Banking in Europe:

EBF Facts & Figures 2021

- 2020 banking statistics -

The data contained in this publication has been compiled from publicly available information released by the European Central Bank unless otherwise noted. The cut off date is 31st December 2020.

Unless otherwise noted, all graphs and tables have been produced to illustrate EU-27 data mentioned in the relevant chapters.

The data relevant for EFTA countries and the United Kingdom has been compiled from the corresponding national central bank, financial supervisory authority, national office of statistics and national banking associations members of the European Banking Federation.

Country pages presented in the country-by-country overview have been produced by each member and Associate member of the European Banking Federation. Figures may not match those presented in the statistical annex due to the sources used by national banking associations i.e. European Central Bank and National Central Bank.

All figures from years prior 2020 have been adjusted for a matter of consistency and for better year-over-year EU-27 comparison by removing the figures from the United Kingdom. Figures presented in the charts throughout this document may not sum due to rounding.

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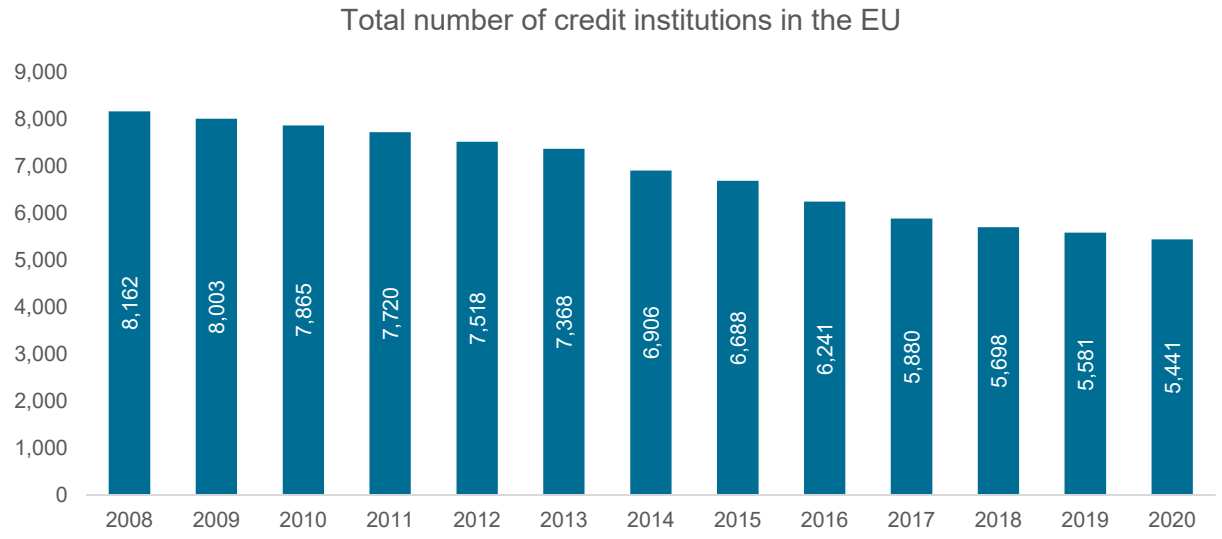
Chapter 1

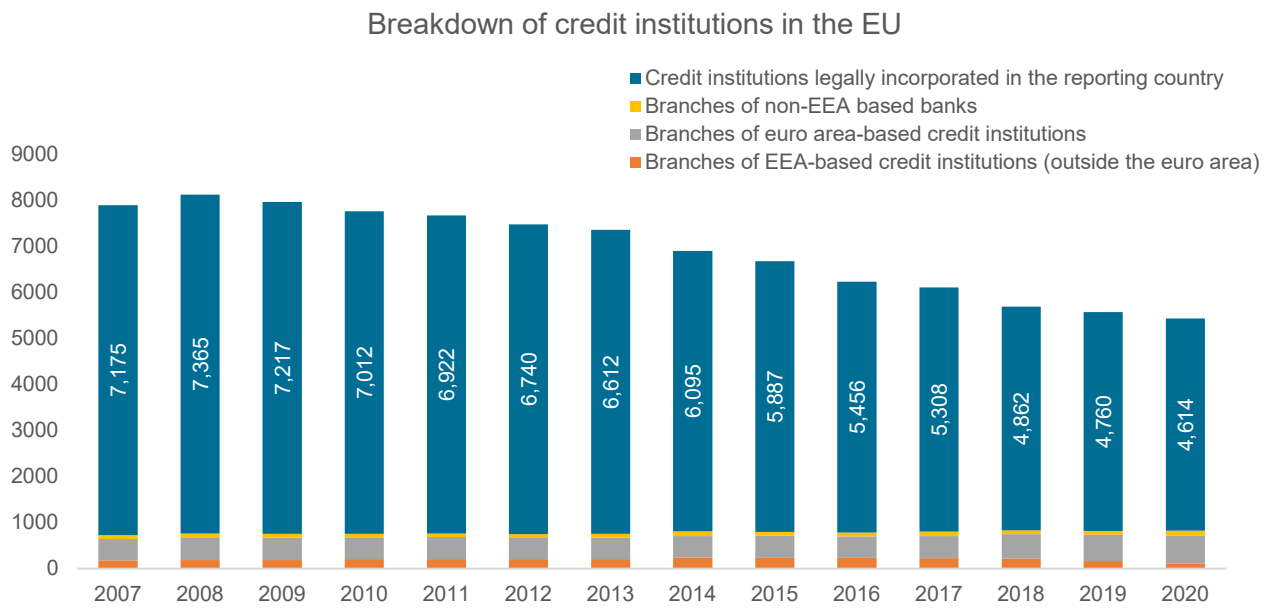
Structure of the banking sector

Unless otherwise noted, all data, graphs and tables have been produced to illustrate EU-27 data. The EU-27 data contained in this chapter has been compiled from publicly available information released by the European Central Bank unless otherwise noted. The data relevant for EFTA countries and the United Kingdom has been compiled from the corresponding national central bank, financial supervisory authority, national office of statistics and national banking associations members of the European Banking Federation.

Number of credit institutions

The downward trend in the number of EU-27 credit institutions, which started in 2009, continues with the number falling to 5,441 in 2020 (-140 units). This marked a decline of 2.5% compared to the previous year and a reduction of 2,721 units (-33%), in total, since contraction started. The consolidation among credit institutions legally incorporated into the reporting country continues taking place where the stock has fallen by 37% since 2008. While the full impact of the Covid-19 shock has yet to materialise, the Covid-19 crisis has not had a tangible impact on the consolidation trend in 2020.




Breakdown of credit institutions in the EU
Credit institutions legally incorporated in the reporting country
Branches of non-EEA based banks
Branches of euro area-based credit institutions
Branches of EEA-based credit institutions (outside the euro area)
9000
8000
7000
6000
5000
4000
3000
2000
1000
0
7,175
7,365
7,217
7,012
6,922
6,740
6,612
6,095
5,887
5,456
5,308
4,862
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2007
2008
2009
2010
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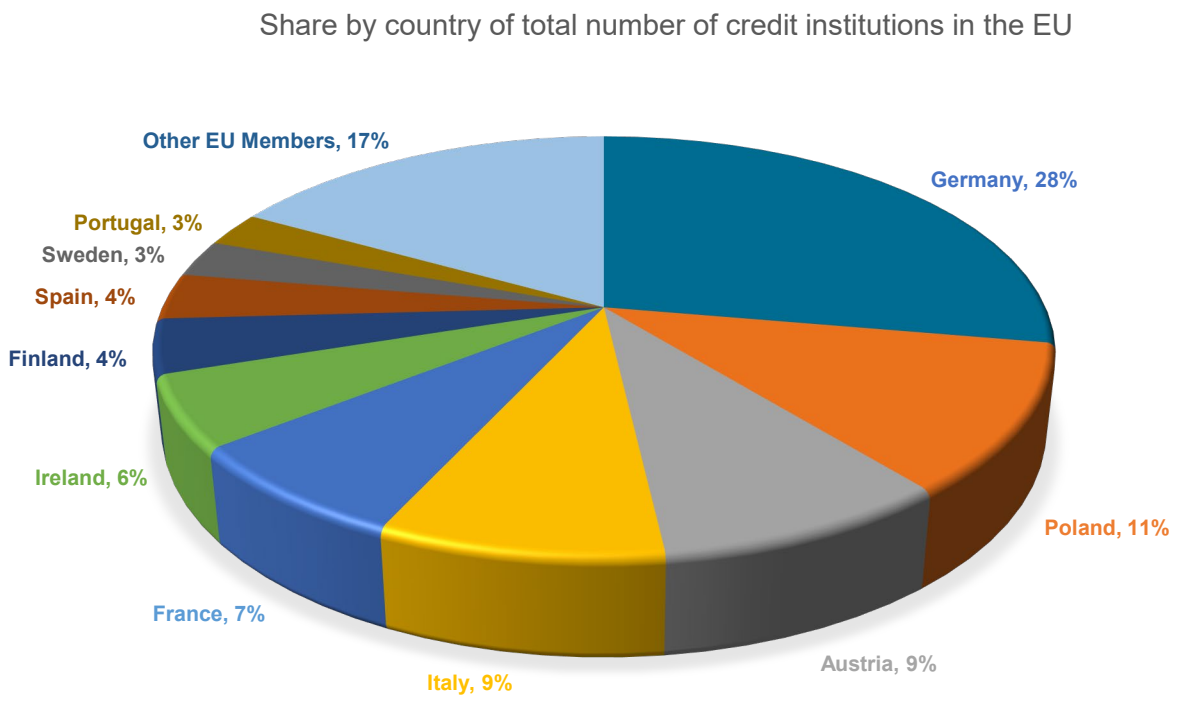
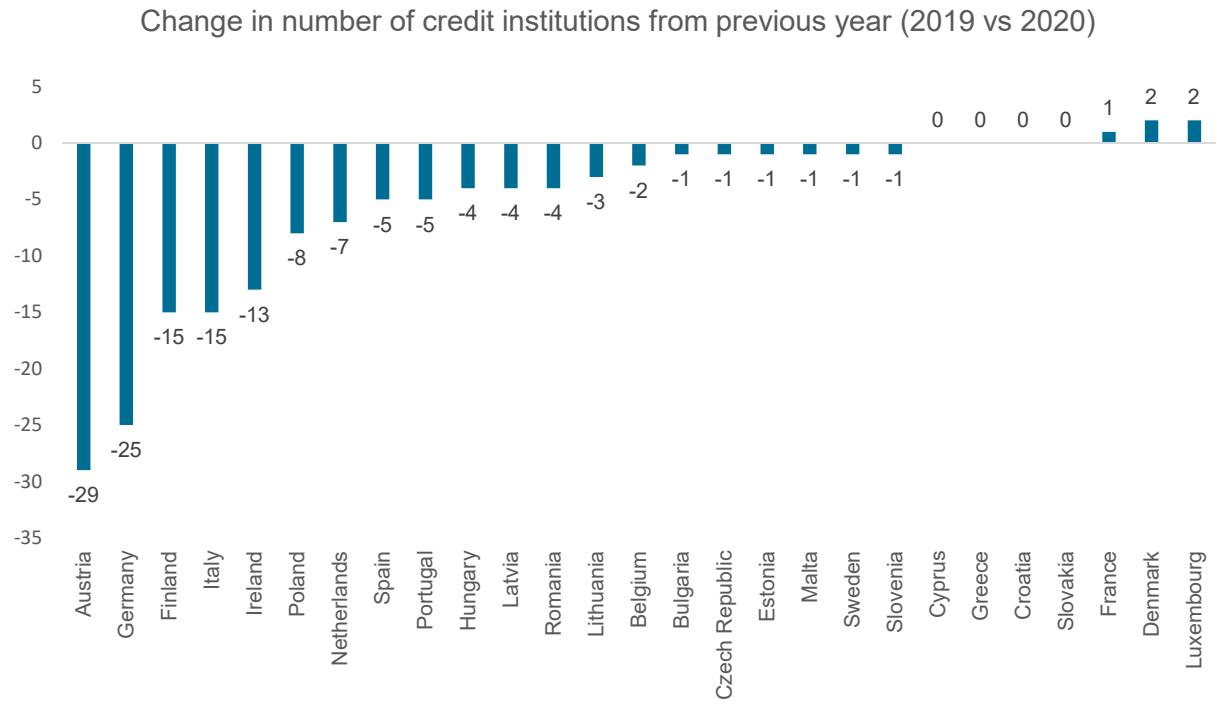
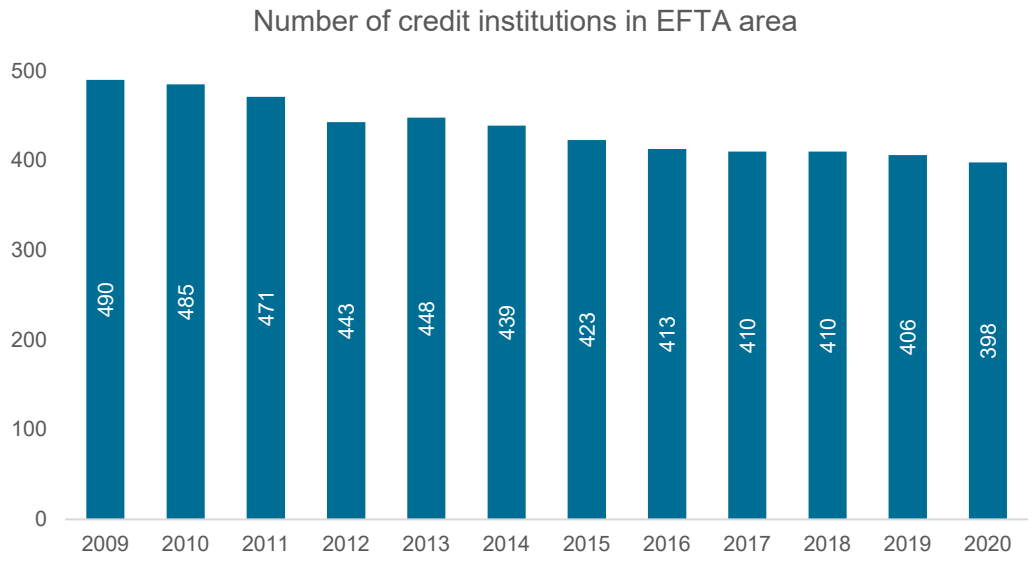
2018
2019
2020

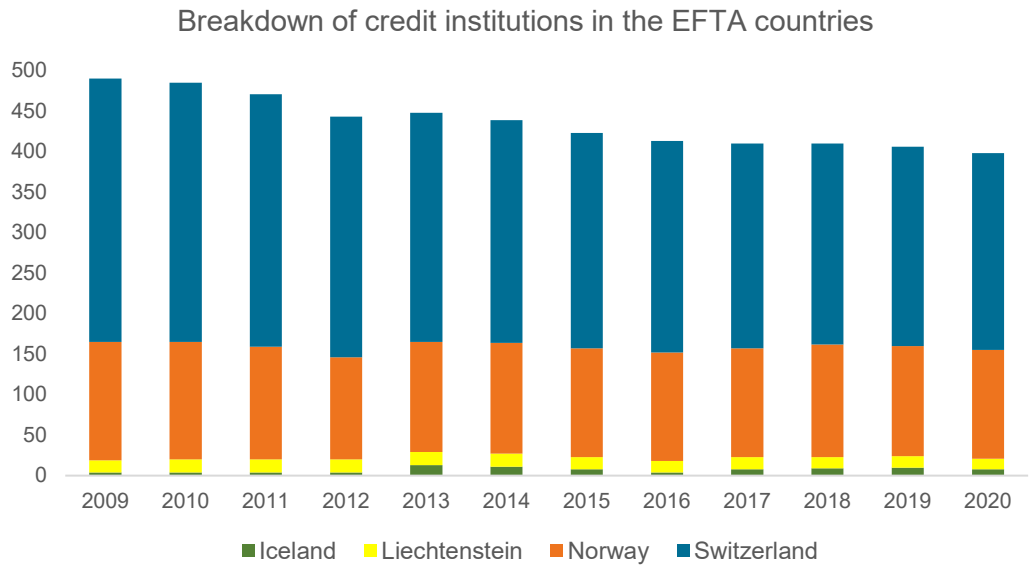

Share by country of total number of credit institutions in the EU
Other EU Members, 17%
Germany, 28%
Portugal, 3%
Sweden, 3%
Spain, 4%
Finland, 4%
Ireland, 6%
Poland, 11%
France, 7%
Austria, 9%
Italy, 9%

The countries that experienced the largest contraction in absolute terms in 2020 were Austria (-29) and Germany (-25) that continue to lead this for second year in a row, followed by Finland (-15), Italy (-15) and Ireland (-13). Luxembourg (+2), Denmark (+2) and France (+1) were the only countries where the number of credit institutions increased in 2020, albeit with minimum figures.



The number of credit institutions in the EFTA countries was 398 in 2020, down from 406 in 2019, reaching a new lowest level and dropping for first time below the mark of 400. While the stock has fallen since 2009, the same as in the EU-27, EFTA continues experiencing a lower pace with a decline of 19% compared to 33% in the EU-27.





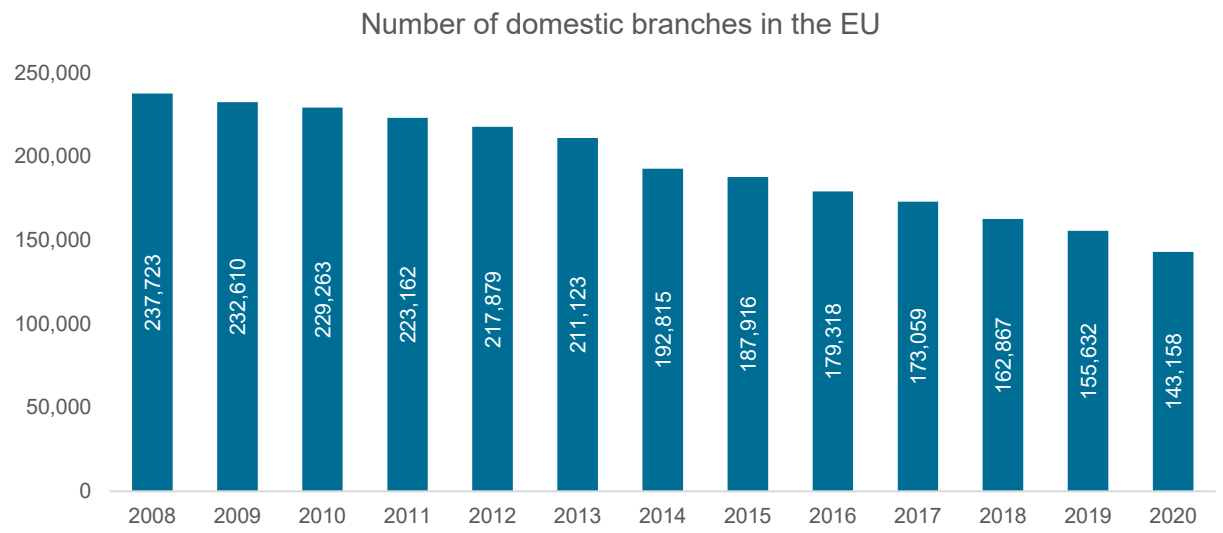
Branches and subsidiaries

The rationalisation taking place in the EU banking sector continues to involve bank branches as the number of branches continues to shrink, falling to about 144,000 by the end of 2020. Compared to the previous year, the total number of branches in the EU-27 decreased by almost 8%, or about 12,000 branches. The number of branches has fallen by 36% since 2008, or by 82,000.

This trend continues confirming that banking customers have continuously, widely and enthusiastically, adopting electronic payments as well as online and mobile banking. This has consequently reduced the importance of widespread bank branch networks, allowing banks to scale back further their physical presence.

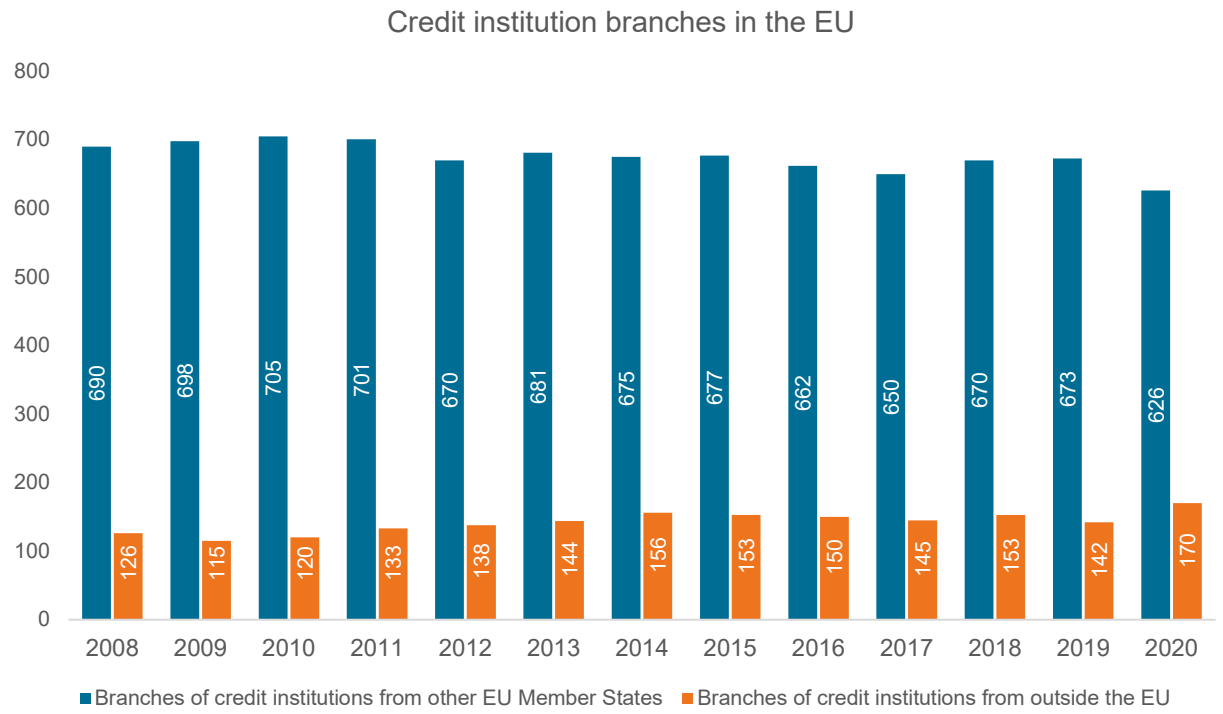
The number of domestic branches, the main category of branch, experienced in 2020 the second largest contraction with a decreased of 8% compared to the previous year.

In absolute terms, France (-3,541), Germany (-2,505), Poland (-1,841) and Spain (-1,613) experienced the largest drops. Only Bulgaria (+119), for third year in the row, Sweden (+26) and Lithuania (+8) added branches.

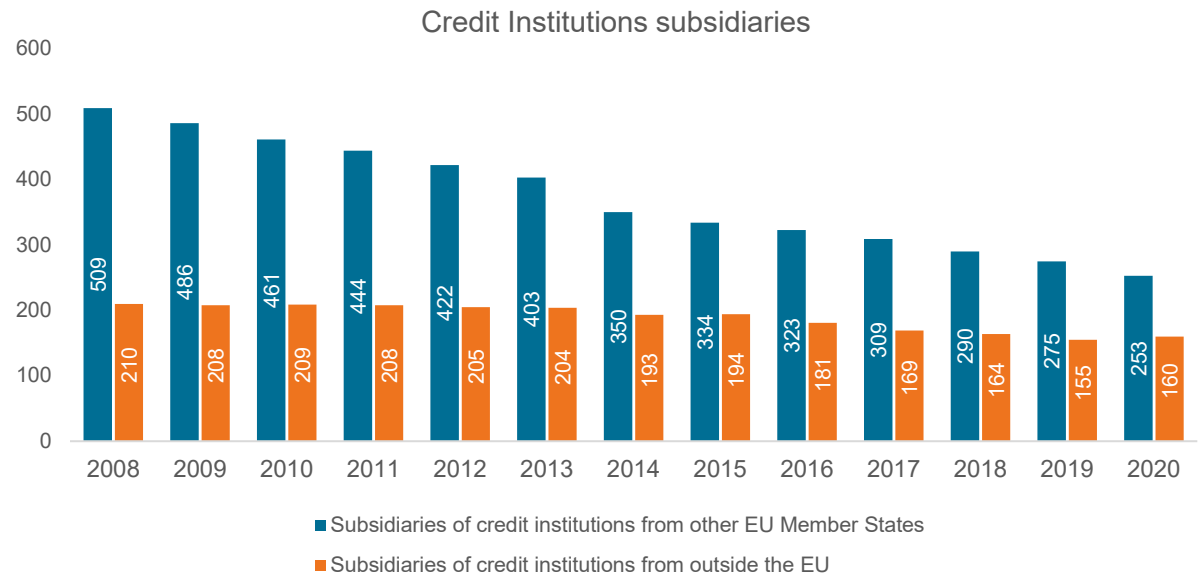


Already for a number of years, a trend in the establishment of branches has been dominating that of subsidiaries in the EU. At a consolidated bank level, there were 796 foreign bank branches in the EU in 2020, of which 626 were from other EU Member States. The number of bank branches from third countries experienced a sharp increased compared to the last few years.

Spain is the country with the highest number of foreign branches from other EU Member States, having 72 branches, followed by France with 65. Germany is the country with the highest number of branches, 47, of credit institutions outside the EU, practically twice as many as the second country, Italy (24).



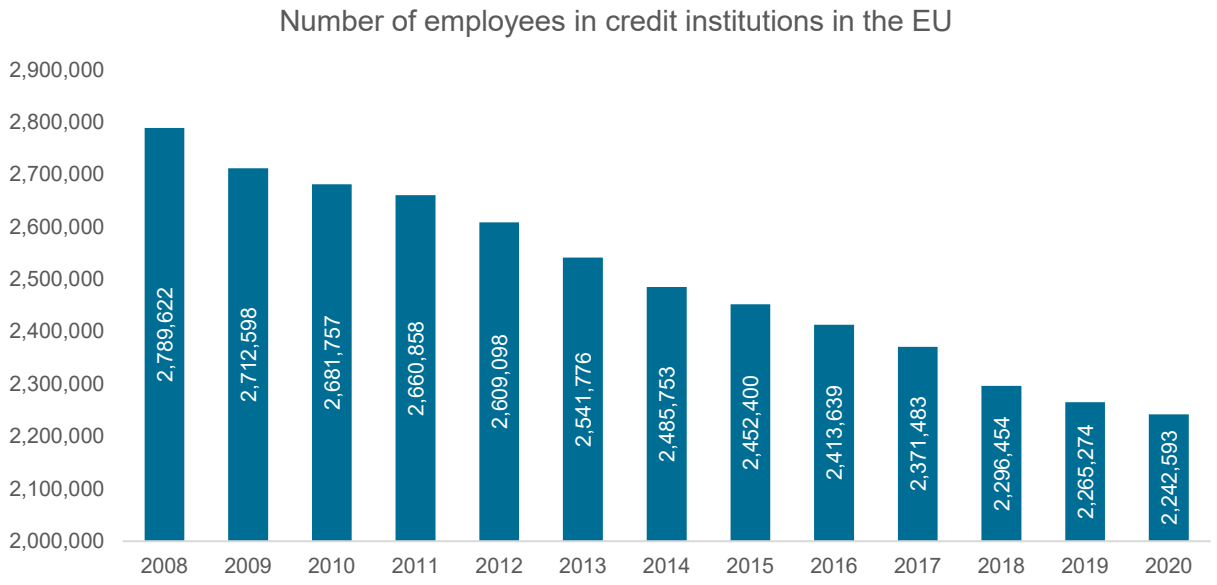
The overall number of subsidiaries continued declining for the thirteen consecutive year, falling by 4% in 2020 to 413, the lowest level since 1997. The number of subsidiaries of credit institutions from other EU countries fell by 22 in 2020. The number of non-EU credit institutions' subsidiaries experienced a slight increased to 160, up from 155 in 2019.

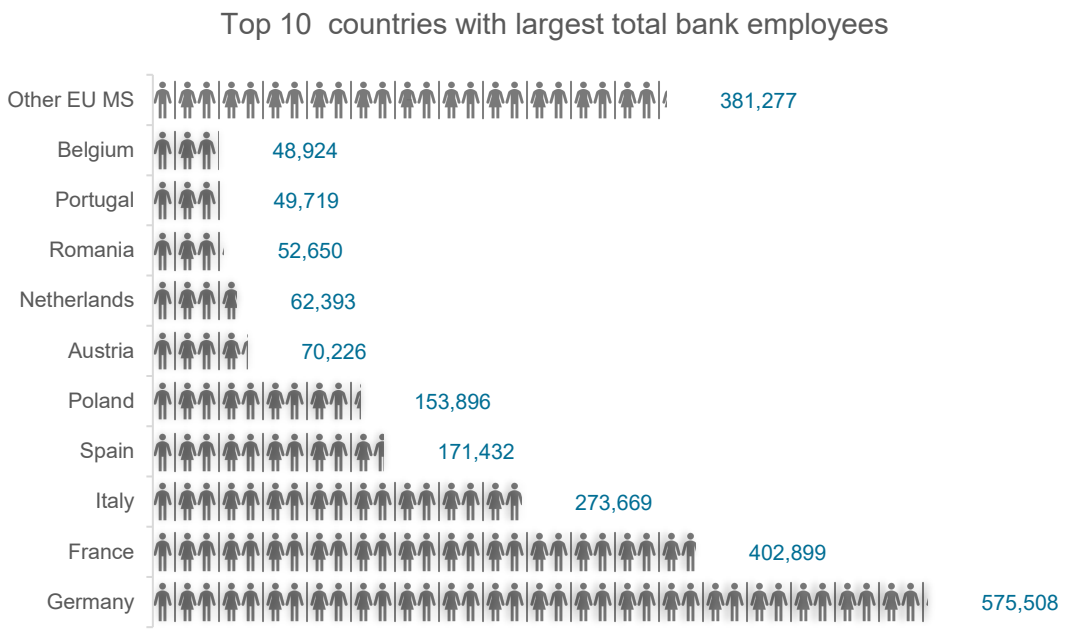


Bank staff

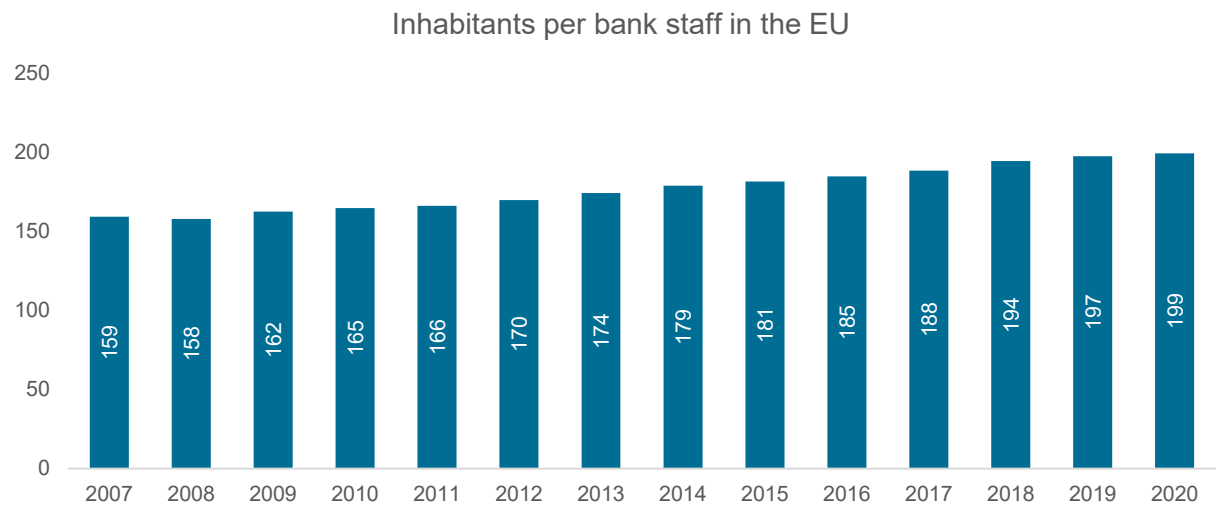
Banks have a large stake in society as important job creators, as they employed a little over 2.2 million people in the European Union by end-2020. This is about 21,000 fewer than in 2019 making a new lowest level since the ECB's data series began in 1997. The decline however has stabilized and for the second year in a row employment fell by about 1% compared to the previous year.

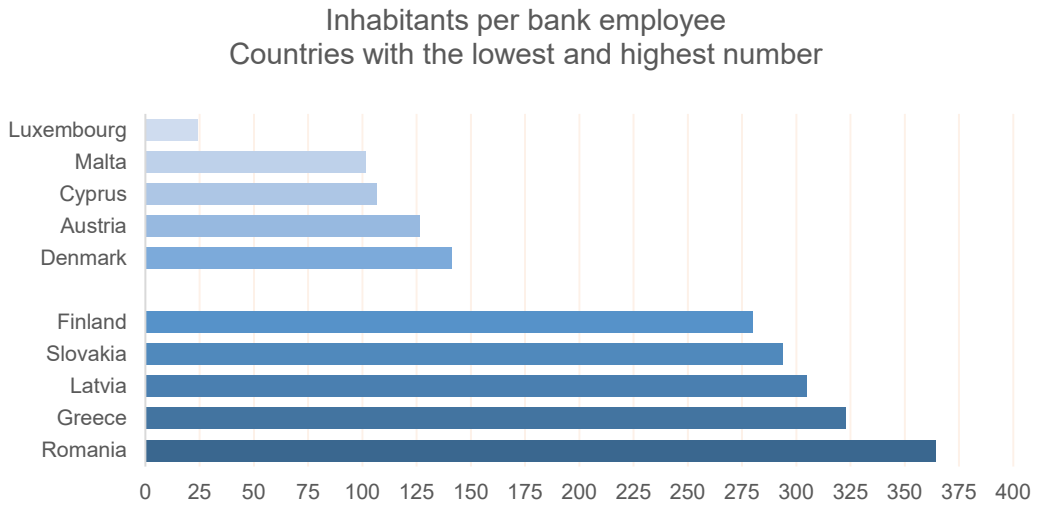
Not surprisingly, the countries with the largest number of jobs in this sector continue to be the countries with the largest financial centres in the European Union: Germany, France, Italy and Spain. These four EU economies employ some 63% of the total EU-27 staff employed. Only three countries, Germany (+2,846), the Netherlands (+2,703) and Sweden (+2,174), had a substantial increase in the number of employees in 2020. The largest drop, in absolute terms, happened in Poland (-6,982) and Italy (-6,550). Despite the large drop in the number of employees in 2020, Poland remained the country in Eastern and Central Europe with the largest number of jobs in the sector. Including EFTA countries and the United Kingdom, the number of staff employed in the banking sector was about 2.7 million.



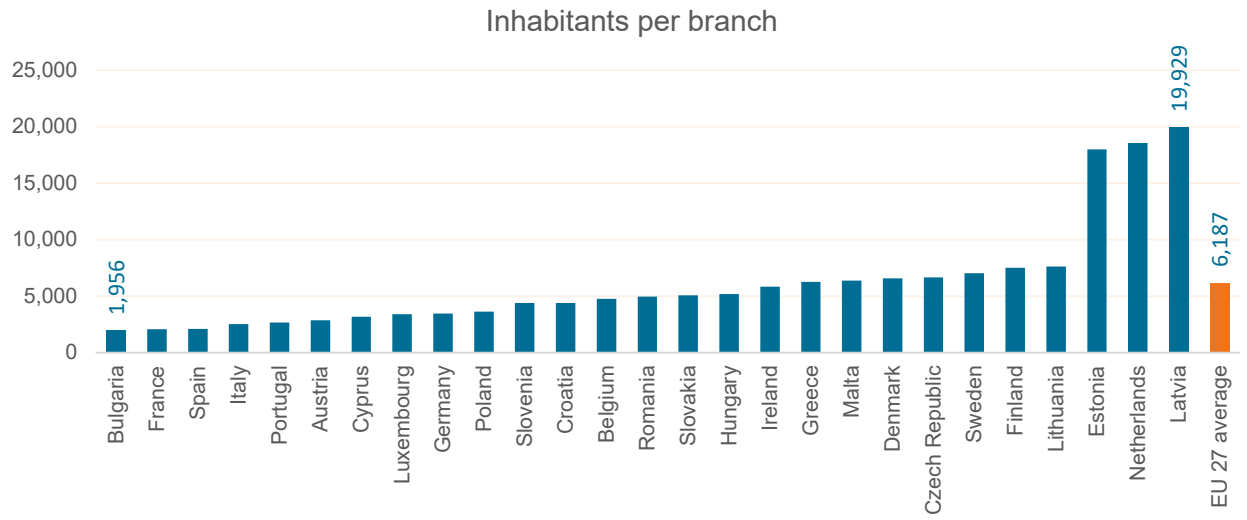


Also reflecting a contraction in the banking sector, the average number of inhabitants per bank staff member in the EU Member States slightly rose from 197 in 2019 to 199 in 2020. The average number has been rising each year since 2008, when it was 158, with a 25% increase in total. Romania is the country with the highest number with 364 inhabitants per bank staff member, while Luxembourg has the lowest number with 24 inhabitants per employee.

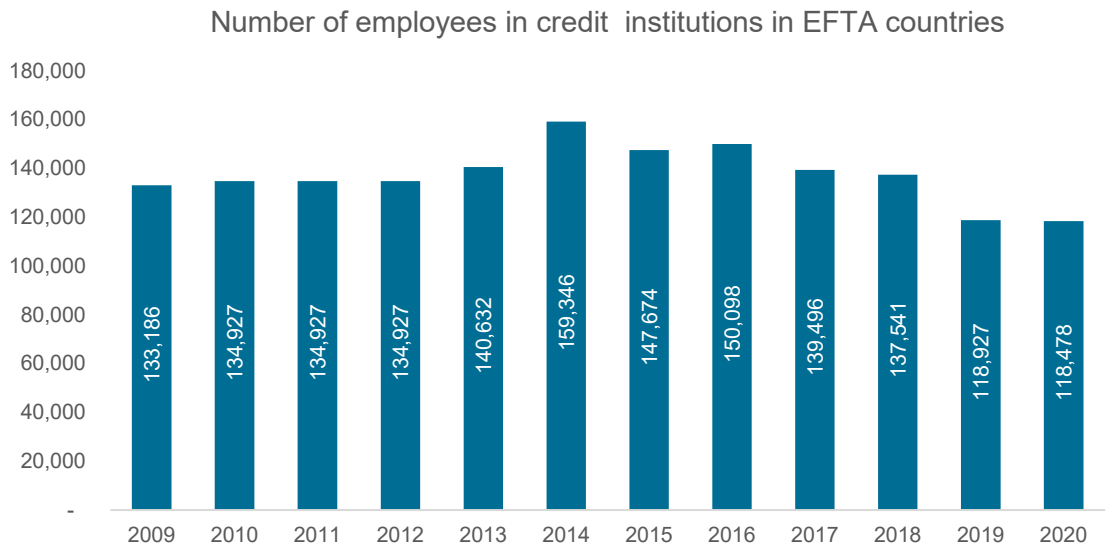




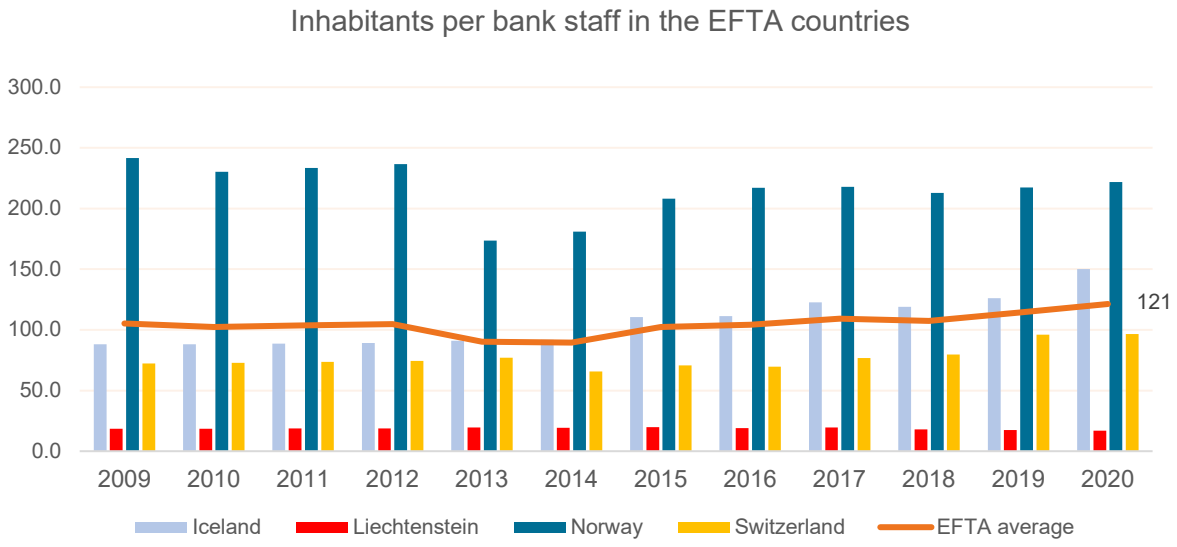
Regarding the number of inhabitants per bank branch. Bulgaria is at one extreme, where each branch welcomes an average of 1,956 citizens, while at the other is Latvia where a branch provides services to an average of 19,929 inhabitants. The average number of inhabitants per bank branch in the EU-27 is about 6,200.



Meanwhile in the EFTA countries, the number of bank staff declined by 0.4% in 2020. This is 449 fewer than in 2019, and 15,000 compared to 2009. Switzerland employed about 75% of the total EFTA staff. Ony Liechtenstein added employees (43). Switzerland had about minimal decrease (5) followed by Iceland and Norway with 392 and 95 fewer employees respectively).



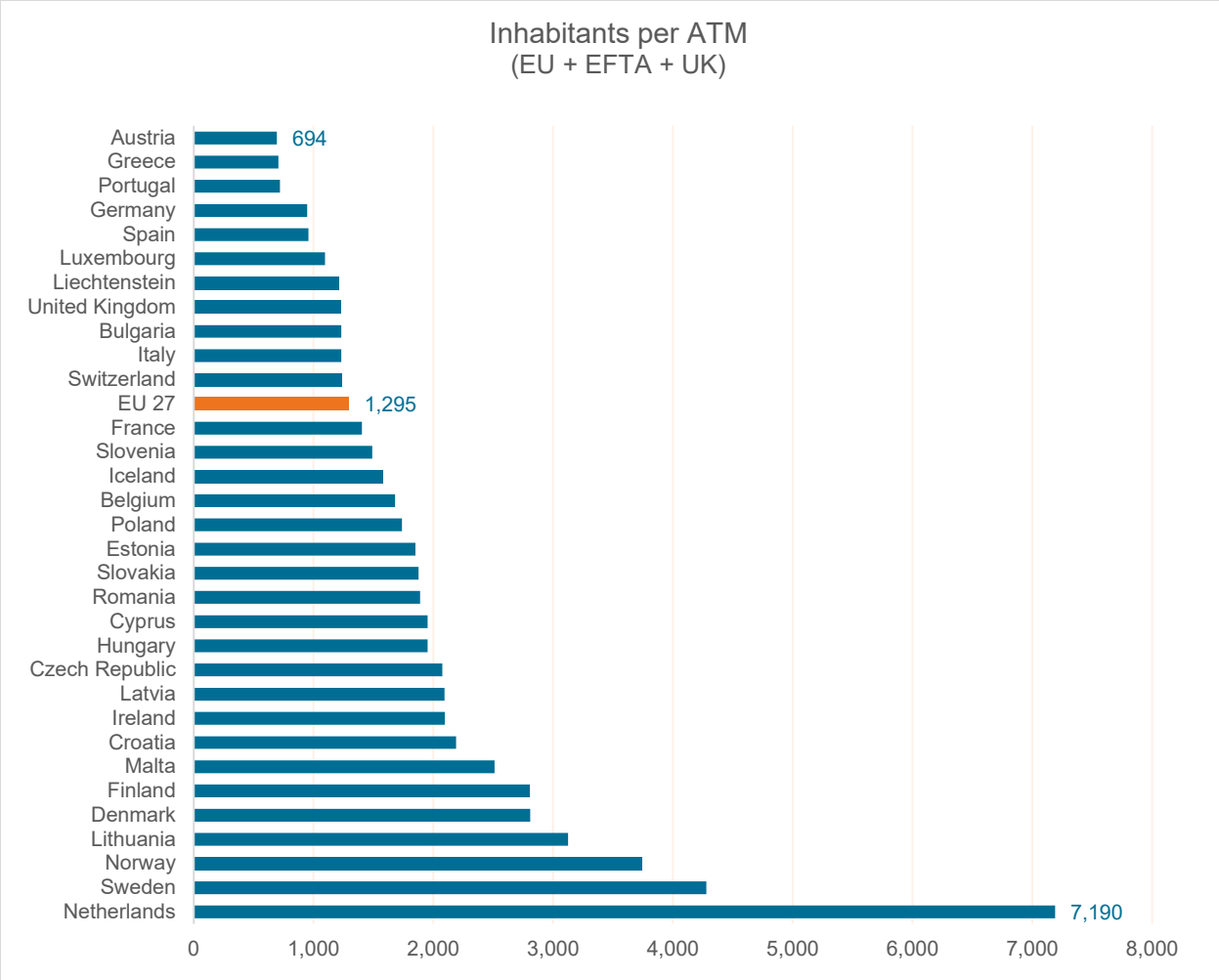
The number of inhabitants per bank staff members jumped to 121 in 2020 from 114 in the previous year. Norway continues leading the area with highest number, 221 inhabitants per bank staff member, followed by Iceland (150), Switzerland (96) and Liechtenstein closing with the lowest number of inhabitants per bank staff member (17).



The number of ATMs in the European Union totalled in 2020 about 345,000, or almost 17,000 less than in 2019. This represents an average of 1,295 inhabitants per ATM in 2020. This decline signals the increasing lower demand for cash confirming the move towards the increasing use of digital banking and payments. The number of ATMs in the EFTA countries was about 8,600 in 2020 with an average of 1,940 inhabitants per ATM.

As far as convenience and accessibility of banking services are concerned, Austria and Greece lead in terms of the number of inhabitants per ATM, the parameter being 694 and 707 respectively. At the same time the two countries with the least number of inhabitants per ATM was registered in the Netherlands and Sweden, with 7,190 and 4,278 inhabitants per device respectively.

The United Kingdom counts with almost 55,000 ATMs resulting in about 1,228 inhabitants per ATM.


Inhabitants per ATM
(EU + EFTA + UK)
Austria
Greece
Portugal
Germany
Spain
Luxembourg
Liechtenstein
United Kingdom
Bulgaria
Italy
Switzerland
EU 27
France
Slovenia
Iceland
Belgium
Poland
Estonia
Slovakia
Romania
Cyprus
Hungary
Czech Republic
Latvia
Ireland
Croatia
Malta
Finland
Denmark
Lithuania
Norway
Sweden
Netherlands
694
1,295
7,190
0
1,000
2,000
3,000
4,000
5,000
6,000
7,000
8,000

Chapter 2

Supporting customers

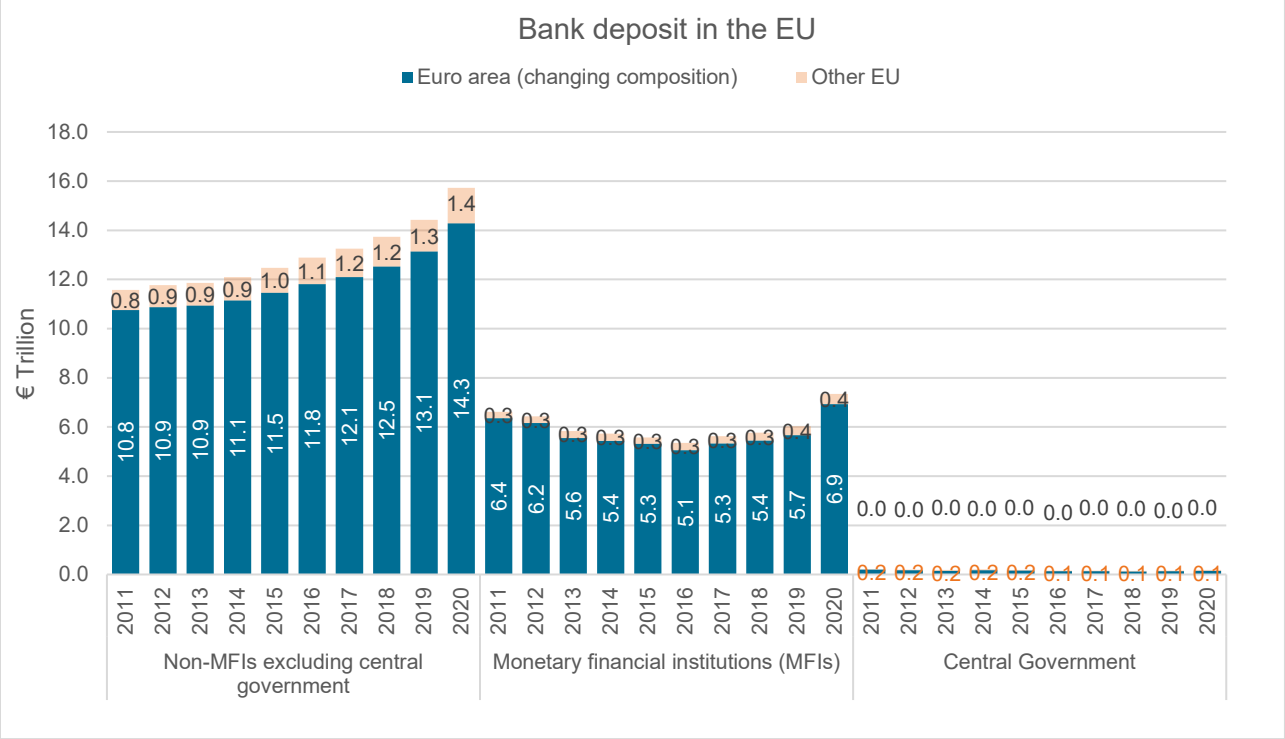
Unless otherwise noted, all data, graphs and tables have been produced to illustrate EU-27 data. The EU-27 data contained in this chapter has been compiled from publicly available information released by the European Central Bank unless otherwise noted. The data relevant for EFTA countries and the United Kingdom has been compiled from the corresponding national central bank, financial supervisory authority, national office of statistics and national banking associations members of the European Banking Federation.

General trends

The core banking activities of raising deposits from and providing credit to customers are crucial for Europe's banks. Private sector deposits and loans grew in 2020, particularly for households and non-financial corporations.

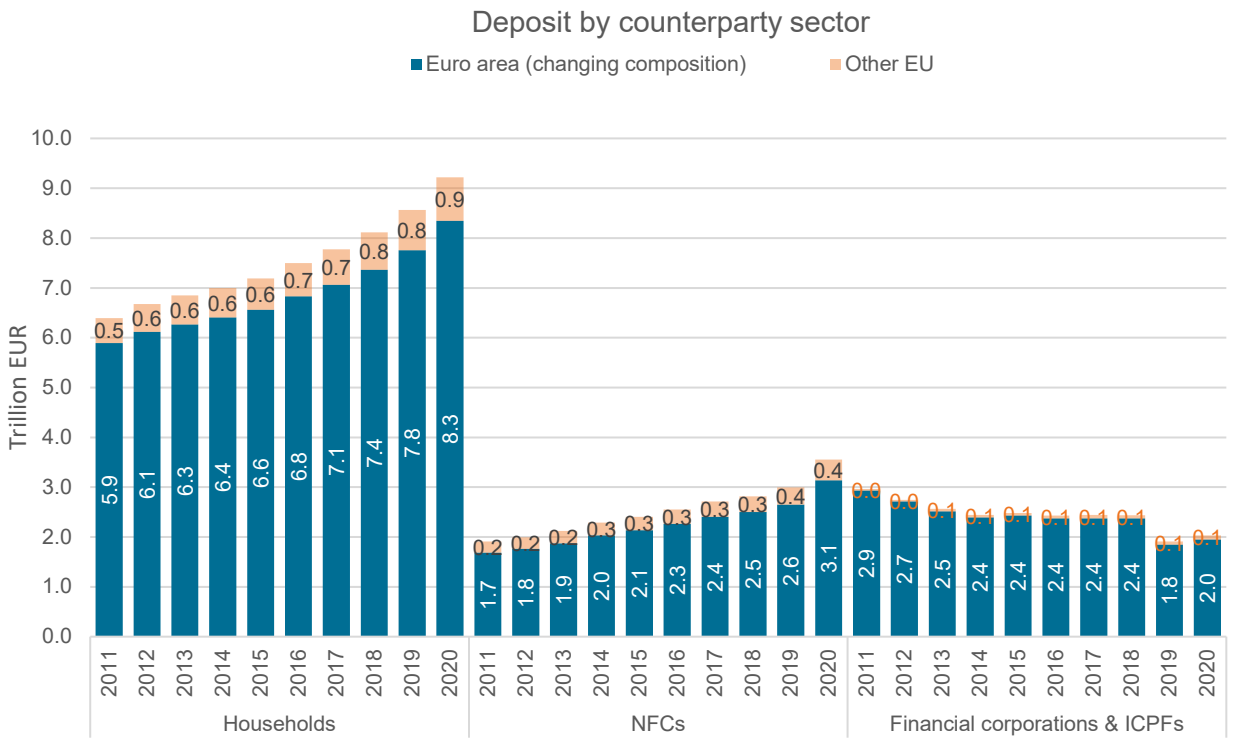
Deposits

Domestic or euro area deposit liabilities in the EU rose by 12% to about €23 trillion, excluding euro area deposits of non-euro area monetary financial institutions (MFIs). MFI deposits saw the largest increase in Cyprus, Estonia and Greece. Deposits of non-MFIs excluding central government rose by €351 billion in France, by €213 billion in Germany and by €140 billion in Spain.



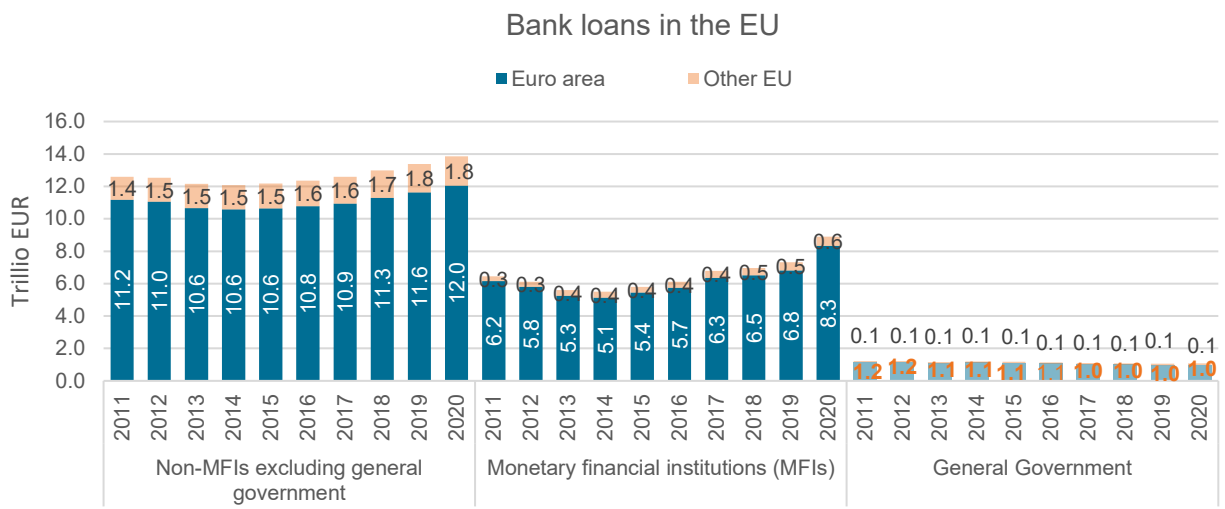
Total deposits from non-MFIs, excluding central governments, grew by 10% to €14.8 trillion in the EU at the end of 2020, with €13.4 trillion in deposits in the euro area.

The growth continues to be driven by an increase in deposits from households (including non-profit institutions serving households), which rose by 7.6% year-on-year to €9.2 trillion and non-financial corporations (NFCs), up by 18.6% to €3.5 trillion.

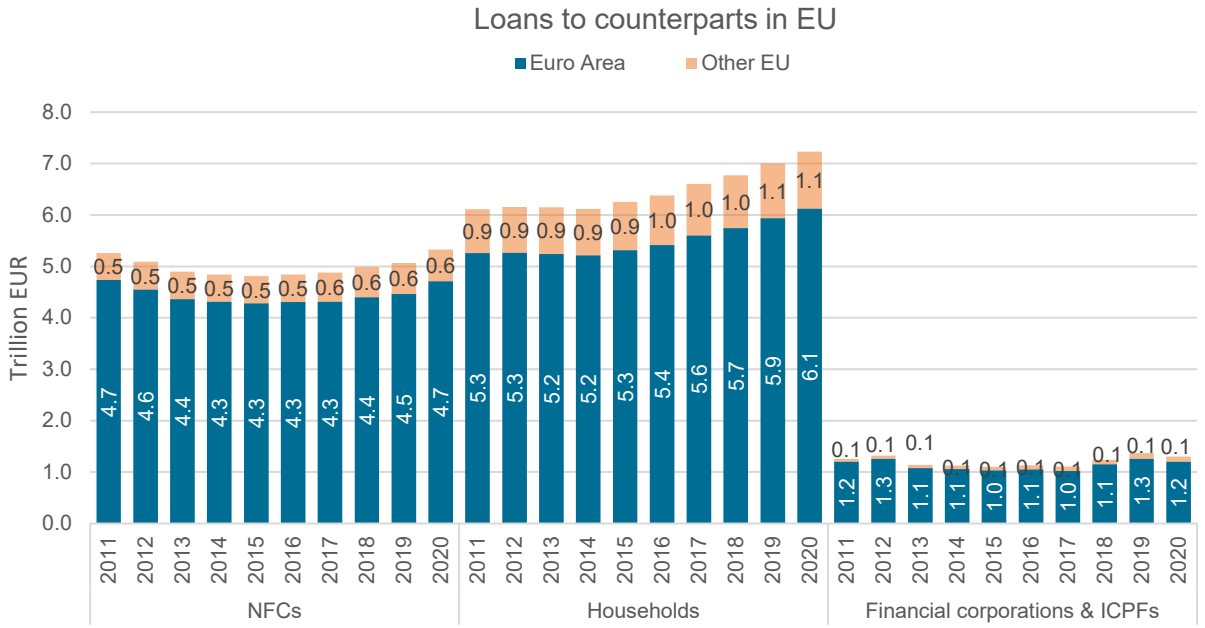


Loans

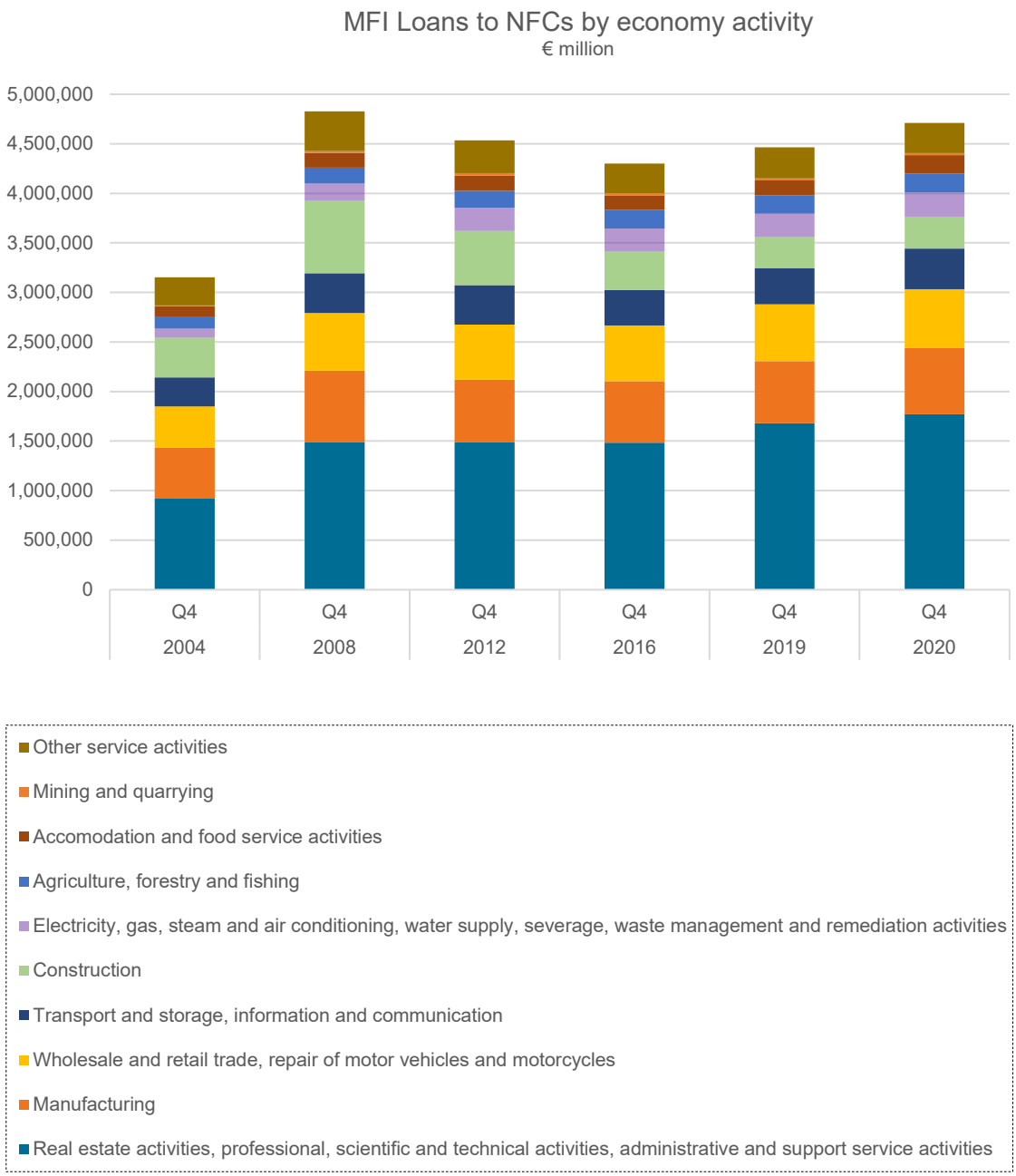
The total value of loans outstanding from EU MFIs increased by 9% in 2020 to more than €23 trillion. The increase mainly came from growth in loans to MFIs in the euro area which rose by 22% year-on-year to more than €8 trillion.



Loans to EU households rose by 3.3% in 2020 to €7.2 trillion. Loans to households in the euro area grew for the sixth successive year, adding slightly over €1.2 trillion on loans outstanding since 2008. NFC loans outstanding in the EU rose by 5.2% in 2020 to slightly over €5.3 trillion, the highest level since 2008.



Real estate activities, professional, scientific and technical activities and administrative and support service activities continued accounting for more than one third (37.6%) of loans outstanding at the end of 2020, and up from 30.8% in Q4 2008. Manufacturing and the wholesale and retail trades accounted for 14.1% and 12.7% respectively.

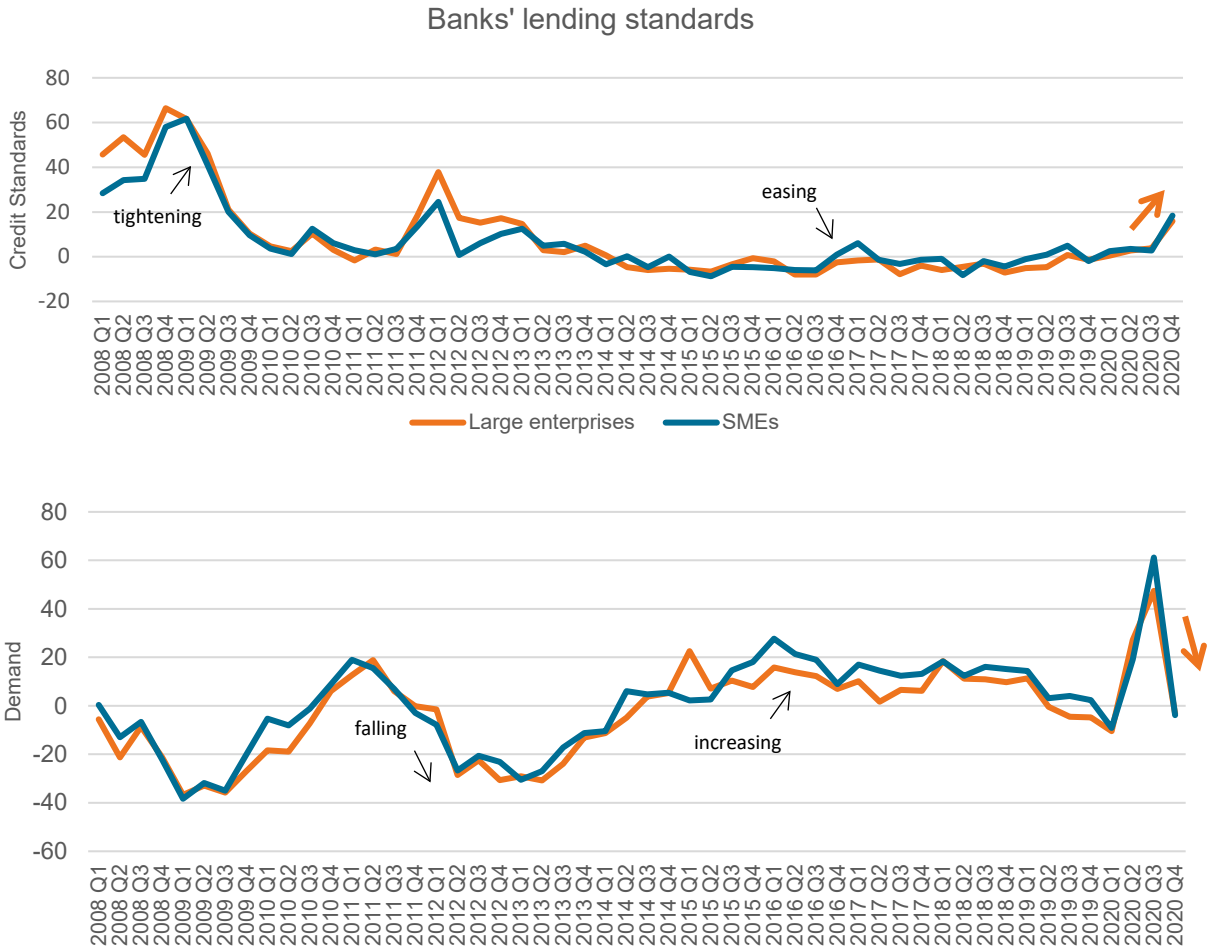


Bank lending survey

Concerning lending standards, i.e. banks' internal guidelines or loan approval criteria, the positive net percentage (15.93 for large enterprise and 18.34 for SMEs) indicates that a larger proportion of banks have tightened credit standards (net tightening) in 2020 changing the trend seen over the last few years.

Regarding the net demand (the difference between the percentage of banks reporting an increase in loan demand and the percentage of banks reporting a decline), the year 2020 ended with a negative net demand

indicating that a larger proportion of banks reported a decline in loan demand with 3.14% for large enterprises and 3.87% for SMEs).



Chapter 3

Banking sector performance

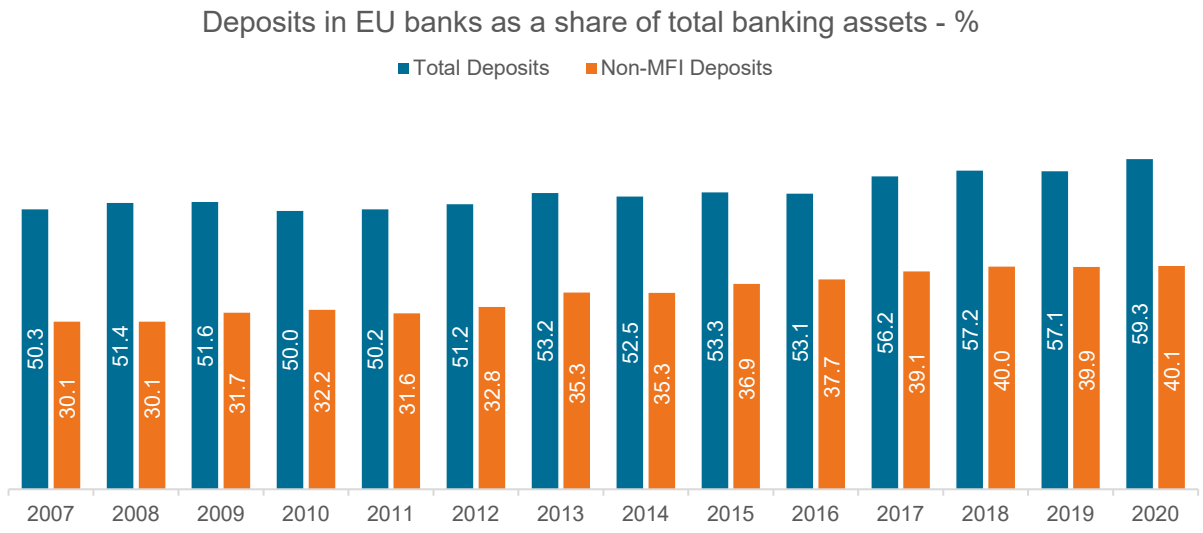
Unless otherwise noted, all data, graphs and tables have been produced to illustrate EU-27 data. The EU-27 data contained in this chapter has been compiled from publicly available information released by the European Central Bank unless otherwise noted. The data relevant for EFTA countries and the United Kingdom has been compiled from the corresponding national central bank, financial supervisory authority, national office of statistics and national banking associations members of the European Banking Federation.

Bank funding

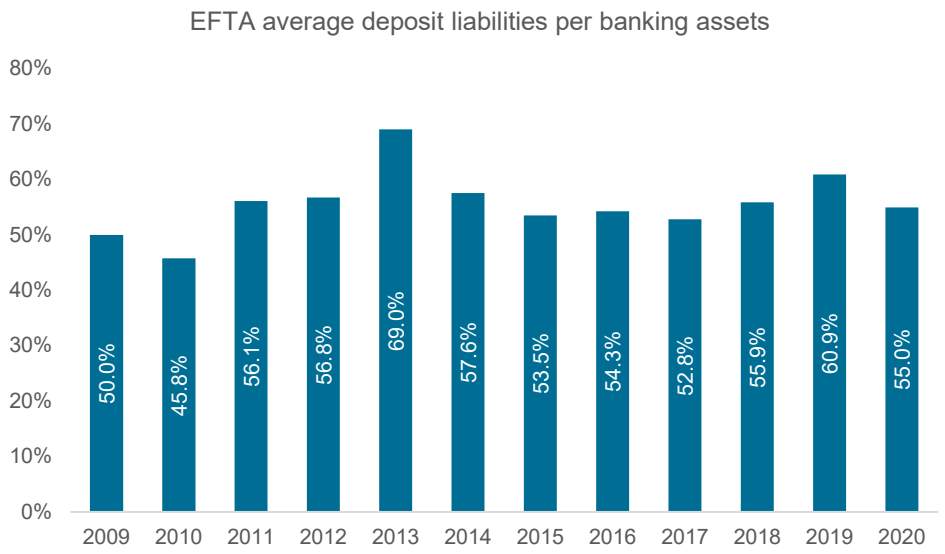
The share of deposit liabilities over total assets reached in 2019 at 59.3%, in line with the positive trend started in 2007 (50.3%) that reveals the shift towards greater reliance on deposits as a source of funding.

The rise in the share of non-MFI's deposits to total assets slightly increased from 39.9% in 2019 to 40.1% in 2020.

The country breakdown for total deposits shows that domestic deposits were equivalent to less than a quarter of the assets in Denmark and Ireland. Meanwhile, countries with the largest shares of deposits financing the banking sector's assets were Lithuania, Bulgaria, Slovenia and Romania, all of which had deposits equivalent to 70% or more of assets.



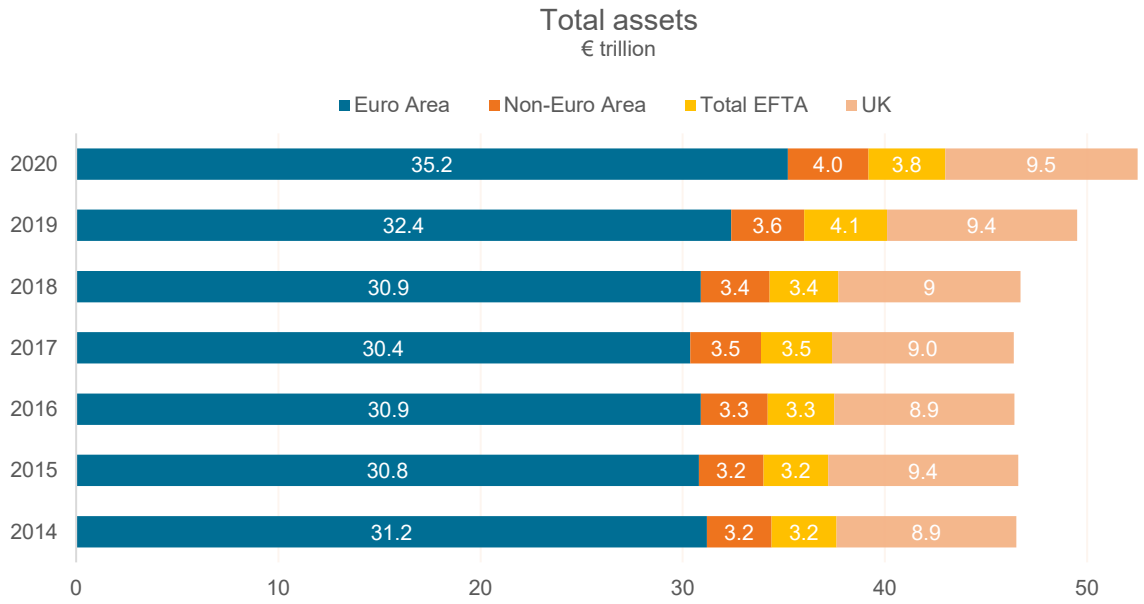
The EFTA countries experienced a substantial decrease in the share of deposit liabilities over total assets in 2020 reaching 55% down from 60.9% a year earlier, and returning to the level seen between 2014 and 2018. In the United Kingdom, the share of deposit liabilities over total assets remains stable having only marginally changed from 43% in 2018 to 43.5% in 2020. The share of non-MFI's deposits to total assets in the United Kingdom increased from 35.4% in 2019 to 37.2% in 2020 keeping the upward trend started in 2005 (25.4%).



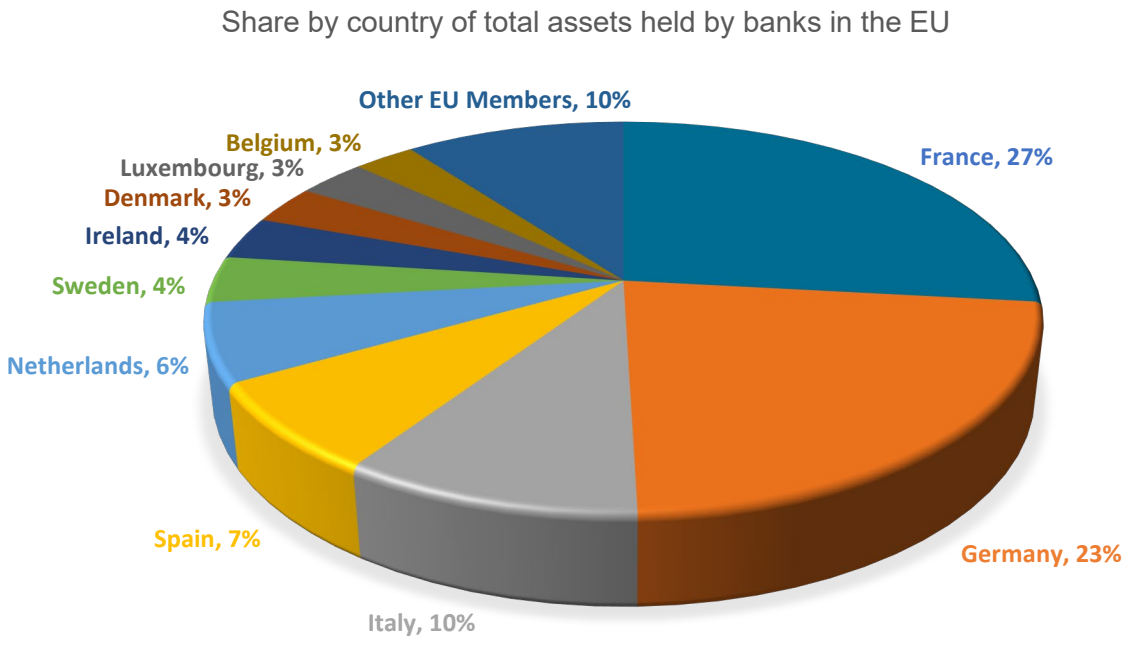
Assets

While the year 2018 recorded only a moderate recovery in the total assets held by EU banks, the trend has been upward since then. The amount of total assets expanded in 2020 for third consecutive year, this time enlarged by approximately €3 trillion from the previous year amounting to €39.2 trillion (€35.2 billion in the euro area and €4.0 billion in the non-euro area). The expansion came basically from gain in the total assets in the euro area countries (13.7%).

Combined with EFTA countries and the United Kingdom, the total amoung of assests reaches €52.5 trillion or 6.0% compared to the previous year.



Considering the country breakdown, the country with the strongest boost in percentage points were Lithuania and Estonia (23% and 19% respectively). Among the four largest European countries, only France registered a substantial positive result in their stock of assets (+12.5%), followed by Spain with 8.1% and Germany with 7.5%. Italy showed less substantial (around 3%). Only two countries experienced reductions in their stocks of assets: Malta (-2.3%) and Cyprus (-1.2%).

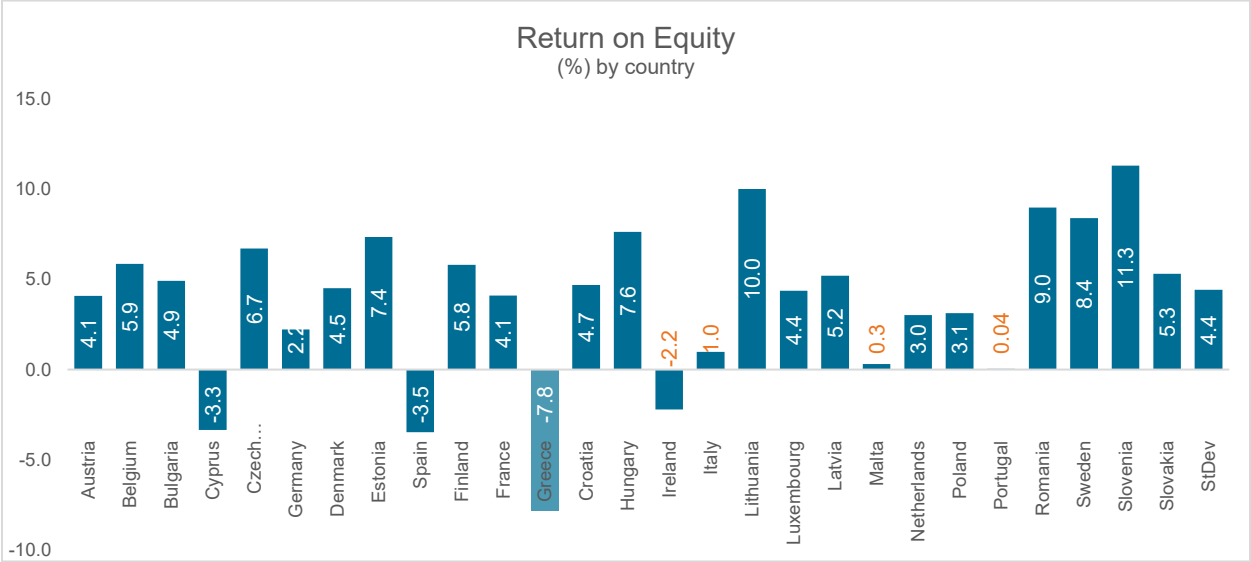


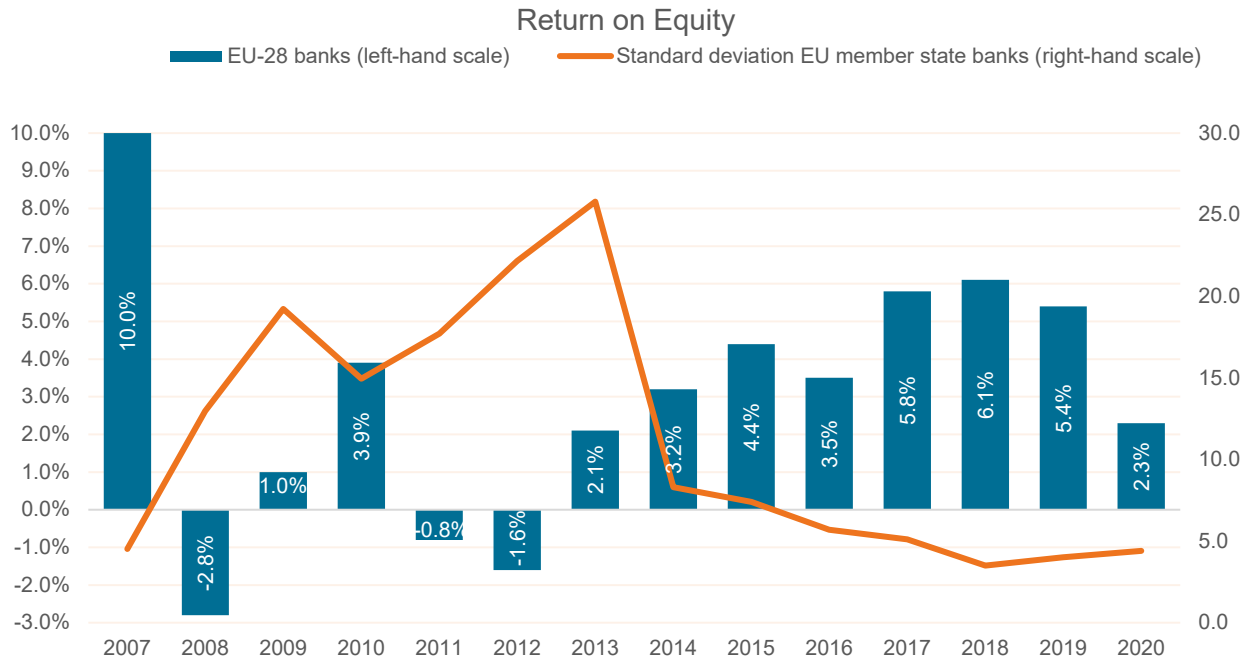
Bank profitability

Profitability was already a key challenge for Europen banks over the last year as the ECB continued maintaining its ultra-low interest rates throughout. This challenge reached new level with the COVID-19 crisis outbreak since European banks started facing losses from bad loans and other costs caused by the crisis. The return on equity (ROE), a key indicator to assess the banking sector's attractiveness for investors was slowly but surely recovering since 2007. The ROE of European banks was 5.4% in 2019 for EU-27 but dropped to 2.3% in 2020, returning to levels seen last time in 2013.

Reflecting on the national breakdown, all countries but four have a positive ROE, with two countries having a double-digit ROE, Slovenia (11.3%) and Lithuania (10%). The difference between the highest (Slovenia) and lowest (Greece) ROE was 19.1 percentage points in 2020, higher than the 15.3 in 2019 but very far from the 101.6 recorded in 2013.

The ROE across EU countries diverged after 2007, signaling growing fragmentation, particularly across the Euro area. After reaching a peak in 2013 (25.8), the dispersion around the average ROE has substantially decreased. After reaching 4.0 in 2019, the dispersion is at 4.4 in 2020, just below than the 4.5 seen in 2007 before deviation started.


Return on Equity
(%) by country
15.0
10.0
5.0
0.0
-5.0
-10.0
4.1
5.9
4.9
-3.3
6.7
2.2
4.5
7.4
-3.5
5.8
4.1
-7.8
4.7
7.6
-2.2
1.0
10.0
4.4
5.2
0.3
3.0
3.1
0.04
9.0
8.4
11.3
5.3
4.4
Austria
Belgium
Bulgaria
Cyprus
Czech...
Germany
Denmark
Estonia
Spain
Finland
France
Greece
Croatia
Hungary
Ireland
Italy
Lithuania
Luxembourg
Latvia
Malta
Netherlands
Poland
Portugal
Romania
Sweden
Slovenia
Slovakia
StDev


Return on Equity
EU-28 banks (left-hand scale)
Standard deviation EU member state banks (right-hand scale)
10.0%
9.0%
8.0%
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
-1.0%
-2.0%
-3.0%
30.0
25.0
20.0
15.0
10.0
5.0
0.0
10.0%
-2.8%
1.0%
3.9%
-0.8%
-1.6%
2.1%
3.2%
4.4%
3.5%
5.8%
6.1%
5.4%
2.3%
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020

Chapter 4

Country-by-country overview

Country pages presented in the country-by-country overview have been produced by each member and Associate member of the European Banking Federation. Figures may not match those presented in the statistical annex due to the sources used by national banking associations i.e. European Central Bank and National Central Bank.

Austria

Economic activity in Austria has been strongly hampered by the Covid-19 pandemic. Yet, due to large-scale government support measures, nonfinancial corporations' profitability, as measured by gross operating surplus, deteriorated only slightly in 2020. While internal financing increased, external financing volumes decreased in 2020, reflecting negative equity financing and reduced debt financing. Bank loans remained a central tool for maintaining companies' liquidity during the pandemic, facilitated by the Eurosystem's comprehensive monetary policy instruments, payment moratoria and government guarantees for loans. Yet, after a spike in the first two months of the pandemic, the annual growth rate of loans to nonfinancial corporations moderated slightly. This reflected the declining use of Covid-19-related moratoria, the sizable liquidity buffers that had been built up in the first phase of the pandemic and muted corporate investments. In contrast, corporate bond issuance increased substantially in 2020. As a result of the rise in debt, the aggregate corporate sector's consolidated debt-to-income ratio increased. However, this rise was accompanied by a strong buildup of liquid assets (cash and deposits). Moreover, insolvency numbers have fallen significantly since the start of the pandemic due to government support measures, but lagged effects are likely to materialize when these measures are eventually phased out. Overall, Austrian GDP declined by 6.6% in real terms in 2020.

Non-financial corporations' external financing volumes plummeted in 2020, reflecting negative equity financing and reduced debt financing. According to preliminary financial accounts data, external financing amounted to €5.8 billion, a level two-thirds below the 2019 value. Bank loans remained a central tool for maintaining companies' liquidity during the Covid-19 pandemic. Gross new loans to non-financial corporations were down 16.5% in 2020 against the year before. Covid-19 has seriously affected the debt sustainability of Austrian companies. In 2020, the aggregate corporate sector's consolidated debt-to-income ratio surged by 14 percentage points to 325%. Non-financial corporations' interest burden remained low in 2020. The ratio of interest payment obligations for (domestic) bank loans to gross operating surplus remained stable at 3% in 2020 (compared to 9% in 2008), despite the sizable increase in loan volumes since then.

In a demanding operating environment, Austrian banks managed to keep their operating profits stable. All in all, operating income was down by just 1%. In terms of costs, staff expenses declined by 3%, while other administrative expenses rose by 3%, so that operating costs also hardly changed year on year. Consequently, the cost-income ratio stood at an unchanged 67%, which points to a continuation of cost efficiency issues in the sector. Risk provisioning quadrupled in 2020 and led to a significant fall in profits.

The consolidated NPL ratio of Austrian banks was 2% at the end of 2020. Together with the retention of profits, this helped increase Austrian banks' CET1 ratio to 16.1%.

The Austrian banking system shows high levels of liquidity. LCR buffers are mostly made up of the top category of eligible high-quality liquid assets. The funding mix of Austrian banks continued to be concentrated on retail and corporate deposits.

At the national level, Covid-19 did not negatively affect the operational stability of the Austrian financial market infrastructures. ATM and POS transactions declined, however, in 2020.

Austrian banks' total assets increased despite the pandemic, as structural transformation processes continued. The consolidated balance sheet of the Austrian banking sector increased by 10% to more than €1.1 trillion in 2020. Austrian banks also pressed ahead with transformation processes: the number of banks continued to go down, with the number of domestic branches declining at an even faster pace, especially among joint stock and private banks.

At the beginning of the Covid-19 pandemic, the OeNB advised the Austrian Financial Stability Board (FMSB) to decide against buffer releases to ensure that investors continue to have confidence in the Austrian banking sector and that funding costs for the Austrian banks and the real economy remain favorable. Austrian authorities repeatedly communicated to banks that buffers can and should be used to absorb losses and maintain lending during the pandemic.

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Belgium

The COVID crisis and the sanitary measures it entailed, caused the Belgian GDP to contract by 6.3% in 2020. As a result of the measures taken to combat the spreading of the virus, consumption dropped significantly and also capital expenditures decreased throughout the year. However, the government measures succeeded in shielding households from the negative impact of the pandemic. Disposable income increased slightly and unemployment rose only very moderately from 5.4% to 5.6%. As a result household savings jumped up strongly. With the lifting of the health measures on the back of a speedy vaccination campaign the economy is expected to bounce back strongly. The expectations of the Belgian GDP growth rates range between 4.5% (European Commission (EC)) and 5.5% (Belgian National Bank (BNB)) for 2021 and 3.3% (BNB) and 3.7% (EC) for 2022. The main drivers for this swift recovery are household consumption and corporate and household investments.

The Belgian banking community is characterised by a variety of players who are active in different market segments. BNP Paribas Fortis, KBC, Belfius and ING Belgium are the four leading banks (with a cumulated balance sheet on a non-consolidated basis representing 67% of the sector total at the end of 2020). They offer an extensive range of services in the field of retail banking, private banking, corporate finance and payment services. In addition, a number of smaller institutions is often active in a 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 clearing and settlement services) or The Bank of New York Mellon (custody). Like the Belgian economy, the banking sector is characterised by a high degree of international openness. Of the 82 banks established in Belgium at the end of December 2020, 81.7% are branches or subsidiaries of foreign institutions. Only 18.3% of the institutions has a Belgian majority shareholdership. At the end of 2020, 13 credit institutions under Belgian law had 78 entities in 24 other countries.

At the end of 2020, the number of bank branches in Belgium amounted to 211 per million inhabitants. When adding the number of branches held by independent bank agents, this number reaches 367 per million inhabitants. The number of ATMs amounted to 9,251, including 6,411 cash dispensers. E-banking and mobile banking are on a strong rise: 14.2 million subscriptions for internet banking and 9.1 million subscriptions for mobile banking (Belgian population: 11.5 million). This is why several banks are restructuring their retail distribution network and will continue to do so.

End of 2020, the Belgian banks' total assets (on a consolidated basis) amounted to €1,132 billion. Loans to households account for almost 1/4th of the total balance sheet, followed by Interbank claims (21%) and investment in debt securities (17%). Corporate lending to non-financial companies take up about 14% of the total assets. 67% of the liabilities of the Belgian banking sector are client deposits (including debt evidenced by securities), mainly consisting of regulated savings deposits, sight deposits and term deposits.

The Belgian banking sector is essential to finance the economy. In recent years, banks have eased their criteria for granting loans to companies. In the fourth trimester of 2018, banks slightly tightened these criteria for the first time since the first trimester of 2013. With the outbreak of the Covid-19 crisis, they also tightened their criteria in the second, third and fourth trimester of 2020. In 2020, demand of companies

for mainly short term loans increased strongly in the first trimester of 2020. In the remainder of the year demand for credit decreased again. The demand for long term loans withstood the negative impact of the pandemic reasonably well and kept on increasing albeit at a much more moderate pace. Companies want to make maximum use of and fix the exceptionally low interest rates, driven by the ECB's extremely accommodating stance. In addition, 3/4th of the loan volume taken out by companies is granted to SMEs (including micro-companies).

Corporate financing in Belgium has become more diversified. Companies also use asset-based financial instruments, such as leasing, from independent leasing companies or leasing subsidiaries from banks. The larger companies also rely directly on the financial markets (e.g. for bond issues), with accompanying services provided by the banks.

A similar diversification of services occurs in the savings and investment segments. Belgian households had gross financial assets of €1,466 billion at the end of 2020. In addition to their large offer of deposit products (Belgian households, non-banking companies and public authorities had around €600 billion in deposit accounts), banks offer a wide range of investment instruments and services. Asset management is an important part of this area, with banks (often through their asset management subsidiary) commercialising many investment funds.

In the years following the 2008 banking crisis, the Belgian banking sector worked on its financial soundness through a phase of balance sheet deleveraging, among other things. The cost-to-income ratio fell from 72.1% in 2012 to 61.2% in 2020, indicating a significant improvement in cost efficiency. The return on equity (ROE) stood at 5.9% in 2020. The Liquidity Coverage Ratio and CET I ratio also remained very robust in 2020, at 182.0% and 17.1% respectively. During the COVID crisis, the NPL ratio slightly increased from 1.9% in March 2020 to 2.0% in December 2020.

Banks in Belgium employ almost 50,000 persons (of which almost 51% women), with 115,300 in the wider financial sector. Since 2019, 44 financial institutions representing over 90% of the financial sector signed the WIF Charter to progress on gender equality. More than 80% of the members did measure their own glass ceiling. The majority of the members also participated in sessions on how to measure and reduce the gender pay gap. The sector invests permanently in staff skills: almost 3% of total annual staff costs is spent on training. The swift digitisation is one of the factors that necessitate a permanent shift in competences.

The sector is aware of the major challenges ahead. The climate of continuing extremely low interest rates increases the banks' focus on adjusting their business models. At the same time, digital applications are picking up speed, a development that is being met with substantial investments. Emphasis is put on shifting services from the traditional branch network to digital banking via online channels and (smartphone) banking applications. FinTech has become an important factor, and the Belgian financial centre is taking many notable initiatives such as Start It@KBC, ING Fin Tech Valley, Co.Station and The Birdhouse, among others. For the future, and keeping a commitment to climate in mind, financing the energy transition (for families as well as companies and governments) is also a challenge coming to the forefront.

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Bulgaria

Due to the unfavourable effects from the coronavirus pandemic, which led to negative contribution of the net export and business investments and despite the positive contribution of government expenditures and private consumption, Bulgarian GDP shrunk by 4.2% in 2020 (+3.7% in 2019).

In 2020, the unemployment rate increased to 5.1% from the historically low level of 4.2%. The average annual change of HICP in Bulgaria declined to 1.2% from 2.5% in 2019.

In 2020, the banking sector operated in the context of lower economic activity and in an environment of restrictive measures because of the pandemic. The loan moratorium, low and negative interest rates, increased impairment costs, lower income from fees and commissions, the slowdown in credit growth in the context of Covid-19 and declining profits also affected the banking system activity during the past year.

Despite being in the shadow of the economic and health crisis, in July 2020 the Bulgarian lev was included in the Exchange rate mechanism (ERM II), which is an important step for the country's accession to the euro area. As of 1st of October, 2020, Bulgaria joined the Single Supervisory Mechanism launching the close cooperation between the Bulgarian National Bank (BNB) and the ECB, as the country also joined the Single Resolution Mechanism. As a result, five banks defined as significant, fell under the direct supervision of the ECB, which implies many new commitments for them.

At the end of 2020, there were 24 banks operating in Bulgaria, six of which were foreign bank branches. The top five banks held approximately 66.6% of all assets. At the end of 2020 the market share of domestic banks was 22.4% and the share of EU subsidiaries was 71.5%. The number of banks is decreasing due to the consolidation processes taking place in the sector.

The use of payment services in Bulgaria develops dynamically. The number of card payments initiated via virtual POS terminals has increased by almost 90% in the last five years. Cards continue to be a widely used payment instrument in the pandemic, preserving the upward trend in the volume of payments. The share of people using Internet for banking grew to 12.6% in 2020 from 8.6% a year ago, according to the National Statistical Institute data.

In 2020 the total assets of the banks increased by 8.6% year-on-year to €63.4 billion (BGN 124 billion). The share of loans and advances decreased to 58.9% compared to 65.7% at the end of 2019. The share of cash rose to 21.9% from 15.9% and the share of securities increased to 15.3% from 13%.

The loan portfolio growth of the banking system slowed down because of the pandemic and the loan moratorium. According to the BNB interest rate statistics, the average interest rates on new deposits and on new loans registered a slight decline compared to the previous year.

The total amount of loans outstanding to the non-government sector (non-financial corporations and households) rose by 4.5% to €31.26 billion (BGN 61.13 billion) from €29.9 billion (BGN 58.52 billion), according to the BNB monetary statistics. In the last year the outstanding loans to non-financial corporations, including SMEs, which represent 99.9% of all enterprises in the country, increased by 3%, reaching €18.22 billion (BGN 35.64 billion). By sectors, the highest amount of loans and deposits were in the trade, manufacturing and real estate industries.

As of the end of 2020, a total of 89,478 applications for deferral of loans at the amount of €4.13 billion (BGN 8.07 billion) were approved.

Deposits held by banks grew by 9.7% in 2020 and reached €47.8 billion (BGN 93.4 billion), or 78.7% of GDP, despite the low interest rate levels. Approximately two thirds of the deposits were held by the household sector (65.4%).

The downward trend regarding the share and the amount of NPLs continued, despite the challenges posed by the pandemic. As of the end of 2020, the amount of NPLs (excluding central banks and credit institutions) dropped to €1.7 billion (BGN 3.32 billion) in absolute terms, or to 4.8%. Although the level of NPLs is above the EU average, the higher level of coverage for gross non-performing loans by provisions compared with the average level of the EU countries is typical for the Bulgarian banking system.

The higher impairment costs and accrued provisions, lending dynamics, lower incomes from fees and commissions, low interest rates, expenditure and credit portfolio management as well as some one-off effects influenced the financial result of the sector for 2020 as the net profit of the system dropped by 51.4% to €416.5 million (BGN 814.6 million). The net interest income decreased by 3.5% to €1.36 billion (BGN 2.65 billion) despite the increase in lending. The net income from fees and commissions declined by 6.1% to €532 million (BGN 1.04 billion).

The capital position of the banking sector continued to be marked by a significant capital surplus above the regulatory requirements for the capital adequacy and leverage ratios, at a system and local level, as well as in comparison with the average levels of European banks. At the end of 2020, CET 1 for the whole banking system was 21.69% and the total capital adequacy was 22.74%. The LCR stood at 279%. In 2020, ROA decreased to 0.66% from 1.47% and ROE dropped to 5.31% from 11.6% a year ago.

In 2020, the banks paid €44.1 million (BGN 86.3 million) as a corporate tax, which represented 3.2% of all corporate tax revenues in 2020.

As of the end of 2020, 62,400 people were employed in the financial sector, and approximately half of them were in the banking sector.

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Croatia

The Covid-19 pandemic determined not just the economic, but all other aspects of everyday life in 2020. Notwithstanding the fact that the root of the crisis was not the economy, every single economic variable was affected – from oil prices and inflation to personal consumption, supply chains, production and labor markets. Croatia's high dependence on tourism led to the strongest GDP decline on record, of -8% year-on-year. Social distancing measures curbed spending, as private consumption fell 6.4% year-on-year, while the drop in business sentiment weighed on investment performance (-2.9% year-on-year). The closing of borders and reluctance to travel shaped the plunge in overall export performance (-23.8% year-on-year), thus outweighing the drop on the imports side (-13.2% year-on-year). The sole positive contribution came from public spending, which rose 3.5% year-on-year. This year will bring a recovery, although the extent will largely be determined by the outcome of the main tourist season.

The drop on the revenue side of the budget alongside the swollen expenditure side due to the pandemic has considerably worsened the fiscal health of the country. The general budget deficit amounted to 7.4% of GDP, while public debt rose 15.9 percentage points to 88.7% of GDP. On the positive side, Croatia was included in the ERM II mechanism in July. The inclusion, given the underlying commitment to further reform efforts, has helped the country to maintain its investment grade rating, as rated by Fitch and S&P. In November Moody's even upgraded Croatia's outlook by one notch, setting it to Ba1, just one notch shy of IG rating.

The drop in overall aggregate demand considerably affected overall inflation trends. Energy prices have fallen, mostly due to the plunge in global oil prices. The latter drop reflected weak global growth prospects. Low inflation was also spurred on by muted inflationary pressures from the external environment, due to low inflation in key trading partners. As a result, the annual average inflation rate slowed to just 0.1% year-on-year, down from 0.8% year-on-year in 2019.

Monetary policy was highly expansionary in order to counter negative economic effects stemming from the pandemic. For the first time ever, the CNB has bought government bonds directly from banks, thus alleviating pressure on yields. The central bank has strongly intervened on the FX market as well, selling a total of €2.7 billion to banks, mostly in March and the beginning of April when strong depreciation pressures on the kuna emerged. Overall liquidity was boosted through structural and regular operations alongside the lower reserve requirement rate. As a result of the expansionary stance of monetary policy, the excess liquidity of banks reached its highest level on record, rising from HRK 34.1 billion at the end of 2019 to HRK 54.7 billion at the end of 2020, thus reaching almost 15% of GDP. Obviously, the abundance of liquidity further compressed interest rates.

Total credit growth, excluding the public sector, in nominal terms gathered some momentum and accelerated to 3.9% in 2020, though transactions based data reveal overall some slowdown throughout 2020. Looking at sector dynamics, there was solid growth in corporate credit activity (4.9% year-on-year), owing to paused repayments due to the moratoria effects. Credit growth in the household segment slowed considerably, from 6.9% in 2019, to 2.3% in 2020. The slowdown was being solely driven by cash loans turning red amid rising uncertainty, while housing credit, remaining underpinned by the government subsidy program, accelerated further into the high-single-digit region.

The cost of financing remained favorable, despite the crisis environment. The household segment maintained a downward trajectory as new business on the housing and consumer loans were priced approx. 30 basis points and 40 basis points lower than in 2019, respectively. On the corporate side, the trend came to a halt as new business is concerned, reflecting higher uncertainty and but also moratoria impact on new business volumes, though average rates on outstanding business continued to decline.

As far as banking sector performance goes, increasing provisions (mostly of a precautionary nature) weighed on profitability as both ROA and ROE more than halved compared to 2019, standing at 0.6% and 4.4%, respectively. Meanwhile, the CIR (Cost Income Ratio) increased by almost 9 percentage points to 55%. Despite the pandemic, the level of NPL edged marginally down towards 5.4%, while the solvency ratio remained among the highest on the EU level and stood at 25.9%, signaling the robustness of the local banking sector. The consolidation trend paused during 2020, as a number of credit institutions remained unchanged (23). Nevertheless, the trend is likely to continue amid the challenging operating environment and sustainable business model being increasingly reliant on achieving economies of scale.

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Cyprus

The Covid-19 pandemic found the banking system in Cyprus well capitalized with ample liquidity. This allowed banks to act along with the government as the two pillars of stability helping households and businesses to face the challenges of this unprecedented health crisis.

Despite the pandemic's effect on the European economies, Cyprus managed to keep the GDP recession below the EU average (2020: Cyprus: -5,1%, EU countries: -6.1%, Eurozone: -6.5%). At the same time, the increase in unemployment was kept at low levels (at 7.6%, unemployment in 2020 was slightly higher than 2019 when the rate was 7,1%).

Over the last years, the banking sector has demonstrated great ability in adapting to various new regulatory and legislative requirements. The banking sector's achievements were recognized by international institutions, independent observers of Cyprus' economy and private organizations like correspondent banks in the EU and USA. During this period, banks have contributed towards Cyprus's successful performance after the conclusion of the economic adjustment programme, having managed to gradually restore credibility, restructure operations and procedures, and overcome challenges to finance new viable projects and investment opportunities. Lessons learned during the last years have prepared the banking sector well to respond to the new crisis and extraordinary circumstances.

The banking sector in Cyprus comprises domestic banks and international banks with Cyprus-based subsidiaries or branches. 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 and that element remains stable for the local banking sector.

There are 30 authorised credit institutions in Cyprus, consisting of seven local authorised credit institutions, three subsidiaries of foreign banks from EU Member States, one subsidiary of a foreign bank from a non-EU country, five branches of banks from EU Member States, 13 branches of banks from non-EU Member States and one representative office.

Within the framework of the European Banking Union, the Bank of Cyprus, Hellenic Bank and RCB Bank, have been, since November 2014, 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 adhere to the SEPA direct debits' scheme, administered by JCC Payment Systems (a national card acquirer). A law transposing the revised Payment Services Directive (PSD2) was enacted in April 2018. The banking sector, through the Association of Cyprus Banks (ACB), has been undertaking preparations in order to deal with payment innovations that will be brought by open banking and instant payments as well as the necessary increased payment safety.

As of the end of 2020, there were 280 branches in Cyprus (compared to 458 in 2016) and banks had a total of 8,341 employees. Banks provide a widespread ATM network as well as mobile solutions, contactless transactions and smart device applications to customers, while they continuously upgrade their online banking sites.

During 2020, aggregate bank deposits remained fairly steady at €48.2 billion. Bank deleveraging is continuing, and total outstanding loans were reduced by €1.9 billion throughout 2020 (a 5.5% decrease from the end of 2019) as banks maintained their efforts to reduce non-performing loans (NPLs). Nevertheless, during the year a total of €2.4 billion of new lending was given to firms and households.

The banking sector is making progress in addressing the high level of NPLs. Within 2020, the total amount of NPLs was reduced by 43%. The NPL ratio at the end of 2020 was 17.7% (2019: 27.9%).

In the area of financial education, the ACB and its member banks launched an initiative named "More than Money" during 2016. The project is aimed at familiarising primary school pupils with concepts related to money management and it has taken place every year since. It is implemented by the organisation "Junior Achievement" (Cyprus) and is under the auspices of the Ministry of Education and Culture. By the end of 2020, it was extended to more schools and students in the country and a new programme was introduced to secondary school students.

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Czech Republic

At the beginning of 2020 analysts broadly believed that the economy would move along the bottom of the cycle and that in H2 it would rebound to a new expansion with 2% of annual GDP growth. Nevertheless, by March it was clear that the economy had been hit by an external shock of unprecedented proportions caused by the pandemic. Turbulent development during the year together with the lock downs and re-openings suggested the economy will sink deep into red figures. Despite potentially more catastrophic scenarios, the result was the year-to-year decline of 5.6%.

Brighter moments came in connection with a strong increase in foreign demand, especially in H2, while domestic demand was significantly subdued apart from Q3. Compared with the previous year, both household final consumption (-5.2%) and gross fixed investment (-8.5%) declined sharply. General government expenditures were the only steadily growing "domestic" component of GDP with 2.9%. Total exports of goods and services decreased in real terms by 6.0% and imports by 6.1%, because of what foreign trade balance ended the year in CZK 390.5 billion surplus at current prices.

Monetary policy reacted to the escalating crisis the fastest – despite inflationary pressures that forced the central bank to increase the 2-week repo rate to 2.25% in early February, starting by March it decreased the rate several times to 0.25%, where it had remained from mid-May until the end of the year. The CNB Bank Board was equally resolute in reducing the capital requirements and easing regulation of mortgage loans. Due to a wealth of supportive measures, and a drop in tax income, public finances recorded the deficit of 6.2 % of GDP. Government debt increased to 38.1% of GDP (i.e., by 7.8 percentage points), and in the context of the anticipated worsening of the deficit in the election year 2021, it moved towards a relatively soft debt brake set by the Fiscal Responsibility Law at 55% of GDP.

At the still rigid labor market, the gap between job vacancies and the number of unemployed has been gradually closing since its highest level in March (roughly 124,000 more vacancies than applicants) to December surplus of vacancies of "only" 27 thousand. Even so, the share of unemployed persons reached only 4% in December (1 percetange points higher than a year ago).

The effects of government restrictions in 2020 aimed at managing the coronavirus pandemic did not spare the Czech banking sector either. Despite that, Czech banks continued to be a pillar of financial stability of the distressed economy. Not only did their performance remain “in the black”, although profitability decreased sharply, but the share of non-performing loans remained at relatively reasonable levels, although it increased by the end of the year. In addition, banks maintained a consistently comfortable level of capital in accordance with the Czech National Bank's recommendations, strengthened by unpaid dividends in 2020.

As in the previous two years, there were 49 licensed banks operating in the Czech Republic at the end of 2020. The structure of the banking sector consists of four large banks, five medium-sized banks, 10 small banks, 25 branches of foreign banks and five building societies. 37 entities are falling under the control of foreign owners, of which 12 are banks and 25 are branches. Domestic owners control 12 banks, two of which are co-owned by the state. Cross-border services in the Czech Republic can also be provided by 471 foreign banks operating in the EU's single internal market.

At the end of 2020, the total value of the banking sector's assets increased by about 5.5%, to CZK 7,965 billion representing about 141% of GDP; compared to the previous period, it increased by approximately six percentage points, also reflecting the decline in the Czech Republic's economic performance caused by the crisis.

Compared to the previous year, net profit for 2020 dropped by 48%, to less than CZK 47.5 billion. According to comparable EBA data, return on equity decreased by more than half to 7.4% (compared to 2% average in the EU) and return on assets also dropped by half to 0.6% (compared with EU average of 0.1%).

At the end of 2020, the total volume of bank loans in the Czech Republic increased by 4.2% compared to the previous year when its growth rate was essentially the same as in 2019, reaching CZK 3,595.7 billion. Banks provided CZK 1,763.1 billion loans to households, which was almost 6.9% more than in the previous year; corporate loans reached CZK 1,123.0 billion at the end of 2020, thus practically stagnating year-on-year. As in the previous period, households borrowed mainly to purchase housing – the outstanding balance of mortgage loans increased year-on-year by 7.8% to CZK 1,509.4 billion (i.e., it accounted for almost 86% of the outstanding loan balance of Czech households). Consumer loans increased at a rate of 2.6% and their outstanding balance reached CZK 244.6 billion at the end of the year.

During the year, the impacts of the introduction and easing of restrictive measures were relatively dramatically reflected in the new credit transactions, especially on the mortgage market. Not only the spring lockdown, which limited the supply of newly completed housing, but also the persistently low interest rates and the temporary elimination of the CNB's recommended mortgage limits played a significant role in this. During the year, households drew CZK 548.5 billion of new housing loans from banks and building societies worth, which was 79% more than in 2019, when on the contrary, new mortgages declined year-on-year reflecting the introduction of the central bank's mortgage limits recommendation.

In the area of corporate financing, the increase in new loans was about 13%, which was a rate similar to the previous year. However, due to the stagnation of the total volume of corporate loans, entrepreneurs rather repaid previous liabilities, or banks refinanced some of them.

At the end of 2020, the total volume of client deposits reached CZK 5,162.0 billion and exceeded the volume of client loans by 43.5% (a year-on-year-increase of 6.5 percentage points). The excess of deposits over loans is traditionally generated by the household sector, where households had 60% more funds deposited in domestic banks than they drew on loans. However, this excess decreased by 5 percentage points in the pandemic year. In the corporate sector, the volume of deposits and loans has been traditionally rather balanced. Nevertheless, due to increased uncertainty, corporations held at bank accounts deposits amounting to CZK 1,218 billion i.e., about 8% more funds than was their CZK 1,123 billion debt to banks. Excess of companies deposits over their debt incurred for the first time in 30 years.

At the end of 2020, households had CZK 2,822.8 billion deposited with banks, i.e., 12% more than a year earlier. Around 80% of the savings were placed on demand deposits, while a year earlier this ratio was 10 percentage points higher. Households were thus not only increasing their safety reserves because of the uncertain future, but they also tried to deposit part of it on deposit products with slightly more favourable interest rates.

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Denmark

Danish real GDP fell 1.5% in 2020 due to consequences of Covid-19. The economy rebounded during the summer and early fall, and at the end of 2020 employment was almost back to the levels before the outbreak of Covid-19 in March 2020. Now the employment is moving back to normal with an unemployment rate of 3.8% and increasing signs of shortage of skilled labor in some industries.

The number of employees in the financial sector is still decreasing, reaching 35,555 employed in 2020 compared with 40,907 in 2000. In 2020 there were 58 banks and seven mortgage banks in Denmark. Persistent consolidation has implied a large decline since 2000, where there were 185 banks and 10 mortgage banks, yet the trend has slowed since the aftermath of the financial crisis.

Since the beginning of the financial crisis, the Danish banks have gradually recovered. However, revenue in the banks continue to decline in 2020 from a record high in 2017. An analysis of the Danish banks and mortgage banks shows a decrease in revenue from €4.8 billion. to €2.6 billion or 45% decrease in revenue. And the return on equity now amounts to 4.6% compared to an average over the last three years on 9.2%. The decrease in 2020 reflects the turbulence due to COVID-19 pandemic. The return of equity is significantly lower than other industries.

Overall, the Danish banking sector is robust, and banks have increased their capitalization since the beginning of the financial crisis. The Danish banking sector has also proved to be well-capitalized and resilient in the stress tests conducted by the EBA. 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 very high liquidity. Mortgage loans for companies and households constitute almost 80% of total lending in Denmark.

The joint declaration by the Danish government and Finance Denmark in March 2020 specified that the sector committed itself to help clients with liquidity problems due to the Covid-19 situation. Danish banks have offered credits to thousands of customers in temporary financial difficulties due to Covid-19. Finance Denmark tracked the number of customers, who were helped by five large banks with a market share of approx. 60% during the first six months of the pandemic. Of all cases handled where customers asked for credit or liquidity facilities, banks were able to help 94-98% of them (both business and retail clients). The total credit given or committed is approximately 105 billion DKK (€14 billion).

The reporting and payment deadline for companies subject to VAT reporting has been postponed and typically gives the companies up to 4-month extra credit. New tax measures aiming to increase corporate liquidity (Covid-19) was agreed in the Danish Parliament in 2020. The agreement was expanded in the beginning of 2021, and the measures include interest-free VAT and payroll tax “loans” to companies. Danish companies hit by the COVID-19 crisis also received generous public compensations for e.g. fixed expenses and salaries of employees on furlough. Hence, business demand for banks loans was subdued, and at the end of 2020 lending was lower than in March, just before the COVID-19 pandemic practically closed the society down. Thus, only a fraction of the more than 100 bn DKK committed by the Danish banks at the outset of the pandemic was actually extended as loan for Danish companies. The stagnation in loans to

companies along with higher deposits are continuing into 2021 as some of the tax schemes have been extended.

Bank profitability is also challenged by the low interest rate environment in Denmark and globally. In Denmark, policy rates turned negative already in 2012, and in recent years net deposit surplus has increased markedly, in part due to the extensive Danish mortgage system. Hence, Danish banks were amongst the first to introduce negative interest rate on large deposits from private customers in 2019, and this tendency has increased during 2020.

At the beginning of 2019 Finance Denmark launched a Forum for Sustainable Finance consisting of leading persons from companies, think tanks and experts within climate and sustainability. The same year, 20 recommendations were presented to the financial sector, which Finance Denmark and its members have started implementing in 2020. Finance Denmark have now published the first sustainability report, where some of the main results are that more than nine out of ten financial institutions offered sustainable products. Following another of the 20 Forum recommendations, Finance Denmark has also developed a framework for financed emissions accounting for the financial sector, allowing members to measure the carbon emissions from their investment and lending, a first step in setting targets for future reductions in financed carbon emissions.

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Estonia

The Estonian banking sector consists of 14 banks of which nine are licensed credit institutions in Estonia and five are operating as branches of foreign credit institutions. Banking sector assets constitute €30 billion equivalent to 110% of Estonian GDP. The Estonian banking sector is dominated by foreign capital holding 85% of banking sector assets.

The market is chiefly divided between Swedbank, SEB Bank, LHV Bank and Luminor Bank. Banks are serving two million private and 0.3 million corporate customers through 77 bank branches. Estonian customers are operating 1.8 active current accounts per inhabitant and 1.25 active internet bank accounts per inhabitant.

Unfortunately, the topic of money-laundering has been mentioned in connection to Estonian banking sector during recent years. The suspicions mainly concern transactions of late 2000's and early 2010's and are to do with serving mostly non-resident high-risk customers allegedly without proper due diligence measures.

Though no court proceedings have been held, one small foreign-owned bank, Versobank, had its licence withdrawn by ECB in 2018 and Estonian FSA ordered to shut down the operations of Danske Bank's Estonia branch before the end of 2019. Both banks specialized mainly on corporate finance in Estonia and had a market shares of 1% (Versobank) and 6% (Danske Bank Estonia branch).

The share of deposits of non-resident customers has been decreasing remarkably in recent years. At the beginning of 2013, the share of non-resident deposits in Estonian banks constituted almost 20%, currently non-residents hold 9% of deposits in banks operating in Estonia. The share of deposits originated by non-resident customers registered in offshore territories has decreased 10 times, currently making up less than 1% of the whole deposit portfolio.

The Estonian banking sector has zero tolerance when it comes to money laundering or terrorist financing. Local banks are also enforcing agreed financial sanctions. Estonian Banking Association has submitted its proposals for using legislation to shore up anti-money laundering efforts.

Estonian banks have issued 1.46 bank cards per inhabitant, 80% of issued cards are debit cards, and 20% credit cards. 65% 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 almost €20 billion worth of deposits and operate loan portfolios of the same value. The banking sector is mainly funded through the deposits of resident clients, though financing from equity market and parent companies plays an important role in the funding of some banks.

Bank deposits continue to grow faster than debt liabilities - the bank deposits of households were 12% larger at the end of 2019 than they were at the end of 2018. The annual growth of loan portfolio was less than 4%. The rise in incomes and in employment has meant the saving rate of Estonian households has been quite high in recent years.

The average interest rates on new loans did not change substantially in 2019. The average rate for long-term corporate loans issued in December was 2.6%. Average interest rate for new housing loans was 2.4% by the end of the year.

Quality of the loan portfolio remained good. Value of loans overdue by more than 60 days has remained at 0,5% of the loan portfolio since 3Q 2018.

Housing loans account for about 40% of the loans to the non-financial sector and 80% of the loans granted to households, which is slightly above the average for the countries in the EU, but as a share of total assets, the volume 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 homeownership over renting. It also indicates that the operations of banks in Estonia are less diversified than the average for the EU. Credit growth in housing loans continues to be supported by very low base interest rates and growing prices on the housing market.

The profitability of the Estonian banking sector has been among the strongest in the EU countries. The Estonian banking sector is relatively cost-efficient, which may partly be 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 2019 was €285 million representing 20% decline compared to the 2018.

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Finland

The Finnish gross domestic product (GDP) fell 2.9% in 2020 as a result of the coronavirus induced financial crisis. The GDP in the euro area fell 6.6%, so in comparison, Finland managed relatively well. GDPs were affected especially by the fact that the services sector's value added fell as a result of the economic restrictions and cautious behaviour of consumers. In the early weeks of the coronavirus crisis, consumer confidence crashed, which was reflected in private consumption as a decrease of 5%. It will take time until Finland's key export partners recover from the coronavirus crisis, so the outlook of Finnish industrial trends and the growth of private investments depend on the recovery of international economy. According to latest forecasts and indicator data, economic growth may recover already during 2021.

According to preliminary data, the value of Finnish exports totalled €85 billion in 2020. Exports decreased by 11% and imports decreased by 12% compared to the previous year at current prices. The volumes of export and import both decreased 7%. The coronavirus pandemic was reflected especially in diminished export and import of service. Travel restrictions were globally imposed on all continents, which reduced the import and export of travel and transport services. Partial recovery of product exports towards the end of the year was due to an international shipbuilding order worth nearly one billion euros. The value of investments decreased by 3% to €55 billion. Their volume sank by 5%, but public investment accelerated 3% compared to the previous year.

The long positive trend in the employment rate took a turn in the opposite direction in the second quarter of the year. According to Statistics Finland, the number of employed people decreased with 37,000 persons in 2020. The number of available jobs dropped the most in social and health care services, hotel and restaurant business, and in transport and storage services. The employment rate was on average 71.6%, which is one percentage point less than the previous year.

When the coronavirus crisis broke out, the number of temporary lay-offs soared, rising the highest in April 2020 with 164,000 persons. After April, the number of lay-offs began to fall rapidly and levelled out at 60,000 persons at the end of the year. The wages and salaries received by households fell in nominal terms by 0.4% to €92.8 billion. Unemployment benefits paid in Finland increased by 38% to a total of €5 billion.

In addition to central banks' monetary policy stimulus, many countries around the world resorted to lending to finance their economies during the global coronavirus-induced financial crisis. Finnish public sector entities' deficit was €12.9 billlon when a year earlier it was €2.4 billion. General government deficit was even bigger with €13.4 billion (€2.7 billion the year before). The aggregate deficit-to-GDP ratio of public sector entities was 5.4%. This deficit exceeds the 3% limit defined the EU Stability and Growth Pact. General government EDP debt, or consolidated gross debt, was 69.2% relative to gross domestic product at the end of 2020. This is above the 60% debt-to-GDP limit set in Stability and Growth Pact. The public deficit was increased by expenses related to the coronavirus pandemic, other additional public costs, and the smaller accumulation of tax income and social security payments.

The effects of the coronavirus pandemic were also reflected in the housing market. When the crisis broke out, construction trends slumped but recovered fast and even surpassed precrisis levels in late 2020. According to Statistics Finland, construction was started on 40,900 new dwelling units, which is 8% more than in 2019. Slightly over 32,200 housing start permits were granted in 2020, which is 4% more than the previous year. A total of 39,600 building permits were granted in 2020. This is 6% more than the previous

year. The highest number of new building permits was granted in 2017 with close to 49,100 permits. The number of completed dwelling units was 10% smaller in 2020 with 39,000 units.

The Finnish banking market is dominated by four major banks, who together hold 80% of the market shares. Nordea Bank, OP Financial Group and Municipality Finance are deemed domestically significant institutions (O-SII) and are directly supervised by the ECB. Smaller domestic retail groups, like Savings Banks group, POP Bank group and other small domestic banks, are under the supervision of the Finnish Supervisory Authority.

The biggest group by market share (34.6%) is OP Financial Group. The group is made up of 141 independent member cooperative banks and the OP Cooperative, which they own. Second largest is Nordea Bank with a 25.1% market share. Danske Bank and Municipality Finance are nearly equal in terms of their market shares, 10.8% and 9.6%, respectively. Danske Bank turned its Finnish subsidiary into a branch at the end of 2017.

Finnish households' loan debts totalled €163 billion at the end of 2020, which is €6 billion more than in 2019. Housing loans comprised the majority of this debt with €104 billion. Households were liable for approximately €19 billion in limited-liability housing company loans.

Households' liability for consumer credits has not continued to rise after the first quarter of 2020. Households had €23.7 billion in consumer credits at the end of 2020. The growth rate of consumer credits granted by credit institutions has slowed down. Especially the use of credit cards has decreased. In July 2020, the Ministry of Justice imposed a temporary interest rate ceiling for the rest of the year in response to the coronavirus crisis. The 10% interest rate ceiling and the direct marketing ban of consumer credits have affected the operation of payday loan companies, who have charged the highest interest rates in the unsecured consumer credit market. The temporary interest rate ceiling did not apply to instalment purchases or credit card debt.

In 2018, the Ministry of Finance appointed a working group to examine ways in which the excessive indebtedness of individuals and households could better be controlled and macroprudential risks thus reduced. The working group published its report in October 2019. Legislative proposals are expected later in 2021.

Once the coronavirus-induced financial crisis broke out, Finnish banks reacted quickly to the changed operating environment by granting grace periods (payment moratoria) and other flexible arrangements for their household and corporate customers. The number of repayment holidays, in particular, swiftly increased in early 2020. In the course of the year, households and businesses applied for a total of more than 300,000 loan grace periods. Corporate customers were also offered e.g. lower service fees and financial consultancy.

The number of temporary lay-offs and the fast growth of unemployment were reflected in the number of applications. Unlike in some other EU countries, Finland has not had moratoria required by legislation or mutually agreed by the entire sector, and the granting of loan payment extensions has been left at each bank's own discretion. The average length of a repayment holiday was six months. Nearly all applications were accepted.

During the second wave of the pandemic in the second half of 2020, the demand for new repayment holidays was significantly lower and returned to nearly normal levels. Extension applications to existing moratoria were also relatively few. The proportion of forborne corporate loans grew 0.3 percentage points

and comprised 2.0% of total loans at the end of 2020. The proportion of forborne loans to households grew 0.8 percentage points and comprised 2.1% of total loans at the end of 2020. Compared to the European average, Finnish banks have proportionately less outstanding corporate loans to the sectors and industries most impacted by the coronavirus crisis, such as travel and hospitality industry.

The financial crisis caused by the coronavirus pandemic was also reflected in Finnish banks' operating environment, although less than predicted. Despite economic uncertainty, the banking sector's capital ratios changed little, and the Common Equity Tier 1 (CET1) ratio and leverage ratio even improved in 2020. The overall capital adequacy ratio of the sector stood at 21.2% at the end of year, down 0.1 percentage points from 2019. The sector's Common Equity Tier 1 (CET1) ratio strengthened 0.5 percentage points to 18.1%. The leverage ratio increased 0.3 percentage points to 6.2%. The capital adequacy of the Finnish banking sector remains well above the EU average.

The aggregate operating profits of the Finnish banking sector grew by €0.9 billion, totalling €4.3 billion in 2020. Because the comparison year 2019 involved many non-recurring costs that weakened banks' operating profits, the growth of the operating profits in 2020 was mainly related to smaller costs.

Net interest income increased 4% to €6.7 billion. Commission income stayed at €3.9 billion, the same as in 2019. Despite the coronavirus crisis, the banking sector's income remained level. Growth in net interest income was primarily due to smaller interest expenses. Banks' operating environment was characterised by historically low interest rate level and interest margins lowered by competition.

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France

In 2020, the activity in France showed a historic drop: GDP fell by 7.9%, after +1.8% in 2019 and +1.9% in 2018. This downturn is mainly a result of the health crisis linked to Covid-19: the economy has been greatly disrupted by the epidemic, while the measures aiming at limiting its spread (lockdowns, curfew, closing of retail shops, etc.), taken both in France and in various countries, also slowed the activity down. The French Government largely supported the fall in activity, through policies aimed at supporting the economy (furlough scheme, solidarity funds, etc.). Despite the reduction in non-financial corporations' income, their profit ratio remained at a level comparable with previous years. The moderate increase in households' income (+1.0%), combined with a fall in consumption (−6.5%), led to an outstanding increase of their savings in 2020.

Against this unprecedented backdrop, the French banking industry demonstrated a deep sense of purpose in carrying out its core duty of serving society. Rising to the challenge of the health and economic emergency, the banking profession took action to ensure the uninterrupted delivery of the services needed for the country to operate. Launched on 25 March 2020, the State-Backed Loan (SBL) or Prêt garanti par l'Etat (PGE) is an unprecedented measure devised by the banks and public authorities to improve the liquidity of companies and professionals reeling from the shock of the health emergency. On 1st January 2021, nearly €131 billion had been granted to more than 638,000 businesses among which 90% very small companies. Furthermore, €20 billion in business loan payments have been deferred in 2020.

This massive economic support was made possible thanks to the strength of the French banking system. The banking sector is one of France's six main economic assets, according to the OECD. As of January 2021, the French banking industry counted 337 banks. According to the Financial Stability Board, four French banks are among the eight Euro area Global Systemically Important Banks (G-SIBs). Financial activities accounted for 3.7% of total value added in France in 2020, of which approximately 60% for the banking industry. The banking industry employed 354,000 people at the end of 2020, representing 1.8% of the private workforce in France, and recruiting more than 35,300 people in 2020. Their network of bank branches providing access to banking services and cash is among the densest in Europe (one bank branch for 2,086 inhabitants in 2020 versus 2,888 in the eurozone).

The results of the combined asset quality review and stress testing, conducted by the European Banking Authority and the European Central Bank, demonstrated the high level of capitalization of French banks. The aggregate common equity Tier 1 capital (CET1) of French banks was 15.4% at the end of 2020.

The six largest French banking groups, which operate according to the 'universal banking' diversified model, posted a resilient financial performance in 2020. Total net banking income reached €147.8 billion (down 1.9% compared to 2019) and total group net income was €20.3 billion.

Amidst the Covid-19 crisis, banks are supporting companies and individuals with tailored solutions while complying with health regulations. At the end of December 2020, outstanding loans to the economy stood at €2,752 billion, up 8.3% year-on-year. This sharp increase reflects the wide diffusion of the State-Backed Loan (PGE).

Outstanding loans to businesses stood at €1,200 billion at the end of December 2020, up 13.3% year-on-year, while the euro area rose by 6.5% on average. Outstanding loans to investment were the most important segment, at €807 billion (up 6.1%).

Loans to SMEs accounted for 44% of total loans granted to businesses in December 2020 and rose by 20.5% year-on-year. Access to credit is high: 98% of SMEs investment loans and 90% of cash credits applications were accepted in the fourth quarter of 2020.

French banks also actively finance French consumers. Outstanding household loans reached €1,359 billion at the end of December 2020, up 4.5% year-on-year. Most household loans were housing loans, representing €1,137 billion (up 5.4% year-on-year).

Lending activity remains both dynamic and sound. The level of non-performing loans is very low (2.2% at the end of December 2020) as the cost of risk (as a proportion of average total assets it declined from 0.41% in 2009 to 0.2% in 2020).

Diversification of corporate financing is developing in France. Markets account for 37% of corporate financing, compared with 30% in 2009. French banks also have a large and diversified investment banking activity.

French banks' investments, innovation, and leading role in the fintech ecosystem make them the natural leaders of the digital financial movement in France. 66% of French people, more than 33 million, have downloaded at least one banking app, and 92% of French people, or nearly 47 million, consult their bank's website according to the study FBF/IFOP conducted in 2020. Moreover, thanks to the raise of the limit for contactless card payments from 30 to 50 euros, the number of contactless payments edged high: 4.6 billion in 2020 (after 3.4 billion in 2019) accounting for nearly 60% of card transactions in retail stores.

It is worth mentioning a French Initiative which is a world first, pursuant to which the large French banks have decided to exit the coal sector (with firm exit dates) and have published an indicator that will be updated annually to evidence such exit, as well as the related methodology in order to be as transparent as possible. As of 2019, their exposure to coal amounted to €2.3 billion, representing less than 0.2% of their corporate portfolio.

Such publication was launched on the website of the "Observatory of Sustainable Finance" on 29 October 2020 to mark Climate Finance Day. This tool tracks all the French financial institutions progress on Sustainable Finance and involves all the French financial institutions, the French Government and the French financial regulators (AMF and ACPR) who will oversee the reality of the commitment made. This multistakeholder approach is unique in the banking world.

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Germany

The global economy was hit hard by the Covid-19 pandemic in 2020. GDP growth in Germany declined by 4,8% in 2020 – ending a 10-year growth period while causing the deepest recession since the financial crisis in 2008. The temporary reduction of containment measures in the third quarter lead to an increase in GDP growth, however, the second wave of the pandemic stopped this recovery. German industry was hit hard by the decline in global economy as it is strongly integrated into global trade and production chains. In 2021, GDP growth in Germany is expected to increase by around 3½ to 4% as the number of vaccinations is increasing, and containment measures are lifted.

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. An important feature of the private banks is that they compete keenly not only with banks in other sectors of the industry, but also among themselves. The private banks play a key role for the German export economy, they are involved in 88 % 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 377 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 six Landesbanken at present are owned by the federal states and the regional associations of the savings banks.

The cooperative sector consists of 815 cooperative banks (Volks- und Raiffeisenbanken) and one central cooperative bank (DZ Bank AG). It accounts for 54% of all institutions by number and 18 % 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 59% 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 consolidate further 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, especially, could be particularly affected and could seriously restrict banks' lending capacity.

Nevertheless, accompanied by low interest rates and the overall extraordinarily favourable financing conditions, lending to companies and the self-employed has with €1.107 billion in 2020, increased

compared to the previous year (+4.1%). German banks have launched many initiatives to promote sustainable financing. However, the growth rate of lending is decreasing since autumn 2019, only interrupted by a temporary increase due to short-term liquidity demand in the beginning of the pandemic. Reduced investments due to uncertainties triggered by the pandemic are further reducing the growth rate of lending.

With a negative interest rate and the massive buying-up programmes (especially PEPP), the ECB tries to lower rates across the entire yield curve in order to boost demand for investment and longer-term credit. However, as banks are only rarely passing on negative rates to customers in the broad deposit business, negative ECB-rates worsen bank profitability. In the longer run, this weakens their lending capacity. In addition, the massive buying-up programmes are causing excess liquidity in the banking system to rise sharply. In 2020, German banks had to pay around €2.7 billion to the ECB due to the negative deposit rate. The special conditions of the TRLTRO-III program are no adequate compensation for German banks with a strong deposit business.

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Greece

In 2020 the recovery path of Greece was disrupted by the sanitary crisis of the new Covid-19 virus which caused an unprecedented shock at global economic and social level and interrupted the positive momentum of the country. Greece was seriously hit by the pandemic since tourism, one of the most important sectors of the Greek economy, was heavily impacted. This, in addition to the suspension of the operation of a large number of enterprises for a long period of time during the second and the fourth quarter of the year, resulted in a deep contraction of the economy as shown by the 8.2% drop in the Greece's GDP.

As an immediate response, the Greek government timely activated a generous package of fiscal and liquidity measures, in order to support the mostly affected for enterprises, especially small and medium ones, and employment in various sectors impacted by the crisis. The deferral of tax payments for affected businesses and employees, a 'special purpose' compensation for specific professionals and affected business owners and a wide range of financial State Aid measures for businesses were some of the state initiatives adopted. The total amount of fiscal and liquidly measures exceeded 10% of GDP in FY2020 (excluding indirect effects and bank leverage of State guarantees) following the activation of additional supportive measures in the second semester of 2020 due to a new deterioration in epidemic conditions. Overall, the package of economic support measures (fiscal, tax deferrals and liquidity) deployed in 2020, amounted to € 23.1 billion or 13.9% of GDP. The fiscal cost of these measures, without taking into account liquidity measures, amounted to a total value of € 11.6 billion, or 7.0% of GDP.

Also, a number of public and private moratoria in the banking sector were announced in light of the pandemic including, inter alia, the deferral of the repayment of loan principal by individuals and for performing business loans (both announced by the HBA), and the temporary suspension of payment of any instalments due pertaining to the out of court settlement and the primary residence protection regime.

As a result of the above, government deficit climbed to 9.7% in 2020 from 1.1% in 2019, while government gross debt increased to 205.6% from 180.5% in the previous year. As vaccination rates increase and the economic situation gives the green light to the easing of the emergency fiscal measures, debt indicators are expected to return to lower rates not earlier than 2022. Unemployment rate slightly decreased as of previous year to 16.3% from 17.3%, while private consumption sunk by -5.2% year-on-year following an increase 1.9% in 2019. The Harmonised Index of Consumer Prices (HICP) declined by-1.3% from 0.5% last year. However, the significant amount of savings that was accumulated throughout the previous period could be the base for further spending and investment going forward as Covid-19 related uncertainty fades.

The structure of the Greek banking sector remained broadly unchanged: the credit institutions incorporated in Greece are 15, of which nine are commercial and six cooperative banks. Of the nine commercial banks, only four are deemed "systemically significant credit institutions", according to the respective SSM definition. Currently, 22 foreign banks operate in Greece with local branches, out of which 20 (2019: 18) branches of credit institutions are incorporated within other EU Member States and two branches of banks incorporated within third countries (2019: 3). The share of the five largest credit institutions in total assets reaches 97% (2019: 97,3%) of the banking system. In total, the number of banks' branches was 1,702 (2019: 1,834), while the number of employees is 33,097 (2019: 36,727) and ATMs 5,797 (2019: 5,702).

At the field of NPLs reduction, banks' efforts to reduce the high stock during 2020 have advanced rapidly. According to the Bank of Greece, at the end of 2020, NPLs amounted to €47.2 billion, decreased by 25.9% from previous year-end. The target of a one-digit ratio would be further pursued the following years, mainly due to the hive down projects of the majority of the systemic banks and the securitization initiatives of

most of them backed by the Greek government asset protection scheme (Hercules I & II). This target could be accomplished without taking into account the possibility of newly created NPLs when support measures are phased out which, however, are reported to have been less than initially feared.

Despite the extreme levels of uncertainty, the Greek banking sector remained resilient and adequately capitalized. Supervisory authorities' flexibility in terms of debt moratoria and ECB's decision to allow the inclusion of GGBs into the PEPP scheme, allowed the Greek banks to overcome the challenges and to continue financing the economy uninterruptedly. Capital adequacy ratio, although declined from 17.3% in 2019 to 16.6% in 2020, it remained satisfactory, while Common Equity Tier 1 ratio declined to 14.9% from 16.2% in 2019.

Despite the insisting uncertainty concerning the evolution of the pandemic and the impact it might have on the revenues from the tourism sector and the solvency of firms after support measures phase out, the ongoing progress in vaccinations and the launch of the National Recovery and Resilience Plan Greece 2.0 are expected to boost confidence and spending, supporting a strong turnaround in GDP in the immediate future.

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Hungary

Due to the pandemia the performance of the Hungarian economy has dropped in 2020, the country's GDP growth was -4.1%. The Government and the Hungarian National Bank introduced massive fiscal and monetary measures for reviving the economic actors and revitalizing the economy. It is worth to note the payment moratoria that is the longest and most generous scheme over the European Union. The measures effectively supported a fairly rapid recovery from Q3.

Retail trade and other personal services were the fastest to recover in Q3, then industrial production and trade rebounded, the transportation sector's performance improved as well except of the aviation, Even though some sectors suffered strong setbacks again due to the reinstatement of limitations in Q4, this was almost fully offset by a marked improvement in industry and construction. Even capital formation turned to increase in Q4 on a quarter-on-quarter basis. The unemployment increased by the mid of the year but stayed below 5% and dropped to 4.2% by year-end.

Starting from 4.7% at the beginning of 2020, inflation fluctuated from quarter to quarter; it decreased in Q1, rose in Q2, and went down again in Q3, and in Q4 finally it went to 2.8% staying below the target of the Hungarian Central Bank.

The cost of pandemic measures seriously increased the budget deficit over the year, it decreased to -16.7%, while the government debt reached over 80% again.

Due to various developments all over the year, the current balance of payments is expected to have improved slightly.

The value of the banking sector's total balance sheet increased by 22.11% compared to the previous year.

The Hungarian banking sector consists of 41 institutions. Among them are 21 commercial banks, 8 foreign bank branches, five mortgage banks, four building societies, three specialised banks.

Under the circumstances of Covid-19 pandemic the Hungarian domestic instant payment system (HIPS) has been smoothly operated since its launch as of 2nd March 2020. In 2020 it has cleared and settled 94 million instant transactions amounted to 14.414 billion HUF and in the first quarter of 2021, 32 million transactions amounted to 4.7 billion HUF. The lion share i.e. 96% of transactions have been credited in the beneficiaries' accounts in two seconds i.e. in a shorter period of time than the central bank's decree requires, namely in five seconds. Since last September HIPS processes request to pay and normal credit transfer batches, as well.

The number of branches and employees in the banking sector practically did not change in 2020 i.e. there were slightly less than 2000 branches and with some hundreds more than 40 thousand employees in it. For the country's population of 9.8 million in 2020, there were more than 10.4 million bank accounts, more than 9.8 million payment cards (out of which 9.1 million were contactless), 5 004 ATMs, 212 000 POS physical terminals plus almost 24 000 virtual ones.

Electronic payments increased dynamically in 2020 it accounted 1.5 billion payment transactions. The payment card accepting POS network's already 98% support contactless card acceptance. In 2020 from the 1.5 billion electronic payments more than 1 billion were executed by payments cards. The number of

transactions via internet were 38,5 million in value 20.5 billion HUF while the number of mobile payments were 11.6 million in value 1.4 billion HUF.

49,66 % of the banking sector's total loan portfolio is provided to non-financial corporates, 34.3% to households and organisations closely linked to households and 16.29% to the foreign sector.

The deposit value of the banking sector – excluding interbank transactions - remarkably increased in 2020 (by 23.22%) in total, corporate and household contributed positively, altogether by 22.84%.

The financing of renewable energy projects usually depends on the visibility of the input-output side and the technology. Profitability typically depends on a feed-in-tariff system, which ensures a subsidized price for selling the produced electricity for a fixed period (mandatory takeover period). The banking sector needs a proven and precise technology, a stable and foreseeable regulatory environment, and professional investors.

The KÁT feed-in-tariff system in Hungary, which was available for ten years until 2017, was a calculable and reliable system supporting the financing of renewable projects and was very favourable for investors. However, in 2017 a new financial incentive scheme called METÁR was introduced that is a bit stricter, more competitive, and provides a tender-based price subsidy to investors in case of larger-scale projects. These days in Hungary, the primary trend is the hegemony of solar projects. The transition from KÁT Regime to METÁR generated a rush for KÁT licensing before its closure. More than 2,800 KÁT-eligible power plant licenses (over 2,000MW combined) had been submitted by the end of 2016. The most popular "product" was the solar power plant with 0.5 MW capacity under the KÁT with 25 years mandatory takeover period. About half of these projects will be developed and constructed in the next one to two years, and there is already a considerable financing need for these projects in the banking market.

From 2019 operating support (METÁR) can be allocated on tenders only. The first call for the METÁR tender was in September 2019. There was high competition with bids more than 2,5 times the allocable capacity. About 95 MW new capacity won support on the tender; winners got prices 20-30% lower than the previous administratively set tariffs. The second call was in July 2020. The competition was even higher with bids more than 5,5 times the allocable capacity, which brought another 21% price reduction in the bigger (> 1 MW) category. As a result, 210 MW new capacity won support on the second tender with an average supported price of 17,82 HUF/kWh. The third call was in April 2021; the deadline for the applications is 30 July 2021. Currently, 300 GWh/year renewable electricity can be supported. According to the Ministry for Innovation and Technology communication, calls will happen twice a year from 2021, and 300 – 500 GWh/year renewable electricity can be supported in each call.

The capital position of the Hungarian banking sector – including OTP group's foreign affiliates - is stable. The CET 1 capital adequacy ratio (CAR) is over 16%, while the total CAR is at almost 19%.

In 2020, profits of the Hungarian institutions dropped as compared to 2019, before tax return on equity decreased from 11% to 4%.

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Iceland

The Covid-19 pandemic had substantial negative effect on the economy in 2020. The economy is expected to rise again in 2021 after contracting by -6.6% in 2020, with GDP forecasts ranging from 3% - 5% growth. The tourism sector is expected to rebound from mid-year 2021 alongside a rise in private consumption and investment. Unemployment is forecast to average around 7% in 2021, which is still high by Icelandic standards.

The commercial banking sector consists of four universal banks and four small savings banks that operate in the rural areas. Of the four commercial banks, three are defined as systemically important parties subject to supervision by the Financial Stability Council in Iceland.

The banking sector currently has around 2,400 employees working in 75 branches around Iceland. Decreasing profitability has pushed the banking sector towards boosting returns by streamlining and cutting costs. Commercial banks and savings banks have therefore closed a considerable number of service points and reduced staff since 2012 with increased emphasis on electronic self-service solutions. Electronic payments, services and signatures have been on the rise over the past years and temporarily reduced services in branches during the pandemic have accelerated the process with online services and interactions surpassing traditional ones.

Since October 2015, ownership of two of the three major banks has been primarily in the hands of the Icelandic government. The government has taken the first steps in deleveraging its holdings in the financial system. One bank is still fully government owned, the Minister of Finance and Economic Affairs has begun the process of selling the governments holding in the second bank. An initial public offering was held in June 2021 and 35% of the governments share was sold. All shares in the bank were listed on the stock exchange in Reykjavík thereafter. The third bank is listed on the stock exchanges in Reykjavík and Stockholm and the sole investment bank is listed on the stock exchange in Reykjavík.

Total assets of the banking sector amount to ISK 4,212 billion, the equivalent to around 140% of GDP in 2020. The asset base is predominately domestic: total domestic assets are ISK 3,789 billion or 90% of total assets. Total loans in the banking sector amount to ISK 3,767 billion. The banks are predominantly funded by domestic deposits which amount to ISK 2,176 billion.

Credit system lending grew by an average of 5.2% year-on-year in 2020. The pace of growth increased over the course of the year, reaching 6.4% by Q4. Lending to households increased over the course of 2020. Twelve-month growth was around 10% at year-end. It stems almost entirely from increased mortgage lending, as the housing market has been lively, fuelled by a significant drop in mortgage interest rates and a modestly leveraged household sector before the pandemic struck. Corporate lending remained broadly flat year-on-year in 2020. The growth rate had slowed in 2019, alongside declining economic activity and higher returns required by banks on corporate loans. Support loans and bridge loans, which bear a partial or full Treasury guarantee, have supported growth in lending to the companies affected most severely by the pandemic.

The Icelandic banks are all contributing to sustainability in Iceland. All have high ESG ratings and are moving towards sustainable financing. The banks have a broad spectrum of green products e.g. green bonds, green

mortgage lending, green car financing and green deposits. This subject will continue to be a focus point for the financial sector in the coming years.

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.

The overall performance of the three systemically important banks has deteriorated in recent years. The banks' return on equity was positive by 4,6% in 2020, roughly the same as in 2019. The reduction in returns in both 2019 and 2020 is due in large part to negative returns on discontinued operations and Covid-19 related provisions for loan impairment.

The commercial banks in Iceland were well prepared for the operating difficulties brought on by the COVID-19 pandemic thanks to a strong capital and liquidity position, which is well above the levels required. The impact of the pandemic on financial institutions' balance sheets shows primarily in increased impairment and arrears and a larger share of frozen loans. The vast majority of frozen loans were to companies in tourism and other services.

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Ireland

Ireland's economy posted another solid performance in 2020, despite the difficult circumstances posed by the UK's departure from the European Union (Brexit) and the Covid-19 pandemic, with gross domestic product (GDP) up 5.9% year-on-year in volume terms. However, there was a clear split between the domestic economy where personal consumption fell by 10.4% year on year and international trade, where exports rose by 9.5%.

Unemployment rose from 4.5% by Q4 2019 to 5.7% a year later but gross household savings jumped from 12.2% in 2019 to 23.7% in 2020.

There were 53 banks operating in Ireland at the end of 2020. These included 25 credit institutions authorised in Ireland (of which five were covered bond banks) and 28 branches of banks authorised in other European Economic Area countries that were operating in Ireland. Seventeen of the credit institutions were headquartered in Ireland or had more than 20% of their business with domestic customers.

While the number of banks has fallen slightly in recent years, the number of credit unions - not-for-profit, member-owned financial cooperatives funded primarily by member deposits – fell from 243 to 229 between September 2019 and September 2020 as credit unions consolidated.

The Irish government has majority stakes in two banking groups (a 71% stake in Allied Irish Banks and 75% in permanent tsb) and a minority stake in one (14% in Bank of Ireland). The five main banks operated 634 branches and almost 2,400 ATMs for cash withdrawal nationwide by the end of 2020. Independent companies have increased their ATM fleets in Ireland in recent years and accounted for an estimated 30% of ATMs in Ireland by the end of 2020.

Card payment volumes rose by 5.8% in 2020 to more than 1.3 billion even though many business premises were forced to close for long periods to limit the spread of Covid-19. The restrictions encouraged more people to shop online, with the value of online card payments up by 25% year on year. At the point of sale, contactless payments became more popular, with the value of contactless payments up by 50% year on year. However, the value of cash withdrawals at ATMs fell by 32.5% year on year to less than €13.3 billion.

The number of cheque payments halved between 2016 and 2020 to about 23 million. The number of online and mobile banking payments grew by 67% over the same period to 118 million.

BPFI research shows that new residential mortgage lending fell by 12% year-on-year to about €8.4 billion, including €1.2 billion of re-mortgaging with a new lender or switching. The first-time buyer (FTB) market has been accounting for most of the activity in the mortgage market in recent years. FTBs accounted for around 53% of the number and value of mortgage drawdowns in 2020. Some lenders provide discounted fixed interest rates on mortgages secured on residential properties with higher energy efficiency ratings.

Gross new lending to non-financial small and medium-sized enterprises (SMEs), excluding financial intermediation, fell from €5.4 billion in 2019 to €4.1 billion in 2020, according to the Central Bank of Ireland. Repayments by SMEs exceeded drawdowns by €1.4 million in 2020. Annual lending to hotels and restaurants fell to its lowest level since 2013, while lending to the wholesale and retail trade fell for the third year in succession.

The government-owned Strategic Banking Corporation of Ireland (SBCI) provides wholesale funding to banks and non-bank financial institutions for on-lending to SMEs. During 2020, it supported some €0.8 billion in lending, through loans to SMEs or risk-sharing schemes, including credit products to support customers affected by Covid-19 and Brexit.

Lenders, through BPFI, had put in place payment breaks on about 151,000 residential mortgage, consumer credit and SME lending accounts by the time applications closed at the end of September.

Some €19.7 billion of the €37.3 billion loans outstanding to Irish resident private-sector enterprises (excluding financial intermediation) was outstanding to SMEs at the end of 2020. Housing loans of €73.8 billion were on the balance sheets of credit institutions, with a further €16.8 billion in securitised loans. When non-banks are included the value of mortgage debt outstanding contracted by 1.6% in 2020 to €113.3 billion. Non-mortgage personal credit outstanding fell by 4.4% year on year to €12.2 billion by the end of 2020.

The growth in credit institution deposits accelerated in 2020 with private household deposits increasing by 12.7% year-on-year to €117.3 billion at the end of 2020, and deposits of Irish resident private-sector enterprises (excluding financial intermediation) jumping to almost €80 billion to about €68 billion. Much of the growth came from overnight deposits, with household current account balances increasing by 18.3% during 2020 to €47.6 billion.

An Post, the State-owned postal service operator, managed a further €22.7 billion in national savings schemes and post office savings accounts on behalf of the national treasury.

Resident credit institutions in Ireland, including credit unions, employed almost 26,300 people at the end of 2020, the fewest since the data series began in 1999, according to the European Central Bank. Banks paid some €2.9 billion in wages and salaries in 2019, of which banks mainly active in international markets paid more than €0.8 billion. Banks also paid some €0.2 billion in corporation tax. Since 2014, banks have also paid an annual levy of about €150 million.

Gross value added (GVA) by the banking sector was estimated at €6.1 billion in 2018, according to the Central Statistics Office. Resident banks reported combined losses after interest and tax of almost €1.5 billion in 2020 compared with profits of €2.5 billion in 2019.

Ireland's exports of financial services (excluding insurance and pension services) rose by 2.1% in 2020, to €17.2 billion. Ireland was also the eighth largest exporter of financial services in the world in 2019, according to UNCTAD.

Total credit institution balance sheet assets rose to more than €756 billion at the end of 2020, the highest level since September 2013, mainly reflecting an increase of €104 billion in loans outstanding to euro area non-residents over the same period. In terms of liabilities, deposits from Irish private-sector residents remained the key source of funding and increased by €36 billion during 2020.

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Italy

In 2020 the spread of the Covid-19 pandemic led to an abrupt and deep GDP contraction, in Italy and elsewhere. Italian economic activity experienced a drop of around 8.9%, the worst since the Second World War. Thanks to the successful vaccination campaign and the improvement in public health, the Italian growth resumed in 2021. According to current forecasts, economic recovery is expected to strengthen decisively in the second half of 2021; it may rise more than 5% on average for the year, so that more than half of the fall in GDP recorded in 2020 can be made up. Starting from the second half of 2022, GDP is expected to return to pre-pandemic levels and will continue to growth in the next years, to around 4.5% in 2022. Once more, expected recovery will be supported by the more than resilient Italian banking sector banks that played and are still playing a key role supporting the real economy to face the pandemic crisis. The premise to make this possible was the good state of health of banks after years of continued efforts to improve capitalisation and asset quality.

The health of Italian banks is also reflected in the fundamental role they continue to play in favour of households and firms. Italian banking sector was strongly committed to ensure that Italian Institutions measures to support families and companies affected by the coronavirus outbreak are correctly and quickly applied. In December 2020, loans to households and non-financial corporations posted a 5.5% yoy increase. In the first five months of 2021, lending continued to increase apace, although more slowly than before. The most recent data, updated to May 2021, show that total loans to households and non-financial firms continue to grow at a rate of 4.4% on an annual basis. In detail, loans to non-financial corporations grew by 4.6%, supported by government measures contained in the 'Cure Italy' and 'Liquidity' decree laws, sectoral initiatives and those offered bilaterally by individual banks to their customers. According to the data of June 2021, it has been estimated that the existing outstanding debt moratoriums to households and NFCs amount approximately to €128 billion, equal to 46% of all the moratoriums granted since March 2020 (approximately €280 billion). This amount refers to approximately 1.2 million applications.

In 2020 total funding (resident customers deposits and bonds) grew about 8.0% year-on-year (+4.7% in 2019), driven by deposits (+10.5% in 2020 vs +5.8% in 2019), while retail bonds continue to decline (-8.3% in 2020 vs +1.9% in 2019). Overall, the latest figures (updated to May 2021) indicate that total funding from customers grew by +6.3% year-on-year. In May, firms had deposits of almost €460 billion and those of households amounted to €900 billion, respectively 16 and 7% more than twelve months previously.

In 2020 the Italian banks' asset quality remains high. Despite the sudden contraction in economic activity, the reduction of the stock of NPL continued in 2020, due to both the reduced flow of new NPLs (1.1% of total loans in 2020, slightly lower than in 2019) and further disposals (€33 billion in 2020). The stock of NPLs net of provisions was €51 billion as at end 2020 (28% lower than end-2019), showing a reduction from 3.3% to 2.2% of total loans.

Capital adequacy has also Improved. At the end of December 2020, the CET1 ratio of the entire banking sector was equal on average to 15.5% of RWAs, about 150 basis points higher than end-2019 (15.5% for Significant Banks and 18.7% for Less Significant Banks).

The Covid-19 pandemic led to a significant reduction in profitability in 2020. The return on equity (ROE), net of extraordinary components, was 1.9% (1.4% for Significant Banks and 3.1% for Less Significant Banks).

The negative effects of the Covid-19 pandemic have been driven Italian banks to review its business models to make them more sustainable and suitable for the profound changes under way. The restructuring plans and the consolidation of the Italian banking sector also respond to these challenges, as well as those of regulatory changes and digitalisation. At the end of 2020, Italy's banking industry (comprising bank holding groups and independent banks) consisted of 110 active players. Banks have continued to reorganize the distribution network by cutting the number of branches and employees. In 2020 the number of branches fell by 3.2% (to 23,481) and the number of employees by 2.3% (to 275,224), continuing the trend since 2008. Following the streamlining of the branch network, the average number of bank branches per 100,000 inhabitants decreased by about 33% compared with 2008. The rationalisation of the distribution network mainly involved significant non-cooperative groups, which since 2008 have reduced both the number of branches and the number of branches' employees by about 40%. The drop in the in the number of branches has been more limited for less significant banks (5.5%).

The restrictions caused by pandemic on mobility favoured a greater use of digital distribution channels, encouraging banks to invest in the development of projects connected to financial innovations applied to the provision of financial services.

Due to the pandemic, the digitalisation of banking customers has shown a strong acceleration. In 2020, the share of customers who could access their current accounts through digital channels was 79%. Compared to the end of 2019, the share of banks that allow customers to receive quotes and to submit remotely loan applications (from 36 to 39% for households and from 16 to 22% for businesses).

Almost all the larger intermediaries and a third of the smaller ones have planned or undertaken projects for technological innovation applied to the provision of financial services (FinTech). The main areas of interest are improving customer services and exploiting information to refine business strategies. About a third of intermediaries expanded their investment plans compared to what was planned at the beginning of last year, partly to better address the needs created by the health emergency.

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Latvia

Compared to 2019, due to the ongoing situation regarding Covid-19, the economic growth, opposite to previous years, slowed down and Gross Domestic Product (GDP) decreased by 3.6%, which has been the largest decrease in the past 10 years. In 2020, GDP in Latvia at current prices amounted to €29.3 billion.

The international credit rating agency S&P Global Ratings (S&P) affirmed Latvia's credit rating at the current high A+ level with a stable outlook. S&P pointed out that the strong credit fundamentals and fiscal policy, along with monetary policy support from the EU, will allow Latvia to withstand the ongoing wave of Covid-19 and put net general government debt on a declining path starting in 2022.

In 2020, 16 banks were operating in Latvia, including 13 credit institutions registered in Latvia, and three branches of credit institutions registered elsewhere in the EU. The Latvian banking sector is dominated by Nordic banking groups.

Latvian banks lead in digital advancements. Latvia was the first in the euro area to use *SCT Inst payments* – innovative, modern, lightning-fast bank transfers, which are available at any time of the day, including weekends and holidays. Instant payments have become available around 90% of banks customers and have become a standard payment method rather than an exclusive service and make up 44.4% of all SEPA payments between banks who have implemented instant payments.

An innovative service – *Proxy Registry "Instant Links"* – is also available, which provides the possibility to make payments, indicating only the beneficiary's mobile phone number, without the account number. The number of participants in Instant Links has increased 13 times in 2020, compared to 2019, while the transferred amounts for this service increased 215 times.

Contactless payments are preferred by the customers of banks in Latvia which make up 69% out of all payments made by bank-issued cards.

At the end of 2020, banks had attracted €20.5 billion in deposits, which is 10.1% more than at the end of 2019. Among them, the amount of domestic customer deposits increased by 19.1% compared to the end of 2019. Deposits of domestic households increased by 12.8%, while deposits of domestic non-financial corporations increased by 17.4%.

Concluding 2020, the total loan portfolio of the banking sector increased by 1.7% compared to 2019. The number of loans issued to domestic customers at the end of 2020 increased by 1.9% compared to the previous year. Loans to domestic households increased by 0.5%, while loans to domestic non-financial corporations decreased by 5.5% comparing to 2019.

In the first half of 2020, the share of non-performing loans was 4.7%, unlikely to pay 2.4%, > 90 overdue – 2.3%.

Total assets of banks have increased by 8.4% compared to 2019 and amount to €24.3 billion in 2020. It is the largest value in the last three-year period. However, the return on capital remained at a higher level than overall in the EU (5.2%; EU average – 2.0%), while return on equity was 5.4% (EU average – 2.5.%) as well as CET1 capital ratio was 24.5% (EU average – 15.4%). The total profit of banks in Latvia in 2020 increased by 80.5% making €151.543 million compared to the results of 2019.

The Latvian banking sector is stable, resilient, and well-capitalized. It is committed to embedding a culture of compliance while developing products and services that support the economy being shaped by environmental, social as well as governance challenges.

Banking sector is secured with the necessary preconditions to work with a clear awareness of the specific risks in Latvia. Reforms that have taken place since 2018 has resulted in one of the most effective financial crime prevention systems. Latvia as first from *Moneyval* member states successfully implemented all 40 of the Financial Action Task Force recommendations, as well as introduced a public-private partnership (sharing names, not only typologies) and a fully available register of ultimate beneficial owners (with a number of verification mechanisms), following U.S. OFAC sanctions as mandatory by law. The number of non-EU resident deposits in banks has decreased making around 5.2%.

Prohibition for credit institutions and payment institutions to cooperate with high-risk shell companies is in force therefore all accounts in credit institutions of prohibited shell arrangements are either blocked or arrested or closed. Risk-based approach, use of innovative technologies, access to information and public-private partnership are seen as cornerstones in the banking industry.

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Liechtenstein

As a member of the European Economic Area (EEA), the Liechtenstein economy takes part in the European single market and due to the customs and Swiss Franc currency union, the country 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 end of May 2021 despite the pandemic. In 2020, direct exports of goods by Liechtenstein companies fell sharply and employment had stagnated. The average unemployment rate increased slightly to 1.9% (+ 0.4%), but is still at a comparatively extremely low level. The latest export development points to a catch-up effect.

By the end of 2020, there were 13 fully licensed banks operating in Liechtenstein. Four of them are subsidiaries of Swiss, Luxembourgish and Chinese institutions, the others are Liechtenstein banks. 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.

Owing to the very limited home market, Liechtenstein banks are very internationally-oriented and have representations in more than 20 countries. Their activities traditionally focus on private banking and wealth management. They do not engage in investment banking and carry comparatively low risks. However, smaller banks, in particular, are engaging more in other business areas, such as Bank Frick which has built up a high level of competence in e-commerce/payment solutions as well as in blockchain banking over the last few years.

Liechtenstein is also affiliated to the Swiss payment systems and, together with Switzerland, switched in 2018 to the new ISO 20022 payment transaction standard. Liechtenstein is also a SEPA participant.

Due to the narrow business model of the Liechtenstein banking sector, the lending business focuses on mortgages, which increased by 2.5% compared to the previous year, and Lombard loans. Total loans are stable around CHF 30.0 billion and amounted to 40.0% of total assets, whereas the share of both loan types is more or less equal. Residential mortgages amount to 80% of total mortgages and are mainly secured by Liechtenstein or Swiss real estates. The average LTV for residential mortgages is less than 50%. Commercial loans do not have a significant share of the loan portfolio of Liechtenstein banks.

Deposits were stable at CHF 44.7 billion and households account for more than 25 % of total domestic 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 so-called Roadmap 2025 with an emphasis on growth through sustainability and innovation. LGT is one of the pioneers in this area, not just in Liechtenstein but worldwide as well. Consequently, the positive trend towards sustainable investments from the last years onwards has persisted, and the percentage of sustainable investments continuously increased.

A demanding environment encompassing negative interest rates, volatile financial markets and costly regulation continued to challenge the sector. Even in time of pandemic uncertainties and the restraint shown by investors, the banks attained stable net profits and assets under management (AuM). To sum up, the banking sector can again look back on a successful year in 2020.

The consolidated AuM reached a new peak once again (up 4.4% to CHF 365.4 billion) whereas the growth in Liechtenstein amounts to 2.9% (CHF 179.2 billion). Even more important is the fact that net new money could be attracted, CHF 5.5 billion by Liechtenstein banks and CHF 17.7 billion on a consolidated level. Total balance sheet assets increased to CHF 73.7 billion (up 3.1%).

The result from normal business activity slightly decreased by 11.8% to CHF 304.3 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 (CET 1 ratio) of more than 20%, both at individual and consolidated level. The high average liquidity coverage ratio (LCR) of more than 190% shows that security and stability are very important for the banks.

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 22% to Liechtenstein's GDP and 17% to the workforce. The banks continue to be important employers. More than 40 full-time positions were created in 2020. The banking industry employs a total of 2,246 people (full-time equivalents) and offers 59 apprentices an attractive entry into their careers, with a share of women exceeding 50%. With a stake of around 44% of total corporate income tax revenue, the outstanding importance of the financial sector would be even more prominent.

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Lithuania

The socio-economic constraints caused by the global coronavirus (Covid-19) pandemic made 2020 an exceptional year. Performance diverged strongly across countries. Despite the imposition of strict lockdown measures that limited economic activities, the economic downturn in Lithuania in 2020 was the smallest in the Baltic region and one of the lowest in the EU - GDP contracted just by 0.8% over the year. This was facilitated by a substantive state aid package for enterprises and strong export sector. Besides, during 2020, some sectors were able to increase their added value - ICT (6%), agriculture (5.4%), manufacturing (0.8%) and real estate (0.4%).

Lithuanian banking sector consisted of 17 banks in 2020, eleven of which held a banking or specialized banking license, and six banks operated as branches of foreign bank. Two specialized banking licenses were issued during 2020 and, at the end of the year, six more enterprises applied for a specialized banking license.

The banking sector of Lithuania is dominated by subsidiaries of large Scandinavian banks. The two largest banks, SEB and Swedbank, are owned by their parent banks in Sweden. Another stake of 20% belongs to Luminor Bank, which is a subsidiary of a Swedish holding company. The other three banks, AB Šiaulių bankas, UAB Medicinos bankas and Revolut Bank UAB, are significantly smaller in size and belong to groups of local and foreign investors. Scandinavian capital also prevails among the branches of foreign banks. There are 60 credit unions united by the Lithuanian Central Credit Union and the Joint Central Credit Union. The Lithuanian government has no stake in the banking sector.

Changing consumers' habits and raise of financial technologies have fueled banking sector digitalization, and the pandemic has further reignited the need for new digital solutions. According to the European Central Bank, 54% of card payments in Lithuania in 2020 were contactless (average for the EU - 38%). The priority of banks has shifted even more towards facilitating digital transition. During 2020, the volume of video consulting grew sharply, many clients took out mortgages without even leaving their homes, and new contactless payment methods were introduced: key chains, bracelets, shirt cufflinks, stickers.

2020 was marked by a record growth in bank deposits, the highest over the entire observation period. Deposits increased by 28%, and at the end of the year amounted to €31.9 billion (non-financial corporations – an increase of 38%; households – 20%). Uncertainty and lack of spending opportunities sparked an increase in the savings rate in the euro area by 20%, and Lithuania is no exception. Moreover, the rise in corporate profits from the sold inventories, as well as government support for businesses during the pandemic, also contributed to the exceptional growth in deposits.

In the context of the coronavirus pandemic, the focus of bank lending was on mortgages, which continued to grow rapidly, while corporate lending declined. During 2020, the loan portfolio increased by 4% - to 21.4 billion euros. Household loans, which counts for more than 55% of banks' loans portfolio, increased mainly due to the active provision of mortgages – an increase of 9% compared to 2019 – one of the highest increase in the eurozone. On the other hand, the loan portfolio of non-financial corporations (40% of the total portfolio of banks) decreased by 15% over the year. Loans to wholesalers, retailers and manufacturing companies declined the most due to the lockdown restrictions. The overall need for business loans also

decreased due to a significant amount of government support, postponed investment plans and sufficient internal reserves of companies.

The Lithuanian banking sector has so far proved its resilience to the effects of the coronavirus crisis and has managed to keep non-performing loans at a low level of 2.2% (average for the euro area – 4%). This figure is just 0.5% higher than the result in 2019. In addition, banks supported local businesses and private individuals during the lockdown by restructuring and postponing loans totaling more than €1.3 billion via EBA-eligible moratorium criteria and individual restructuring decisions.

All banks complied with established prudential standards and requirements. The capital adequacy ratio of Lithuanian banking sector exceeded 21%, which makes Lithuanian banks well capitalized (eurozone average – 15%). Moreover, the decisions of the bank's shareholders to keep almost all the 2020 profit to strengthen the bank's capital contributed to ensuring a banking sector resilience even further.

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Luxembourg

Luxembourg is an international financial centre located at the heart of Europe. The financial sector includes various banking business models, from international private and wealth management, retail banking, corporate finance to fund services and depositary banking. As well as the key industries, Luxembourg boasts a unique and complete financial eco system, comprising the whole range of services and skills necessary to support and develop the industry as a whole: market infrastructures, law firms, consultants, education and training, IT partners and FinTech firms.

Because of this comprehensive eco system, Luxembourg is globally recognised as an international financial hub. It has the highest banking internationalisation rate in Europe (94% of banks are foreign, with more than one third of banks coming from outside the European Union. These banks operate on a cross-border basis, using the EU passport for financial services throughout Europe, particularly in private banking, corporate banking and asset servicing.

The Luxembourg economy fell by 1.3% in 2020 compared to the previous year, a direct result of the health pandemic. Employment grew 2% year-on-year, and was down slightly by -1% in the financial sector. The Luxembourg financial services workforce is internationally recognised as extremely skilled, multicultural and highly productive. The financial sector is the economic engine of the country, representing around a third of GDP, 10% of employment and contributing 13.7% of fiscal revenues in 2020.

The balance sheet total of banks in Luxembourg is €815 bn, and banks have sufficient own funds to face any potential challenges, with a solvency ratio of 22.7% (2019), well above the thresholds. Loans increased by 8.3% year-on-year, thanks to the contribution of the retail, private and corporate banking sectors. Deposits increased by 3.4% between 2019 and 2020. Deposits are generally higher than outstanding loans, ensuring a robust stability and high levels of liquidity in Luxembourg credit institutions.

Luxembourg has always welcomed international financial institutions, attracted by the AAA rating of the country, the extensive financial ecosystem, and the highly qualified international workforce. It is also leveraging these unique strengths to position itself as a leader in innovative financial technologies, with a close cooperation between the financial institutions and FinTech companies, facilitated both by the ABBL and other public-private partnerships.

Similarly, Luxemburg's commitment to sustainable finance has created an ideal environment for mobilising international capital to fund green projects. Luxembourg is a frontrunner in pushing for the most advanced solutions, testing and implementing new approaches to ensure that sustainable finance products are widely available and that the offer is constantly being expanded.

Building on its strong track record of openness, stability and agility, Luxembourg is a key location for e-commerce, e-payment institutions and FinTechs directly linked to financial services. The open and constructive dialogue between the relevant players (public, private and supervisory) ensures that Luxembourg continues to be an attractive and secure place to do business.

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Malta

In 2020, economic growth in Malta experienced a significant downturn in line with most other economies as a result of the impact of Covid-19. Thus, in contrast with the increase of 5.5% registered for 2019, in 2020 real GDP fell by 7.0% mostly as a result of lower net exports; whereas the Euro area registered a 6.6% decrease. As may be expected for a small island-state economy, the economic shocks from the pandemic mostly hit sectors comprising wholesale and retail trade, transportation, and accommodation and food service activities. Moreover, the sector was impacted strongly by travel disruptions during the year, the temporary shutdown of non-essential services and other resultant Covid-19 containment measures. Net exports of goods and services accordingly shed 5.9 percentage points from GDP growth, reflecting a stronger decline in exports than imports (in 2019 this item only shed 0.8 percentage points contribution to GDP).

The seasonally-adjusted unemployment rate published by Eurostat averaged 4.3% in 2020, higher than the average of 3.6% recorded in 2019 but lower than pre-2017 levels.

The large degree of underutilisation of the economy's productive capacity mainly reflects the impact of the Covid-19 pandemic and related restrictive measures on total factor productivity and the labour market. Thus, the contribution of total factor productivity turned negative during the year. Moreover, aggregate labour productivity in Malta declined by 8.2% over the level recorded in 2019 (0.2%).

Meanwhile, Covid-19 had a considerable (negative) impact on general government finances. In the first three quarters of 2020, the general government balance shifted to a deficit (€1.1 billion) when compared with a surplus in the same period a year earlier (€67.1 million). Meanwhile, general government debt as a share of GDP increased (over the 2019 position) by 10.7 percentage points to 52.6%.

Annual inflation based on the Harmonised Index of Consumer Prices (HICP) fell to 0.8% in 2020, from 1.5% in 2019. Notwithstanding this drop, HICP inflation in Malta was above that of 0.3% registered in the euro area, but still significantly below the ECB's inflation target. The Retail Price Index (RPI) shows too that inflation moderated over this period – falling to 0.6%, from 1.6%. The drop in inflation in 2020 extends the downward trend exhibited since mid-2019.

Over the past two decades, the banking sector in Malta has grown from four retail banks serving the local population to 24 (operative) licensed banks as at the end of 2020, only three of which are Maltese majority-owned. The ownership of the other banks originates from various EU and non-EU jurisdictions, including Austria, Australia, Belgium, Greece, Kuwait, Turkey and the United Kingdom. As such, around 62% of the banking sector's total assets of around € 40.4 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.

There are six core domestic banks, whose assets (almost €26 billion) represented 200.6% of Malta's GDP. The core banks employ 83% of the sector's workforce numbering around 5,141 employees. Two of these banks are the local market leaders, holding around 76% of this cohort's assets, and in 2020 operated 66 of

the 102 branches/offices of the core banks in the Maltese islands. The core banks exercise a conservative business model consisting mainly in the raising of deposits and the granting of loans mainly to Maltese residents. Thus, the core domestic banks rely predominantly on resident deposits for their funding and have a stable deposit base, thanks to the high propensity to save by Maltese households. In fact, customer deposits, of which resident deposits comprise the largest proportion, financed almost 83% of the core banks' balance sheets in 2019.

Their loan-to-deposit ratio stood at 58.4% in 2020 (1.1 percentage points lower than in 2019) and well below the euro area average of approximately 96%. On the asset side, exposures to the households' and individuals' sector continue to constitute the largest sector to which the core domestic banks are exposed to. In fact, almost 96% of all exposures by the aggregate banking sector to this economic sector were advanced by the core domestic banks. At the same time, the latter continued to apply prudent lending norms and loan-to-value ratios, as well as a cautious valuation of collateral. Additionally, their investment portfolios continued to be widely diversified in well-rated securities.

Overall, the core domestic banks are characterised by a sound capital base (Tier 1 capital adequacy to risk-weighted assets of 18.5%) and high liquidity. On the other hand, several factors - such as lower credit demand, and hence slower loan growth, caused by the pandemic leading to higher placements at a negative rate with the Central Bank; heightened economic uncertainties and market volatility - all contributed to a significant drop in the core domestic banks' profitability. These attributes were again acknowledged in the EU Commission's Country Report Malta 2020.

There are six "non-core domestic banks", whose assets of around €3.1 billion represented 23.8% of Malta's GDP. These banks undertake some business with Maltese residents, but not as their core activity. As such, while the linkages with the domestic economy remained limited, both resident assets and resident liabilities picked up momentum somewhat as these banks continued to penetrate the domestic market. With a Tier 1 capital adequacy ratio of 19.85%, well in excess of the requirement, 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.

Twelve internationally-oriented banks, which are mainly subsidiaries and branches of large international institutions, have almost no links to the domestic economy (only 6% of their assets are domestic). Their combined assets of around €11.6 billion represented 90.3% of Malta's GDP. These banks 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.

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. 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.

In June 2021, Malta made a high-level political commitment to work with the FATF and MONEYVAL to strengthen the effectiveness of its AML/CFT regime and to continue to work on implementing its action plan to address its strategic deficiencies, including by: (1) continuing to demonstrate that beneficial ownership information is accurate and that, where appropriate, effective, proportionate, and dissuasive sanctions, commensurate with the ML/TF risks, are applied to legal persons if information provided is found to be inaccurate; and ensuring that effective, proportionate, and dissuasive sanctions are applied to gatekeepers when they do not comply with their obligations to obtain accurate and up-to-date beneficial ownership information; (2) enhancing the use of the FIU's financial intelligence to support authorities pursuing criminal tax and related money laundering cases, including by clarifying the roles and responsibilities of the Commissioner for Revenue and the FIU; and (3) increasing the focus of the FIU's analysis on these types of offences, to produce intelligence that helps Maltese law enforcement detect and investigate cases in line with Malta's identified ML risks related to tax evasion.

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The Netherlands

The Dutch economy is recovery from the corona pandemic. Future economic development rests on the development of the virus as well as price developments. The Dutch banking sector plays an important role in the economic functioning of the Netherlands and has a relatively large size when compared to the GDP. Its assets accounted for 330% of GDP in 2021, down from 530% of GDP in 2007. The decline in balance size, combined with developments such as digitisation and cost reduction programmes, logically have led to a net decline of employment in the banking sector. On the other hand, increasing costs for AML have limited the decline in the number of FTEs employed by banks. In 2020, about 69,000 people are employed in the Dutch banking sector (based on NVB's members).

The larger Dutch banks are internationally active to serve the open and export-oriented Dutch economy. The five largest Dutch banks account for about 85% of the total assets of the sector. However, with the European banking union phased in step by step, the European market gradually becomes the relevant market. The ownership structure of the three major banks is diverse. The largest bank is publicly listed, the second largest is a cooperative institution and the third largest is partly state-owned. Capitalisation of Dutch banks is above eurozone average. Cost reduction and digitalisation drive profitability. The market is dynamic, new entrants have entered, for example, the Dutch market for mortgages in the last years. Nowadays, roughly 50% of new mortgage loans is now issued by non-banks.

Card payments are increasing each year and preferred over cash payments. Since 2015, the total amount of card payments is larger than cash payments. This development is expected to continue in the future. Contactless payments by card are increasing. Amongst youth, payments between them are primarily initiated by mobile applications.

Banks play a vital role in the financing of Dutch companies, especially to SMEs. The total amount of outstanding loans has decreased in recent years, mainly as a consequence of lower demand for loans. In the corona crisis, banks played an important role in providing necessary liquidity to SMEs and larger companies, helped by government guarantees. The percentage of non-performing loans is low and the Netherlands ranks among the best in the EU among its peers. Flexible forms of finance such as leasing and factoring have become more popular in recent years, but in terms of volume compared to outstanding bank loans, the preference for using alternative forms of finance is limited. Companies increasingly combine different forms of finance. The total amount of outstanding debt to non-financial companies in the Netherlands equals approximately €260 billion, of which almost 50% is lent to SMEs. About 10% of the outstanding amount are loans of less than €250,000 to mover 80% over the number of clients.

Dutch banks have committed to supporting and stimulating the transition to a sustainable economy. A group of banks and other financial institutions have developed a methodology to assess the carbon emissions related to the institutions' core activities: financing and investment. Some banks have set quantitative targets to decrease their climate impact. Dutch banks are also working on fine-tuning their services to green businesses, thus supporting the development of a green economy. They have contributed to the development of a toolkit for businesses, helping them to increase the ability to finance green business models. The Dutch supervisor has stated the Dutch banking sector is in healthy shape and capable of continuing credit lines in case of a severe recession. The capital position of Dutch banks has continuously improved in recent years. Core Equity Tier 1 capital has almost tripled for the three largest banks since the financial crisis.

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Norway

The Norwegian economy, similar to other countries, struggled with the consequences of the Covid-19 pandemic throughout 2020. The introduction of several measures dampened the negative impact on the economy. Nevertheless, GDP-growth reached its lowest level since WWII in 2020 (-3.1% for the Mainland-Norway) and unemployment has increased (registered unemployment at 5% year-end 2020).

The economic measures to support the economy and financial system included a reduction of the key policy rate from 1.5% to 0%, reduced level of the countercyclical capital buffer for banks to 1%, introduction of a loan guarantee scheme and a compensation scheme for relevant businesses.

The Norwegian banking sector is characterised by a few very large commercial banks, some regional based and several small savings banks. At the end of 2020 there were 134 banks operating in Norway, 118 were Norwegian and 16 branches of foreign banks. The market share of the subsidiaries and branches of foreign banks were 24% and 38% in the retail and domestic corporate market, respectively.

At year-end 2020, the aggregate assets of the banking sector (including foreign entities) amounted to around €669 billion. The Norwegian banks' return on equity were naturally affected by the pandemic but ended at 9%, down approximately 3 percentage points from 2019. The reduction in profit was particularly due to higher losses on lending. According to the Norwegian FSA the losses amounted to 0.5% of average lending volume, which is the highest level since the financial crisis.

The capital adequacy in Norwegian banks increased by 0.9 percentage points to 18.9% in 2020. More capital must be seen in relation to the discussion on banks' dividend policy and a higher level of retained profits. The leverage ratio was on average 8.1%.

As more and more people are using banking services online, the number of physical branches has decreased significantly over several years. Mobile payment solutions have 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 2020, the cost/income ratio in Norwegian banks were on average 44.6%.

The most important sources of funding are 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. 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. €200,000) per depositor per bank but may 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 98% at year-end 2020. The high level is due to the transfer of mortgages to separate credit institutions (with the purpose of issuing covered bonds). By including these loans, the deposit-to-loan ratio was 59%. Deposits from customers increased by 10.2% in 2020.

Given the VAT exemption for financial services a financial tax was implemented in Norway in 2017. The tax comprises of two elements. The first is a payroll tax of 5% and the second a maintained tax rate at 25 %, i.e. an extra tax of 3 percentage points relative to other corporates (22% tax rate in 2020).

The Norwegian financial sector strongly supports the ESG-agenda and are involved in/has launched several initiatives in this area. The Roadmap for Green Competitiveness in the Norwegian Financial Sector, developed by Finance Norway, is an example of a key initiative setting the vision of a profitable and sustainable Norwegian financial sector in 2030. The roadmap includes seven general recommendations for the industry in addition to several specific recommendations for banks, insurers and investors.

Norwegian banks also 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, to ensure a level-playing field and improve the functioning of the market economy. Norway is not a direct member of the EU but participates in EU's internal market under the European Economic Area Agreement (EEA). According to this agreement Norway is obliged to implement all EU directives and regulations that relate to financial institutions and markets, such as the CRR/CRD, MiFID, Prospectus Directive, Solvency II etc. This ensures Norwegian financial institutions the same rights and obligations as institutions established within the EU.

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Poland

The situation of the Polish banking sector in 2020 was mainly influenced by the Covid-19 pandemic. Instead of the normal running of banking business, a lot of attention was paid by banks to extraordinary activities aimed at supporting banking customers, both with their own funds and by intermediating in aid provided to them by the state. In these conditions, the most important thing was that Polish financial institutions once again proved operational effectiveness, also in extraordinary conditions, and did not spare their resources and funds to help the economy, entrepreneurs and individual clients. It should be mentioned that the banks immediately launched credit moratoria as soon as the pandemic hit Poland. It was an action much ahead of the decisions taken by the EU regulator.

The Polish banking system characterizes by high stability and safety. 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 authority responsible for macro-prudential supervision is the Financial Stability Committee (Komitet Stabilności Finansowej – KSF), comprising representatives of the Polish National Central Bank (NBP), the Ministry of Finance, the KNF and the BFG.

At the end of 2020 the Polish financial landscape was made up of 30 commercial banks, 530 cooperative banks and 36 branches of credit institutions. In 2020, the ownership structure of the Polish banking sector did not change. The number of commercial banks controlled by the State Treasury was still 8, whose assets are equal to 44.2% of the sector's total assets, while 43.6% were controlled by foreign capital (2.7% less than in 2019).

Due to the requirements of the CRD IV package, and in reference to national regulations, the most of cooperative banks are members of the two Institutional Protection Schemes. Only 10 is conducting business independently. Despite the large number of these institutions, their market share remains stable at the level of 7.1% of the sector's total assets.

In 2020, the Polish banking sector's assets totalled €509.25 billion. The value of the total balance sheet increased by 17.5% comparing to the previous year. However the size of banking sector, relative to GDP, remains quite low in comparison to other EU economies (98.9% at the end of 2020).

The credit portfolio plays dominant position in total assets (55%). Last year, the growth rate of receivables from non-financial entities amounted 1% and it was visibly slower than the growth rate of banks' liabilities of this category of customers (13%). In general a faster growth rate of banks' claims on households (2.5%) than on enterprises (with negative dynamics) was noted. However this situation was caused by a decrease in corporate demand for bank financing due to government financial support in the context of the Covid-19 pandemic. In case of receivables from households the problem of mortgages denominated in foreign currency is still under discussion but this portfolio is diminishing every year. The prudent credit policy have allowed banks to maintain the NPL ratio at a stable level (7%).

As mentioned, the year 2020 was characterised by rapid growth of household deposits, which represent 75,6% of all non-financial sector deposits. The ratio of non-financial sector deposits to GDP was estimated

at around 62%. However, the share of long-term deposits is limited and term mismatch on the credit and deposit side is significant.

Polish banks registered in 2020 return on equity (ROE) of 0.3% and return on assets (ROA) of 0.04%. The declining level of profitability in the banking sector in 2020 resulted, inter alia, from the three-fold reduction in the reference rate by NBP and from the encumbrance of the net profit with provisions related to the Covid-19 pandemic, as well as from the legal risk related to foreign currency mortgage loans.

The key challenges banks have to face are excessive regulatory and fiscal burdens. E.g. the Polish banking tax which 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 (with total assets above €0.9 billion). The tax base comprises the assets of financial institutions. The rate applied to the taxable base is 0.44% annually. In 2020 financial institutions paid around €0.9 billion as banking tax. The fees paid to the deposit guarantee scheme and to resolution fund are also big burden for banks. Both banking tax and above mentioned fees are not deductible for income tax calculation purpose. Banking tax and fees on the BFG account for more than 40% of the operating costs.

The average TCR in the domestic banking sector remained at the stable level. At the end of 2020 the ratio was 20.7%, and the Common Equity Tier 1 and Tier 1 capital ratios were estimated above 18.5%.

At the end of 2020, 38.2 million clients had access to online banking services. The number of active users of banking mobile applications increased in last year by over 4% and amounted to 14 million. The Polish banking sector is very modern, one among the most modern in economy. Banks played very active role in distribution of public support to enterprises and individuals thanks to their modern infrastructure. During the pandemic time the share of non-cash transaction raised significantly.

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Portugal

The Portuguese economy was severely impacted by the measures enacted to contain and mitigate the Covid-19 pandemic. After seven years of consecutive growth, GDP dropped by 7.6% in 2020. This evolution is mainly explained by the negative contribution of the domestic demand, mostly due to the sharp fall in private consumption. Net external demand also had a more negative contribution than in 2019 due to the more significant reduction in exports, especially tourism, than in imports. The Portuguese economy experienced the most significant fall in activity during the first lockdown period (Q2) when GDP fell 16.4%.

The progress made by the Portuguese banking sector after the great financial crisis proved extremely important in the current context of the pandemic crisis. The sector is better prepared and more resilient, especially in terms of liquidity and solvency, and has been playing a critical role in supporting the economy's financing and liquidity needs.

At the end of 2020, the Portuguese banking system comprised 145 institutions, 60 of which were banks, 82 mutual agricultural credit banks and 3 savings banks, with the five largest banks accounting for 77% of total assets. The number of bank employees stood at 45,889 (1% of the country's total active workforce).

Solvency has been strongly reinforced: CET1 reached 15.4% in 2020 (versus Core Tier 1 of 7.4% in 2010); liquidity stood at comfortable levels (loan-to deposit ratio of 84.9% versus 158.7% in June 2010; liquidity coverage ratio at 251.6%); non-performing loans (NPL) had an impressive evolution, falling by €36.1 billion since the highest level attained in June 2016. Nonetheless, on the back of the COVID-19 pandemic context, the profitability of the banking system suffered a significant decrease (RoE of 0.5%), reversing the recovery trend being experienced since 2016.

In terms of balance-sheet structure, on the asset side, the stock of loans to customers rose 2.1% year-on-year influenced by the support measures adopted in response to the pandemic crisis (moratoria and loans backed by public guarantee schemes). Considering the domestic activity only, loans to non-financial corporations (NFCs) rose 10.1%[2] to €74 billion. Loans to households rose 1.5%, mainly due to the growth in new lending for house purchase and the reduction in repayments, reflecting the effects of the moratoria.

Asset quality continued to improve on the back of the ambitious strategies implemented to reduce NPL: since the peak reached in June 2016, the NPL ratio has decreased from 17.9 to 4.9% and the NPL coverage ratio increased from 43.2% to 55%. The net NPL ratio stood at 2.2% (-0.8 p.p. YoY).

Customer deposits continued to rise due to the increase in savings as a consequence of reduced consumption, related with the mobility restrictions imposed by the pandemic, and the high uncertainty regarding the duration of the crisis and its impacts.

The profitability of the banking system suffered a significant decrease with net income reaching €469 million (versus €1.9 billion in 2019), reflecting not only a drop in total operating income, but, above all, a significant increase in the flow of provisions and impairments.

The digital transformation is a priority for the Portuguese banks and strong progress has been achieved in this front. Internet banking users have increased from 38.1% in 2010 to 60.1% in 2020. Moreover, 61% of internet banking customers use mobile networks and 69.2% of current accounts have online access. The

number of payment cards issued totalled 21.9 million and the amount of online purchases represented 12.8% of card purchases, which compares to 7.5% in 2019. Card payments using the contactless technology increased significantly and grew by 163% in volume and 271% in value. At the end of 2020, approximately 32% of purchases in terminals (19.4% in terms of value) were made using this technology.

Developments in the sustainable transition are also noteworthy. The Portuguese government is strongly committed in promoting a more efficient, sustainable and inclusive economy. The additional investment needed to achieve carbon neutrality by 2050 is estimated in €2.1 to €2.5 billion per year (around 1.2% of GDP). Tax incentives, subsidies, regulatory measures and special lines of financing are some of the measures implemented. The Portuguese National Recovery and Resilience Plan has the commitment to have, at, least 38% of expenditure in investments and reforms supporting climate objectives, and 22% towards the digital transition. In addition to public intervention, national credit institutions are playing a pivotal role in financing the transition to a sustainable economy, by providing a complementary suite of direct financing options targeting energy efficiency, renewable energy, electric vehicles and other sustainable investments, as well as channelling individual savings to sustainable investments through, inter alia, carbon neutral savings accounts, structured deposits linked to ESG factors, green bonds and ESG investment funds.

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Romania

In 2020, the Romanian real GDP's decline stood at a modest 3.9%, which means that it was less severe than the decline of the European Union standing at -6.1%, contemplating the measures taken by the Romanian authorities to counter the negative effects of the Covid-19 pandemic. For this year, the forecasts mention an economic growth between 4-7%.

In December 2020, the annual CPI inflation stood at 2.63%, which was under the 2019 level of 3.83%.

Last year, the general budget execution closed with a deficit of over 9.8% of the GDP, double compared to the year 2019, contemplating the expenses to combat the pandemic effects and the fiscal facilities granted. During 2020, the balance of payments' current account posted a deficit of almost €11 billion, according to the National Bank of Romania's data. The programmes supporting employment reached their goal i.e. to curb the effects of the pandemic, so that the unemployment rate continued being low, namely 3.4%.

The progress of the Romanian banking sector despite the healthcare crisis was noteworthy. The robustness of the banking sector, the absorption of customers' liquidity problems, enhancing lending on sustainable basis, the acceleration of digitalization and a strong increase in savings are the strong points of the banking sector in the context of the pandemic.

From the very start of the pandemic, the banking sector's robustness ratios allowed for a proactive approach, namely to absorb customers' problems and enhance lending at pace. The banking sector's solvency ratio stood at 25.14% at the end of December 2020, the highest level of solvency since 2007.

For 2020, the data on lending showed an increase in non-government credit by 5.5% to €58 billion. Thus, in 2020, paradoxically, we witnessed the increase in financial intermediation to 26.8% - from 25.3% in 2019. The new loans granted to corporations and to households stood at 84 billion *lei* last year and had a weight of almost one third of the non-government credit balance. The banking sector's assets were €115 billion, this figure proving the size of the funding granted to the economy. The loans-to-deposit ratio dropped to 66%. Domestic saving went up by 14.4% during 2020, increasing to €86.4 billion.

After almost one year since the start of the Covid-19 pandemic in Romania, in the banking sector, surveys show an increase in the level of financial inclusion and of digitalization. Two out of three Romanians (67%) use all types of banking products and services, according to the survey 'The Romanians' perception of banking sector digitalization' drawn up in December 2020 by the Romanian Institute for Evaluation and Strategy (IRES). In 2017, the level of financial inclusion was estimated by the World Bank at 58% in Romania.

Romania had one of the steepest decrease in its NPL rate among European countries, the drop happening almost six times in seven years, down to 3.83% at the end of December 2020.

At the end of 2020, the Romanian banking sector included 34 credit institutions: three banks with full or majority Romanian state capital, three credit institutions with majority domestic, private capital, 20 banks with majority foreign capital and eight branches of foreign banks. About 70.5% of the Romanian banking sector's assets were held by institutions with foreign capital in 2020. Contemplating the expansion of digitalization and the optimization of operational expenses, the banks' branch network shrank to 3,835 banking outlets while the number of employees stood at 52,650.

The banking sector's capacity to generate profit was influenced negatively by the outlook of worsening macroeconomic conditions. In the banking sector, the return on assets (ROA) and the return on equity (ROE) stood at 0.95% respectively 8.66% at the end of last year. These returns have started getting better during this year - which is a positive signal including for the additional capitalization capacity and which can support lending. In 2019, the national banking sector ranked number 11, respectively number seven among the European Union Member States as regards ROA (1.4%) and ROE (12.3%).

After 14 years since the integration in the European Union, Romania is the state ranking last in the EU as regards financial inclusion (67%), financial intermediation (26.8%), the level of financial education (22%) and, with some exceptions, the level of economic welfare.

In 2020, in Romania, the GDP/capita stood at €8,780 - which was one third of the EU-27 average of €26,290 and obviously a lower figure than the one in 2019, contemplating the economy's shrinking in the context of the pandemic.

Forward looking, the Romanian banking industry aims to contribute to the sustainable development of Romania as well of the Romanian society in general. Accountability in resource allocation will be of utmost importance for the development of Romania's banking sector and its economy during the post-healthcare crisis and for the revival of the economy.

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Slovakia

In 2020, Slovakia's economy, like other EU countries, was significantly affected by the Covid-19 pandemic. After a sharp decline in the second quarter of 2020, economy began to recover in second half of the year. The recovery was driven by rising exports, especially from the automotive industry. On the other hand, investment had the largest negative impact on GDP. At the end of the year, the recovery was slowed by the second wave of the pandemic. In 2020, the economy finally contracted by 4.8 %, which was close to the EU average.

The negative impacts of the pandemic has been softened by fiscal stabilisation measures, which significantly affected the general government budget balance. Last year, general government deficit rose to 6.2 % of GDP. Public debt rose above the Maastricht threshold of 60% of GDP due to a significant increase in the general government deficit and a decline in GDP. In 2019 it reached 48%. Despite a record drop in GDP, the unemployment rate rose only modestly (6.7%). The annual inflation rate fell to 1.9%.

The Slovakian banking sector consists of 27 financial institutions with banking licences. Most of them are universal banks, focused on retail and corporate banking. Four of them are specialised banking institutions (three building societies and a state-owned development bank). Most of the banks in Slovakia are controlled by foreign entities (93.8%), mainly banking groups from Austria, Italy and Belgium. Only four banks are fully controlled by domestic investment groups (three 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 60% of the banking assets.

Slovak banks are among the leaders in the use of new technologies in day-to-day banking e.g. contactless cards, contactless mobile payments and peer-to-peer payments. Digitalization has affected the banking industry. The Slovakian banks have 1,072 branches and 18,576 employees, which is slightly fewer than in previous years. On the other hand, the number of ATM (2,835) and POS (62,836) has been growing for several years. Mobile payments have become very popular 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 has been growing for several years in row, mainly due to credit growth. Reduced consumer consumption during the pandemic supported the growth of client savings. Retail deposit grew by 8% and corporate deposits increased by 9%.

Retail loans have been dominating the domestic lending market and Slovakia has one of the highest growth rates in housing loans in the EU. In the pandemic year, growth in housing loans continued to increase (by 9.7 %) because of low interest rates, interbank competition, and ongoing growth in housing prices. On the contrary, the outstanding amount of consumer credit declined by more than 9%, due to reduced household consumption and due to macro-prudential measures of central bank. According to the regulator, rapid growth in household indebtedness in the last years could be one of the principal risks to the stability of the Slovak financial sector. In response, the central bank used macro-prudential measures, the main aim of which is to limit the growth of retail loans. The outstanding amount of corporate loans increased by 2.2 % year-on-year.

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. In the 2020, the special bank levy and the credit risk cost had the largest negative impact on banking sector profits (-27%). In the last few years, most of the net profits have supported the capital bases of Slovak banks. Total capital adequacy ratio was on average 19.67%, with the lowest individual level at 15.19%.

Banks in Slovakia play an active role in financial education. There are many programmes supported by banks, central bank, or the bank association. One of them is the Economics Olympiad for high school students.

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Slovenia

Last year's developments were marked by the outbreak of a pandemic. In Slovenia, the economic crisis was slightly milder than expected and the adverse impact was below the euro area average, as GDP in 2020 fell by 5.5%, mainly due to a sharp decline in domestic private consumption and strong shock in the sectors reliant on foreign visitors while the situation in construction and industry was significantly better. Despite declining foreign demand, the current account surplus further grew and resulted in total surplus representing 7.5% of GDP in 2020 comparing to 6.6% of GDP in 2019. The situation on the domestic labor market also remained better than the euro area average, although it was deteriorating in response to the pandemic. LFS unemployment rate increased to 5% compared to 4.5% in 2019. The epidemic has opened large gaps between the labor market situation in the public sector and the private sector. While the gross wage bill in mostly public services in the first quarter was up 20.9% in year-on-year terms according to the national accounts amid rising employment and bonus payments in connection with the epidemic, it was down 0.9% in the private sector, driven by falling employment and lower earnings of employees included in job retention schemes. The crisis caused by the pandemic led to deflation last year, driven largely by the external environment, although domestic inflation factors were also getting continually weaker. Year-on-year inflation as measured by the HICP averaged -0.3% last year, down two percentage points comparing the previous year. The extensive anti-crisis measures have significantly worsened the fiscal position, although debt levels remained lower than in the euro area overall. The general government deficit in 2020 measured by ESA was 8.4 % of GDP, primarily on the account of the 12.9% rise in expenditure of measures to decrease negative effects of the pandemic, whereas the main factor was the measures on the labor market. At the end of 2020, the general government debt stands at 80.8% of GDP comparing 65.6% at the end of 2019, nevertheless, remaining significantly lower than the euro area average

Increasingly challenging business conditions for commercial banks in the euro area are forcing further consolidation of the European banking system. In 2020 the number of banks in Slovenia also further decreased by one due to the merger of Nova Kreditna banka Maribor, d. d., and Abanka, d. d. Following the completion of all legal procedures, on September 1st the second largest bank in the country was created, with a market share of 20.6% of total asset. As of yearend 2020 there were 11 commercial banks, three savings banks and two branches of foreign banks operating in Slovenian banking sector. Total assets of the banking system in 2020 further increased by 8,2 % and reached €44.7 billion at the end of the year comparing to €41.2 billion at the end of the 2019, which was equivalent to 96.5% of GDP. The main factor in increasing the total balance sheet of banks remains the deposits of the non-banking sector. Their last year's marked increase is, together with the decrease in lending dynamics, reflected in the increase in the balances of the most liquid forms of receivables on bank accounts with the central bank.

As a response to the economic shock of pandemic non-financial corporations increased their saving while postponing investment, although they were already net savers before the new crisis on account of the increasing uncertainty in the international environment. The saving-investment gap in the total economy continued to be driven by households, who have been saving at even greater rate (including forced saving) since the outbreak of the pandemics. Household deposits, which account for two thirds of all deposits in the non-banking sector, increased by 10.2% last year, while corporate deposits grew even above average,

reaching 18.9% in December. In particular sight deposits increased, accounting for 78.3% of all deposits in the non-banking sector in December 2020.

Due to the two binding restrictions imposed by the Bank of Slovenia in the last quarter of 2019, setting a cap on the ratio of annual total debt servicing costs to the consumer's annual income (DSTI) and a maturity cap for consumer loans, the volume of consumer loans extended to customers already in November and December of 2019 decreased severely, reaching barely 40% of the October volume, while in the case of housing loans this proportion stood at roughly 60%. The strong drop was also confirmed by the official statistics on household lending, published by the Bank of Slovenia.

The decreasing lending trend was amplified with the pandemic and since August 2020 growth in corporate loans has been negative, reaching -1.4% year on year in December. Growth in loans to households slowed down further towards the end of 2020, reaching only 0.1% year on year in December. The rapid decline in growth was mainly due to a year-on-year decline in the volume of consumer loans (-7.8%), while the growth in housing loans amounted to 4.1% year on year in December 2020. In terms of credit quality as well as in terms of liquidity and capitalization, the Covid-19 crisis found Slovenian banking sector well prepared. At the end of 2019 the NPE ratio was 2.6%. Decreasing trend continued until September 2020. In October and November there was an increase in NPEs while they fell again in December due to increased bank resolution activities and had settled at the end of 2020 at 1,9%.

The capital adequacy ratio on a consolidated basis was 20.0% at the level of the banking system in September 2020 (the latest available data) and the CET1 ratio was 18.2%, both of which were above the euro area average. Until September last year, capital increased mainly due to profit retention, while risk-adjusted assets decreased due to a decrease in lending activity. The liquidity coverage ratio (LCR) increased to 325% at the level of the banking system, while the share of primary liquidity in the balance sheet total increased to 19.8% with a marked increase in deposits of the non-banking sector. The aggravated economic situation in Slovenia as well as in Europe and globally also affected the operations of the banking sector. When realizing macroeconomic risk in banks, credit and income risk are in the forefront.

In 2020 banks generated a pre-tax profit of €472 million, a fifth on the previous year. Pre-tax return on equity stood at 9.6%, comparing 12.26% at the end of 2019, but the return and the pre-tax profit were largely attributed to a one-off effect from the merger of two banks, without which profit would have been down more than a half of the previous year. Net interest income in 2020 decreased 6.4% on the previous year, primarily because of the slowdown in bank lending activity. Amid the increase in low-yielding assets, the net interest margin continued to decline, reaching 1.57% by the end of December. Net non-interest income increased last year, driven by the aforementioned one-off effect. Net fees and commission, the most important component of net non-interest income, declined by 1.2% last year. Banks saw a moderate increase (of 1.3%) in operating costs in 2020, primarily as a result of a change in the classification of costs in connection with contributions to the deposit guarantee fund; otherwise, operating costs would actually have been slightly lower comparing the previous year. With one exception, all the banks recorded impairment and provisioning costs over the year, although these still accounted for a relatively low share of the generated gross income (12.5%).

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Spain

During 2020 Spain's economy shrank 11%. The brunt of the impact last year was felt by the services sector. The effects of the tourism collapse were compounded by a slowdown in exports, and by a drop in domestic demand fuelled by uncertainty about the future as many workers were laid off.

Government spending was practically the only engine of economic activity, which implied higher public debt and deficit levels. The Spanish government launched a stimulus plan in March to protect households and businesses with the substantial support from the banking industry. This effort helped to kept Spain's jobless rate for 2020 at 16,3%.

Analysts expect a GDP growth close to 6,5% in 2021 but if Spain can successfully manage and invest the European funds in reconstruction aid pledged by Brussels for 2021-2023, the economy could grow higher than expected in the next three years.

Regarding banking structure, as of December 2020, Spanish banking sector was composed by eleven banking groups -one less than the year before- under direct supervision of the SSM, representing more than 90% of the industry, and 51 private banks, two saving banks and 60 cooperative banks supervised by Banco de España.

Differences in structure respond to the announce, in September 2020, of the merger between Bankia -last public bank- and CaixaBank, which took place in the last quarter of the year.

In terms of capital, the equity-to-assets ratio was, as of December 2020 and on a solo basis, 9%, slightly less than the year before, that was 10%. The consolidated regulatory capital ratio grew up to 11.9% CET1 fully loaded (11.5% in December 2019). In addition, and even with the effects of the pandemic, the NPL ratio continues its downward trend until 2.9% (being 3.2% the year before).

As far as payments concerns, there is an old tradition for the Spanish banks to the payments' digitalisation process and figures can only confirm that course. Since 2017 more than 97% of the accounts are reachable through the SCTInst SEPA wide SCTInst is already an even alternative for payments, 24% of the total volume of credit transfers processed in the clearing system were SCTInst (additionally all "on-us" transactions are already processed on real time). The instant mobile payment system known as BIZUM, based on a proxy database that obtains clients' IBANs, has enlarged the use cases and the customer base: e-merchants having adopted BIZUM for e-commerce transactions process around 10% of their online payments with this solution. BIZUM is now being introduced into the physical shops. In parallel, mobile payments have soared during the year (+92%) and they represent 10% of the non-remote card payments. In all, contactless payments come to 80% of the card transactions.

In a still cash-based economy as the Spanish one, the usage of cards for daily payments has still experienced growth despite the Covid-19 impact on the economy, while the ATM transactions have sharply decreased more than 31% during 2020.

Despite the initial doubts on sustainable finance during the first half of last year, we saw an extraordinary revival in the second part of 2020 with a total volume of €33,026 million, which supposed a growth of 45%. Sustainable bond issues (green, social and ethical bonds) concentrate €15,024 million, 54% more than the

previous year. By type of bonds, green bonds registered 28 operations which represents 63.2% of the total; there were seven issues of sustainable bond issues (19.2%), and five social bond issues (17.6%). Sustainable loans, on the other hand, contributed with €18,002 million, 38% higher than in 2019. Green bonds recorded a volume of €9,123 million and a growth of 44%, in 28 operations that were carried out by 22 issuers, compared to 20 operations and 14 issuers of the preceding financial year.

The work of the entities adhered to the AEB as a promoter of business activity through financing boosts the Spanish economy by a total of €824.000 million of which AEB entities financed consumption and mortgages loans with about €318.000 million in 2020, while financing for corporate and SMEs was €267.000 million.

The entities adhered to the AEB had 8.367 offices in Spain during 2020, of which 61% were out of the main cities. We held 90.610 employees, with 49,4% occupied by females.

During 2020 AEB's entities invested €2.339 million in technology and innovation. The main AEB entities, BBVA and Santander, declared that close to 50% of their transactions were operated thorough digital channels.

Finally, we may underline that, since the beginning of the crisis, Spanish banks have been part of the solution supporting their clients' overcome difficulties. With a very active support, for example, searching for medical supplies, making donations, carrying-out solidarity campaigns, etc. to help alleviate the crisis effects. But, beyond that, the banking system has implemented unprecedented economic and financial measures: mortgage and consumer moratoriums with more than 1,440,000 applications (8% of the loan balance); financing with official guarantees with 1,092,809 operations for 129,568 million (98% SMEs); advance payment of pensions and advance of unemployment benefits.

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Sweden

Sweden's GDP decreased by -2.8% in 2020 compared to an increase of 2.0% in 2019, according to Eurostat. Due to the pandemic there was a sharp drop in household consumption, net exports and investments in Q2. The GDP recovered during the third quarter, but due to the second wave of Covid-19 during the fourth quarter the recovery levelled out. Unemployment increased to 8.3% from 6.8%.

Inflation slowed to 0.5% at year-end compared to 1.8% in 2019. Also, core inflation (Consumer Price Index with fixed interest rate) decreased to 0.5%. The Riksbank's negative reporate between 2015 and 2019, ended in the beginning of 2020 when it was raised to 0%. The zero reporate continued during the whole year and in year 2021.

Government debt as a percentage of GDP grew from 35.0% to 39.9% in 2020, mainly due to government actions to support the economy from the effects of Covid-19. The rise in government debt is equivalent to €28.2 billion in 2020. In comparison the government debt fell by €14,6 billion in 2019.

The four main categories of banks on the Swedish market are Swedish commercial banks, foreign banks, savings banks and co-operative banks. In December 2020, Sweden had a total of 121 banks, comprising 42 commercial banks, 32 foreign banks, 45 savings banks and two co-operative banks.

The number of commercial banks and foreign bank branches in Sweden has increased from 62 in 2010 to 74 in 2020. The increase has occurred above all among Swedish commercial banks when several credit market institutions have been transformed into commercial banks. The past year the numbers of foreign banks have dropped slightly to 32.

In 2020, there were 45 independent savings banks in Sweden. Many of the savings banks are relatively small and several of them have merged during the years.

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 owns one bank, which mainly offers mortgage loans, and has no other ownership in the banking sector.

There were 1,231 bank branches in Sweden in 2020 compared to 1,883 bank branches in 2010. The number of branch offices has diminished slowly in the last ten years due mainly to changing customer behaviour. Most of the bank branches are now cashless. The banking sector has slightly more than 41,000 employees in Sweden compared to 96,000 in the whole financial sector.

Normal bank services are almost exclusively performed through mobile phones, tablets and computers. Bank services like mobile payment services, Bank e-ID, e-invoices, etc have become the new normal. According to the ECB, Swedes uses non-cash payments to a larger extent than most other Europeans. For that reason, the use of cash is declining rapidly.

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 facilitate salary deposits, ATM withdrawals,

credit and charge card purchases and automatic transfers. In Sweden there are 2,508 ATMs and 252,000 card payment terminals.

Paper-based payments such as giro forms, cheques and cash payments have been replaced by electronic payments of various types. As an example, the use of different kinds of cards has increased from 1,773 million transactions in 2009 to 3,703 million transactions in 2019.

According to a survey by the Riksbank, the Swedish central bank, 96% of Swedish citizens have used a debit card in the past month and 86% have used the Swish mobile payment service. Swish, which was introduced by banks seven years ago and offers real-time account-to-account transfer, has 7.9 million users, which corresponds to around 75% of the Swedish population.

Increasing house prices during 2020 is an important explanation why household credit market has increased. Household lending increased to 5.7% on an annual basis compared to 5.2% last year. Lending to Swedish non-financial companies slowed down to a growth rate of 3.3% on an annual basis in 2020 compared to 3.9% last year.

Deposits account for 35% of the household financial assets in 2020 and is the most common household financial asset. Household deposits in banks grew by 11.0% in 2020 compared to 5.0% the previous year.

Sustainable finance is a high priority in Sweden. Initiatives in the area have started or are planned by both banks and government. Most Swedish banks offer for example green mortgages. The last years some institutions also started to issue green covered bonds to fund the green mortgages.

The Swedish banks are important to the Swedish economy and employ 2% of the workforce, account for 4.5% of GDP and pay 9% of the corporate taxes.

The Riksbank has kept negative repo rates from 2015 to 2019 and zero interest rate from the beginning of 2020. The Swedish banks have managed to maintain satisfactory earnings despite the low interest rate environment. In addition, the Swedish banks' non-performing loan ratio is the lowest in Europe.

According to the financial stability report from Finansinspektionen, the resilience among the major banks in Sweden is satisfactory because of among other things high capital and the major banks' strong profitability. The Covid-19 pandemic has increased the risks, but Swedish banks have so far managed the crisis well.

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Switzerland

The financial sector, and particularly the banking sector, is one of the cornerstones of the Swiss economy. It contributes 9.7% to gross value added. As of year-end 2020, there were 243 banks with 2,477 branches and 6,901 ATMs in Switzerland. In addition, banks in Switzerland dispose of 187 branches abroad.

The sector is very diverse with banks differing in size, business model, ownership structure and regional orientation. They include four major banks, 24 cantonal banks, 39 stock exchange banks, one Raiffeisenbank and 59 regional and savings banks. The rest is split between private banks, foreign controlled banks and foreign branches in Switzerland, among others.

Banks contribute to Switzerland's international top competitiveness rank by catalysing economic development, offering a large number of skilled jobs, paying above-average salaries and having a considerable share of public-sector funding in taxes. The rapid deployment of Covid-19 credits by the Swiss banks in March 2020 was a significant factor to counter the economic downturn caused by the pandemic.

However, the challenges currently faced by banks in Switzerland are in fact manifold: high regulatory costs; shrinking margins; price-sensitive customers; restricted access to foreign markets; rising competition from both financial and non-financial actors and continuing negative interest rates. Overall, Swiss banks remain affected by the negative interest rates. Interest rates on banks' sight deposits at the Swiss National Bank, which exceed an exemption threshold, remain negative at -0.75%. An end of the low rates' regime is not in sight due to the upward pressure on the Swiss franc.

Despite considerable headwinds, the Swiss banking sector is in good shape. The stability-related homework is done, service quality meets the highest standards, but profitability needs to be increased. Banks in Switzerland are now primarily focusing on digital innovation in order to develop new business models and to improve internal efficiency and cost structures. Furthermore, the Swiss FinTech landscape has increased significantly, to now over 363 FinTech companies. A third of them are active in the field of Distributed Ledger Technology. In August 2019, the first two blockchain service providers were granted banking and securities dealer licences by the authorities. In 2021, the Swiss Financial Market Supervisory Authority approved the first independent marketplace for digital assets in the world, the first Swiss DLT-based stock exchange and the first Swiss crypto fund.

Almost half of the CHF 7,879 billion (€7,280 billion) assets currently managed by Swiss banks originated abroad. With a market share of 24% Switzerland is the global leader in the field of cross-border private wealth management business.

The banks' lending business remains key for the economic development of Switzerland, especially for SME which employ around 68% of the labour force in Switzerland. Swiss SMEs that make use of external capital primarily rely on bank financing. Over 90% of the companies that applied for a bank loan received an approval. The total outstanding domestic credit volume in 2020 rose moderately to CHF 1,451 billion (€1,341 billion) of which CHF 1,082 billion (€1,000 billion) are attributable to domestic mortgage lending.

Clients with banks and securities dealers that are authorised by the Swiss financial market authority FINMA, are covered by a depositor protection scheme. If a bank or securities dealer is declared bankrupt, deposits up to a maximum of CHF 100,000 per client, are secured. This applies to all deposits, including those made at foreign branches.

The aggregate balance sheet of all the banks in Switzerland amounts to CHF 3,467 billion in 2020 (€3,204 billion). The economic contribution of banks remains high, since banks are important consumers of goods and services.

Before the Covid-19 pandemic, Switzerland's economy showed continuous growth and a low unemployment rate. In 2020, real gross domestic product (GDP) declined by 2.4%. Due to the economic effects of the global pandemic the GDP declined sharply in first two quarters, followed by a strong rebound. The recovery was mainly driven by the services sector but also by most other industries. On the expenditure side, both foreign trade and domestic demand supported growth. In 2020, financial services were one of the sectors with the highest growth. Over the last five years, however, banking services grew slower than the rest of the economy. Outsourcing activities and the demand for preliminary goods and services from other sectors, however, lead to orders for companies along the entire upstream value chain. The average unemployment rate for Switzerland in 2020 was 3.1% and, thus, higher than during the previous year.

Alongside the CHF 37.9 billion (€35.0 billion) generated by the Swiss banking sector in 2020, the indirect effects create an additional CHF 20.7 billion (€19.1 billion) of value added in other sectors, leading to a total of 8.5% share of Switzerland's gross value added.

In 2020, the financial sector paid CHF 17.1 billion (€15.8 billion) in direct and indirect taxes. Approximately 12% of all tax receipts can be attributed to the financial sector.

In 2020, Swiss banks employed 106,631 people (FTE), of which 89,958 were employed in Switzerland. Most of them are employed at one of the four large banks (26%), followed by cantonal banks (20%). The proportion of women employed at Swiss banks stood at 38.4%.

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United Kingdom

The Covid-19 pandemic and the subsequent lockdowns across the globe had significant knock-on effects on the UK in 2020, both for the economy and its banking sector. Domestic GDP was €2.18 trillion, down 9.8% from 2019 and the lowest level since 2013. The main drag on UK growth in 2020 was the large contraction in household spending. The uncertainty and cashflow pressure on businesses, as a result of the pandemic, also weighed on investment.

Consumer price inflation in the UK fell sharply with an annual rate of 0.6% reported at the end of 2020. This led inflation to drop further below the Bank of England's 2% monetary target, and compared with 1.3% in 2019. Government support to the hospitality industry through the 'eat out to help out' scheme and temporary VAT reduction, as well as lower fuel and transport costs contributed to pushing inflation down through the latter part of 2020.

In response to the pandemic the Bank of England adopted expansionary monetary policy to support the economy. The official bank rate fell to 0.1% in March 2020 and remained at that level throughout the rest of the year. In addition, the Bank also engaged in further quantitative easing in March, June and November. At the end of 2020 the asset purchase programme stood at £895 billion of which £20 billion was used to purchase corporate bonds and the reminder was UK government bond purchases. The value of sterling decreased during 2020, with its effective exchange rate index 2% lower at the end of the year.

The unemployment rate rose from 3.8% at the end of 2019 to 5.2% in December 2020. Despite the rise in unemployment claims, job losses were limited by the introduction of the government's furlough scheme – the Coronavirus Job Retention Scheme. By the end of 2020 a cumulative 9.9 million people had been supported with furlough. At the end of 2020, the household saving ratio of gross saving to total disposable income increased to 16.3%, a record high since records began in 1963, due to the lack of spending as a consequence of national lockdowns, combined with an effective furlough scheme.

Consumer and business confidence inevitably deteriorated during 2020, with continued uncertainty associated with the impacts of the UK's withdrawal from the EU, in addition to the unpredictable nature of COVID-19. While indicators such at the Purchasing Managers' Indices (PMIs) recovered in mid-2020 with a partial re-opening of the economy during the summer, they resumed their decline with the reintroduction of restrictions in the Autumn.

Payment volumes fell in 2020, to 35.6 billion from around 40 billion in the previous year. This represented an 11% decline – again a consequence of pandemic restrictions limiting opportunities to spend. Consumers were responsible for nearly nine out of every ten payments, the majority of which were made spontaneously. The rise in contactless payment limits from £30 to £45 for single transactions in April 2020 helped increase efficiency in transactions, meanwhile aiding the protection of both workers and consumers due to less necessary interaction amidst the pandemic. Contactless payments accounted for 27% of all payments – an increase of 8 percentage points compared with 2018.

Virtually all the UK population hold a debit card linked to a personal current or deposit account and two-thirds hold a credit card. During the last year, the share of payments made by debit cards increased, accounting for 44% of all UK payments. This is due to the aforementioned changes to contactless usage,

and its role as one of the main payment methods for online shopping. The decline in cash usage accelerated in 2020, accounting for 17% of all payments in the UK this year compared with 56% in 2010..

There are more than 370 monetary financial institutions (MFIs) in the UK. Just under half the sector balance sheet (49.7%) is held in GBP, 18.4% in EUR and 31.9% in other currencies. By country of ownership 52% of the sector balance sheet reflects UK ownership, while 14% reflects EU ownership and the remaining 34% reflect institutions owned in the rest of the world. Total balance sheet assets of €9.5 trillion represented the largest banking sector in Europe and the fourth largest worldwide. The regulatory capital ratio of the sector was stable at 21.6% at end of 2020, with Core Equity Tier 1 capital of €506 billion, slightly lower than a year earlier.

MFI credit in the UK accelerated in 2020 – annual growth for private non-financial businesses increased to 9.5% from 3.1% at the end of 2019, while the household sector slowed to 2% from 3.2% at the end of the previous year. Growth across the household sector was mixed, with annual secured lending growth slightly down at 3%, credit card lending contracted sharply, by 17.6% and other unsecured household credit (personal loans and overdrafts) also contracted by 8.7%. Deposits held by non-financial businesses and households saw significant growth in 2020. Households' deposits with MFIs grew by 6.9% in 2020, an increase from 3.7% in the previous year. Growth in deposits held by private non-financial businesses increased significantly from 2.8% in 2019 to 18.5% in 2020.

In cross-border services, the UK financial services sector has historically generated a balance of payments trade surplus. In 2019, the surplus was €46.2 billion, a decline from €51 billion in 2018 but still some two-fifths of the UK's total trade surplus in services.

The UK banking sector contributed an estimated 5.4% of UK tax revenue in 2020, a greater proportion than its share of UK gross value added. The total tax contribution of the sector was an estimated €44 billion. The estimated tax contribution comprised of €20 billion in employment and other taxes collected and €24 billion in corporation and other taxes borne. To support the UK economy throughout the pandemic, UK banks approved 1.5 million government-backed loans to the sum of £68 billion, with an approval rate of 98.8%. The sector employs more than 388,000 people – some 1.2% of the total UK workforce and 35.3% of the financial services sector.

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EBF Associate Members

Albania

The economy of Albania grew by 3% at the end of December 2020. Fiscal policy played an active role in withstanding the shocks to the economy in the previous year, at first due to the consequences of the November 2019 earthquake, and then the pandemic. The measures undertaken included an extension to tax obligations; issuance of sovereign guarantees to protect employees' income and mitigate credit risk to borrowers; an increase in public spending focused on reconstructing buildings damaged by the earthquake and on meeting public health needs. As a result, similar to the experience of other countries, fiscal deficit and public debt recorded a rapid increase throughout 2020. It is estimated that by the end of 2020, the budget deficit had increased by around 7% of GDP (or around ALL 110 billion) and public debt by about 80% of GDP by the end of the period. The budget deficit was mainly financed by both foreign and internal borrowing.

Following the negative shock caused by the Covid-19 Pandemic Bank of Albania reduced the policy rate and maintained an accommodative monetary policy and adopted its weekly monetary operations from "variable price – fixed quantity" to "fixed price – unlimited quantity" to provide abundant liquidity and keep interest rate in the interbank market close to policy rate. On the macro-prudential and supervisory policy side, the Bank of Albania undertook significant regulatory changes to alleviate the possible effects to financial institutions, in order to create facilities to borrowers for the repayment of loans:

- In March 2020, the moratorium on credit repayments was undertaken through regulatory changes, which eased the mandatory classification and provisioning of loans until May 2020;

- In May, the deadline of the moratorium was extended until August 2020 and re-determining an easier framework on the classification and provisioning of restructured loans, until December 2020.

The banking sector's assets expanded by 7% compared with the end of 2019. The share of foreign currency assets and liabilities to total balance is around 50% and has slightly decreased over the year due to a stronger increase in lending and deposits in lek.

As at the end of 2020, the structure of the banking and financial system consisted of 12 banks (four of which with Albanian capital and eight with foreign capital. Of the latter, six originate from European Union countries.), 30 non-bank financial institutions (NBFIs), 538 foreign exchange bureaus, 14 savings and loan associations (SLAs) and one union of SLAs. The share of the banking system in the economy, measured by the ratio of total assets to the Gross Domestic Product (GDP), remains high. This ratio increased by 10.43 percentage points this year, standing at 98.35%.

The Capital Adequacy Ratio recorded around 18% (17.95%), downwards in the last two periods. The performance of the indicator during the period was mainly affected by the increase of risk-weighted assets which exceeded the effect of the increase of regulatory capital.

The banking sector recorded a positive financial result of around ALL 10.5 billion. This result was 47% higher compared with the previous year. Activity in lek contributed around 2/3 to the growth of the net financial

result. The growth in net interest income and other activities income coupled with the decrease of expenses for loan provisions provided the main contribution to the increase of the banking sector's profit. The banking activity's expenditures increased during the period, but their ratio to banking activity's income declined to 57% from the previous year.

The increase in the profit of the sector is also reflected in the performance of the average profitability indicators of the banking sector: RoA and RoE climbed to 1.3% and 12.8%, respectively. The liquidity position of the banking sector is assessed to be in good levels,

During 2020, the assets of the banking system grew by 7.22%, while credit portfolio increased by 5.76%. The credit portfolio quality improved slightly during the year, as the non-performing loans ratio fell by 0.26 percentage points, reaching at 8.11% at the end of the year.

Deposits held in the banking sector recorded high rates of growth over the period. Customer deposits remain the main source of financing for the Albanian banking system, sharing 81.3% (80.9% in December 2019) of total liabilities. In December 2020, the total value of deposits in the system amounted to ALL 1.286 billion, recording 7.8% annual growth from the previous year. The share of the domestic currency in total deposits slightly increased to 49.5%, from 48.51% in December 2019.

Total assets of NBFIs in December 2020 reached ALL 59.6 billion, increasing by ALL 1.5 billion, or 3%. Assets of NBF Is accounted for 3.8% of the total banking system assets, up by 0.1 percentage points compared with the previous year.

Andorra

The Principality of Andorra is a European micro-State located in the Central Pyrenees between Spain and France with a population of around 80,000 and receives 8 million tourists each year. The Andorran economy is focussed on services, being an important touristic centre for shopping and for winter sports activities.

Due to the unexpected Covid-19 health pandemic which brought the world to a halt, the optimistic perspectives predicted for Andorra in 2020 were slightly reversed. The country has seen a general contraction in economic activity overall, mainly linked to the decline in revenue from tourism and imports. The last estimates indicate a decrease in national GDP of 11% in 2020.

The Andorran banks have given their support to the economic measures launched by the Andorran Government to mitigate the effects of Covid-19 and support businesses, work places, households and the public administration.

Additionally, the sector has provided liquidity to the system through the soft loan programmes approved by the Government and the sector-wide moratoria supplementing the legislative one, all of which represent a 4% of the credit investment portfolio, well below the 22% European average due to the structure of the Andorran economy, with good levels of capitalisation and low debt ratios that have been able to absorb the impact of the crisis without increasing the debt position.

In spite of the unusual situation created by the pandemic, and after coming a long way in its efforts for a greater integration at an international level, in the last quarter of 2020 Andorra achieved a significant milestone becoming the 190th member of the International Monetary Fund.

The financial sector is a cornerstone of Andorran's economy due to its significant contribution to the country's GDP (together with the insurance sector, the financial sector accounts for approximately 20%, while employing 5% of the workforce), with its banking system at the core. It comprises five banking groups, eight financial investment firms, three asset management firms and 29 insurance companies, 15 of which are branches of foreign insurance companies authorized to do business in the Principality.

The banking sector has 90 years of experience in the business with a presence in 11 countries and as of today is comprised by a total of five banks which together manage over €51.7 billion of assets. Out of the five banks, three are Andorran-owned, one is a subsidiary of a Spanish bank and the other is owned by an American fund.

The banks offer a full range of banking services including loans and credit, asset management and financial consultancy, operations with liabilities, financial analysis and other services (credit cards, transfers, etc.). They also have specialized subsidiaries of financing, insurance and asset management firms.

One of the challenges for the Andorran banks is to continue improving client services, both through face-to-face and remote channels. In the last few years, Andorran banks have spent up to €120 million in promoting digital transformation mainly to adapt to changes in their customers' habits and to deal with the new challenges arising. Among the banking transactions that can be carried out over the Internet, those that have grown the most are money transfers and transactions in securities. Moreover, the COVID-19 crisis has revealed the benefits of the digitalisation strategy initiated by Andorran banks as it has ensured that banking operations were conducted at full capacity.

In the scope of payment services, Andorra implemented the payment services and electronic money directive in 2018 and in 2019 became a SEPA participant, as did the banks. Subsequently, banks adhered to the credit transfer and the direct debit SEPA schemes.

In the last years, the Andorran banking industry has aligned itself with the unstoppable trend of sustainability. Its ultimate goal is to safeguard sustainability not only through corporate social responsibility, where banks have devoted up to 6% of their profits, but also through their management of savings and investments. The last major step taken that has brought about a major improvement in Andorran banks has been the launch of in-house investment funds managed exclusively using Environmental, Social and Governance policies.

In a year marked by Covid-19, Andorran banks closed 2020 with an aggregate result of €84 million having made an extraordinary provision of €33 million to offset the impact of Covid-19 following the recommendations of the supervisory body and international institutions. However, the results demonstrate the resilience of the Andorran banks and their ability to attract business, closing 2020 with €51,735 million in assets under management (4% more than in 2019), a record high for the sector.

Credit investment increased up to €6,368 million, 4.5% more than in 2019, as did customer deposit standing at over €10.6 million.

The strong position of the Andorran banking sector is also bolstered by a 5.46% ROE compared to 2% for European banks; a CET 1 solvency of 18% compared to 15.5% according to the EBA and a liquidity rate (LRC) of 187% compared to 173% published by the EBA.

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Azerbaijan

In 2020, Azerbaijan's GDP was €34.7 billion and non-oil GDP was €24.3 billion. Annual inflation was 2.8% and within the framework forecast by the Central Bank (4±2%). In 2020, the state budget revenue was €11,811.0 million (1.9% more than in 2019), the budget expenditure was €12,645.8 million (8.2% more than in 2019), the budget deficit was equal to €834.8 million.

In January-December 2020, the average exchange rate of the national currency against one US dollar was 1.70 manat and €1 was 2.06 manats.

At the end of the year there were 26 banks in Azerbaijan. Two of them were state-owned banks and the rest were private banks. The number of banks with foreign capital in the country is 12. In seven of them, the share of foreign capital is more than 50% (two banks operate as local branches of foreign banks). During second quarter of 2020, licenses of four banks were revoked by Central Bank not related to pandemic.The number of non-bank credit organizations was 91, of which 42 have the status of credit unions.

As a result of the implementation of the measures arising from "Strategic Roadmap on Development of Telecommunication and Information Technologies in the Republic of Azerbaijan" and "State Program on Expansion of Digital Payments in the Republic of Azerbaijan for 2018-2020", by the end of 2020, 58.3% of card transactions in terms of number and 22.1% in terms of volume were made cashless, in 2019 these figures were 43% and 19% respectively. At the same time, there was a rapid increase in the number of bank cards in the country. During 2020, the volume of plastic cards increased by approximately 2 million to 9.23 million. The number of POS-terminals in the country was 57.1 thousand, and the number of ATMs was 2715.

In the end of 2020, the number of bank branches was 455, and the number of branches was 109. The number of employees in the banking sector is 18708. In the end of that term, NBFCs had 247 branches and 2236 employees. In the end of 2020, the total credit investment in the economy by banks and non-bank credit organizations was €6,955.9 million. At the same time, the volume of non-performing loans decreased by 30% and fell to €427.5 million. As a result, the NPL ratio decreased by 2.2 percentage points to 6.1%.

The share of banks in total lending was 97.4% (€6,955.7 million), and the share of non-bank credit organizations was 2.6% (€178.8 million). The total deposit portfolio in the country was €11,329.3 million. €4,944.0 million of the portfolio was in national currency and €6,385.3 million in foreign currency. At the end of the reporting period, the dollarization ratio of the portfolio was 56.4%, which means a decrease of 4.6 percentage points during the year. The de-dollarization process has also been observed in household savings. The dollarization coefficient of €3,914.7 million in household deposits in banks decreased by 1.4 percentage points compared to 2019 to 50.7%.

Deposits of financial and non-financial institutions were €902.4 and €6,512.2. Business loans accounted for €4,058.5 million, or 60% of total bank loans.

At the end of 2020, the assets of banks amounted to €15,344.8 million, which is equal to 63.1% of non-oil GDP. The total capital of banks increased by 2.5% in the period to €2,249.5 million and reached 9.3% of non-oil GDP. During 2020, banks got €271.8 million profit.

In 2020 as other quality indicators showed a positive tendency: the ratio of net profit to assets was equal to 1.9% (in 2019: 1.6%) and the ratio of net profit to total equity was 12.1% (in 2019: 11.7%).

On 19 March 2020, the President of the Republic of Azerbaijan signed the Executive Order on measures to protect public health in Azerbaijan and strengthen the counter measures against the coronavirus infection. The order regulates a number of measures to reduce the negative impact of coronavirus pandemic on the economy of Azerbaijan, macroeconomic stability, employment, and entrepreneurship. The Action Plan aimed at implementing the Presidential Order includes large-scale, effective, and efficient measures. Initially, €215.4 million were paid to 600,000 people (6% of the country's population) belonging to the low income, pandemic-affected population. To those people payments were made by bank cards, provided to them by banks free of charge and without commission. In addition, under the relevant package of measures, up to € 478.7 million existing loans of entrepreneurs affected by the pandemic planned to subsidize by up to 10% over 12 months, and businesses in relevant sectors will be provided with new guaranteed and subsidized loans of € 239.4 million (guarantee up to 60% of the loan amount and subsidy up to half of the loan interest rate).

It should be noted that the ABA Presidium and relevant Expert Groups were closely involved in the discussion of these rules with relevant government agencies. As a result of the implementation of the decree, state-guaranteed loans in the amount of € 80.9 million were allocated to entrepreneurs through banks in 2020, and decisions were made to provide € 15.8 million interest subsidies on existing loans. It was decided to continue this process in 2021.

The action plan also included a mitigation measuresfor credit institutions. In this context, the Central Bank (CBAR) exchanged views with ABA member organizations and received a package of proposals from banks. In the next process, the CBAR Board approved the package of additional support measures for the population, business and financial sector in the context of the coronavirus pandemic by the decision No. 16 dated 24.04.2020 and “Temporary regulation rule of credit organizations in the context of the Coronavirus (Covid-19) pandemic” was adopted. As a result, provision requirements for the classification of loans have been relaxed. Also, the concessions on the classification of loans were applied to interest-subsidized business loans and restructuring of loans issued at the expense of state funds. In addition, credit institutions were advised not to charge additional penalties and fines to their customer who economically affected by pandemic.Due to the continuing pandemic conditions, these and similar concessions have been extended.

Also, during the pandemic, the limits of non-cash transactions with contactless cards were increased from €24 to € 48 to increase ability to make contactless payments.

On September 16, 2020, a meeting was held with the participation of the Board of the Central Bank, the Association of Banks of Azerbaijan, the National Confederation of Entrepreneurs of the Republic of Azerbaijan, entrepreneurs and bank representatives to discuss the difficulties faced by entrepreneurs in the pandemic and ways to cooperate with the banking sector. Prior to the meeting with the support of the ABA subsidiary, the Azerbaijan Bank Training Center, a survey had been conducted among business clients of banks to identify the effects of the pandemic and their financial needs, and this information had been shared with the regulator and exchanged views.

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Bosnia and Herzegovina

Bosnia and Herzegovina is a country in Southeastern Europe, located within the Balkan Peninsula with a population of 3,5 million. The convertible mark (konvertibilna marka – KM-BAM) - the national currency is pegged to the euro through a currency board arrangement within Central bank of BiH, which has maintained confidence in the currency and has facilitated reliable trade links with European partners (1 EUR = 1,95583 KM)

Bosnia and Herzegovina's Nominal GDP Per Capita is forecasted to be €4.802 thousand in Dec 2020 as reported by International Monetary Fund Report.

BiH financial system is dominated by commercial banks. Currently 23 commercial banks operate on the market. Two banks are in process of merger.

As Bosnia and Herzegovina is consisted of two entities: Federation of BiH and Republic of Srpska, there are two supervising bodies - two banking agencies for the banking sector: Banking Agency of Federation of BiH and Banking Agency of Republic of Srpska.

In 2020, there are 23 commercial banks operating in Bosnia and Herzegoivna with total of 9,5 thousands employees which is 2.3 % less than 2019. (there are also two development banks operating at entities level).

- Assets growth 1,3% (€17,2 bililion)
- Loans decrease by -2% (€10,4 billion)
- Deposits increase by 4,9% (€12,8 billion)
- The profitability of the banking sector deteriorated further by 38,4% (€113,9 million)
- Tier I ratio remained is at the same level compared to end of 2019 or 18.1%.
- NPLs level still see declining trends (thanks to temporary measures prolongation) down to 6.1% which is the lowest level since the start of the GFC.
- Corporate segment NPL was 6.5% vs. 5.8% in retail segment.

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Monaco

Monaco's financial marketplace dates back to the end of the nineteenth century, when the first deposit banks opened in the Principality. Most of these banks were French. However, the financial industry did not really take off until the 1970s, when expansion was stimulated by an imaginative and active policy on the part of the public authorities and by the effect of a long period of economic growth and political and social stability.

Today, Monaco has a very extensive banking network, comprising around thirty full service banks, and sixty portfolio or mutual fund management companies. The banking and finance industry is now one of the strengths of the Principality's economy since the total assets have been multiplied by three in 15 years.

Monaco's continued attraction as a financial center is not surprising in light of its wide range of exceptional advantages that include:

- high quality infrastructure and dedicated professionalism;
- a diversified economic base;
- an attractive tax regime.

All of the banks operating in Monaco belong to leading banking groups. 70% of the industry's assets belong to non-resident clients from across Europe and sub-Saharan Africa, the Middle East, Latin America and Asia-Pacific.

Under various agreements between France and Monaco, Monegasque banks are supervised by the Prudential Supervisory Authority (Autorité de Contrôle Prudentiel - ACP) and are therefore subject to the same prudential and regulatory rules as French banks. All supervisory activities are, of course, strictly regulated, which guarantees the confidentiality of transactions carried out by financial institutions in Monaco.

Asset management companies are approved and controlled by the Commission de Contrôle des Activités Financières (CCAF), which is supported at the highest level by the Autorité des Marchés Financiers (AMF), the French market regulator.

The industry provides a full range of private banking products and services, as well as a personalized approach to a highly demanding clientele. More importantly, it guarantees the confidentiality of "clean" money (see section below on "Confidentiality and the Drive Against Money Laundering").

It also provides access to mutual fund management through a very broad array of investment funds covering every business sector and markets, including emerging markets.

The AMAF is an associate member of the European Banking Federation, the united voice of banks established in the European Union and European Free Trade Area.

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Montenegro

Montenegro's GDP 2020: €4.2 billion, -15.3% compared to 2019. The real growth rate of gross domestic product in 2020 was -15.3%. In 2020, Montenegro's gross domestic product in 2020 amounted to €4,186 million, while in 2019 it amounted to €4,951 million. In 2020, gross domestic product per capita amounted to €6,737, while in 2019 it amounted to €7,959.

The outbreak of Covid-19 pandemic interrupted the strong growth from the previous period. The average economic growth rate over the last five years was 3.9%. The real decline in GDP for the first half of 2020 was 10.3.

In the period before the crisis caused by the Covid-19 pandemic, and after the financial crisis, Montenegrin banking sector strengthened its capital position, liquidity and asset quality, which enable it to more easily play its significant role in mitigating the consequences of the crisis and recovering the Montenegrin economy. During 2020, and in the period after the declaration of the pandemic, a satisfactory level of bank liquidity was maintained. At the end of October, liquid assets were above the level recorded at the end of the previous year by 1.57%, while at the annual level a decline of 7.25% was recorded. At the same time, the loan-to-deposit ratio improved by 0.97 in October, while the maximum value in the observed one-year period was reached in August (0.98).

Recording smaller oscillations, loans grew in a one-year period, and at the end of October 2020, they amounted to €3.21 billion, an increased by 7.3% compared to end-October 2019, and 4.7% compared to end-December 2019 (€3.06 billion). The structure of total loans by purpose slightly changed in favour of loans for refinancing liabilities to other banks, whose share increased by 2.94 percentage points, from 5.91% (October 2019) to 8.85% (October 2020). These loans amounted to €283.9 million at the end of October 2020, which was 60.8% more than at the end of October 2019, and 57.6% more than at the end of the previous year. Such a trend in loans was to be expected, given the liquidity of the real sector and the population and the difficult possibility of servicing the assumed obligations. While loans for construction and adaptation of buildings decreased (9.53% annually and 11.9% compared to the end of the previous year), housing loans increased so that the amount reached at the end of October was higher by 7.6% compared to October of the previous year and 5.6% compared to the end of the previous year.

In the observed one-year period, deposits had a slightly declining trend. Deposits fell by an average of 0.5% per month during the ten months of 2020. At the end of October, they amounted to €3.3 billion, which was lower both compared to October (by 5.3%) and compared to the end of the previous year (by 5%). Higher positive deposit growth rates were missing during the three months of the main tourist season in 2020. In this period, only in 2009, deposits recorded a monthly decline, under the influence of the global financial crisis. After the proclamation Montenegro as the free-corona destination, there was a slight increase in deposits. Namely, the monthly growth of deposits ranged from 0.01% to 0.37% during the first ten months of 2020.

At the end of October 2020, household deposits amounted to €1.2 billion. They decreased by 6.1% compared to October 2019, while the decrease compared to the end of the previous year amounted to 6.9%. Deposits of the non-financial sector at the end of October 2020 amounted to €1 billion, which was lower by 7.8% than at the end of October of the previous year, i.e., by 2.7% compared to the end of the previous year.

Banks' capital recorded a growing trend during 2020 and at the end of October 2020, it amounted to €620.4 million i.e., it increased by 3.4% compared to October 2019 and by 3.7% compared to December 2019.

Interest rates continued the downward trend during 2020. In October 2020, the weighted average effective lending interest rate was 5.87%.

When it comes to banking services, the Covid-19 pandemic has led to the change in client habits. Immediately after the declaration of the pandemic, the banks took measures to protect the health of their employees and clients and ensure the continuation of business. Banks have increased the limit for contactless payments without entering a PIN for payment cards, increased the limit for withdrawing cash from ATMs. Furthermore, they temporarily abolished fees for performing transactions through electronic and mobile banking services, and some banks also temporarily abolished fees for withdrawing cash with debit cards at ATMs of other banks.

Observed in terms of the number of transactions, more transactions were initiated in paper than electronic form. However, observed in terms of the value of transactions, the value of transactions initiated electronically (€7.9 million) was higher than in paper form (€5.9 million) in the first three quarters of 2020. At the end of the third quarter of 2020, the number of ATMs increased by one compared to the same period last year, while compared to the end of the previous year, there were 27 more ATMs. The number of POS terminals also increased by 1,774 compared to the end of the third quarter of the previous year and by 2,684 compared to the end of the previous year. In October 2020, the number of terminals for accepting cards with the electronic money function increased by 38 year-on-year, or by 114 compared to the end of the previous year.

Negative trends in the real sector have already affected the quality of assets of the banking sector. In the first ten months of 2020, non-performing loans increased by about 30% year-on-year and they amounted to about 6%. Similarly, past due loans also increased during the pandemic year, and their share in total loans increased (by 1.3 percentage points).

The pandemic also pointed to the importance of the digital infrastructure of the banking sector. Thus, in 2020, there was a significant increase in payment service users who had an electronic money account. The number of users who use mobile payments as well as internet cards also had an extremely significant growth in 2020.

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Republic of North Macedonia

During this corona crisis, in conditions of strong health and economic crisis, the GDP decline of 4,5% of Macedonian economy in 2020 did not deviate very much from the global trends. To mitigate the negative consequences of the Covid-19 pandemic the Government has adopted six packages of economic measures.

The Central Bank has relaxed the monetary policy and during 2020 the key interest rate was declined three times, to the historically lowest level of 1.5%. The average inflation was 1.2% while unemployment rate was 16,4%.

On December 31, 2020, there were 16 deposit-taking institutions in the country, 14 banks - 13 private and one state owned and two savings houses. While 10 banks were owned by foreign shareholders, the number of subsidiaries of foreign banks was six. Participation of foreign capital in total banks capital was 75%. Shareholders from European Union were prevailing, with the highest participation in total capital and reserves of shareholders from Greece (20.8%), Slovenia (15.2%), and Austria (11.5%).

Compliance with the measures and rules for protection of public health, like maintaining social distance and isolation in a pandemic, contributed to changing the payment habits and culture of consumers. Channels for digital execution of payments have become more significant, especially the electronic initiation of credit transfers and the use of e-commerce.

The total number of payments made in 2020 in the country recorded an annual growth of 10.2% with realized 140 million transactions.

The total number of electronic credit transfers registered an annual growth of 6.5%, versus the decline in credit transfers initiated on paper by 11.5%. The citizens who initiated electronic payments, mostly, i.e., 66.7% used personal computers to initiate credit transfer, 32.5% the application of mobile phone, and only 0.8% used the ATM for that purpose.

In 2020, there has been a continuous increase in payments with payment cards for the purchase of products and services. Thereby, growth of 21% is observed in the number of transactions at physical points of sale, but impressive annual growth of 121% was registered at online card payments.

New contactless technologies were increasingly being used in payments with payment cards. Participation in contactless payments with payment cards in 2020 grew by 15.8 percentage points, reaching 72% in total card payments at physical points of sale.

The banking network was spread throughout almost all cities in the country and consisted of 403 business units with 5.753 employees.

The qualification structure of employees in the banking sector and bank productivity, measured by the assets created by one employee noted further improvement.

In conditions of strong health and economic crisis, the banking system has maintained its stability and contributed to mitigation of the consequences of the corona crisis, achieving a solid growth of activities.

In 2020 banking sector has provided credit growth of 4.1%, supported by the increase of deposits by 6.2%.

Certainly, the most important activity that our member banks and saving houses have realized in 2020 was postponement of the repayment of loans to households and legal entities.

Temporary postponement of the loan repayment in the second quarter of 2020 covered about 45% of regular loan portfolio. In September 2020, the second period of deferred repayment of credit products was approved, which covered about 7% of total regular loans. At the end of 2020 level of non-performing loans was 3.4%.

Despite all the challenges of the health crisis, the banking system has ended 2020 with higher solvency ratios and capitalization, compared to the previous year. The capital adequacy ratio noted annual increase by 0.4 percentage points, to the level of 16.7% while profit compared to the previous year was higher by 8.5%. Indicators of return on equity and assets were 11, 3 % and 1, 3% accordingly.

In 2020, the banking sector in the Republic of North Macedonia has faced numerous challenges but has demonstrated adequate readiness to respond to all risks and remained stable.

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Serbia

In the conditions of pandemic-induced global uncertainty, Serbia's economic activity decreased by only 1.0%. Thanks to the successfully implemented fiscal consolidation, initiated structural reforms and upgrade of the investment environment in prior years, grounds were laid for accelerated economic growth over the medium-term. In addition, sound macroeconomic fundamentals and robust monetary and fiscal policy measures enabled Serbia to weather the Covid-19 crisis more easily.

The robust package of economic measures taken by the Government to alleviate the negative effects of the pandemic temporarily pushed up public debt, but it still remained among the lowest in Europe. The share of central government public debt in GDP rose from 52.0% at end-2019 to 57.4% of GDP at end-2020. The share of external debt in GDP also increased to 66.3% of GDP (61.5% at end-2019).

Inflation remained low and stable for the seventh year in a row, averaging 1.6% in 2020. The National Bank of Serbia (NBS) continued to pursue a cautious monetary policy stance, deciding to trim the key policy rate four times in 2020 to 1.0%, its new lowest level in the inflation targeting regime.

The Serbian banking sector has remained resilient to the assumed shocks, including the pandemic in 2020.

At end of 2020, net assets of the banking sector amounted to RSD 4,601 bn (over 84% of GDP). In terms of the ownership structure of the banking sector, the largest share was held by foreign-owned banks (86%), while state-owned banks and domestic private banks accounted for 7% each.

Credit portfolio was worth RSD 2,650 billion, at the end of 2020, and the portfolio related to corporate loans (49.6%) and household loans (44.9%). Total net household loans amounted to RSD 1,189 bn, of which RSD 525 billion (44%) were cash loans and RSD 442 billion (37%) housing loans. Household loans in foreign currency accounted for 45.0% of total household loans and almost all of them were in euros.

Loan supply was boosted by the continued NBS monetary policy easing, approval of loans under the Guarantee Scheme, as well as low interest rates in the international money market. On the other hand, loan demand went up amid increased needs for liquidity, debt restructuring and real estate purchase. At the end of 2020, excluding the exchange rate effect, total domestic loans grew by 9.9% in year-on-year terms.

Serbian banking sector was adequately capitalized in 2020. At the enf of 2020, CAR stood at 22.4%, which is considerably above the prescribed regulatory minimum. The regulatory capital adequacy ratio of the banking sector would remain above the regulatory minimum even in the worst-case scenario.

The NPL ratio is a significant measure of asset quality, as loans account for the dominant share of total balance sheet assets of the domestic banking sector. At the end of the year the Serbian banking sector NPL ratio measured 3.7%. The systemic approach to NPL resolution adopted in 2015, continued to be used in 2020, yielding very positive results. With a view to preventing the emergence of new NPLs, in December 2018 the Serbian Government adopted the NPL Resolution Programme for the Period 2018–2020.

The National Bank of Serbia (NBS) acted proactively and took numerous measures to mitigate the effects of the coronavirus pandemic on the financial system and to support lending and economic activity. In 2020 the NBS prescribed two moratoria on loans to enable debtors affected by the coronavirus pandemic to

settle their liabilities to banks, and thus prevent new NPLs. The first moratorium was introduced in March, with 90 days' duration - NBS adopted the Decision on Temporary Measures for Preserving Financial System Stability and Decision on Temporary Measures for Lessors Aimed at Preserving Financial System Stability, providing debtors with a three-month moratorium at the moment when it was needed the most, in view of the uncertainty caused by the pandemic. The moratorium envisaged the postponed settlement of loan liabilities to banks, including other liabilities to banks or lessors for all debtors who opted for this possibility (natural persons, farmers, entrepreneurs and companies). During the state of emergency, banks did not calculate the default rate on due, unsettled receivables and did not initiate enforcement or enforced collection procedures. There was a great interest of both citizens and companies in the moratorium.

In July 2020, households and corporates were given access to another moratorium which envisaged an additional postponement of the settlement of liabilities due on 1st August until 30th September 2020 and the moratorium on liabilities that were due in July of the same year and had not been settled yet. There was a slightly lower interest of both citizens and companies in the second moratorium. However, the measures of both moratorium contributed also in terms of preventing new NPLs.

In order to prevent the potential future difficulties in the settlement of liabilities for debtors affected by the coronavirus pandemic, in December 2020, the NBS prescribed the obligation for banks and lessors to approve settlement facilities for debtors (natural persons, farmers, entrepreneurs and companies) who were not able to settle their liabilities due to the circumstances caused by the coronavirus pandemic, i.e., may have difficulties settling them, at their request.

To support the domestic financial system and overall economic flows amid the Covid-19 pandemic, the NBS provided additional dinar liquidity to banks by organizing repo auctions of dinar securities purchases and additional FX swap purchase auctions, as well as through bilateral purchases of dinar government and corporate bonds from banks in the secondary market.

Liquidity of the Serbian banking sector remained exceptionally high in 2020, sustaining no adverse impact of the coronavirus pandemic and hence, posing no threat to financial stability. At the end of 2020, the average monthly liquidity ratio stood at 2.2, well above the regulatory minimum (1.0). The average monthly narrow liquidity ratio of 1.9 was also significantly above the regulatory minimum (0.7). At 211.8%, the liquidity coverage ratio was also considerably above the limit set by the regulator (100%).

Banks operating in the Republic of Serbia rely mostly on domestic, stable sources of funding. The LtD ratio at end-2020 equalled 80.4%. In 2020, the amount of deposits was sufficient to cover the amount of loans. At end-2020, deposits accounted for 74.1% and balance sheet capital for 15.6% of the total banking sector liabilities.

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Turkey

Domestic economic activity registered a strong recovery starting from the third quarter of 2020. Domestic economic activity remained robust in the third quarter of 2021 due mainly to the external demand recovery in services sectors. In 2020, the ratio of current deficit to GDP was 5.1%. Current account balance improved significantly thanks to tourism income and the decline in gold imports in 2021. Turkish economy grew by 1.8% in 2020. Consumer prices (CPI) increased by 14.6% and producer prices (PPI) increased by 25.1%, respectively. The ratio of budget deficit to GDP was 3.4%.

Number of banks operating in the banking sector was 53 as of December 2020. Of these 34 of them were deposit banks, and 13 were development and investment banks. Of the deposit banks, three were state-owned banks, and eight were private banks. There were six participation banks in Turkey.

The asset share of deposit banks in the banking sector was 87%, while the shares of development and investment banks and participation banks were 6% and 7%, respectively.

The number of employees decreased slightly and realized as 203,000 people compared to the previous year in 2020. The number of branches declined by 184 to 11,194. In 2020, the number of employees per 100,000 people decreased by four to 242, while the number of branches decreased by 0.2 to 13.4.

As of December 2020, the sector share of the largest five banks in total assets was 59%. According to deposit volume, the share of the five largest banks in total increased by 4 percentage points, while their share in loans increased by 2 percentage points.

Total assets reached USD 823 billion as of 2020. The ratio of total assets to GDP increased by 17 points to 121%. Banking sector loans and liquid assets represented 59% and 15% of assets, respectively. The share of securities was 17%. The share of subsidiaries and fixed assets was 3%.

Loan volume of the banking sector reached USD 482 billion and the ratio of loans to GDP was 74%. A 52% of total loans was extended to large scale companies and project financing, 24% to SMEs, and 24% to consumers.

Loan-to-deposit ratio remained the same at 104% level. This ratio was 152% in TL loans and deposits, and 64% in FX loans and deposits as of December 2020.

The ratio of non-performing loans before specific provisions to total loans was at 4.1%. This ratio was 4.7% in corporate loans, and 2.1% in consumer loans.

Deposits and non-deposit funds accounted for 57% and 24% of the liabilities, respectively. The shares of shareholders' equity and other liabilities were 10% and 9%, respectively.

Total deposits grew by 35% in nominal terms and 20% in fixed exchange rates to USD 466 billion. The ratio of deposits to GDP was 68%. The share of TL deposits in total deposits decreased by 4 percentage points to 45%.

Shareholders' equity was USD 81 billion as of December 2020. Capital adequacy was at a high level in both core and legal capital. Capital adequacy ratio was 18.8%. Core capital adequacy ratio (Tier-1) remained at a high level and was 14.5%.

In addition to the rapid increase in loans, interest income increased by 1% and interest expenses decreased by 19% due to the decrease in interest rates. Thus, net interest income increased by 32%.

The ratio of interest margin to average assets increased and realized as 3.2% in 2020.

Net profit decreased by 6 percent to USD 8 billion. In 2020, average return on equity was 10,7%. As of December 2020, average return on assets decreased by 100 basis points to 1.1% level compared to the previous year.

As of December 2020, debit card and credit card transaction volume was USD 336 billion, and its ratio to GDP was 44%.

As of December 2020, the number of active customers using digital banking transactions reached 66 million; 97% of the customers were individual, and 3% were corporate. The decrease in social mobility due to the pandemic played an important role in the increase in mobile banking transaction volume.

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STATISTICAL ANNEX

EU-27 data contained in the statistical annex has been compiled from publicly available information released by the European Central Bank unless otherwise noted. The data relevant for EFTA countries, United Kingdom and EBF Associate Members has been compiled from the corresponding national central bank, financial supervisory authority, national office of statistics and national banking associations members of the European Banking Federation.

Country-by-country statistics – Euro area Member States

All figures as at 31 December 2020

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Staff
Austria	492	963.746	588.043	643.501	70.226
Belgium	83	1.113.867	631.555	795.853	48.924
Cyprus	29	64.897	44.018	44.959	8.347
Estonia	39	34.371	26.004	25.926	5.733
Finland	228	698.797	407.230	289.184	19.754
France	408	10.490.715	5.696.791	5.967.587	402.899
Germany	1.508	8.943.336	5.169.025	5.524.237	575.508
Greece	35	336.121	170.873	254.511	33.097
Ireland	301	1.386.316	374.576	396.830	26.257
Italy	475	3.847.366	2.363.556	2.855.981	273.669
Latvia	50	24.070	18.145	18.565	6.209
Lithuania	81	39.606	28.663	33.227	10.650
Luxembourg	129	1.248.901	497.033	527.678	26.101
Malta	24	40.442	19.852	25.313	5.069
Netherlands	87	2.540.390	1.392.417	1.427.455	62.393
Portugal	144	413.681	245.292	318.791	49.719
Slovakia	27	93.530	65.645	70.735	18.580
Slovenia	16	46.161	29.921	36.978	9.201
Spain	192	2.892.938	1.617.161	2.097.002	171.432
Eurozone	**4.348**	**35.219.251**	**19.385.800**	**21.354.313**	**1.823.768**

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

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Staff
Bulgaria	24	66.387	40.280	49.900	27.364
Croatia	24	64.136	45.458	47.763	19.109
Czech Republic	57	305.932	220.978	188.712	39.136
Denmark	100	1.253.280	721.048	378.555	41.267
Hungary	42	148.026	72.285	105.631	38.609
Poland	621	538.393	339.058	362.678	153.896
Romania	71	124.644	68.226	91.968	52.650
Sweden	154	1.498.781	866.597	670.078	46.794
Non Eurozone	**1.093**	**3.999.579**	**2.373.930**	**1.895.285**	**418.825**

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Staff
EU 27	**5.441**	**39.218.830**	**21.759.730**	**23.249.598**	**2.242.593**

Country-by-country statistics – EFTA Member States and the United Kingdom

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Staff
Iceland	8	26.980	24.145	14.525	2.442
Liechtenstein	13	67.410	27.100	40.910	2.246
Norway	134	669.000	538.000	302.000	24.262
Switzerland	243	3.203.900	1.585.200	1.824.300	89.528
EFTA	**398**	**3.967.290**	**2.174.445**	**2.181.735**	**118.478**

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Staff
United Kingdom	**401**	**9.532.762**	**4.461.021**	**4.145.772**	**388.000**

*UK's number of credit institutions at January 2020.

Country-by-country statistics – EBF Associate Members

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Staff
Albania	12	13.079	5.015	96.820	6.563
Andorra	5	15.169	6.367	10.685	1.378
Azerbaijan	26	15.340	6.960	11.330	18.708
Bosnia and Herzegovina	23	17.300	10.400	12.800	9.491
Republic of North Macedonia	14	9.490	5.730	6.980	5.753
Monaco	30	129.000	27.000	50.100	2.602
Montenegro	12	4.600	3.200	3.300	2.200
Serbia	26	40.700	22.000	24.400	23.000
Turkey	52	670.000	392.000	379.000	203.223
EBF Associate Members	**200**	**914.678**	**478.672**	**595.415**	**272.918**

The focus of this publication is on banks; however, the pure data on banks is not available from the ECB. For this reason, the EBF uses both the Credit Institutions (CI) and the Monetary Financial Institutions (MFI) depending on which type of data is available. For your convenience, the ECB definitions of CI and MFI are presented below:

Credit Institution (CI) = Any institution that is either (i) an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credit for its own account, or (ii) an undertaking or any other legal person, other than those under (i), which issues means of payment in the form of electronic money.

Monetary Financial Institution (MFI) = Financial institutions which together form the money-issuing sector of the euro area. These include: the Eurosystem, resident credit institutions (as defined in EU law) and all other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credit and/or invest in securities. The latter group consists predominantly of money market funds.