Authority assessed that the gap between the current level of capital of those banks, and the announced temporary measure, amounted to €106 billion.

The major EU banks that underwent the July 2011 stress tests conducted by the European Banking Authority were calculated to hold, on average, Core Tier 1 capital ratio of 8.9% at the end of 2010. The EU Leaders' call for an advanced increased temporary capital buffer essentially now places banks with a choice of: first, increasing their capital levels by retaining profits and forsaking dividend disbursements; second, raising fresh capital from investors; and third, reducing the asset side of their balance sheet, or a combination of these. As banks attempt to raise more capital on the markets, the value of their current shareholdings is diluted, and this is evident from the fact that over the past year (October 2010 to October 2011), European banks' stock market capitalisation fell by 37%, from almost €963 billion to €619 billion, which is over twice as sharp as the negative evolution of the Eurostoxx 600 overall, during the same period. This is the reason for which banks are considering alternative ways to meet the new capital requirements. Rather than increasing their levels of equity, they opt for downsizing of their balance sheets, thus bringing their capital ratio to the desired levels. Shrinkage of banks' balance sheets will undoubtedly have a negative effect on the economy in general.

According to the ECB reported data[14], at the end of 2010, EU-based banks had a Tier 1 capital ratio of 10.42%, a big improvement compared with 2007, when estimated Tier 1 capital stood at 7.7%.

FIGURE 8: BANK REGULATORY CAPITAL TO RISK-WEIGHTED ASSETS, % (SOURCE: IMF)[15]



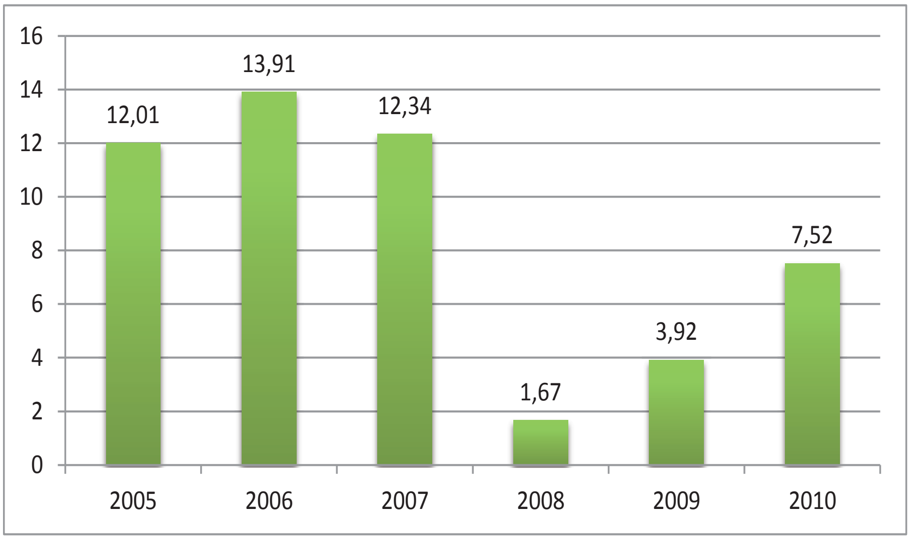
[14]http://sdw.ecb.europa.eu/quickview.do?SERIES_KEY=231.CBD.H.V1.67.A.74002.X.X.Z5.0000.Z0Z.F
[15]http://fsi.imf.org/fsitables.aspx

As far as the liquidity requirements are concerned, the regulation is not yet finalised. Nonetheless, protracted lack of confidence amongst banks has resulted in low liquidity in the unsecured market lending. Consequently, current bank lending tends to takes place predominantly in secured (collateralised) lending markets, or is otherwise conducted by the ECB via the open market operations at low official refinancing rates[16].

Compared with the previous two crisis years, the overall condition of the EU banks in 2010 continued to improve gradually. According to the ECB data[17], the RoE of global large and complex banking groups (GLCBG) continues its recovery, reaching 7.52% in 2010 (N.B.: the average RoE for all EU-27 banks equalled 4.96% in 2010[18]). According to the 80th Bank for International Settlements' annual report[19], between 2000 and 2007, banks' average return on equity stood at 12.8%. This was on a par with the information technology industry (12.8%), but significantly below the energy industry average of 18.6%, or health care (18.5%).

The recovery trend was also observed in the return on risk-weighted assets of global large and complex banking groups. It remains to be seen how far the sovereign debt and euro crises of 2011 will reverse these improvements.

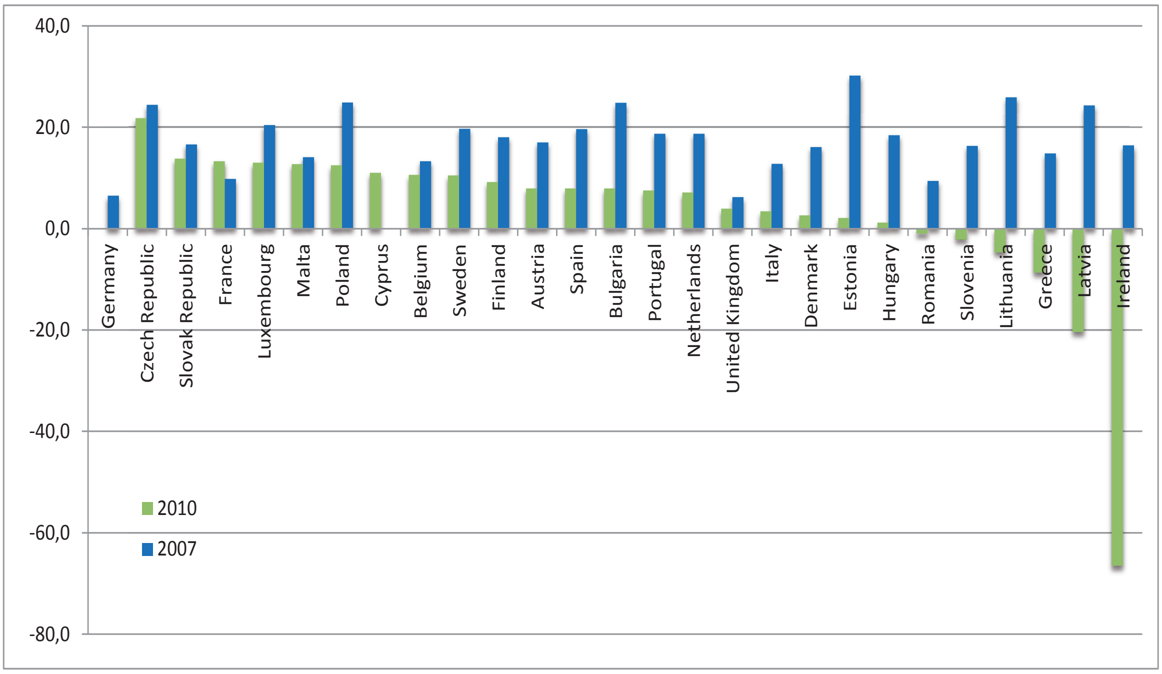
FIGURE 9A: RETURN ON SHAREHOLDERS' EQUITY, % (SOURCE: ECB)[20]



[16]http://www.ecb.int/home/html/index.en.html
[17]http://www.ecb.eu/pub/fsr/html/index.en.html
[18]http://sdw.ecb.europa.eu/quickview.do?SERIES_KEY=231.CBD.H.V1.67.A.72003.X.X.Z5.0000.Z0Z.F
[19]http://www.bis.org/publ/arpdf/ar2010e.htm
[20]http://www.ecb.int/pub/fsr/html/index.en.html

However, the EU-average hides a vast array of drastic differences across the EU Member States. Figure 10B, based on the IMF data, depicts the RoE across EU Member States, also comparing the situation in 2007 with that of 2010.

FIGURE 9B: RETURN ON EQUITY, % (SOURCE: IMF)[21]



The GLCBGs (global large and complex banking groups) managed to achieve a reduction in the cost-to-income ratio compared to the pre-crisis levels of below 60%: a successful result given the figure stood at 58.2% for all EU-27 operating banks at the end of 2010[23]. Those banks' net income, however, remains at 0.32% of total assets, still far below the pre-crisis levels.

FIGURE 10: RETURN ON RISK-WEIGHTED ASSETS, % (SOURCE: ECB)[22]

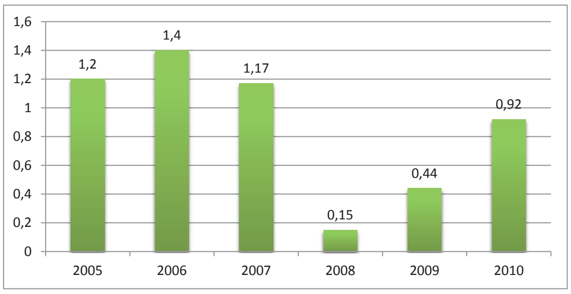


FIGURE 11: COST-TO-INCOME RATIO, % (SOURCE: ECB)[24]

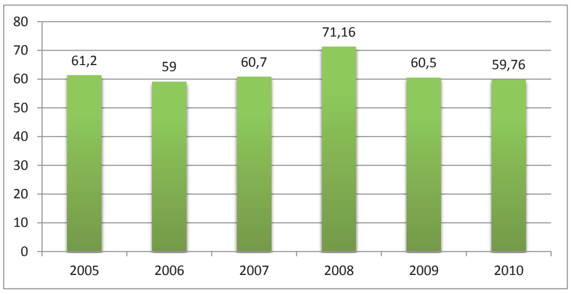
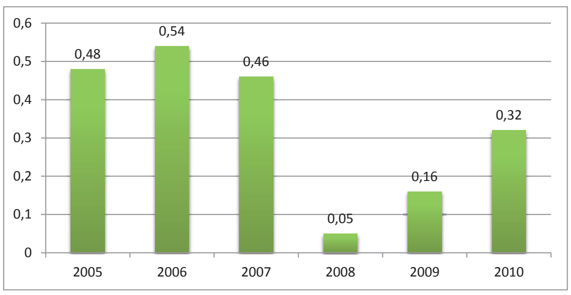


FIGURE 12: NET INCOME, % OF TOTAL ASSETS (SOURCE: ECB)[25]



[21]http://fsi.imf.org/fsitables.aspx
[22]http://www.ecb.int/pub/fsr/html/index.en.html
[23]http://sdw.ecb.europa.eu/quickview.do?SERIES_KEY=231.CBD.H.V1.67.A.72100.X.X.Z5.0000.Z0Z.F
[24]http://www.ecb.int/pub/fsr/html/index.en.html
[25]http://www.ecb.int/pub/fsr/html/index.en.html

3. The EU banking sector in a global context: Is Europe really overbanked?

Is Europe overbanked[26]? It is a question that is often asked by policy makers, researchers and analysts. To answer this question, a broader picture must be considered, including the economic and geopolitical situation of the region. What is more, an adequate reference point should be used. For the EU, other mature industrialised economies, such as the United States or Japan, could serve as an adequate reference.

TABLE 1: BASIC COMPARISON OF THE EU-27, THE USA AND JAPAN (2010)

	EU-27	USA	Japan
GDP (current prices, € trln, 2010) [27]	12,3	11	4,1
GDP (current prices, €, PPP per inhabitant)	24.400	36.500	26.000
Population (million, 2010) [28]	501,1	312,5	127,5
Population density	115,9	31,8	337,4
Official language(s)	23	1	1
Land territory (km^2)	4.324.782	9.826.675	377.835

Table 1 makes it clear that on a territory 44% that of the USA, the EU hosts a 60% larger population that speaks 23 official languages, while producing only 12% more GDP. In other words, the EU market is much more densely populated, and is highly fragmented compared to that of the USA.

A useful factor to assess is disparity in the standards of living, which can be observed by considering Gross Domestic Product (GDP) expressed in terms of purchasing power parity (PPP): the EU-27 GDP expressed in the PPP terms per person is –on average– a third lower than the United States average, and ranges from €10,600 per person in Bulgaria to €67,000 per person in Luxembourg.

The comparison between the EU and Japan is also interesting: the EU-27 GDP is three times that of Japan, while the EU-27 population is roughly four times the Japanese. GDP per person, expressed in the PPP, is roughly equal in the two territories. The land territory of Japan is over 11 times smaller than that of the EU-27, and is fragmented by numerous islands. The population density is also quite different: it is almost three times higher in Japan than in the EU.

Moving on to the comparison of the banking sectors, a number of criteria can help assess the size and importance of banks in the three jurisdictions. However, before turning to data analysis, it must be noted that the definition of a bank is not the same in the three jurisdictions. The figure of deposit-taking credit institutions in the EU (8,105) represents all credit institutions, as per the definition provided by the Capital Requirements Directive. It excludes such financial institutions as hedge funds, money market funds, financial vehicle corporations, etc. Moreover, when the number of EU banks is considered at a consolidated level, it shrinks to 4,770.

[26]This question has been posed a number of times through the years, for example, see an FT article *"EU watchdog highlights 'too many banks"* from 5 July 2011 with an interview of J. Almunia, DG COMP
[27]Source: http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do;jsessionid=9ea7d07d30e58225dc2ffdec472884f0ec7f8f59d940.e34MbxeSaxaSc40LbNiMbxeMc3yMe0?tab=table&plugin=1&pcode=tec00001&language=en
[28]Source: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=demo_gind&lang=en

In Japan, domestic banks (147) and foreign banks' branches and subsidiaries (57) are a small fraction of the total financial institutions operating in the country (715). Other financial institutions operating in Japan, such as those for agriculture, forestry, and fisheries, or for small businesses, are not considered banks. Finally, the number of US deposit-taking credit institutions (7,658) presented below comprises commercial banks, operating in the US (6,530), and savings institutions (1,118). Nonetheless, some of the US banks major in investment/non-bank activity might not be classified as banks under EU regulation.

TABLE 2 : SIZE OF THE EU-27, USA AND JAPANESE BANKING SECTORS (2010)

	EU-27	USA	Japan
Number of deposit-taking credit institutions	8,105	7,658	715
Number of banks	6,825	6,530	204
Banks, % of deposit-taking credit institutions	*84%*	*85%*	*29%*
Total assets of all deposit-taking credit institutions (€ trillion)	46.38	9.22	13.18
Total assets of banks (€ trillion)	42.92	8.56	7.15
Bank assets, % of deposit-taking credit institutions	*93%*	*93%*	*54%*
Total assets of top 6 banks (€ trillion)	10.44	4.24	3.75
Total assets of top 10 banks (€ trillion)	15.01	4.80	-
Concentration: top 6 banks' assets as % of total bank assets	24.3%	49.6%	52.4%
Concentration: top 10 banks' assets as % of total bank assets	35.0%	56.1%	-
Banks' employees, full-time equivalent	3.0	2.1	-
Employees per bank	376	272	-
Citizens per bank employee	165	150	-
Citizens per bank (thousand)	73	48	625
Assets per bank (€ billion)	€6.29	€1.31	€35.07
Assets per bank of the top 10 banks (6 for Japan) (€ billion)	€1,501	€480	€625
Bank assets, % of GDP	349%	78%	174%
Top 10 banks' assets (6 for Japan), % of GDP	122%	44%	91%
Return on Equity (%)	4.96%	8.2%	8.3%
Total Bank Deposits (€ trillion)	€17.1	€6.5	€5.6
Total Bank Loans (€ trillion)	€17.7	€4.9	€3.9
Bank deposits per capita (€ thousand)	€34.2	€20.9	€43.9
Bank loans per capita (€ thousand)	€35.4	€15.8	€30.9
Bank deposits to GDP (%)	139%	59%	137%
Bank loans to GDP (%)	144%	45%	96%
Gross national saving (% of GDP)	18.6	11.9	23.8

Table 2 reveals that the EU banking sector is the least concentrated of the three jurisdictions. The Top 6 banks in the USA and Japan hold around a half of the entire banking system's assets, whereas the figure for the EU is just below a quarter. It is remarkable that the share of banks in total credit institutions in Japan is 29% (extremely low, compared with 84% in Europe and 85% in the USA), yet they hold over half of the total financial sector's assets.

The increasing level of concentration of US banks has become apparent ever since the new regulation was adopted to liberalise the financial sector. This has been causing concern to analysts and policy makers alike. For example, the Wall Street Watch writes[29] in their publication that the US banking sector has undergone a massive process of mergers, averaging 440 mergers per year between 1980 and 2005. In 1984, the top 10 banks in the USA accounted for 26% of total assets of the sector. By mid-2008, the top five banks had become the dominant institutions in the market in terms of total assets and as holders of 97% of the total amount of notional derivatives such as: interest and exchange rate swaps, collateral debt obligations (CDOs) and collateral default swaps (CDSs).

The number of banks has also been gradually falling in the EU during the past decade, although at a slower pace. The move towards the Single Market facilitated EU banks to expand their cross-border activities, including through bank mergers and acquisitions.

Variations in population density are echoed by the fact that on average, each Japanese bank serves over eight times more citizens than an average EU bank, and over thirteen times more than an average US bank. The EU banks hold on average five times more assets and serve 50% more customers than the US banks. The EU banks, on average, take 60% more deposits per capita, and lend more than twice as much per inhabitant, than banks in the USA.

Telling are the figures on loans and deposits per capita in the three jurisdictions. The United States has the lowest figures for both loans and deposits per capita (roughly €16 thousand and €21 thousand respectively) or to GDP (45% and 59% respectively). In Japan, the amount of loans and deposits per person is significantly higher than in the EU-27, while deposits to GDP are roughly similar in the two geographies. Bank loans in Japan are just below 100% of GDP, while in the EU-27 they equal 144% of GDP. These figures reflect the EU society as one that is banking-based, unlike the other two jurisdictions.

However, the EU banking sector continues to evolve. The current wave of re-regulation of the European financial markets is vast, and includes, inter alia:

- more and better-quality capital (own funds),
- higher liquidity ratios;
- lower leverage (i.e. less lending),
- capital surcharges for large and systemic financial institutions, etc.

All of the above is pushing banks to shrink in size and continue the process of merging and specialisation. Banks, in an attempt to face upcoming challenges, strive to improve their efficiency ratios, and to extract synergies in terms of market share and capital gains. However, this process will not be endless, because the EU market remains fragmented, taking into account such inevitable distinctions as economic development, language, etc. Such fragmentation remains at the heart of some of the smaller banks' business models; those banks fulfil a niche-market function[30], and cannot be 'merged away' by larger universal banks.

This leads to the conclusion that despite the fact that Europe has many banks, they all respond to demands for specific services. Hence, they fulfil their roles as cross-border banks, niche banks, specialised banks, universal banks, etc. This differentiation should be allowed to exist for as long as their services are demanded by the EU citizens and businesses alike.

[29]http://www.peri.umass.edu/fileadmin/pdf/conference_papers/SAFER/DArista_Financial_Concentration.pdf

[30]Also, as mentioned above, such niche banks might not be considered as banks in other jurisdictions.

ANNEX: COMPARISON OF NATIONAL BANKING SECTORS IN THE EBF MEMBER AND ASSOCIATE COUNTRIES (2010)[31]

Country	Inhabitants (2010)	Banks (2010)	Branches (2010)	Employees (2010)	Assets (bn €, 2010)	Loans (bn €, 2010)	Deposits (bn €, 2010)
Belgium	10.918.405	105	4.087	61.467	€1.163,10	€405,40	€550,40
Germany	81.772.000	2.093	38.183	657.100	€8.304,70	€3.231,60	€3.163,13
Greece	11.282.751	62	4.183	65.682	€461,55	€257,72	€208,78
Spain	46.152.925	337	43.164	263.715	€3.251,72	€1.989,78	€1.888,92
Estonia	1.350.000	15	191	5.000	€19,68	€17,38	€14,84
France	65.075.310	305	28.633	434.311	€7.830,10	€2.393,24	€2.133,00
Ireland	4.581.269	78	780	35.150	€1.168,01	€432,51	€269,23
Italy	60.626.442	760	33.640	318.949	€3.808,91	€2.051,77	€1.631,03
Cyprus	803.800	152	910	12.765	€132,52	€61,49	€69,94
Luxembourg	511.800	147	226	26.255	€769,26	€191,17	€265,80
Malta	417.608	23	127	3.797	€49,00	€23,00	€21,00
Netherlands	16.654.979	86	2.491	131.656	€2.259,62	€985,21	€810,65
Slovakia	5.435.273	29	1.047	18.234	€54,74	€33,51	€39,49
Slovenia	2.050.189	19	741	11.966	€50,31	€34,44	€23,50
Austria	8.387.742	843	4.176	79.661	€978,76	€363,97	€306,08
Finland	5.376.678	313	1.605	24.696	€439,96	€143,39	€116,78
Portugal	10.636.979	37	6.240	58.871	€506,19	€288,67	€194,94
Bulgaria	7.504.868	30	5.961	33.940	€37,69	€25,94	€23,99
Czech Republic	10.532.770	41	1.993	39.262	€167,38	€86,78	€111,26
Denmark	5.560.628	123	1.598	44.186	€826,85	€517,12	€200,23
Hungary	9.996.000	45	1.670	39.875	€120,93	€74,80	€48,81
Iceland	318.452	4	129	3.610	€0,02	€10,53	€9,23
Latvia	2.229.600	31	223	11.616	€31,25	€20,35	€15,79
Liechtenstein	36.157	16	0	1.959	€96,96	€13,86	€26,43
Lithuania	3.329.000	22	729	9.947	€23,66	€16,90	€13,16
Norway	4.920.300	145	1.157	21.358	€642,24	€381,66	€186,22
Poland	38.200.037	646	14.170	176.915	€292,42	€198,69	€170,03
Romania	21.500.000	42	6.170	66.753	€79,77	€49,21	€41,41
Sweden	9.415.570	114	1.883	40.779	€653,38	€264,04	€233,31
Switzerland	7.866.500	320	3.442	108.000	€2.170,41	€718,16	€1.110,80
United Kingdom	62.435.709	327	10.400	425.000	€8.844,26	€3.557,43	€4.563,31
Albania	3.195.000	16	548	6.426	€7,14	€3,54	€5,89
Andorra	85.168	5	56	1.700	€13,14	€7,14	€10,74
Armenia	3.249.500	21	431	9.147	€3,26	€2,08	€1,62
Azerbaijan	9.111.078	44	608	14.015	€12,41	€8,66	€4,92
Bosnia&Herzegovina	3.843.000	30	955	10.321	€10,78	€7,45	€6,40
Croatia	4.489.409	32	1.282	21.960	€53,03	€36,94	€36,45
FYR Macedonia	2.057.284	18	436	6.052	€4,96	€3,04	€3,47
Moldova	3.560.430	15	1.160	10.933	€2,62	€1,58	€1,78
Monaco	35.000	35	80	2.353	€78,00	€12,80	€24,00
Montenegro	625.000	11	188	2.290	€2,90	€2,20	€1,79
Russia	142.914.136	1.058	3.183	0	€678,29	€371,43	€298,50
Serbia	9.500.000	32	2.487	29.887	€24,02	€16,42	€14,27
Turkey	73.000.000	49	10.072	191.207	€490,49	€274,44	€260,81
Ukraine	45.778.500	176	20.730	0	€89,10	€67,21	€39,23
TOTAL	817.323.246	8.852	262.165	3.538.766	46.705	19.655	19.171

[31] http://www.ebf-fbe.eu/index.php?page=statistics

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