EBF Facts & Figures 2017

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. Unless otherwise noted, all graphs and tables have been produced to illustrate the figures mentioned in the relevant chapters.

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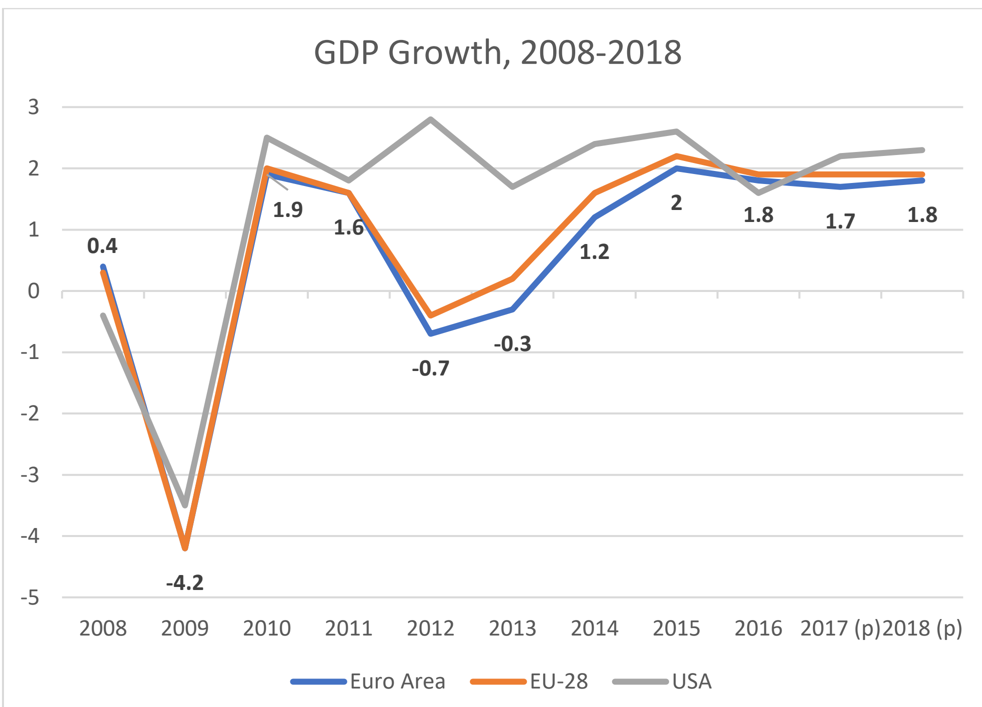
Chapter 1

The wider economy

The euro area economy

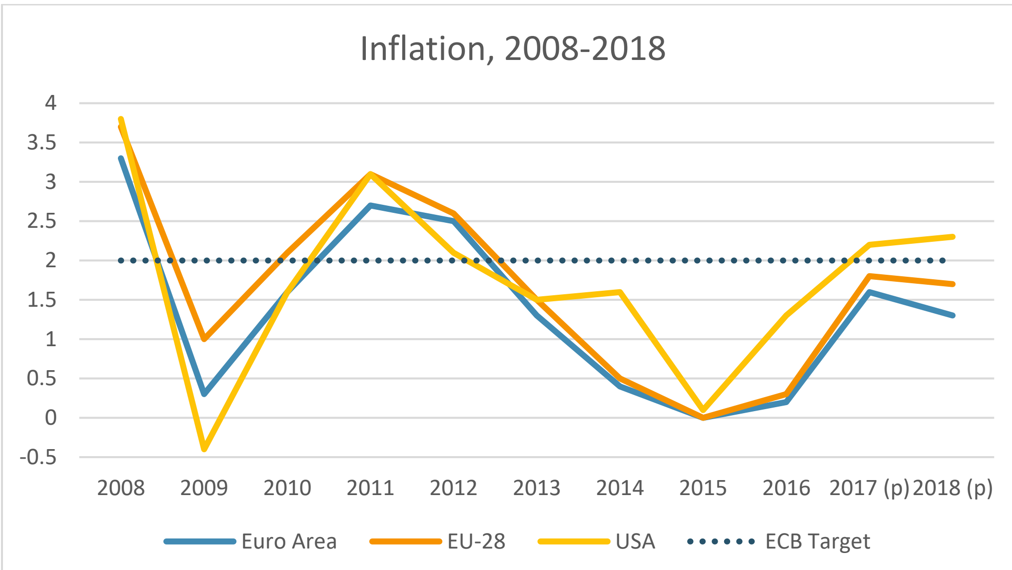
After years of moderate but steady economic growth the euro area economy will continue its recovery. The uninterrupted recovery which started in the second quarter of 2013 helped the euro area bloc to grow at 1.6% and at a faster pace in 2016 than the economic expansion in the United States, for first time since the financial crisis. This was also a higher rate than international partners such as Canada (1.4%) and Japan (1.0%) and parallel to the UK (1.8%). The euro area however has a lower expected growth rate for 2017 and 2018 than the EU 28 and the US. The slowdown is driven primarily by political uncertainty in Europe and the US and geopolitical tensions which are presently surrounding the world economy. A realisation of slowing Chinese growth could further hamper growth.

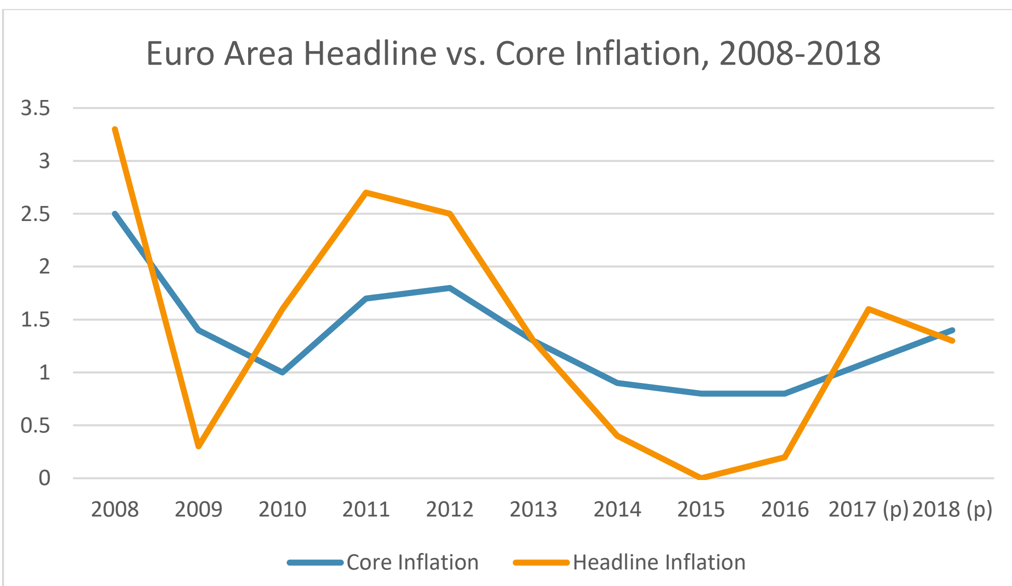


Having increased from 2015 to 2016, private and public consumption growth rates are expected to decrease in 2017 to 1.4% (1.9% in 2016) and 1.2% (2.0% in 2016), respectively. Private consumption nonetheless remains the main driver of growth in the euro area. Aggregate demand will continue to be stimulated by monetary policy. With the global economy continuing to recover, exports are expected to increase by 3.7% compared with 2.7% in 2016, with imports experiencing a marginal increase as well.

Further positive changes in the euro area are expected to materialise in 2017 and 2018. Unemployment is expected to decrease in 2017 from 10.0% to 9.5%, falling to 9.1% in 2018. This remains significantly higher than the US (4.7%) and Germany (3.9%), but represents a positive trend. Wage growth is expected to be 1.6% in 2017, doubling from 2016's 0.8%, with a further marginal increase expected in 2018.

Rising inflation rates propelled mostly by the increase in the price of Brent oil are expected to bring inflation to 1.6% in 2017, the closest rate to the ECB's target in over four years, alleviating any remaining concerns about deflation. Core inflation, however, is expected to be only 1.1% in 2017.





These conditions are complemented by a renewed potential for labour and financial market reforms in Europe. The election of President Macron in France is expected to inject new energy into French and German cooperation, especially after Germany's federal election in September, which could help induce such reforms. Further, the effects of President Junker's Investment Plan for Europe may also begin to materialise in 2017 and 2018, assisting growth.

With key variables moving in a positive direction, including a better global outlook, the euro area is expected to experience continued growth in 2017 and beyond. However, such conditions are underlined by relatively high and unequal rates of unemployment, especially among youth and minorities. Employment in industry and construction sectors also remain far below their pre-crisis levels. Moreover, while political uncertainty in Europe has declined after the French and Dutch general elections, future elections in Italy, along with continued geopolitical risk in Ukraine, Russia, Turkey, and the Middle East, threaten to bring about new shocks to the European economy. Uncertainty from the United States, not least its positions on trade and international monetary policy, and the level of complexity of the Brexit negotiations and the relative short time in which to reach a final deal could also lead to changes in these expectations.

The Chief Economists' Group of the European Banking Federation in its Spring 2017 Outlook of the Euro Area Economies in 2017 - 2018 reflects that the current economic outlook remains surrounded by a number of both upside and downside risks with the risks to the growth outlook fairly balanced.

http://www.ebf.eu/wp-content/uploads/2017/05/EBF_026942-EBF_026760-FINAL-CEG-EBF-2017-Spring-Outlook.pdf

Monetary Policy and Inflation: Why it matters and how it works

Why monetary policy is important

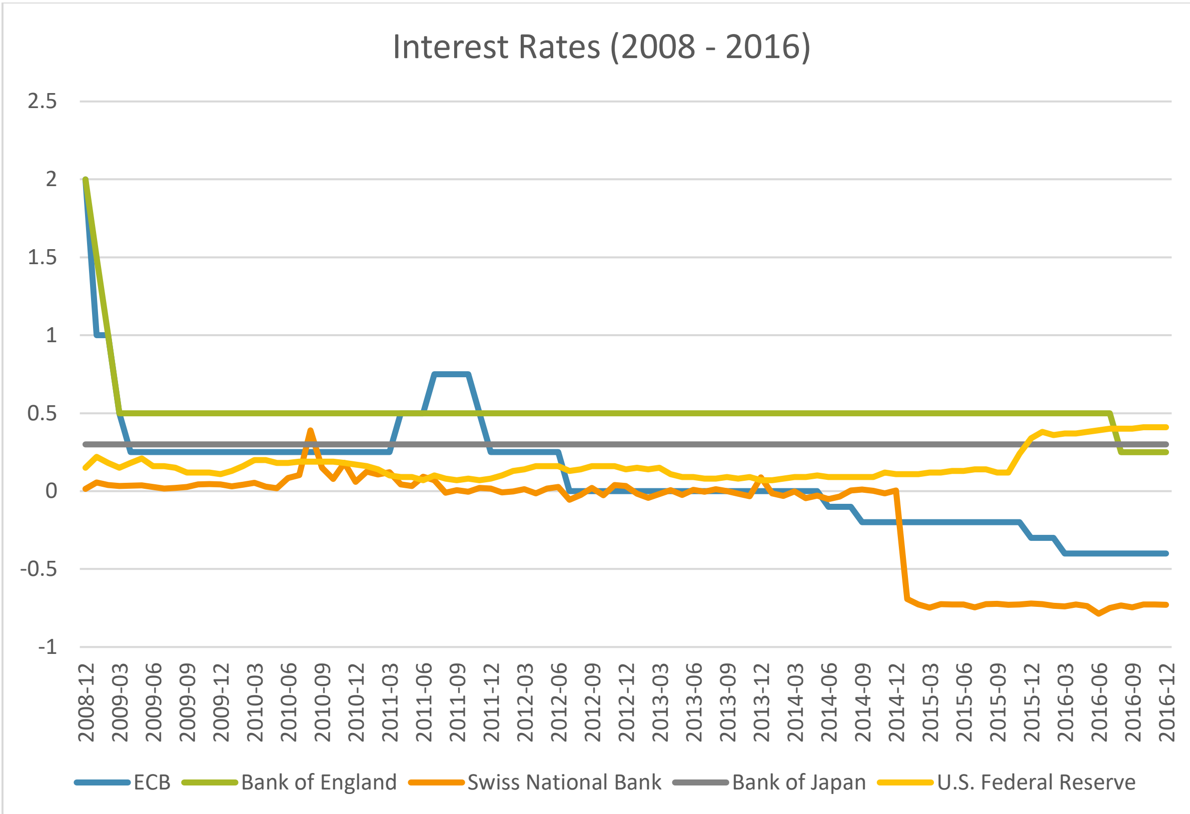
Monetary policy is one of the main responsibilities of a central bank.

The primary aim of monetary policy is usually price stability. In practice, most central banks have set a target for inflation up to, but close to, 2%.

Central banks believe that price stability contributes to achieving high levels of economic activity and employment. This is because high or unstable inflation rates reduce business confidence or certainty and make spending or investment decisions unnecessarily complex, contributing to wasteful activities aimed at preserving wealth or hedging against inflation risk.

Central banks usually have secondary monetary policy aims related to employment and economic growth.

Monetary policy has traditionally centred on the role of the central bank as the sole issuer of banknotes and bank reserves in an economy. This means it can set the conditions at which banks borrow from the central bank i.e. the official interest rates. In this way it can also influence the conditions at which banks trade with each other in the money market and the rates set in lending to and deposit-taking from non-banks.



Through its official interest rates, and the expectations for rates and prices, that its monetary policy has created, a central bank can influence asset prices, saving and investment decisions, credit supply and exchange rates. These in turn affect supply and demand for labour and goods and services while setting expectations for wages and prices.

Since 2009, a number of central banks have expanded their monetary policy instruments to include asset purchase programmes or quantitative easing. These assets may include government or public sector bonds, corporate bonds, asset-backed securities and covered bonds.

Central banks do this mainly to create money, increasing the banks' reserves and incentivising them to lend more.

How monetary policy works

Interest rates are a central bank's primary tool to impact economic conditions within a country. Through its use of open market operations, a central bank can effectively set a country's interest rate, having a direct and indirect impact on a country's economy.

In the short term, a change in the interest rate directly impacts the domestic return of a given country. Changes in these rates therefore influence the exchange rate of a currency, leading a currency to appreciate if the interest rate in that economy increases, or vice-versa if the interest rate decreases. These changes then alter the country's purchasing power of foreign goods, which will in turn affect the prices of these goods.

Alterations in the interest rate also affect the interest rates which banks charge consumers, such as mortgage rates or credit card rates. Further, interest rates also have an impact the value of money and the price level of assets. These changes in turn will influence the supply and demand of goods and labour within an economy. Changes in the equilibrium of either of these markets will directly shift the price level within an economy, affecting both wages and domestic prices.

Along with these short-term impacts, changes in a country's interest rate impact investor expectations as the profitability of future endeavours will change depending on the expected direction of the interest rate. For instance, lower expected inflation rates make it cheaper to borrow funds for a project in the future, leading investors to delay investing until these lower rates are realised. This in turn implies that profits will be expected to rise in the future, leading labour and capital to delay wage increases.

There are, however, certain types of shocks over which a central bank has no control. The most significant of these shocks include important changes to the global economy or changes in fiscal policy within a country. These changes can further be compounded by increased uncertainty within that country, which impacts investor expectations. Other external changes include changes in risk premia, changes in commodity prices, such as through new developments in technology, and changes in bank capital, which may be the result of new bank regulations.

Influencing inflation

With its aim of achieving price stability within the euro area, the ECB strives to ensure that inflation does not exceed the ECB's target of near, but close to, 2% inflation over the medium term.

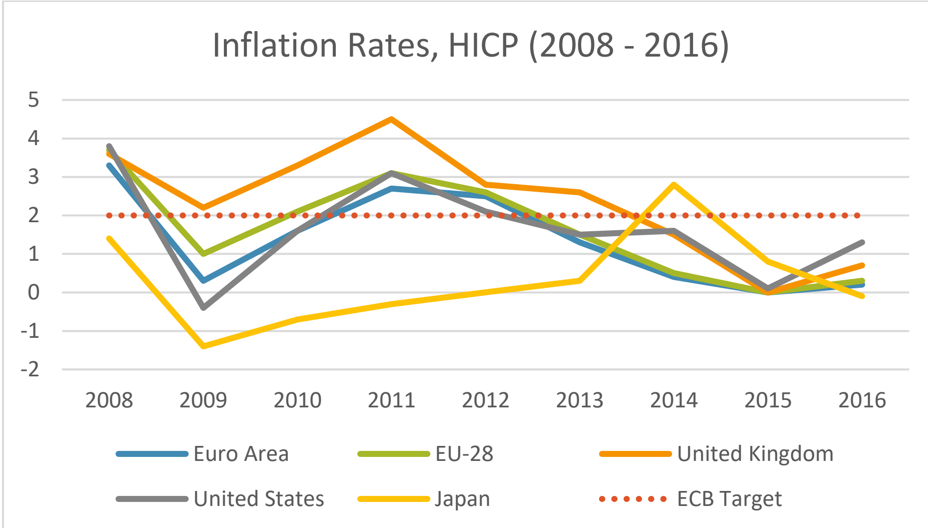
As high levels of inflation dilute a person's real income and their purchasing power, ensuring price stability is a vital aspect of a prosperous economy. As a result, the ECB will react to changes in the European economy by wanting to stimulate or lessen inflation.

Historically, the ECB would use conventional monetary policy to influence inflation by setting interest rates. For instance, to increase inflation the ECB would cut interest rates, stimulating the economy. This is usually done by buying government bonds, which increases an economy's money supply. However, as has been witnessed since 2008, these tools may not always be effective. Another way to influence inflation is through quantitative easing, where a central bank purchases commercial assets.

The effects of these policies may not always materialise immediately. Consumers take time to adjust to new interest rates, creating a lag between monetary policy and inflation.

Further, inflation can either be measured as "Headline Inflation" or "Core Inflation". The former includes all goods within an economy, while the latter excludes goods with volatile prices, such as oil. Core inflation can therefore provide a more accurate measure of a country's long-term price level.

The ECB focuses on achieving its target by measuring headline inflation. While the ECB's target is arbitrary, setting a clear inflation target allows investors to adjust their expectations.

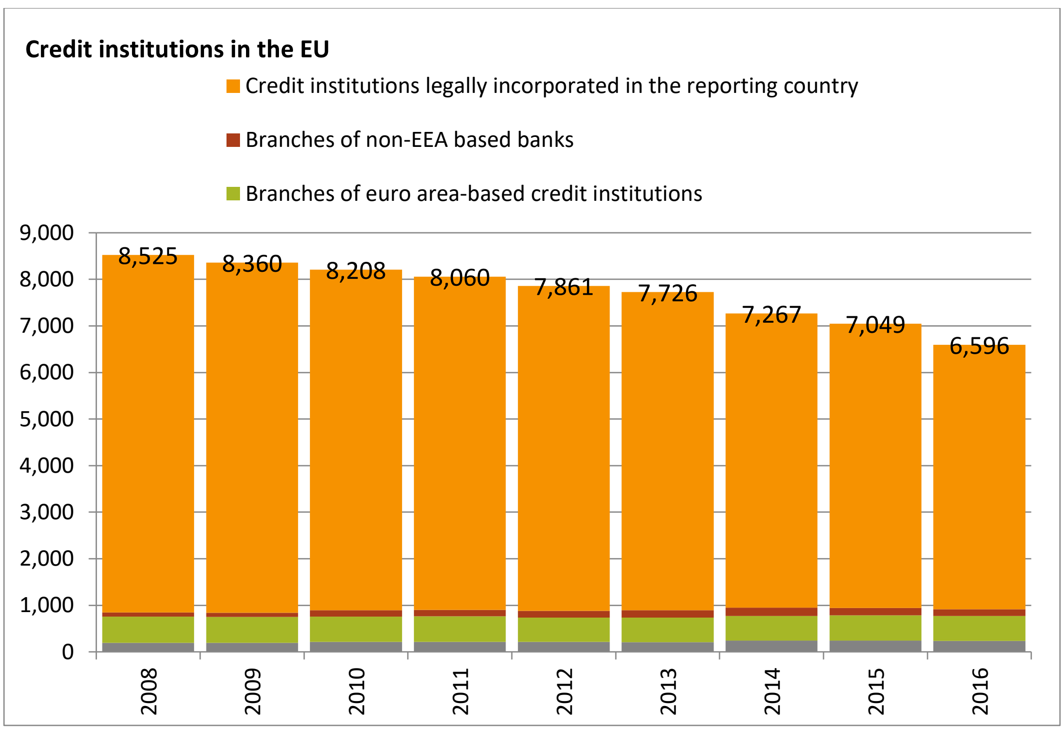

Inflation Rates, HICP (2008 - 2016)
5
4
3
2
1
0
-1
-2
2008
2009
2010
2011
2012
2013
2014
2015
2016
Euro Area
EU-28
United Kingdom
United States
Japan
ECB Target

Chapter 2

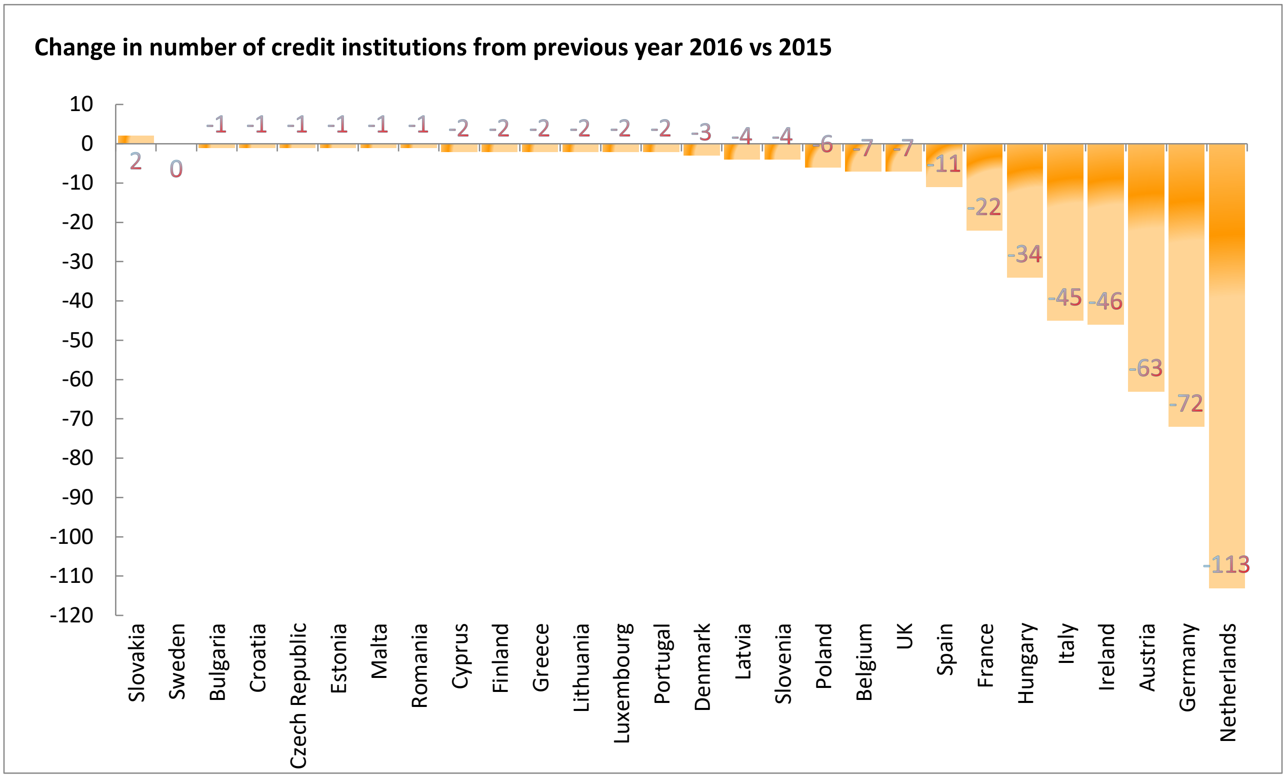
Structure and economic contribution of the banking sector

Number of credit institutions

The downward trend in the number of EU-28 credit institutions, which started in 2009, continued in 2016 falling to 6,596, a decline of 6% compared to the previous year and a reduction of 1,929 in total since contraction started. Most of the consolidation has occurred within credit institutions legally incorporated into the reporting country, where the stock has fallen by 26% since 2008. This trend includes factors such as mergers in the banking sector with a view to enhancing profitability and greater economies of scale.



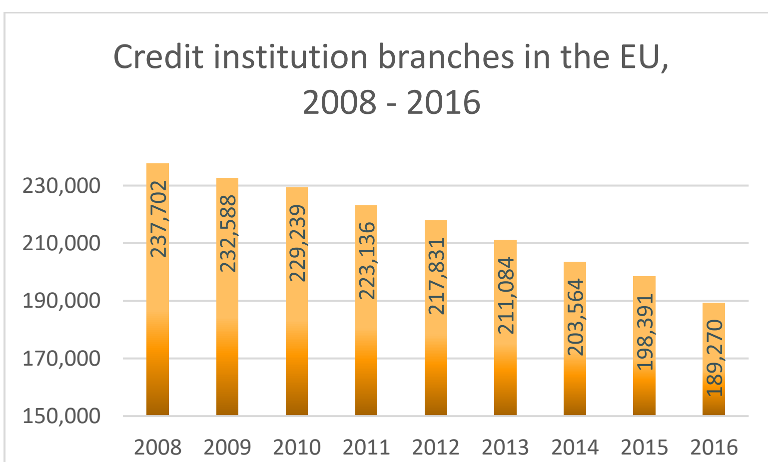
The countries having experienced the largest contraction in absolute terms in 2016 were the Netherlands (-113 units), Germany (-72 units), and Austria (-63 units), according to the ECB. Only Slovakia (+2 units) increased the number of credit institutions while Sweden remained unchanged. The number of credit institutions in the EFTA countries fell from 423 to 418 in 2016.



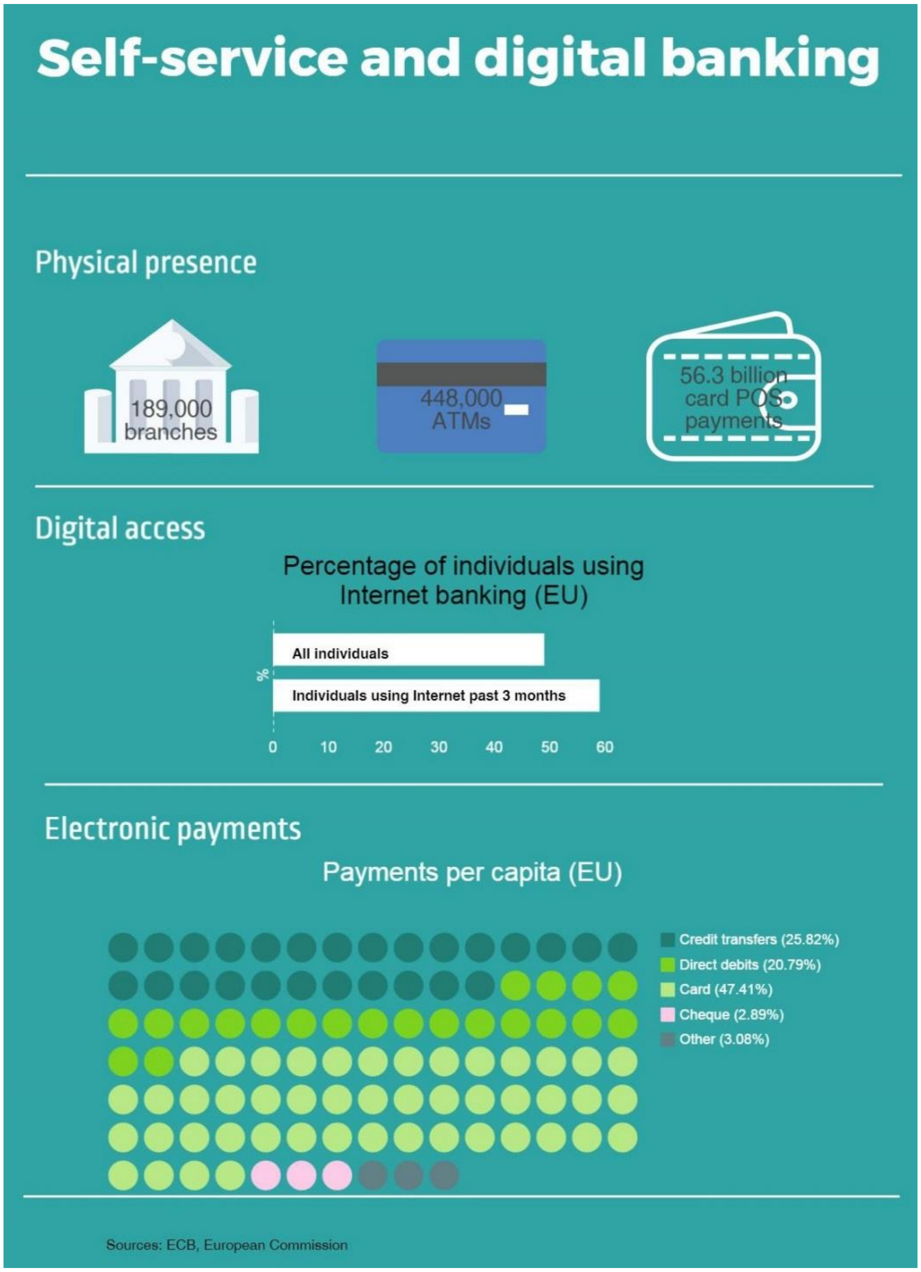
Note: the change in number of credit institutions in the Netherlands (-113) is due to a reorganization matter rather than a decline in credit institutions as 106 local entities of Rabobank merged into one central legal Rabobank entity as of 1 January 2016.

Branches and subsidiaries

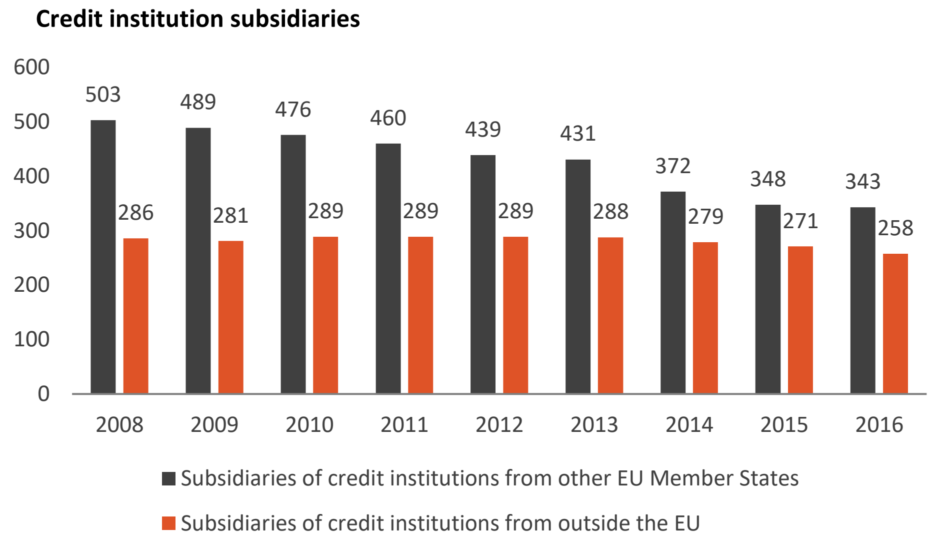
The rationalisation taking place in the EU banking sector also involved bank branches as the number of bank branches continued to shrink, falling to about 189,000 by the end of 2016. The total loss of more than 48,000 branches closed since 2008 equals a contraction of 20.4%. Compared to the previous year, branches in the EU-28 decreased by 4.6% or about 9,100 branches.



As the overview of payments and digital banking shows, banking customers have widely and enthusiastically adopted electronic payments as well as online and mobile banking. This has reduced the importance of widespread bank branch networks, allowing banks to scale back their physical presence.

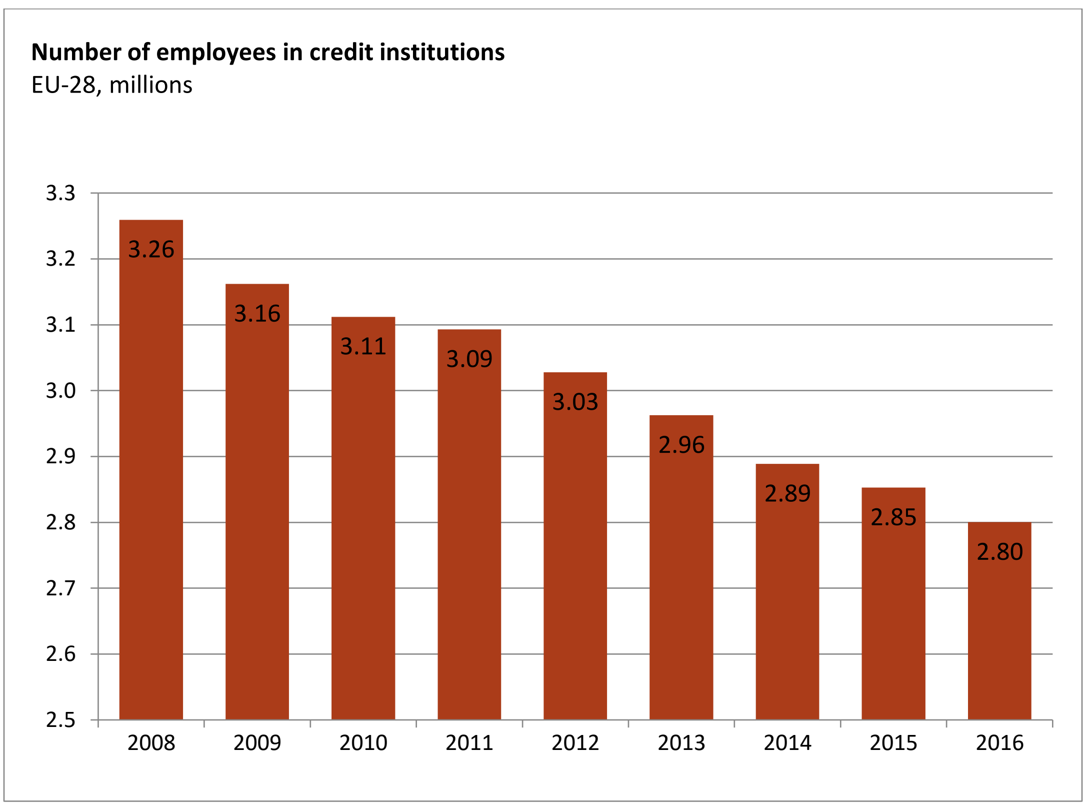


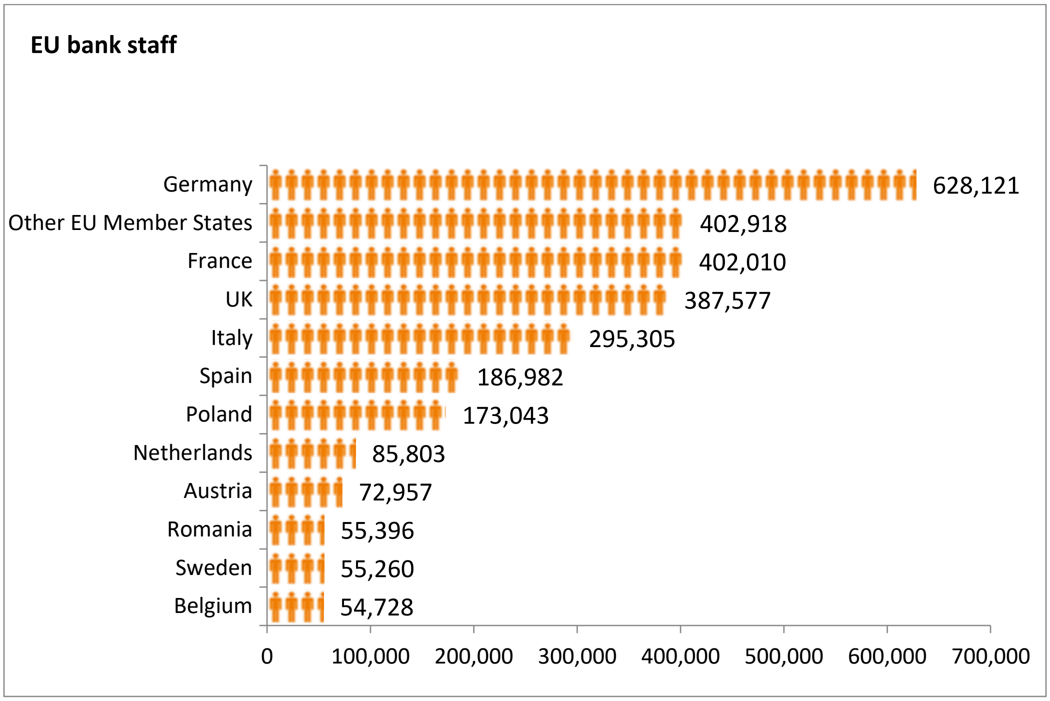
Although the overall number of subsidiaries continued declining for the ninth consecutive year, falling by 2.9% to 601, the lowest level since the ECB's data series began in 1999. While the number of subsidiaries of credit institutions from other EU countries fell by only five in 2016, the total of 343 was 38% below the peak in 2001. The 4.8% drop in the number of non-EU credit institutions' subsidiaries was the sharpest year-on-year fall since 2004 and, at 258, reached the lowest level since 2006.



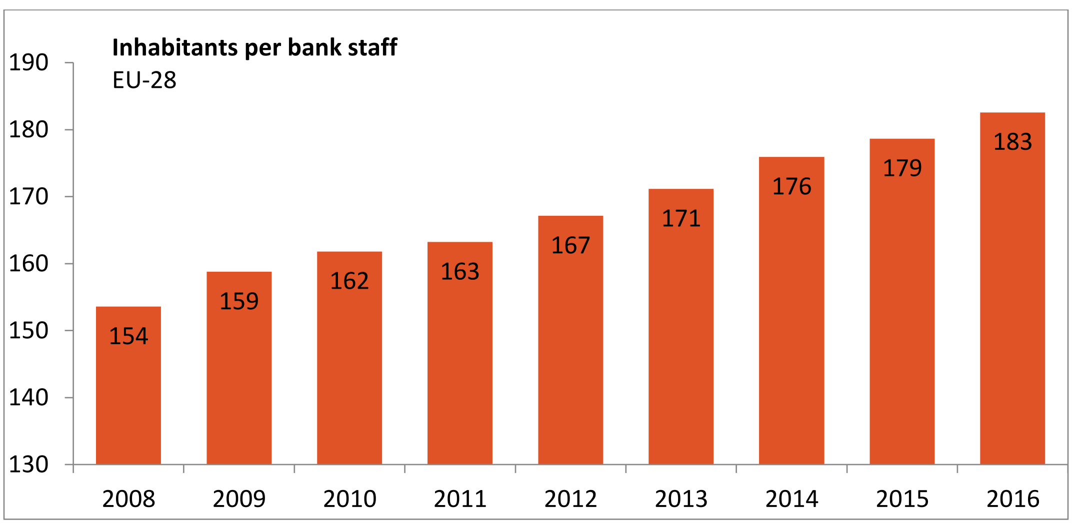
Bank staff

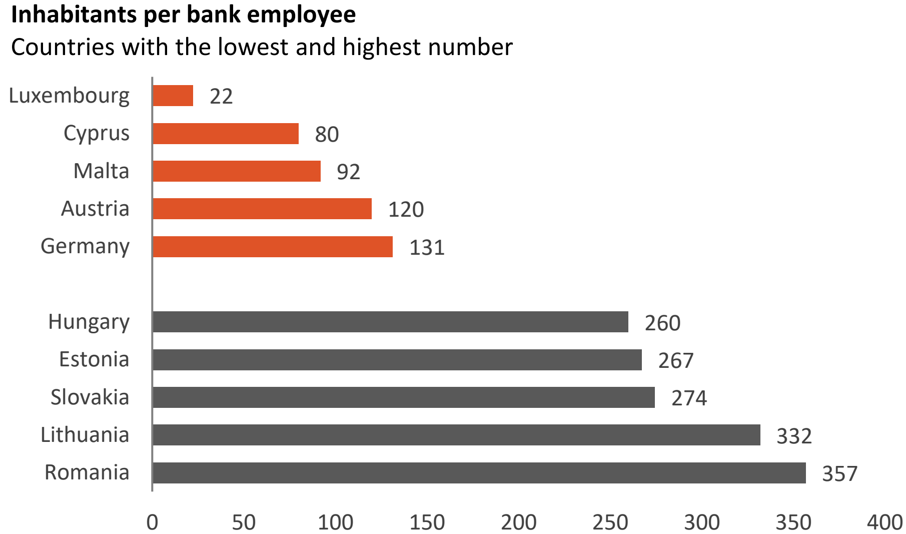
By end-2016, EU-28 banks employed about 2.8 million people, about 50,000 fewer than in 2015 and the lowest level since the ECB's data series began in 1997. The five largest EU economies continue to be the five countries with the largest number of employees in the banking sector employing some 68% of the total EU-28 staff employed. Including EFTA countries, the number of staff employed in the banking sector was more than 2.95 million.





Also reflecting a contraction in the banking sector, the average number of inhabitants per bank staff in the EU Member States rose from 179 in 2014 to 183 in 2016.





Economic contribution

Banking and related financial services activities make a significant contribution to the EU's economy.

Despite the drop in bank employment in recent years, about one in every 100 jobs in the EU was a banking job in 2016.

In the past decade, between 3% and 4% of the value of compensation of employees and gross value added in the EU economy has come from financial services (excluding insurance and pension activities).

Chapter 3

Lending and deposits

General trends

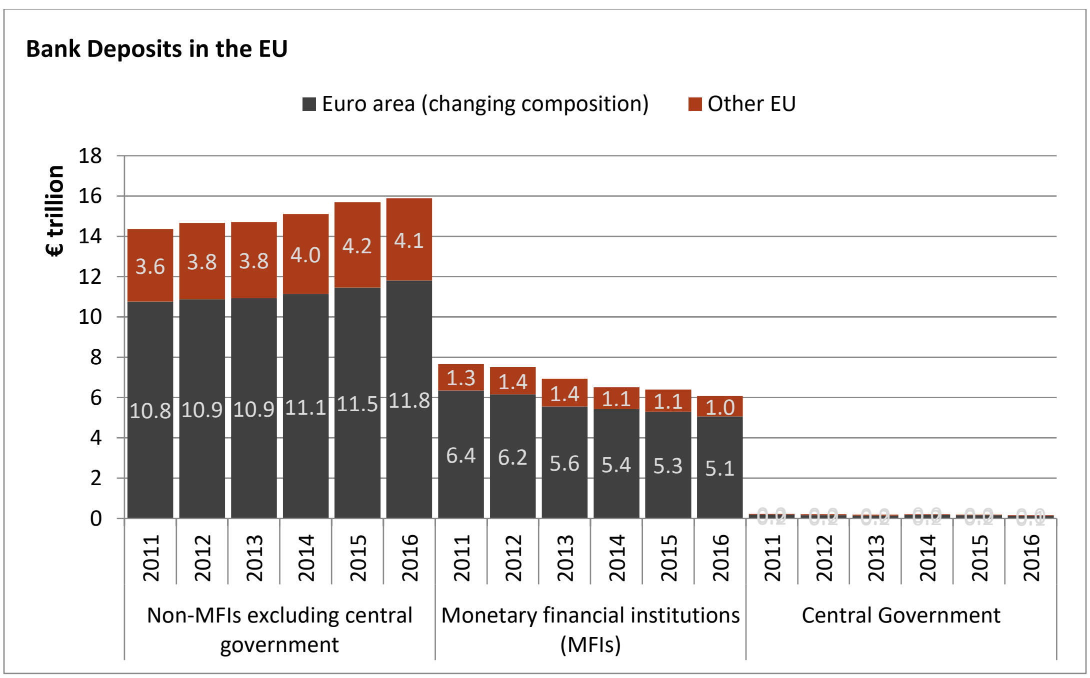
The core banking activities of raising deposits from and providing credit to customers are crucial to Europe's banks. Despite deleveraging by European consumers and businesses, bank deposits and loans grew in 2016.

Deposits

Deposits accounted for 51.3% of monetary financial institution (MFI) liabilities in the EU by the end of 2016. Deposit liabilities in the EU fell by 0.7% to €22.1 trillion. Some of the decline may be attributable to the impact of exchange rate fluctuations on non-euro area values. For example, the euro significantly increased in value against the UK pound sterling during 2016.

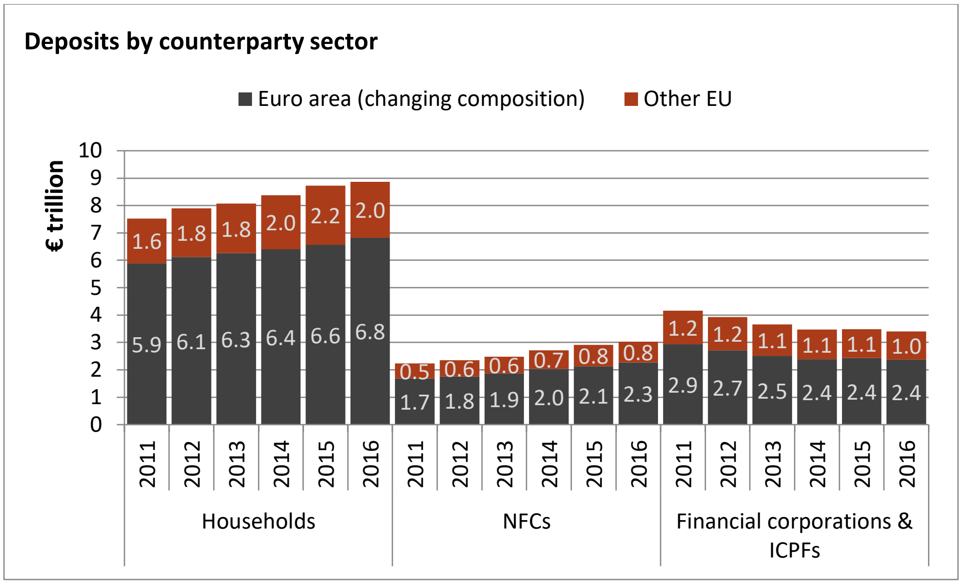
EU deposits have averaged €21-22 trillion since 2008.

Deposits from other MFIs peaked at €8.1 trillion in 2007 and fell to €6.4 trillion by the end of 2016. However, their fall has been more than offset by growth in deposits from non-MFIs, excluding central government.



Total deposits from non-MFIs, excluding central governments, grew by 1.2% in 2016 to €15.9 trillion in the EU at the end of 2015, with €11.8 trillion in deposits in the euro area. This compares with €11 trillion and €7.9 trillion, respectively, in 2006.

The growth has been driven by an increase in deposits from households (including non-profit institutions serving households), which rose by 1.7% year-on-year to €8.9 trillion and non-financial corporations (NFCs), up by 3.7% to €3.0 trillion.

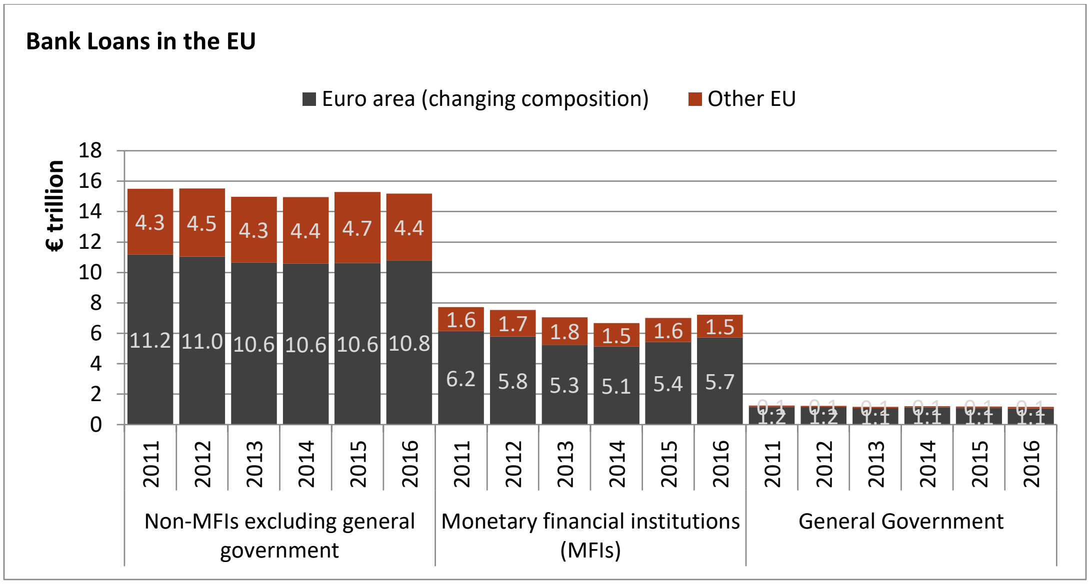


Within household and NFC deposits, there has been a clear shift to shorter-term deposits. Overnight deposits accounted for 53.1% of household and 76.8% of NFC deposits in the EU at the end of 2016, up from 41.5% and 64.0%, respectively, in 2011.

Loans

The total value of loans outstanding from EU MFIs increased by 0.3% in 2016 to €23.6 trillion, the highest level since 2012. The increase derived from growth in loans to other MFIs and non-MFIs in the euro area as well as an increase in loans to non-MFIs in other EU Member States. Some of the decline in loans in other EU Member States is likely attributable to the euro vis-à-vis UK pound sterling.

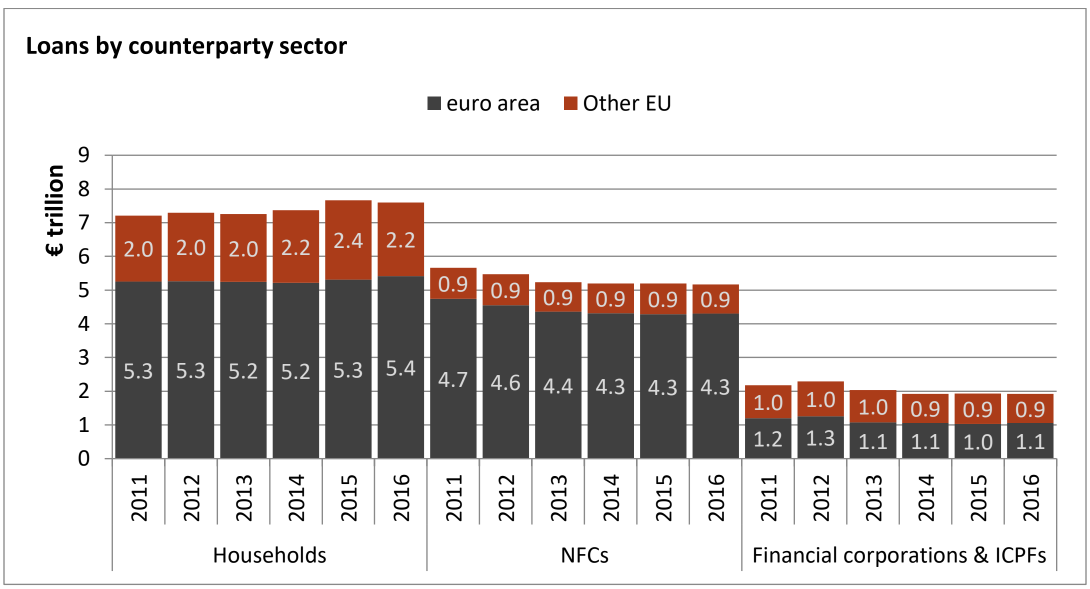
Some 77.2% of on-balance sheet household lending in the EU supported house finance in 2016.



Loans to EU households fell by 0.9% in 2016 to €7.6 trillion, reflecting mainly the drop in non-euro area values.

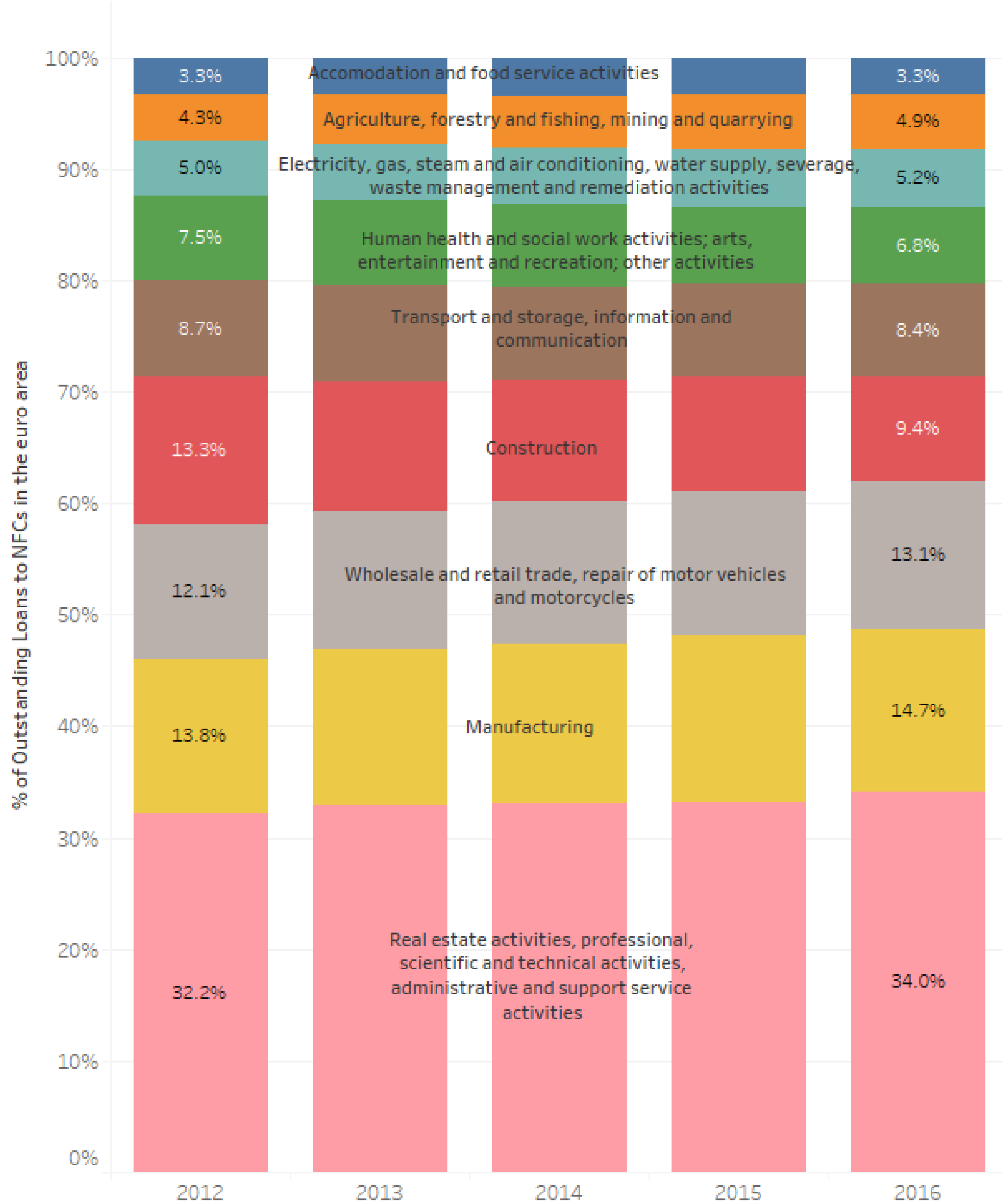
Loans to households in the euro area grew for the second successive year, adding some €200 billion on loans outstanding since 2014.

Non-financial corporation (NFC) loans outstanding fell by 0.5% in 2016 to €5.2 trillion.



The concentration of NFC loans in the euro area has changed slightly since 2012. Real estate activities, professional, scientific and technical activities and administrative and support service activities accounted for 34% of loans outstanding at the end of 2016, up by 32% in 2012. Manufacturing and the wholesale and retail trades also increased their shares. Construction fell from 13.3% of loans outstanding to 9.4%, likely a reflection of deleveraging in the sector.

NFC lending by NACE - euro area

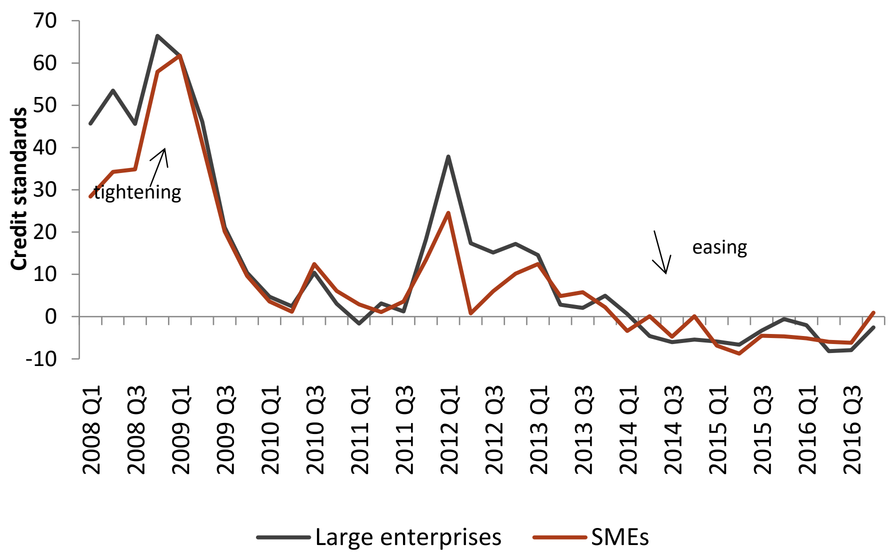


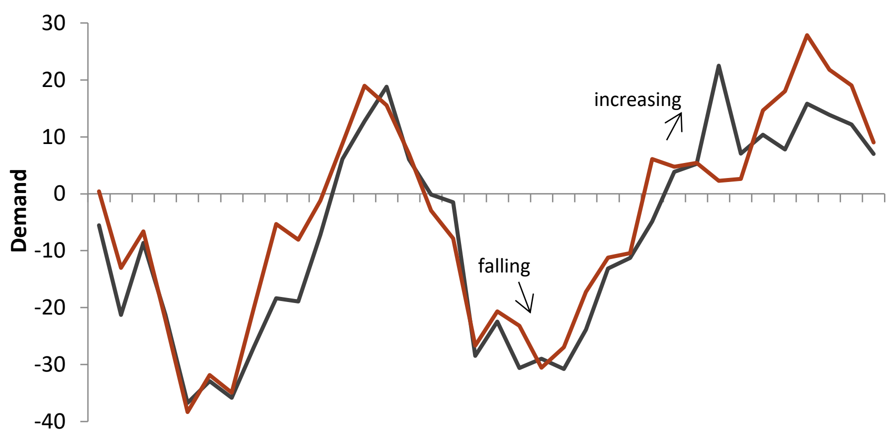
Results from the ECB's Bank Lending Survey in 2016 suggested a generally improving environment for small and medium-sized enterprises (SMEs) and large enterprises. Credit standards eased somewhat in most quarters from the start of 2014 for both segments.

Loan demand among SMEs has grown since Q4 2014, with the net weighted percentage reaching 27.9 in Q1 2016 before easing back.

These trends point to a healthy appetite for new NFC lending and an accommodative banking sector.

Bank Lending Survey

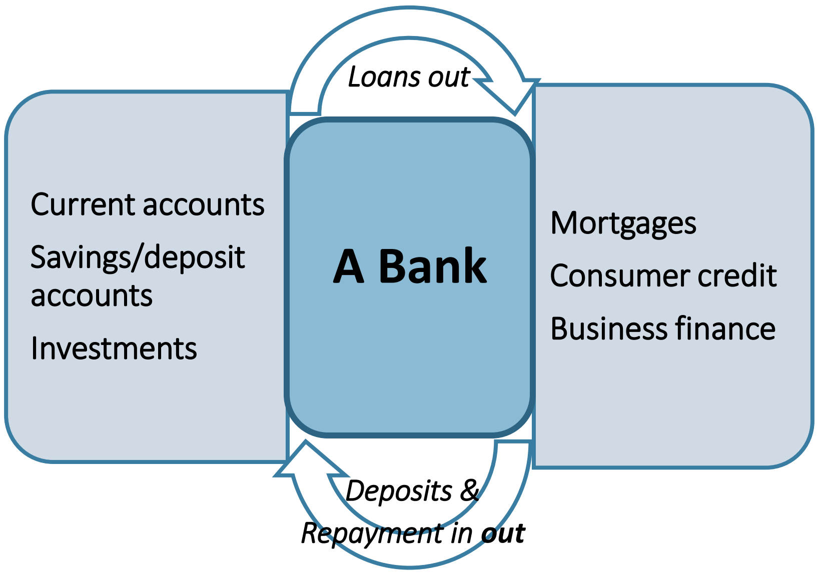




The Role of Banks: lending and payments

Banks act as facilitators between those who have money and those who need money, while also providing the systems for funds to flow between payers and payees.

The primary role of banks is to take in money from those with cash in hand and to lend money to borrowers. Banks then receive loan repayments which can be used in new lending to other borrowers.



The traditional view of this process has been that banks "create" money by providing some of the money on deposit in the form of loans to borrowers, which returns to the banking system as deposits. This money can then be lent again and again, resulting in a multiplier effect. More recently, money creation has focused on how lending creates bank deposits i.e. whenever a bank provides a loan to a customer, a deposit is created.

Banks cannot lend freely without limits. They have to be able to lend profitably in a competitive market, while also managing liquidity risks (i.e. that they have sufficient liquid assets to repay depositors or investors when required) and credit risks (that some borrowers may not repay their loans). These lending activities are regulated and safeguarded by global/international standards and EU regulations.

Just as money can be created, it can also be destroyed. For example, in the case of a mortgage being used to purchase a second hand property, the purchaser could use the proceeds from the sale to pay an existing mortgage, effectively bringing the amount of money created back to zero.

Banks are also key players in national and international payment systems. Some 112 billion cashless payments were made by customers of EU credit institutions in 2015. Almost half (53 billion) of those were card payments, while about a quarter were credit transfers (29 billion) or direct debits (24 billion).

The Single European Payments Area (SEPA) aims to harmonise and integrate payment markets across Europe, with one set of euro payment instruments: credit transfers, direct debits and payment card, common standards and practices and a harmonised legal basis. SEPA covers more than 520 million people in the 28 EU Member States and six non-EU countries (Iceland, Liechtenstein, Monaco, Norway, San Marino and Switzerland).

Chapter 4

Banking sector performance

Bank capital

The recapitalisation effort that European banks have made in recent years is bearing fruit as EU banks show a solid capital position and have continued to strengthen their balance sheets making the European banking sector more resilient and robust. Figures indicate that for one more year banks continue increasing capital.

The core equity Tier 1 (CET1) ratio of EU banks on a fully loaded basis at June 2016, which includes only capital of the highest quality, is 12.8%, more than double the same ratio in 2011 and 1% more than the previous year. Banks in the European Union have reduced the original total capital shortfall ratio by more than €500 billion from 2011 mainly by raising new capital and retaining earnings. Tier 1 and total capital have also shown a positive trend practically doubling the same ratio in 2011.

TOTAL ***	Jun-2011	Jun-2012	Jun-2013	Jun-2015	Jun-2016
Core Equity Tier 1 Capital	5,3%	7,8%	9,0%	11,8%	12,8%
CET1 shortfall (€bn) at 4.5%	29	9	15	0	0
CET1 shortfall (€bn) at 7% *	277	130	65	1	1
Tier 1 Capital	6,8%	8,1%	9,2%	12,3%	13,4%
Total Capital	8,1%	9,1%	10,9%	14,7%	16,1%
Tier 1 Capital shortfall (€bn) *	411	249	120	8	4
Total Capital shortfall (€bn) *	544	383	190	18	6
Leverage Ratio (3%)	2,8%	3,1%	3,1%	4,4%	4,7%
Leverage shortfall (€bn)	N/A	N/A	64	9	3
Liquidity Coverage Ratio	71%	N/A	110%	128%	135%
LCR shortfall (€bn) **	1.200	N/A	262	33	3
Net Stable Funding Ratio	89%	95%	N/A	105%	108%
NSFR shortfall (€bn) **	1.800	1.200	N/A	341	159

Data and assumptions from EBA and EBF

* Including G-SIB surcharge ** Overall shortfall group 1 and group 2 *** Assumption of weights: 80% G1; 20% G2

Bank funding

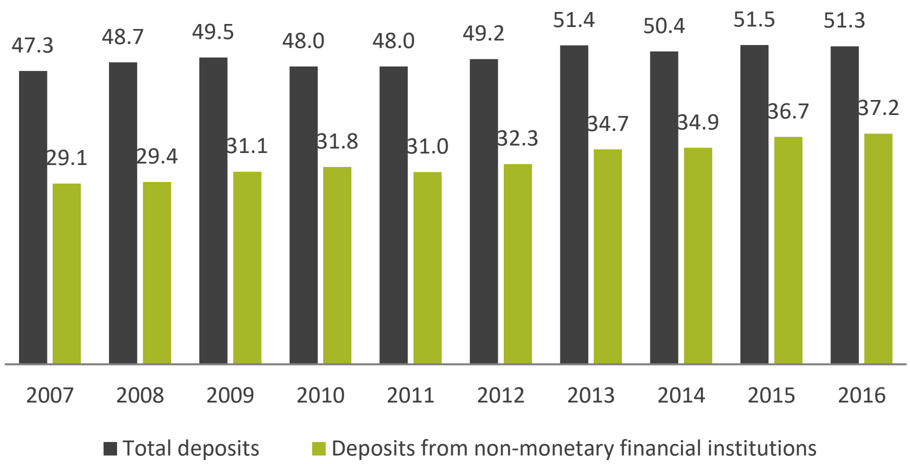
Although the ratio of deposit liabilities to total assets slightly decreased in 2016 from 51.5% to 51.3%, the overall rising trend, since 2007 (47.3%), reveals bank shifts towards greater reliance on deposits as a source of funding. While the direction in trend has slightly fluctuated over the last four years it remains over the 50% mark every year.

The rise in the share of non-banks' deposits to total assets has continued moving upwards, rising from 36.7% in 2015 to 37.2% in 2016. An upward trend since 2007 (29.1%) only falling in 2011.

The country breakdown for total deposits shows the lowest shares recorded in 2016 were in Denmark (28%), Ireland (30%), Sweden (35%) and Finland (37%). The figures continue to reflect, in part, different banking models, for example the well-developed covered bond markets in Scandinavia. Meanwhile countries with the largest shares of deposits financing banking sector's assets were Bulgaria (71%), Slovenia (73%), Slovakia (74%) and Lithuania (75%).

Deposits in EU banks as a share of total banking assets

%

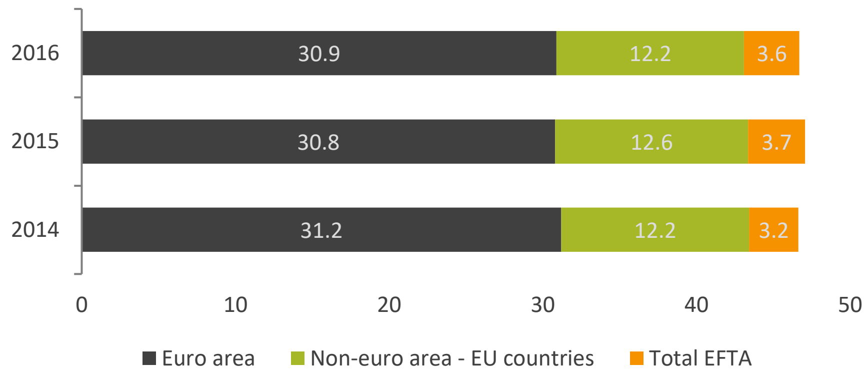


Assets

The amount of total assets held by EU banks contracted for a second consecutive year in 2016. This time by €197 billion or -0.5% from the previous year amounting to €43.18 trillion (€30.9 billion in euro area and €12.2 billion in non-euro area countries). While there was a modest gain in the total assets in the euro area (0.53%) this was offset by a drop (0.46%) of total assets held by banks in the non-euro area countries, which was partly attributable to exchange rate movements.

Considering the country breakdown, the countries with the strongest boost in absolute terms were Lithuania with €2.2 billion (9.2%) and Czech Republic €17.4 billion (8.5%). The four largest European countries registered mix results in their stock of assets with France and Germany increasing by 2.2% and 1.7% respectively, Italy, practically at the same level as 2015, with a minimal 0.1% increase and Spain showing a reduction of 3.6%. The countries with the most significant reductions in their stock of assets were Greece (-8.9%) and Latvia (-7.8%).

Total assets in EU banks
€ trillion

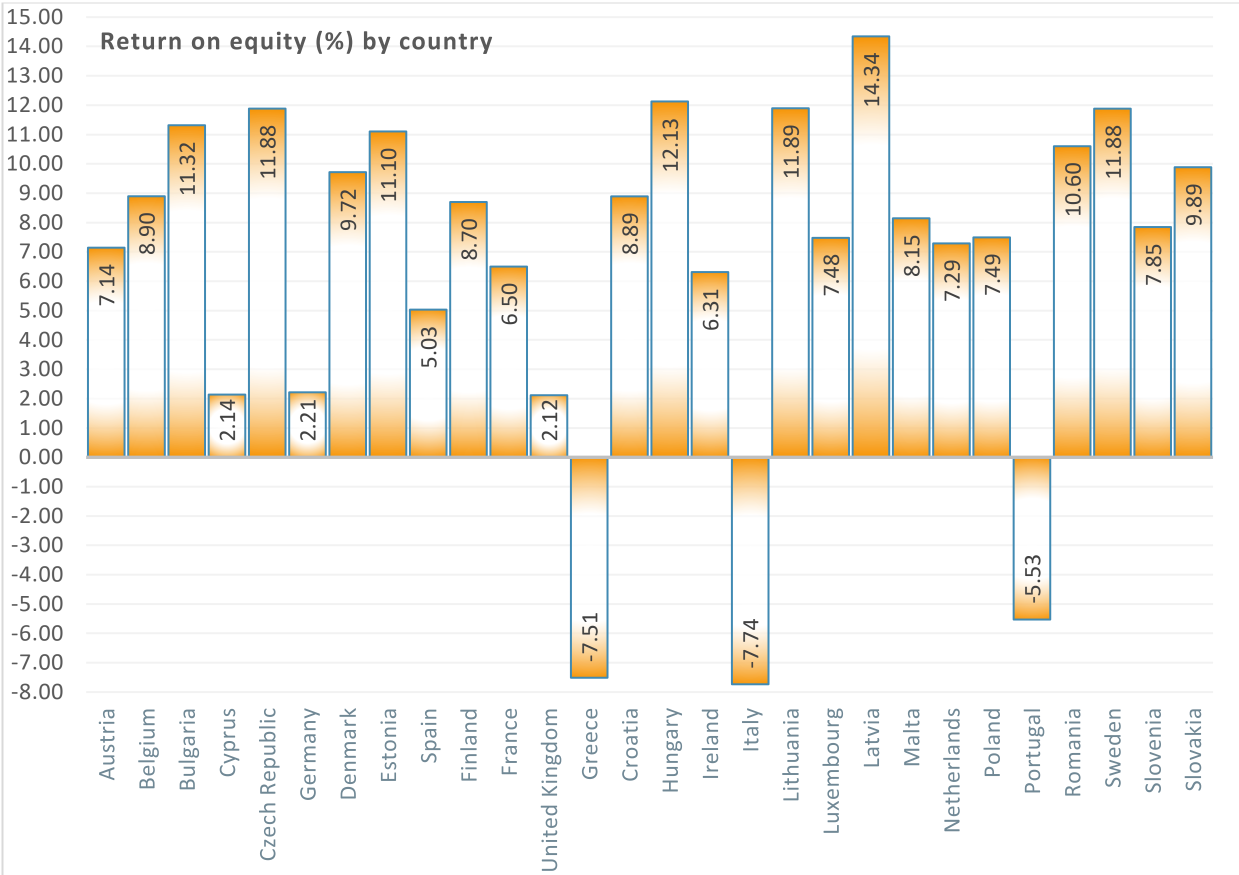


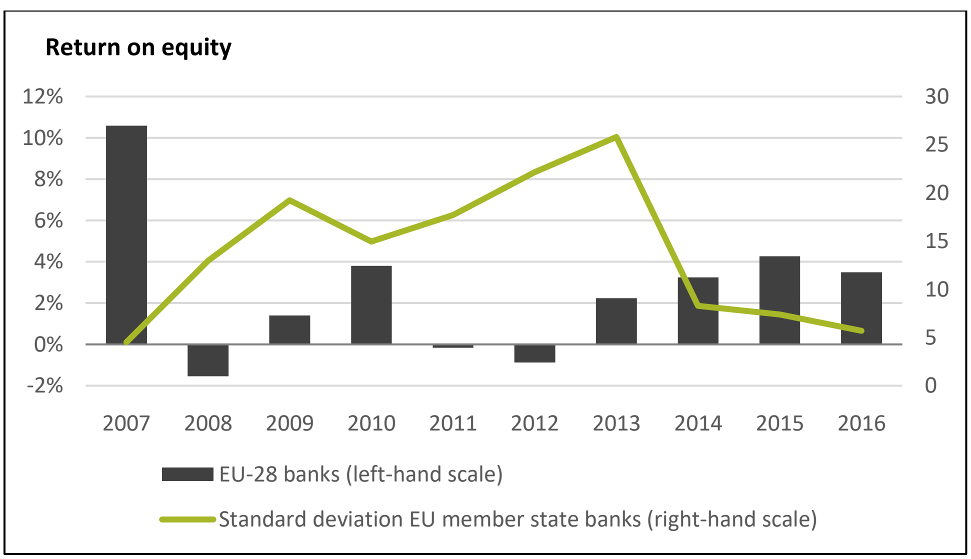
Bank profitability

In times of low interest rates, profitability becomes a key challenge banks face. With ECB's ultra-low interest rates, banks in the European Union do not escape this challenge. The return on equity (ROE) – a key indicator to assess the bank sector's attractiveness for investors – was 3.5% in 2016 for EU 28, down from the 4.3% seen in 2015. After a sharp contraction in 2008 to -1.5% from 10.6% in 2007 due to the impact of the financial crisis, the ROE of European banks has been slowly recovering with the latest setbacks in 2011 and 2012 when the ratio fell again into negative territory.

With regard to country figures, Italy (-7.51), Greece (-7.74) and Portugal (-5.53) have a negative ROE. Countries at the top of the list of European banking systems include Latvia (14.34%) and Hungary (12.13%).

The ROE across EU countries has diverged since 2007 signalling growing fragmentation particularly across the euro area. After reaching a peak in 2013 (25.8), the dispersion around the average ROE has substantially decreased falling to 7.4 in 2015 and further into 2016 to 5.7, the closest so far to the 4.5 seen in 2007 before deviation started.


Return on equity (%) by country
15.00
14.00
13.00
12.00
11.00
10.00
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
-1.00
-2.00
-3.00
-4.00
-5.00
-6.00
-7.00
-8.00
7.14
8.90
11.32
2.14
11.88
2.21
9.72
11.10
5.03
8.70
6.50
2.12
-7.51
8.89
12.13
6.31
-7.74
11.89
7.48
14.34
8.15
7.29
7.49
-5.53
10.60
11.88
7.85
9.89
Austria
Belgium
Bulgaria
Cyprus
Czech Republic
Germany
Denmark
Estonia
Spain
Finland
France
United Kingdom
Greece
Croatia
Hungary
Ireland
Italy
Lithuania
Luxembourg
Latvia
Malta
Netherlands
Poland
Portugal
Romania
Sweden
Slovenia
Slovakia


Return on equity
12%
10%
8%
6%
4%
2%
0%
-2%
30
25
20
15
10
5
0
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
EU-28 banks (left-hand scale)
Standard deviation EU member state banks (right-hand scale)

Chapter 5

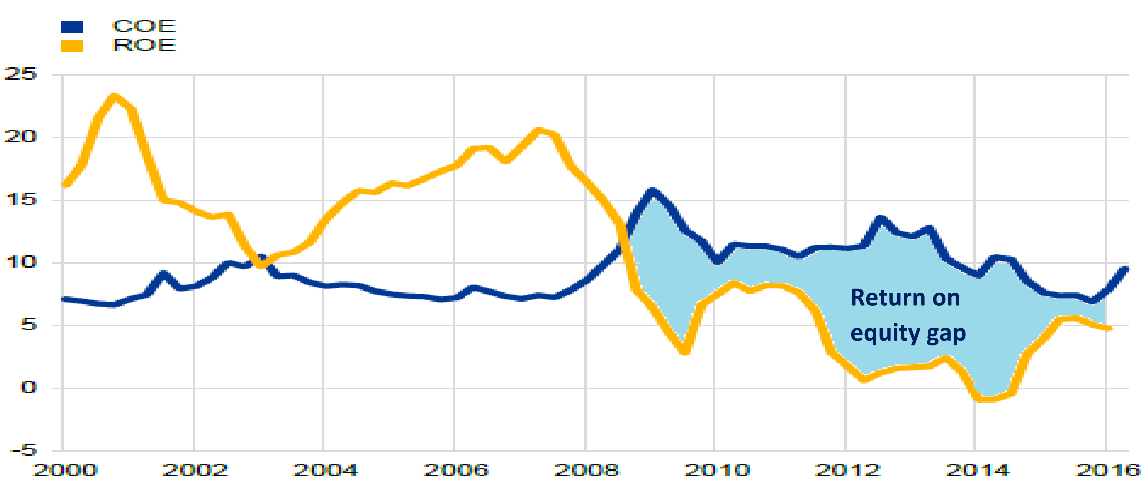
Competitiveness of European banks

The European banking sector continued its positive recovery in 2016, with the recapitalisation of EU banks completed and financial fundamentals improving.

However, the tightening grip of new regulations, along with the disbursement of new technologies, presents banks with new challenges and opportunities.

Regulations have led to increased capital and liquidity needs for banks, placing pressure on profitability with the cost of equity (COE) exceeding the ROE since 2008. This ROE gap has created an unsustainable environment for EU banks, making it difficult for these banks to be profitable.

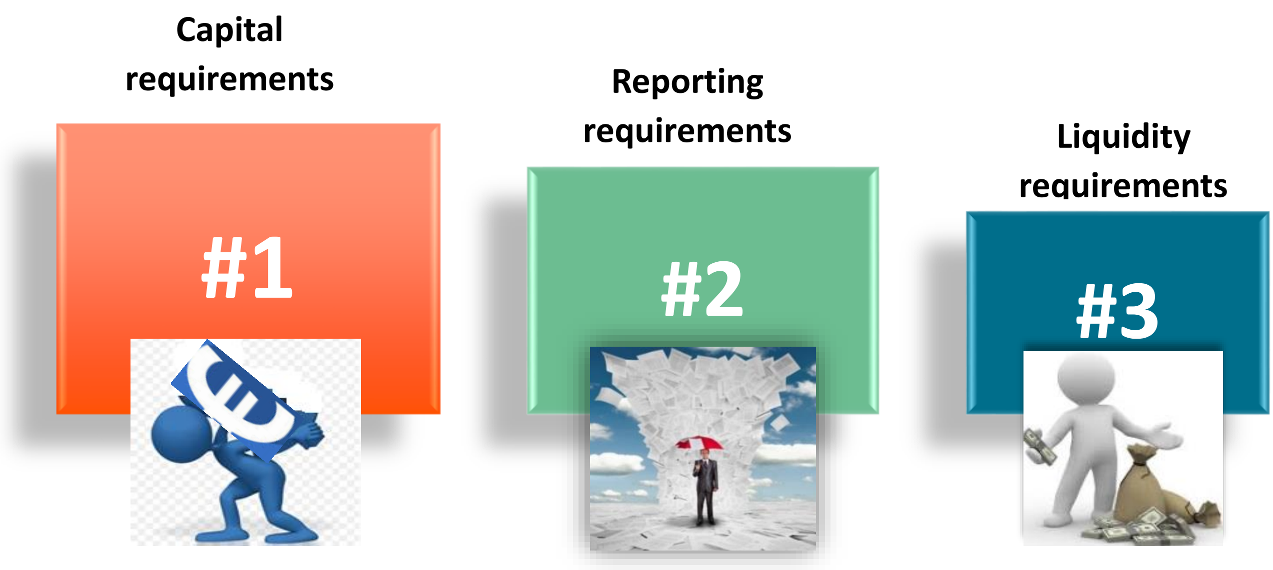
Return on equity and cost of equity for listed Euro area banks



Source: Bloomberg, Datastream, Consensus Economics, ECB Calculations. Retrieved from: ECB presentation from 7 July 2016 "Challenges for the European banking industry"
Note: Latest observations are for Q1 2016 (ROE) and Q2 2016 (COE)

This development is compounded by a low price-to-book ratio, and a rise in operational costs resulting from increased compliance and reporting.

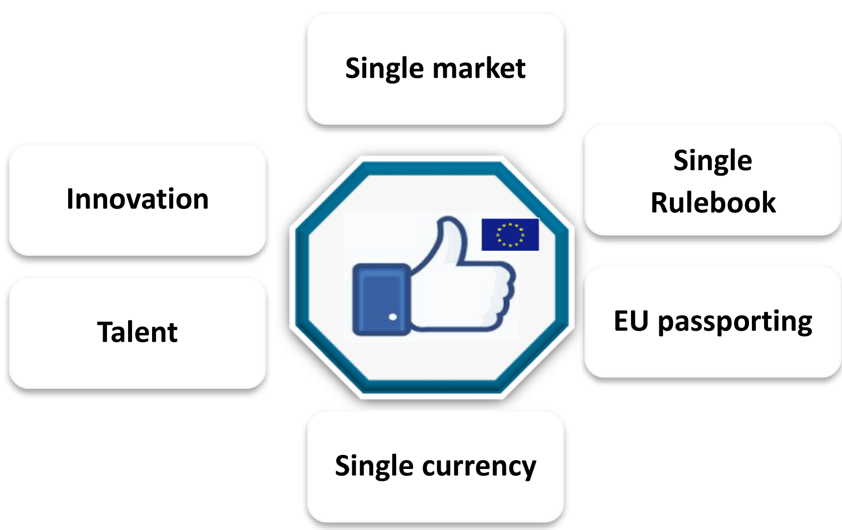
According to a confidential survey to senior executives of European banks the following challenges constitute the most significant ones facing EU banks:



Market conditions have presented challenges for banks across the world, but a gap has begun to emerge between the bank indices of US and EU banks, with significantly fewer European banks finding themselves among the top 30 largest banks worldwide, compared to before the crisis.

Improving economic conditions in Europe have contributed to, and will continue to aid, the recovery of the European banking sector. But populist sentiment in Europe has made it difficult for policymakers to implement needed fiscal reforms, not least in the euro area.

Despite these challenges, the EU remains a favourable environment for banks. According to EBF members, the presence of the Single Market, the euro, and the uniform regulatory framework are all beneficial aspects of operating in the EU.

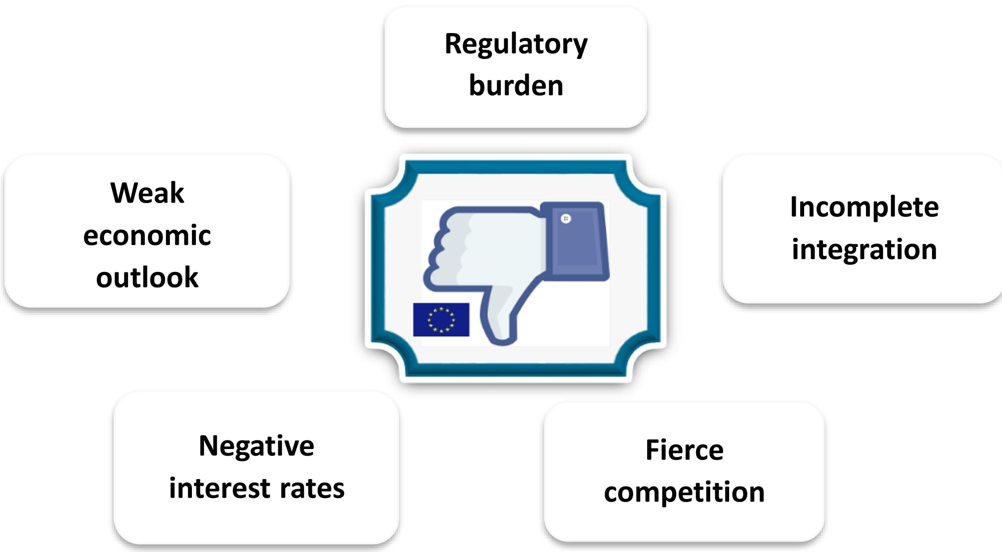


Source: EBF members' survey – 70 EU Banks / 16 countries

EBF members also agree that digitalisation is one of the main methods for banks to increase their competitiveness, with 90% of banks stating that digitalisation is a priority for them. The growth of FinTech and digital payment solutions provide particularly interesting opportunities.

Digitalisation also comes with a downside, especially with the displacement of IT and administrative services within banks growing. Despite these drawbacks, banks are usually at the forefront of technological development, and should be encouraged to continue this innovation moving forward.

Other challenges to operating in the EU, beyond those already mentioned, include the prevalence of negative interest rates and the incomplete integration of the euro area.



Source: EBF members' survey – 70 EU Banks / 16 countries

To improve competitiveness across the EU, banks and policymakers will have to cooperate to use this new environment to their mutual benefit, especially regarding digitalisation.

Financial Technology

Digital transformation

The digital transformation of European banks continues with banks projected to spend in excess of €62 billion on IT in 2017[1].

[1] CBR (2015). European bank IT spending gaining momentum by 2017. Retrieved from: http://www.cbronline.com/news/european-bank-it-spending-gaining-momentum-by-2017-4511839/

New technologies in a variety of fields provide banks with the opportunity to increase their revenue and reduce cost, especially important in an increasingly regulated environment. According to McKinsey, upwards of 30% of costs can be eliminated by digitalisation.

By 2018, banks in Western Europe are estimated to receive over half of new revenue from digital sales[2].

These developments are also beginning to appear in consumer's expectations and behaviour. According to the Commission, in 2016, 45% of consumers in the EU-28 had purchased a good online within the past three months, an 88% increase from 2008.

Digital banking services remain a strategic priority for European banks, with 61% of European banking executives viewing investments in technology as very important[3].

The internet, cloud-based solutions, and the mobile phone are the primary drivers of these innovations. But the rise of machine learning, artificial intelligence, and the internet of things (IoT) provide interesting opportunities for future developments.

Challenges do remain. Differing tax systems within the EU, as well as significant discrepancies between countries in their adoption of these technologies, provide room for future improvement.

Policy changes could also help foster growth. Notably, the creation of a Digital Single Market could create over €415 billion in additional growth and 3.8 million new jobs in the EU[4].

Digital Single Market

€415 billion — **in additional growth**

3.8 million — **new jobs**

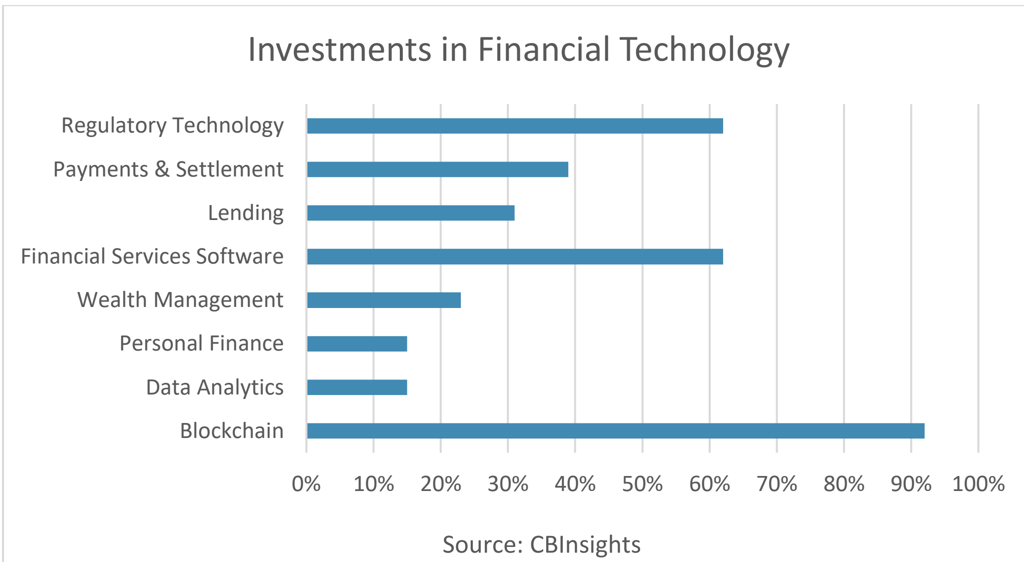
Banks embracing financial technology

Financial technology, also known as FinTech, provides unique opportunities for both banks and consumers. For instance, peer-to-peer payment apps, which are being widely adopted by banks, make it easier for

[2] McKinsey (2016). Strategic choices for banks in the digital age. Retrieved from: http://www.mckinsey.com/industries/financial-services/our-insights/strategic-choices-for-banks-in-the-digital-age
[3] Ernst & Young (2016). European banks reposition for a long-term environment of low growth. Retrieved from: http://www.ey.com/Publication/vwLUAssets/EY-ebb-2016-infographic/$FILE/ey-ebb-2016-infographic.pdf
[4] European Commission (2015). EU Digital Single Market: a Strategy to build and sustain Trust. Retrieved from: http://ec.europa.eu/justice/newsroom/news/150429_en.htm

consumers to send money to each other, while new risk management services which utilise data provide banks with an advantage over other firms in this changing environment.

Other emerging technologies are also entering the financial landscape and show promising signs of useful application. European banks are strategically investing in several FinTech solutions and firms including wealth management, lending, payments, regulatory technology, and distributed ledger technology, with 92% of banks investing in blockchain technology and 62% of banks investing in financial services software and regulatory technology[5].



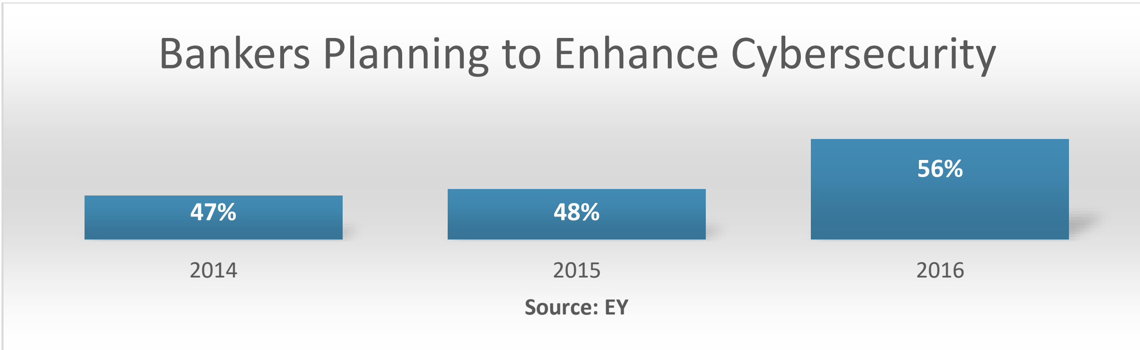
Banks are also finding solutions to speed up their payments' processing systems. Driven by EU regulatory frameworks (PSD2), European banks are leading globally in terms of the implementation of real-time payments.

Cybersecurity

A notable challenge accompanies technological developments. Cyberattacks are increasing in both frequency and sophistication, and financial institutions remain a prime target. Cybersecurity today is the most important IT risk for banks in Europe. 56% of bankers said that they were planning to enhance cybersecurity in their firm, a nine percentage point increase over the past three years[6].

[5] CBInsights (2017). Where Top European Banks Are Investing In Fintech In One Graphic. Retrieved from: https://www.cbinsights.com/blog/europe-bank-fintech-startup-investments/

[6] Ernst & Young (2016). European banks reposition for a long-term environment of low growth. Retrieved from: http://www.ey.com/Publication/vwLUAssets/EY-ebb-2016-infographic/$FILE/ey-ebb-2016-infographic.pdf



Malware attacks are a significant threat across the entire world. In Q1 2017 alone, Kaspersky Lab reported that it blocked nearly 500 million attacks launched from the web[7]. While Europe performs comparatively better than most other parts of the world, 13.9% of German web users were still attacked by malware, the lowest percentage in Europe. Greece topped EU member states with 28.21% of web users attacked.

Mobile banking applications are also targets of malware attacks. However, globally, the percentage of users affected by these attacks is very low. In Russia, the country with the highest proportion of attacks, only 1.64% of mobile banking users were attacked.

With security being a top concern for consumers, and any attack damaging trust in a bank, public and private investments in technologies, which counteract these attacks, are crucial.

As part of its new cybersecurity initiative, the EU announced in 2016 that it will invest over €450 million in cybersecurity, with private-sector partners further contributing three times that amount.

Other security-enhancing developments include the adoption of blockchain, with over 77% of financial institutions expected to adopt it by 2020, and biometric authentication, which provide an additional layer of protection for consumers and banks[8].

[7] Securelist (2017). IT threat evolution Q1 2017. Statistics. Retrieved from: https://securelist.com/it-threat-evolution-q1-2017-statistics/78475/
[8] PWC (2017). Redrawing the lines: FinTech's growing influence on Financial Services. Retrieved from: http://www.pwc.com/gx/en/industries/financial-services/fintech-survey/report.html

Chapter 6

Country-by-country overview

Austria

The Austrian economy has shown clear signs of an economic upswing since 2016 following several years of weak economic growth and deteriorating labour market conditions. While in 2016 tax reductions stimulated private consumption, in recent months the strengthening international trade also contributes to increasing aggregate demand. Gross domestic product (GDP) growth will reach about 2% in 2017 and 2018 after 1.5% in 2016.

The number of employed persons is expected to increase significantly. However, the unemployment rate will decrease only slightly and remains high compared to Austrian pre-crisis levels due to rising labour force participation of older people and women. Consumer price inflation is expected to accelerate somewhat and to approach nearly the ECB target level of below 2%. The current account surplus will remain at approximately 1.5% of GDP. The Maastricht deficit of the general government is expected to fall below 1% of GDP in 2018 after a small rise to 1.5% in 2016. However, public debt declines only slowly and amounts to approximately 80% of GDP.

Austria has a highly developed banking sector. The Austrian banking network consists of 615 banks (according to the CRR definition) with – besides the widely-used access to online banking – some 3,900 branches, making it one of the densest in Europe (2,200 inhabitants per branch). However, the trend towards self-service and online-banking has induced a consolidation both of credit institutions and branches. Starting with the financial crisis, this development has accelerated since 2016. The Austrian banks' geographical focus apart from their home market is Central Eastern and South Eastern Europe (CESEE).

The Austrian banking industry can be divided into seven sectors, namely joint stock banks and private banks, state mortgage banks, (originally rural) Raiffeisen credit cooperatives, savings banks, (originally commercial) Volksbanken credit cooperatives, building and loan associations and special purpose banks. The biggest sectors are the joint stock banks and private banks and the Raiffeisen sector. The joint stock banks, including the central institutions of the cooperative groups and savings banks, have Austrian as well as foreign shareholders. Only very few banks have a public entity as shareholder.

Austrian banks offer a well-developed and state of the art payment infrastructure via all common channels. Besides the dense network of branches, 90% of the population over 14 years old uses debit or credit cards. For some years the share of debit cards with near field communications (NFC), or contactless cards, has continued to rise rise, and contactless and mobile solutions by integrating the debit card into a smart phone have been rolled out. Banks also provide a cross-border solution for secure online payments. Notwithstanding, compared to some other European countries, significant parts of the population show a strong propensity to use cash, supported by the easy access via 8,500 ATMs free of charge.

In line with the global trend of deleveraging the balance sheet total of the Austrian credit institutions has decreased since the outbreak of the financial crisis. At year-end 2016 it was lower, by approximately one fifth, than in 2008, declining in 2016 by 2.5% to €834 billion. This reduction has been primarily caused by significantly shrinking interbank exposures and investments in securities. Deposits are the private households' preferred way of holding financial assets in Austria. Insurance products are ranking second, albeit at significantly smaller volumes than deposits. They are followed by stocks and interest-bearing securities. Non-MFI deposits have increased steadily over this period and amount to €366 billion in 2016. Due to the low economic growth, loans to private borrowers have remained more or less static in recent years, and amounted to €375 billion at year-end 2016.

Low interest rates and the flat yield curve provide a very challenging environment to the Austrian banking industry. Despite this pressure on the operating income, decreasing loan loss provisions brought about only modestly declining net profits in 2016 compared to 2015. The CET1 ratio of approximately 14% is solid, but below the average of European peer banks. Therefore, a further consolidation, i.e. a continuing shift from branches to online and mobile banking as well as a reduction of employment will take place.

Belgium

According to the European Commission, real GDP growth in Belgium is likely to increase from 1.2% in 2016 to 1.5% in 2017 and +1.7% in 2018. A policy improving competitiveness, such as reducing labour costs (including an important tax shift), supports exports and makes growth considerably more labour intensive (in 2016, employment rose by 1.3% and unemployment is expected to decrease from 7.8% in 2016 to 7.6% in 2017 and 7.4% in 2018). Investments by companies, federal and regional governments and households are strong. In a coordinated investment plan, the Belgian government is pooling investments worth €30 billion spread over a period till 2030 in the areas of energy, mobility, security, digitalisation and health.

The Belgian banking community features a large variety of players operating in different market segments. BNP Paribas Fortis, KBC, Belfius and ING Belgium are the four leading banks (with a combined balance sheet on a non-consolidated basis of 58% of the total sector, at the end of 2016) offering an extensive range of services in the field of retail banking, private banking, public and corporate finance and payment services. A number of smaller institutions often operates within a more limited number of market segments.

A number of institutions has specialised in international niche activities, such as Euroclear (one of the world's biggest players in the field of clearing and settlement services) or The Bank of New York Mellon (custody). At the end of 2016, there were 90 credit institutions in Belgium.

Of the 90 banks in Belgium, 83% are branches or subsidiaries of foreign institutions, and 17% has a Belgian majority shareholding. Meanwhile, 13 credit institutions under Belgian law (with Belgian or foreign majority stake) had 100 branches in 27 foreign countries.

At the end of 2016, there were 3,347 bank branches in Belgium. Independent bank agents managed an additional 2,835 branches which gives a total number of 6,182 branches. Of the 13,706 ATMs, 8,613 were cash dispensers. There were also 11.2 million subscriptions for internet banking and 3.3 million for mobile banking at the end of 2015.

Banks in Belgium employ some 54,000 people, with 124,300 in the wider financial sector. The sector invests in staff skills: almost 3% of total staff costs is spent on training annually.

At the end of 2016, the Belgian banks' total assets (on a consolidated basis) amounted to €1,022 billion. Loans granted to households/self-employed and liberal professions and interbank claims make up the biggest part of the Belgian banks' assets (almost one fifth of the total assets), followed by investment in debt securities issued by banks, companies and public-sector entities (17%) and corporate lending to non-financial companies, taking up about 11% of the total assets.

The Belgian banking sector's liabilities include client deposits (63%) (including debt evidenced by certificates), mainly regulated savings deposits (23%), sight deposits (22%) and term deposits (8%).

The Belgian banking sector is a key figure in economy financing, not least in financing the (non-financial) companies. According to the Bank Lending Survey, Belgium's banks have not tightened credit criteria for corporates since the first quarter of 2013, easing criteria in half of the quarters. Credit demand from companies increased considerably during all quarters since the fourth quarter of 2014.

Outstanding credit to non-financial companies (NFCs) grew by 5% year-on-year towards the end of 2016. Long-term credits (duration longer than 5 years) rose by nearly 7%. Long-term credits represent over 60% of total credit to non-financial companies. Nearly three-quarters of outstanding NFC credit is extended to SMEs.

Company financing has become more diverse in recent years. Companies increasingly use asset-based financing, such as leasing, from bank subsidiaries or non-banks or raising funding in the financial markets (e.g. bond issues), where banks often provide assistance.

The savings and investments' segments are experiencing a similar diversification in services. Belgian households held €1,323 billion in gross financial wealth at the end of 2016, over three times Belgian GDP, and financial wealth net of debts of over €1,000 billion. Belgian households, non-banking companies and governments together held over €500 billion in deposits in the Belgian banking sector at the end of the first quarter of 2017, Belgian households had over €186 billion in investment funds at the end of 2016, some of which are offered by banks' asset management subsidiaries.

Cost efficiency of the Belgian banking sector has increased significantly, with a cost-to-income ratio (over the first nine months of 2016) of only 59.5% compared to 72.1% in 2013. Return on average equity was at 10% in 2016, the same level as in 2015. Non-performing exposures on the total loans and advances in domestic portfolio were at 2.8% (end 2015) and mortgage loans to households were at 1.8%. The Liquidity Coverage Ratio was strong at 135% (September 2016), as is the CET 1 ratio at 15.4%.

Bulgaria

In 2016 the Bulgarian economy grew more slowly with GDP growth at 3.4% compared to 3.6% in 2015, according to the preliminary data of the National Statistical Institute (NSI). Due to the strong export and final consumption the Bulgarian economy continues to expand faster than the EU average. The economy grew in its seventh consecutive year. The previous year was marked by the presidential elections and the resignation of the government, which led to early elections in March 2017. The political situation did not disrupt economic activity nor did it affect banks' role as financial intermediaries.

There were 27 banks operating in Bulgaria, five of which were foreign banks' branches as of 31 December 2016. The top five banks held approximately 57.3% of all assets in the banking system. At the end of 2016 the market share of domestic banks decreased to 23.5%, while the share of the EU subsidiaries continued to grow and reached 72.9%.

The banks in Bulgaria showed resilience and stability as indicated by the results of the Asset Quality Review (AQR) and stress tests, conducted by the central bank of Bulgaria, Bulgarian National Bank (BNB) and independent consultants in August 2016. The scope of the assessment was larger than its European counterparts as it was held for all the banks in the country, except branches, covering about 96% of all assets and 75% of the loans.

The consolidation in the banking sector continued in 2016 with a deal announced in December 2016, between the Belgian KBC, sole shareholder in CIBANK, and the National Bank of Greece for acquiring its Bulgarian subsidiary United Bulgarian Bank, one of the five biggest banks in the country. In March 2016 Eurobank Bulgaria acquired the Bulgarian branch of Alpha Bank. The negotiations about the sale of Commercial Bank Victoria, one of the smallest banks in the market, are ongoing.

Most Bulgarian banks offer online and mobile banking payments via mobile phone or other electronic devices and those type of services have experienced rapid growth.

In 2016 the Bulgarian banking system remained stable, with growing assets and deposits and improved capital and liquidity positions.

The BNB's interest rate statistics for 2016 registered a continuing decline in the average interest rates on new loans in all sectors and currencies, which is one of the main factors, driving the lending activity.

In 2016 the lending activity showed distinct signs of revival. The total amount of the outstanding credit to the non-governmental sector (non-financial corporations and households) recorded its first positive growth since 2012. According to the BNB's monetary statistics, in 2016, the amount of outstanding loans for businesses and households rose by 1% year-on-year to €25.1 billion (BGN 49.09 billion) compared to the drop of 0.7% in 2015.

Last year, the outstanding amount on loans to non-financial corporations grew by 0.3% to €15.64 billion (BGN 30.58 billion), which was the first annual growth since 2013. Excluding overdrafts, loans to non-financial corporations recorded faster growth of 2.3% on an annual basis, reaching €11.03 billion (BGN 21.57 billion.

Deposits, accumulated by banks, continued to grow, although at a slower pace, compared to 2015. As of end-December 2016 they reached BGN 68.189 billion (€34.865 billion) despite the historically low interest rate levels. Approximately two thirds of the deposits were held by the household sector (66.5%).

In 2016 banks' total assets increased by 5.2% year-on-year to BGN 92,095 billion (€47,874 billion). The share of loans and advances slightly decreased, accounting to 60.7% of the total assets, the share of cash declined to 19.7% from 20.9% and the share of securities increased from 12.7% to 14.7%.

Net interest income rose by 1.2% year-on-year to BGN 2.81 billion (€1.42 billion). Net income from fees and commissions grew by 3.5% to BGN 920.7 million (€470.8 million).

Total operating expenses decreased by 12.8% on an annual basis to BGN 1,763 billion (€901.4 million). In 2016 the cost/income ratio declined to 43.2% compared to 48.16% in 2015.

The share and the amount of non-performing loans in the banking system continued to decline in 2016. The share of non-performing loans dropped to 12.83%, which is the lowest since 2011.

Thanks in part to effective cost management and certain one-off effects in 2016, the net profits increased substantially by 40.5% year-on-year to BGN 1.262 billion (€789 million).

Total capital adequacy ratio and Tier 1 capital adequacy ratio for the banking system was 20.88% and 20.41%, respectively, in 2016. The liquid asset ratio accounted for 38.24%. ROA and ROE increased respectively to 1.37% and 10.41%.

In 2016 the banks paid BGN 147.6 million (€75.5 million) as a corporate tax, which represents 7.1% of all budget revenues arising from taxes in 2016.

As at the end of 2016, 58,600 people are employed in the finance and insurance sector, and approximately half of them are employed in the banking sector.

Croatia

Croatian GDP growth accelerated to 2.9% year-on-year in 2016 (versus 1.6% in 2015). Such performance is mainly owing to another record tourist season, stronger private consumption and exports. Private consumption rose 3.3% year-on-year on stronger tourist spending, employment and real income growth and lower savings rates. Investments also performed well on private capital expenditure (notably in tourism) amid business optimism, stronger EU funding, stronger firms' profits and bank credit diversification.

In its February 2017 EU Semester report, the EC assessed Croatia as continuing to suffer from excessive macroeconomic imbalances given its significant debt burden and low growth potential. Fiscal imbalances improved substantially as the budget deficit sank 2.6% year-on-year to 0.8% of GDP in 2016. Importantly, the structural adjustment topped 1% in each of the last three years, in line with both the headline and structural deficit targets enshrined in the Excessive Deficit Procedure (EDP) in early 2014. In such circumstances, public debt faced a 2.5% decline to 84.2% of GDP in 2016, and is set to decline further thanks to stronger nominal GDP growth and ever lower interest rates. External debt fell from 103.8% in 2015 to 91.4% in 2016, driven by banks' external deleveraging, non-performing loan (NPL) sales as well as debt-to-equity swaps. Following a successful launch of tax reforms with a positive impact on consumption, competitiveness and NPL sales, Croatia should show further appetite for reforms in the areas of non-price competitiveness, education system and public finance.

Notwithstanding the ECB's hints of a gradual development towards less dovishness, the Croatian National Bank (CNB) shall maintain easing bias in its ongoing support to relatively subdued credit activity and the ever cheaper cost of credit. That said, stable exchange rates, the position of sound banks' net foreign assets, fiscal risk mitigation and improvement in net international position all make the CNB's life easier.

The Croatian financial system is dominated by universal banks. They account for more than 70% of financial sector assets. Currently 26 banks and five housing savings banks operate on the market. Top six banks account for roughly 80% of market share by assets. Bank assets declined to 120% of GDP in 2016 (from 124% in 2015) on the back of Swiss Franc loan conversion and the subsequent loan stock adjustment as well as accelerated non-performing loans (NPL) sales. That said, after the NPL ratio declined by 2.9 percentage points to 13.8% in 2016 we see potential for further NPL reduction given tax-incentivised NPL sales solely in 2017. The financial and operating restructuring of the food-to-retail conglomerate Agrokor poses risks to bank provisioning.

Foreign ownership in the banks is prevailing with 90% assets under the control of 16 foreign-owned banks, while only two banks are still state-owned (6% assets). The rest are locally owned private banks.

In terms of infrastructure, the number of ATMs, EFTPOSs and internet users is growing while the branch network is shrinking slowly. There are 1.1 ATMs and 24.1 EFTPOSs per 1,000 inhabitants and 0.27 branches per 1000 (1 per 3,703). There are two payment cards per inhabitant on average.

Credit deleveraging continued for the fifth year in a row in 2016, and accelerated to -5.1% year-on-year from -1.7% year-on-year in 2015. Such a performance is owing to lower lending to the public sector, as the government opted for cheaper market funding, plus strong decline in retail loans due to forced CHF loan conversion as well as NPL sales. NPL ratio fell to 13.8%, end of 2016 from 16.7%, end of 2015. Corporate de-leveraging eased somewhat in the course of 2016, in line with stronger business optimism and investment recovery. Stronger private consumption as well as investment outlook and further kuna interest rate compression ahead bode well for lending activity in 2017, while further, yet-to-be-quantified, bank portfolios restructuring will act as an offset.

Deposit growth slowed from 5.6% year-on-year in 2015 to 4.7% year-on-year in 2016 under the impact of interest income tax and ever lower passive interest rates, which has motivated deposit migration to open-end investment funds. We expect further deposit deceleration. Meanwhile, the loan to deposit ratio declined to 97% in 2016 (from 107% in 2015).

Bank capitalisation is among the highest in the EU, as capital adequacy ratio consistently exceeds the 20% threshold (with the latest figure at 22.5%).

After hefty losses in 2015 caused by the CHF housing loan conversion, banks managed to increase net interest income by 3.6% year-on-year in 2016 as funding cost slump offset declines in interest income. Net income was also boosted by some one-off revenues, including reversal of too conservatively booked, loan loss provision, mostly in CHF conversion case. Pre-tax ROA and ROE thus reached 1.5% and 11.8%, respectively, representing the highest levels since 2008.

Key initiatives of Croatian banks are related to further NPL resolution, especially in the corporate sector where the NPL ratio is 28.3%. Settling the disputes related to forced CHF loan conversion and deposit insurance reform in order to bring it in line with the EU average and cut the cost of regulation, remain high on the agenda.

Cyprus

Cyprus exited the three-year economic adjustment programme provided by the International Monetary Fund (IMF), European Commission and the European Central Bank (ECB). As a result, 2016-17 has been the first major endurance test for Cyprus as well as its banks, following the programme exit.

Economic conditions continued to improve in 2016. Real GDP growth reached 2.8% in 2016, up from 1.7% in 2015, as the economy expanded for the second consecutive year after three years of economic recession, and robust growth is forecasted to continue in 2017.

Economic gains are slowly being transposed into improvements in the labour market. Unemployment, which had reached a peak of 16.1% in 2014, declined to 13.3% in 2016 and the downward trend is continuing in the first months of 2017.

During this period, the banks have contributed towards Cyprus's successful performance after the conclusion of the economic adjustment programme, having managed, gradually, to restore credibility, to restructure operations and procedures, radically, and to overcome challenges in order to finance new viable projects and investment opportunities. At the same time, banks have had to comply with an ever-increasing number of supervisory and regulatory requirements.

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, 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.

There are 54 authorised credit institutions in Cyprus, consisting of seven local authorised credit institutions, the Cooperative Central Bank and 18 affiliated Cooperative Credit Institutions (CCIs) that are currently in the process of merging with the Cooperative Central Bank, three subsidiaries of foreign banks from EU Member States, two subsidiaries of foreign banks from non-EU Member States, seven branches of banks from EU Member States, 14 branches of banks from non-EU Member States and two representative offices.

Within the framework of the European Banking Union, since November 2014, the CCIs and the Cooperative Central Bank, together with Bank of Cyprus, Hellenic Bank and RCB Bank, were among the European credit institutions that came under the direct supervision of the ECB, as part of the Single Supervisory Mechanism (SSM) provisions, whereas the subsidiaries of Greek banks are supervised by the SSM as their parent banks are systemic in their home country.

All banks are adhering to the SEPA direct debits' scheme, administered by JCC Payment Systems (a national card acquirer).

Following a government bailout, the cooperative sector is majority-owned by the government. Nonetheless, a plan is under way for its eventual privatisation.

The recovery of the Cypriot financial sector continued throughout 2016. The banking sector has been restructured and recapitalised while, at the same time, the banking regulatory and supervisory regime has been significantly strengthened. The banking sector rests on a much stronger basis as far as capitalisation, liquidity and governance are concerned, and the Common Equity Tier 1 capital ratio of all banks increased to 16.1% in December 2016, up from 15.6% a year before. These developments are reflected by the most recent upgrades of banking institutions in Cyprus and of the Cypriot economy by international credit rating agencies, as well as by the gradual reduction of interest rates which is helping the economic recovery.

Aggregate bank deposits increased by 6.6% in 2016, as confidence gradually returned. Deposits registered strong growth in the second half of 2016 with the trend continuing in the first months of 2017. This increase in deposits, together with the continued deleveraging, marks an improvement in the banking sector's liquidity position, which culminated with the complete repayment of the Eurosystem emergency liquidity assistance in January 2017.

It should be noted that the high level of non-performing loans (NPLs) remains the greatest challenge faced by the banking sector and towards this goal, great efforts are directed to restructure and clean up banks' balance sheets.

The Association of Cyprus Banks (ACB), in cooperation with its members and the Ministry of Energy, Commerce, Industry and Tourism (MECIT) launched a mechanism in 2016 which will enable SMEs, approved for the receipt of grants (through schemes adopted by the MECIT), to increase their chances of receiving banking finance.

The financial education programme "More than Money" was launched during 2016 in primary schools across Cyprus, based on the initiative of the ACB and its member banks. The programme is implemented by the organisation Junior Achievement (Cyprus), following the approval of the Ministry of Education and Culture. This is a three-year programme (2016-2018) and is financed by the member banks of the Association. "More than Money" aims at familiarising primary school pupils with concepts related to money management, such as income, expenses and savings.

Czech Republic

In 2016, the banking sector operated in an environment of solid macroeconomic performance, however under stricter regulation and increasing competitiveness. When the extraordinary impulse produced by a delayed uptake from EU funds died out, the Czech economy slightly slowed down in 2016 as expected. Growth of the gross domestic product reached 2.3% in 2016. The strong result of 2015 has set a high benchmark for 2016 and the developments can therefore be assessed favourably.

The solid condition of the economy was demonstrated by strong indicators of business and consumer confidence. Consumer confidence in particular reached historic highs at the end of the year. In December 2016, the year-on-year increase in consumer prices stood at 2%, the inflation target of the central bank has thus been achieved and the moment of exit from the exchange rate commitment has approached. Basic interest rates remained technically at zero during the whole year. Monetary policy has been supportive for loan creation. On the other hand, regulatory tightening, as well as macroprudential regulation, works in the opposite direction.

Towards the end of 2016, a total of 45 entities held banking licences. The structure of the banking sector comprised four large banks, five medium-sized banks, eight small banks, 23 branches of foreign banks and five building societies; 37 entities were controlled by foreign owners including 14 banks and 23 branches. Domestic owners controlled eight banks, two of which were banks co-owned by the state.

At the end of 2016, the total value of the banking sector's assets amounted to CZK 5,961 billion (€220.8 billion), which was a year-on-year increase of 9%. The increase in assets was evenly spread across the banking sector. Therefore, four large banks (i.e. banks with assets exceeding €9.3 billion) accounted for 59% of the total volume of assets, which was exactly the same share as a year before. The banking sector's assets represented 122% of GDP.

The total volume of loans provided by banks grew by 6%, year-on-year, to €109 billion at the end of 2016. By the end of 2016, households' loans amounted to €49 billion, a 7.7% growth more than a year ago.

In 2016, housing loans boomed and consumer loans recovered. During 2016, households drew down new housing loans totalling €12.5 billion which was a year-on-year increase of 15%. New consumer loans amounted to €4 billion which represented year-on-year growth of 29%.

Since October 2016, new recommendations have come into force for housing loans. First, banks have been recommended not to exceed the 95% level of the loan-to-value (LTV) indicator of new retail loans secured by residential property, and second, the percentage of new retail loans secured by residential property with an LTV of 85–95% should not exceed 10% of the total respective loans newly provided. In spite of this, in the last quarter of 2016, the growth of new mortgage loans did not weaken.

The loans granted to companies amounted to €36.1 billion which was by 6% more than a year before. The volume of loans denominated in CZK slightly declined, while the volume denominated in foreign currencies rose by almost 30%, year-on-year. In particular, exporting companies preferred loans denominated in euros as the exit from exchange rate commitment was expected.

Towards the end of 2016, households had deposited €72.6 billion with banks, i.e. 8.6% more than the year before. Deposits of households thus exceeded their loans by almost one half. More than 70% of household deposits were non-term deposits. On the other hand, the volume of term deposits fell at the end of the year by 6.2% to CZK 21.2 billion. With low interest rates, people prefer the immediate availability of deposited funds.

One of the major advantages of the domestic banking sector has been low ratio of non-performing loans (NPL). In the framework of the EU, the internationally comparable level of 2.5% represented, at the end of 2016, one of the lowest NPL ratios in the EU. At the same time, the coverage ratio amounting to 63% belongs to the highest among European peers.

The good quality of domestic loans is thus the main reason for profitability of the Czech banking sector even with its many challenges. Net profit for 2016 amounted to €2.7 billion thus increasing by 12.7%, year-on-year, partly due to one-off factors. Return on assets reached 1.27%.

The Czech banking sector has long been well capitalised. Year-end capital adequacy ratio reached 18.45%. Furthermore, most of the capital consists of a high-quality Tier 1 capital (Tier 1 capital adequacy ratio stood at 17.91%).

Denmark

The Danish economy has been improving during the last year. The economic upswing is most visible in the labour market, while output is growing at a sound pace. Growth is predominantly driven by an increase in private consumption, supported by higher employment, rising disposable income and very low interest rates.

The composition of Danish credit institutions has been evolving over the last decades. Owing to the increase in the consolidation of the Danish financial sector, the number of banks has declined from 185 in 2000 to 101 at the end of 2016, whereas the employment figures have been much more stable. In 2000, 40,907 people were domestically employed in the Danish banks compared to 37,155 at the end of 2016. The Danish banking sector is characterised by a few large international groups and many small institutions.

The Danish banks were managing assets of €482 billion at the end of 2016. Furthermore, the assets of the Danish mortgage institutions manage a similar amount; in 2016 these amounted to €490 billion. The total assets for the whole industry were thus €972 billion.

The special Danish mortgage system is a defining component of the financial sector in Denmark. Danish mortgage bonds are securities with high credit quality and extremely high liquidity. Hence, the government has for several years worked hard to ensure that Danish mortgage bonds' liquidity will be accredited in line with government bonds in the EU's new liquidity rules for credit institutions. The EC has published the final liquidity coverage ratio (LCR) requirement in which the Danish government's view was accepted. The LCR of all credit institutions is currently comfortably above the statutory minimum requirements.

Since the beginning of the financial crisis, the Danish banks have slowly recovered. They paid negative return on equity in 2008 (-2.6%) and in 2009 (-6.5%). Today, the figure has improved, and the return on equity was 10.5% in 2016. The increase in earnings is primarily driven by low loan impairment charges, lower costs and higher net fee income.

Danish banks' earnings are, however, challenged by low net interest income which is under pressure from subdued demand for new loans and the extraordinary low level of interest rate. Today over 40% of deposits to businesses are on negative interest rates.

Overall, the Danish banking sector is robust, and banks have increased their capitalisation since the beginning of the financial crisis. The Danish banking sector had an overall solvency ratio of 23.2% in 2016, which is 9.1 percentage points higher than in 2008. In addition, the core capital ratio rose from 10.8% in 2008 to 20.7% in 2016.

The financial sector plays an important role in the digitisation of Denmark. Denmark is recognised as a digital pioneer country, a position that has in part been achieved through collaborations between the public and financial sectors. This has resulted in a number of key IT solutions, such as NemID and digital registration. Digital solutions are well established, from Betalingsservice (a Danish payment service) and Dankort (Danish debit card) to MobilePay (Danish mobile payment solutions).

With Money Week, Finance Denmark and Danish banks put focus on personal finance in the municipal primary and lower secondary schools. The purpose of Money Week is to teach children and young people personal finance terms such as interest rates, loans and budgets and to prepare them to take responsibility for their own personal finances so that they avoid getting in financial trouble.

Estonia

The Estonian banking sector consists of 16 banks of which nine are licensed credit institutions in Estonia and seven are operating as branches of foreign credit institutions. Banking sector assets constitute €24.5 billion equivalent to 117% of Estonian GDP. The Estonian banking sector is dominated by Scandinavian banking groups holding 90% of banking sector assets.

The market is chiefly divided between Swedbank, SEB Bank, Nordea Bank and Danske Bank. LHV Bank, the largest bank based in local capital, holds 3.8% of banking sector assets. Banks are serving 2.2 million customers through 83 bank branches. Estonian customers are operating 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. Some 60% of retail payments are initiated by bank cards and more than 99% of payment orders have been initiated electronically since 2009. Only 4% of the population receives income entirely or partially in cash.

Banks hold €16.3 billion worth of deposits and operate loan portfolios to the value of €17.7 billion. The growth of deposits in the real sector in recent years has allowed banks operating in Estonia to base their financing mainly on domestic retail deposits. Cashflows from domestic repayments of loans and the increased deposits from the real sector are enough to finance the current loan turnover.

The total value of loans and leases to non-financial companies grew by 7.8% in 2016. The portfolio grew for almost all sectors with the biggest growth coming in the value of loans and leases to real estate and construction companies, which accounted for almost half of all the increase in the corporate portfolio. Growth in corporate loans was supported above all by new long-term loans as 14% more were issued in such loans than a year earlier.

The loan and lease portfolio of households grew at an increasing rate in 2016. The housing loan portfolio grew by 5.2% over the year and 10% more was issued in new housing loans than in 2015. There was also strong growth in car leases, which were up 16%. The portfolio of credit card loans and overdrafts started to increase in the second half of the year.

The average interest rates on new loans did not change substantially in 2016. The average rate for long-term corporate loans issued in December 2016 was 2.2%. Average interest rate of new housing loans also remained practically unchanged at 2.2%.

Quality of the loan portfolio remained good. The value of loans overdue by more than 60 days was a little lower than a year previously at 1.1% of the loan portfolio.

Housing loans account for about 40% of the loans to the non-financial sector, which is slightly above the average for the countries in the EU, but as a share of total assets, the value of these loans is one of the largest in the EU. This reflects the universal banking model used by banks in Estonia, the concentration of the domestic market and the preference of households for home ownership over renting. It also indicates that the operations of banks in Estonia are less diversified than is the average for the EU. Credit growth continues to be supported by very low base interest rates and by the relatively strong competition in the corporate loan market, which has kept interest margins low.

The profitability of the Estonian banking sector has been among the strongest in the countries of the EU. The Estonian banking sector is relatively cost efficient, which may be partly because the expenses of the local units of foreign banking groups can be reflected at group level rather than local level. Profitability is also aided by smaller loan losses than in other countries and quite large spreads between interest income and interest expenses. Net profit earned in 2016 was €357 million and the ratio of net profits to total assets was 1.3%, which is a little lower than in 2015. Net interest income as a ratio to total assets was the same as in 2015. This was supported by a fall in interest expenses, growth in the loan portfolio, and a rise in the average interest margin earned from the loan portfolio.

Finland

The Finnish economy returned to growth in 2016 and the main driver was domestic demand, especially private consumption. In addition, construction investments increased rapidly. The prolonged weak condition of Finnish manufacturing finally took a turn for the better as industrial output in 2016 recorded year-on-year growth for the first time in four years.

Unemployment decreased during 2016 and consumer confidence improved. Inflation continued to be low and housing prices grew very moderately. In 2017 the so called Competitiveness Pact will curb increases in average earnings and unit labour costs.

Despite the slight rebound the Finnish economy will continue to make only slow progress over the next couple of years. Growth prospects are subdued, and there is no significant improvement in sight for public finances.

There were 12 Finnish banking groups or amalgamations at the end of 2016.

The biggest Finnish banking group by its market share, is the OP Financial Group, which in recent years has expanded its operations outside of the traditional financial sector. The group includes 180 cooperative banks.

The second largest banking group at year-end 2016 was Nordea Finland Group. On 2 January 2017 Nordea subsidiary merged into the Swedish parent bank and turned into a branch in Finland.

Danske Bank Finland and Municipality Finance are nearly equal in terms of their balance sheets. Danske Bank has announced its plans to turn its Finnish subsidiary in Finland into a branch like Nordea.

The above mentioned four biggest credit institutions are considered domestically significant institutions and are supervised by the ECB. Smaller groups, like Savings Banks Group and POP Bank group and other small individual banks, are under the supervision of the Finnish Supervisory Authority.

By market shares, approximately 45% of the banking sector is foreign-owned. All the other credit institutions are private-owned except Municipality Finance which is specialised in the financing of the Finnish public sector.

At the end of 2016, Finnish banking groups had 1,063 branches in Finland and this is 49 fewer than the year before. The pared down number of branches is the result of mergers, improved efficiency of functions and customer service moving to digital channels.

Banks continued to invest substantial amounts in digitalisation and service development. To foster development of new products, banks seek new partnerships with fintechs. The majority of Finns (92%) are paying bills online, and of which 34% via mobile phone.

At the end of 2016, an average of 67% of the banking groups' funding consisted of non-MFI deposits.

Banks have been preparing for the upcoming NSFR regulation for several years, and the average maturity of their funding has lengthened. Covered bonds have increased their popularity both as a source of funding and as a target of investment.

Finnish households' housing loan portfolio grew faster than in the rest of the euro area. The low interest rate level was a major contributing factor to this growth rate.

The Finnish corporate loan portfolio (housing companies included) grew by a little under 5% in 2016. This was mainly coming from loans to housing companies. Since 2010, corporate lending in Finland has grown faster than in the rest of the euro area. ECB's expansionary monetary policy has been aimed at improving financial conditions in the real economy, and indeed seems to be taking effect in the recovering corporate loan portfolios.

At the end of the year, the overall capital adequacy ratio of the Finnish banking sector was 23.9%. The Common Equity Tier 1 (CET1) ratio climbed to 21.7%. The leverage ratio of the Finnish banking sector improved to 5.9% at the end of the year.

Aggregate operating profits of the Finnish banking sector fell by 6% from the previous year. The zero interest rate environment continues to strain net interest income, which in total fell by about 4% from the previous year. The interest rates on deposits are approaching zero and the margins of housing loans are shrinking.

Net interest income nevertheless continues to be the banking sector's most substantial source of income: on average, it comprises 41% of the sector's total returns. On average, the proportion of net interest income out of banks' total returns has become smaller. Banks have diversified their revenue generation models and received more income from sources such as asset management, trading activities and insurance products.

The operating costs of the sector increased by nearly 3%. Underlying factors included, for example, growing investments in digitalisation and service development.

With the weakened operating profits and larger amount of own capital, the return on equity (ROE) of the Finnish banking sector decreased to 8.2% from the previous year's 9.3%.

Banking groups employed a total of 28,491 people at the end of 2016. A banking group's number of employees also includes persons who, for example, work in insurance and asset management.

The Financial industry continued to be one of the most significant taxpayers to the Finnish economy, tax contribution being around 20% of the total annual corporate tax.

France

The French economic situation is improving steadily, albeit at a slow pace. GDP growth recorded a marginal acceleration of 1.2% in 2016, after 1.1% in 2015. Domestic demand has been the main growth driver in recent years, but signs of a pick-up in exports are appearing for 2017, on the back of stronger external demand and more dynamic industrial activity in France. Investment (by both corporates and households) is dynamic and supported by improving activity and employment prospects in a context of low interest rates and ample credit supply, as well as economic policy measures (the CICE tax credit and the Responsibility Pact have improved the corporate margins and therefore the investment prospects). Hence, GDP growth is likely to accelerate further in 2017. Brakes on GDP growth remain present, however. They relate to insufficient competitiveness compared to European peers and, high unemployment rate, high public deficit and, in the short term, to the impact on real incomes and consumption of slightly higher energy prices.

The banking sector is one of France's main economic assets, according to the OECD. In January 2017, the French banking industry numbered 364 banks. According to the European Banking Authority (EBA), six French banks are among the Global Systemically Important Banks (G-SIBs). Financial firms account for 4.5% of total value added in France, of which approximately 60% comes from the banking industry. The banking industry employed more than 370,000 people at the end of 2015, representing 2.3% of the private workforce in mainland France.

The results of the combined asset quality assessment and stress testing, conducted by the EBA and the European Central Bank, demonstrate the high level of capitalisation of French banks. The aggregate common equity Tier 1 capital (CET1) of French banks, calculated according to CRD IV/CRR rules, stands at 13.6% at the end of 2016, which places them among the most resilient banks in the euro area.

The six largest French banking groups, which mostly operate according to the universal banking model, reported a strong financial performance in 2016, with total net banking income of €145.7 billion (down 0.3% compared to last year), of which retail banking activities account for 67%. The total cost of risk was €10.3 billion (down 20%) and group net income €24.3 billion (up 3.1%).

French banks are dealing with a growing number of international and European regulatory requirements and heavier tax burdens.

Regulatory changes and advances in technology are prompting banks to transform and adjust their models to finance the economy. Despite these hurdles, French banks continue to finance businesses and households. At the end of March 2017, outstanding loans to the economy stood at €2,203 billion, up 5.2% year-on-year.

Outstanding loans to businesses stood at €920 billion at the end of March 2017, up 5.3% year-on-year. In investment, outstanding loans were the most important segment, at €650 billion (+5.4%). Short-term loans rose by 6.0%.

SMEs are the primary beneficiaries of bank lending. Loans to SMEs accounted for 42% of total loans granted to businesses in March 2017. Total outstanding loans to these businesses rose by 3.1% year-on-year. Applications for loans by SMEs were very broadly approved, with nine out of ten SMEs obtaining the investment loans they requested and eight out of ten SMEs receiving the short-term loans requested in the first quarter of 2017. However, demand for loans remains low: only 24% of SMEs sought an investment loan and 6% requested short-term loans at the beginning of 2017.

French banks also actively finance the projects of French personal customers. Outstanding household loans stood at €1,112 billion at the end of March 2017, up 5.6% year-on-year. Most household loans were home loans, representing 914 billion euros (+5.4% year-on-year).

Businesses are increasingly using the financial markets and banks are actively helping them find new sources of financing. Out of total corporate financing of €1,522 billion as of the end of March 2017, the proportion of bank lending to market financing was 60%/40%, compared to 70%/30% at the end of 2009.

Considering their obligations under the Payments Services Directive 2 (PSD 2), the French banks launched a joint initiative to propose the best solution for connecting third-party providers (TPPs) and the Account Service Payment Service Providers at the end of 2015.

The French banks have decided to build an open API to propose a strong, secure, resilient and standardised solution for connecting TPPs and banks. This API is developed by STET and will be available in 2018.

Germany

The economy in Germany is in a comparatively good shape with annual growth rates of around 1.8%. The growth is driven – among other things – by favourable developments on the labour market (unemployment has fallen to its lowest level for 25 years). A clear weakness in the economic picture is investment. However, there are some indications that investment in machinery and equipment will gain momentum in the course of 2017.

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 40% of total assets in the banking system. The private banks play a key role for the 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 DekaBank, which acts as the central asset manager of the Savings Banks Finance Group, representing 26% of total banks' assets. There are currently 403 savings banks. They are normally organised as public-law corporations with local governments as their guarantors/owners. 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 eight Landesbanken are owned by the federal states and the regional associations of the savings banks.

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 remained valid until the end of 2015, however. Current German law does not allow privately owned banks to have stakes in publicly owned banks (like most savings banks). However, some Landesbanken and savings banks have bought private banks. The level of public involvement in the system therefore continues to be much higher than in other countries of the EU.

The cooperative sector consists of around 970 cooperative banks (Volks- und Raiffeisenbanken) and one central cooperative bank (DZ Bank AG). It accounts for 52% of institutions by number and 17% 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 of 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 56% since 1995. Consolidation to achieve economies of scale has taken place largely within the existing pillars. In most cases in the savings bank and cooperative sectors (contrary to mergers in the private sector), consolidation has been the result of stress rather than proactive business considerations. Pressure to further consolidate in the coming years stems from the low interest rate environment and banking regulation in recent years such as Basel III which increased banks' capital requirements substantially. German banks fear that real estate and corporate finance could be particularly affected and that this could seriously restrict banks' lending capacity.

Nevertheless, despite the low interest rates and the overall extraordinarily favourable financing conditions, lending to companies and the self-employed has, at €853 billion in 2016, slightly increased compared to the previous year (+1.3%). This was because of companies' strong in-house financing capabilities and their low propensity to invest. At the present level, further easing of monetary policy can no longer lead to positive impulses.

The very low and partly negative interest rates at present decrease profit opportunities for banks, and increase the risk of distortions and price bubbles as well as the danger of zombie banks and firms. For banks in the euro area the negative deposit rate of the European Central Bank (ECB) is a special tax with monthly tax earnings of around €500 million. In order to limit the side effects of the negative deposit rate, the Association of German Banks proposes an amount of exemption for the excess liquidity, holding at the ECB, by commercial banks.

Greece

Greece’s real GDP was 0.00% in 2016 driven by private consumption while all other expenditure-side components exerted a negative contribution. GDP increased by 0.4% year-on-year in Q1 2017 (provisional estimates). A swift completion of the second review and expectations for a strong touristic season support expectations for a further improvement in investor sentiment and domestic economic activity in the second half of 2017. On the fiscal front, the 2016 primary balance registered a surplus of 4.2% of GDP outperforming the 0.5% of GDP programme target and marking the fourth consecutive year of a surplus position in the general government primary fiscal balance. In spite of recent declines, the unemployment rate is still very high (22.5% in March 2017) constituting a source of serious concern especially as it is coupled with an exceptionally high degree of long-term unemployment (71.8% in Q4 2016). However there are indications that the unemployment rate has embarked on a sustained gradual decline trend.

By the fourth quarter of 2016 the Greek banking sector consisted of 37 credit institutions (65 at the end of 2009), 2,332 branches (4,079), 42,628 employees (65,682), and €351 billion in total assets (€491 billion).

There are four main categories of credit institutions operating in Greece. Eight commercial credit institutions are incorporated in Greece and operate under a licence by the Bank of Greece (the central bank), four of which are systemically important according to the respective SSM rules and since November 2014 have been supervised directly by the ECB. Nine cooperative banks are incorporated in Greece and operate under a licence by the Bank of Greece. There are also 16 branches of credit institutions incorporated in other EU Member States and four branches of credit institutions incorporated outside the EU.

In September 2016, the capital adequacy ratio of the Greek banking system was raised to 18.1% compared to 14.1% in December 2014 and 10.6% in December 2010.

The market share of the five largest credit institutions in total assets have increased significantly since 2009 mainly owing to numerous acquisitions and resolution measures that have taken place during the last few years. The concentration rate was 97.3% in 2016 compared to 95.2% in 2015 and 69.2% in 2009.

Deposits and repos of the private sector (corporations and households) in MFIs in Greece (excluding the Bank of Greece) were at €119 billion in April 2017 compared to €121.4 billion in December 2016). Since end-2009 deposits and repos of the private sector in MFIs in Greece (excluding the Bank of Greece) have decreased by 50%.

Bank credit to domestic corporations and households in Greece (excluding the Bank of Greece) has gradually decreased by about 23% since 2009, (from €249.3 billion in December 2009 to €192.8 billion in April 2017.

The restrictions on cash withdrawals and capital transfers imposed on the Greek banking system in June 2015 had a substantial impact on the increase (albeit gradual) of electronic payment transactions (i.e. those initiated by the use of payment instruments, such as debit, credit and prepaid card payments and/or payment order-based services, such as credit transfers and direct debits). Furthermore, the usage of internet and mobile banking services increased significantly from the second half of 2015.

Apart from the main challenges of the Greek banking sector, which focus on keeping its capital adequacy ratios higher than the regulatory minimum requirements and preserving its liquidity, Greek credit institutions still have to manage the large stock of non-performing exposures, which stood at €105.1 billion or 45.2% of total exposures end-March 2017 registering a decrease of 1.1% compared to end of December 2016 (€106.3 billion or 44.8% of total exposures. The highest percentage of NPEs in each individual loan category was recorded in consumer credit (54.02%) followed by corporate credit (45%) and mortgage credit (42.2%). The coverage ratio of NPEs stood at 49.1% in March 2016. From the beginning of 2016, Greek credit institutions intensified their efforts towards more efficient NPE management undertaking a number of initiatives including the development of a secondary market for both non-performing and performing loans, the establishment of a framework for out-of-court settlement and the adoption of certain targets and key performance indicators that aim at reducing total NPEs by 38% to €66.7 billion between June 2016 and December 2019. With respect to the latter, banks' NPEs operational targets, set at the end of September 2016 for a three-year time horizon, envisage the reduction to be mainly driven by the curing of loans and write-offs and to a lesser extent by liquidations, collections and sales of loans. In terms of non-performing loans (NPLs) and according to the most recent European Banking Authority data Greece at the end of 2016 featured the largest NPL ratio in Europe at 45.9% of total loans.

Hungary

The stability of the Hungarian economy has improved significantly in recent years. In 2016 the country's GDP growth was at 2%, below the expectation. Since one important source of the growth is the EU funded fixed capital formation programme and its use is lagging behind, that had a negative impact, as did the relatively weaker performance of the manufacturing and construction industries and net foreign trade. Consumption becomes the main driver that is supported by wage and employment ratio increases. The structural lack of skilled labour force started to be an obstacle for growth in more industries and local regions.

The inflation rate in Hungary is so far in line with the European Union's trend.

The surplus on balance of payments, the controlled central budget deficit, decreasing state debt, foreign exposures among state and private debts moderated further the financial vulnerability of the country, and in addition to the efficient use of EU structural funds, it opened up some room for the government for fiscal stimuli, such as providing extensive home creation allowances.

The penetration of banking has slightly decreased by 2017 Q1, the sector's total assets are 98.5% of the annual GDP.

The Hungarian banking sector consists of 99 institutions. Among them 47 are banks and 52 credit or saving cooperatives.

At the beginning of 2017, 49% of the banking sector's direct stake was kept by domestic entities with almost two-thirds in the hands of the state.

In 2017, the implementation of PSD 2 and its RTSs are the focus. In parallel with this, the Hungarian payment service providers (PSPs) are compelled to participate in the implementation of the central bank's initiative concerning the launch of a domestic instant payment system (IPS). The Hungarian IPS will probably use EPC Instant Payments standards ensuring the possible interoperability with European euro-based systems. The IPS will also provide the clearing and settlement of online and mobile device-initiated credit transfers, as well traditional transfers up to a maximum of 10 million HUF within ten seconds between the two customers' accounts involved in the payment.

The banking sector has 2,696 branches and employs around 38,600 people (0.84% of the total employment in Hungary). For the country's population of 9.8 million in 2017, there are 10.4 million bank accounts, 5,000 ATMs and 84,700 POS terminals.

During the year e-commerce grew by double digits implying the growth of the use of online and/or mobile payments in this segment. Surveys indicate that 35% of the population, having banking relations, use online banking, while this ratio is 50% among the Y generation.

One third of the banking sector's total loan portfolio is provided to non-financial corporates, one third to households and organisations closely linked to households and one sixth to the foreign sector (half of it to foreign corporate sector).

In 2016, corporate lending grew at a rate unseen since the crisis, expanding by more than 4% in annual terms. Furthermore, in 2016, lending to the SME sector grew by 8%, with the programmes of Magyar Nemzeti Bank (MNB, the central bank) and the sale of state lands playing a major role in this growth.

It is worthwhile noting that the MNB imposed new steps in the context of its “self-financing” programme by the introduction of a cap to the MNB’s key monetary instrument (3-month deposits) in fourth quarter of 2016 that further forced the banks to reallocate their free liquidity to other liquid assets, especially to treasury securities whose volume jumped almost 14% in 2016.

The deposit volume of the banking sector remarkably increased in 2016 (by 8.7%) in total, each sector (local state, corporate and household as well as foreign) contributed positively.

Throughout the last ten years, the FIT system in Hungary (mandatory feed-in-tariffs called KÁT) has been predictable and reliable despite changes to the system in the CEE region. Today, projects in solar power are the most popular, with one power plant producing 499 KWH under KÁT with a 20-25 years’ mandatory takeover period. In the next 1.5 years, several more projects will be developed under these conditions.

The capital position of the Hungarian banking sector is stable. Tier 1 CAR is over 18%, while the total CAR is a bit over 20%. The equity per total asset ratio is almost 11%.

In 2016 profits reached a new high in nominal terms, mainly due to extraordinary or external factors, before tax ROE stayed at 12.13%. Major extra contributors to the unexpectedly good performances are the good profitability of local banks’ foreign affiliates, releasing impairments and the sale of stakes in VISA.

The banking sector has a relatively high contribution to the central budget in Hungary. It provides almost 4% of the total budget revenue (approx. 1.5% of the GDP), half of it is coming from sectorial taxes.

Iceland

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 three universal banks, one investment bank, and four small savings banks that operate in the rural areas. Total assets amount to ISK 3,334 billion, the equivalent to 140% of GDP in 2016. The banks are predominantly funded with domestic deposits that are around ISK 1,800 billion or little less than 75% of GDP. Bond issuance has been increasing over the last few years: first and foremost the issuance of contingent and covered bonds. Total loans in the banking sector amount to ISK 3,110 billion. Icelandic banks have also sold bonds on the international market in recent years and expectations are that international issuance will increase after the final steps in lifting of capital controls has been taken.

All the major banks have been profitable over the last six years, but with irregular factors, such as the sale of assets and revaluation of loan books contributing to the return on equity. The average interest rate margin has risen from pre-crisis levels 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.

All the major banks have been increasing their funding in European bond markets and that trend has been strengthened with significant improvements in their credit ratings in 2016. In March 2017 authorities removed the last remaining hurdles of the capital controls that were introduced in 2008 to stabilise the currency during the financial crisis. The lifting of the capital controls on individuals, firms, and pension funds marks the completion of Iceland's return to the international financial markets.

The Icelandic economy has been recording healthy GDP growth in recent years spurred on by a significant increase in tourism along with contribution from the export sector. GDP growth in 2016 was recorded at 7.2%. Robust growth has not increased inflation which was steady, around 2%, in 2016. Strong economic performance along with a healthy surplus of current account has led to an appreciation of the Krona in recent years.

At the same time household and private sector debt has not increased. Total loan levels in the banking sector have remained stable although there has been an increase in loans to the tourism sector.

Since October 2015, the ownership of two of the three major banks has been primarily in the hands of the Icelandic government. The government has not introduced detailed plans on how its ownership of the banks will develop. Most shares in the third bank are in the hands of private international funds that had been in the creditors' group of the estate of the predecessor. The owners are planning to list the bank at the stock exchanges in Reykjavík and Stockholm before the end of 2017. If those plans materialise it would be the first Icelandic bank to list its shares since 2008.

The banking sector in Iceland bears the largest burden of any sector of the economy when it comes to taxes and government fees. The financial sector paid ISK 36 billion in taxes in 2016. Icelandic financial firms pay three sector specific taxes: bank tax, financial activity tax and a special addition to the financial activity tax. The banking sector currently has around 3,000 employees working in 87 branches around Iceland. Both employment and the number of branches have decreased in recent years because of ever-increasing digitalisation of the Icelandic financial sector.

The Icelandic banks are all involved in projects to increase public awareness on the importance of financial literacy. The Icelandic Financial Services Association also runs a joint project called Fjármálavit. The project is based on visits from employees from the Icelandic banks to grammar schools where they talk about money and savings. Fjármálavit participates in the European Money Week.

Ireland

Ireland's economy posted another strong performance in 2016 with gross domestic product per capita rising to €56,800. Economic activity increased with total domestic demand rising by 16.8% year-on-year driven by 46% growth in capital formation and a 3% rise in personal consumption. Unemployment also continued to fall, with the rate dropping to 6.7% by Q4 2016.

Ireland's current account surplus fell in 2016 mainly due to a sharp rise in research and development service imports and a drop in merchandise exports. However, exports were some 67% higher in 2016 than in 2012. Ireland's exports of financial services grew by 2.5% to €11.3 billion. Ireland was the world's ninth largest exporter of financial services (UNCTAD, 2015).

Gross household saving increased by 11.7% to €11.7 billion, as income grew more than expenditure. The gross saving ratio of households increased from 10.7% in 2015 to 11.5% in 2016 partly reflecting continued deleveraging in the Irish economy.

There were 52 banks in Ireland at the end of 2016. These included 25 credit institutions authorised in Ireland (of which five were covered bond banks), 26 branches of banks and two branches of building societies authorised in other EEA countries and one non-EAA branch. Twenty of the 52 banks and building societies were headquartered in Ireland or had more than 20% of their business with domestic customers. While the number of banks has been relatively stable in recent years, the number of credit unions - not-for-profit, member-owned financial cooperatives funded primarily by member deposits – fell from 333 to 290 during 2016.

The Irish government has majority stakes in two banking groups (Allied Irish Banks and permanent tsb) and a minority stake in another (Bank of Ireland). The five main banks operate some 680 branches and 3,500 ATMs for cash withdrawal nationwide.

Card payments grew strongly in 2016 and accounted for an estimated 28% of point-of-sale payments, as consumer switched from cash to cards. The expansion of contactless card payments has helped to reduce consumers' dependence on cash and almost 14% of card payments in 2016 were contactless.

Some 64% of households used Internet banking in 2016, according to the Central Statistics Office.

Outstanding credit institution loan balances have declined in recent years as both businesses and consumers have deleveraged, but gross new lending grew in 2016: new residential mortgage lending rose by 16% year-on-year to €5.7 billion, while new lending to non-financial small and medium-sized enterprises (SMEs) rose by more than 20% for the second successive year as gross new drawdowns rose by 35% year-on-year to €4.6 billion during 2016. In 2015, the government launched the Strategic Banking Corporation of Ireland to provide wholesale funding to banks and non-banks for on-lending to SMEs. By the end of 2016, it had supported some €0.5 billion in lending.

Almost €28 billion of the €44.2 billion loans outstanding to Irish resident private-sector enterprises (excluding financial intermediation) was outstanding to SMEs. Housing loans of €73.5 billion were on the balance sheets of credit institutions, with a further €33.3 billion in securitised loans.

Non-mortgage consumer credit outstanding rose in 2016 for the first time since 2009. The Central Bank of Ireland estimated that credit unions maintained a roughly 34% share of consumer credit throughout that period.

Credit institution deposits also grew, with private household deposits at almost €91 billion at the end of 2016, up 1.9% year-on-year, and deposits of Irish resident private-sector enterprises (excluding financial intermediation) up by 8.6% to €51.8 billion.

An Post, the State-owned postal service operator, managed a further €20.1 billion in national savings schemes and post office savings accounts.

Credit institutions in Ireland employed some 27,100 people at the end of 2015. Banks and building societies paid some €2.3 billion in wages and salaries in 2016. They also paid more than €0.7 billion in corporation tax, up 24% on 2015. Overall banking and related activities paid almost €1.8 billion in corporation tax, VAT and employment-related taxes. Since 2014, banks have also paid an annual levy of €150 million. By 2021, banks will have paid €1.2 billion in such levies.

Gross value added (GVA) by the banking sector was estimated at €5.2 billion in 2014, equivalent to 4.1% of total GVA by businesses (excluding agriculture) in Ireland, according to the Central Statistics Office. Profit after interest and tax fell to €2.2 billion in 2016, from €4.7 billion in 2015.

Total balance sheet assets fell to €590 billion, their lowest level since 2003, reflecting continued contraction in loans outstanding and securities holdings, although loans to non-residents and holdings of securities issued by non-residents have both increased since 2003. In terms of liabilities, private-sector deposits from Irish residents were 64% higher than in 2003 while capital and reserves were almost 1.5 times their 2003 level.

Italy

The economic recovery in Italy continues, albeit at a more moderate pace than in euro area peers. The GDP grew 0.2% quarter-on-quarter, 0.8% year-on-year in Q1 2017, but is expected to gain momentum in the remainder of the year, up to at least 0.3% quarter-on-quarter. The recent trend in forward-looking indicators (particularly in business confidence indices in the manufacturing sector) is consistent with this view. For the whole year, we are expecting a 1% GDP growth. Risks on this forecast are now on the upside. Growth will be led by industry and by foreign trade, which were a drag at the beginning of the year. Investments should keep the 3% pace, seen last year, while consumption growth is expected to be less vibrant than it was in 2015-16 (below 1%).

The Italian banking system is diversified owing to the varying size of banks. At the end of March 2017, the banking sector comprised 580 banks, including 314 cooperative banks – which are expected to merge quickly into just one or two groups as a consequence of the recent domestic reform in the sector of cooperative banks – 85 branches of foreign banks, 59 standalone banks and 64 credit institutions, the latter being owned by 59 bank holdings. All in all, excluding foreign banks, the Italian banking sector, de facto, comprises less than 120 banks (58 bank holdings, 59 standalone banks, and two or three cooperative bank groups).

The degree of concentration is intermediate among the large European countries. Further concentration is expected mainly involving small and medium-sized banks, driven by corporate governance reforms in the sector of cooperative and mutual banks. The industry's structure is changing under the impact of both the crisis and the response to technological progress, which have made it necessary to curb operating costs. Between 2008 and 2016 the number of banks fell by 24.4% and the number of branches decreased by 15%.

In 2016, 24 million clients used internet banking (+8.6% compared to 2015) and digital bank transfers accounted for 45% of total bank transfers. Similarly, in 2015 just 16% of cash withdrawals were made in traditional branches. Nevertheless, Italy was behind the euro area in the use of non-cash instruments (80 operations per inhabitants a year versus 202).

Italian banks play a central role in financing the real economy, where SMEs are of outstanding importance, accounting for 80% of persons employed in the business economy, a greater share than in other large EU countries. Consequently, a good part of banks' borrowers are SMEs, which have little alternative to bank credit as a source of financing. By contrast, in recent years, larger firms have replaced some of their bank lending with bond issues. Despite the rebalancing of financial debt structures towards market sources, by international standards, Italian non-financial corporations still rely heavily on bank loans. In recent years, notwithstanding the significant improvement in credit access conditions, loan demand from businesses has remained subdued and the trend in corporate loans has turned slightly positive since the summer of 2016, following the consolidation of the economic recovery. Thanks to interest rates at all-time low levels and the growth in residential real estate transactions, household mortgages grew by 2.4% year-on-year in March 2017.

Customer funding remains a strength for Italian banks, which recorded robust growth in deposits in recent years. Traditionally, Italian savers have developed a strong preference for safe investments, such as deposits, while in recent years the share of other financial assets such as mutual funds and insurance products has increased. Abundant liquidity and low interest rates justify the ongoing diversification of households' portfolios, through the switch into assets under management from assets under administration and bank bonds.

Italian banks are facing a delicate transition from a business model of traditional credit intermediation to a more diversified model, with lower exposure to credit risk and reduced capital absorption. The key challenges for the sector are the legacy of non-performing loans (NPLs) and low profitability, which is common to European peers. As a result of the double-dip recession, NPLs reached an amount of €173 billion net of provisions and 9.4% of total loans at end-2016. Clear signs of improvement in credit quality became evident in 2016 when the new NPL rate fell to 2.3%, back to pre-crisis, and the stock of NPLs started to decrease. Moreover, some banks are in the process of selling or securitising large amounts of bad loans. During recent years, profitability has been affected by loan loss provisions and very low interest margins, it then started to improve, thanks to the economic recovery. Income diversification has led to less reliance on net interest income than European peers. Since 2007 banks have improved their capital ratios significantly, with CET1 ratio up from 7% to 12.4% at end-2016.

In terms of economic contribution, the sector employs some 299,600 people, accounting for 1.3% of end-2016 total employment, down from 1.5% in 2009.

Latvia

The banking sector in Latvia is well developed and provides a broad range of financial services to both domestic and international clients. In 2016, there were 23 banks operating in Latvia, including 16 credit institutions registered in Latvia, and seven branches of banks registered elsewhere in the EU.

The Latvian banking sector is dominated by Nordic banking groups which hold 54% of shareholder capital. The structure of bank capital by country is Latvia with 18%, Sweden 43%, Norway 11%, US 5% and UK 4%.

Banks serve 2.23 million customers through 265 bank branches and customer service centres. Client behaviour continues to change, as the number of internet banking users reached 1.4 million, and the number of mobile banking application users reached 269,000 or 13.2% of the number of private clients (the number of mobile banking application users rose by 56% in 2016). The move to reduce usage of cash in daily transactions has continued, as banks have installed over 41,000 payment card terminals and 2.3 million payment cards have been issued to clients, that is, 1.2 cards per inhabitant. The number of purchases made, using payment cards, increased by 13.5%, as clients made 243 million purchases with payment cards worth €4.6 billion during the year. Banks have modernised their ATM networks by installing the latest combined cash deposit/withdrawal models, resulting in a slight drop in the total number of ATMs for the year, providing 1,018 ATMs with withdrawal functions and 327 with cash deposit functions.

Latvian banking sector is profitable, stable and well-capitalised. The year 2016 saw increased new lending and improved overall loan portfolio quality, as well as growth in resident deposit rate that considerably exceeded the growth rate of the Latvian national economy. 2016 was characterised by a particular focus on implementing the upgraded AML/CFT Framework with reviews of the client-base continuing, resulting in an overall reduction in the number of clients served by banks focusing on international clients and a corresponding drop in deposit volumes and assets for these banks and the sector as a whole. The total assets of the banks decreased by 7.6%, amounting to €29.5 billion, which is equivalent to 118% of Latvian GDP. Risk profile reduction in the sector will continue, along with business model changes.

For the second consecutive year, total lending by Latvian banks increased, as the loan portfolio grew by 3.1% or €452 million over the year, reaching €15.1 billion in total. The positive changes have been driven by increased lending to enterprises: new loans granted to domestic enterprises amounted to €1.8 billion, an increase of 34% over the previous year. The sector's loan quality continues to improve. The percentage of loans that were more than 90 days overdue in the total loan portfolio shrank to an historic low level and was 4.4% by the end of year.

During 2016, the amount of deposits at banks dropped by 8.2%, reaching €21.36 billion. It was influenced by the reduction in the volume of banks’ business focused on foreign customers. At the same time, domestic deposits in Latvian banks showed a stable upward trend (+12.3%) and soared to an historic high level. The banking sector in Latvia is subject to strict supervision with a high level of capitalisation and liquidity. Banks’ capital adequacy and liquidity indicators are significantly above minimum requirements. Latvian banks still maintained high capitalisation levels and the total capital adequacy ratio of the banking sector was 21.24%. In addition, the liquidity of the banking sector was maintained at a high level; the liquidity ratio, end-December 2016, reached 61.88% (minimum requirement – 30%).

The banking sector continued to demonstrate healthy profitability and reported a profit of €454 million in 2016. The Latvian banking industry's return on assets (ROA) and ROE are above the EU average: 1.49% and 14.25%, respectively. The efficiency ratio (cost-to-income ratio – 44.68%) is among the best in the EU.

Liechtenstein

The Principality of Liechtenstein is a constitutional hereditary monarchy on a democratic and parliamentary basis. The country is situated between Switzerland and Austria, with 37,000 inhabitants and an equal amount of persons employed, of which more than half are commuters.

Due to the customs and Swiss Franc currency union, Liechtenstein is strongly linked to the Swiss economy. Generally, Liechtenstein's economy is on a moderate path to growth with optimistic outlook and Liechtenstein's AAA-rating with stable outlook was confirmed by Standard & Poor's in January 2017. With an increase of 4%, the direct exports of goods from Liechtenstein companies have recovered for the most part after the sharp decline in the past year, which was highly affected by the revaluation of the Swiss Franc in 2015. Employment has grown significantly in 2016 (+ 2%). Both the industrial sector with 0.6% and the services sector recorded growth of 2.5%. The average unemployment rate decreased once again and amounts to 2.1%.

By the end of 2016, there were 14 fully licensed banks operating in Liechtenstein. Five of them are subsidiaries of Swiss, Austrian and Luxembourgish institutions. A former Swiss-owned subsidiary was sold to a Chinese non-financial group. The others are Liechtenstein banks whereas the LGT Group is the largest private banking group owned by the princely family and the LLB Group listed on the Swiss Stock Exchange but majority-owned by the Liechtenstein government.

The activities of the Liechtenstein banks 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.

Liechtenstein is also affiliated to the Swiss payment systems and, together with Switzerland, will switch in 2018 to the new ISO 20022 payment transaction standard. Liechtenstein is also a SEPA participant and the Liechtenstein Bankers Association (LBA) is member of the European Payments Council (EPC). All banks have online banking services in place. Some have separate mobile banking applications. Digitalisation is an integral part of the long-term strategy of the banking association, the Roadmap 2020, and strategic importance to the banking sector.

Due to the narrow business model of the Liechtenstein banking sector, the lending business focuses on mortgages, which increased by 2.6% compared to the previous year, and Lombard loans. Total loans increased by 3.5% to CHF 23.5 billion and amounted to 40% of total assets, whereas the share of both loan types is more or less equal. Residential mortgages are mainly secured by Liechtenstein or Swiss real estates. The average LTV for residential mortgages is about 50%. Commercial loans do not have a significant share of the loan portfolio of Liechtenstein banks.

Deposits decreased by 3.2% to CHF 35.8 billion and individuals account for nearly 30% of total deposits. Sustainability has always been at the core of the Liechtenstein financial centre's values and culture and is a key pillar of its long-term strategy.

The Liechtenstein Bankers' Association (LBA) together with the Liechtenstein Investment Fund Association and the Association of Liechtenstein Non-profit Foundations, initiated before the end of last year an environmental, social and governance (ESG) market report to measure and compare the portfolio quality of equity funds domiciled in Liechtenstein against the ESG criteria. The report aimed at providing more transparency for investors across the range of investment products. More than 50 equity funds domiciled in Liechtenstein received excellent ESG fund ratings, with 60% of the equity funds listed in the ESG Market Report, rating Liechtenstein "A" or higher.

A demanding environment encompassing negative interest rates, volatile financial markets and costly regulation continued to challenge the sector. But in spite of the uncertainties and the restraint shown by investors, the banks attained substantially higher profit and growth in assets under management (AuM). To sum up, the banking sector can look back on a successful year in 2016.

The AuM reached to a new peak, both in Liechtenstein (+3.9 % to CHF 125.9 billion) and on a consolidated basis (+12.1 % to CHF 234.8 billion), i.e. including the banks' activities abroad. Even more important is the fact that net new money could be raised (globally with CHF 20.3 billion, more than twice higher than the previous year). Total balance sheet assets were kept stable at CHF 60 billion.

The result from normal business activity rose by 43.4% to CHF 320.3 million compared to the previous year.

Liechtenstein banks are distinguished by their financial strength and stability. They have solid and high-quality equity capital resources with an average core capital (Tier 1 ratio) of more than 21% (year-end 2016). They are thus among the best capitalised banks in Europe and worldwide.

A Member State of the European Economic Area (EEA), Liechtenstein has traditionally stood for political stability, debt-free national budget and conditions favourable to business. The national economic significance of the financial centre is disproportionately high, compared with other countries. It is one of the central pillars of Liechtenstein's national economy. The financial sector contributes a total of 24% to Liechtenstein's GDP and 16% to the workforce. With a stake of more than 14% of total tax revenue, the outstanding importance of the financial sector would be even more highlighted.

Lithuania

The Lithuanian economy has gathered momentum: real GDP grew by 1.4% quarterly. Over several recent years, private investments of businesses were hampered by geopolitical tensions and caution on the business side, however, a pick-up in investment activities of enterprises at the beginning of 2017 was the main factor indicating stable growth in banks' credit portfolios. Pro-activeness in implementing investment projects was characteristic of energy, transport and industrial companies.

Overall, the economy is expected to grow faster in 2017-2018. The International Monetary Fund predicts 3.2% growth of GDP.

The number of participants in the Lithuanian banking sector remained unchanged. In total, six banks and eight foreign bank branches are operating in Lithuania. The Lithuanian banking sector is dominated by the subsidiaries of large Scandinavian banks. Three largest banks – SEB, Swedbank and DNB – are fully owned by their parent legal structures in Sweden and Norway. The other three banks, AB Šiaulių bankas, UAB Medicinos bankas and AB Citadele bankas, are considerably smaller and are owned by a group of investors of local and foreign capital. Scandinavian capital also dominates in the banks of foreign branches. In Lithuania, 74 credit unions operate, united by the Lithuanian Central Credit Union. Currently, the Lithuanian government has no stake in the banking sector.

Banks in Lithuania are seeking to achieve better operational efficiency through further consolidation. DNB and Nordea banks are seeking to merge businesses in Estonia, Latvia and Lithuania to build a single entity. The deal needs regulatory approval by the national authorities and the European Commission and is expected to be completed by the end of 2017.

Digital banking is gathering pace. The number of cashless payments rose by 19% year-on-year. Notwithstanding branch closures, the number of bank employees increased by 2.4% in 2016.

Credit growth in Lithuania is picking up. Funding conditions remain very supportive, as final interest rates on loans for both non-financial enterprises and households remain among the lowest in the euro area. A favourable economic situation contributed to a growing credit portfolio. The loan portfolio grew by 8.8% year-on-year in December 2016. After a long period of deleveraging, which was characterised by a contraction of the loan portfolio, positive credit growth suggests optimism, as funding starts reaching small and medium-sized companies that were previously cut off, due to higher risks. The household loan portfolio consists predominantly of housing credits. Rising housing affordability also supports private sector lending.

The Lithuanian banking system has room for credit expansion, as the ratio of private sector debt to GDP remains low at about 43%. Moreover, loan quality keeps improving, with non-performing debt dropping to 4.2% of the overall loan portfolio (in 2016 Q3). Despite low interest rates, deposits remain a quite popular product of banks and are continuously growing.

Lithuania is one of the first in Europe to have learnt from the lessons of the crisis. Since 2011 it has already been applying financial stability enhancing measures, i.e. the Responsible Lending Regulations.

On 1 February 2017 regulation entered into force obliging banks and credit unions to provide a bundle of basic account services at affordable prices i.e. no more than €1.5 per month (and no more than €0.75 for low-income residents). The basket includes a wide range of daily payment services, the price cap will be valid until the end of 2017 and reviewed annually.

Luxembourg

The financial services industry, and more specifically the banking sector, plays a key role in the Luxembourg economy. Although the Luxembourg economy is well diversified, the financial services industry represents approximately 26% of total GDP.

Luxembourg's economy grew by close to 4% in 2016 and is forecasted to increase in 2017. Unemployment stood slightly higher than 6%. Both services and industries contribute to this positive trend.

Out of the 143 credit institutions in Luxembourg, five are from Luxembourg and the rest are coming from 30 different countries, meaning an internationalisation rate of 96.5%, the highest in Europe. In the wake of the 2008 financial crisis, many financial groups have had to reorganise and restructure 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, a number of new banks from third countries have established their European hubs in Luxembourg, among which – but not exclusively – the six largest Chinese banks, including ICBC the world's largest bank, Bank of Communications, Agricultural Bank of China, China Construction Bank and China Merchants Bank. Two other major Chinese banks have officially announced their intention to establish a bank in Luxembourg. Luxembourg aims to become one of Europe's most attractive places for Renminbi business, be it through listing, issuing instruments, RQFII scheme or trade finance.

In addition, many international banking groups are today establishing their competence centres in Luxembourg, either in private banking, fund administration, custodian services, in treasury management, or as booking centres for international loans.

With regards to payments, banks are preparing the renewal of their infrastructure in line with SEPA and PSD2 and are preparing to offer instant payments.

Credit institutions in Luxembourg enjoy a high level of capitalisation. On the credit side, the trend is, as in previous years, towards a positive path, recording an increase of 5.3% from March 2016 to March 2017: retail banking, corporate banking, as well as private banking, are all contributing to this increase. Over the same period, deposits increased by 0.63%. On a general basis, deposits are still higher than loans, ensuring a strong and robust stability in all credit institutions.

The Luxembourg financial centre is a major worldwide distribution platform for investment funds. Collective investment management has been developing since the mid-1980s. Luxembourg is the world's second investment fund centre after the US, and Europe's first, with around €3,741 billion in assets under management, as of end 2016.

As demand for green finance is rising, a new stock exchange service, Luxembourg Green Exchange (LGX), was launched in 2016 and is home to 114 Green Bonds amounting to more than €50 billion in 19 currencies from 25 international issuers. The LGX aims to provide issuers and investors with an environment for securities that are truly green. Entry is restricted to issuers that provide full disclosure and fulfil their reporting obligations, and, in doing so, ensure quality green issuance for investors. The LGX has the most listed Green Bonds worldwide.

Despite the unfavourable global environment and very challenging low interests rates, credit institutions increased their global net results by 18% (provisional figures); and banks able to control their costs efficiently and create growth in incomes. Capital and reserves expanded by 4% from 2015 to 2016.

Banking employment increased from 25,897 in 2015 to 26,062 end-2016.

Malta

In 2016, the Maltese economy grew by 5.0% in real terms, well above the euro area average. This growth was underpinned by a 4% increase in exports of goods and services, and private consumption expenditure. Unemployment levels declined to an historic low of 4.8%, and labour productivity improved by a further 1.3%. The Maltese government sustained its efforts to improve public finances, with gross public debt falling to 58.3% of GDP by the end of 2016, and a budget surplus equal to 1% of GDP being recorded in 2016. Price pressures remained contained, with the inflation rate, based on the Harmonised Index of Consumer Prices, averaging 0.9%.

Over the past two decades, the banking sector in Malta has grown from four retail banks serving the local population to 27 licensed banks as at the end of 2016, only three of which are Maltese majority-owned. The other banks originate from various EU and non-EU jurisdictions, including Austria, Australia, Belgium, Greece, Kuwait, Turkey and the United Kingdom. As such, around 72% of the banking sector's total assets of around €45 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: core domestic banks, non-core domestic banks and internationally-oriented banks.

Seven core domestic banks had assets of around €21 billion, which represented 205% of Malta's GDP, and employed 81% of the sector's workforce numbering around 4,600 employees. Two of these banks are the local market leaders, owning around 80% of this group's assets, and operating 69 of the 104 core bank branches in the Maltese islands. The core banks exercise a conservative business model consisting mainly in raising deposits and granting loans for Maltese residents. Resident deposits and loans increased by 6.7% and 2.5% respectively in 2016.

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 58%, and this insulated the banks from the volatility on the international wholesale markets during the financial crisis. On the asset side, over 98% of total loans are for 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 15%), high liquidity and a healthy profitability. These positive features were acknowledged in the International Monetary Fund's Report on Malta published in February 2017, which stated that "solid profitability and adequate capitalisation have kept the banking system stable and resilient".

Five non-core domestic banks had assets of €2.3 billion, representing 23% of Malta's GDP. These banks undertake some business with Maltese residents, but not as their core activity. As such, the linkages with the domestic economy are limited, with resident assets and resident liabilities each accounting for less than one-fifth of the banks' balance sheet size. With a Tier 1 capital adequacy ratio well in excess of the required numbers, 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.

The 15 internationally-oriented banks are mainly subsidiaries and branches of large international institutions. These banks have almost no links to the domestic economy. Their combined assets, amounting to around €22 billion, represents around 220% 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 they might pose to domestic financial stability.

The Malta Financial Services Authority (MFSA) is the sole regulator for all banking, investment and insurance business carried out in or from the Maltese islands. 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

The Dutch economy is showing a robust level of growth. The increase in GDP is driven by a strong rise in exports and consumption. The expansion of world trade appears to be gaining traction. That is good news for Dutch exports. Higher consumer spending is attributable to improved disposable income, alongside a strong uplift in consumer confidence. A growth of 2.1% for this year and 1.8% for 2018 is expected.

The Dutch housing market is performing well after a prolonged slump. House sales improved markedly, as well as housing prices due to relative low interest rates on mortgages and higher employment rates.

The strong economy means that more jobs are created and unemployment was down to 6% in 2016. Government finance has improved markedly. Last year, the deficit turned into a surplus of 0.4% of GDP, with a further rise on the cards this year. Inflation is rising, but still modestly.

The Dutch banking sector is characterised by its relatively large part of the GDP, high level of concentration and the dominance of a few players. Nonetheless, Dutch banking has shrunk considerably in the past years. The ratio of banking assets to the GDP of the Netherlands has decreased from 600% in 2008 to 365% in 2016.

The Dutch market is competitive and barriers to entry are low due to the well-developed financial infrastructure. Mortgage lenders coming from abroad can easily make use of a network of financial brokers. The largest institutions in Dutch banking industry are internationally focused due to the open, export-oriented, Dutch economy.

A large consolidation phase has taken place since the nineties owing to mergers and consolidation as a result of the financial crisis. The Dutch banking sector is now dominated by a small number of very large institutions enjoying large market shares. Overall, banking has become more focused on the domestic retail market.

The ownership of the largest banks is mixed: one bank is publicly listed, some are (partially) owned by the national government and one is a large cooperative institution.

Foreign banks are entering the Dutch market, but their presence is relatively small compared to other European markets.

Since 2010, the number of debit card transactions has risen by more than 60% to 3.6 billion transactions in 2016. This high growth is due to the substitution of cash payments by debit card payments, especially when paying small amounts. By the end of 2016, approximately a quarter of debit card payments were initiated contactlessly via debit card or smartphone (almost five times as much as in 2015).

Mid-2016, 99.63% of Dutch residents had access to an ATM within a five-kilometre radius.

In the Netherlands, the total damage due to fraud in payments has fallen steadily from €81.8 million in 2012 to €10.2 million in 2016.

Dutch consumers usually use computers, tablets or smart phones to transfer money. In 2016, 91% of the Dutch used online banking and 54% a mobile banking app. Banks are incorporating and investing in fintechs to provide their customers with new technological insights and agility.

Bank financing is important for Dutch companies. Over the past years, the total amount of lending to small and medium-sized enterprises (SMEs) has slightly declined. This was due to lower risk acceptance by the banks compared to the pre-crisis period, low demand (investments by SMEs are only slowly picking up after the crisis), the fact that, on average, SMEs in the Netherlands have built up substantial equity and are therefore in less need of bank debt and a high level of repayments. Nevertheless, at 28%, total bank lending, expressed as a percentage of GDP in the Netherlands, is among the highest in Europe.

The use of alternative financing like crowdfunding and credit unions remains relatively low. Dutch banks have supported efforts to address climate change, for example by supporting companies in energy efficiency and sustainable energy with reduced interest rates, expanded credit facilities or specialised services. The total value of Green Bonds issued by Dutch banks grew to over 6 billion euro.

The five largest banks in the Netherlands have a combined share of about 85% of total banking assets. Over 80% of Dutch consumers have their savings in deposits at one of the five largest banks. These banks have a comparably high share in the mortgage market. Margins on mortgage lending decreased in 2016.

The sound stress test results as published by the European Banking Authority in July 2016 confirm the strong capital position of the major Dutch banks. Also the International Monetary Fund (IMF) recently concluded that the Dutch financial system is resilient to shocks. The IMF analysts found the Dutch banking sector to be well-capitalised. On average, Tier 1 capital adequacy of Dutch banks increased in 2016 ahead of new Basel capital regulation rules. Profitability of Dutch banks is adequate due to low credit losses and a high performance ratio on mortgage payments. The prolonged period of low interest rates puts pressure on banking income. All in all, gross value added to the economy is 5.5% in 2015. Employment reduced by 5,000 full-time equivalents to around 70,000 in 2016.

Norway

The Norwegian economy has in the last couple of years experienced low growth, primarily due to weak demand abroad and decline in the oil price. However, key figures suggest that the activity is increasing and that GDP growth will be considerably better in 2017 compared to 2016. Growth is stimulated by the continuance of expansionary monetary and fiscal policy. The key policy rate is currently at 0.5% and the central bank of Norway (Norges Bank) has expressed it will most likely not make any adjustments to the rate in the nearest future.

The Norwegian banking sector is characterised by a few large commercial banks and several small savings banks. At the end of 2016, the Norwegian banking sector consisted of 104 savings banks, 20 commercial banks and 25 covered bond companies. In addition, there were ten branches and subsidiaries of foreign banks operating in Norway which had a market share of approximately 26% based on gross lending in the retail and corporate market.

At year-end 2016, the aggregate assets of the entire banking sector (including foreign entities) amounted to around €764 billion, corresponding to 223% of Norway's total GDP. However, given the large presence of foreign banks, total assets relative to the size of the economy is noticeably lower when only regarding Norwegian banks. The financial intermediation sector contributes approximately 7% of national GDP and employs around 2% (50,000 people) of the total labour force.

Norwegian banks have managed to limit losses and remain profitable despite the challenges in the petroleum industry. Return on equity was on average 10.9% in 2016 while losses were 0.36% of gross lending. Norwegian banks have strengthened their financial position in recent years by retaining a larger share of their profits and by issuing new equity. The overall common equity Tier 1 ratio for Norwegian banking groups was 16% by the end of 2016. The leverage ratio was on average 8%.

There were 953 branches by the end of 2016, and the overall number of inhabitants per bank branch was about 5,500. As more and more people are using banking services online, the number of branches has decreased significantly over several years. Mobile payment solutions have also been well received by Norwegian households and are becoming increasingly popular. More digital banking has given the banking sector large productivity gains and hence lower costs. In 2016, the cost/income ratio continued to decline and ended up at 45% for all Norwegian banks.

When it comes to funding, the most important sources are retail deposits and covered 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. 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. €220,000) per depositor per bank, but could be changed in the future to the equivalent of €100,000 to be aligned with the EU. The deposit-to-loan ratio (deposits as a share of gross loans to customers) for Norwegian parent banks was 94% at year-end 2016. The high level is due to the transfer of mortgages to separate credit institutions (for the purpose of issuing covered bonds). By including these loans, the deposit-to-loan ratio was 57%.

Domestic credit growth has recently been more or less stable around 5%. Household credit growth however has remained at a high level, exceeding the growth in income. This development is linked to the growth in house prices which has continued to increase although economic activity has been below the long-term average. Credit demand from non-financial companies has been rather low and banks have been more focused on household lending because of lower risk weights and a desire to limit the growth in risk-weighted assets.

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, thus ensuring a level-playing field and improving the functioning of the market economy. The new regulatory framework in Norway 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.

Norway is not a direct member of the EU which has led to a need for clarification when it comes to the EU's structure for supervision of financial markets. The Norwegian government, EU and other EEA-countries were able to find a solution to the problem during the fall of 2014. Under the agreed model, the EFTA Surveillance Authority (ESA) is responsible for decisions that are binding for Norwegian companies. The suggested solution was approved by the Norwegian Parliament on 13 June 2016 and the EEA joint committee on 30 September 2016.

Poland

Poland is the largest economy in Central and Eastern Europe. According to Eurostat, its economy has been one of the fastest growing among the EU Member States. This trend, with rising credit demand, makes Poland a favourable 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. Interest rates in Poland remain positive and the probability of their reduction is low.

The Polish banking system is showing resilience and avoiding serious problems during the financial crisis. The Polish Financial Supervision Authority (Komisja Nadzoru Finansowego - KNF) is responsible for state supervision of the national financial market. The institution responsible both for operating the deposit guarantee scheme and resolution processes is the Bank Guarantee Fund (Bankowy Fundusz Gwarancyjny – BFG). The competent authority responsible for macro-prudential supervision is the Financial Stability Committee (Komitet Stabilności Finansowej – KSF), comprising the Polish National Central Bank, the Ministry of Finance, the Financial Supervision Authority and the Bank Guarantee Fund.

At the end of 2016 the Polish financial landscape was made up of 36 commercial banks, 558 cooperative banks and 27 branches of credit institutions. The Polish banking sector is dominated by foreign-owned institutions: foreign owners hold majority stakes in most commercial banks, totalling 55% of the sector's assets (52 institutions). The State Treasury controls five banks. Since 2015 the Polish government has established an active campaign aiming to increase the market share of national financial institutions.

Cooperative banks are members of two associated banks; despite the large number of these institutions, their market share is estimated at around 7% of the sector's total assets. Due to preparations for the new requirements of the CRD IV package, cooperative banks established and are operating within two Institutional Protection Schemes (IPSs).

A new banking tax act came into force in February 2016. It applies to selected financial institutions such as domestic banks and insurance companies, branches of foreign banks and insurance companies operating in Poland and consumer lending institutions. The new tax does not cover investment funds, pension funds and small local credit institutions (total assets below PLN 4 billion). The tax base comprises the assets of financial institutions and only Polish treasury bonds in bank portfolio are excluded from taxation. The rate applied to the taxable base is 0.0366% per month (0.44% annually). This tax is not deductible for income tax calculation. This has imposed a substantial fiscal burden on Polish banks. In 2016 banks paid PLN 3.2 billion as banking tax for the period of 11 months.

In 2016, the Polish banking sector's assets totalled €386.82 billion. In recent years, banks' assets have been growing slightly faster than the overall economy. As a result, the size of the banking sector has increased, relative to GDP. However, this ratio (92.4% at the end of 2016) remains quite low in comparison to other EU economies. The share of credit portfolio in total assets was 56.9% in 2016. After a few years of stronger growth in retail banking, corporate banking has grown faster in the last two years. Solutions to the problem of mortgage credit portfolio in foreign are still under discussion.

The prudent credit policy and relatively good results of Polish economy has allowed banks to maintain the NPL at a relatively low level.

The year 2016 was characterised by rapid growth of household deposits, which represent 71% of all non-financial sector deposits. The ratio of non-financial sector deposits to GDP was estimated at around 55.5%. The total banking credit portfolio for economy was higher than non-financial sector deposits. However, the share of long-term deposits is limited and term mismatch on credit and deposit side is significant.

Polish banks registered a relatively higher level of profitability in comparison to 2015: in 2016 return on equity (ROE) stood at 9.0% and return on assets (ROA) equalled 0.84% (2015, ROE: 8.8%, ROA: 0.71%). However these results are significantly lower than those of 2014 (ROE: 12%, ROA: 1.08%) and the last year's results were partly owing to one-time transactions.

The average total capital ratio (TCR) in the domestic banking sector increased slightly. At the end of 2016 the ratio was 17.7%, and the Common Equity Tier 1 and Tier 1 capital ratios were estimated around 16%. Only 2.1% of the sector did not meet the Financial Supervisory Authority (KNF) recommendations on the level of minimum capital requirements. This ratio is decreasing annually.

At the end of 2016, 33.2 million clients had access to online banking services, a 9.3% increase in comparison to the fourth quarter of 2015. Mobile payments are also increasing their share of transactions. In 2016, the number of transactions made with cards increased by 17% compared to 2015 and their value grew by 15%. The number and value of instant fund transfers increased by 112% and 62%, respectively, in 2016.

Portugal

In 2016, the Portuguese economy maintained its recovery path, be it at a moderate rate, with 1.4% growth. Worth mentioning that in Q1 2017 the economy showed impressive growth acceleration, with GDP having an increase of 2.8% year-on-year. This is the highest value since the last quarter of 2007 (2.0% in Q4 2016), and was mostly supported by a solid performance of exports.

In June, Banco de Portugal raised its forecast for GDP growth over the 2017-2019 period, which is now expected to be 2.5% in 2017, 2% in 2018 and 1.8% in 2019.

The Portuguese banking system comprises 157 institutions, of which 65 are banks (31 being branches of foreign banks), 88 mutual agricultural credit banks and four savings banks. The five largest banks account for 70% of total assets. In 2016, the number of banking employees stood at 1% of total active labour force.

In 2016, there were 4,739 branches (-5.3% year-on-year), corresponding to around 2,180 inhabitants or ten employees per branch. ATMs stood at 15,336 units (674 inhabitants per ATM), and point-of-sale terminals reached 300,000 available for use with 14 million active debit and six million credit cards.

Retail payments processed through SICOI, the retail payment system managed by the central bank, amounted to €386 billion (+8% year-on-year), of which credit transfers were €201 billion, Multibanco interbank card network, €106 billion, cheques, €58.1 billion, and direct debits €21.1 billion. As for online transactions, card-based purchases amounted to €1.9 billion (+12% year-n-year).

Total assets continued their downward trend, decreasing by 5% in 2016 to €428 billion, mainly driven by a 5% fall in outstanding loans. As a result of the deleveraging process in place, the Portuguese banking system reduced its ratio to the country's GDP from 310.6% in 2010 to 231.5% in 2016.

Outstanding loans represented 56% of total assets, the stock of loans to non-financial corporations (NFCs) and to households reaching €77 billion and €118 billion, respectively. The former decreased by 7% in the year whereas the latter by 1.8%. Overall the stock of loans to SMEs decreased in 2016. The loan stock to export companies rose however.

Credit supply conditions showed some improvements, translated into lower spreads, higher credit amounts, longer maturities and lower levels of guarantees demanded. Conversely, credit granting remained constrained, particularly in view of an NFC sector still highly indebted. Simultaneously, demand for credit by NFCs remained poor despite the low interest rate environment, and was mostly geared to funding working capital needs. Refusal rates remained stable.

The credit at risk ratio and the non-performing loans (NPL) ratios remained at high levels (11.8% and 17.2%, respectively), but declined slightly in 2016 (from 12.0% and 17.5%, respectively, in 2015), reflecting positive developments across all segments. NPL coverage ratio is broadly in line with the Euro Area average, having increased from 40% in 2015 to 45% in 2016.

On the liability side, deposits from customers fell by 1% but reinforced their position as the main source of bank funding (65% in 2016 vs. 63% in 2015). This solid deposit base has been decisive in achieving a stable funding structure for Portuguese banks. Dependency on ECB funding continued to decline gradually, representing 5% of total assets in 2016.

The loan to deposit ratio stood at 107% against the June 2010 peak of 167.8%.

Several initiatives intended to improve the resilience of the Portuguese banking system and the solvency of its largest players took place in 2016: the initiation of the negotiation process towards the sale of Novo Banco (expected to be concluded in 2017); the initiation of the state-owned CGD's recapitalisation process; and the launch of a tender offer for BPI by its majority shareholder Caixa Bank. The investment by the Asian investment group Fosun in the Millennium BCP's capital through a private offering was followed in 2017 by a new capital increase through a public offering whose proceedings allowed the bank to reimburse its last outstanding contingent convertible notes and conclude the state-aid programme initiated in 2012.

Solvency levels decreased however in 2016. Common Equity Tier 1 ratio stood at 11.4% (12.4% in 2015) and Total Capital ratio at 12.2% (13.3% in 2015).

Substantial impairments registered in Q4 2016 and the reduction in income from financial operations contributed to bank losses. Net interest income decreased slightly, versus 2015, as the reduction in interest income slightly surpassed the reduction in interest expenses. The cost-to-income ratio remained flat at 60%, as the decrease in operating costs compensated the decrease in net operating income.

Portuguese banks are subject to a levy on the banking sector, contributions to the National Resolution Fund and contributions to the Single Resolution Fund. In 2015, the average effective corporate income tax rate for companies in the financial and insurance sector was 22.5% above the national average of 20.9%.

Romania

Romania's economy grew by 4.8% in 2016, generated mainly by domestic demand. We estimate that the cyclical expansion of Romania's economy in the last two years will continue with a growth of over 4.5% in 2017 and 3.5 - 3.7% in 2018.

GDP per capita in current prices reached 28% of the EU average in 2016 compared to 26.4% in 2008, while the standard purchasing power GDP per capita increased to 57% of the EU average in 2015 against 49% in 2008.

In 2016, the annual inflation rate continued its downward trend. According to Eurostat, prices measured by the HICP fell by 1.1% in 2016.

Unemployment remained unchanged at around 5.5% in 2016.

Romania's fiscal standing is sustainable, with the budget deficit at 3% of GDP, up from 1.5% in 2015. With 37.6% of GDP, the level of public debt is one of the lowest in the EU in 2016, and is estimated to stabilise at below 40% in the medium term. The current account deficit was 1.4% of GDP in 2016. According to recent forecasts for 2016, the current account deficit is expected to stay between 1% and 2% of GDP.

The outlook for 2017 is linked to the soundness of the banking sector across Europe and investors' trust in the development of emerging states, in the context of uncertainties related to growth at global level; here, we expect a review of the macroprudential framework.

The asset quality review (AQR) test of 2018, interest rate developments, the double-digit percentage increase in new loans, better customer relationship management, preparations to implement IFRS 9 in 2018 are, next to the challenges related to external developments, such as Brexit, the main concerns of the banking sector for 2017.

At the end of 2016, the Romanian banking sector included 37 credit institutions: two banks with full or majority Romanian capital; four credit institutions with majority domestic, private capital; 23 banks with majority foreign capital and eight branches of foreign banks. About 91.3% of bank assets are held by institutions with foreign capital. The banks with Austrian capital have a market share of 33.3%, followed by the banks with French capital (13.5% market share) and those with Greek capital (10.6%). Banks employed around 55,396 persons by the end of 2016, while the number of bank outlets shrank to 5,501.

The ratio of the banking sector's total assets to GDP shrank over the last five years by 14.1 percentage points to 54.8% at the end of 2016. Financial intermediation, calculated as the ratio of non-government credit to GDP stood at 29% at the end of 2016, compared to 40% in 2010

The situation can be partially explained by the legislative initiatives with retroactive application which had the tendency to affect the financial sector stability and which affected investors' predictability and perception.

The Romanian banking sector maintained its structural stability during 2016, the level of solvency and liquidity ratios standing at an adequate level with the immediate liquidity ratio over 38%, and the solvency ratio across the banking sector at 18.33% at the end of December 2016. Maintaining the solvency ratio at more than double the minimum threshold, set in line with CRD IV/CRR of 8%, was achieved mainly by additional capital contributions from shareholders.

2016 was, for the banking market, the first year of coming back to real operational profitability which had been lost for a couple of years. ROA reached 1.10% and ROE stood at 10.67%.

The banking sector had a good performance throughout 2016, considering, that the process of asset portfolio quality optimisation, continued. The NPL rate more than halved compared to its maximum registered in 2014.

The NPL rate in conformity with EBA shrank to 9.46% at the end of December 2016. For 2017, it is very likely that we will continue to witness the reduction to a single digit of the NPL rate around midyear. This will be owing to actions by the banking sector to clean its balance sheets and by it giving momentum to the secondary market for selling the collateral pledged in diverse enforcement stages. The loan to deposit ratio reached 80%. Domestic savings went up by 60% between 2008 and 2016, i.e. up to €61 billion.

The banking sector's assets, which stand at €86.7 billion and which show the size of the funding granted to the economy, went up a factor of 30 in the last two decades, period during which - as an example of their impact upon society - almost 500,000 individuals have benefitted from loans with property as collateral. This money was needed to purchase housing or for other investments.

Key projects of the banking community include accelerating the introduction of digital financial and banking services via the Platform for the Digital Agenda and enhancing financial literacy via the Platform for Financial Education.

Slovakia

Slovakia continues to enjoy strong economic growth. In 2016 the economy grew by 3.3%, which was one of the highest levels in the EU. The main driver was private consumption, supported by the improving labour market situation and the low interest rate environment. The unemployment rate fell for the fourth consecutive year to 8.8% and real wages grew by almost 4%.

The Slovakian banking sector consists of 27 financial institutions. The majority of them are universal banks, focused on retail and corporate banking. Four of them are specialised banking institutions (building societies and a state-owned development bank). Since privatisation (1999-2001) most of the banks in Slovakia are controlled by foreign entities, mainly banking groups from Austria, Italy and Belgium. Only five banks are now fully controlled by domestic investment groups (four banks) or government (one bank).

The Slovakian banking sector is concentrated within the hands of three major players (Slovenska sporitelna, VUB Banka and Tatra banka) who control more than 50% of the banking assets. Despite this concentration, the market share of small and medium-sized banks has slightly increased in recent years.

In comparison to the national GDP, the banking sector is one of the smallest in the EU. Funding of Slovakian banks is based primarily on the domestic clients' deposits. The loan to deposit ratio is still one of the lowest in the EU (90%). 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 one of the highest growth rates in retail loans in the EU. The outstanding amount of consumer loans and housing loans rose in 2016 by 14% year-on-year. The main reasons are low interest rates and rising disposable incomes.

According to the regulator, fast growth of retail loans could be a potential risk. In response, the central bank used macroprudential measures to introduce tighter loan-to-value ratios and a systemic risk buffer.

Due to retail credit growth, most of the Slovak banks have remained profitable, but their outlook for the future is worsening. The environment of low interest rates has affected the interest rate margin and interest rate income. The special bank levy has also had a negative impact on banking sector profits.

Although banking sector profits increased significantly in the last year (by 19%), the growth was driven by one-time effects.

In the last few years most of the net profits have supported the capital bases of Slovak banks. Total capital adequacy ratio increased on average to 18.6 %, with the lowest individual level at 12.51%.

Slovakia has some of the most stable and soundest banks in the EU. According to the World Economic Forum's the Global Competitiveness Report 2016-2017, Slovakia has the third 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.

Profitability and stability enable banks in Slovakia to focus on innovation. Slovak banks are among the 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.

Banks in Slovakia play an active role in financial education. There are many programmes supported by banks or bank associations. One of them is the educational programme “More than money” whose aim is to increase the financial literacy of elementary and high school pupils and teach them how to make financial plans for their future. The programme was developed in cooperation between JA Slovakia and the Slovak Bank Association.

Slovenia

With 2.5% GDP growth, the Slovenian economy was one of the fastest growing economies in the euro area in 2016. Growth was mostly driven by private consumption and exports, while government investment declined by 33% and contributed significantly to the contraction of the aggregate construction investment. For 2017, 3.3% growth is forecasted by the European Commission (the independent government office UMAR forecasts 3.6%) and will continue to be driven by strong private consumption and improved public investment. Exports are projected to expand by 6% in 2017 whilst the contribution of net exports to growth is expected to diminish due to increased consumer spending and investments contributing to increased imports. Economic sentiment is positive, employment is expected to grow by 2.2% and domestic demand by 3.8%, with private consumption, at 3.5%, being the main driver of the growth. The public finance picture is expected to improve further in 2017 with the general government deficit decreasing to 1.2% of GDP from 1.8% in 2016 and debt to GDP ratio dropping to 77.8% in 2017 from 79.65% in 2016.

As of year-end 2016 the Slovenian banking sector consisted of 12 commercial banks, three savings banks and three branches of foreign banks. Total assets of the banking system stood at €37.1 billion at the end of 2016, which was 1% down from 2015 and equivalent to 93.2% of GDP (in 2015 97.6%). In the seven years since 2009 - year at which balance sheets of Slovenian banks reached their peak at €52 billion or 144% of GDP - the value of banking intermediation has shrunk by €14.9 billion or 50.8% of GDP due to the resolution of non-performing assets and weakened credit activity. Most of the banks have tried to refocus their business activities more towards the SME segment and individuals/households, prompting large companies to search for alternative financing sources.

These developments, combined with corporate sector deleveraging, have been reflected in the 1% decrease in corporate loans in 2016 and 4.6% increase in loans to households, although the credit dynamics at the beginning of 2017 signal a slow recovery of corporate loans as well. Three out of five largest banks are government owned, i.e. NLB with 25.8%, Abanka with 10.8% and SID (a development bank) with 7.6% market share. NLB and Abanka are still under the state aid restructuring programme and the government is committed to privatising them. Currently, privatisation activities are under way in the NLB only (being the largest bank in terms of balance sheet size), and in May 2017, the European Commission approved a more gradual sale of the bank, so the government is expected to complete the privatisation of the bank in 2018.

Positive economic sentiment together with beneficial economic developments and historically low interest rates are stimulating borrower demand. Household credit activity grew by 4.6% in 2016 on an annual basis (+1.2% in 2015). Housing loans contributed more than consumer loans to improved credit activity in 2016. But in February 2017, consumer loans growth accelerated to 9.4% on an annual basis, with housing loan growth at 5.8%. At the same time the quality of the banking assets has improved as the share of the claims, more than 90 days in arrears, has declined since the third quarter of 2014 and decreased to 5.3% in February 2017.

In 2016 corporate deposits increased by 9% and household deposits by 7% on an annual basis with sight deposits increasing their share to 65% of non-bank deposits in February 2017. The growing share of sight deposits amplifies the liquidity risk in banks (even though liquidity ratios are still at a very comfortable level) and, together with an increasing duration gap, there is also the interest rate risk to which banks are being exposed.

The capital position of banks is strong as the CET1 capital ratio for the banking system was 18.4% (2016) and even higher for the group of large domestic banks (19.9%), while the small domestic banks were, with 11.6% CET1 ratio, the most vulnerable group of banks in terms of capitalisation. Liquidity ratios are above the required minimum level and the secondary liquidity reserves persisted at a stable level of about 20% of total assets.

In 2016, all banks in Slovenia returned to profitability. The ROE more than doubled to 8.3%, up from 3.63% a year earlier. The key factors that enabled banks to strengthen their profitability were the decline in credit risk and the sharp reduction in impairments and provisions in addition to a successful resolution of non-performing claims. However, the low interest rate environment and competition among banks put a tremendous pressure on banks' net interest margins, which decelerated the net interest income of banks by -10% in year 2016. Most of the banks tried to compensate this effect by increasing the non-interest income (in 2016 up by 11.2%) and by diminishing operating costs (down by 3.3% in 2016), although it has become evident that in the long run changes in banks' business models will be necessary in order to assure profitability of banking operations in an increasingly competitive environment.

Spain

The Spanish economy is on the verge of returning to the same income level as during the economic crisis and, in 2017, the GDP level will exceed its highest pre-crisis level. Labour reform, banking restructuring and a robust deleveraging process in the private sector since 2013 are the drivers behind this recovery phase.

In 2017 the Spanish economy will keep a strong recovery and balanced path. GDP growth is expected to be close to 3% in 2017 and around 2.5% in 2018. Private consumption will remain the main contributor to growth. In the medium term, however, its contribution will slow as the pace of job creation decreases and other factors which supported the improvements in households' disposable income, like the fall in oil prices, lose momentum. The continued dynamism of exports, a comfortable external surplus, as well as a sustained investment pattern in capital goods will, nevertheless, keep supporting the growth trend.

However, the Spanish economy will be exposed to risks with potentially negative consequences. The main challenges are, on the one hand, to return to pre-crisis levels of unemployment and public debt and, on the other hand, to cope with geopolitical events. In this sense, the path of economic and structural reforms in Spain should continue in the coming years. From the perspective of the Spanish banking sector, 2016 was a year of transition, due in part to the restructuring process undertaken in recent years and the need to adapt to the recent changes in the regulatory and supervisory framework of the European Union.

The Spanish banking sector is composed of 14 groups, which represent more than 90% of the industry, formed by 59 private banks, two savings banks and 63 cooperative banks. In March 2017, the Spanish Fund for Orderly Bank Restructuring (FROB) announced the upcoming merger of the two remaining public-owned banks as the best strategy to optimise the resilience of public support.

In 2016, the scenario faced by the banking sector continues to be unfavourable to financial intermediation: low interest rates, deleveraging of households and SMEs and reduced margins. Despite these factors, Spanish banks have been able to keep improving their liquidity position, to focus on cleaning their balance sheets and to build and strengthen their capital and solvency positions.

The Spanish banks' equity/assets ratio reached 10.4%, a new high, in 2016 on a solo basis and the consolidated regulatory capital ratio reached 12.36% CET1 phase-in. In terms of profitability, as of December 2016, ROE continues, on average, below the cost of a capital-consolidated basis, with an efficiency ratio of 50.8%, remaining one of the best positions in the EU. The reduction trend of the non-performing loan (NPL) continued in 2016 and, in consolidated terms, Spanish banking groups maintain a ratio below the euro area average.

Although the total volume of credit in 2016 remained in figures similar to those recorded in 2015 (€1,276 billion), fresh credit to SMEs and households, reached almost €170 billion in 2016, as a sign of the positive development of the economy. In terms of deposits, total volume reached €1,368 billion, changing the trend of a small decline, observed in 2015, as foreseen.

Spanish banks aim to be early adopters of new technologies both for the front and back office procedures. A recent example is the P2P immediate payment solution, known as BIZUM, launched by the banking sector in October 2016. BIZUM enables customers to make instant payments between payment accounts using the payee’s telephone number. Fund transfers are completed in two seconds. By May 2017 there are 27 banks or banking groups offering this service, representing 95% of market share. Some 0.5 million “bizumers” were using it and close to a million transactions had been processed for a total of €48 million.

Sweden

The investment-led recovery in the OECD countries is increasing Swedish exports, which include a high proportion of capital and intermediate goods, according to the National Institute of Economic Research. On the other hand, growth in domestic demand is more subdued, having been fuelled last year by rapidly rising spending on refugee reception. Housing investment, which has risen rapidly in recent years, is also set to increase more slowly, depressing growth in domestic demand further. Firms' recruitment plans indicate a major need for more personnel, but the growing scarcity of labour with the right skills will curb employment growth in 2018.

There are four main categories of banks on the Swedish market: Swedish commercial banks; foreign banks; savings banks and co-operative banks. In December 2016, Sweden had a total of 117 banks, of which 39 were commercial banks, 29 foreign banks, 47 savings banks and two co-operative banks.

The number of commercial banks and foreign bank branches in Sweden has increased from 56 in 2006 to 68 in 2016, due to the rise in the number of Swedish commercial banks, including credit market companies that have become banks. The number of foreign banks and bank branches has been stable around 30 banks the last ten years. The fifth largest bank in Sweden, in relation to the total balance sheet, is a foreign bank branch.

Cross-border activities have increased over the last several years and the major Swedish banks all have a large share of their business abroad. The banking market in the other Nordic countries is important for the major Swedish banks as well as the Baltic States and other countries in northern Europe.

The Swedish state has diminished its ownership in banks over the years but it still owns one bank, which mainly offers mortgage loans.

The Swedish banks have 1,514 branch offices compared to 1,947 branch offices in 2006. Branch offices are still an important way to meet the customer for several banks and the number of branch offices have only diminished slightly in the last ten years. The Swedish banks have around 40,000 employees compared to 89,000 in the whole financial sector.

The high activity in the Swedish economy is mirrored in the growth of loans and deposits. In particular, the high demand in housing has increased house lending. Lending to the Swedish public increased by 9.2% in 2016 and deposits from the public increased by 5.9% in 2016.

The most common means of payment in Sweden are the various charge cards and electronic giro systems. Most payments are linked to bank transaction accounts, which register salary deposits, ATM withdrawals, credit and charge card purchases and automatic transfers. In Sweden there are 3,200 ATMs and 184,000 card payment terminals.

Over the past few decades, the use of paper-based payments such as giro forms, cheques and cash payments have rapidly been replaced by electronic payments of various types. As an example, the use of different kinds of cards has increased from 500 million transactions in 2005 to around 2,500 million transactions in 2015.

According to a survey by the Swedish Central Bank, 97% of the Swedish citizens have access to a bank card and 85% have access to online banking. The mobile payment service Swish, with real-time account-to-account transfer, was introduced three years ago and has already 5.5 million users, over half of the Swedish population.

Today normal bank services are to a large extent performed through mobile phones, tablets and computers. Moreover, new ways to perform bank services are increasing rapidly, e.g. mobile payment services, Bank e-ID, e-invoices, etc. According to the ECB statistics Swedes uses non-cash payments to a larger extent than any other Europeans. For that reason, cash in circulation is declining rapidly.

Finansinspektionen (the Swedish Financial Supervisory Authority) and the Riksbank (the Swedish central bank) have the main responsibility of monitoring compliance with laws and regulations, and to maintain financial stability. Finansinspektionen has a direct responsibility to supervise the individual institutions in the financial market. The Riksbank has an overall responsibility to promote a stable functioning of the financial system. In addition, the Swedish National Debt Office has the main role of handling banks in crisis and of being responsible for the deposit insurance scheme.

Finansinspektionen and the Riksbank form together with the Government and the Swedish National Debt Office the forum called the Financial Stability Council. In the Financial Stability Council members discuss issues of financial stability and how financial imbalances could be counteracted.

Switzerland

Banks contribute to Switzerland's international competitiveness:

- As centres of innovation and training sites, banks catalyse economic development.
- As taxpayers, they contribute a considerable share of public-sector funding.
- As employers, banks offer a large number of skilled jobs paying above-average salaries and Swiss banks are major investors in supporting youth employment providing apprenticeships to nearly 3,500 training positions. This corresponds to 11.6% of all commercial apprenticeship training positions in Switzerland.

In 2015, banks generated CHF 32 billion in direct gross value added. However, as important consumers of goods and services the indirect effects of bank activity generated an additional CHF 14.0 billion of value added in other sectors, leading to a total direct and indirect share of 7.35% of Switzerland's gross value added. The financial centre paid CHF 19.8 billion in direct and indirect taxes in 2015. This represented about 14.6% of all federal, cantonal and municipal tax receipts. CHF 14.4 billion, i.e. more than 10% of all tax receipts, can be attributed to the banking sector alone.

The challenges currently faced by banks in Switzerland, however, are manifold: Rising regulatory costs, shrinking margins, price-sensitive customers, negative interest rates, job cuts and investments in financial technology. Despite considerable headwinds, the Swiss banking sector is in moderately positive shape with the stability-related homework done. Banks are now turning their attention to increasing efficiency and profitability by adapting their business models to the possibilities the technological solutions of tomorrow are providing.

As of year-end 2016, there were 261 banks, 3,000 branches and 7,019 ATM in Switzerland. In addition, banks in Switzerland operated 233 branches abroad.

The aggregate balance sheet of all the banks in Switzerland rose by 2.5% to CHF 3,100.8 billion in 2016 (€2,844.5 billion). The total credit utilisation was CHF 1,277 billion (€ 1,171.5 billion). Liabilities to banks have fallen by more than 50% to CHF 352.6 billion over the last 10 years. Nearly half of the CHF 6,651 billion (€ 6,102 billion) assets currently managed in Swiss banks originate from abroad. This is equivalent to a 25% market share in global cross-border wealth management business, making Switzerland a global leader in the field.

In 2016, 120,843 people work for the banking sector (in full-time equivalent).

The banks' lending business experienced no restrictions during the financial crisis and remains key for the economic development of Switzerland. The total outstanding domestic credit volume rose moderately in 2016 to CHF 1,108.8 billion of which CHF 947.0 billion was attributable to domestic mortgage lending. Despite the negative rates, the growth in mortgage loans of 2.7% in 2016 was the most moderate increase in many years. Swiss SMEs employ 68% of the labour force in 2016. SMEs that make use of external capital primarily rely on bank financing. Some 94% of the companies which were dependent on a bank loan in 2016 received an approval. To date, banks have generally not passed negative interest rates on to their private customers.

Over the past year, the Swiss big banks improved their capital situation further, as regards both risk-weighted capital ratios and leverage ratios. Both big banks are almost fully compliant with the look-through requirements of the current Swiss 'too big to fail' regulations (TBTF1) and the international Basel III capital framework.

In 2016, banks in Switzerland continued to be significantly impacted by the negative interest rate environment following the lifting of the 1.20 CHF/EUR floor in early 2015. Interest rates on banks' sight deposits at the Swiss National Bank, which exceed a fixed exemption threshold, remain negative at -0.75%.

The stabilisation of interest rate margins and profit retention has helped to ensure that domestically focused banks' resilience remains adequate. Their available capital increased significantly faster than their risk-weighted asset. Moreover, their leverage ratios remain high by historical standards. Second, stress test results suggest that most banks' capital surpluses, relative to the regulatory minimum requirements, are large enough to absorb the losses related to relevant adverse scenarios.

The banking sector is currently undergoing a process of industrialisation with the break-up of the value chain. Ensuring that Switzerland remains a leading global financial centre will require top framework conditions for financial technology and first-class infrastructure. The Federal Council called for a reduction of regulatory barriers to market entry for providers in the financial technology (Fintech) area and increased legal certainty for the sector overall.

Switzerland's payment system is currently adapting to the technological developments. After its merger with its competitor Paymit, Twint appears to have emerged as the standard digital wallet and was rolled out earlier this year. The integration of E-invoicing and accounting are currently being mainstreamed for SMEs.

The Federal Council adopted the dispatch on the Financial Services Act (FinSA) and on the Financial Institutions Act (FinIA) at the start of November 2015. The FinSA and FinIA will create uniform competitive conditions for financial intermediaries and improve client protection. Both laws should enter into force in 2018. In its financial market strategy of October 2016, the Swiss government aims to increase competitiveness by optimising regulatory content and processes and using existing national regulatory leeway, while still focusing on internationally recognized standards. Furthermore, Switzerland introduced a Fintech-license and the license-free sandbox. Both regulations encourage suppliers of innovative financial technologies and take into account the dynamics of the financial world.

United Kingdom

The UK GDP grew by 2.0% in 2016, expanding faster than the 1.7% growth level seen in 2015. Compared to other major economies, the UK economy grew faster than the US (1.9%), euro area (1.7%) and Japan (1.7%) in 2016. The Bank of England forecasts GDP growth of 1.9% in 2017 and 1.7% in 2018.

Output growth in 2016 was fuelled by consumer-focused retail spending. Households' purchasing power in 2016 was underpinned by higher consumer confidence and an improving labour market. The unemployment rate fell in Q4 2016 to 4.8%, and has continued to fall since, while the employment rate has risen to the highest rate in history at 74.5%. However, consumer spending grew faster than wages, which weakened to 2.6% in Q4 2016. As a result, the personal savings ratio declined to 5.3% in the last quarter of 2016, down from 6.5% at the end of 2015.

For much of 2016 and particularly following the referendum vote to leave the European Union, business confidence fell, as businesses anticipated slowing activity. Business investment declined substantially from an annual growth rate of 5.1% in 2015 to 1.5% in 2016. Future investment plans will likely reflect businesses' assessment of the post-Brexit economy and the anticipated increase in operating costs from depreciation of the exchange rate and rising inflation.

The UK currently runs a trade deficit in goods and services of £8.6 billion. The level of trade in services as a share of UK's total trade has been rising and accounted for 44% of total trade in 2015. UK services exports to the EU grew by 7% on average each year between 2000 and 2015, while exports of services to non-EU countries grew slightly more, by 7.3% on average. UK trade in services is driven by financial services' exports, which accounted for 22.5% of the total in 2015.

Consumer price inflation increased by 1.6% in 2016, as global food and energy prices began to recover from 2015 levels and the sterling effective exchange rate depreciated, falling by more than 20% from its November 2015 peak. The Bank of England expects inflation to rise above target, to 2.7% in 2017, followed by 2.6% in 2018.

With more than 350 monetary and financial institutions in total, the UK sector hosts more foreign banks than any other financial centre. The UK is the fourth largest banking sector in the world and the largest in Europe. Holding assets of €9 trillion at the end of 2016, the UK is the largest centre in the world for cross-border banking.

More than half (57%) of the aggregate balance sheet relates to the banking activities of UK residents, while almost half (45%) of banking assets are held by non-UK banks.

Domestic banking has historically been concentrated, with the main high street groups accounting for around two-thirds of retail banking activity. Those mainstream organisations operate around 150 million current and deposit accounts for households.

Payment cards have increased rapidly over the last decade with 60 million credit cards and 99 million debit cards in issue which can be used at 70,000 automated teller machines.

There are around 20,000 locations across the UK where people can carry out financial transactions at a banking counter. Banks made increasing use of digital channels to communicate with their customers in 2016, as customer preferences also shifted to preferred alternative channels for managing their finances and making payments. Innovation is playing a significant role, as banks fitted 536 branches with video banking facilities in 2016, an increase of 23% in a year. Two banking groups had 47 mobile branches in 2016 to reach areas with no permanent branches.

Customers' use of mobile banking apps soared by 354% from 2012 to 2017, while interactions through branches, online banking services and contact centres declined by 39%, 11% and 17% respectively.

The provision of monetary financial institutions (MFI) credit to the UK economy at end-2016 showed outstanding sterling lending of GBP 568 billion to other (non-MFI) financial companies, GBP 377 billion to UK non-financial companies and GBP 1,313 billion to UK households. These components of credit all saw growth in 2016, with unsecured lending to households growing by 9.5%, secured lending grew by 3.6% and lending to non-financial companies grew by 3.2%.

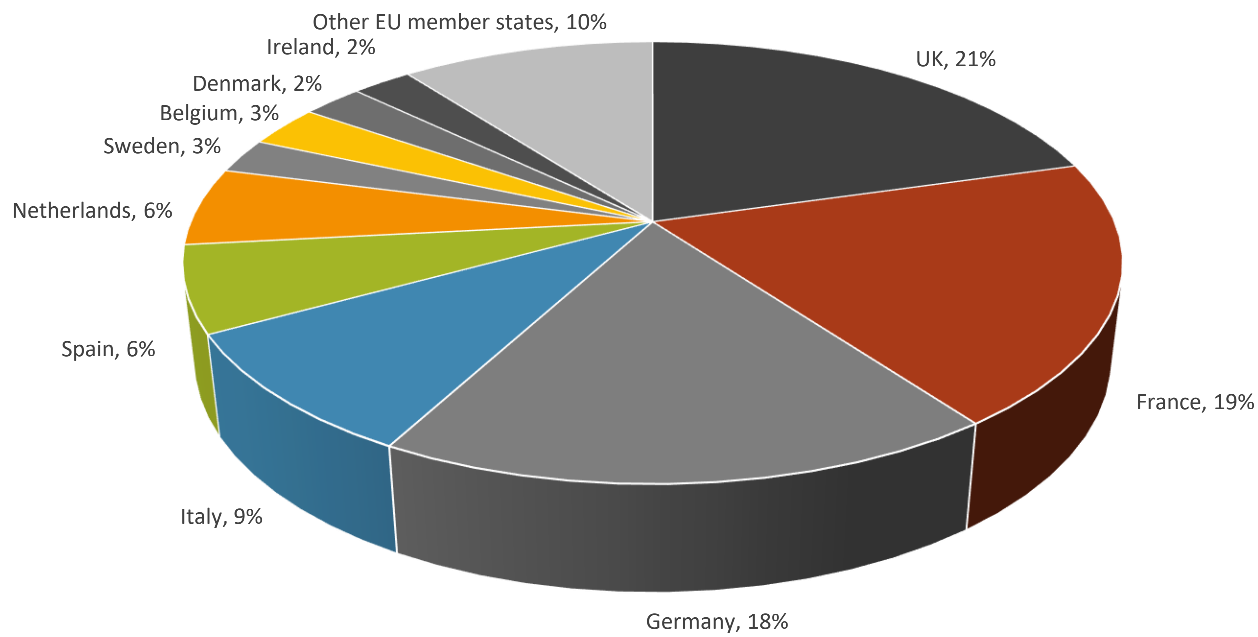
The cost of banks' wholesale debt funding decreased during 2015-16 as spreads narrowed and, with a lower countercyclical capital buffer and the removal of central bank reserves from leverage ratios, banks restructured their balance sheets to mitigate upward pressure on funding costs.

Banks in the UK employ more than 400,000 people who pay over GBP 18 billion annually in employment taxes, around 10% of the national total. Banking output is the equivalent of around 4% of the UK's GDP, and, is a significant contribution to the UK's balance of payments. The export of financial services by the MFI sector reflects more than half of UK net exports (some GBP 20 billion in 2015).

STATISTICAL ANNEX

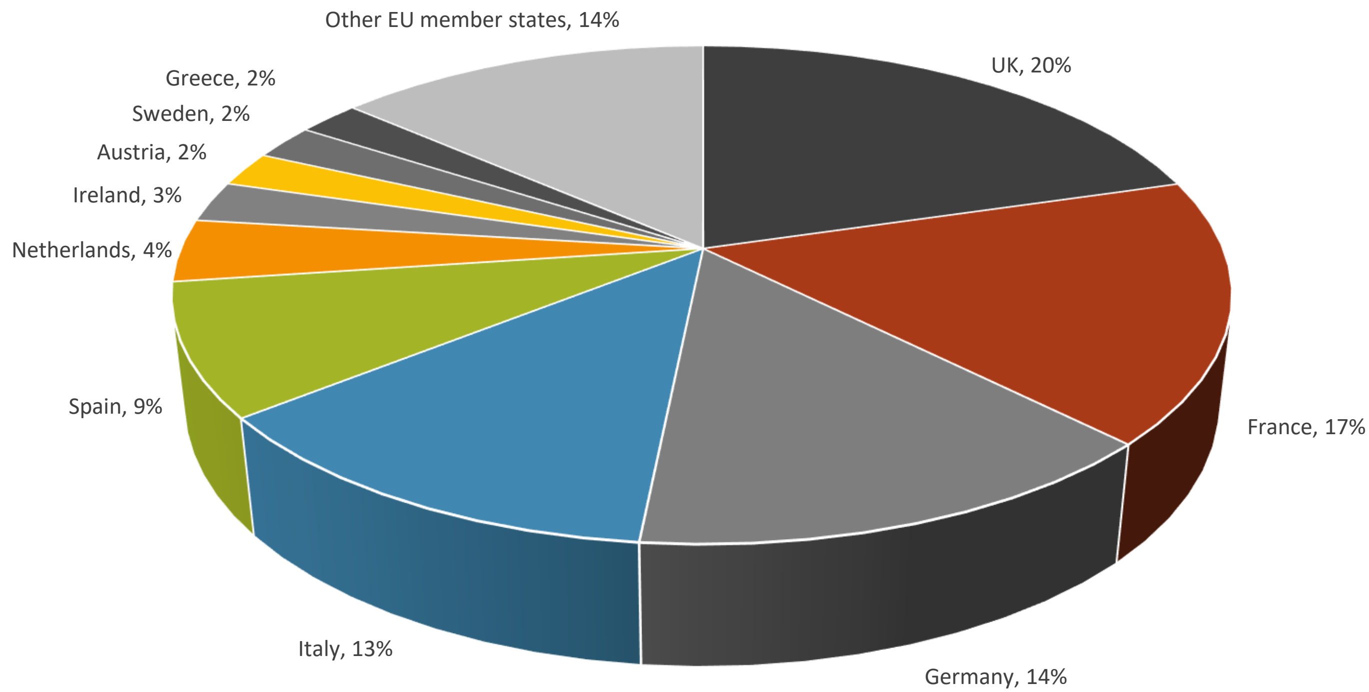
All figures as at 31 December 2016

Share of total assets held by banks in the EU-28
Total assets: €43,190,088



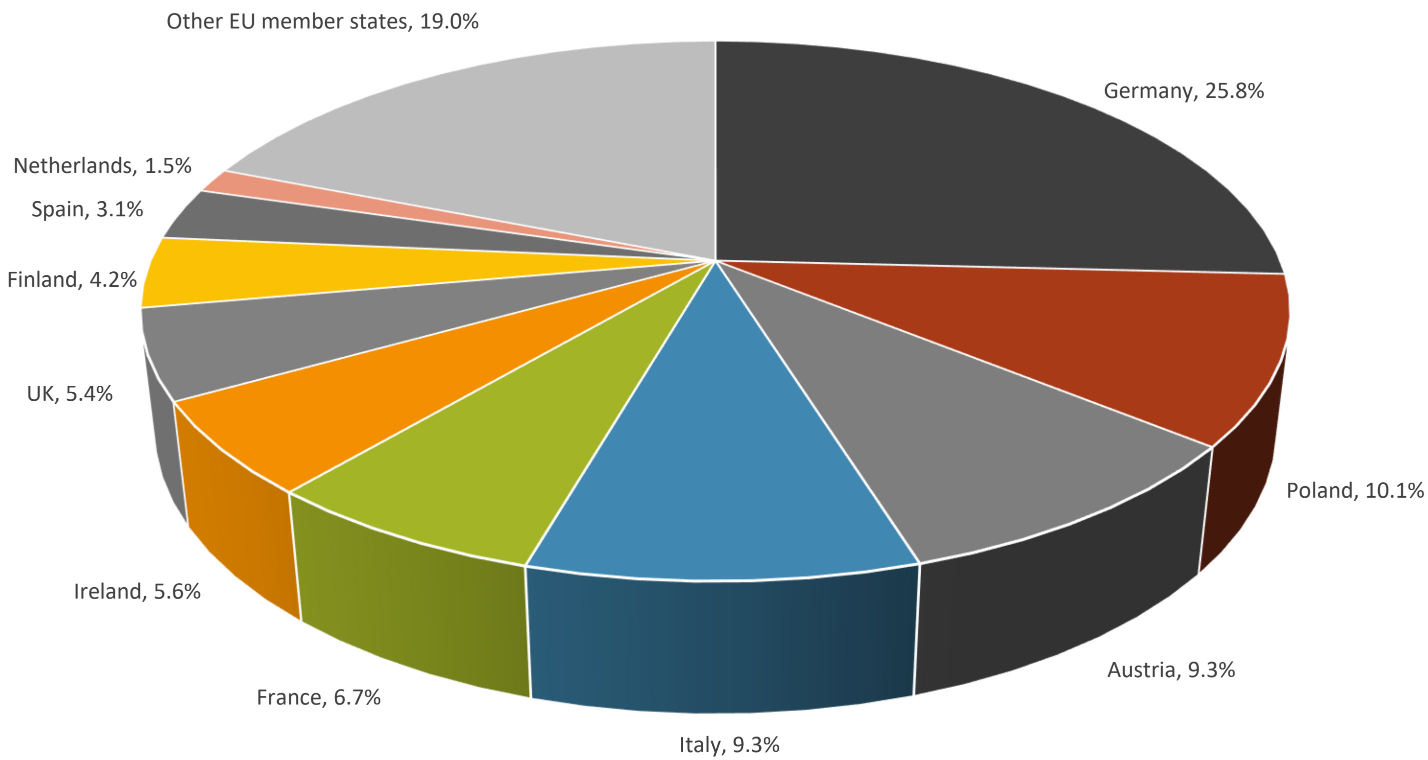
Numbers may not add up precisely due to rounding.

Share of total capital and reserves in the EU-28 banking sector
Total capital and reserves: €3,477,168



Numbers may not add up precisely due to rounding.

Share of total number of credit institutions in the EU-28
Total number of credit institutions: 6,596



Numbers may not add up precisely due to rounding.

Country-by-country statistics – euro area Member States

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Austria	615	844,757	531,398	507,098	79,309	72,957
Belgium	92	1,101,976	560,268	633,238	67,223	54,728
Cyprus	54	86,551	65,627	46,970	21,464	10,663
Germany	1,702	7,792,700	4,691,382	4,618,703	489,671	628,121
Estonia	38	24,711	21,851	15,624	3,096	4,924
Spain	207	2,727,870	1,635,618	1,884,977	298,310	186,982
Finland	279	547,289	310,986	202,892	35,358	21,965
France	445	8,331,735	4,592,676	4,067,639	593,529	402,010
Greece	38	351,826	209,184	212,378	78,436	42,628
Ireland	370	1,075,503	311,338	322,232	92,810	26,811
Italy	611	3,924,651	2,432,374	2,487,861	440,953	295,305
Lithuania	88	27,063	21,519	20,276	2,736	8,643
Luxembourg	141	1,056,182	439,632	449,508	65,422	26,062
Latvia	57	29,427	19,002	14,020	3,775	8,803
Malta	27	46,264	16,338	24,276	3,665	4,752
Netherlands	96	2,465,249	1,394,409	1,138,624	141,179	85,803
Portugal	145	428,141	242,496	278,357	54,525	46,584
Slovenia	19	40,191	27,016	29,374	4,742	10,055
Slovakia	29	73,145	51,265	54,172	9,660	19,788
Eurozone	**5,053**	**30,975,231**	**17,574,379**	**17,008,219**	**2,485,863**	**1,957,584**

Country-by-country statistics – Non-euro area EU Member States

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Bulgaria	27	50,867	34,295	36,207	9,014	30,352
Croatia	32	58,129	41,788	39,243	11,417	20,607
Czech Republic	56	224,114	148,580	135,690	25,432	41,202
Denmark	110	1,063,395	638,764	110,259	69,304	41,123
Hungary	109	117,400	62,311	74,502	12,072	37,767
Poland	664	405,835	275,151	270,015	58,742	173,043
Romania	37	94,497	62,177	64,290	14,870	55,396
Sweden	153	1,316,174	779,183	460,840	79,710	55,260
United Kingdom	355	8,884,446	3,952,093	3,753,651	710,744	387,577
Non-Eurozone	**1,543**	**12,214,857**	**5,994,342**	**4,944,697**	**991,305**	**842,327**

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
EU-28	**6,596**	**43,190,088**	**23,568,721**	**21,952,916**	**3,477,168**	**2,799,911**

Country-by-country statistics – EFTA Member States

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Iceland	4	37,674	35,143	21,602	7,898	3,042
Liechtenstein	14	55,730	21,840	33,320	5,630	1,977
Norway	134	664,000	497,000	276,000	43,000	24,236
Switzerland	261	2,844,540	1,171,570	1,624,250	226,820	120,843
EFTA	**413**	**3,601,944**	**1,725,553**	**1,955,172**	**283,348**	**150,098**

Country-by-country statistics – EBF Associate Members

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Albania	16	10,675	4,436	8,653	1,235	6,950
Andorra	5	14,492	6,299	10,898	1,533	1,504
Armenia	17	7,570	4,900	4,280	1,330	11,423
Azerbaijan	32	16,868	8,998	8,804	1,024	16,947
Bosnia and Herzeg	23	13,029	7,996	9,810	3,004	9,587
Macedonia	15	7,200	4,600	5,300	800	5,985
Moldova	11	3,500	1,700	2,600	500	7,868
Monaco	34	119,700	22,800	42,800	n/a	3,062
Montenegro	15	3,790	2,289	2,885	506	2,470
Serbia	30	25,790	16,020	19,710	4,850	24,021
Turkey	50	736,000	467,000	392,000	81,000	210,886