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

The EBF is committed to supporting EU policies to promote the single market in financial services in general and in banking activities in particular. It advocates free and fair competition in the EU and world markets and supports the banks' efforts to increase their efficiency and competitiveness.

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INTRODUCTION FROM THE AUTHORS

The EBF is delighted to present the third issue of the *European Banking Sector: Facts and Figures 2012*.

The publication follows the tradition of starting off with the general overview of the EU banking sector in 2011, and its trends, followed by a description of the banking sector performance over the same period.

The two articles featured in this publication are devoted to lending to SMEs; and to the types of banks, banking activity, and their usefulness to the economy.

Having witnessed the interest and demand for this kind of material both in Brussels and elsewhere in Europe, even overseas, it was decided to enhance this publication, which usually focuses on EU-level information, with descriptions of national banking sectors across the EU and EFTA countries, prepared by the respective national banking associations. This year's publication features 16 national chapters. Authors aim to complete the set of the EU national banking sector descriptions in the next publication of Facts and Figures 2013.

A methodological remark is in order: this year, the EBF has switched from basing its analysis on the banking sector figures collected from each EU Member State's national banking associations, to the data provided by the ECB. These figures were compiled by the EBF Secretariat, and were verified and approved by the European Central Bank. This new database can be accessed on the EBF website via the following link:

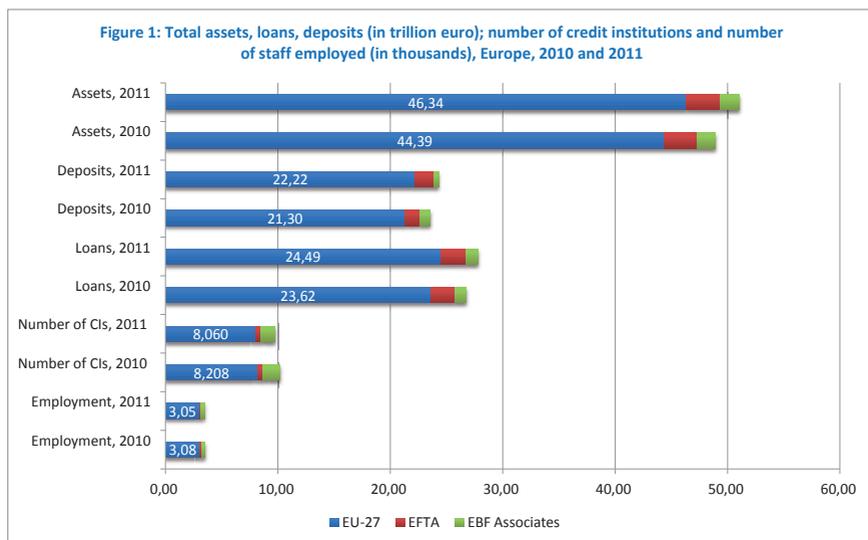
<http://www.ebf-fbe.eu/index.php?page=statistics>

The EBF hopes that this *Facts and Figures* edition will be of interest and that the information and identification of EU banking sector trends it provides will prove a useful reference.

1. NUMBER OF BANKS; BANK ASSETS, DEPOSITS, LOANS

According to the European Central Bank's figures on Credit Institutions operating in the EU, the decade-long trend of a decline in the number of Credit Institutions¹ (CI) continued into 2011. Over the past decade, the EU-27 Credit Institution population shrank by some fifteen hundred institutions, resulting in just over 8,060 Credit Institutions by the end of 2011. This financial consolidation has been accompanied by a solid bank asset growth, total aggregated assets witnessing an 85% increase in 2011 compared with 2010. Over the same period, the loan base grew by 69% to finance the EU businesses and private persons, and 79% more deposits are now held by the EU banks.

The EU financial sector ended 2011 on a positive note: total assets grew by 4.4%, while both loans and deposits increased by almost 3.7% and 4.3% respectively. However, these figures hide a much more complex picture.



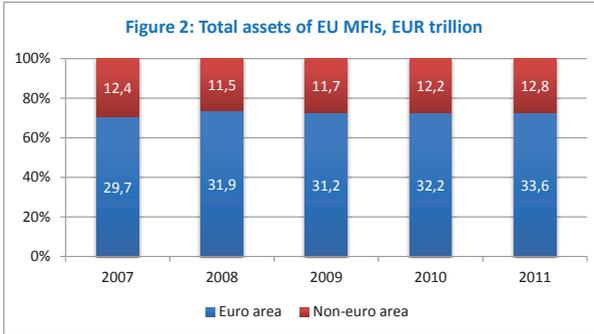
¹The focus of this publication is on banks; however, the pure data on banks is not available from the ECB. This is why the EBF uses both of the notions of Credit Institutions (CI) and of Monetary Financial Institutions (MFI) depending on which type of data is available. Since banks represent around 75-80% of the entire financial system in the EU, the EBF deems it feasible to base the analysis of the banking sector on the ECB's CI and MFI data. 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. ([source](#))

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. ([source](#))

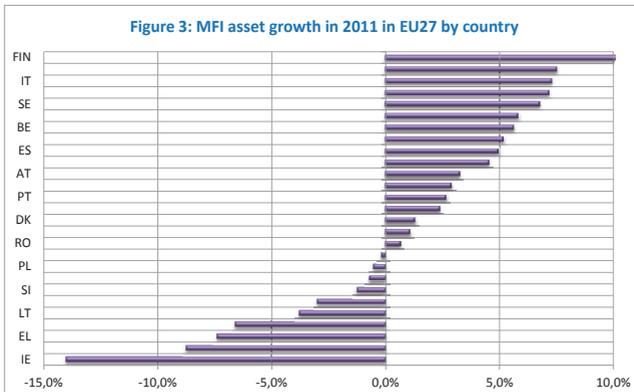
2. ASSETS

Structure: almost three quarters (72%) of all EU financial sector assets are situated in the euro area. In turn, three quarters of non-euro area assets are located in the UK, the country that sets the pace of asset growth for the region.



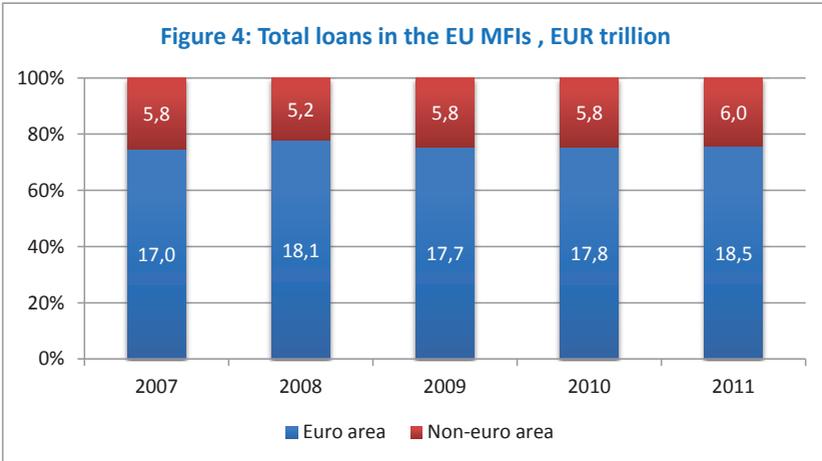
Dynamics: total assets of EU Monetary Financial Institutions (MFI) grew by € 1.9 trillion in 2011. The fastest pace of financial sector asset growth was registered in Finland (33.7%; to understand the situation behind the figure see Chapter 5, Section 5, where a more detailed explanation is provided), followed by the Netherlands (7.5%), Italy (7.3%), France (7.2%), Sweden (6.8%), the UK (5.8%), Belgium (5.6%) and Bulgaria (5.2%).

By contrast, Ireland registered the most severe decline in the bank asset base (-14%), partly owing to its ongoing macro-economic and financial adjustment programme. Negative developments also took place in Hungary (-8.7%), Greece (-7.4%), Estonia (-6.6%), Lithuania (-3.8%), Latvia (-3.0%), and Slovenia (-1.3%).



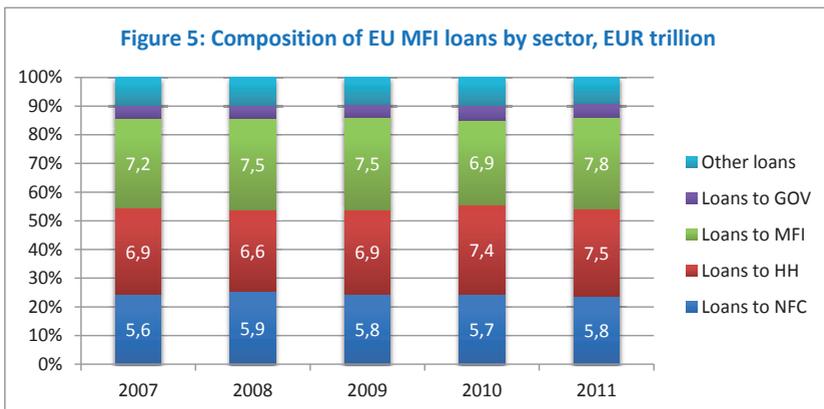
3. LOANS

Structure: just over three quarters of all EU MFI loans reside in the euro area, and almost one quarter are in the EU countries outside the euro area. In 2011, total EU MFI loans grew by € 0.88 trillion, or 3.7%. Within the euro area, total loans grew by 4% in 2011, while in the EU countries outside the area, total loans increased by a more modest 2%.



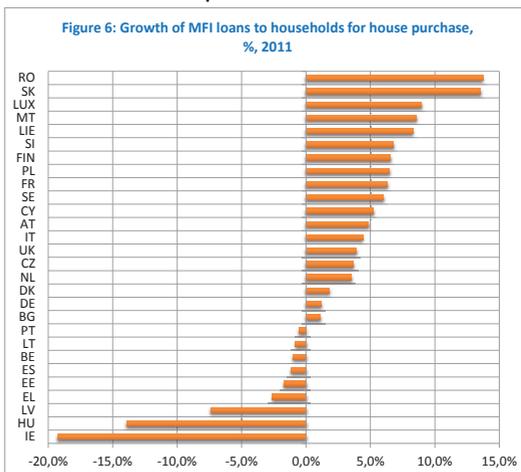
Dynamics: the lion's share of loan growth in the EU was on the account of **inter-bank lending**, € 0.84 trillion, which represents over 12% annual growth of this loan portfolio component. This represents a significant increase after a sharp fall in 2010 (-8%) and a largely neutral result the year before that (0.8%). France, Germany, the Netherlands and Finland have all strongly contributed to the increase in the stock of MFI lending to MFIs by the end of 2011. This strong inter-bank lending growth was secured by the European Central Bank's two 3-year liquidity operations performed at the end of 2011, the total amount of which totalled around € 1 trillion. With this action, the ECB, as a lender of last resort, ensured that the euro area banking sector (narrowly) avoided a credit crunch. As a result, the vast majority of the provided liquidity was used at the inter-bank market, and only a fraction of it was passed on to the real economy. Taking this loan portfolio component out of the equation, the remaining components combined present a rather stagnant situation in the EU.

With regard to **the loans to governments**, in 2010, the loan portfolio saw a steep increase of over 20%, but in 2011, it shrank by some 4.4%, while still keeping the level of total loans to governments outstanding significantly higher than during the previous decade.



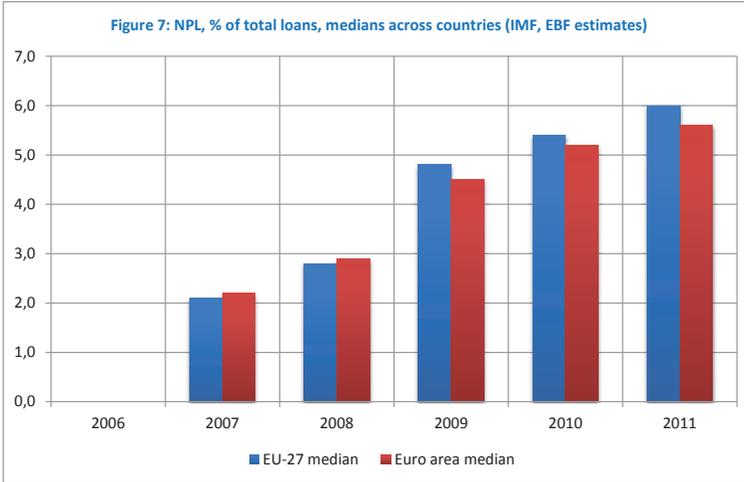
The stock of **loans to businesses** increased by less than 1% in 2011 compared with 2010, while **loans to households** had a positive (yet low) 1.7% growth. Further comments on this segment of lending are provided in Chapter 3: Lending to SMEs.

Looking deeper into the breakdown of loans, about two thirds of **loans to households** were designated for house purchase. This element of the loan portfolio grew by 2.5% in 2011, compared with an average growth of over 6% between 2004 and 2011. Double-digit growth in loans to households for house purchase in 2011 was registered in Romania (13.7%) and Slovakia (13.6%). In turn, negative double-digit growth in this loan portfolio item was registered in Ireland (-19.3%) and Hungary (-13.9%).

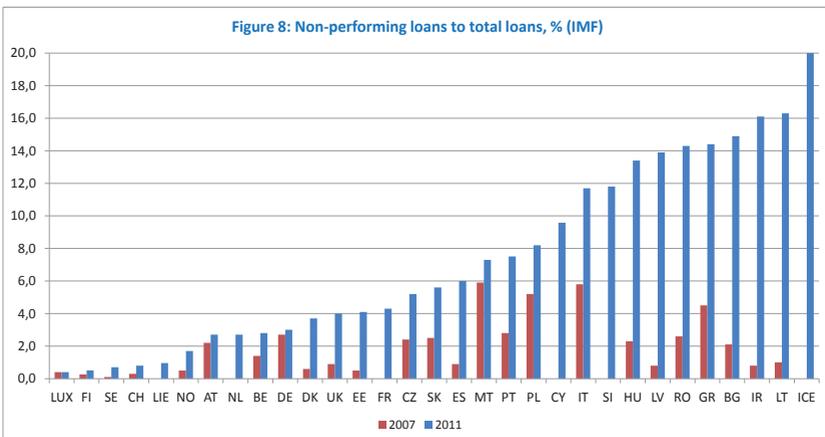


Consumer credit, which represents 12% of lending to households, decreased on average by 2.8% over 2011. More than half the countries registered negative growth in consumer credit, with Germany's figure standing just above zero.

According to the International Monetary Fund (IMF), the level of **non-performing loans (NPLs)**, as a share in total loans, was still rather high in most EU countries in 2011. Median NPL ratio was at 6.0% in the EU-27, and at 5.6% in the euro area.

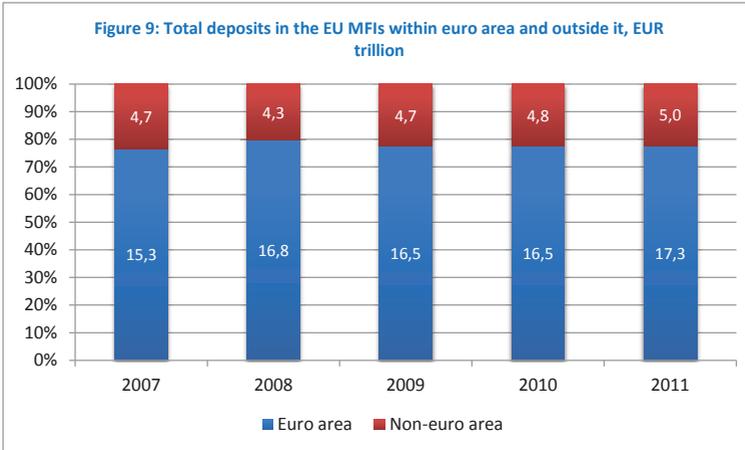


The graph below shows a mixed picture across the EU Member States. The highest share of NPLs was registered in Ireland and Lithuania, 16.1% and 16.3% respectively. Romania, Greece and Bulgaria had an NPL ratio just below 15% of total loans in 2011. The most favourable situation regarding NPLs was observed in Luxembourg, Finland and Sweden, where fractions of NPL were below 1%.

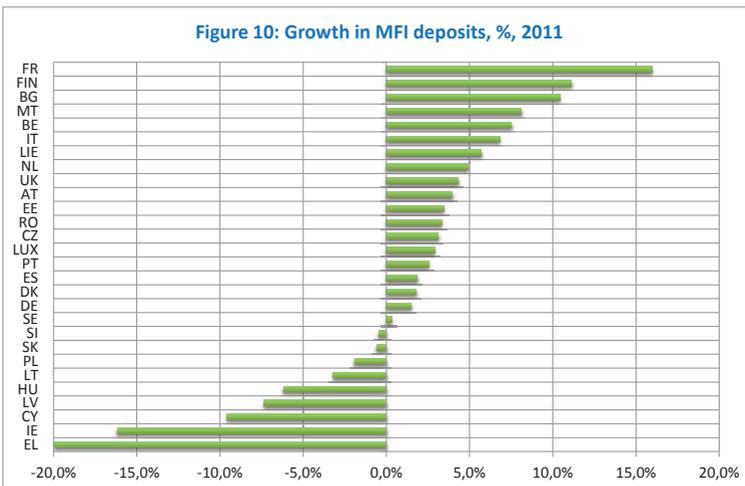


4. DEPOSITS

Structure: almost 80% of all EU deposits are held by the MFIs residing in the euro area, where they grew by 5%. In the non-euro area countries, deposit stock increased only by 3%. Of the non-euro area deposits, as with loans, over three quarters are held by the financial institutions in the UK.



Dynamics: the overall MFI stock of deposits in 2011 grew by 4.3%, or € 0.9 trillion. A significant deposit outflow was registered in Greece (-19.9%) and Ireland (-16.2%) as well as Cyprus (-9.6%). By contrast, double digit growth in the stock of deposits was registered in Bulgaria (10.4%), Finland (11.1%) and France (16%).



As with financial sector loans, the major part of growth in deposits in 2011 took place on the account of inter-bank deposits (€ 0.7 trillion out of a total deposit growth of € 0.9 trillion), although this development comes after the same amount of outflow of inter-bank deposits was registered in the year before that. The remaining increase in deposits equivalent to € 0.2 trillion is on the account of deposits made by non-monetary financial institutions.

Structure: detailed breakdown of deposits by counterparty on the ECB website is only available for the euro area as a whole (i.e. not the entire EU-27, and not by country). The data on euro area stocks of deposits reveals the fact that the largest share of deposits held by the euro area MFIs are made by other euro area MFIs: 37%. The second largest MFI counterparty is households (HH), with 34% of total euro area MFI deposits. Other financial institutions (OFI) comprise 13% of total euro area MFI deposits followed by non-financial corporations (NFC) at 10%.

This points out to the stark difference in the structure of loans and deposits' counterparties. The MFIs counterparties' amounts deposited and borrowed are highly unequal. To start, the amounts borrowed from and deposited into the Monetary Financial Institutions (MFIs) by other MFIs and by households, are more or less the same. However, governments and non-financial corporations are clear net borrowers: they borrow roughly three times more from the MFIs than the sums they deposit. By contrast, other financial institutions (OFI) as well as Insurance Corporations and Pension Funds (IC & PF) are net lenders: they deposit into MFIs, respectively, almost 50% and 90% more

Figure 11: Euro area MFI deposits by counterparty, 2011 (ECB)

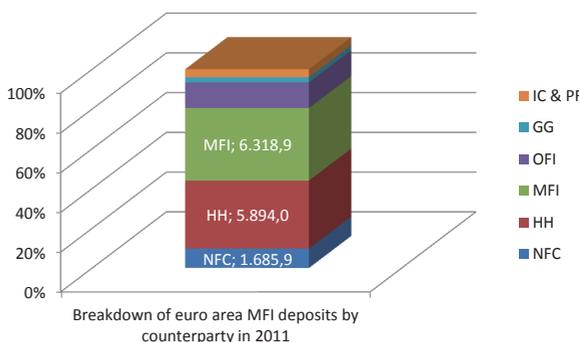
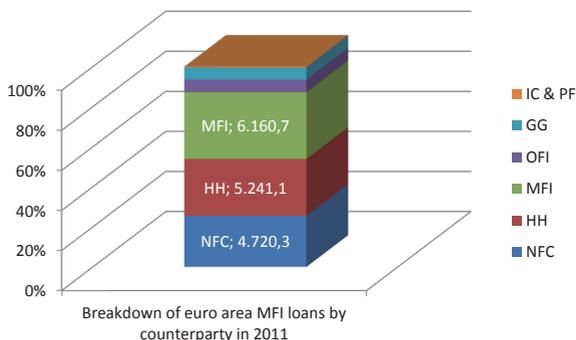


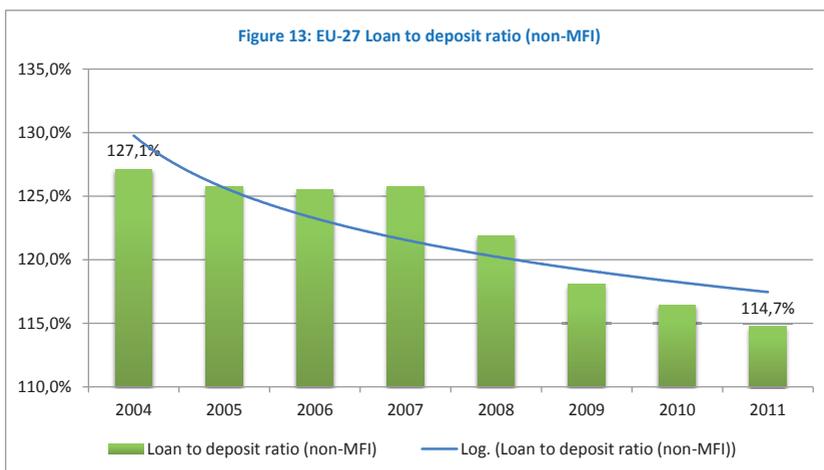
Figure 12: Euro area MFI loans by counterparty, 2011 (ECB)



Dynamics: in 2011, the stock of deposits from each of the euro area’s MFI counterparties increased. Euro area non-financial corporations’ deposits grew by 0.9% and euro area households’ deposits by 2.7%. Deposits from monetary financial institutions grew by a stark 9.4%, which is partly explained by the near onset of a credit crunch in the second half of 2011, prevented, in the event, by the ECB. Banks preferred, prudently, to deposit their excess liquidity on other banks’ accounts (in some countries, also including national central banks) instead of lending it onwards. There may be a number of reasons for that; including low demand for bank loans in the broader context of continued economic and political turmoil in the EU; restrictions related to bank leverage, to name but a few.

5. LOAN-TO-DEPOSIT RATIO

The ratio of loans to deposits (taking out the MFIs as counterparty in both the numerator and the denominator) shows a declining trend over the past years. In 2011, this ratio stood just below 115%. Such tendency indicates a reduction in the on-balance sheet financial sector leverage vis-à-vis the real economy.



It must be noted that the ratio of MFI loans extended to other MFIs, over MFI deposits extended to MFIs (the component excluded from the ratio described above), has had an upward trend over the same period of time, increasing from 96% in 2004 to 102% in 2011.

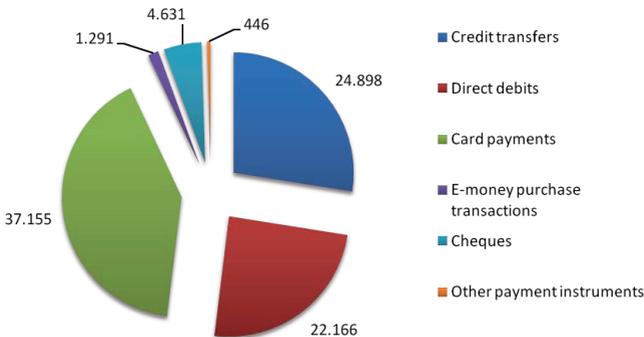
6. PAYMENTS

According to the European Central Bank², the number of non-cash money transactions grew by 4.6% in 2011, while the value of transactions of non-cash kind increased by 5.5%. Over 2011, an impressive 2,872 non-cash transactions were undertaken per second every day of the year; this figure accounts for all transactions involving both businesses and private individuals.

The dominant type of non-cash transaction is the **credit transfer**, the favoured way of transferring money by businesses. While representing only 27.5% of all non-cash transactions made in 2011, in value terms it accounted for 89% or € 213 trillion of all non-cash payments. Almost a quarter of all credit transfers (23.7%) were SEPA compliant³. The average value per credit transfer in the EU is over € 850. Half of all credit transfer transactions take place in Germany, France and the UK, accounting for some 73% of the total value of such payments.

The most frequently used method of payment is the card payment, which represents 41% of all transactions made in 2011, although in value terms it accounted for less than one percent of all money transferred. Almost € 4,000 per EU inhabitant was transferred by means of card payment in 2011. High frequency of use of this type of payment instrument means that almost 1,800 card payments are made every second in the EU.

Figure 14: Number of non-cash transactions by type, 2011 (million)



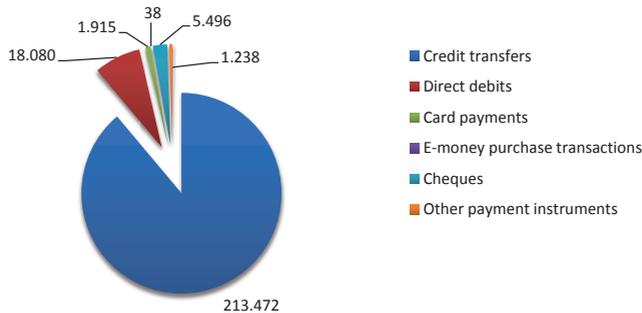
The third most important type of payment instrument is **direct debit**, accounting for almost a quarter of all non-cash payments in the EU in 2011.

² <http://www.ecb.int/stats/payments/paym/html/index.en.html>

³ <http://www.ecb.europa.eu/paym/sepa/about/indicators/html/index.en.html>

Only 0.5% of all direct debit transactions were SEPA compliant in 2011. The value of money transferred with direct debit grew by 13% in 2011; the average value per this kind of transaction being around € 82. Remarkably, 39% of all direct debit transactions in the EU are made in Germany, corresponding to 74% of all the money debited directly in the EU.

Figure 15: Value of non-cash transactions by type, 2011 (EUR billion)



It is worthwhile noting that **cheques** are still of high relevance in the area of payments. Cheques represent just over 5% of all non-cash payment transactions, but their value is only at 2.3%. The average value per cheque-type transfer is almost € 119, and in 2011, 147 cheques were written every second of every day in the EU. It must be noted that not all countries use cheques: the French are by far the most heavily reliant on this payment type, followed by the British, and to a much lesser extent by the Italians, the Irish and the Spanish.

In 2011, there were 437,400 Automatic Teller Machines (**ATMs**) in the EU-27, an increase of 1%, or almost 4,100 units since a year before. This means that over a year, the number of people per ATM in Europe fell by 11 to 1,148. Germany, Spain, France, and the UK combined, account for 60% of all ATMs in the EU. The ATMs are also used more frequently: the number of transactions in the EU grew on average by 1.3% in 2011; however the number of cash withdrawals grew only by 0.3%.

Finally, it should be remarked that the amount of **banknotes and coins** in circulation has been growing continuously in the euro area. The ECB statistics suggest that the amount of banknotes has quadrupled since January 2002 (the moment of introduction of the euro currency), while the number of coins has almost doubled.

1. ECONOMIC ENVIRONMENT

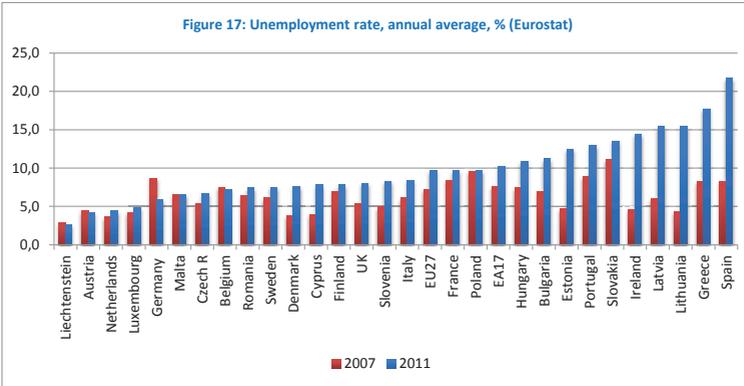
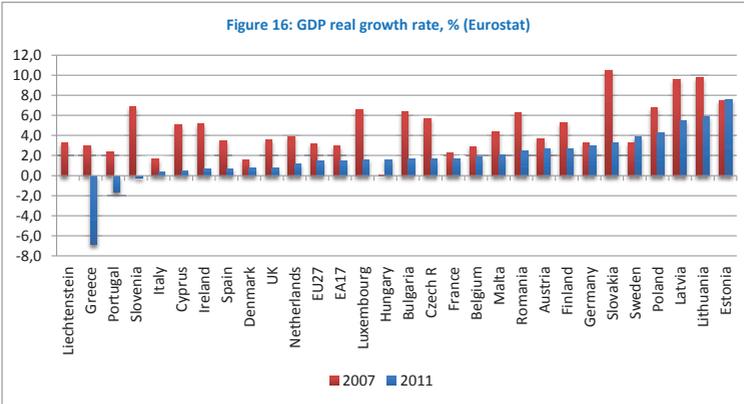
In the course of 2011, the **economic conditions** gradually deteriorated. EU-average unemployment rate climbed above 10%, and GDP slid into the negative in some EU Member States. There are a number of reasons for a fall in economic activity. On the one hand, following an increase in unemployment, domestic demand has significantly slowed down; while on the other hand, the export-led countries in the EU have also been hit by a slowdown in growth of the main export markets, such as Brazil, Russia, India, China and South Africa.

Moreover, the vicious circle of dependence of national governments on banks to take on more debt from the banks in order to continue daily operations as usual, and the dependence of banks on the need to hold sufficient levels of government bonds (which are still considered to be safest and highly liquid asset), has taken an unprecedented proportion. Given the strenuous economic conditions, in 2011 the euro area governments went into a 4.1% deficit and the EU governments into a 4.5% deficit, resulting in an increasing debt pile reaching 87.2% in the euro area and 82.5% in the EU in 2011⁴.

In response to the deteriorating economic situation, early in 2012, the European Commission took a number of measures. To boost growth, the European Commission has developed a *Roadmap for Stability, Growth and Jobs*. To this effect, at the end of May 2012 the Commission published a package of country-specific recommendations for budgetary measures and economic reforms. An additional element of the package is the recommendations for the euro area as a whole.

In response to the high level of unemployment in Europe, the European Commission launched the *Employment Package* in April 2012. The Package calls on the EU Member States to implement a number of changes to the demand-side employment situation. The Commission measures are yet to be implemented and take effect before their success can be assessed.

⁴[http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/introduction_\(deficit\)_debt](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/introduction_(deficit)_debt)



In parallel, mounting pressure on the **funding** markets created challenging conditions for banks to be able to continue operating smoothly. Adjustment of the monetary policy by the ECB at the end of 2011 proved to be crucial to staving off a credit crunch in the euro area. The two 3-year refinancing operations (LTROs) of the ECB, one introduced in December 2011, and the second one in February 2012, with an aggregate volume of over € 1 trillion, eased the funding pressures on many banks in the euro area, but they did not remove a number of banks' potential solvency problems.

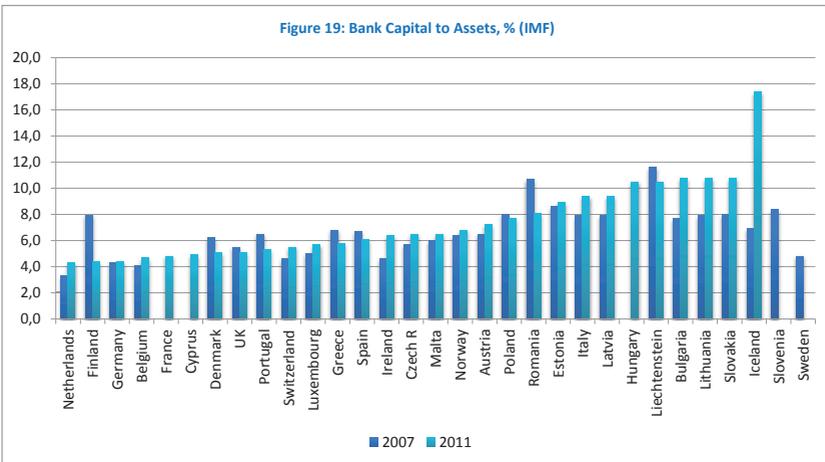
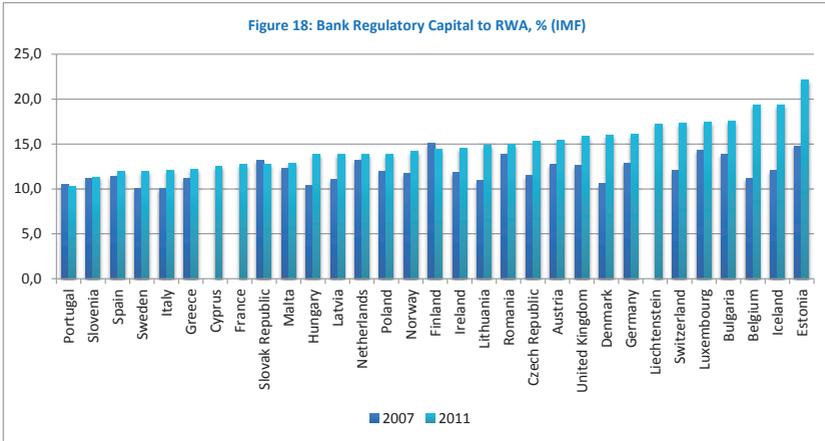
The ECB main refinancing rate and in mid-2012 the deposit facility rate were brought down to a very low level (0.75% and 0.00% respectively). Reducing the official rates further would lower banks' refinancing cost, but the effect would be incomparable to the magnitude of the challenges faced by some banks, such as additional capital requirements, or writing off of bad loans. Banks' need to satisfy market and regulatory demands can only be addressed by banks themselves, or – at a stretch - by the states in which they are located.

2. BANK CAPITAL

In the context of the EU regulatory package on capital requirements for banks (CRD IV / CRR), the European-based banks are continuously beefing up their level of regulatory capital. Some EU Member States have been improving the regulatory capital ratio faster than others. According to the International Monetary Fund (IMF) , between 2007 and 2011, Belgian banks made a big effort to increase the ratio of regulatory capital to risk-weighted assets (RWA) by 8.1 percentage points to 19.3% at the end of 2011. German banks' ratio increased by 3.2 percentage points to 16.1%, Italian banks' ratio increased by 2.0 percentage points over the same period, to reach 12.1%.

The level of regulatory capital as a share of risk-weighted assets in such countries as Greece, Portugal and Spain hovered between 10.3 and 12.2% at the end of 2011, while that of Irish banks was almost 14.5%.

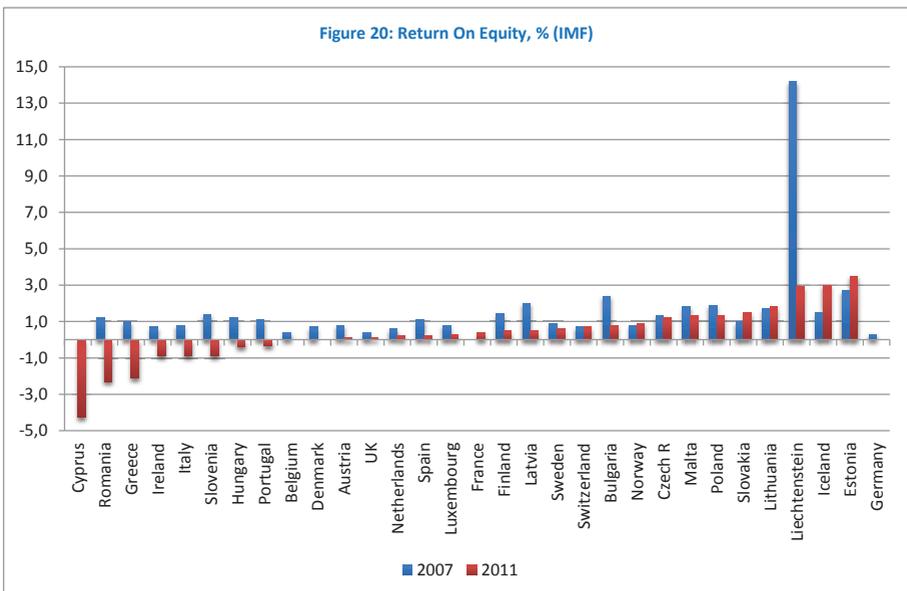
These results compare with the effort made by the US banks by 2.5 percentage points since 2007 to reach 15.3% in 2011 (calculated under the Basel I principles) or with Japanese banks' lower increase of 0.9 percentage points to reach 14.2% by end-2011.



Overall, the capital cushion of banks is much more sizeable now than a few years ago, implying banks' better ability to cope in case of *force majeure*. That said, the level of strain of the current economic, financial and political situation puts in question the sufficiency of this regulatory requirement for weathering the storms. Indeed, a systemic approach to solving the situation is needed, and this is what the European leaders have been discussing in the 28-29 June 2012 meeting, notably, the creation of a Banking Union. Introducing a banking union in the EMU, with its indispensable elements of a single supervisory authority, single European Deposit Guarantee Scheme and single Crisis Management Framework, is the right way to ensuring proper functioning of an integrated financial market. The role of the single supervisory authority was granted to the ECB, the scope being all euro area banks as well as banks of any other interested EU Member State. The ECB will phase in its role of the euro area supervisor during 2013; which will give a more holistic touch to the EU banking supervision, and contribute to the financial stability in the EU.

3. BANKS' RETURN ON EQUITY

Considering the difficult economic situation in 2011, it is justified that the European banks' overall profitability remained weak. According to the IMF, banks' 2011 results in the programme countries are radically different: while Irish banks managed to improve their ROE from -3.0% in 2010 to -0.9% in 2011, Greek banks went in the opposite direction, i.e. from -0.6% in 2010 to -2.1% in 2011. Portuguese banks' return on equity (ROE) fell to -0.3% in 2011; Italian banks' ROE also dipped to -0.9%. Spain maintained more or less the same level of profitability, resulting in a modest 0.2%. Top of the chart is mostly dominated by the Eastern European countries: Estonia, Lithuania, Poland, Czech Republic, Slovakia. The current crisis has not hit most of Eastern Europe in the same way as it did the Western European countries, which explains the stark difference in those countries' bank performance.



Small and Medium-sized Enterprises (SMEs) lie at the heart of most EU policy, and a ‘think small first’ principle requires legislation to take the interests of SMEs into account when policies are conceived. It is recognised that a healthy industrial sector is essential for the economic and social well-being of the EU. Under the current EU definition, medium-sized companies may have up to 250 employees, and turnover of up to € 50 million or balance sheet of up to € 43 million. In practice, this means that at least 99% of companies in the EU are SMEs. Moreover, these companies employ around 72% of the labour force and generate 85% of new jobs in the EU. It is no surprise that they are prized so highly.

Table1: EU SME Definition

Company category	Employees	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤ € 10 million		≤ € 10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

EU policy in recent years has concentrated on freeing SMEs from unnecessary burdens and obstacles such as red tape and market barriers, and easing their ability to tap into financial resources. Access to external finance has remained at the forefront of discussion, as it enables companies to grow faster, feeding economic recovery and creating jobs. The financial and economic crisis of the last four years has intensified concern about this, as smaller companies have been hard hit: demand for their products has weakened; customer payment terms have lengthened; and working capital has been eroded, causing an acute financial squeeze for many of them. On the other hand, the weak economy has led many companies to retrench and postpone investments. This has tended to dampen their demand for finance, in turn limiting their growth.

THE IMPORTANCE OF BANK-SME LENDING

Up to now, EU companies have relied heavily on banks for external funding. As Chapter 4 notes, around 75% of corporate financing in the EU is obtained from banks, compared to about 30% in the US. This situation reflects the relative lack of development of other commercial and market sources of finance for smaller businesses in the EU, for a variety of historical reasons. The financial crisis has highlighted the fact that this structural difference can be a source of vulnerability for EU companies.

EU policy is addressing the problem. It aims to improve the efficiency of financial markets; and to stimulate sources of finance suited to the different stages in the life cycle of companies, such as venture capital, mezzanine finance and equity markets⁶, so that smaller companies have the widest possible array of financing options. Attention is also being brought to bear on a less publicised problem, which is a serious source of pressure on company cash-flow: late payments from customers. The Commission is pushing to accelerate implementation of a new EU Directive on Late Payments, due to enter into force in March 2013. Last year it estimated that late payments account for some € 1.1 trillion of delayed turnover for EU companies. These different initiatives will help to diversify financial sources, although traditional banks will undoubtedly remain an important financing partner for industry in the future.

SME relationships are among the highest priorities for banks. Financing industry and trade lies at the origin of the banking industry and is central to banks' role in fuelling economic growth. These relationships are complex, and may include services beyond 'plain vanilla' loans, such as payments, cash management, leasing and trade finance. In some cases, banks are offering services that are not profitable for them in the conventional way of lending business, motivated by the aim of developing future creditworthy customers, or by Corporate Social Responsibility objectives.

Figure 21: CSR and microfinance

CSR policies often pursued through microfinance – loans and other services to very small businesses

- often high cost for low return
- special risk elements (absence of track record, start-up uncertainties..)
- monitoring and guidance required
- teaming up with other funding providers and advisers
- pro bono networks of advisers

⁶See the SME Action Plan, a Communication issued by the European Commission in December 2011: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0870:FIN:EN:PDF>

Services for enterprises impact both the liability and asset sides of the bank's balance sheet. The volume of company deposits placed with EU banks typically equals about one third of the volume of corporate lending (see Figure 11 in Chapter 2). They provide a valued source of funding, and financial stability for banks, particularly at times of market turbulence.

THE SME DATA CHALLENGE

Despite their importance, accurate figures for lending to SMEs in the EU are surprisingly hard to come by. Although there is an official EU definition for an SME, it is not comprehensively applied. With the average size of company differing greatly around the EU, the definition cannot reflect the diverse reality of the Member States, which limits its use in policy-making. Another obstacle to capturing data on SME lending is that a loan to a smaller company may not be recorded as such by the lender. It may be reported as a consumer loan (for example, in the case of a loan secured by a mortgage that is used to finance a start-up), or simply as 'corporate'.

The smallest company or 'micro-firm' is the most fertile part of the SME market in terms of job creation. It is also the type of company that faces special difficulties in obtaining finance because of the higher risk elements, such as the absence of a borrower track record and the uncertainties connected to a start-up. A 2010 EBF report on microfinance in the EU banking industry⁷ pointed to the difficulty in defining - and therefore in measuring - microfinance activity. Here, too, there are differences around the EU, with the average size of a microcredit estimated at around € 10,000-15,000 in the older Member States of the EU, and considerably lower in the newer Member States.

The ECB's monthly report on the balance sheets of MFIs in the EU is the most consistent and reliable publicly available data on lending to companies. In the absence of a sub-division of this data by the size of the corporate borrower, and given that most EU companies are SMEs according to the EU definition, the EBF considers this report a good guide to the scale and evolution of bank lending to SMEs.

The European institutions are filling in some of the gaps in information on conditions for SMEs. The ECB's monthly MFI data is supplemented by regular reports developed by the ECB and the European Commission.

⁷<http://www.ebf-fbe.eu/uploads/D1093k%20Microfinance%20EU%20banking%20industry.pdf>

A regular survey on the access to finance of SMEs, covering a broad sample of firms, gives information on the financial situation and needs, access to financing and expectations of SMEs.⁸ The ECB's six-monthly bank lending survey complements this report by providing the banks' perspective on lending capacity and trends for the euro area⁹.

TRENDS AND THEIR INTERPRETATION

Since 2008, the ECB-MFI data has been under constant scrutiny to determine whether the crisis has caused a credit crunch. As the tables for MFI lending in Chapter 1 show, for the EU as a whole, the aggregate volume of credit supplied to non-financial corporations has remained robust despite the crisis, with a stock of close to € 6 trillion in 2011. Overall, the credit supplied by banks appears to have broadly matched the credit demand. There are some national markets which have suffered from specific difficulties linked to weaker local economies, as outlined in Chapter 2, but in these cases restrictions on credit availability have often been associated with banks' funding difficulties, and/or the weaker financial condition of businesses.

Credit volume is not the only angle from which to view the bank-SME lending business. Banks' strategies, and their attitude to risk, feed through to their relations with corporate clients, and determine the lending environment. At the level of an individual SME, the terms and conditions attached to loans and other bank services - particularly pricing and collateral requirements - and the nature of the service provided by the lender, are important parts of the picture. The crisis has led to major changes in both bank strategy and attitude to risk. From a strategic perspective, the traditional core businesses of banks are more highly valued. Banks are making efforts to consolidate SME client relationships and in particular to increase new and smaller enterprises' financial knowledge, so that they are better able to access and exploit the finance that is available.¹⁰ On the other hand, the crisis and the economic downturn have increased lenders' risk-awareness. The effect of new banking regulation - reducing the size of banks' balance sheets, limiting the availability of credit and raising its cost - is evident now, and will probably become more apparent in the next few years as the rules are fully introduced. There is a legitimate concern that, as the economic recovery strengthens, and companies' need for finance grows, banks may be hampered in fulfilling their traditional role.

⁸<http://www.ecb.int/stats/money/surveys/sme/html/index.en.html>

⁹<http://www.ecb.int/stats/money/surveys/lend/html/index.en.html>

¹⁰See EBF report "Financial Dialogue: bank measures to foster SME financial knowledge", December 2010, <http://www.ebf-fbe.eu/uploads/20-December%202010-D0812-EBF%20Report%20Financial%20Dialogue.pdf>

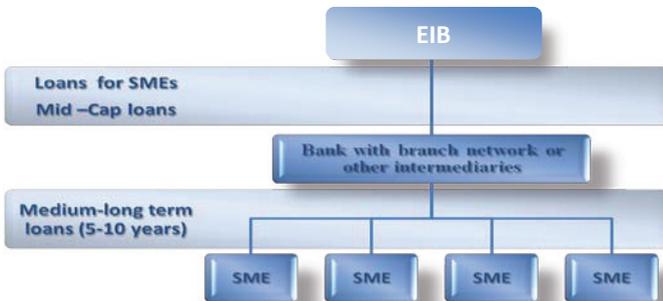
PUBLIC AND PRIVATE SOURCES

In addition to the nearly € 6 trillion of MFI lending to corporations, governments are providing important financial support to SMEs in areas of market failure, where commercial institutions would not normally do business. This support is often provided in conjunction with loan finance from commercial banks.

In the EU, an array of programmes is available, to promote enterprise in general, research and innovation, and other broader EU objectives touching on industry.

The EU’s principal programme of support for enterprise, the Competitiveness and Innovation Framework Programme (CIP), with a budget of € 1.1 billion, is expected to enable financial institutions to provide about € 30 billion of new finance for more than 315,000 SMEs¹¹. CIP financial instruments are managed by the European Investment Fund through national and regional financial intermediaries (banks and venture capital funds) in the EU. The CIP’s successor, the Programme for the Competitiveness of Enterprises and SMEs (COSME) will continue to provide facilities for loan guarantees and venture capital to supplement the resources of the private sector, which will require the expertise and intermediation of the banking industry. In the case of the loan guarantees, EU funds assist entrepreneurs or small enterprises when more collateral is needed to obtain a bank loan. The Commission reports that 90% of beneficiaries have 10 or fewer employees, which is the category of enterprise that has most difficulty in obtaining a loan. Here the average guaranteed loan is about € 65,000. Other EU resources are directed specifically towards the smaller micro-credits.

Figure 22: Banks as partners to the EIB



Banks are also working with the European Investment Bank (EIB) as financial intermediaries for its lending to SMEs. In 2009-2011, EIB loans for SMEs and midcaps with intermediary banks reached some € 33 billion, benefitting more than 180,000 enterprises. The EIB's role is set to grow further, with a €10 billion increase in its fully paid-in capital proposed earlier this year. It calculates that the new capital will allow it to provide up to € 60 billion in additional long-term lending for economically viable projects in the EU over the next few years.

THE PUBLIC RELATIONS CHALLENGE

Banks are accustomed to scrutiny and criticism about their willingness to lend to industry. This is to be expected given the importance of their role in financing enterprise, and the fundamental importance of industry to the economy and society.

At present, banks need more than ever to dispel misunderstandings and point out inconsistencies in policy insofar as they reflect on their role in financing the economy. A number of these difficulties of perception are connected with the credit decision itself. Smaller companies may be concerned that their credit application will be handled in a mechanistic way, and the result conveyed with little or no explanation. Banks need to pay attention to communication, explaining the complexity of credit assessment, and the importance of qualitative factors in addition to the figures, particularly when looking to the future of a business. When banks are criticised for being unwilling to lend to industry, they should be ready to stress to policy-makers the importance of responsible credit analysis, particularly during difficult economic times. Above all, pressure on banks to increase loan books irrespective of the credit risks, and suspend their credit judgment, flies in the face of the lessons learned from the crisis, and the stringent new prudential regulation that is being put in place.

Figure 23: The cost of misunderstanding



Not only more data, but also more explanation and communication is needed: the more informed the discussion about bank lending, the better.

The EU market can be described as having a ‘bank-based’ model, where most customers and enterprises are financed by banks, as opposed to capital markets. The ECB reports that the share of banks in credit intermediation in Europe represents around 70%-75% of debt financing to households and enterprises. In the US this number is around 20%-30%.

Both in prosperous times and in turmoil, Europe’s banks seek to fulfil the important role of credit intermediation by accepting deposits and by lending to the economy. The ECB’s bank lending surveys have consistently demonstrated this commitment notwithstanding anecdotal reports to the contrary during the period of economic hardship. The absence of a pan-European capital market that could offer an adequate alternative source of funding to Europe’s enterprises (over 90% of which are SMEs) means that structural reform of banks risks disproportionately affecting their prevailing role of credit intermediation in Europe.

Banks play an important role in the European economy by **providing essential financial services** to households and businesses. Supporting customers through **strong, sustainable and focused relationships** is at the core of successful banking. Banks play an important role in providing consumers with access to banking services that enable them to live their daily lives: facilitating **payments and financial transactions**; supporting small and medium-sized enterprises through **finance and advice**; enabling **investments in infrastructure and private finance**; and **helping businesses take and manage risks** so that they can grow quickly. Banks also **mediate between suppliers and users of capital** in the market. All these functions are essential to the proper workings of a modern market economy.

The **European banking sector incorporates a rich array of banks**, with different business models, legal forms and ownership structures. Apart from the larger **commercial, retail and investment** banks, which focus on a broad mix of banking activities, a large number of specialised institutions with different ownership structures - **public banks, cooperatives and saving institutions** - co-exist in this highly diversified market. Such a diversified banking landscape is in itself already a strong protection against financial shocks as different banking types react differently to specific events. Having **small and large** banks, **domestic and**

¹²For more details see EBF Report on possible reform of the EU banking structures (July 2012): <http://www.ebf-fbe.eu/uploads/EBF%20study%20on%20the%20issue%20of%20possible%20reforms%20to%20the%20structure%20of%20the%20EU%20banking%20sector.pdf>

international banks, **specialised** and **universal** banks, all contribute to a diversified, competitive and safe banking sector. Such banks can be defined either as ‘diversified’ banks – i.e. banks that combine different banking activities; such as investment banking and corporate banking – or as ‘specialised’ banks, i.e. banks that restrict themselves to only a few activities, e.g. investment banking.

So, business models, to a large extent, can be distinguished by the scope of activities and funding strategies they engage in. Most retail-oriented banks, e.g. commercial, savings and cooperative banks, provide traditional banking services to the general public. Investment-oriented banks focus more on trading activities, relying on a variety of funding sources whilst often maintaining a retail network of their own. Other banks provide services to their institutional clients, including large and mid-sized corporations, real estate developers, international trade finance businesses, network institutions and other financial institutions.

Broadly speaking, there are **two main categories of activities** worth distinguishing:

- **Retail activities.** Retail banking activities deal with banking products most people use on a day-to-day basis: payment services, loans and deposits. Retail banks are more likely to provide loans, and retail activities often use customer deposits as the primary source of funding. Banks performing retail services need to be present in a broader geographical area through an extensive network of branches, and have more employees, in order to be able to engage directly with their retail customers. Retail banks are less likely to engage in trading activities. However, it must be noted that, given the volatility of the financial markets, even ‘specialised’ retail banks have to adjust their risk profile, taking positions in the wholesale markets since interest rate risk, credit/currency risk, etc. have to be continuously and dynamically managed. ‘Specialised’ retail banks need the expertise and capacity to enter these markets.

• **Investment activities.** Investment banking is useful for the economy and is generally also customer-driven. Some examples of investment banking activities are:

- o to help individuals secure mortgages they need to buy a home, investment banks market and distribute covered bonds. This lowers the price of mortgages for household borrowers;
- o to help companies hedge interest rate and foreign exchange risks related to their expansion, thus creating financial security and allowing prudent financial budgeting;
- o to help finance large infrastructure projects like schools or hospitals by providing syndicated loans or infrastructure funds that invest into public-private partnerships;
- o to provide funding to, and market-making of, sovereign and local authorities' bonds in order to lower their cost of funding.

In many markets there is a significant, and growing, **demand from SMEs** for investment banking products. The level of demand for these products varies from one market to the other, depending on a range of factors, such as: the nature of the economy, especially the role of exports; the prevalence of international sources and uses of cash in SME accounts; and the sophistication of the SME customer base, often driven by the sophistication of the latter's own customers. These factors are widely observable in the EU where companies, including SMEs, act increasingly across borders within the EU and beyond.

Almost all banking activity, be it agreeing to an individual's mortgage; lending € 10,000 to a small business; helping a farm or large company hedge commodity price risks; or helping a government price and sell its bonds, involves risk-taking by a bank. By their very nature, **banks must carry and manage that risk** in order to meet the needs of their customers and the economy. Removing that risk from banks implies either removing it from the economy or placing it outside the regulated banking sector.

It is important to stress that banks need access to wholesale financial markets in order to play their important role in balancing the financial accounts in the region they operate. Banks' balance sheets are the natural result of a population's savings in the form of deposits, and loans to households, businesses and governments.

In open economies, including in economies comprising a monetary union, supply and demand of funds is not necessarily in equilibrium. This is because certain countries have a structural surplus (e.g. Belgium), whilst others have a deficit (e.g. the Netherlands), rendering Dutch banks net importers of foreign capital. This demonstrates the fact that cross-border flows of funds are essential for open economies, and are one of the major reasons for the creation of the common financial market in Europe. In this framework, **banks act as natural intermediaries, balancing out the demand and supply of funds** by importing or exporting capital. Thus, countries with a surplus are prevented from developing a bubble, and deficit countries from entering a credit crunch. The most straightforward way to do this is to use wholesale financial markets.

Moreover, banks perform a socially useful role of **maturity transformation** by collecting short term deposits and granting long term credits. On the one hand, they allow customers to keep deposits that are liquid and safe. On the other hand, they provide long term loans, often with fixed interest rates, to companies and individuals. To hedge their risk, banks must transfer this risk to investors with the help of financial market products.

To summarise, a balanced diversification of sources of revenues and of funding represents a clear advantage to preserve the stability of financial institutions, having the capacity to absorb external shocks in a much more resilient way than a specialised entity could. Diversified banks have been less affected by the financial crisis than specialised banks, and have a greater resilience based on clear synergies between private banking, retail and corporate banking, and investment banking. Diversified full-service banks are diversified by geography, product lines and customers, and this helps to diversify risk and reduce concentration. Overall, this is beneficial to financial stability.

1. AUSTRIA

Austria has a highly developed banking sector. Access to banking services, measured as number of inhabitants per bank branch, is among the highest in Europe (1,673 inhabitants per branch in 2010). The Austrian banking sector consists of 842 banks with a total of 4,180 branches (2010 year-end numbers). Employment in the industry reached about 78,000 people in 2010. The Austrian banking sector can be divided into 7 subsectors (joint stock banks and private banks, savings banks, state mortgage banks, *Raiffeisen* credit cooperatives, *Volksbanken* credit cooperatives, building and loan associations and special purpose banks). The biggest sectors are the joint stock banks and private banks, the *Raiffeisen* credit cooperatives and the savings banks. The Austrian banks' geographical focus is Central and Eastern Europe (CEE), branching out into Central Eastern and South-Eastern European (CESEE) countries. Apart from their home country, Austrian banks and their subsidiaries are present inter alia in Albania, Bosnia-Herzegovina, Bulgaria, Belarus, Serbia, Montenegro, the Czech Republic, Croatia, Hungary, Poland, Romania, Russia, Slovenia, Slovakia and the Ukraine. While there is a significant exposure in CEE and CESEE, Austrian banks are facing only relatively small risks with respect to markets currently in severe conditions.

The Austrian banking sector's total assets amounted to € 978 billion in 2010. € 581 billion of these are total loans, with the most important constituent sums being loans to MFIs (€ 218 billion), loans to non-financial corporations (€ 159 billion) and loans to households (€ 140 billion). Corporate financing of Austrian non-financials is dominated by loans and internal financing. Financing through bonds and equity instruments have tentatively been gaining ground over the past years, especially prior to 2008 and during the then ensuing crisis. One noteworthy detail about loans to households is the relatively high proportion of foreign currency loans. Due to interest rate differentials and favourable exchange rate developments compared to euro-denominated loans, foreign currency loans offered lower financing costs for borrowers and used to be a popular financing method. The Euro's depreciation since the beginning of the financial and economic crisis in 2008 has prompted regulators to introduce stricter rules by considerably tightening standards for granting of foreign currency loans in March 2010. Aiming at a significant reduction of the overall volume of foreign-currency denominated loans to consumers, they can now only be granted to people with sufficiently large income in the relevant foreign currency, and to individuals who are considered top-rated debtors.

By the end of 2010, total deposits received accrued to € 525 billion. Deposits from MFIs were € 219 billion, whereas deposits received from non-MFIs were as high as € 302 billion. Deposits are the private households' preferred way of holding financial assets in Austria. Insurance products are ranking second, but they have a far smaller volume than deposits. They are followed by stocks and interest bearing securities.

At the end of 2011, Austrian authorities came up with a package of 'sustainability-boosting' measures for Austrian banks and their subsidiaries active in Central and Eastern Europe. On the one hand the implementation of the Basel III rules will be very timely, as a measure to bolster banking groups' capital bases. On the other hand, credit growth in the future will be made conditional on the growth of sustainable local refinancing (comprising mainly local deposits) in order to improve the subsidiaries' refinancing structure. Thus in the future, subsidiaries that are particularly exposed must ensure that the ratio of new loans to local refinancing (i.e. the loan-to-deposit ratio including local refinancing) does not exceed 110%.

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

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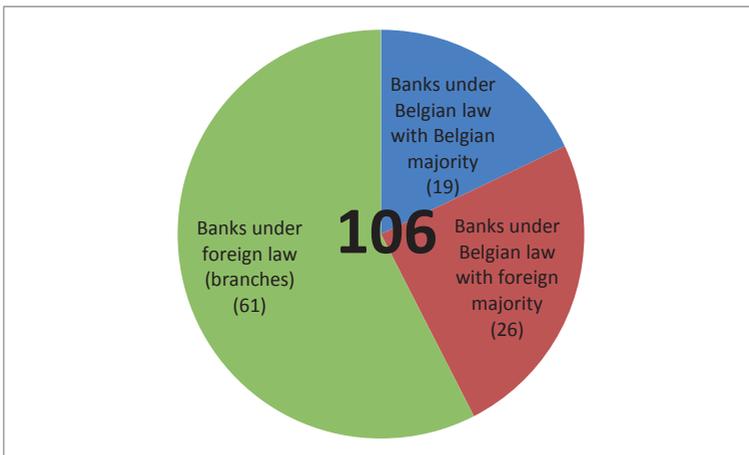
2. BELGIUM

The Belgian banking community is characterised by the presence of a large variety of players who are active in different market segments. *BNP Paribas Fortis*, *KBC*, *Belfius* and *ING Belgium* are the four leading banks (with a cumulated balance sheet total of more than 65% of the entire sector) offering an extensive range of services in the field of retail banking, private banking and corporate finance. In addition, a number of smaller institutions are often active in a limited number of market segments.

A number of institutions have specialised in international activities, such as *Euroclear* (one of the world’s biggest players in the field of settlement services), *The Bank of New York Mellon* (custody) or *SWIFT* (the global provider of secure financial messaging services), which of course do not have the legal status of a bank. At the end of 2011, the overall number of credit institutions in Belgium amounted to 106 (to which should be added two Electronic Money Institutions).

The Belgian banking community has a very strong international character thanks to its geographical location and the presence of international institutions such as the European Commission and North-Atlantic Treaty Organisation (NATO): more than four fifths of those 106 banks have a foreign origin (i.e. being active in Belgium either as a branch or a subsidiary of a foreign bank), less than one fifth has a Belgian majority of shareholders.

Number of banks established in Belgium (end of December 2011)



At the end of 2011, the number of bank branches in Belgium was almost 4,000. If one adds to this the number of points of sales held by independent agents, then this number reaches almost 7,500. In addition, there are more than 15,000 ATMs, including more than 8,000 cash dispensers. About 60,000 people are bank employees in Belgium, while the total number of staff workers in the financial sector is more than 130,000 (out of a total Belgian workforce of about 4.7 million people). The financial sector's gross added value to the Belgian economy as a whole, reaches a figure of approximately 5.5%.

At the end of 2011, the Belgian banks' total assets (on a consolidated basis) amounted to more than € 1,100 billion. Loans granted to households and small enterprises make up the biggest part of those assets (more than one fifth of total assets), with corporate lending to non-financial companies and interbank claims coming next (each taking approx. 15% of the total assets). Another important bank balance sheet item is investment in government debt securities.

Traditionally, almost half of bank liabilities are made up of customer deposits (including more than € 200 billion savings deposits of Belgian households). As for derivatives and interbank debts, each makes up less than one fifth of liabilities.

The 2008 banking crisis had a massive impact on the Belgian banking sector. The government extended support to three major banks by means of capital injections and/or government guarantees. As a result, the banks concerned shrank their balance sheets by eliminating (national or foreign) activities or subsidiaries. This is clearly apparent in the ratio between the Belgian banking sector's balance sheet total (on a corporate basis) and the GDP: at the end of 2007, this ratio amounted to more than 400%, but by the end of 2011, it had been reduced to less than 330%. However, lending to domestic households and non-financial corporations did not suffer from this reduction of the balance sheet, for indeed it has grown considerably throughout the period.

2. BELGIUM

The difficult situation (including at the euro area level) entailed a reduction of exposure to foreign counterparties, as well as a return to the principal strategic markets. Belgian banks' exposure to the public authorities of its European neighbour countries fell by around a third, from € 50 billion at the end of 2008 to € 16 billion at the end of 2011. In addition, there was a substantial decrease of the Belgian banks' leverage (loan capital/equity capital ratio) from 31.9 at the end of 2007 down to 21.7 at the end of 2011. This was achieved by downsizing the exposure and by increasing equity capital.

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

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3. CZECH REPUBLIC

The Czech financial sector is for various reasons (tradition, under-development of the capital market, political hesitation with pension reform, etc.) dominated by the banks, i.e. the economy's dependence on bank financing is even more pronounced than in Western Europe. The banking sector in the Czech Republic is largely foreign-owned, more than 95 % of all assets are controlled by parent banks in developed countries, in particular in the EU.

As of 1 January 2012 there were 58 credit institutions directly present on the market: 44 banks (approx. 99.4 % of assets) and 14 credit unions (approx. 0.6 % of all Credit Institutions' assets).

Out of forty four banks there were five building societies (with a specialised banking licence), twenty one branches of foreign banks. Since joining the EU the trend of a rising number of branches (with a single European passport/licence) has become more apparent, partly by transforming former subsidiaries or representations and partly by just opening new branches on a relatively fast growing and attractive new market.

In general, the structure of the banking sector has been relatively stable from a long-term perspective. Four 'large banks' (assets over approx. EUR 8 billion) – *Ceska sporitelna (Erste Group)*, *Komerčni banka (Societe Generale Group)*, *CSOB (KBC Group)* and *UniCredit Bank* – manage approximately 57.5% of all assets. Their market share, however, is slowly declining due to relatively strong competition from small and medium-sized banks.

The Czech banking sector has been so far only marginally hit by the financial, mortgage and sovereign-debt crisis. There was neither public assistance nor taxpayers' money needed to be pumped into the banking sector, mainly for following reasons:

- very few exotic 'toxic assets', low exposure to Greece's government bonds;
- focus on traditional conservative commercial banking concentrated on the domestic market (relatively little international presence and international financial markets' activity);

3. CZECH REPUBLIC

- most activities are undertaken in domestic currency (both on the assets' and liabilities' side of the balance sheets), implying low exposure to foreign exchange risk;
- centralised and conservative supervision (and relatively recent experience of bank restructuring in 1990s);
- very favourable loan-to-deposit ratio due to high volume of domestic deposits (constantly under 80%, which is exceptional in Europe), favourable systemic liquidity position (and liquidity position of major banks), leading to a very low dependence on the inter-bank market or on refinancing operations of the central bank (liquidity provisioning facility is in place, but is rarely used);
- good systemic capitalisation (capital adequacy of 15.2%) and high quality of capital (mostly Tier 1) enables the banks to sustain even extremely stressful scenarios simulated by the central bank.

For the reasons above, the Czech banking sector does not need to deleverage, the assets-to-GDP ratio is around 114%. There has been no credit crunch and volumes of bank loans have been steadily rising (at a slower pace than before, however: 5.97% in 2011 even though the lending standards had tightened somewhat in the crisis year 2009. Moreover, the demand for financing from non-financial corporates went down (due to an economic slowdown of some 4 percentage points). Since mid-2010 the volumes of credit to non-financial corporates has been rising again and the volume of non-performing loans has stabilised before starting to decline slowly (apparent for the corporate credits especially, partly also for households). In general, companies have also learnt from the hard lessons experienced. They are now in a better financial shape than before 2009, and hence, are better protected from a likely economic slowdown in 2012.

In spite of the increased credit (and market) risk, the Czech banking sector has remained consistently very profitable throughout the crisis (Return on Equity (ROE) between 15 and 20%). The 2011 sector performance and results were only marginally affected by the participation of several major banks in the Greek Public Sector Involvement (PSI), debt restructuring programme. One of the reasons for consistent profitability is sector-wide strategy of cost optimisation which is best evidenced by very favourable cost-to-income ratios (around 40%). The number of employees in Czech banks has been relatively stable in previous years (reaching slightly over 40,000 in 2011).

4. DENMARK

The composition of Danish credit institutions has been evolving over the last decade. Owing to the increase in the consolidation of the Danish financial sector the number of credit institutions has declined from 196 in 2000 to 131 at the end of 2010. This has been followed by a decline in the number of branches from 2,374 in 2000 to 1,674 in 2011, whereas the employment figures have been much more stable. In 2000, 48,498 people were domestically employed in the Danish banks compared to 47,739 at the end of 2011.

The sector is managing assets of € 1,145 billion in 2011, an increase from € 432 billion in 2000 with an annual average growth rate of 9.3%. When the market share is based on total assets, the two largest banks in Denmark – *Danske Bank* and *Nordea* – manage 67% of the total market.

Since the beginning of the financial crisis the Danish banks have slowly recovered, but are still suffering from low earnings. The Danish banks ran negative return on equity in 2008 (-3.4%) and in 2009 (-3.8%). In 2010 the figure improved to 2.4%. The same applies to profit before tax as a share of total assets, which stayed at -0.1% in 2008 and 2009, but eventually turned to positive 0.2% in 2010. The Danish banking sector had an overall solvency ratio of 16.2% in 2010, which is 3.1 percentage points larger than in 2008. In addition, the core capital ratio rose from 10.7% in 2008 to 15.2% in 2010.

At the end of 2010, the outstanding debt with individual government guarantees amounted to DKK 193 billion. Since then, a few banks have prematurely redeemed or cancelled debt with individual government guarantees, and by December 2011 the remaining debt issuance totalled DKK 165 billion.

Denmark maintains a fixed exchange rate policy *vis-à-vis* the euro area. This means that the aim of monetary and foreign exchange rate policy is to keep the DKK stable in relation to the Euro. The Danish Central Bank (In Danish: Danmarks Nationalbank) maintains this aim – independently without governmental interfering - by adjusting its monetary policy rates and by selling and buying foreign currency in the market. Consequently the Danish monetary policy rates tend to follow the monetary policy rates which the European Central Bank (ECB) controls. By obligation the exchange rate has to be 7.4038 DKK/€ where fluctuations in the order of +/- 2.25% are acceptable.

4. DENMARK

Since the beginning of the currency cooperation in 1999, the exchange rate stayed within this fluctuation band. Before this, the monetary policy rates were fixed with regard to the German D-Mark, which was officially initiated in 1982.

Danish Central Bank has recently expanded its credit facilities, including the introduction of 3-year loans and the expansion of the collateral basis to include the banks' credit claims of good quality. Danish Central Bank's initiatives are intended to supplement the banks' access to loans, thereby easing the transition to a situation without government guarantees when these guarantees expire in 2012-13.

The Danish Financial Supervisory Authority (FSA) is a part of the Ministry of Business and Growth, and their main task is supervision of financial enterprises (mortgage-credit institutions, banks, pensions and insurance companies, etc.). By monitoring to ensure enterprises have adequate own funds to cover their risks (supervision of solvency), the Danish FSA plays an active role in stabilising the financial markets in Denmark. Their authority in declaring enterprises incapable of managing their business makes them quite powerful. In addition to supervisory activities, the Danish FSA assists in drawing up financial legislation, and issues executive orders for the financial area. The FSA has recently identified a small group of banks on intensified supervision due to potential solvency problems. In the beginning of 2011 this group accounted for a share of 3% of the total market (measured in assets). This said, the number is currently at a lower 2% level.

In addition to the Danish FSA, the Ministry of Business and Growth established in 2008 - by agreement between the Danish State and the Danish financial sector – The *Financial Stability Company*. Their main purpose is to wind-up distressed banks which decide to be wound up under the *Financial Stability Company*. Seven enterprises have recently been incorporated into the *Financial Stability Company*. The financial basis of the new winding-up rules is based on the existing banking sector through guarantees provided by the Deposit Guarantee Fund. The assets of the winding-up department in the Deposit Guarantee Fund total DKK 3.2 billion, which the financial sector guarantees. So far, *The Financial Stability Company* has taken over banks, accounting for a market share of just below 4%. However, the Danish Government has made a profit of DKK 9.9 billion on rescuing banks due to sector contributions.

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5. FINLAND

In spite of the sovereign debt crisis in Europe, the Finnish banking sector has remained strong during the crisis. Finnish banks do not hold substantial amounts of debt in the so called GIIPS countries (Greece, Ireland, Italy, Portugal, and Spain), so they have not been directly affected by the crisis. On the contrary, Scandinavian banks have been seen by markets as 'safe havens' during the crisis and banks have been able to issue bonds per usual during 2011. In particular, covered bonds issuance grew significantly in Finland during 2011. Finnish banks have acquired considerable extra liquidity from the markets, which they have then deposited in the Bank of Finland. Deposits in the Central Bank have grown significantly, from € 20 billion in August 2011 to € 70 billion in December 2011. In addition to bond issuance growth, banks attracted numerous customer deposits during 2011. Households are the most important depositor sector in Finland. Household deposits cover two thirds of all deposits by non-MFIs. Household deposits are mainly in current accounts paying very low rates. In addition, the Monetary Financial Institutions (MFI) intra-group deposits substantially increased during 2011. On the whole, there were no funding problems among Finnish banks in 2011.

Contrary to many European countries, lending to public increased rapidly in Finland during 2011, especially loan growth to non-financial companies, which continued to increase at the rate of 11 % per year. Also housing loans grew 6.5% from the previous year. The growth of housing loans was much faster in Finland than in the euro area on average. The increase in economic uncertainty and the downturn in house prices towards the end of the year were not reflected in the growth of housing loans. One of the reasons for this is that interest rates on new housing loans have remained among the lowest in the euro area, because over 80% of new housing loans are tied to Euribor rates.

On the whole, total balance sheet of Finnish MFIs grew substantially during 2011. At the end of 2011, the aggregated balance sheet of Finnish MFIs stood at € 643 billion (338% of GDP). The balance sheet total increased by € 162 billion (33%) from a year ago. Credit institutions account for 98% of the aggregated MFI balance sheet. In Finland, the MFI balance sheet was boosted particularly by loans granted to the euro area, liabilities to outside the euro area, and derivatives included in other assets and liabilities.

5. FINLAND

At the close of 2011, there were about € 200 billion of derivatives on both sides of the total MFIs balance sheets. Most of the derivatives are interest rates and currency derivatives whose balance sheet values change rapidly, reflecting market volatility. The amount of derivatives on the assets and liabilities' side of the aggregated balance sheet are almost equal, hence they are practically net to zero. If these derivatives are netted, the total balance sheet would be substantially smaller. That is why the total balance sheet is not an adequate indicator of the size of the banking industry in Finland.

In addition, loans granted to non-MFIs outside Finland exhibited strong growth in 2011. This was largely due to a significant increase in repo agreements made with extra-euro area non-financial corporations, insurance corporations and central counterparties. A large proportion of the extra-euro area assets and liabilities comprised internal items within the Nordic banking groups. At the end of 2011, about half of the extra-euro area assets and 70% of extra-euro area liabilities were intra-group items. Groups' internal extra-euro area liabilities are mainly channelled as deposits to other MFIs in Finland, particularly the Bank of Finland. Also a considerable proportion of loans and deposits between domestic MFIs consist of intra-group loans and deposits. As a result of the growth in loans and deposits, growth in market values of derivatives and growth of inter-MFI items, the aggregated balance sheet of MFIs expanded in 2011 faster in Finland than in any other euro area country.

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6. FRANCE

The French banking system, which has been modernised and restructured over the past two decades, is large, sophisticated, and of international importance. The system is dominated by five vertically integrated universal banks and their subsidiaries: *BNP Paribas*, *Société Générale*, *Crédit Agricole*, *BPCE* and *Crédit Mutuel*. Three of the five are organised on a mutual basis. Two large financial institutions, *La Poste* and the *Caisse des Dépôts et Consignations* (CDC), remain in government ownership.

The majority of French banks operate according to the ‘universal banking’ model in the sense that diversification of business lines serves to protect more efficiently a universal bank from idiosyncratic shocks that adversely impact individual lines of business: domestic retail banking (households, corporates, SMEs), international retail banking, specialised financial services (consumer credit, leasing, etc), corporate and investment banking, and asset management and conservation. 60% of French banks’ 2011 revenues are generated by retail networks. Fees represent, on average, 27.5% of revenues, including 75% on payments. Funding remains the main role of French banks, and revenues are thus very sensitive to refinancing costs.

As of 1 January 2011, there were 678 credit institutions in France authorised by the Prudential Control Authority (*Autorité de Contrôle Prudentiel*, ACP), including 370 ‘General-purpose credit institutions’ (including branches of companies in the European Economic Area operating under freedom of establishment), 18 municipal credit banks, 287 financial companies, three specialised financial institutions, as well as Investment service providers. At the close of 2010, four payment institutions were authorised to do business in France (three authorised by the ACP, one under the freedom of establishment).

The French banking and financial system is very open to international markets. This is seen in the large number of foreign-owned institutions in France and the presence of French-owned credit institutions in other countries.

At the end of 2010, 479 of the 683 credit institutions doing business in France were under French ownership (70%), and 204 (30%), were foreign-owned. Of the latter, most were from the European Union. This was the case for 125 institutions, including 32 from the United Kingdom, 22 from Germany, 15 from Belgium, 14 from the Netherlands and 12 from Italy. The 79 credit institutions controlled by third-country owners are mainly American (34, including 11 banks, 21 financial companies and one specialised financial institution).

6. FRANCE

Of the total 683, 74% were owned by banking groups, including 38% by French mutual banking groups, and 26% were controlled by shareholders in other economic sectors (manufacturing, trade and service groups, insurance groups, other financial groups or a mix of shareholders, private individuals or the public sector). Industrial and trade groups have always held a significant stake in France's population of credit institutions, which is not necessarily the case in comparable countries such as Germany, Italy or the United States. By contrast, insurance groups hold a relatively small stake in banks in France.

In the European Economic Area, 166 French bank branches operate under the European Passport (106 in 2000). More than 400 French credit institutions (subsidiaries and branches) operate outside the European Economic Area.

Corporate debt in France consists of bank credit (two thirds) and market funding (one third). Banks and financial intermediaries provide 100% of households' external finance and 12.5% of administrations'. Outstanding customer loans account for 31% of total assets.

France has a mature retail banking market. 99% of French residents over the age of 18 have a banking account ('Basic banking rights'); they possess an average of seven products per client. Banks also offer insurance products and France is the second largest European market for collective investment funds. The French banking system contribute 3%-4% to GDP, and accounts for 48 million customers; 6.8 million current accounts and 157 million savings accounts (148.5 million for households and 6.6 million for corporate); 39,000 bank branches (including 12,700 Banque Postale branches) and 64 million bank cards, mostly debit cards which can be used for both payments and cash withdrawals through a nationwide network of Points-of-Sale (POS) terminals and ATMs.

All authorised institutions must belong to a professional organisation or central body, which is in turn affiliated to the *Association Française des Etablissements de Crédit et des Entreprises d'Investissement* (AFECEI), which represents them before the government authorities. The professional organisations are: the *Fédération Bancaire Française* (FBF), the *Association française des Sociétés Financières* (ASF), the *Groupement des Institutions Financières Spécialisées* (GIFS), the *Association Française des Marchés Financiers* (AMAFI), the *Association Française de la Gestion financière* (AFG), etc.

The legal and regulatory framework for banking supervision in France is clear, easily accessible and updated periodically.

France has separate supervisory institutions for the main financial sectors: banking, insurance and securities. Arrangements have been put in place to ensure adequate coordination between these authorities. The ACP and the AMF are the supervisory and regulatory agencies for the banking system, insurance, and securities industries. The Ministry of Economy issues regulations directly under its own name, after consultation with the *Comité Consultatif pour la Législation et la Réglementation Financières* (CCLRF).

The *Autorité de contrôle prudentiel* (ACP) was created in January 2010 after the authorities in charge of licensing and controlling banking and insurance activities merged.

The *Comité consultatif du secteur financier* (CCSF) is an advisory committee in charge of reviewing issues mainly in the area of relations between financial institutions and their customers (individual customers and businesses) and proposing appropriate measures to resolve them. The scope of its authority covers the entire financial sector, i.e. credit institutions, insurance companies and investment firms. The CCSF may call upon itself or be called upon by the Minister of the Economy or by professional or consumer organisations.

All banking and financial laws are codified in the *Code Monétaire et Financier* (COMOFI). The COMOFI also incorporates legislation on the *Fonds de Garantie des Dépôts* (FGD), and on the *Autorité des Marchés Financiers* (AMF), which regulates and supervises securities operations, including banks' asset management activities for third parties. The main banking and accounting regulations are collected in the *Recueil des Textes Réglementaires* published by the CRBF.

The legal framework to conduct banking business is also well developed, with clear and concise legislation. The legal profession and the judiciary are well trained and have a strong understanding of financial and banking issues. Supervisory staff is well versed in the application of financial sector legislation. Rules on contracts and contract enforcement, as well as establishment and foreclosure of security interests are well developed, although legal procedures are lengthy. The accounting and auditing professions are well regulated, and subject to rigorous training and entry requirements. They are subject to regulation and codes of conduct issued by the *Haut Conseil du Commissariat aux Comptes* (HCCC) and the *Compagnie Nationale des Commissaires aux Comptes* (CNCC).

7. GREECE

I. The structure of the Greek Banking sector

The Greek banking sector consists of 53 credit institutions¹³ with 4,005 branches and 63,400 employees¹⁴. There are 4 main categories of banks operating in Greece:

- 17 commercial banks established in Greece
- 13 cooperative banks established in Greece
- 19 branches of banks established in another EU Member State
- 4 branches of banks established in third countries (outside the EU)

Banks in Greece manage an equivalent of 113% of the Greek GDP (loans to households and businesses), hold an equivalent of 96% of the Greek GDP in deposits and repos and lend € 113.4 billion for house purchase and consumer credit, an equivalent of € 10,300 per inhabitant. With an aggregate balance sheet (total assets) at 220% of GDP, the size of the Greek banking system is not excessive compared to other countries. However, the average loan-to-deposit and repos ratio increased in January 2012 to 146.5% (from 132.3% in January 2011 and 119.9% in January 2010) mainly owing to the sharp decline in deposits since the start of the fiscal crisis in early 2010.

II. Greek banks and the recent global financial crisis, 2007-2009

Greek banks were not exposed to the risks that triggered the recent global financial crisis. Thus, the spillover effects from the global financial crisis on the Greek banking system were limited. Accordingly, there was no need to activate a bank rescue programme. Hence, the recovery plan adopted by the Greek government (worth € 28 billion) in late 2008 was mainly aimed at the enhancement of liquidity conditions in the system¹⁵. Moreover, the level of deposit guarantee was raised to € 100,000 (from € 20,000) per depositor *immediately* after the bankruptcy of Lehman Brothers in order to enhance depositor confidence in the system¹⁶.

As was expected, during the global financial crisis, liquidity conditions have deteriorated as Greek banks had limited access to wholesale markets to fund their lending activity, and maturing inter-bank liabilities put additional pressure on their liquidity position. Despite the problems, Greek banks have shown remarkable resilience and were able to refinance their loan portfolios owing, *inter alia*, to a number of factors:

¹³ Bank of Greece, List of Credit Institutions authorised in Greece, March 2012.

¹⁴ European Central Bank, Structural Indicators for the EU Banking Sector, December 2011.

¹⁵ Law 3723/2008, Official Gazette A' 250/9.12.2008.

¹⁶ Law 37143/2008, Official Gazette A' 231/7.11.2008, article 6.

- they had a strong capital base and steadily increased their provisions (more than 40%, year-on-year);
- they were facilitated by measures taken by the European Central Bank and the Greek government;
- the effective prudential supervision by the Bank of Greece ensured the stability of the Greek banking system.

During the global financial crisis, the Greek banking system remained healthy, adequately capitalised, and highly profitable.

III. The impact of the Greek fiscal crisis on the banking system, 2009-2012

The Greek banking system was negatively affected by the Greek debt crisis. The recession and losses from government debt exposures have had considerable implications on the banking system, undermining the financial stability of the previous years, and necessitating the adoption of different strategies.

Greek banks faced the following main challenges which provoked significant capital and liquidity pressures:

- bank deposits and repos have declined by 18% since the end of 2010 (and 27.5% since the end of 2009);
- bank credit to the domestic private sector has declined significantly (see Table 1);
- the ratio of non-performing loans (NPLs) to total loans reached 14.7% at close of September 2011 (see Table 2);
- extremely limited access to the inter-bank money and debt capital markets;
- reliance on Eurosystem credit and Emergency Liquidity Assistance (ELA) by the Bank of Greece reached € 130 billion by close of 2011. Borrowing from the ECB represents, currently, nearly 16% of banks' total liabilities (December 2011: € 76.1 billion, December 2010: € 97.7 billion).
- in January 2012 interest rates for new deposits from households with agreed maturity of up to one year were the highest (4.79%) in the euro area (2.96%).

7. GREECE

IV. Current developments

The challenges...

1. After the completion of the Public Sector Involvement (PSI), Greek banks find themselves technically undercapitalised. Bank recapitalisation needs and resolution costs are estimated to amount to € 50 billion.

2. Core Tier 1 ratio of at least 9% must be achieved by end-September 2012 and 10% by end-June 2013. These additional capital requirements will be raised through private sector investors and, should it be needed, through the Hellenic Financial Stability Fund (HFSF).

... and the 'light at the end of the tunnel'

3. Deposits seem to have been stabilised or are even gradually increasing, especially after the adoption of the new funding programme for Greece in February 2012.

4. Through liability management techniques and other actions (e.g. issuance of preferred shares to the state), banks have managed to raise approximately € 4.3 billion of Core Tier 1 capital (see Table 3).

5. Operating costs fell by 7.4% for banks and by 5.1% for banking groups by September 2011 (year-on-year), through rationalisation of expenses.

Table 1. Bank credit to domestic private sector

	Dec. 2009	Dec. 2010	Dec. 2011
Enterprises	5.1%	1.1%	-2%
Sole proprietors & unincorporated partnerships	n.a.	0.3%	-6.6%
Individuals & private non-profit institutions	3.1%	-1.3%	-3.9%
Total	4.1%	0%	-3.2%

Source: Bank of Greece, Bank credit to the domestic private sector, monthly press releases

Table 2. Non-performing loans

	Banks	
	Dec. 2010	Sept. 2011
Total	10.5%	14.7%
House loans	10.3%	14%
Consumer loans	20%	26.4%
Loans to enterprises	8.8%	13%

Source: Bank of Greece, Monetary Policy Report 2011-2012, March 2012

Table 3. Capital Adequacy

	Banks		Banking groups	
	Dec. 2010	Sept. 2011	Dec. 2010	Sept. 2011
Capital Adequacy Ratio (CAR)	13.9%	11.7%	12.3%	10.1%
Tier 1 Ratio	12.5%	10.7%	11.2%	9.2%
Core Tier 1 Ratio	10.6%	8.9%	9.9%	8.2%

8. IRELAND

Ireland is a small open economy that places strong emphasis on international trade. The banking system comprises institutions focused on the domestic market and a large number of foreign-owned institutions (including institutions headquartered in Ireland) that mainly serve international or multinational clients.

Credit institutions in Ireland (December 2011)

	Institutions	Assets (€, bn)
Domestic market institution banks/building societies	20	620
International banks	<60	391
Credit unions (estimated)	>400	14
Total credit institutions	480	1,025

Sources: Central Bank of Ireland, Department of Finance

The Banking Sector in Ireland

Credit institutions in Ireland employed some 40,000 people at the end of 2010. Gross value added (GVA) by the banking sector was estimated at € 7.3 billion in 2009, equivalent to 8% of total GVA by businesses in Ireland (excluding agriculture), according to the Central Statistics Office.

The Domestic Banking Sector

There were some 20 banks and building societies with significant business with Irish resident household or non-financial corporate credit or deposit markets at the end of 2011, according to the Central Bank of Ireland. These included four Irish-owned banking groups: three of them majority-owned by the government (AIB Group, Irish Bank Resolution Corporation and Permanent tsb Group), while the government also had a minority stake in the Bank of Ireland Group. The Irish banking groups are collectively known as the “covered” banks because a portion of their liabilities have been covered under the government guarantee schemes introduced in 2008.

The Irish-owned banks have undergone significant restructuring since 2010, in line with the recapitalisation of the banks by the Irish government, which was completed in July 2011. Most building societies in Ireland have given up their mutual status and been merged into banking groups. The government aims to wind down the Irish Bank Resolution Corporation by 2020. The remaining banking groups must meet a loan-to-deposit target of 122.5% by 2013, mainly by divesting non-core loan assets.

8. IRELAND

This downsizing is particularly evident in covered banks' foreign claims, which declined by 26% between December 2010 and December 2011 as they disposed of overseas' units.

Credit institutions in Ireland include more than 400 credit unions, which are non-profit, member-owned financial cooperatives funded primarily by member deposits that compete with banks in the personal lending and deposits markets. Each credit union operates a single branch, and its membership is drawn from a specific community, industrial or geographic group.

The Central Bank of Ireland, and the European Central Bank, report on-balance sheet data for credit institutions, with on-balance sheet loans to the Irish resident households and non-financial corporations of € 198 billion at the end of 2011. However, this excludes some € 52 billion in securitised loans from banks to Irish residents of which about € 50 billion was securitised mortgages.

An Post, the State-owned postal service operator, provides a range of financial services directly, such as payment services and government savings and investment schemes, and indirectly through its subsidiary One Direct, such as credit cards and insurance. It also offers some cash-based banking services in its offices to customers of partner banks.

Central bank data on credit institution deposits does not include some € 12 billion held in national savings schemes and administered by *An Post*.

The International Financial Services Sector

Ireland has emerged as a major international financial services centre. It was the sixth-largest exporter of fee-based financial services and insurance services in 2011 according to *United Nations Conference on Trade and Development* (UNCTAD). Ireland supports the full range of banking activities, including corporate and investment banking, funds industry services, asset management, corporate treasury, securitisation, leasing and asset finance, trade finance, and wealth management. Many operations provide services to other parts of their group: services as diverse as middle and back office operations supporting a trading operation to management of group liquidity.

International banking, insurance and funds services companies employ almost 25,000 people in Ireland, with around 40% of this employment accounted for by banks. International finances services contributes an estimated 16% of overall corporate tax receipts in Ireland.

Banking Regulation and Policy

The Central Bank of Ireland is responsible for central banking and financial regulation in Ireland, including maintaining price stability through monetary policy formulation at Eurosystem level, contributing to financial stability both in Ireland and across the euro area, ensuring proper and effective regulation of financial institutions and markets, protecting customers and investors through conduct of business rules and other measures and maintaining oversight of the payment system. The role of the Department of Finance's Banking Division is to advise and support the Minister for Finance's and the Government's objectives and strategies for the banking sector in Ireland.

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9. ITALY

Structure of the banking industry

Italy is home to the fourth largest banking market in Europe (after Germany, UK and France) with total asset value estimated at € 4,042 billion at the end of 2011. It accounts for approximately 9% of total European banks' assets.

The Italian banking sector comprises 740 banks, of which 214, or 29%, are joint stock companies (SpA) and account for around 75% of the domestic banking market. The sector also features two types of entity operating under a cooperative structure, namely 37 cooperative banks (*banche popolari*) and a large number (411) of small mutual banks (*Banche di credito cooperativo – BCC*). The subsidiaries of foreign companies or banks operating in Italy are 72, two of which figured among the top ten banking groups.

With the exception of small mutual banks (BCCs), which are subject to specific regulations and have mutual ends, all the other sector players undertake their activity as private entities pursuing profitability. Even the cooperative banks, though still characterised by the one-person-one-vote principle, operate on the market exactly like their SpA counterparts, and some of them are listed on the stock market; a few of them are leading players in the Italian banking sector. By contrast, BCCs are very small in size. They are organised around regional federations providing centralised services to the individual members.

The Italian banking sector is totally private. Following the intense privatisation process of the 1990s, the state's share in Italian banks is below one percent. Before the start of the privatisation process of the 1990s, the state and local public authorities owned around 70% of total banking assets. This result was achieved both by the sale of the stakes held directly by the state, and through regulatory intervention to encourage the conversion of public banks – mainly savings banks (*Casse di Risparmio*) – into SpAs, with the concurrent creation of Foundations and the separation of the banking side from the foundation via conferral in exchange for shares of the new banking companies. Having undertaken a series of regulatory changes, the bank foundations today are private non-profit legal entities with statutory and operating independence, whose aims are social good and the promotion of economic growth.

In conclusion, the Italian banking sector is fully private and largely characterised by SpA banks (except for cooperative banks and BCCs). The shareholder base of the banks is quite widespread, considering that a large proportion of the capital of the 24 listed banks is free float. Alongside this, the foundations are stable shareholders, whose aim is constant profitability over time and medium/long-term investment.

Italian banks and the recent global financial crisis

The current euro area crisis can be divided into three stages: i) a purely financial crisis originated in the United States in 2007-2008, which ii) then transformed into a downturn in the real economy in 2008-2009 and iii) finally led to the ongoing debt crisis.

Initially, it endangered the stability of those banks which essentially based their funding on the wholesale market. In that phase, the Italian banks were substantially immune due to their traditional commercial banking business model, which basically means taking deposits from customers and granting loans to households and firms. The impact and reactions of EU governments depended on the structure and the size of the national or international banks they hosted. In general, governments supported or saved banks by granting them liquidity. However, for certain banks the scale of the financial crisis was so significant that it required more detailed intervention on the part of governments. The State aid to Italian banks remained close to zero. In other countries, national governments needed funds to support banks and to offset the fall in tax revenues induced by the growing economic crisis, which triggered the second phase of the crisis: the real economy crisis.

Bankruptcies, reduction in bank credit, substantial losses in the financial markets, growing budget deficits which drew funds from the capital market and other outcomes of the financial crisis dramatically reduced economic activity, bringing company closures and job losses. As a result of the crisis in the real economy between 2008 and 2010, Italian banks suffered losses in terms of devaluation and loss of credit equivalent to around € 38 billion.

9. ITALY

Finally, the Italian banking market was seriously affected by the subsequent phase of the crisis, the sovereign one, which, since the summer of 2011, has resulted in an intensification of European sovereign debt risk, after having benefited in the previous months from the slight improvement in the macroeconomic outlook and the relative stability of financial markets. Uncertainty around the creditworthiness of some euro area governments translated into higher instability of the European banking system. The link between sovereign and banking risk is reflected in the positive correlation between banks and sovereign credit default swaps (CDSs).

For the Italian banks, strains in the financial markets and downgrades of the country's credit rating led to difficulties in accessing international markets and higher funding costs. Over the year, wholesale funding as a share of total funding declined by 4.8 percentage points, banks' liabilities to the Eurosystem expanded sharply, and the average cost of total funding rose by 33 basis points compared with the previous year.

In the first half of 2011, lending to residents by banks operating in Italy grew at a faster pace than in the previous two years. In June the twelve-month rate of increase, net of repos and bad debts, was 3.4%. In the second half of the year the sovereign debt crisis dampened the supply of credit. The slowing of economic activity weakened the demand for loans and caused deterioration in borrowers' quality, pushing up the value of the bad debt ratio. This in turn affected the pace of lending, principally in the last quarter of the year: the twelve-month rate of growth in loans by Italian banks declined sharply, to around 1% in December 2011.

Given the relatively favourable conditions in the international funding markets in the first half of 2011, Italian banks issued sufficient bonds to refinance the whole amount falling due during the year. Non-residents' deposits also increased, and in June, were 8.2% above the level of the previous year. However, from the summer 2011 onwards, the performance and composition of funding were heavily affected by the spread of the sovereign debt crisis to Italy, which led to difficulties in accessing the wholesale market and higher funding costs. In the twelve months leading up to December 2011, Italian banks' total funding, excluding liabilities to other Italian banks, grew by 4.3%, the same as in

2010. The increase can be ascribed almost entirely to liabilities *vis-à-vis* the Eurosystem, which more than offset the contraction in fund-raising on international markets in the second half of the year.

In 2011, the profitability of the Italian banking system was strongly affected by the huge one-off write-downs of goodwill made by the leading groups to bring their book values more closely into line with market developments, and increase the transparency of their balance sheets. The return on equity was negative, but net of the write-downs to goodwill banks' profit before tax would have been positive, although significantly lower than in 2010.

Italian banks significantly strengthened their highest-quality capital resources, those best able to absorb losses, thanks to massive capital increases and, to a lesser extent, self-financing. At the end of 2011, the core Tier 1 ratio was 9.3% for the banking system as a whole, and 8.9% for the five largest groups. The gap in capitalisation, with respect to the main European banks, narrowed. Financial leverage, measured as the ratio of total balance-sheet assets to Tier 1 capital, is well below that of the main European banks. In the early months of 2012 banks continued to strengthen their capital bases in order to meet the European Banking Authority's recommendation on banks' capital and the Basel III capital requirements, which are to enter into force in 2013.

Recent European policy responses should help to break the negative feedback loop between banks and sovereign risk. The Outright Monetary Transactions programme (OMTs) set up on the 6 of September 2012 allows the ECB to buy unlimited sovereign debt with maturities of one to three years. It should help restore market confidence in Italy's ability to meet its debt obligations and should help to activate a virtuous circle: it shrinks the high 'unfair' risk premiums paid by the Italian government to cover its funding needs, it reduces the cost of public debt and thus fosters the achievement of the government objectives; it helps to create the economic conditions for government to implement policies for growth; at the level of the banking sector, it reduces the cost of bank funding and therefore supports the economic performance of banks and fosters an easing of conditions for the granting of loans to households and firms.

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10. LIECHTENSTEIN

The Principality of Liechtenstein is a constitutional hereditary monarchy on a democratic and parliamentary basis. The country is situated in the middle of Europe, embedded between Switzerland and Austria on the Alpine Rhine, with a population of about 36,000.

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

By the end of 2011, there were 17 banks licensed in Liechtenstein. Of these, seven banks were subsidiaries of Swiss or Austrian institutions. Thus, the banking industry plays a major role in the Liechtenstein financial centre. Their activities traditionally focus on private banking and wealth management. They do not engage in investment banking and carry comparatively low risks. Due to the very limited home market, the banks in Liechtenstein are highly internationally oriented and have about 60 representations in more than 14 countries, most of them outside Europe, and especially in Asia. The three biggest Liechtenstein banking groups have expanded their presence abroad in recent years in order to open up areas for growth. Two of these are listed companies at the Swiss Stock Exchange (SWX) in Zurich. Notwithstanding the share of the Liechtenstein banks in the global market for cross-border activity, private assets under management comprise approximately only 1%. In an international context, the Liechtenstein financial sector thus occupies a niche position.

Thanks to Liechtenstein's membership in the European single market, the banks enjoy full freedom of services throughout the entire European Economic Area (EEA). This makes it possible to offer financial products from Liechtenstein that are based on the Swiss franc and authorised throughout the entire European Union (EU). Consequently, Liechtenstein's financial service providers benefit from the free movement of capital and services. The membership in the EEA and the close relationship to Switzerland, as part of the Swiss economic area, is unique worldwide, and enables the Liechtenstein financial centre to offer its clients the combination of financial strength, stability, and the so-called EU passport. On the other hand, the same legal requirements apply to banks in

Liechtenstein as in all EU countries. As of March 2012, Liechtenstein has implemented 99.6% of the EU single market directives according to the EFTA Surveillance Agency (ESA), and therewith ranks under the top-five countries EU/EEA-wide.

Liechtenstein banks have solid and high-quality equity capital resources. During the financial crisis, no bank required aid by the state. They already meet the future core capital ratio, stipulated by Basel III, with a Tier 1-Ratio of 17.2%, putting them among the best-capitalised banks in Europe. Liechtenstein has traditionally stood for political stability, debt-free national budget and conditions favourable to business. Liechtenstein's AAA rating by Standard and Poor's, confirmed in September 2011, underscores the country's reliability. According to the International Monetary Fund (IMF), Liechtenstein fulfils 'high standards in financial market supervision and anti-money-laundering measures'. The Liechtenstein financial centre is actively engaged in the fight against money laundering and terrorist financing, and fully implemented the Third EU Money Laundering Directive in 2009. In total, Liechtenstein commits itself to a zero-tolerance policy with respect to abuse.

For some time now, Liechtenstein has been on the path towards greater international integration and cooperation in tax matters. With the 'Liechtenstein Declaration' issued on March 13, 2009, the country committed itself to the Organisation for Economic Cooperation and Development (OECD) standards on cooperation in tax matters and thus accepts and implements the internationally valid rules of transparency and information exchange on tax matters. Meanwhile, Liechtenstein has concluded OECD-compatible tax agreements with numerous countries (for more information, see www.regierung.li).

To support the ongoing transformation process, the newly adopted financial centre strategy - the so-called Roadmap 2015 - promotes the development of sustainable, future-oriented products and business models that do justice to clients' great sense of responsibility toward society and the environment. The Roadmap 2015 comprises more than 40 fields of activity whose aim is that the financial centre will continue to be a place of choice and be able to provide tailor-made products and excellent services to demanding, international clients in a fully compliant world. Two examples of innovative ideas in this field are the *Microfinance Initiative Liechtenstein* and the *LIFE Climate Foundation Liechtenstein*.

10. LIECHTENSTEIN

Be that as it may, the difficult international market environment has also influenced the development of the Liechtenstein financial sector in the past years. Liechtenstein banks and their foreign group companies managed client assets to the total amount of CHF 166 billion and the consolidated net inflow of new assets reached nearly CHF 7.1 billion (+21.5%). The cost-income-ratio was at a remarkably low level, as under pressure owing to the extraordinarily difficult market conditions (strong Swiss franc combined with exceptionally low interest rates), as well as the increasing regulatory and administrative costs.

Finally, the Liechtenstein Financial Market Authority (FMA) has been a member of the International Organization of Securities Commissions (IOSCO) since April 2011, and gained observer status in the European Securities and Markets Authority (ESMA) in May 2011. Thus, the FMA represents Liechtenstein in all three European Supervisory Authorities. This is an expression of recognition of Liechtenstein, its financial centre and quality of supervision as an equal partner within the international and European community. At the same time, this further strengthens the integration of the financial centre, and facilitates market access for Liechtenstein intermediaries to foreign markets.

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11. LUXEMBOURG

Luxembourg's economy is dominated by the service sector (82% of GDP and 75% of employment), following the strong growth of the financial sector, with the presence of both global and smaller financial institutions. Luxembourg's reputation of an international financial centre is based on its ability to deliver tailored and innovative solutions to an international client base. The Luxembourg domestic financial market represents less than 1%.

Five strategic pillars can be identified:

- wealth management;
- asset management and investment funds;
- International Loans;
- insurance;
- structured finance.

The common denominator of all these activities is the international character and cross-border financial transactions.

Luxembourg is the leading wealth management centre in the euro area. In line with the financial centre as a whole, local private banks, financial advisers and family offices specialise in handling international clients who often have complex business and family profiles stretching across several countries or even continents. Over the past ten years, Luxembourg's private banking sector developed strong geographical diversification. From 90%, the share of the three neighbouring countries (Belgium, France and Germany) has fallen to 49%, while assets under management have increased globally. 19% of the activity has a geographic origin in the European Union (other than Belgium, France and Germany). All other private banking clients are located around the world (Asia, Latin America, Middle East, etc). Generally speaking, activities in wealth management can be split into three large categories: bank transactions, investment advice and wealth planning.

The Luxembourg financial centre is also a major international distribution platform for investment funds. Collective investment management has been developing since the mid 1980s. Today, Luxembourg is the world's second investment fund centre after the United States, and Europe's first with over € 2,000 billion in assets under management.

11. LUXEMBOURG

The financial crisis of 2007 (sub-prime crisis) and 2008 (stock market crisis) led to an overall fall of 24% in Luxembourg’s total net assets. Both, 2009 the year of the recovery and 2010 the year of consolidation, saw an excellent 19.45% growth in net assets under management. As of December 2011, overall net assets closed at € 2,096.5 billion.

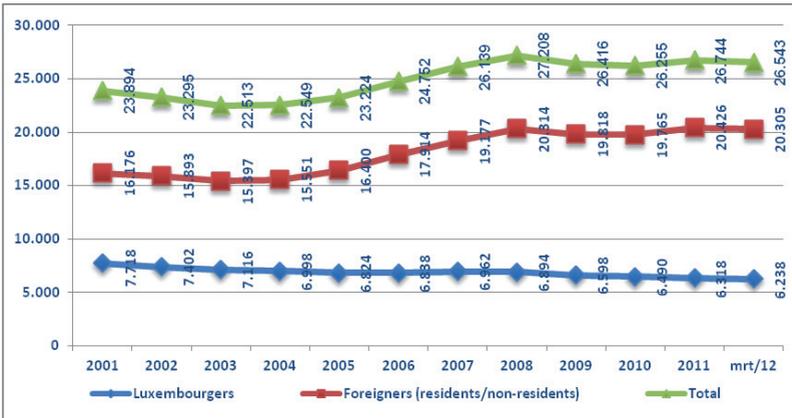
The beginning of 2012 provides new growth expectations, in deep contrast with the second half of 2011. Despite the publication of poor economic indicators, investors remain confident and optimistic. As of end of March 2012, total assets under management weighted at € 2,217.2 billion.

A leading international banking centre, as of end of September 2012, Luxembourg had 142 banks. The number of banks has fallen to 142 from around 220 in the 1990s due to a significant concentration process of banking activities worldwide. Banking groups from a large number of countries are represented. Despite the reduction in the number of banks, staff numbers and activities have grown steadily.

Country of origin	Number of banks
Germany	39
France	14
Belgium	11
Switzerland	10
Italy	8
United Kingdom	8
Sweden	7
USA	6
Japan	5
Luxembourg	5
China	4
The Netherlands	4
Others	21
TOTAL	142

As of January 2012, 43,000 people were working in banks and other financial intermediaries as well as in the insurance sector. Another 24,000 persons are working in law firms, audit, tax, ICT and other sectors related to financial services.

Employment in Luxembourg-based banks, source BCL 31-Mar-2012



Most Luxembourg banks have important off-balance sheet activities. The global gross income of Luxembourg-based banks is about € 10 billion. Fee income accounts for 40% of revenues. Custodian activities as well as wealth management are the driving source of Luxembourg-based banks' fee income.

Two supervisory authorities are in charge of prudential supervision of financial and insurance activities respectively (*Commission de Surveillance du Secteur Financier CSSF - Commissariat Aux Assurances CAA*).

All applications made by undertakings or persons willing to carry out a financial activity in the Grand Duchy of Luxembourg are examined by the CSSF. Regarding insurance activities (life, non-life, reinsurance, etc), all license requests are examined by the CAA. Both institutions act in the public interest.

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12. NETHERLANDS

The Dutch banking sector is characterised by the relatively large size, high level of concentration and international orientation.

Measured against the size of the Dutch economy, the Dutch banking sector is large, also in international perspective. It makes a significant contribution to the economy, about 7% of GDP.

Regarding the high degree of concentration: the four largest banks in the Netherlands have a combined share of 80% of total banking assets. They play an important role in providing payment services to other financial institutions and consumers.

About 95% of Dutch consumers have their savings in deposits at one of the four largest banks. These banks have a similar share in the mortgage market.

The Dutch banking industry is internationally oriented, which fits into the open, export-oriented, Dutch economy.

The global crisis makes structural reforms of the banking sector imperative so as to ensure greater resilience of the financial sector, limit the systemic risks, better protect consumers and reduce moral hazard. The Dutch banking market is emerging solidly from the continued period of global economic turbulence. The stress test results for the major Dutch banks underline the strong capital position Dutch banking currently enjoys.

The awareness of its importance in the economy and society is primarily the responsibility of the financial sector itself. In that perspective, the implementation of the self regulatory Banking Code in the Netherlands throughout 2010 was the cornerstone of the Dutch Banking Association's (NVB) restoring trust theme, in which the clients' needs were to be placed central to banking business in the Netherlands.

Nevertheless, banks have been in the spotlight of regulators, politicians, the press and the general public ever since the beginning of the crisis. Proposals were made by the regulatory authorities to increase capital, liquidity and risk requirements. What is more, a bank tax has been introduced by the Dutch government.

Dutch banks have spent considerable effort in preparing for these changes in the regulatory environment.

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

Whilst the Dutch banking market is emerging in relatively good shape following an extended period of turmoil, it will, as will other European markets, have to create capacity to absorb the tremendous amount of regulatory change. The financial crisis led to a range of initiatives to regulate the financial sector further, not only at national level, but also at EU and international. Examples of regulation are financial supervision, remuneration, capital requirements and risk management.

That change, coupled with the uncertainties produced by financial reform in the US, specifically for the larger banks which have operations in exposure to US markets, imply tumultuous operating conditions where legal certainty in the regulatory environment will be at a premium.

It is clear that all of these changes create an entirely new framework for banks to conduct their business. It is also clear that these changes will have a material impact on banks' balance sheets and profitability.

The policymakers will need to strike a delicate balance between their instinctive reaction in times of stress to regulate and control, on the one hand; and on the other, the need to preserve the financial sector's ability to serve the economy and society. It is up to the Dutch banks to communicate and explain at all levels the important role banks play in society and the economy. With this in mind, the Dutch Banking Association (NVB) will continue to fill the critically important space between the banking and political worlds in the Netherlands, Europe, and United States in the coming months and years.

With the Banking Code, the Dutch banks underlined their responsibility in restoring trust and financial stability. And restoring trust will be their main mission and responsibility for the future; this means working further on decreasing risk, strengthening the liquidity position, and a stronger relationship with clients.

13. POLAND

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

In 2011, the banking landscape in Poland was characterised by 67 commercial banks and a branch network of 574 cooperative banks. The overall number of inhabitants per bank branch stood at 2,821. Polish banking sector is dominated by foreign-owned institutions: foreign owners hold majority stakes in most commercial banks, totalling 70% of the sector's assets. Cooperative banks are members of two associating banks; despite the large number of cooperative banks, their market share is under 6% of total assets of the sector.

The Polish banking sector's assets reached the value of EUR 309,803 million in 2011. Banks' deposit structure is dominated by household deposits, while corporate deposits represent about 29% as a share of all non-financial sector deposits.

In Poland, there is a high demand for bank loans. The bulk of credit was granted to households: 56% of total loans, of which 59% comprised lending for house purchase. Loans to non-financial corporations represented 26%. In recent years, loan-to-deposit ratio was quite stable, at around 112%.

Polish banks register a high level of profitability: in 2011, return on equity stood at 15.4% return on assets at 1.3%.

Low penetration of banking services makes Poland an attractive destination to capture the market with standard or customised products depending on the needs of Poland's citizens. Strong regulatory environment creates a level playing field and equal opportunities for all market players.

Along with the rest of the economy, and owing to strict supervision, the Polish banking system is showing resilience and has avoided serious problems during financial crisis. The Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*, KNF) is a public administration body responsible for state supervision of the Polish financial market. The Authority includes seven Members: the Chairman of the KNF, two Vice-Chairpersons and the representatives of the Minister of Finance, the Minister of Labour and Social Policy, the President of the National Bank of Poland, and the President of the Republic of Poland.

Polish banks strongly support the improvements of the stability and governance of the European financial sector. One of the main objectives is implementation of new capital requirements for the banking sector, particularly strengthening the economic potential of banks, as well as increasing harmonisation of regulation and supervision throughout Europe in order to ensure a level-playing field, and improve functioning of the market economy.

It must be stressed that the specific characteristics of Central and Eastern European economies should be taken into account when implementing any EU financial services' legislation, to ensure that the investment climate is not harmed, and that the region can continue to be an area of significant growth within the EU. In particular, there is a concern that Basel III / CRD IV criteria would have a more deeply negative impact on Central and Eastern Europe than elsewhere in Europe.

While being exposed to the global downturn, regional uncertainties and declining asset quality, the Polish banking sector may still be considered as a promising growth market. Demand for credit remains remarkably strong; and most Polish banks entered the financial crisis with relatively healthy fundamentals.

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14. PORTUGAL

The Portuguese banking system consists of 155 credit institutions, of which 59 are banks, 91 are mutual agricultural credit banks and five are savings banks. At the end of 2011, the aggregate assets of the whole system amounted to € 513 billion, corresponding to 300.5% of Portugal's GDP (in nominal terms) while the industry employed 55,485 people. The financial intermediation sector contributes to approximately 6% of national GDP.

At the end of 2011, loans and advances to customers represented more than half of the sector's aggregate balance sheet (55.5%), followed by financial investments which accounted for over 20% of the total. This reflects the importance of the banking sector to the national economy, as borrowing is the dominant source of finance for the vast majority of Portuguese businesses. It is also essential and decisive in enabling households to purchase a home or consumer goods.

Deposits from customers are the main source of funding for Portuguese banks, representing around 41.5% of the sector's total balance sheet in 2011, followed by deposits from central banks and other credit institutions (approximately 26.4%). Debt securities issued, which includes subordinated liabilities, is the third source of funding reaching around 14% of the total.

A combination of a solid deposit base and an intense lending activity shows that Portuguese banks essentially follow a traditional financial intermediation model. As a result, net interest income is the principal source of profit and represented 54.4% of the annual operating income in 2011. Nonetheless, customer services and market activities are almost as important, with particular emphasis on fees and commissions which accounted for 28.6% of the annual operating income.

The Portuguese banking system showed great resilience to the financial crisis, in that no financial institutions had to be bailed out by the authorities. No funds from the aid package that the Portuguese Government had made available to the financial system had been used for recapitalisation by the end of 2011. However, due to the stricter rules imposed by Banco de Portugal under the current Economic Adjustment Programme for Portugal, and by the EBA, during the first semester of 2012 two banks issued € 4.500 million in hybrid instruments which were fully subscribed by the Portuguese State.

The stricter capital requirements imposed on to Portuguese banks by Banco de Portugal include fulfilling a core Tier 1 ratio of 9% and 10% by the end of 2011 and 2012, respectively. Additionally, the eight largest banking groups were assessed in 2011 under a Special Inspections Programme that aimed at evaluating the sufficiency of the impairments registered for the loan portfolios, as well as validating the data that supports the calculation of their solvency position. These banks were also required to reduce their Loan-to-Deposit Ratio to 120% by 2014.

At the end of 2011, Portuguese banks showed an aggregated solvency ratio of 10.5% and a core Tier 1 ratio of 9.4%, which demonstrates the efforts to attain the required level of the highest quality capital. Moreover, some financial institutions used guarantees provided by the Portuguese Government when issuing debt and chose to offer the Government as guarantor of the debt in the event of default. Important to notice that there has been no default on any of these debts.

The branch network of Portuguese banks has grown in recent years and totalled 6,087 branches at the end of 2011. The number of branches has grown faster than the Portuguese population, leading to a significant improvement in the number of inhabitants per branch, thereby resulting in greater proximity and better service for customers. Concretely, while there was one branch for every 1,849 inhabitants in 2007, there was one for every 1,750 in 2011.

In spite of the commitment to augmenting their branch networks, Portuguese banks have also been trying to open alternative distribution channels, as demonstrated by the number of external promoters for attracting banking business. At the end of 2011, the Portuguese Banking Association (APB) member institutions had 44,715 external promoters, around 26.8% of which were estate agents and 10% insurance agents.

Portugal's vast network of ATMs and the wide range of functions that it provides contribute to a better, faster and more diversified range of banking services for customers. It also makes the banking system more efficient, as it reduces the need for the branch network to expand and to increase the size of its workforce by diverting outside a large number of simple, low-value banking operations.

14. PORTUGAL

Internationalisation is an important option for Portuguese banks to expand their business and improve their performance. International activity makes an important contribution to a number of consolidated performance variables, especially in terms of income. For instance, of the eight largest banking groups in 2011, foreign activity contributed to around 30% of the total consolidated net interest income. In the same year, net assets in international activity accounted for 17.2% of the total consolidated assets. Regarding gross loans and advances to customers and deposits from customers abroad, these represented 15.3% and 18.4% of the corresponding consolidated figures, respectively.

Factors that offer some kind of competitive advantage are particularly important in the choice of geographical areas for expansion on the part of Portuguese banks. The cultural and linguistic ties that Brazil, Timor, Angola and Macao have with Portugal place them among the preferred destinations. There are also countries that traditionally have large Portuguese immigrant communities, such as France, Luxembourg and Switzerland. There is also a preference for countries with particularly developed financial systems, such as the United States and the United Kingdom. Finally, Spain is also a favoured market due to its proximity and the intense reciprocal business activity. The most important business areas in international activity are retail banking, investment banking, venture capital and asset management.

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15. SWEDEN

The Swedish financial market

The economic role of the financial sector

Efficient and reliable systems for saving, financing, mediating payments, and risk management are of fundamental importance for Sweden's economic prosperity. These systems are operated by banks and other credit institutions, insurance companies, securities companies and other companies in the financial sector. The financial sector efficiently channels savings in society to investment and consumption, such as household needs, to smooth out the consumption of various life stages and the need for companies to finance investment.

In 2010, the financial industry accounted for 4.3% of the total output in Sweden, expressed as its GDP. Around 85,000 people, representing about 2% of the total workforce, work in the financial industry. This can be compared with the manufacturing industry that employs 14% of the workforce and the hotel and restaurant sector that employs 3%.

Types of financial enterprise

The financial companies' overall balance sheet in 2010 was SEK 14,940 billion. The three largest groups of companies on the Swedish financial market, measured in total assets, are banks, mortgage institutions and insurance companies. Banks' share of the total assets of the financial market was 39% at the end of 2010. In addition to the above mentioned companies, there are also private equity companies. Private equity companies mediate risk capital by investing and taking a part in the ownership of companies.

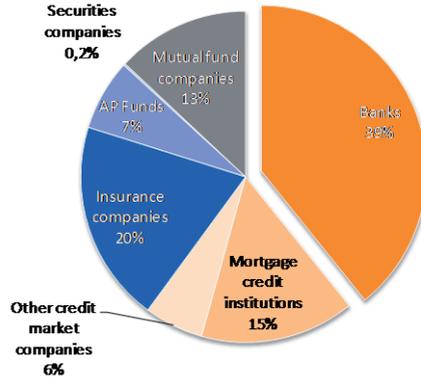
Market changes

The financial sector is experiencing a significant change in its structure. Established companies have broadened the scope of their business, while many new companies, both Swedish and foreign, have entered the market. One important change has been the industry slip between banking and insurance.

15. SWEDEN

Another change is that branch offices have become less important for bank customers' daily services. Instead the customers tend to make normal bank services through their Internet bank and mobile telephones. Moreover, new ways to perform bank services have been created, e.g. credit applications in chain stores, e-invoices, etc. These new channels of distribution have enabled the development of new services while existing services have changed. The new technology has also paved the way for the establishment of new banks and increased competition in banking.

Players on the financial market, Dec 2010



Source: Sveriges Riksbank

Mutual funds and insurance savings have become some of the most important forms of household savings. Bank savings are, however, the largest household savings type. At the same time, savings in bonds have declined in importance. Over 75% of the population have some of their savings in funds or equities.

Structure of the banking industry

Number of banks: there are four main categories of banks on the Swedish market: Swedish commercial banks, foreign banks, savings banks and co-operative banks. In December 2010, Sweden had a total of 114 banks. The number of commercial banks and foreign bank branches in Sweden has increased from 43 in 2000 to 62 in 2010. The increase is due to the fact that, among other things, more foreign banks have been set up in Sweden. In addition, the number of Swedish commercial banks has increased, including new Internet and telephone banks as well as securities firms and credit market companies that have become banks.

Swedish commercial banks: Swedish commercial banks are divided into three categories. The largest are the four big banks: *Swedbank*, *Handelsbanken*, *Nordea* and *Skandinaviska Enskilda Banken (SEB)*. These banks are important players in most segments of the financial market. The second category is that of savings banks that have been converted into joint stock companies, often with *Swedbank* as a shareholder. The third category constitutes other Swedish commercial banks with a diverse business focus and ownership structure. Most of the other commercial banks were formed during the mid-1990s and onward. They are mainly focused on the retail banking market and distribute their products and services online, but also through e.g. retail stores.

Foreign banks: the first foreign bank was established in 1986, when foreign banks were first allowed to open subsidiaries. For a few years, and in connection with the financial crisis at the beginning of the 1990s, the number of foreign banks declined. Foreign banks were permitted to open branches in 1990 and, since then, the number has increased. In December 2010, they amounted to twenty nine. Most foreign banks focus on the corporate banking and securities market. The largest foreign bank is *Danske Bank*, which after acquiring *Östgöta Enskilda Bank* in 1997, is now the fifth largest bank.

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

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

Number of banks in Sweden

Type of bank	2000 (Dec)	2010 (Dec)
Swedish commercial banks	22	33
- of which four big banks	4	4
- of which former savings banks	9	14
- of which other Swedish commercial banks	9	15
Foreign banks	21	29
- of which subsidiaries	2	3
- of which branches	19	26
Savings banks	79	50
Co-operative banks	2	2
Total	124	114

Source: The Swedish Financial Supervisory Authority (*Finansinspektionen*)

member by paying a member share. There are two small co-operative banks in Sweden.

15. SWEDEN

The Bank's Role

Deposits and lending: banks' core business is to accept deposits and provide credit. In December 2010, the banks' deposits from the public amounted to SEK 2,403 billion. The bulk of these deposits, some 45%, come from Swedish households. Swedish companies account for 27% of the deposits and foreign public for 18 %.

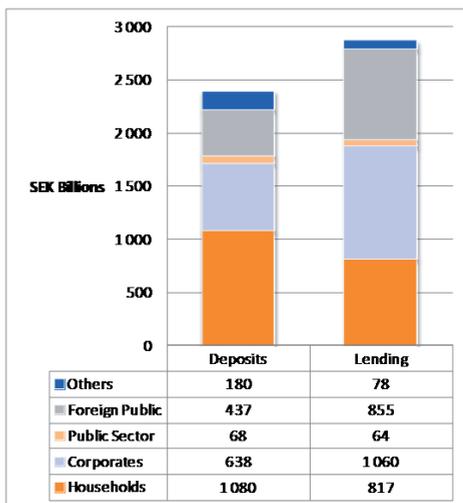
Previously, only banks were allowed to receive deposits from the public, but since 1 July 2004, credit market institutions are also allowed to receive deposits. From 2008, all credit institutions that are permitted to accept deposits in accounts are covered by the deposit insurance. In addition, the so-called deposit companies may, with some restrictions, receive deposits. However, deposits in deposit companies are not covered by the deposit insurance.

Lending to the public in Sweden takes place mainly through banks and mortgage institutions. Banks provide loans with different types of security and also smaller loans without collateral. Banks, like mortgage institutions, also provide loans secured on homes and other buildings and property. Unlike mortgage institutions, in addition to the first mortgage, banks can also provide a second mortgage. Lending to the public from banks amounted to SEK 2,874 billion in December 2010. 37% of lending to the public goes to Swedish businesses, while households and foreign borrowers account for 28% and 30%, respectively.

Interest rates: the interest rates that banks set for their deposits and credits are highly dependent on the interest rates prevailing on the money market. Other factors affecting interest rates include the borrower's credit-worthiness, the risk in the undertaking, the banks' financing costs, the competition among credit institutions, and the competition between different savings and loan forms. The banks' average deposit and lending rates have shown a clear downward trend since the early 1990s. In recent years, the interest rates have varied but are still generally lower than in the 1990s.

Mediation of payments: in addition to depositing and lending money another important function of a bank is to provide a means of payment. The Swedish payment system is represented by, among other things, the bank giro, commonly owned by the banks. The Swedish payment system is technically advanced, and is highly efficient. This means that payments are transacted quickly, safely and at low cost. These systems for payments, but also securities transactions, belong to the financial infrastructure. The financial infrastructure is an important part of Sweden's total infrastructure.

Bank deposits from and lending to the public, December 2010



Source: Sveriges Riksbank

Risk diversification: a third task for the banks is to offer corporate and retail customers the opportunity to reduce, redistribute and spread risks, for example by offering trading in futures and options.

Banks in Sweden

Universal banks: banks that are represented in the major part of the financial market and offer all kinds of financial services are categorised as universal banks. Among the Swedish universal banks, we find the 'big four' banks: Nordea, Swedbank, Svenska Handelsbanken and SEB. Together they have a strong position on the Swedish market although the market shares vary in different niche markets. Their market share on the deposit market is approximately 70%, but on most other markets, it is normally lower. The big four banks share many similarities, but also differ in many ways. For example, there is a big difference in terms of client-type, pricing of services and distribution channel. It is, therefore, incorrect to refer to these banks as a homogeneous group. Indeed, they compete not only with all other banks on the market but also with each other.

15. SWEDEN

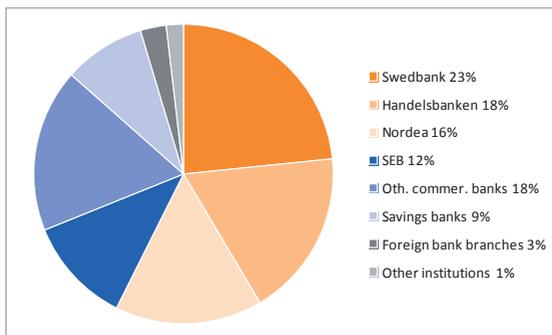
On the Swedish market, *Svenska Handelsbanken* and *Swedbank* have the most branch offices, 461 and 340, respectively. Many of the banks also offer their services in co-operation with other players, such as supermarkets and petrol stations. Most of the services offered by banks' branch offices are also offered through their internet channels. Branch offices have, therefore, to a large extent shifted their focus to providing advisory services and selling the banks' products and services.

Other banks: over the past ten years, other commercial banks and foreign bank branches have gained market shares in Sweden. Banks, such as Skandiabanken, Länsförsäkringar Bank and Ikano Banken, established telephone and internet banks in the mid-1990s and ICA Banken in the early 2000s. Although they have gradually expanded their range of services, they are still mainly focused on retail banking. Several of the newest banks started as securities firms and are primarily focused on trading and asset management, such as the banks Avanza and Nordnet.

The presence of foreign banks in Sweden has strengthened, mainly due to Danske Bank, with some 50 branch offices. In certain segments, such as investment banking, foreign banks have large market shares.

Savings banks: the independent savings banks operate on the local or regional markets. The savings banks have a market share of 10% in Sweden, but an individual savings bank's local market share can be much higher. At the end of 2010, the savings banks had 182 branch offices, representing around 10% of the 1,883 branch offices in Sweden.

Deposits from Swedish households, share of the total. December 2010



Source: Statistics Sweden (SCB)

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16. SWITZERLAND

The Swiss financial centre, with banking as the leading sector, is of major international importance and among the global market leaders in many areas. Banks are hugely important to the Swiss economy in many respects. As employers, they offer a host of skilled jobs paying above-average salaries; as taxpayers, they provide a considerable portion of public-sector funding; and, finally, as drivers of value added and centres of innovation they generate momentum for the entire economy.

Alongside the generous supply of credit, which experienced no restrictions during the last financial crisis, Switzerland, as a business location, benefits from internationally favourable financing conditions. This is owing not only to generally low interest rates, but also to banks' low interest margins.

Value added. Including insurers and other financial service providers, the financial sector as a whole accounts for 11.5% (CHF 61.1 billion) of value added in Switzerland. The banking sector alone, therefore, accounts for CHF 32.4 billion of value added, corresponding to 6.1% of Switzerland's gross value added.

During the global financial crisis in 2008 and 2009, the Swiss banking sector's real value added fell by 10%. In a time of rapid global economic change, more stringent regulatory conditions and protectionist tendencies have amplified the challenges facing banks on a broad front, while rising risk premiums and falling margins have hampered their earning power. These adverse developments came about after the crisis broke out in 2007 and caused value added in the banking sector to decline by an average of 0.3 percentage points per year from 2000 to 2011. However, the benefit banks create for other economic sectors remains high, since a thriving banking sector is an important consumer of goods and services. This interconnectivity means that for every 100 bank employees, another 115 jobs are created in other sectors by indirect effects. Alongside the CHF 32.4 billion generated by the Swiss banking sector, the indirect effects of this interconnectivity contribute an additional CHF 17 billion of value added, leading to a total 9.3% share of Switzerland's overall economy.

16. SWITZERLAND

Employment. More than 195,000 people or 5.7% of the entire Swiss workforce are employed in the financial sector. Of these:

- o 108,100 work for banks and securities dealers;
- o 34,700 work for other financial services providers (e.g. independent asset managers, etc.); and
- o 53,034 work for insurance companies.

Swiss banks also employ around 106,760 staff abroad (branches and subsidiaries). In 2011 banks trained over 3,800 commercial apprentices or more than 12% of all commercial apprentices in Switzerland.

Taxes. The financial centre (including staff and shareholders) pays an estimated CHF 14-18 billion each year in direct and indirect taxes. This equates to 12-15% of all federal, cantonal and municipal tax receipts. In 2011 CHF 11.2 billion¹⁷ or nearly 10% of all tax receipts could be attributed to the banking sector.

Number of banks. As of year-end 2011 there were 312 banks, 3,382 branches and 5,555 ATM in Switzerland. In addition, banks in Switzerland dispose of 269 branches abroad. The aggregate balance sheet of all the banks in Switzerland grew by 2.9% to CHF 2,793 billion in 2011 (approx. € 2,318 billion). This result was due, in particular, to the marked increase in cash (+144%) and renewed rise in mortgage receivables (+5.3%). The total credit made available by the banks rose in 2011 by 5.1%, with credit take-up increasing by 4.3% to CHF 937 billion (approx. € 778 billion).

¹⁷ Taxes on earnings and capital, income tax and taxes on dividends are direct taxes; withholding tax, stamp duty and VAT are indirect taxes. Exact figures for the insurance industry are not available and have therefore been estimated.

Number and size of banks in Switzerland, by type (2011)

	Number of banks	Total assets (CHF billion)	Proportion of total assets
Big banks	2	1,467	52.5%
Cantonal banks	24	449	16.1%
Foreign banks	148	362	13.0%
Raiffeisen banks*	1	156	5.6%
Asset management banks	46	137	4.9%
Regional and savings banks	66	101	3.6%
Private bankers	13	54	1.9%
Other banks	12	67	2.4%
Total	312	2,793	100.0%

* The Raiffeisen banks consist of 328 affiliated banks.

Source: Swiss National Bank

Wealth Management. Wealth management is a core business for Swiss banks and they rank amongst the world leaders in wealth management: two Swiss banks can be found in the top ten in a ranking of the world's biggest wealth managers. At the end of 2011, assets under management in Switzerland totalled around CHF 5,300 billion (approx. € 4,400 billion). Swiss banks are market leaders in cross-border private banking, with a market share of 27%.¹⁸ About 29,000 employees work in the segment of wealth management for foreign clients. They generate a value added of around CHF 8 billion.

Assets under management of domestic and foreign clients in Switzerland (2011)

Client type	Assets under management (CHF billion)	Share (%)
Domestic clients	2,600	49%
Foreign clients	2,700	51%
Total	5,300	100%

All figures are rounded.

Sources: Calculations SBA, Swiss National Bank

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STATISTICAL ANNEX

Key Banking Sector Indicators by country, 2011

	Number of credit institutions	Total assets (€ million)	Total loans (€ million)	Total deposits (€ million)	Capital and reserves (€ million)
Austria	766	1,010,385	609,754	545,905	89,051
Belgium	108	1,198,379	544,911	671,929	57,109
Bulgaria	31	42,166	31,726	26,763	5,316
Cyprus	141	134,011	78,635	79,153	13,679
Czech Republic	58	180,395	106,739	122,308	19,711
Germany	1,898	8,393,478	4,693,285	4,575,268	394,538
Denmark	161	1,144,944	627,397	280,865	58,184
Estonia	17	19,020	14,823	11,801	2,291
Spain	335	3,643,070	2,270,548	2,269,342	363,436
Finland	327	642,356	286,741	159,868	25,891
France	660	8,391,531	4,425,864	3,960,826	499,230
UK	373	9,708,310	4,186,259	3,871,564	846,001
Greece	58	476,872	308,314	290,344	53,058
Hungary	189	114,924	74,143	56,679	9,276
Ireland	480	1,312,761	521,714	570,515	127,249
Italy	754	4,065,036	2,501,306	2,216,928	380,559
Lithuania	92	24,696	18,887	12,379	3,343
Luxembourg	141	1,101,486	469,154	466,023	51,953
Latvia	31	29,462	18,603	8,859	2,316
Malta	26	51,340	16,102	18,715	10,294
Netherlands	287	2,428,741	1,369,889	1,009,982	110,770
Poland	700	309,803	217,025	190,180	40,686
Portugal	155	573,678	324,118	340,662	41,431
Romania	41	91,761	68,401	47,937	14,663
Sweden	175	1,140,420	633,052	338,146	65,305
Slovenia	25	52,350	38,361	37,938	4,166
Slovakia	31	58,025	38,388	42,161	7,863
Total EU-27	8,060	46,339,398.9	24,494,138.9	22,223,039.2	3,297,369.5
Iceland	-	-	-	-	-
Liechtenstein	16	44,952	15,326	28,735	4,730
Norway	139	717,864	448,513	224,057	41,917
Switzerland	312	2,327,446	1,797,758	1,473,817	137,845
Total EFTA	467	€3,090,261.3	€2,261,596.8	€1,726,608.5	€184,491.9

NB: data for the EFTA countries are on banks only

