EBF Facts & Figures 2016

The data contained in this publication has been compiled from publicly available information released by the European Central Bank, European Commission, Eurostat, the European Banking Authority, national competent authorities and members of the European Banking Federation

Introduction

Chapter 1

Economy, balance sheet and profitability

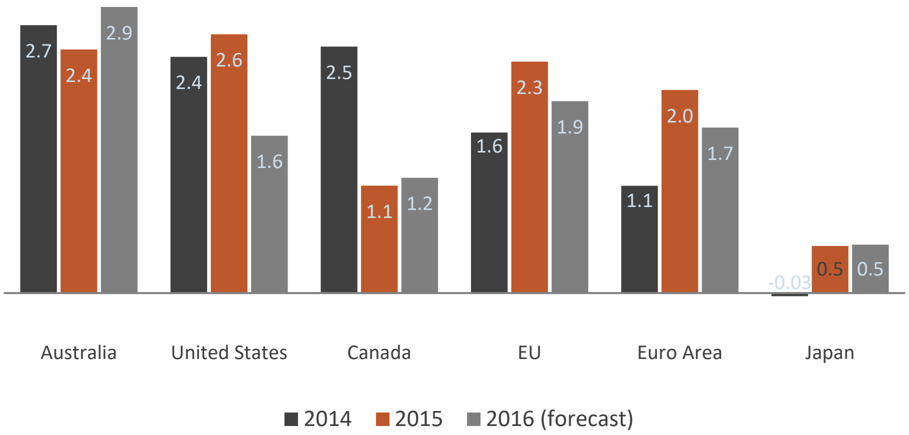
The EU economy

The European economy is slowly but steadily working its way out of the crises. In 2015 the EU economy expanded by 2.3% or more than international partners such as Canada (1.1%) and Japan (0.5%) but at a rate slightly below that of the United States (2.6%) and Australia (2.4%).

The positive development continued into 2016 where a 0.6% growth rate in the first quarter of the year brought the 19-country economy slightly above its pre-crisis peak. This also marked, for the first time since 2011, a better economic performance by the euro area than that of the European Union (EU-28). In the first three quarters of 2016 the seasonally adjusted GDP in the euro area rose by 1.7%, 1.6% and 1.6% respectively while in the EU-28 it rose by a similar 1.8% in the three quarters.

Figure 1: Real GDP growth

%



Similar to the years preceding the financial crisis, private consumption is nowadays the engine of growth in Europe reaching pre-crisis levels. It is expected to remain so for 2016 and the next couple of years, albeit at a slower pace.

Growing faster than at any time since 2008, employment got closer to the path seen before the crisis (70.3% in 2008) as the rate in the EU-28 for persons aged 20 to 64 reached 70.1 % in 2015. The employment rate in the euro area was 69% in 2015. Sweden continues to be the country with Europe's best employment rate reaching a peak of 80.5% in 2015 closely followed by Germany with 78%. Although with a recovery on the employment rate, Greece had again the lowest rate in the EU with 54.9% employment. In spite of the positive development unemployment rates remained high in a number of euro area countries.

Inflation is still very low by historic standards averaging zero in 2015 and forecasted at 0.3% in 2016 for both the EU-28 and the euro area. While still currently below the European Central Bank (ECB) target of nearly 2%, inflation is currently slowly increasing leaving behind concerns of possible deflation. Inflation should get closer to the ECB target over the next coming years due to expected higher commodity prices and benign economic situations.

Whereas monetary policy continues to play a major role in the recovery of the EU economy, political uncertainty, predominantly in light of Brexit negotiations and the still-to-be-defined policy agenda of US President-elect Donald Trump, together with decelerated global GDP growth and growth outside the EU, will challenge the economic growth of the region. Also lack of structural reforms could impair the growth outlook for the region going forward.

The launch in 2015 of EU President Juncker's Investment Plan for Europe aiming to boost investment in the EU raised hopes in the future of the economy. Although at this time it is not yet fully clear what the real impact of the Plan will be, it is worthwhile noting the recent proposal to extend the European Fund for Strategic Investments (EFSI) - one of the three pillars of the Plan - in terms of both duration and financial capacity. A better understanding of the impact will come in 2017 or even 2018, as many of the projects under the EFSI will enter the implementation phase.

Bank capital

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

The core equity Tier 1 (CET1) ratio of EU banks on a fully loaded basis in 2016, which includes only capital of the highest quality, is now 12.7%, more than double the same ratio in 2011. Banks in the European Union have reduced the original CET1 shortfall ratio by more than €500 billion from 2011 mainly by raising new capital and retaining earnings. Tier 1 and total capital have also shown a positive trend.

Figure 2: Basel III Progress

	Jun	**Dec**	**Jun**	**Dec**	**Jun**	**Jun**	**Dec**
TOTAL * **	**2011**	**2011**	**2012**	**2012**	**2013**	**2015**	**2015**
Core Equity Tier 1 Capital	5.3%	7.0%	7.8%	8.3%	9.0%	11.8%	12.7%
CET1 shortfall (€bn) at 4.5%	29	18	9	13	15	0	0
CET1 shortfall (€bn) at 7% *	277	225	130	96	65	1	1
Tier 1 Capital	6.8%	7.2%	8.1%	8.5%	9.2%	12.3%	13.3%
Total Capital	8.1%	8.3%	9.1%	9.7%	10.9%	14.7%	15.8%
Tier 1 Capital shortfall (€bn) *	411	350	249	196	120	8	4
Total Capital shortfall (€bn) *	544	479	383	304	190	18	5

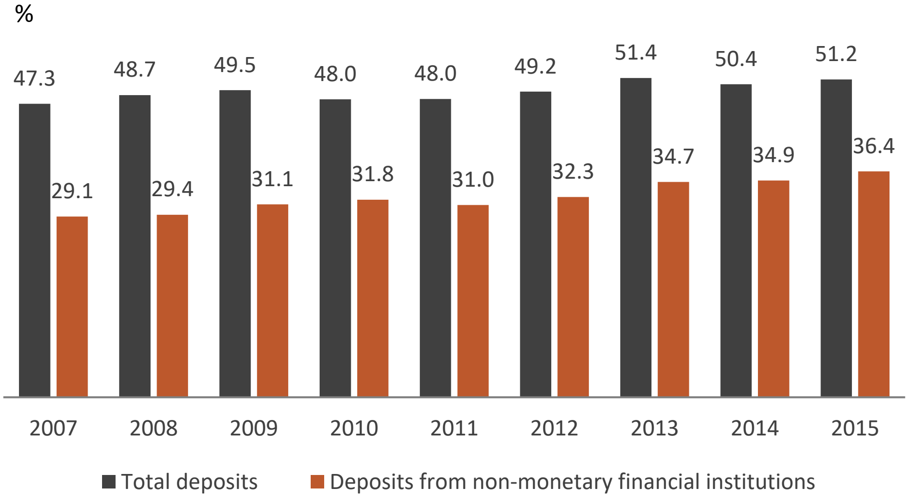
Leverage Ratio (3%)	2.8%	3.0%	3.1%	3.0%	3.1%	4.4%	4.9%
Leverage shortfall (€bn)	N/A	N/A	N/A	133	64	9	N/A
Liquidity Coverage Ratio	71%	76%	N/A	113%	110%	128%	134%
LCR shortfall (€bn) **	1,200	1,200	N/A	225	262	33	11
Net Stable Funding Ratio	89%	93%	95%	96%	N/A	105%	107%
NSFR shortfall (€bn) **	1,800	1,400	1,200	959	N/A	341	240

Bank funding

After a retrogressive direction in 2014, the share of deposit liabilities over total assets went up again in 2015 increasing from 50.4% to 51.2%. Since 2007 the trend has been upward, only falling in 2010 and 2014, reflecting bank shifts towards greater reliance on deposits as a source of funding. The rise in the share of non-banks' deposits to total assets has continued moving upwards, rising from 34.9% in 2014 to 36.4% in 2015.

The country breakdown for total deposits shows the lowest shares recorded in 2015 were in Denmark (10.1%), Ireland (30.2%), Sweden (34.1%) and Finland (35.1%). The figures reflect, in part, different banking models, for example the well-developed covered bond markets in Scandinavia. Meanwhile countries with the largest shares of deposits financing banking sector's assets were Bulgaria (70%), Slovenia (70.3%) and Slovakia (73.8%). The share of non-banks' deposits to total assets was also highest in Slovakia (68.8%) and lowest in Denmark (17.5%).

Figure 3: Deposits in EU banks as a share of total banking assets



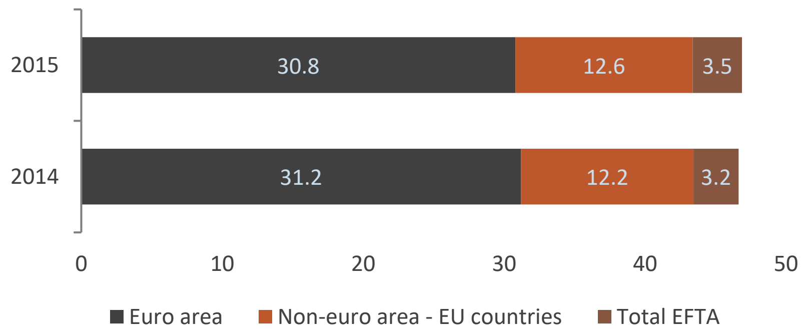
Assets

While the year 2014 recorded a moderate recovery in the total assets held by EU banks, the figure slightly contracted in 2015 by €61 billion or -0.1% from the previous year amounting to €43.38 trillion. The same slight decrease happened to the share of assets coming from the euro area falling from 71.8% in 2014 to 71% in 2015. From the geographical perspective, the largest contribution to the fall in the stock of assets is attributable to the euro area (-1.3%).

Considering the country breakdown, the countries with the strongest boost in absolute terms were Estonia with €1.7 billion (8.3%), Slovakia €4.8 billion (7.6%), and Czech Republic €11 billion (5.7%). While the United Kingdom (UK) was the country with the largest contribution (€358 billion, 4% of the UK's total asset base), the other four largest European countries registered a reduction in their stock of assets - France (-0.3%), Spain (-4.9%), Italy (-2.5%) and Germany (-1.8%) - amounting to a €409 billion reduction. The countries with the most significant reductions in their stock of assets were Malta (-16.7), which happened to be in 2014 the country with the strongest boost, and Denmark (-5.3%).

The total assets of banks operating in the EFTA countries grew by €276 billion or 8.6%, practically matching the same growth as in 2014.

Figure 4: Total assets in EU banks
€ trillion

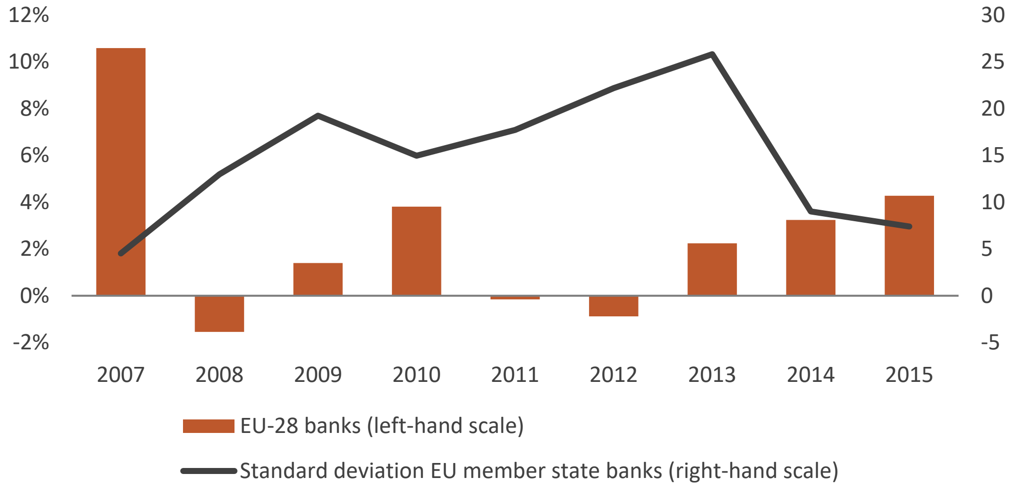


Bank profitability

After reaching a peak in 2007 the return on equity (ROE) – a key indicator to assess the bank sector's attractiveness for investors – in the EU banking industry sharply contracted, due to the impact of the euro area crisis, falling to -1.5% in 2008. Upholding a slow recovery path (with setbacks in 2011 and 2012 when the ratio fell again into negative territory), the calculated median value of all ROE all banks in the EU-28 in 2015 reached 4.3%, a meagre figure considerably lower than the 10.6% seen in 2007.

The ROE across EU countries has diverged since 2007 signalling growing fragmentation particularly across the euro area. After reaching a peak in 2013 (25.8), the dispersion around the average return on equity reached has substantially decreased falling to 9.0 in 2014 and further into 2015 to 7.4, a bit less than half the number seen in 2008 when deviation started.

Figure 5: Return on equity



Reflecting on the national breakdown, only a few countries are struggling with negative ROE: Greece (-24.2%), Cyprus (-7.6%) and Croatia (-6.8%). On the other hand, double-digit ROE was registered in Romania (11.3%), Sweden (11.2%), Latvia (10.7%), Czech Republic (10.3%) and Belgium (10.3%). The difference between the highest and lowest ROE was 35.5 percentage points in 2015, almost a third of the 101.3 recorded in 2013 (11.4% in the Czech Republic and -90.2% in Slovenia).

In the largest EU economies the ROE in 2015 was 7.0% in Netherlands, 6.8% in France, 6.6% in Spain, 3.2% in the UK, 3.1% in Italy and 1.7% in Germany.

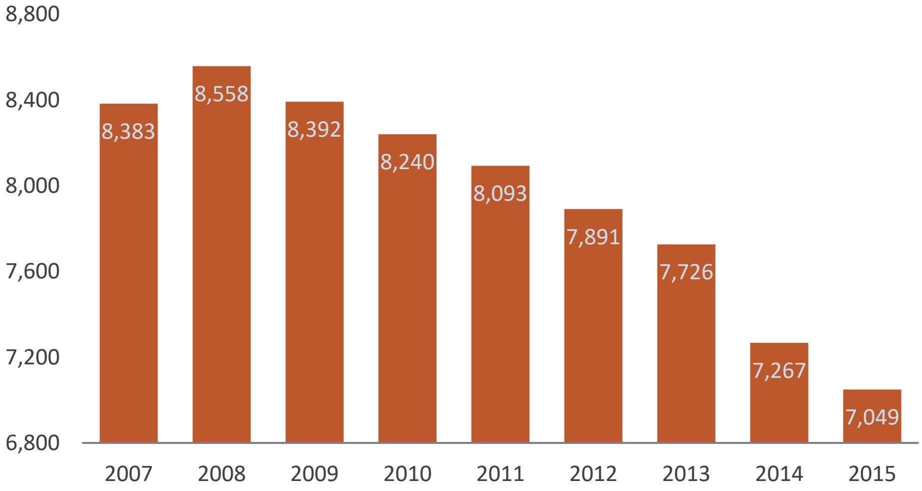
Chapter 2

Structure

Number of banks and staff

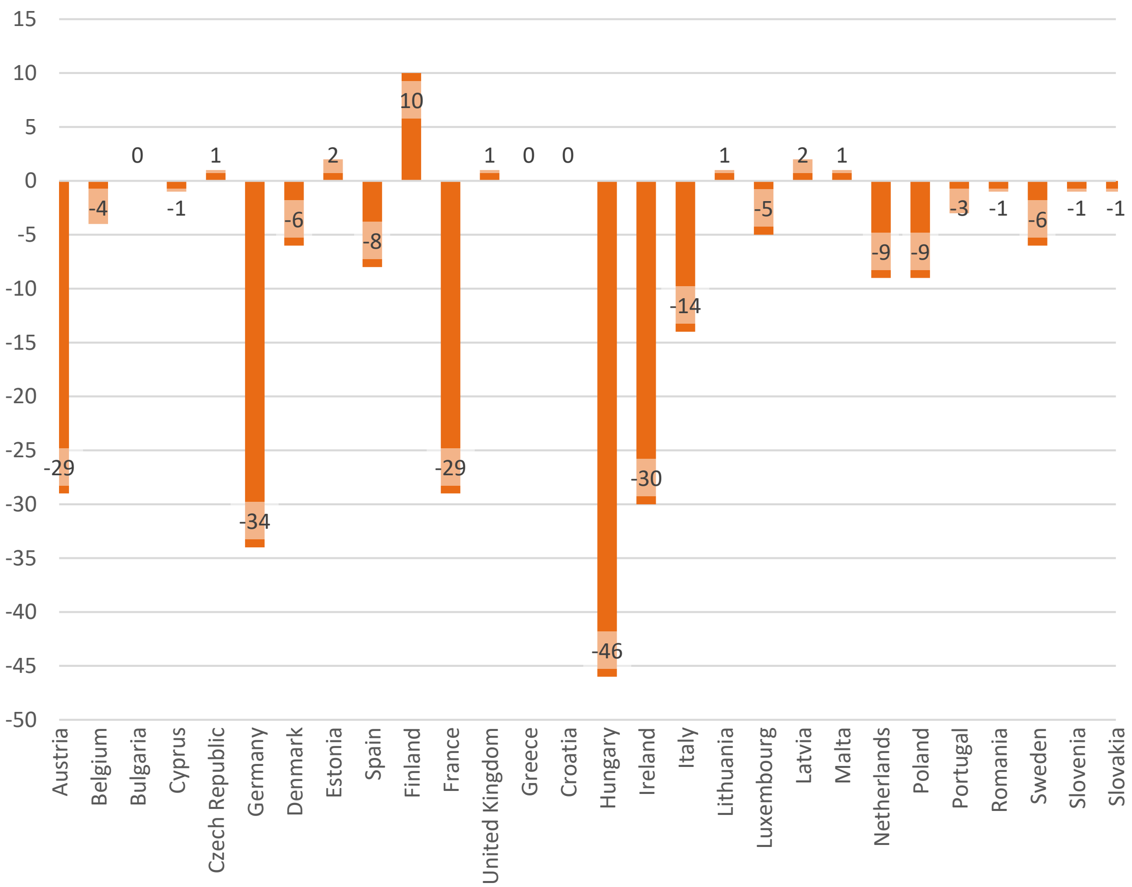
The downtrend on the number of EU-28 credit institutions which started in 2009 continued in 2015, with the total falling to 7,049, a decline of 3% compared to the previous year, a reduction of 1,334 in total since contraction started. The rationalisation decelerated this year compared to the sharp fall of 5.9% in 2014 and became closer to 2012 figures when the number of banks declined 2.5%.

Figure 6: Total number of credit institutions



The countries having experienced the largest contraction in absolute terms in 2015 were Hungary (-46 units), Germany (-34 units), and Ireland (-30 units), according to ECB. Only Estonia (+2 units), Latvia (+2 unit), Czech Republic (+1 units), United Kingdom (+1 units), Lithuania (+1 units), and Malta (+1 unit) have increased the number of credit institutions, albeit in a very limited number. The number of credit institutions in the EFTA countries reached 423 in 2015.

Figure 7: Change in number of credit institutions from previous year (2015 vs 2014)



By end-2015, EU-28 banks employed 2,864,106 people, 25,214 or 0.9% fewer than in 2014. The five largest EU economies continue to be the five countries with the largest number of employees in the banking sector employing practically 68% of the total EU-28 staff employed. Including EFTA countries, the number of staff employed in the banking sector surpassed the 3 million frontier with 3,011,780.

Figure 8: Number of employees in credit institutions

EU-28, in millions

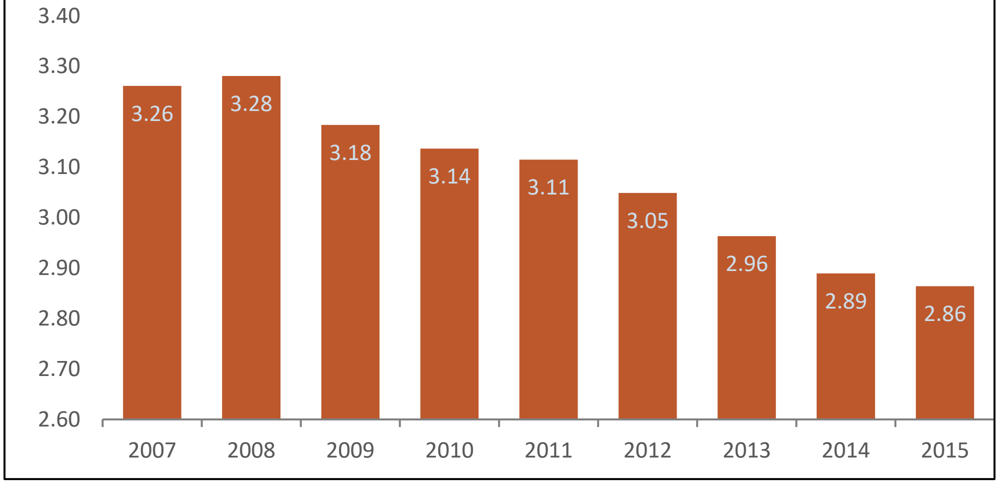
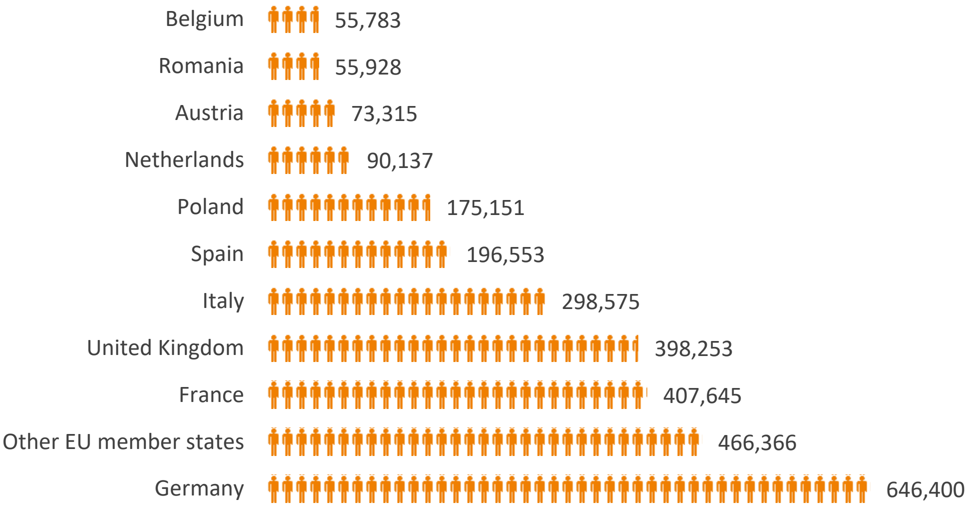


Figure 9: EU bank staff



Also reflecting a contraction in the banking sector, the average number of inhabitants per bank staff in the EU Member States rose by 1.2% from 175 in 2014 to 178 in 2016.

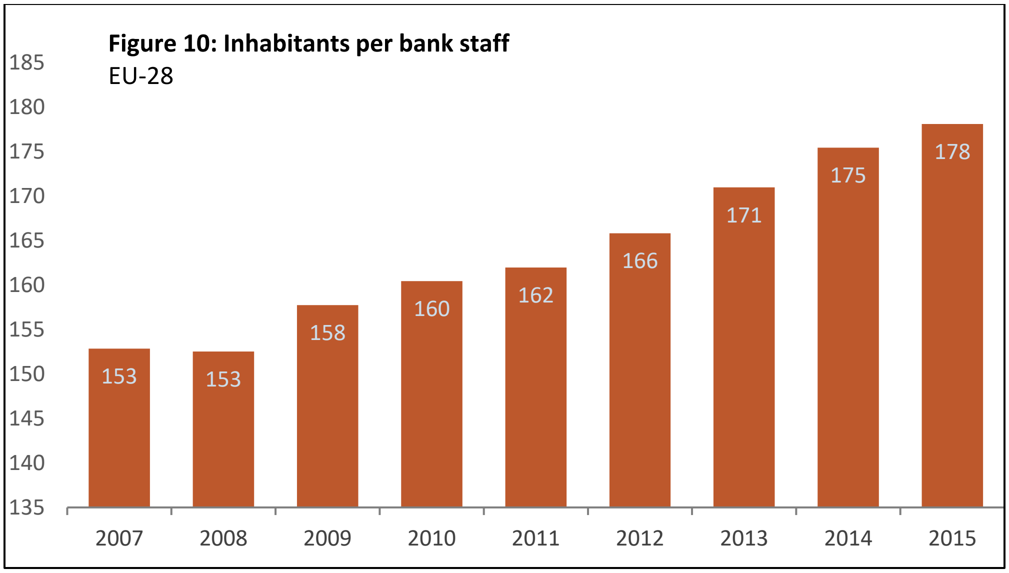
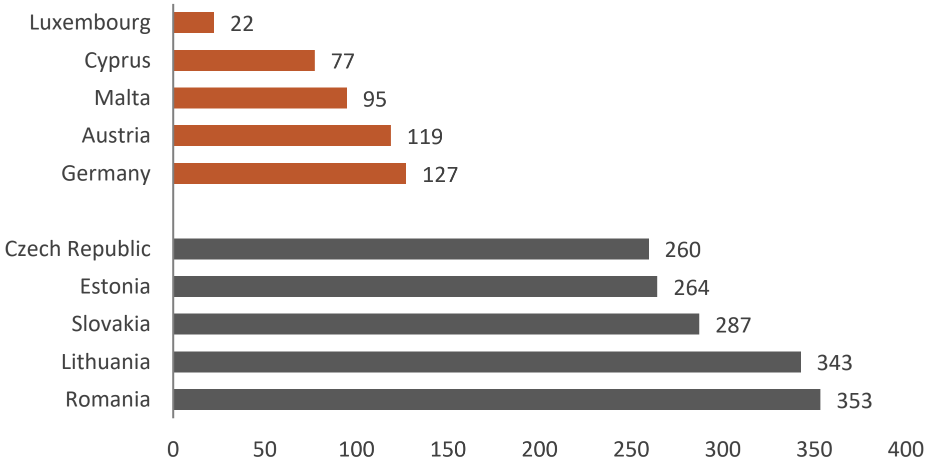


Figure 10: Inhabitants per bank staff
EU-28

Figure 11: Inhabitants per bank employee
Countries with the lowest and highest number

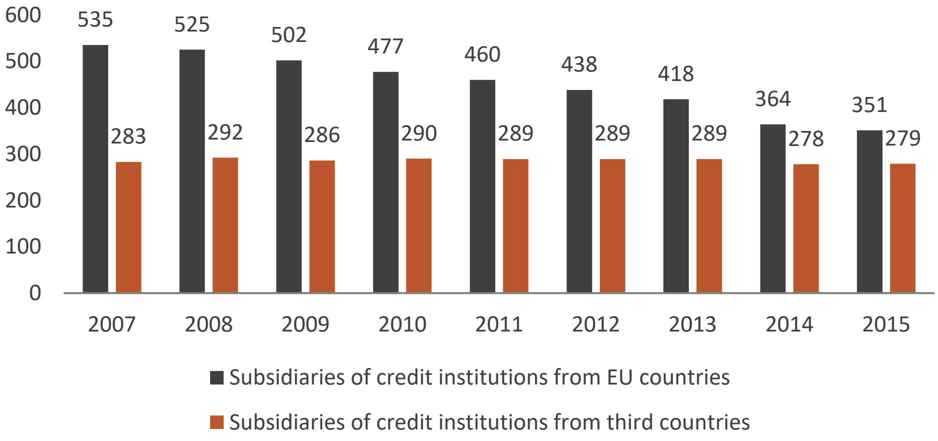


Branches and subsidiaries

The rationalisation taking place in the EU banking sector also involved bank branches as the number of bank branches continued to shrink, falling to 188,851 in 2015. The total loss of 49,616 branches closed since 2009 equals a contraction of 19.07%. Compared to the previous year, branches in the EU-28 decreased by 7.06% or 15,466 branches which doubles the number of branches closed in 2014 (7,544).

Although the overall number of subsidiaries continued declining for the eighth straight year, with a moderate drop of 1.9% or 12 units compared to the record sharp drop of 65 units or 9.2% in 2014. The moderate fall is driven by the limited closure of subsidiaries of credit institutions from EU countries (13 in 2015 from 54 in 2014). The share of subsidiaries from third countries went positive for the first time since 2010 adding one in 2015 to reach 279 (compared with 351 of credit institutions from EU countries).

Figure 12: Credit institution subsidiaries



Chapter 3

Lending and deposits

General trends

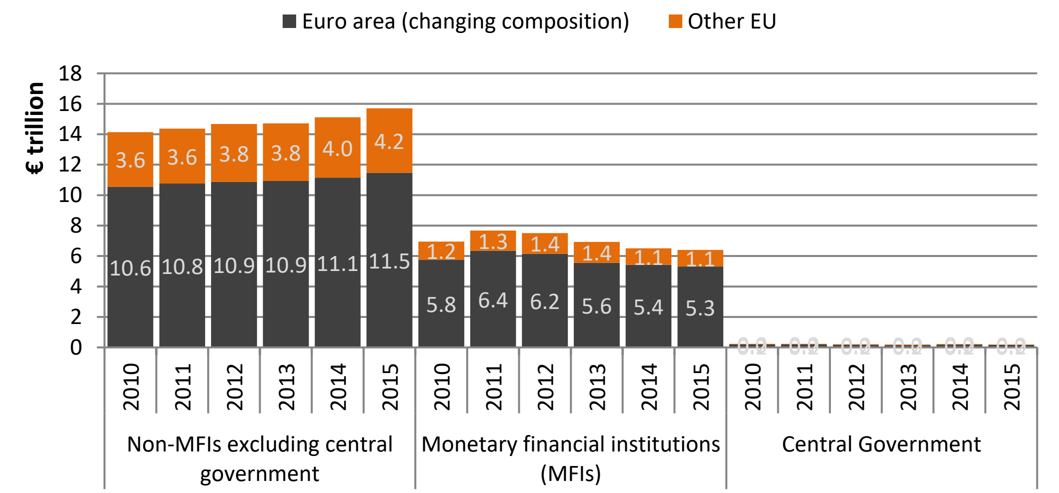
The core banking activities of raising deposits from and providing credit to customers are increasingly important to Europe's banks. Despite deleveraging by European consumers and businesses, bank deposits and loans grew in 2015.

Deposits

Deposits accounted for 51.5% of monetary financial institution (MFI) liabilities in the EU by the end of 2015, up from 47.3% in 2007. Deposit liabilities in the EU rose to their second highest level in five years, to €22.3 trillion, driven mainly by growth in deposits outside the euro area.

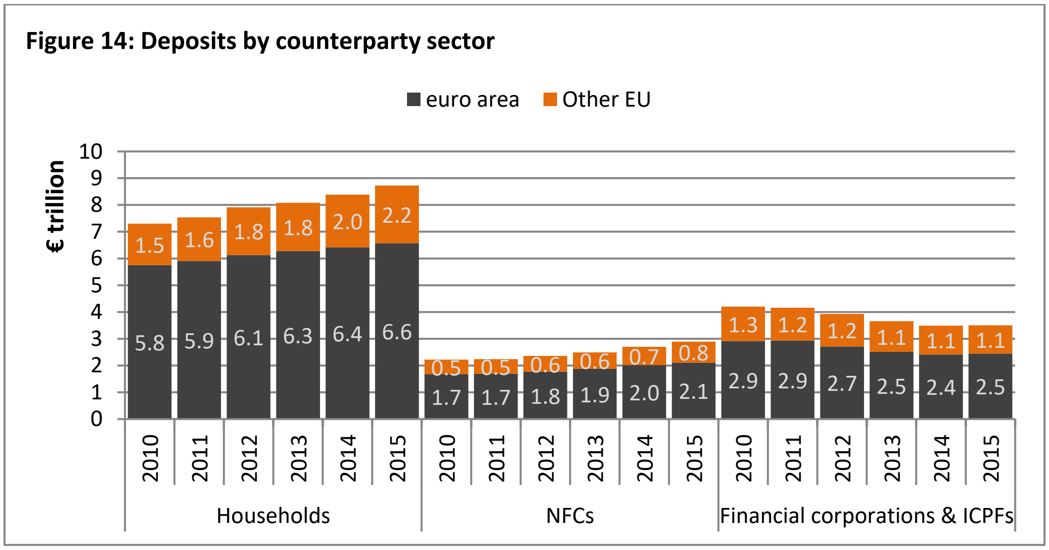
Deposits from other MFIs peaked at €8.1 trillion in 2007 but their fall has been more than offset by growth in deposits from non-MFIs, excluding central government.

Figure 13: Bank Deposits in the EU



Total deposits from non-MFIs excluding central government grew by 3.9% in 2015 to more than €15.7 billion in the EU at the end of 2015, with €11.5 billion in deposits in the euro area (based on its 2016 composition). That compares with €9.9 billion and €7.2 billon, respectively, in 2005.

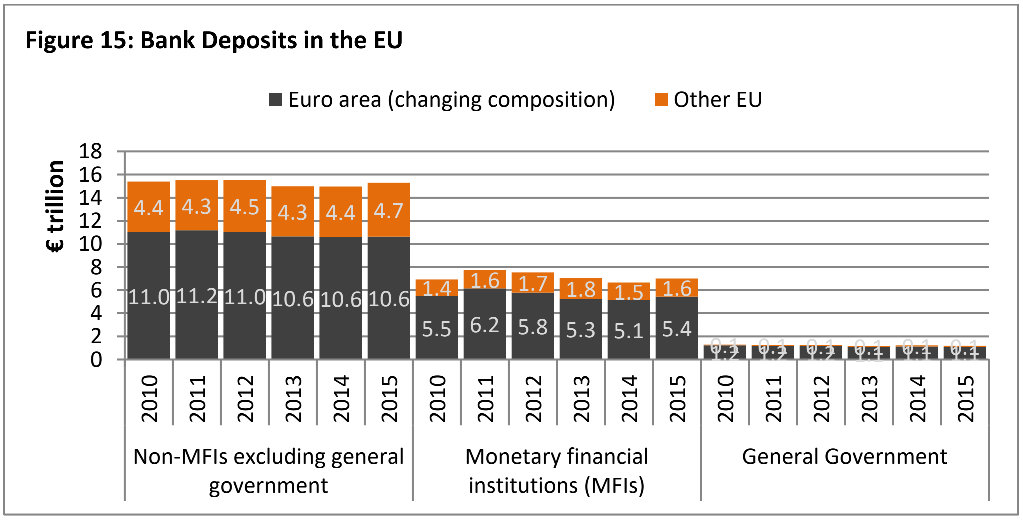
The growth has been driven by an increase in deposits from households (including non-profit institutions serving households), which rose by 4% year-on-year to €8.7 billion and non-financial corporations (NFCs), up by 7.1% to €2.9 billion. Indeed, for the first time since 2005, NFC deposits surpassed those of financial corporations excluding MFIs, insurance corporations and pension funds.



With household and NFC deposits, there has been a clear shift to shorter-term deposits. Overnight deposits accounted for 46.3% of household and 72% of NFC deposits at the end of 2015, up from 33.7% and 58.8%, respectively, in 2008.

Loans

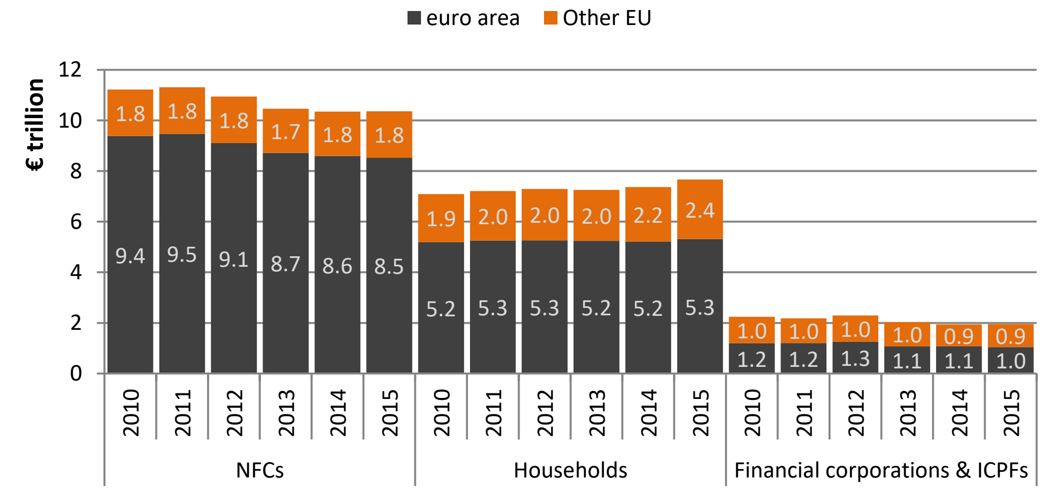
The total value loans outstanding from EU MFIs increased by 2.4% in 2015 to €23.5 trillion, the highest level since 2012. The increase derived from growth in loans to other MFIs in the euro area as well as an increase in loans to non-MFIs in other EU Member States. Some of the growth in loans in other EU Member States is likely attributable to the euro vis-à-vis UK pound sterling (from GBP 0.8337 at the end of 2013 to GBP 0.73395 at the end of 2015, according to the ECB).



As NFCs continued to deleverage, households drove the growth in loans in 2015.

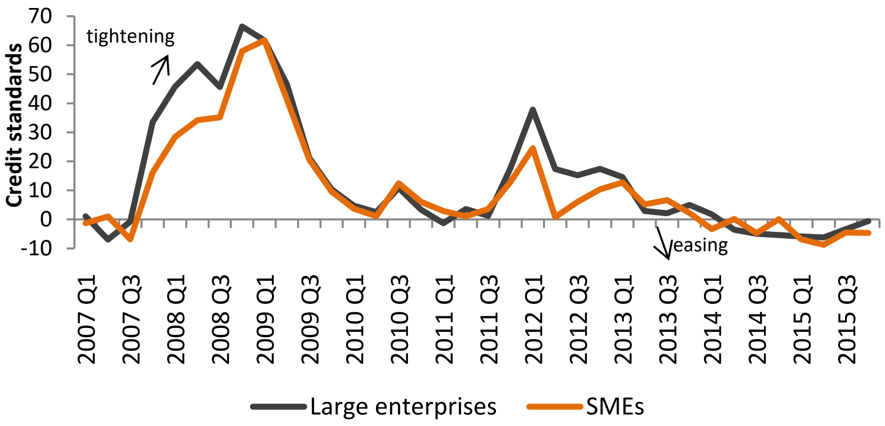
NFC loans outstanding rose slightly to €10.4 trillion but this was still the second lowest level since 2006. The growth in NFC lending came mainly from other EU Member States rather than the euro area, primarily the UK, Sweden, Poland and the Czech Republic. Within the euro area, NFC lending in France, Germany, Luxembourg and Finland grew significantly.

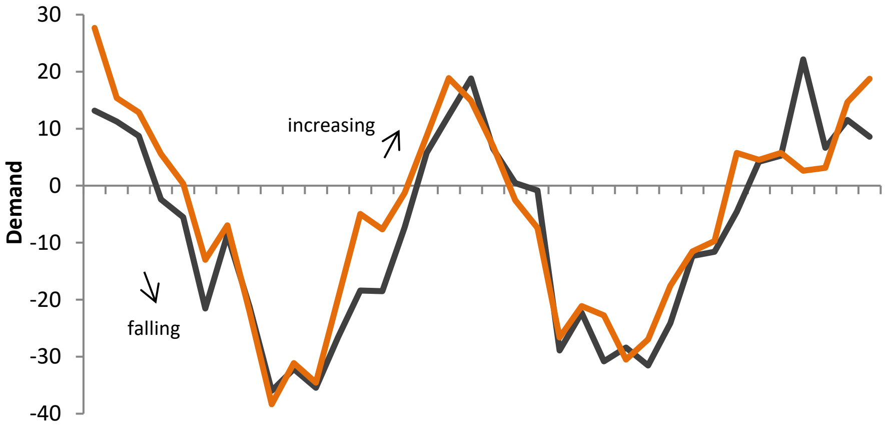
Figure 16: Loans by counterparty sector



Results from the ECB's Bank Lending Survey in 2015 suggested an improving environment for small and medium-sized enterprises (SMEs) and large enterprises. Credit standards eased somewhat from the start of 2014 for both segments.

Figure 17: Bank Lending Survey





From Q4 2014, loan demand among SMEs began to grow for the first time since Q3 2011, followed by large enterprises in the following quarter.

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

By contrast, with the NFC sector, loans to households grew for the second successive year in 2015, although growth was fuelled by lending in other EU Member States. Household loans increased to their highest levels on record in both the euro area (€5.3 trillion) and other EU Member States (€2.4 trillion).

Some 74.4% of household lending in the euro area support house finance. However, these figures exclude securitised loans such as residential mortgage-back securities. When adjusted for loan sales and securitisation, total household loans were €5.6 trillion at the end of 2015.

Loan-to-deposit ratios

Loan-to-deposit ratios, which are calculated as loans outstanding divided by total deposit liabilities, have declined in recent years, falling from 166% at end-2006 to 132% by end-2015 in the EU.

Looking at the relative contribution of each sector to deposit funding and its relative importance in terms of loans outstanding, NFCs would seem to be heavily reliant on deposit funding from households, which accounted for about 57% of bank deposits from non-MFIs at the end of 2015. This was especially true in the euro area where the loan-to-deposit ratio for NFCs was 404% (down from 559% in 2011). That compared with 234% in other EU Member States. By contrast, the loan-to-deposit ratio for households has fallen from 97.1% in 2010 to 87.8% in 2015.

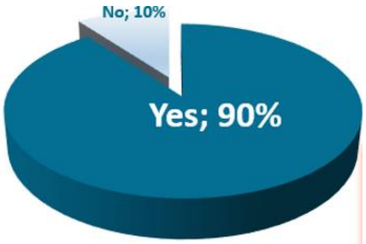
Chapter 4

Focus: Digital Banking

Digitalisation represents a key component of bank's growth strategies. Banks can play a decisive role in accelerating the digital transformation of Europe and developing the European digital single market. On one hand, banks are the main source of finance to the European economy that is undergoing a process of capital-intensive digitalisation. On the other hand, guided by customer demand, banks are heavily investing in technology and partnering with technology start-ups to improve customer offerings and to transform their business models.

Digitalisation a priority for banks

Figure 18: Is digitalisation a priority for your bank?



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

Consumer demand as the key driver of banks' digital transformation

Consumers around the world are quickly becoming digital expecting a new kind of service proposition from banks, fitting to the digital age. In response, banks - and other providers - are assessing, developing and using innovative and technological capabilities (such as open APIs, blockchain, robot-advice and machine learning) to develop new delivery channels as well as to enhance services and products that deepen the relationship with their customers and maximise the customer experience.

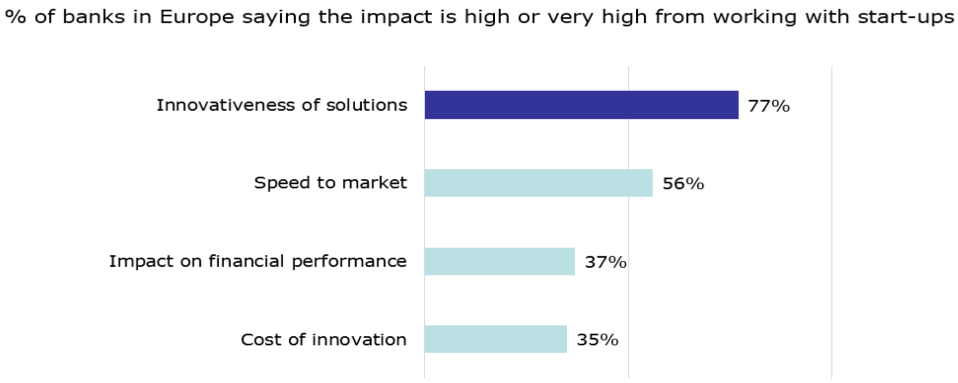
Banks partnering with FinTech Start-ups

Banks have launched incubation and acceleration initiatives, as well as other investment vehicles that harness, foster and scale-up innovation. Networks of established and start-up firms in the FinTech area are emerging around an ecosystem anchored by individual banks. This is leading to vital growth in the technology sector, to job creation and accelerated innovation.

Cooperation and partnership in the banking sector among incumbent banks and new Fintech firms providing innovative products and services to the market is likely to increase. Indeed, the arrival of Fintech start-ups and the establishment of digital platforms has spurred innovation, accelerated the transformation of banks and opened a door to new win-win collaborations.

Some 77% of banks in Europe consider that working with start-ups will have a significant impact on their ability to deliver innovative solutions and more than half of banks recognised the considerable impact on their speed to market with innovations.

Figure 19: Impact on innovation capability



Source: Efma-Infosys Finacle Innovation Survey 2015

Banks have a lot to offer to Fintech start-ups, in particular, specific financial expertise (risk assessment, evaluation and management), scalability owing to their large customer base, as well as many years of experience in providing clients with regulatory-driven high levels of operational security, not to speak of financing needs. The complementary skill sets of banks and Fintech start-ups mean that both are well placed to cooperate.

Distributed Ledger Technology

From certainty and immutability to smart contracts, disintermediation of markets players to compliance benefits, blockchain is emerging as a disruptive force, having the capability of reshaping the financial services industry.

In the banking and financial industry, distributed ledger technology (DLT) may have the potential to introduce a range of benefits for customers, firms and regulators. Primarily, DLT technology models may provide efficiencies in reconciling records both within organisations and across firms, and offer distinctive attributes through the incorporation of tools, such as alternative rules in the underlying protocol, electronic signatures, and smart contracts. Other features that have been attributed to the blockchain technology include the enhancement of security in payments and credit card fraud area through a decentralised transaction, the replacement of trusted third parties, through providing access to all participants in the value chain, a complete automation of transactional procedures, from payment to settlement, and a reduced margin of error through live tracking of transaction network users[1].

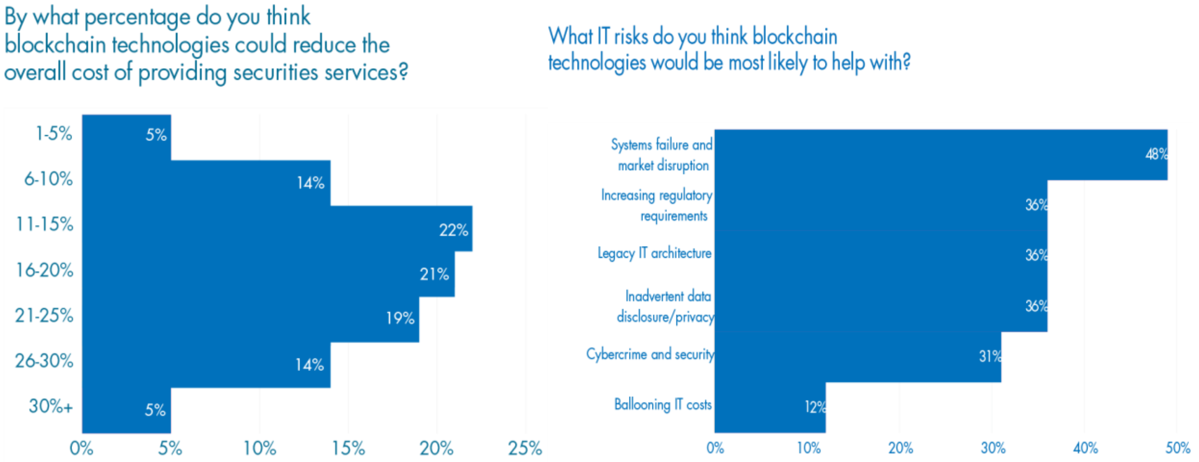
At present, there are 90 central banks across the globe engaged in DLT discussions worldwide, and 90 corporations (financial institutions and banks) have joined blockchain consortia, whilst 80% of banks

[1] Yessi Bello Perez, “Santander: Blockchain Tech Can Save Banks $20 Billion a year,” CoinDesk, June 2015

across the globe are predicted to initiate DLT projects by 2017. In addition, more than 2,500 blockchain-related patents have been filed over the past two years[2].

Yet, it is arguably in the securities services market that blockchain technology may have the greatest potential. According to a recent survey from Deutsche Bank[3], a majority of financial markets players (87%) believe that this technology may completely reshape the settlement models for securities, with clearing and settlement processes becoming more efficient and less costly. In addition, 62% believe the introduction of blockchain technology will produce substantial savings ranging from 11% - 25%, whilst almost half (48%) stress that it will help the industry become more resilient to system failure and market disruption risks.

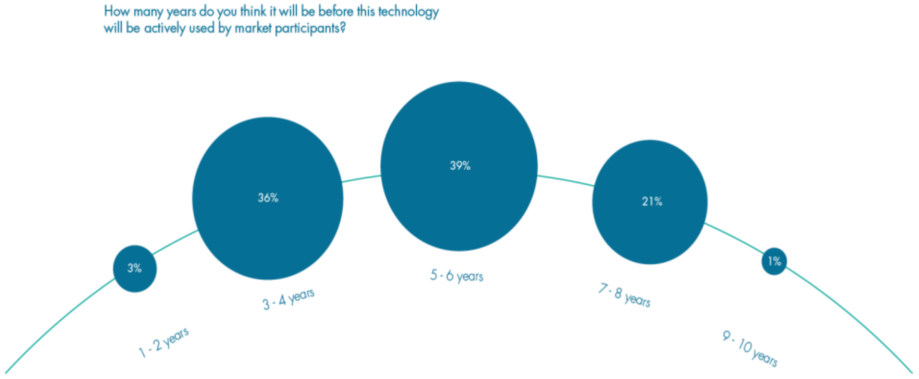
Figure 20:



Source: DB report 2016

Overall, 78% see this technology being used on a regular basis within the next three to six years[2].

Figure 21:



Source: DB report 2016

[2] World Economic Forum, "The Future of Financial Infrastructure: An Ambitious look at How Blockchain can Reshape Financial Services", August 2016.

[3] Deutsche Bank, "Powering the Flow of Global Capital", October 2016.

[2] https://www.db.com/newsroom_news/Deutsche_Bank_Investor_Report.pdf

Chapter 5

Country-by-country overview

Austria

Austria has a highly developed banking sector. The Austrian banking network consists of 723 banks with – besides the widely-used access to online banking – 4,003 branches (June 2016 numbers), one of the densest in Europe (1,826 inhabitants per branch). Employment in the industry reached around 75,000 employees at the end of 2015 after peaking at over 80,000 employees in 2008.

The Austrian banking sector can be divided into seven subsectors, namely joint stock banks and private banks, state mortgage banks, (originally rural) Raiffeisen credit cooperatives, savings banks, (originally commercial) Volksbanken credit cooperatives, building and loan associations and special purpose banks. The biggest sectors are the joint stock banks and private banks and the Raiffeisen sector. The Austrian banks' geographical focus apart from their home country is Central and Eastern Europe (CEE), branching out into Central Eastern and South-Eastern European (CESEE) countries.

The Austrian banking sector's unconsolidated total assets amounted to €859 billion at the end of 2015. Corporate financing of Austrian non-financials is dominated by loans and internal financing. Austrian non-financial corporations continue to benefit from significantly lower funding costs than undertakings in other euro area countries, paying on average between 30-40% less in interest. Financing through bonds and equity instruments have tentatively been gaining ground over the past years.

One noteworthy detail about loans to households used to be the relatively high proportion of foreign currency loans, particularly in Swiss Franc. Owing to interest rate differentials and long-lasting, quite stable exchange rates, foreign currency loans offered lower financing costs for borrowers and used to be a popular financing method. The risks inherent in the currency mismatch between the income of the creditors and the loan and notably the euro's depreciation since the beginning of the financial crisis in 2008 has prompted regulators to introduce stricter rules by considerably tightening standards for granting foreign currency loans. Since then, the value of outstanding foreign currency loans has decreased continuously with the exception of a temporary increase due to the appreciation of the Swiss Franc in spring 2014.

Deposits are the private households' preferred way of holding financial assets in Austria. Insurance products are ranking second, albeit at significantly smaller volumes than deposits. They are followed by stocks and interest-bearing securities.

In March 2012, Austrian authorities came up with a package of 'sustainability-boosting' measures for large and internationally active Austrian banks and their subsidiaries active in Central and Eastern Europe. The ultimate goal is to increase capital buffers, rebalancing the funding position of their exposed subsidiaries and preparation of recovery and resolution plans for potential crisis situations. This goal should be reached, inter alia, by (i) a timely implementation of the Basel III rules, and (ii) making credit conditional on the growth of sustainable local refinancing (comprising mainly local deposits). 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 a certain ratio. These measures reflect the spirit of the Vienna Initiative and promote a sustainable growth model underpinned by strengthened capitalisation, while at the same time proactively preventing pronounced boom-bust cycles.

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 further are in full progress. They are hampered by a general levy for banks to the amount of more than €600 million, in addition to the build-up of the resolution fund and the deposit guarantee fund.

Belgium

The Belgian banking community is characterised by the presence of a large variety of players who are active in different market segments. By the end of 2015, BNP Paribas Fortis, KBC, Belfius and ING Belgium were the four leading banks (with a cumulated balance sheet on a non-consolidated basis of 58% of the sector total) offering an extensive range of services in the field of retail banking, private banking, corporate finance and payment services. To this must be added a number of smaller institutions which are often active in a limited number of market segments.

A number of institutions have specialised in international niche activities, such as Euroclear (one of the world's biggest players in the field of clearing and settlement services), the Bank of New York Mellon (custody) and SWIFT (the global provider of secure financial messaging services, which does not have the legal status of a bank). At the end of 2015, the total number of credit institutions in Belgium amounted to 99.

The Belgian banking community also has a strong international character thanks to its geographical location and the presence of international institutions such as the European Parliament and NATO: 83% of the 99 banks have a foreign origin (i.e. being active in Belgium either as a branch or as a subsidiary of a foreign bank), 17% has Belgian majority shareholding.

At the end of 2015, the number of bank branches in Belgium was about 3,500. If one adds to this the number of points of sales held by independent banking agents, then this number reaches almost 6,600. In addition, there are about 14,000 ATMs, including more than 8,000 cash dispensers. About 55,000 people are bank employees in Belgium, the total number of staff working in the financial sector at large being 125,300 (out of a total Belgian workforce of about 4.5 million people).

At the end of 2015, the Belgian banks' total assets (on a consolidated basis) amounted to €970 billion. Loans granted to households/independent and liberal professions make up the biggest part of those assets (almost one fifth of the total assets), followed by investment in debt securities issued by companies and public sector entities (18%) and corporate lending to non-financial companies and interbank claims (each taking up about respectively 12% and 15% of the total assets).

Traditionally, 64% of the liabilities are made up of customer deposits (including €240 billion saving deposits of Belgian households).

Since the 2008 banking crisis, the banks have reduced their balance sheet total through deleveraging by eliminating domestic or foreign activities or selling/closing subsidiaries and foreign branches. This becomes clearly apparent in the ratio between the Belgian banking sector's balance sheet total on a corporate basis and GDP: at the end of 2007, this ratio amounted to 406%, but by the end of 2015, it had decreased to 266%. For the euro area, this ratio went from 317% to 284%. However, in Belgium, lending to domestic households and non-financial corporations did not suffer from this reduction of the balance sheet, as in fact it had grown considerably through most of this period.

The deleveraging has also entailed a reduction of the exposure to foreign counterparties as well as a return to the principal strategic and domestic markets. There has also been a substantial decrease in the Belgian banks’ leverage (debt to equity ratio) from 28.0 at the end of December 2008 down to 13.7 at the end of December 2015, on a consolidated basis. This has been achieved by both downsizing the volume of exposures and increasing equity capital.

The financial crisis has also led to far-reaching changes in the structure of bank 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) has transferred its competence in the field of micro-prudential supervision to the National Bank of Belgium (NBB, i.e. the central bank), but it continues to take charge of the financial markets and products’ supervision as well as consumer protection in the field of financial services. Moreover, the 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 competence. Since the introduction of the Twin Peaks’ model, the NBB has been given the responsibility for the macro- and micro-prudential supervision of banks and has become the National Resolution Authority as well.

In the fourth quarter of 2014, the introduction of the Single Supervisory Mechanism (SSM) was also a milestone in the change of the supervision landscape and the construction of a real European Banking Union. Meanwhile, the SSM has grown into an established value. Since 2016 this joint supervision has been supplemented by the unified Single Resolution Mechanism (SRM).

Bulgaria

In 2015 the banking system remained stable with growing balance sheet assets and deposits, and improved capital and liquidity positions.

According to the data of the Bulgarian National Bank (BNB i.e. the central bank) the total assets in the banking system increased to €44.75 billion (BGN 87.52 billion) as of end-December 2015 which was an increase of 2.8% compared to 2014. As of 31 December 2015, the share of loans and advances slightly decreased accounting for 61.8% of the total assets, the share of cash rose to 19% and the share of securities remained stable accounting for 12.7% of the banks' total assets. The declining, even negative yields in the euro area, as a result of the European Central Bank's monetary policy, stimulated the Bulgarian banks to deposit significant amounts at the BNB in the form of excess reserves and to invest in government bonds to a lesser extent.

Deposits, accumulated by banks, continued to grow and reached €38.03 billion (BGN 74.37 billion) as of end-December 2015, despite the historically low interest rate levels. This is evidence of the confidence in the system and it is due to the still high propensity towards savings by households and cautious investment approach by non-financial corporations. Approximately two thirds of the deposits are held by the household sector (69.2%).

At the end of December 2015 the total capital adequacy ratio and Tier 1 capital adequacy ratio for the whole banking system was 22.19% and 20.47%, respectively. The liquid asset ratio accounted for 31.6% for the banking system.

Concentration in the sector remains very high with the top five banks holding approximately 57.3% of all assets in the banking system. At the end of 2015 the market share of domestic banks decreased to 23.6%, while the share of the EU subsidiaries continued to grow and reached 71.3%. The remaining 5.1% is the market share of EU and non-EU bank branches. In 2015 credit risk continued to determine the trends in the balance sheets of the 28 credit institutions operating on the market as well as on their behaviour.

In the past year for the preparation for the Asset Quality Review (AQR) and stress tests which were accomplished in the summer of 2016, the banks made efforts to optimise their portfolios mainly regarding the credit risk assessments. Banks used different instruments such as sale of loans and derecognition at the expense of provisions. This action reduced the overall credit portfolio and affected the amount of non-performing loans in the banking system, which kept the tendency for gradual decline. By the end of 2015 the non-performing loans amounted to €2.91 billion (BGN 5.7 billion) and they were entirely covered by the amount of capital above the minimum regulatory requirement of 8% which was €3.58 billion (BGN 7 billion).

Cost management and the change in price strategies allowed most banks to improve their profitability indicators. The net interest income rose by 5.3% to €1.17 billion (BGN 2.77 billion) and the net income from fees and commissions, by 7.4% to €445 million (BGN 890 million). As a result, at the end of December 2015 the net profit in the banking system grew for the second and subsequent year – this time by 20.4% to €458,7 million (BGN 898,4 million) from €381,6 million (BGN 746 million) at the end of 2014. The values of the return on assets and return on equity improved and reached respectively 0.97% and 7.35% as of December 2015.

The BNB interest rate statistics for 2015 registered a rapid decline in the average interest rates on new deposits in all sectors and currencies. The decrease was reflected in the interest rates on loans, which continued declining in 2016, and thus drove the lending activity.

In the course of 2015, the liquidity risk also affected the banks' behaviour due to the uncertainty related to the political situation in Greece. Due to this, in the first half of 2015 the BNB expanded the measures and recommendations to the banks with Greek ownership operating in Bulgaria. The measures were directed to stronger liquidity and capital requirements for those banks. These banks were recommended to decrease the net balance sheet positions to their bank groups, to ensure operational independence regarding their information systems and payment operations, to tighten control over liquidity resources and to prepare contingency plans in case of potential liquidity pressure.

Overall, in 2015 the banking sector operations were determined by financial sector legislative changes and the preparations for the AQR and stress tests. Directive 49/2014 on deposit guarantee schemes and Directive 59/2014 on recovery and resolution of credit institutions and investment firms were implemented in national legislation through the adoption of a new law on deposit insurance and a law on recovery and resolution. The method of calculation of the contributions by the banks to the deposit insurance scheme in the country was changed from proportionate contributions to risk-based contributions, in accordance with the requirements of the Directive. As of the end of 2014 a resolution authority was established by the BNB.

In November 2015 the BNB Governing Council adopted the new Ordinance №21 on the Minimum Required Reserves held by the banks with the BNB which enforces a negative interest rate on banks' excess reserves. This has led to a decline in the banks' reserves held at the BNB since the beginning of 2016 which turned the strong increase trend in the banks' reserves begun at the end of 2014. According to the BNB, data banks' excess reserves at the central bank dropped to 93.5% on an average daily basis in March 2016 compared to 127.8% at the end of December 2015.

Croatia

Key economic trends

The Croatian economic recovery accelerated well above 2% year-on-year in 2016 based on strengthening domestic demand contribution, private consumption and investments, outpacing growth in exports of goods and services that have driven the economy out of recession. Recovery is broad-based in most of the sectors, while tourism contributed strongly as recent investments in new capacities met demand that was amplified with uncertainties among some of the main competitors in the Mediterranean area. While employment is finally growing at a steady pace, there are signs of the labour force fleeing to developed markets as EU accession opened the doors, thus contributing to decline in the unemployment rate.

The economy is still facing macroeconomic imbalances urging for reforms (labour market progress noted, and, an upcoming tax reform) arising from high levels of public, private and external debt. However, trends are now favourable as both general government deficit declined well below 3% of GDP, reaching a position of primary surplus, and public debt stagnates at below 87% of GDP with potential for further decline. The external debt dropped below 100% of GDP declining further on deleveraging in the private sector and improved balance of payment flows with a surplus to be recorded third year in the row.

The monetary policy continues with its setup to preserve stability of the exchange rate while supporting an accommodative stance on money market liquidity to revive weak demand for credit and activities in the private sector.

Structure, assets and liabilities

The Croatian financial system is dominated by universal banks. These are the most important credit institutions (accounting for more than 70% of financial sector assets) and are the most active of all the financial institutions in the country both in terms of the payment system and their presence on the three financial markets (money, foreign exchange and the capital markets) where they represent the most important source of finance for the economy. There are currently 28 banks operating in the market together with five housing savings banks, one small saving bank and several credit unions. The top six banks comprise 93% of market share by assets. Banks' assets are reaching 120% of GDP, declining after banks engaged in intensifying non-performing loan (NPL) restructuring activities (including assets sales) while faced with the Swiss Franc loans' conversion regulation that included write-offs of principal in this portfolio segment. Further assets' sales are likely as regulatory adjustments might increase incentives for NPL resolution in 2017.

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

In terms of infrastructure, the numbers of ATMs, electronic funds transfer at point of sale (EFTPOS) terminals and internet banking users are constantly growing while the brick outlets' network is shrinking slowly. There are 1.1 ATM and 26 EFTPOS terminals per 1,000 inhabitants and 0.28 brick outlets per 1,000 (1 per 3,570). There are two payment cards per inhabitant on the average.

Banking Activity and Performance

The deep recession which lasted from late 2008 to 2014 was reflected in loan portfolios. NPLs reached 17% and started to decline in 2016. Weak demand for loans reflected deleveraging in the private sector, especially among over-indebted corporations which resulted in decline in credit outstanding. Until 2016 the demand for loans was created in the public sector but overall amounts outstanding have declined since 2014, amplified by assets sales, write-offs and Swiss Franc loan conversion (housing loans prevailing in the portfolio). Blurred by these activities, some shy recovery of lending to private sector is looming in 2016, insufficient yet to counter the big impact of portfolio restructuring.

Growth in deposits has slowed recently and has been affected by declining interest rates and tax introduced on interest income, but it is still continuing, driven lately by corporate deposits following recovery in non-financial corporates' performance in the improved economic environment. Such trends are resulting in a loan-to-deposit ratio decline well below 100% during 2016. Deposits in banks still remain the main instrument of savings for most of the households as alternative capital markets' instruments are still not sufficiently attractive to initiate larger flows of deposits to alternative savings or investments products.

Bank capitalisation is among the highest in the EU as capital adequacy ratio consistently outpaces the 20% threshold (with latest figure at 21.8%).

Key initiatives

Banks' performance after recession was very much under the impact of declining margins, rising NPLs, tightening regulation on provisioning and latest Swiss Franc conversion which was conducted on the basis of the law according to the administratively set exchange rate, which created substantial losses for banks. Profitability dipped in 2015 with most of the banks recording losses due to the Swiss Franc conversion, whereas in 2016 profits started to recover following increased write-backs with intensified NPL portfolio sales, company restructuring and growth and some one-off revenues (return on equity reaching double digit levels in the first half of 2016). Non-performing loans have started to decline since mid-2015 following improved management in this area, restructuring efforts and portfolio sales, now at 15% with coverage ratio at 60% and rising continuously.

Key initiatives of Croatian banks are related to the settling of the disputes related to forced Swiss Franc loan conversions, reform of tax regulation in order to enhance incentives for bad loan resolutions and deposit insurance reform in order to bring it in line with EU standards and reduce the cost of regulation.

In addition, the better regulation legislation will be improved, hopefully reinforced, and we will insist on its enforcement by making obligatory impact assessment for all legislation.

Cyprus

Key economic trends

In March 2016, Cyprus managed to conclude successfully its €10 billion three-year macroeconomic adjustment programme provided by the International Monetary Fund (IMF), European Commission and the European Central Bank (ECB). Cyprus therefore becomes the fourth country after Ireland, Spain and Portugal to conclude a euro area bailout. During the economic adjustment programme, Cyprus emerged from the recession, stabilised its financial sector, consolidated its public finances and regained access to international financial markets.

After 14 successive quarters of contraction, growth turned positive in the first quarter of 2015 and has remained positive to date. Real GDP increased by 1.6% in 2015 and is forecasted to be around 2.7% for 2016.

Unemployment, which had reached one of the highest levels in the EU, is beginning to show encouraging signs. After reaching record levels of 16.5% in the fourth quarter of 2013, unemployment began to decline in 2015 and by the third quarter of 2016 had reached 12.1%.

Structure, assets and liabilities

The banking sector in Cyprus comprises domestic banks, international banks with Cyprus-based subsidiaries or branches and co-operative credit institutions (CCIs). Beyond the traditional deposit and lending services, banks in Cyprus operate under the “universal banking model” as they offer a diverse range of products and services. Deposits from customers have traditionally been the main source of funding for banks.

As at the end of 2016 there were 56 authorised credit institutions in Cyprus, consisting of six local authorised credit institutions, the Cooperative Central Bank and 18 affiliated CCIs, four subsidiaries of foreign banks from EU Member States, two subsidiaries of foreign banks from non-EU Member States, eight branches of banks from EU Member States, 15 branches of banks from non-EU Member States and two representative offices. The banking sector in Cyprus operates approximately 550 branches and comprises almost 11,000 employees.

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

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

Following a Government bailout, the Cooperative Sector is majority-owned by the Government. Nonetheless, a plan is under way for its eventual privatisation.

Banking activity and performance

The recovery of the Cypriot financial sector continued throughout 2016. The banking sector has been restructured and recapitalised while, at the same time, the banking regulatory and supervisory regime has been significantly strengthened. The banking sector rests on a much stronger base as far as capitalisation, liquidity and governance are concerned and trust has been restored to a great extent. These developments are reflected by the most recent upgrades of Cyprus banking institutions and of the Cypriot economy by international credit rating agencies, as well as by the gradual reduction of interest rates which are assisting the economic recovery.

Following the crisis of 2013, bank deposits began to stabilise around the end of 2014, and have in fact exhibited a modest increase of 5.5% over the past twelve months up to September 2016. It should be noted that the high level of non-performing loans (NPLs) remains the greatest challenge faced by the banking sector and towards this goal, great efforts are directed to restructure and clean up banks' balance sheets. The Central Bank of Cyprus is closely monitoring this process through the setting of bank-by-bank quarterly restructuring targets and through monitoring the targets to take timely corrective measures. The level of NPLs is progressively decreasing, as evidenced by a reduction of around 10% during the past year (NPLs were reduced to €24.3 billion by August 2016 down from €27.3 billion in September 2015, according to the latest figures released by the Central Bank of Cyprus).

Key initiatives

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

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

Every year, the ACB organises around 30 professional seminars for bank employees which aim to cover the major regulatory and legislative changes as well as to address continuous professional training requirements.

Czech Republic

The situation in the banking sector is closely interlinked with the situation in the real economy. In 2015, the Czech economy grew at a rapid pace of 4.5%, partly driven by one-off favourable factors. However, banks have to cope gradually with a very wide range of new regulatory requirements, when the precise impact of the individual measures, and, the impact of their overall resulting synergy, cannot be accurately estimated. Another challenge for banks is that they must find a balance in a situation where the monetary policy stimulates them to lend while on the other hand the regulatory requirements and macro-prudential policy encourage them to exercise prudence.

The structure of the banking sector remained virtually unchanged in 2015. Towards the end of 2015, a total of 46 entities held banking licences. The structure of the banking sector was created by four large banks, eight medium-sized banks, six small banks, 23 branches of foreign banks and five building societies; 37 entities were controlled by foreign owners including 15 banks and 22 branches. Domestic owners controlled eight banks, two of which were banks co-owned by the State.

Towards the end of 2015, the total value of the banking sector's assets amounted to CZK 5,470 billion (€202.4 billion), which was a year-on-year increase of 3.0%. The banking sector's assets represent 122.2% of GDP. Four large banks (i.e. banks with assets exceeding CZK 250 billion (€9.2 billion) accounted for 59% of the total volume of assets.

The Czech banking sector has long been well capitalised. At the end of 2015, the volume of capital amounted to CZK 420.6 billion (€15.6 billion) which represented an annual increase of 5.9%. In 2015, capital ratios have risen further. Year-end capital adequacy ratio reached 18.41%. Furthermore, 98% of the capital consists of a high-quality Tier 1 capital (Tier 1 capital adequacy ratio stood at 17.95%). Net profit for 2015 increased by 6% and reached CZK 66.9 billion (€2.5 billion). Return on assets reached 1.21% and 16.84% relative to Tier 1 capital.

Good macroeconomic conditions have supported the profitability of the banking sector, while on the other hand the banking sector backed the economic growth by offering loans. The total volume of loans provided by banks grew by 5.6, year-on-year, to CZK 2,782 billion (€103.0 billion) at the end of 2015. The unique position of the Czech banking sector, where there is an excess of deposits over loans, continues to persist. The volume of deposits amounted to CZK 3,520 billion (€130.3 billion) at the end of 2015 exceeding the volume of loans by 26.5%. The excess of deposits over loans is generated by the household sector, where households have saved 52.3% more funds on deposits in domestic banks than they drew in loans. In the corporate sector, the volumes of deposits and loans are more or less balanced.

By the end of 2015, households had CZK 1,235.3 billion (€45.7 billion) in loans from banks, 8.2% more than a year ago. Housing loans dominated - at the end of the year, the volume of bank housing loans which reached CZK 971.8 billion (€EUR 36 billion), representing a year-on-year growth of 8%. Unlike consumer loans, people borrow loans for new housing almost exclusively from banking institutions. During 2015, households drew new loans of CZK 418.7 billion (€15.5 billion), which was 19.3% more than in 2014. Some 70% of new loans in 2015 went to housing.

Towards the end of 2015, households had deposited CZK 1,881.5 billion (€69.6 billion) with banks, i.e. 5.5% more than the year before. Two-thirds of household deposits were non-term deposits. With low interest rates, people prefer the immediate availability of deposited funds.

By the end of 2015, the volume of loans drawn by businesses amounted to CZK 920.9 billion (€34.1 billion), i.e. 5.3% more than at the end of 2014. During the year, businesses drew new loans to the total volume of CZK 607.8 billion (€22.5 billion), which represents a year-on-year increase of 11.6%. More than three-quarters of loans are denominated in CZK, but during the past two years, clients have been gradually increasingly interested in loans in euros. The volume of loans denominated in euros reached CZK 200.6 billion (€7.4 billion) by the end of 2015, i.e. a year-on-year increase of 6.9%.

Thanks to the good condition of the Czech economy the quality of the loan portfolio of Czech firms and households continued to improve. In the corporate sector, the share of non-performing loans (NPLs) decreased to 5.7% by the end of 2015 (compared to 6.6% at year-end 2014). In the household sector, the overall share of NPLs decreased to 4% (4.7% at end of 2014). The best quality loans were mortgage loans, where the share of NPLs stood at only 2.2% at the end of 2015.

Denmark

Economic environment

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

Structure, assets and liabilities

The composition of Danish credit institutions has been evolving over the last decades. Owing to the increase in the consolidation of the Danish financial sector, the number of banks has declined from 185 in 2000 to 80 at the end of 2015, whereas the employment figures have been much more stable. In 2000, 40,900 people were domestically employed in the Danish banks compared to 37,200 at the end of 2015. The Danish banking sector is characterised by a few large international groups and many small institutions.

The financial sector as a whole is managing assets of €973 billion (2015), an increase from €428 billion in 2000 with an annual average growth rate of 5.6%. The Danish banks managed around half of the assets in the sector and in 2015 the assets amounted to €484 billion.

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

Banking activity and performance

Since the beginning of the financial crisis, the Danish banks have slowly recovered. The Danish banks had negative return on equity in 2008 (-2.6%) and in 2009 (-6.5%). Today, the figure has improved: the return on equity was 7.6% in 2015. The increase in earnings is primarily driven by low loan impairment charges, lower costs and higher net fee income.

Danish banks' earnings are, however, challenged by low net interest income which is under pressure from low demand for new loans and low interest rates in line with negative monetary policy interest rates.

Overall, the Danish banking sector is robust, and banks have increased their capitalisation since the beginning of the financial crisis. The Danish banking sector had an overall solvency ratio of 22% in 2015, which is 7.7% higher than in 2008. In addition, the core capital ratio rose from 10.8% in 2008 to 19.8% in 2015.

Key initiatives

Digital banking

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

Basel IV

The Basel Committee on Banking Supervision (BCBS) has submitted a proposal for new recommendations on increased capital requirements for the world's banks. The Danish Bankers' Association (DBA) supports the overall aim of the BCBS to restore confidence in internal models which many banks use for quantifying their required capital for credit risk. However, according to the proposals that are currently being discussed at the BCBS this aim is largely achieved by introducing a capital floor and parameter floor that sacrifices the risk sensitivity of the regulatory framework. If the Basel IV requirements are implemented in their present form they will have extensive consequences for the Danish banks and for these banks' ability to support Danish growth.

Calculations from the DBA, the Association of Danish Mortgage Banks and the Danish Mortgage Banks' Federation show that Danish banks and mortgage institutions will need to raise additional capital in the region of DKK 130 billion, if the Basel IV requirements are introduced in their current form. The DBA also estimates that this would reduce employment in Denmark by approximately 10-15,000 jobs.

Financial education

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

Estonia

The Estonian banking sector consists of 16 banks of which nine are licensed credit institutions in Estonia and seven are operating as branches of foreign credit institutions. Banking sector assets constitute €23.7 billion equivalent to 115% of Estonian GDP. The Estonian banking sector is dominated by Scandinavian banking groups holding 95% of banking sector assets.

The market is chiefly divided between Swedbank, SEB Bank, Nordea Bank and Danske Bank. Banks are serving 2.2 million corporate customers through 165 bank branches. Estonian customers are operating 1.8 active current accounts per inhabitant and 1.25 active internet bank accounts per inhabitant. Estonian banks have issued 1.4 bank cards per inhabitant, 80% of issued cards are debit cards, and 20% credit cards. 60% of retail payments are initiated by bank cards and more than 99% of payment orders have been initiated electronically since 2009. Only 4% of the population receives income entirely or partially in cash.

Banks hold €16 billion worth of deposits and operate loan portfolios to the value of €17.5 billion. The growth of deposits in the real sector in recent years has allowed banks operating in Estonia to base their financing mainly on domestic retail deposits. Cash flows from domestic repayments of loans and the increased deposits from the real sector are enough to finance the current loan turnover. Annual growth in the stock of loans and leases taken from banks operating in Estonia was 8.26% for 2015 year-on-year. As borrowing from abroad by companies has not increased at the same rate, total corporate debt liabilities were 2.5% larger in the second quarter than a year earlier. However, corporate borrowing particularly grew in the first half of 2016, and the annual growth in debt liabilities implied by the past two quarters was around 7%.

Borrowing activity has increased in most areas but particularly in the real estate and industrial sectors. Loans issued to real estate and construction sector continue to account for a significant share of more than 34% of the corporate loan portfolio. However, the banks are currently not actively increasing the volume of loans to the real estate and construction sectors and their attitude towards financing real estate development remains quite conservative. In addition, the share of loans to companies in real estate and construction in the corporate loan portfolio of banks operating in Estonia is comparable to the average for the euro area. Housing loans account for about 40% of the loans to the non-financial sector, which is slightly above the average for the countries in the EU, but as a share of total assets, the volume of these loans is one of the largest in the EU. This is a reflection of the universal banking model used by banks in Estonia, the concentration of the domestic market and the preference of households for home-ownership over renting. It also indicates that the operations of banks in Estonia are less diversified than is the average for the EU. Credit growth continues to be supported by very low base interest rates and by the relatively strong competition in the corporate loan market, which has kept interest margins low.

The profitability of the Estonian banking sector has been among the strongest in the countries of the EU. The Estonian banking sector is relatively cost-efficient, which may be partly because the expenses of the local units of foreign banking groups can be reflected at group level rather than local level. Profitability is also aided by smaller loan losses than in other countries and quite large spreads between interest income and interest expenses.

The strong growth in domestic deposits has helped to reduce the vulnerability that comes from possible changes in the cost of funds from parent banks. This has lowered the need to use funds from parent banks to finance the operations of the banking sector.

Finland

Regardless of the weak economic situation and the challenging market environment, the Finnish banking sector maintained good results and further strengthened its capital adequacy in 2015. Banks adapted to changes by cutting back on personnel, closing offices, making corporate restructurings and renewing their business models.

In 2015, one of the three largest banking groups in Finland, the Nordea group, made preparations that would merge the Finnish, Norwegian and Danish subsidiaries into the Swedish parent company and turn them into branches. In March 2016, the Nordea annual general meeting approved the plan with implementation of the mergers planned for early 2017.

At the end of 2015, there were 281 credit institutions operating in Finland, ten fewer than the previous year. Finnish banking groups employed about 27,000 persons at the end of 2015 including those who work in insurance and asset management, if the parent group has parts that provide these services, and the employees in branches of Finnish banking groups' abroad. Finnish branches of foreign deposit-taking banks employed about 1,200 persons by the end of 2015. At the end of 2015, Finnish banking groups had 1,039 offices in Finland, 89 offices fewer than the previous year. In addition, branches of foreign deposit banks had 73 offices in Finland.

In 2015, the corporate loan portfolio (housing companies included) grew by 6% in Finland. This surpassed average growth in the euro area. The average interest rate of new corporate loans was 1.78% at the end of 2015. According to analysis performed by Finance Finland (FFI), the demand for corporate loans slightly picked up in 2015 but still remained on a weak level.

Annual growth of the housing loan portfolio was 2.5% in 2015. Certain banks' grace period campaign – highly popular among households – was a major contributing factor to this growth rate, but it was helped by the low interest rate level and low loan margins. New housing loans were taken out for about €16 billion in 2015, which is over €1 billion more than the previous year. According to an FFI survey, the demand for housing loans followed a rising trend in 2015 until it made a slight dip towards the end of the year.

Due to the exceptionally low market rates, the interest rate of new housing loans nearly consisted entirely of the margin at the end of 2015. The most common reference rates for housing loans, Euribor rates, have been negative for some time now. Loan margins have also been shrinking. Finns pay extremely low interest rates for housing loans compared to the euro area average: the average interest rate of new housing loans was 1.3% in Finland and 2.3% in the euro area.

According to a survey by the FFI, the average size of a housing loan has decreased over the last two years. The average repayment period of loans shortened in 2014 but grew back to above 17 years in 2015. The most typical repayment period for a new loan is 20 years.

Aggregate operating profits of the banking sector increased by an impressive 18% in 2014. Most banks managed to raise their operating profits. There is divergence in the results of individual credit institutions, however. The exceptionally low interest rate level puts a strain on banks' net interest income. It shrank about 5% from the previous year. The improved profitability of the banking sector was, instead, mostly based on commission income, i.e. securities trading and investment profits. Banks' aggregate operating costs decreased by 6%. This partially balanced out the negative effect of shrinking net interest income. The significant reduction in costs was partly due to banks no longer paying a bank tax in 2015. Banks have also succeeded in cutting back on their expenditures. Expenditures will nevertheless rise in banks' other operations as they prepare for changes in the operating environment. Impairment losses grew by 14% to a total of €211 million in 2015. They are still at a very low level in relation to the credit portfolio at 0.11%.

According to the FFI's analysis, corporate funding was taken mainly for financial restructurings and working capital, and investments remained sparse.

We are carrying out various measures for the promotion of financial literacy and working together across sector borders with different sector participants. Our actions are:

- "Zaldo – tame your financial monster", a game and website to teach young people the management of personal finances;
- students compete for the title of the year's "Economic Guru"; the national competition is aimed at upper secondary schools;
- teaching teachers - "Learning Finances" is a tour of high-level experts who train teachers in current economic issues.

The new EU Capital Requirements Regulation (CRR) included the development of the liquidity coverage ratio (LCR), which has been in gradual implementation since October 2015. The LCR applies to all EU banks, and its purpose is to ensure that banks have a sufficient amount of liquid assets to endure net cash outflows caused by a 30-day stress event. Although the current LCR requirement is only 60%, nearly all Finnish banks' ratios already exceed 100%, which will be a future requirement.

Banks' general capital adequacy requirements have become stricter in recent years with new banking regulation. As part of the new regulation, the Finnish Financial Supervisory Authority (FIN-FSA) decided to set additional capital requirements (O-SII buffers) to systemically significant credit institutions (Nordea Bank Finland, OP Financial Group, Danske Bank and Municipality Finance). The requirements entered into force at the start of 2016. However, credit institutions' core capital had already matched the requirements before this date. On a general level, the stricter capital adequacy requirements and increased regulation are reflected in banks' growing expenses and tighter lending conditions. Banks operating in Finland have good capital adequacy, however, enabling access to inexpensive funding, which supports their competitiveness. The strength of the banking sector has enabled the growth of lending in Finland, thereby supporting the real economy in the still-continuing challenging economic conditions.

France

Overview of the French banking industry

The banking sector is one of France's main economic assets according to the OECD. In January 2016, the French banking industry numbered 378 banks. Financial corporations account for 4.5% of the total value added in France, of which approximately 60% come from the banking industry. There are five French banks among the 35 largest banks in the world in terms of Tier 1 capital. The banking industry employed more than 370,000 people at the end of 2015, representing 2.3% of the private workforce in mainland France.

The results of the combined asset quality assessment and stress testing, conducted by the European Banking Authority and the European Central Bank, demonstrate the high level of capitalisation of French banks. The aggregate common equity Tier 1 capital (CET 1) of French banks, calculated according to CRD IV/CRR rules, stands at 12.6% at the end of 2015, which places them among the most resilient banks in the Eurozone.

The six largest French banking groups, which mostly operate according to the universal banking model, reported a strong financial performance in 2015, with total net banking income of €146.3 billion (up 7.3% compared to last year), of which retail banking activities account for 67.1%, a total cost of risk of €12.9 billion (up 2.2%) and group net income of €23.7 euros (up 65.9%).

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

French banks at the core of financing the economy

Regulatory changes and advances in technology are prompting banks to transform and adjust their models for financing the economy. Despite these hurdles, French banks continue to finance businesses and households. At the end of 2015, outstanding loans to the economy stood at €2,092 billion, up by 4.0% year-on-year.

Outstanding loans to businesses stood at €874 billion at the end of December 2015, up by 4.2% year-on-year. Investment outstanding loans were the fastest-growing segment, at €605 billion (+3.1%). Short-term loans rose by 6.6%.

SMEs are the primary beneficiaries of bank lending. Loans to SMEs accounted for 43% of total loans granted to businesses in December 2015. Total outstanding loans to these businesses rose by 2.9% year-on-year. Applications for loans by SMEs were very broadly approved, with nine out of ten SMEs obtaining the investment loans they requested and eight out of ten SMEs receiving the short-term loans requested in the last quarter of 2015. However, demand for loans remained low in 2015: only 23% of SMEs sought an investment loan and 7% requested short-term loans.

French banks also actively finance the projects of French retail customers. Outstanding household loans stood at €1,055 billion at the end of December 2015, up 4.0% year-on-year. Most household loans were home loans, representing €866 billion (up 3.9% year-on-year).

The financing model is evolving

Businesses are increasingly using the financial markets and banks are actively helping them find new sources of financing. Out of total corporate financing of €1,428 billion as of end-December 2015, the proportion of bank lending to market financing was 61% to 39%, compared with 70% to 30% at end-2009.

Germany

Economic Environment

The economy in Germany is in a moderate upswing with annual growth rates of around 1.5%-1.75%. The growth is driven – among other things – by favourable developments on the labour market (unemployment has fallen to its lowest level for 25 years). A clear weakness in the economic picture is investment. Investment in machinery and equipment, especially, is suffering from comparatively weak performance.

Structure, assets and liabilities

Germany's banking system comprises three pillars — private commercial banks, public-sector banks, and cooperative banks — distinguished by the legal form and ownership structure.

The private-owned commercial banks represent the largest segment by assets, accounting for 39% of total assets in the banking system. An important feature of the private banks is that they compete keenly not only with banks in other sectors of the industry, but also among themselves. The private banks play a key role for the German export economy, they are involved in 80% of German exports and maintain almost three quarters of the German banking industry's foreign network.

The public banking sector comprises savings banks (Sparkassen), Landesbanken, and DekaBank which acts as the central asset manager of the Savings Banks Finance Group, representing 27% of total banks' assets. There are currently 413 savings banks. They are normally organised as publiclaw corporations with local governments as their guarantors/owners. Their business is limited to the area controlled by their local government owners. Other than this regional focus, their business does not differ in any way from that of the private commercial banks. As a result of the so-called regional principle, savings banks do not compete with one another.

Landesbanken were originally designed to act as central banks for the savings banks. In recent years, however, they have been increasingly involved in wholesale funding, investment banking, and international business activities, thus directly competing with commercial banks. The eight Landesbanken at present are owned by the federal states and the regional associations of the savings banks.

In the past, savings banks and Landesbanken were backed by state guarantees (Gewährträgerhaftung and Anstaltslast). The state guarantees were of key importance to Landesbanken since they enabled them to obtain AAA ratings and lower their funding costs. These guarantees were terminated in July 2005. Grandfathering arrangements remain valid until end-2015, however. Current German law does not allow privately owned banks to have stakes in publicly owned banks (like most savings banks). However, some Landesbanken and savings banks have bought private banks. The level of public involvement in the system therefore continues to be much higher than in other countries of the EU.

The cooperative sector consists of around 1,000 cooperative banks (Volks- und Raiffeisenbanken) and one central cooperative bank (DZ Bank AG). It accounts for 52% of institutions by number and 14% of total bank assets. The cooperative banks are owned by their members, who are usually their depositors and borrowers as well. By virtue of their legal form, cooperative banks have a mandate to support their members, who represent about half of their customers. But cooperative banks also provide banking services to the general public. Like the savings banks, cooperative banks have a regional focus and are subject to the regional principle.

Banking activity and performance

The number of banks in Germany has dropped sharply in recent years, and by 48% since 1995. Consolidation to achieve economies of scale has taken place largely within the existing pillars. In most cases in the savings bank and cooperative sectors (contrary to mergers in the private sector), consolidation has been the result of stress rather than proactive business considerations. Pressure to further consolidate in the coming years stems from the low interest rate environment and banking regulation in recent years such as Basel III which increased banks' capital requirements substantially. German banks fear that especially real estate and corporate finance could be particularly affected and could seriously restrict banks' lending capacity.

Nevertheless, despite the low interest rates and the overall extraordinarily favourable financing conditions, lending to companies and self-employed has only slightly grown by 1.6% from €839 billion in 2014 to €847 billion in 2015. This was because of companies' strong in-house financing capabilities and their low propensity to invest.

The very low and partly negative interest rates at present decrease profit opportunities for banks, and increase the risk of distortions and price bubbles as well as the danger of zombie banks and firms. For German banks the negative deposit rate of the European Central Bank is a special tax with monthly tax earnings of around €350 million from all European banks. At the present level, further easing of monetary policy cannot lead to positive impulses anymore.

Key initiatives

Paydirekt – new online payment scheme operated by German banks

At the end of 2015, Germany's private, cooperative, and savings banks launched a new online payment scheme called Paydirekt. Through this industry-wide cooperation, the banks offer consumers and merchants a joint payment scheme enabling those who shop online to pay easily, securely and directly from their own bank account. The scheme provides both protection for buyers and a payment guarantee for merchants and is potentially available to over 50 million bank account holders.

Financial education

In Germany, schools and education policy are the responsibility of the 16 federal states. Therefore, the country has no centrally designed, standardised school curriculum, but 16 different ones. Normally, in schools, financial education is integrated into the syllabus of subjects such as civics, social studies, consumer education or political science and economics. However, starting with the 2016/17 academic year, Baden-Württemberg will be the first federal state to place a subject called economics, careers and studies' orientation on the curriculum of all non-vocational schools. The Association of German Banks has championed the promotion of economic and financial literacy in German schools for nearly 30 years. It has created an extensive programme called Schul | Bank expressly for this purpose. It consists of a wide range of teaching material for economic and financial education, quizzes on economics, finance and money management, and teaching modules for direct use in the classroom on bank accounts and cards, saving and investing, and loans and financing. Moreover, the Association of German Banks organises the Schul | Banker competition: a bank management game played by over 4,000 students.

Greece

Economic environment

Greece achieved a primary surplus of 0.2% of GDP in 2015, overachieving the primary balance target of -0.25% of GDP, which revealed a more resilient economy than expected in 2015. Growth is projected to turn positive in the second half of 2016, after a deep and prolonged recession, as recovering confidence boosts investment and consumption and improved competitiveness raises exports. The unemployment rate is still very high, a fact which causes serious social problems, however according to recent forecasts there are indications that it is now gradually receding.

Structure of the Greek Banking System

By the third quarter of 2016 the Greek banking sector consisted of:

- 37 credit institutions (Dec-2009: 65),
- 2,547 branches (Dec-4,079),
- 46,095 employees (Dec-65,682), and
- €369 billion total assets (Dec-€491 billion).

There are four main categories of credit institutions operating in Greece:

    - eight commercial credit institutions incorporated in Greece and operating under a licence by the Bank of Greece (the central bank), four of which are systemically important and since November 2014 are supervised directly by the European Central Bank (ECB);
    - nine cooperative banks incorporated in Greece and operating under a licence by the Bank of Greece;
- the branches of 16 credit institutions in other EU Member States; and
- the branches of four credit institutions in third countries (outside the EU).

In December 2015, the capital adequacy ratio of the Greek banking system was raised to 16.5% compared to 14.1% in December 2014. By the end of the year, Greece's four systemically important credit institutions managed to cover the capital needs identified by the ECB’s stress tests and to become successfully recapitalised. According to the Bank of Greece, the necessary funds came mainly from (a) foreign investors, who placed around €5.3 billion, (b) capital mitigating actions amounting to €0.6 billion, and (c) liability management exercises (voluntary bond swap offers to bank bondholders) that yielded about €2.7 billion. In two cases that additional funds were needed, they were drawn from the Hellenic Financial Stability Fund (public funds).

Deposits and bank credit

The market share of the five largest credit institutions in total assets have increased significantly since 2009 mainly due to numerous acquisitions and resolution measures taking place during the last five years. In 2015 the concentration rate reached 95.2% compared to approximately 69.2% in 2009.

Deposits and repos of corporations and households (private sector) in monetary financial institutions (MFIs) in Greece (excluding the Bank of Greece) have remained almost unchanged since 2015 (€123.5 billion in

September 2016 compared to €121.7 billion in September 2015) mainly due to the imposition of restrictions on cash withdrawals and capital transfers (capital controls) in June 2015, which prevented the deposit outflows from the credit institutions operating in Greece. However, since 2009 deposits and repos of the private sector in MFIs in Greece (excluding the Bank of Greece) have decreased by 48%.

Bank credit to domestic corporations and households (private sector) in MFIs in Greece (excluding the Bank of Greece) have decreased by 22%, approximately, since 2009 following a gradual reduction from €253.4 billion in 2009 to €198.4 billion by September 2016. Though the reduction rate is high, the pace at which it is happening is gradually diminishing.

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

Non-Performing Loans

Apart from the main challenges of the Greek banking sector, which are the maintenance of its capital adequacy ratios higher than the regulatory minimum requirements and the preservation of its liquidity, Greek credit institutions still have to manage the large stock of non-performing exposures (NPEs), which increased to 44.2% in December 2015, from 39.9% in December 2014. The highest percentage of NPEs, in each individual loan category, recorded in consumer credit (54.7%) followed by corporate credit (43.8%) and mortgage credit (41%). The coverage ratio of NPEs increased to 50.1% in December 2015 from 44% in December 2014. From the beginning of 2016, Greek credit institutions intensified their efforts towards more efficient NPE management. The effort was also supported by a newly established legal framework which is expected to contribute to a gradual decline in the NPE ratio.

Hungary

The stability of the Hungarian economy has improved significantly in recent years. In 2016 the country's economic growth has become stable, it is expected to be between 2-2.5%, although it is slightly below growth in the northern part of the Central and Eastern Europe (CEE) region. Domestic consumption started to take over as main driver of growth, but the contribution of net export is still important. Private sector's fixed capital formation is lagging behind.

Unemployment continued to fall and a structural lack of skilled labour force started to be an obstacle for growth in more industries and local regions. A considerable increase of real wages is an immediate response and, in addition, the government is considering cutting back the taxes and contributions, burdening labour.

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

The surplus on balance of payments, the limited central budget deficit and decreasing foreign exposures among state and private debts moderated further the financial vulnerability of the country and opened some room for the government to think of potential fiscal stimuli in addition to the efficient use of EU structural funds.

The penetration of banking is below the EU average, the sector's total assets are 104% of the annual GDP.

The Hungarian banking sector consists of 119 institutions. Among them 48 are banks (38 commercial banks - 28 headquartered locally and 10 branches of foreign commercial banks - 10 specialised credit institutions such as mortgage banks, building societies, EXIM and development banks) and 71 credit or saving cooperatives.

The banks manage 96.3% of the total assets, keep 97.1% of loans and 93.8% of the deposits and represent 97.4% of the total equity of the banking sector.

At the beginning of 2016, 53% of the banking sector's direct stake was kept by domestic entities with four-fifths in the hands of the state. Owing to two big merger and acquisitions transactions during the year (sale of a large bank after portfolio cleaning under bank resolution and the State buy-in of the Hungarian Erste Bank in line with the MoU between European Bank for Reconstruction and Development and the Hungarian government), the domestic stake decreased to 46%, half of which remained with the State.

The banking sector has 2,639 branches and employs around 37,500 people (0.85% of the total employment in Hungary). For the country's population of 9.38 million in 2016, there are 10.4 million bank accounts, 5,000 ATMs and 84,700 POS terminals.

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

In 2016 the deleveraging of lending to non-financial corporate sector has practically stopped, by year-end the decline is expected to be below 1%. On the other hand, the exposures in the household sector continued to decline, although the new exposures started to increase. SME lending increased by 5% in the first half of 2016, the programmes of Magyar Nemzeti Bank (MNB, the central bank) were significant contributors.

It is worthwhile noting that the MNB's "self-financing" programme forced the banks to reallocate their free liquidity from the MNB's key monetary instrument (3-month deposits) to other liquid assets, especially to treasury securities whose volume increased more than 10% in 2016.

The deposit volume of the banking sector was stagnating (had decreased to below 1%) in total. Domestic sectors had reduced their balances (especially the non-financial corporates) that were substituted by foreign sector's deposit taking.

The total payment turnover in Hungary for 2016 is expected to be €2.3 trillion, 9.4% higher compared to 2015.

The capital position of the Hungarian banking sector is stable. Tier 1 capital adequacy ratio (CAR) is over 18%, while the total CAR is close to 21%. The equity per total asset ratio is almost 11%.

By year-end 2016, the expected profitability will be historically the highest in nominal terms, mainly owing to extraordinary or external factors. Major extra contributors to the unexpectedly good performance are the good profitability of local banks' foreign affiliates, releasing impairments and sale of stakes in Visa. Including the above listed extra items the return on equity is expected to be between 15-18% by year-end.

Key initiatives

Although the Hungarian banking sector was amongst those cutting back its physical network the most significantly in the last three years it is slightly behind the EU average in terms of the application of state-of-art digital solutions in banking. One reason is that the compliance with the government measures over the last two years (especially the retail loan settlement and conversion-related issues) occupied the credit institutions IT capacity to a significant extent. From 2016 the banks were able to allocate more skills for the front-end and workflow-related IT developments involving new technologies.

The MNB has two programmes aiming to facilitate SME financing. The Funding for Growth Scheme provides direct refinancing for banks, free of charge, that can be transferred to SMEs' bearing the credit risk by the banks at a maximum of a 2.5% interest rate. The programme is in the final stage and is gradually being phased out. The other programme provides interest rate swap deals at a preferential rate to those banks providing longer-term financing to SMEs on the basis of their commitments to the increase of such exposures. In addition, a specific line for making deposits in the central bank is also available based on this commitment. These facilities are widely used by the credit institutions.

Based on the previous year's efforts of the Hungarian banking sector, under the umbrella of the EBF's money week programme, remarkable achievements have been accomplished this year. The programme managed to involve the Ministry in charge of education in the organisation and execution of the programme, which ensured wide scope including primary and secondary schools. Furthermore, the Ministry in charge of financial education took part in the events and decided to develop additional contemporary elements. The central bank fund, established for promoting financial education also played an important role in the Hungarian programmes. What is more, under its arrangement a study book was produced for secondary schools which can be used by the schools in question to build this subject into their curriculum.

Iceland

Although the Icelandic banking sector was hit hard during the financial crisis of 2008 the transformation and restructuring of the banks laid solid foundations for the continuation of highly developed banking services. The commercial banking sector now consists of three universal banks, one investment bank, and three small savings banks that operate in the rural areas. Total assets amounted to ISK 3.223 billion or 160% of GDP in 2014. Total loans in the banking sector amount to ISK 2,523 billion. The banks are predominantly funded with domestic deposits that are around ISK 1,802 billion or little less than 100% of GDP. Bond issuance has been increasing over the last few years: first and foremost the issuance of contingent and covered bonds. Icelandic banks have also sold bonds in the international market in recent years and expectations are that international issuance will increase after the final steps in lifting of capital controls have be taken.

All of the major banks have been profitable over the last five years but with irregular factors, such as sale of assets and revaluation of loan books contributing to the return on equity. The average interest rate margin has risen from the pre-crisis level reflecting partly the increased share of retail deposits in bank funding. Capital adequacy ratios (CAR) have risen well above the 16% requirement by the regulator and are now generally in the 20-25% range of risk-weighted assets.

All of the major banks have been increasing their funding on European bond markets and that trend has been strengthened with significant increases in their credit ratings in 2016.

The Icelandic economy has been recording a healthy GDP growth in recent years spurred on by a significant increase in tourism along with contribution from the other fields of the export sector. This has led to the appreciation of the Icelandic Króna but the economy still records a healthy surplus when it comes to balance of payments.

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

Lifting of capital controls

The Government announced in June 2015 a comprehensive plan to resolve the overhang of international assets in the Icelandic economy which the crisis of 2008 created. These assets amount to 60% of GDP and the largest share is owned by estates of the banks that failed in 2008. The solution of this problem was a precondition for lifting the capital controls that have been in place since late 2008. A new tax was adopted to be imposed on the estates of failed banks, a so-called stability tax. The tax was a one-off tax of 39% that was applied to the assets of the estates at the end of 2015. But since the estates completed composition agreements prior to the end of 2015 and consequently fulfilled the so-called 'stability-criteria' defined by the Icelandic authorities, including financial contributions made to the Icelandic Treasury, they avoided paying the stability tax. Those payments released the remaining assets of the estates of the failed banks and granted the estate exemptions from the capital controls, effectively allowing estates to pay out assets of the estates to the domestic and foreign owners of the estates.

With that hurdle out of the way the government has introduced legislation that will be effective from the beginning of the year 2017 that removes capital controls for individuals and companies with notable exemptions.

Ownership

As of October 2015 the ownership of two of the major three banks is primarily in the hands of the Icelandic government. The third major bank is owned by the estate of the predecessor who is planning its sale.

Financial education

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

Ireland

Economic Trends

The Central Statistics Office (CSO) reported a 26.3% jump in GDP – GNP was up 18.3% - in 2015. The data is prepared in line with Eurostat requirements but, the CSO has acknowledged that the economic growth figures may be distorted by the "effects of depreciation and the net effect of profits of multi-national entities" in a small open economy such as Ireland. A separate measure prepared by the CSO where these effects are removed showed GDP growth of 6.4% in 2015.

The improvement in the Irish economy is most evident in employment where unemployed fell to 8.7% in Q4 2015, the lowest level since Q4 2008.

The Banking Sector in Ireland

Credit institutions in Ireland employed some 27,100 people at the end of 2015. Gross value added (GVA) by the banking sector was estimated at €5.6 billion in 2012, equivalent to 5.5% of total GVA by businesses (excluding agriculture) in Ireland, according to the Central Statistics Office.

There were 20 banks and building societies which had significant business with Irish resident household or non-financial corporate credit or deposit markets at the end of 2015, according to the Central Bank of Ireland (CBI). These included institutions authorised under Irish legislation and institutions authorised in another Member State of the European Economic Area and operating in Ireland on a branch basis. Two Irish banking groups (Allied Irish Banks - AIB and (Permanent TSB) are majority-owned by the Irish government, while the government also holds a minority stake in Bank of Ireland. There were a further 40 banks with mainly international business.

The Government established the National Asset Management Agency (Nama) in 2009 to acquire, manage and gradually reduce problem property-related loans from Irish financial institutions. Nama aims to redeem most of the bonds used to buy the debts by 2018 with the remainder redeemed by 2020. In 2015, the government launched the Strategic Banking Corporation of Ireland, which provides wholesale funding to banks and non-bank financial institutions for on-lending to small and medium-sized enterprises (SMEs).

Credit institutions in Ireland include more than 350 credit unions, which are not-for-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 Credit Union Restructuring Board is a statutory body established to facilitate and oversee the restructuring of credit unions. By the end of 2016, the CBI expects the number of active credit unions to drop to about 280.

Credit unions managed some €14 billion in assets at the end of 2015, compared with €364 billion for domestically-oriented institutions and €236 billion for internationally-oriented institutions.

On-balance sheet loans outstanding to Irish resident private-sector enterprises (excluding financial intermediation) totalled €49.7 billion at the end of 2015, of which €33.6 billion was outstanding to SMEs. Housing loans of €77 billion were on the balance sheets of credit institutions, with a further €33.6 billion in securitised loans. Non-mortgage consumer credit €11.2 billion was outstanding as well as €3.7 billion in other loans.

Outstanding credit institution loan balances have declined in recent years as both businesses and consumers deleverage, but gross new lending grew strongly in 2015: new residential mortgage lending rose by 26% year-on-year to €4.9 billion, while new lending to non-financial SMEs rose by 24% year-on-year to €3.4 billion.

Credit institution deposits also grew, with private household deposits up 3.6% to €89.1 billion at the end of 2014 and deposits of Irish resident private-sector enterprises (excluding financial intermediation) up by 7% to €48.2 billion.

An Post, the State-owned postal service operator, provides a range of financial services and offers some cash-based banking services in its offices to customers of partner banks. By the end of 2015, some €19.4 billion (€19.1 billion in 2014) was held in national savings schemes and post office savings accounts, administered by An Post on behalf of the National Treasury Management Agency.

Ireland has emerged as a major international financial services centre. It was the world's seventh-largest exporter of fee-based financial services and insurance services in 2015 according to UNCTAD estimates. 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.

Italy

Economic environment

In 2015, the Italian economy returned to growth for the first time since the beginning of the sovereign debt crisis, although at a still moderate pace (0.8%) owing to the strong monetary expansion, a fiscal policy conducive to growth and the fall in oil prices.

Italy's economic recovery continues in 2016 but remains stunted. After stalling in the second quarter, economic activity appears to have returned to slight growth in the third quarter-on-quarter up 0.3%; year-on-year up 0.9%, according to the latest data.

Structure, assets and liabilities

Total assets of the Italian banking sector stood at about €3,915 billion at the end of 2015. Capital and reserves amounted to €448.5 billion (2015 year-end numbers).

The Italian banking sector is totally private and is highly diversified in terms of bank size and legal form. At the end of 2015 Italy had a total of 643 banks of which 139 banks belonged to 75 banking groups, 424 standalone banks, and 80 branches of foreign banks. Last year, the number of bank branches fell to 30,258 from 30,723 of the previous year. At the end of 2015, the number of bank employees fell to 298,575 (306,607 in 2013).

Banking activity and performance

Italian banks basically adopt traditional banking models, which consist mainly in raising funds from customers and lending to firms and households.

The improvement in the short-term economic outlook was reflected in the activity of Italian banks. Lending has continued to recover gradually, thanks in part to the ultra-accommodative monetary policy stance. Bank lending stabilised at the end of 2015 and, for the first time in four years, rose slightly in the early months of 2016. Lending to the non-financial private sector is growing at a modest pace, though with more strength in the sectors where the economic recovery has taken firmer root. Signs of improvement in loan dynamics have appeared as indicated by the strong increase in the flows of new loans to households.

In September 2016, the loans to customers granted by the banks operating in Italy, totalling €1,804 billion was higher by nearly €150 billion than the total amount of customer deposits, totalling €1,654 billion.

In Italy deposits (current accounts, certificates of deposit, and repurchase agreements) increased in late September 2016 by about €46 billion compared to the previous year (year-on-year up 3.6%), while medium and long-term funding confirmed a year-on-year decrease. Since late 2007, before the onset of the crisis, to date, customers' deposits have risen from €1,513 billion to €1,654 billion, an increase - in absolute terms - of more than €141 billion.

In recent years, Italian banks' profitability has been squeezed by the need to adjust the value of non-performing loans (NPLs) that are largely due to the legacy of the long and deep recession. The economic recovery is now being reflected in a significant reduction in the flow of NPLs.

Looking at bad debts alone, namely the most delinquent component of total NPLs, the net value is about €85 billion in September 2016 (compared to €89 billion in December 2015). The issue of impaired loans is not an emergency for the banking system, as most of bad debts are concentrated in banks in good financial condition.

In 2015, profitability of the Italian banking sector, while still below the levels recorded before the global financial crisis, turned positive again: return on equity, net of goodwill impairments, jumped to 3.1% (4.6% for the five largest groups) compared with -0.3% in 2014 (-1.8% for the five largest groups). The improvement stemmed mainly from the growth in fee income, mainly in connection with asset management, and from the decrease in write-downs favoured by the improvement in economic activity and in the firm’s financial conditions.

At the end of 2015 Italian banks’ common equity Tier 1 capital (CET1) ratio was equal on average to 12.3% of risk-weighted assets, from 7% at the end of 2007. For significant banks the CET 1 ratio was 11.5%, about two percentage points lower than the average found by the European Banking Authority for a sample of large European banks.

The relevant capital strengthening of Italian banks is continuing: from 2007 to 2016 they raised about €56 billion in capital; in 2015 about €4 billion in additional capital was injected.

Key initiatives

Over the last two years, the Italian Government introduced a series of systemic reforms aimed at facilitating the consolidation of the sector (cooperative banks (Popolari) reform and mutual banks (Banche de Credito Cooperativo) reform) and speeding up credit recovery.

As a result of the reform of Italy’s cooperative banks, Banche Popolari with more than €8 billion in assets must change their governance structure and become regular joint stock companies by 31 December 2016.

The mutual bank reform (Banche di Credito Cooperativo) ratified in April 2016, would have an impact on 365 banks (as at December 2015) and provide for the creation of mutual banking groups as a means to encourage consolidation in the sector, economies of scale, and capital strengthening.

One factor that until now has played a role in the increase of the stock of NPLs has been the slowness of insolvency and recovery procedures. Legislative reforms introduced in the summer 2015 and in May 2016 serve to speed them up. The reduction of problematic loans is expected to benefit from a number of initiatives recently introduced in Italy: 1) a guarantee scheme for securitised bad debts (GACS) which enable Italian banks to securitise and offload bad debts with a State guarantee in a way not considered State aid; and 2) an alternative investment fund of a private nature, called Atlante, to support banks’ capital increases and to ease the deconsolidation of NPLs from Italian banks’ balance sheets.

Latvia

The banking sector in Latvia is well developed and provides a rich range of financial services to both local and foreign clients. In 2015, there were 27 banks operating in Latvia, including 17 credit institutions registered in Latvia and 10 branches of banks registered elsewhere in the EU. There were 291 banking service points and additional 1,059 ATMs working all over Latvia as at the end of 2015 and staff number were 9,560.

Four countries account for about 80% of bank shareholder capital: Sweden (53%); Latvia (15%); Norway (9%) and the US (5%). The Latvian banking system contributes 2.75% to the country's GDP. Despite the geopolitical tensions within the region, the Latvian economy continued to grow in 2015 and the growth rate reached 2.7%.

There was steady progress in the Latvian banking sector in 2015, providing a high level of key performance indicators, i.e. levels of liquidity and capitalisation, positive profitability development, increased new lending and improved overall quality of loan portfolio, as well as a growth in resident deposit rate that considerably exceeded the growth rate of the Latvian national economy. The total assets of the banks grew by 3.6% during 2015 and reached the total amount of €31.9 billion. The amount of deposits at banks increased even more, by 4.8%, reaching €23.26 billion.

In 2015, for the first time in seven years, banks' total loan portfolio had increased, rising by 0.1%. The positive changes have been driven by increased lending to enterprises, new loans granted to Latvian enterprises amount to €1.34 billion, an increase of 5% on the year before. The total credit portfolio as at the end of 2015 was €14.68 billion.

The banking sector in Latvia is subject to strict supervision with high levels of capitalisation and liquidity. The total capital adequacy ratio of the banking sector was 22.65%. Likewise, the liquidity of the banking sector was maintained on a high level. In 2015, the liquidity ratio significantly increased (by 3.6 percentage points) and at the end of December reached 66.7% (minimum requirement: 30%).

The three largest banks in Latvia – Swedbank, ABLV Bank and SEB banka – are supervised by the European Central Bank. Banking regulations, including the norms for preventing money laundering and terrorist financing, fully comply with the highest EU and international standards to ensure credible, transparent and efficient operation of banks.

Banks in Latvia serve 2.265 million clients in total and 2.3 million payment cards have been issued to clients, 1.2 cards per inhabitant. The popularity of payment cards has experienced a sharp increase — the number of payment card transactions grew by 9.3% in 2015 reaching the total of 270 million transactions over a year. Banks in Latvia offer their clients convenient and easily accessible remote services: internet banking and mobile banking. In general, Latvia's inhabitants are 24% more active in using internet banking than the European Union average, with 81% of Latvians banking online compared with 57% for the EU as a whole. For the second year running, Latvia holds sixth place in the region, according to the European Commission's "Digital Economy and Society Index" for 2016.

Overall, the banking sector gained a profit to the amount of €416 million in 2015 (33.65% more than in the previous year). This profit was basically secured by the increase in net commission income as well as a decrease in the reserves for savings for insecure debts and administrative expenses. The return on equity (ROE) of the banking sector in Latvia reached 12.49% in 2015.

The largest Latvian banks as well as the Association of Latvian Commercial banks have certain financial literacy programmes targeted at different groups of the population and addressed directly to financial education institutions. There are competitions, lectures and attractive educational activities for pupils, various financial literacy tests, visits to banks and lectures by bank employees in libraries and companies, as well as at different events, like Financial Education Week.

The Latvian banking sector in 2015 started a new initiative in the field of self-regulation and created "The Social Charter of Banks: Best Practice Guidelines of the Latvian Banking Sector", which define the bank as a responsible and sustainability-oriented member of society and economy. The objective of the Charter is to create a reliable, responsible and sustainable banking system in Latvia that would ensure preconditions for the balanced financial management of banks and their clients, as well as welfare growth in the long term.

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 37,000 inhabitants and an equal amount of persons employed, of which more than half are commuters.

Economic environment

In Liechtenstein, the national economic significance of the financial centre is disproportionately high, compared with other countries. Securing a financial centre with a long-term orientation based on continuity and sustainability is thus of fundamental importance for Liechtenstein. The financial sector contributes a total of 24% to Liechtenstein's GDP and 16% to the workforce. Alongside industry, trades and other services, it is one of the central pillars of Liechtenstein's national economy whose average unemployment rate amounts to 2.4%.

Structure

By the end of 2015, there were 16 banks licensed in Liechtenstein. Five of them are subsidiaries of Swiss, Austrian and Luxembourgish institutions. The others are Liechtenstein banks whereas the LGT Group is the largest private banking group privately owned by the princely family and the LLB Group listed on the Swiss Stock Exchange but majority-owned by the Liechtenstein Government.

The activities of the Liechtenstein banks traditionally focus on private banking and wealth management. They do not engage in investment banking and carry comparatively low risks. Owing to the very limited home market the banks in Liechtenstein are very internationally oriented and have about 60 representations in more than 20 countries. The three biggest Liechtenstein banking groups have expanded their presence abroad in recent years in order to open up areas for growth. Thus, the banking industry plays a major role in the Liechtenstein financial centre.

Due to the Swiss Franc currency union, Liechtenstein is affiliated with the Swiss payment systems and, together with Switzerland, will switch to the new ISO 20022 payment transaction standard. Liechtenstein is also a SEPA participant and the Liechtenstein Bankers Association (LBA) is member of the European Payments Council (EPC).

Banking activity and performance

The decision by the Swiss National Bank (SNB) in mid-January 2015 to discontinue the minimum exchange rate to the euro had substantial consequences for the Liechtenstein banks in numerous ways. Clients' securities deposits held in Swiss Franc had to be valued at a lower rate, which had a negative impact on the fee and commission income. This is also the cause of the decline in assets under management by 5.2%. But banks also had to cope with the currency effect with regard to the foreign currency assets on their balance sheet. With the simultaneous introduction of negative interest rates to the amount of -0.75 % on SNB sight deposit account balances, the income potential of banks was further put under massive pressure. Despite these challenges in an environment marked by historically low interest rates and a glut of cheap money, net interest income was kept stable. Thanks to the more vibrant trading activity of clients compared with the previous year, fee and commission income rose in 2015. Thanks to the strategic focusing programmes already introduced and the ability to take advantage quickly of operational optimisation potential after the SNB decision, net profits of Liechtenstein-based banks increased by 1.4% to CHF 366 million.

Liechtenstein banks are distinguished by their financial strength and stability. They have solid and high-quality equity capital resources. With an average core capital (Tier 1 ratio) of more than 20% (as at the end of 2015), Liechtenstein banks hold, on average, more than what is required under Basel III or the EU capital requirements. They are thus among the best capitalised banks in Europe and worldwide. During the financial crisis, no bank required state aid. Liechtenstein has traditionally stood for political stability, debt-free national budget and conditions favourable to business. In this regard the banks offer an excellent framework for long-term client relationships. Liechtenstein's AAA-rating with stable outlook by Standard & Poor's, confirmed in July 2016, underscores the country's reliability.

Overall, the figures underscore once again the attractiveness and stability of the Liechtenstein banking centre and the trust shown towards Liechtenstein banks worldwide.

Key initiatives

- development of the Roadmap 2020 as the future strategy for the Liechtenstein financial centre with a special focus on stability, sustainability and quality;
- the ninth Liechtenstein Banking Congress dedicated to the topics "digitalization and sustainability";
- start of a project to build and launch a common day-care centre for the whole Liechtenstein banking centre;
- four specific school lessons with around 100 pupils under the LBA's financial education initiative;
- further development of the LBA's own and IT-tool-based legal monitoring and issue management system in order to be able to make a focused chance and risk analysis at a very early stage;
- establishment of a dedicated LBA cyber security working group;
- sponsorship and alignment with the national cyber security association;
- first Fintech company becoming a Liechtenstein Bankers Association (LBA) associate member.

Lithuania

Economic environment

The Lithuanian economy has gathered momentum: real GDP grew by 2.1% in the three first quarters of 2016, compared to 1.6% last year. Economic growth is expected to continue at a moderate pace in the fourth quarter, as continued strong private consumption growth is being offset by stagnating exports and a slump in capital investment. The latter is expected to resume next year, as EU-funded projects gather pace. The tightening labour market resulted in a wage growth. However, higher energy and service prices are pushing inflation up. Rising inflation together with decelerating employment growth will weigh on domestic consumption growth. Exports are expected to rise, however they are not expected to contribute to GDP growth, as imports will pick up on the back of rising investments. Overall, the economy is expected to grow faster in 2017, though risks to the outlook are tilted to the downside due to the uncertain external environment.

Structure

The number of participants in the Lithuanian banking sector remained unchanged as of November 2016. In total, six banks and eight foreign bank branches are operating in Lithuania. However de facto, the Lithuanian branch of TeliaSonera Finance AB is not operating yet. The Lithuanian banking sector is dominated by the subsidiaries of large Scandinavian banks. The three largest banks – SEB, Swedbank and DNB – are fully owned by their parent legal structures in Sweden and Norway. The other three banks: AB Šiaulių bankas, UAB Medicinos bankas and AB Citadele bankas are considerably smaller and are owned by groups of investors of local and foreign capital. Among the foreign banks' branches Scandinavian capital also dominates. In Lithuania 73 credit unions operate united by the Lithuanian Central Credit Union. The Lithuanian government currently has no stake in the banking sector. However the agrarian party Peasant and Greens Union, which won the Lithuanian parliament elections in October 2016, is considering creating a state-owned development bank to spur economic growth in the regions.

Banks in Lithuania are seeking to achieve better operational efficiency through further consolidation. After the transaction between Danske Bank A/S Lithuania Branch and Swedbank was sealed in June 2016, another two banks announced their plans to merge in August. Norway's DNB ASA and Sweden's Nordea Bank AB are seeking to combine operations in Estonia, Latvia and Lithuania to build up scale and participate in the merger in equal parts. The deal needs regulatory approval and is expected to be completed by mid-2017. Nordea's and DNB's combined Baltic unit would be registered in Estonia, and operate the Latvian and Lithuanian businesses as branches.

The branch network of the banks in Lithuania is shrinking: banks continue to close branches and customer service centres, as the customers' movement to digital banking gathers pace. The number of credit institutions' offices has diminished over a year by 48 to 511, as of the third quarter 2016. The number of ATMs grew by 13% over the same period. The number of cashless payments rose by 11.5% year-on-year. Also, DNB has opened a first cashless customer service office, while Swedbank and Nordea have introduced contactless payment cards. Notwithstanding closure of the branches, the number of bank employees increased by 4.3% to 9,274, as parent banks expand their outsourced operations in Lithuania.

Banking activity

Credit growth in Lithuania is picking up. Funding conditions remain very supportive, as final interest rates on loans for both non-financial enterprises and households remain one of the lowest in the euro area. Favourable economic situation contributed to a rising credit portfolio, which resumed growth in mid-2015. The annual increase in loan portfolio for non-financial companies in September 2016 soared by almost 10%, while households credits rose by 3.7%. After a long period of deleveraging, which was characterised by a contraction of the loan portfolio, positive credit growth is suggesting optimism, as funding starts reaching small- and medium-sized companies that were previously cut off due to higher risks. The household loan portfolio consists predominantly of housing credits. Rising housing affordability also supports private sector lending. Lithuanian banking system has room for credit expansion, as the ratio of private sector debt to GDP remains low at about 43%. Moreover, loan quality keeps improving, with non-performing debt dropping to 4.7% of the overall loan portfolio. Despite low interest rates, deposits remain a quite popular product of banks and are continuously growing. However, most customers prefer current accounts over term deposits.

Initiatives

As of 1 February 2017, banks and credit unions will be required to provide the possibility for residents to receive all key payment services for the affordable price of no more than €1.50 per month (and €0.75 per month for low-income residents). The basket includes a wide range of daily payment services, the price cap will be valid until the end of 2017 and reviewed each year.

Luxembourg

The financial services industry, and more specifically, the banking sector, plays a key role in the Luxembourg economy, but contrary to conventional wisdom, it is not synonymous with the country's economy: 65% to 70% of the economy is made up of other industries and services.

Banks based in Luxembourg are part of the financial services industry and conduct activities across multiple strategic pillars leading to a broad and sophisticated product offer as well as a diversified client base:

- wealth management,
- corporate banking,
- asset management,
- regulated investment structures and vehicles,
- capital markets operations,
- covered bonds,
- philanthropic undertakings,
- art and finance.

Luxembourg's reputation as an international financial centre is based on its ability to deliver tailor-made and innovative solutions to an international client base, through a recognised multi-jurisdictional and cross-border expertise. In addition, the Luxembourg financial centre benefits from a multilingual, multicultural workforce familiar with international business, tax and regulatory environments.

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. Strategic positioning of banking groups favours Luxembourg as a hub for their private banking business lines to serve high and ultra-high net worth individuals, with specific service needs.

Over the past ten years, Luxembourg's private banking sector has developed strong geographical diversification. Some 42% of banking client accounts were held by non-EU private banking clients by the end of 2015, showing a growing appetite for Luxembourg's offering beyond European borders.

Historically, the Luxembourg Government actively participated in turning the international political intentions into reality for more transparency and tax compliance. Luxembourg is today fully compliant with the OECD standards. As a result, Luxembourg is among "early adopters" of the OECD Common Reporting Standard in 2017 and proceeds first to automatic exchange of information, which means that Luxembourg's financial institutions started implementing the standard on 1 January 2016. The changes are further milestones in the process of development of the Luxembourg financial centre as a modern and transparent centre whose genuine international character as well as its product diversity will be key assets for client satisfaction provided to Luxembourg's present and future clientele worldwide.

The Luxembourg financial centre is a major worldwide distribution platform for investment funds. Collective investment management has been developing since the mid-1980s. Luxembourg is the world's second largest investment fund centre after the United States, and Europe's largest with around €3.565 billion in assets under management at the end of July 2016.

In the wake of the 2008 financial crisis, many financial groups have had to reorganise and restructure their businesses internationally. These changes have also had an impact on the Luxembourg banking centre, where the number of banks has decreased, giving way to fewer but larger entities via mergers and acquisitions.

In the last few years, however, new banks from third countries have established their European hubs in Luxembourg, including the six largest Chinese banks. In October 2015, two other major Chinese banks have officially announced their intention to establish a bank in Luxembourg. In addition, many international banking groups are today establishing their competence centres in Luxembourg, either in private banking, fund administration, custodian services, in treasury management, or as booking centres for international loans.

Trends observed in 2015

- From 2014 to 2015, the number of banks has decreased by 1 unit to a total of 143;
- Banking employment recorded an increase from 2014 to 2015, from 25,823 to 25,897 end-year 2015, and still slowly growing to 26,228 end-July 2016;
- Total own funds of bank increased from €46,296.6 million end-2014 to €47,600.8 million end-2015;
- Tier 1 capital ratio significantly increased from 18.5% end-2014 to 20.0% end-2015.

Luxembourg’s challenges and opportunities

Throughout its history, Luxembourg has always been a place of contrasts, built on traditions with well-established roots, while at the same time open to innovation. In this respect, there are numerous examples of how the financial centre shapes its own future.

- Luxembourg aims to become one of Europe’s most attractive places for renminbi business, be it through listing, issuing instruments, the renminbi qualified foreign institutional investor scheme (RQFII), trade finance. Luxembourg leverages on the presence of Chinese banks;
- Luxembourg is strongly active in responsible investing, where investors seek to achieve both a financial return and do social good;
- Luxembourg is opening up to new market segments, including in the developing area of Islamic finance;
- Luxembourg has ambitions to become a European hub for the digital economy and Fintech scene. On account of its huge data processing capacities and the availability of skilled workers from around the globe, Luxembourg will be able to prepare EU-wide financial services solutions for the world of tomorrow.

Malta

Key Economic Trends

In 2015, the Maltese economy grew by 6.4% in real terms, the second largest growth rate in the euro area. This growth was underpinned by higher investment, and to a lesser extent domestic consumption. Unemployment levels declined further to an historic low of 5.4%, whereas productivity improved. The Maltese government sustained its efforts to improve public finances, with gross public debt and the fiscal deficit falling to 63.9% and 1.5% of GDP, respectively, by the end of 2015.

The Banking Sector

Over the past two decades, the banking sector in Malta has grown from four retail banks serving the local population to 28 licensed banks, only three of which are Maltese majority-owned. The other banks originate from various EU and non-EU jurisdictions, including Austria, Australia, Belgium, Greece, Kuwait, Turkey and the United Kingdom. As such, around 73% of the banking sector's total assets of around €45 billion are foreign-owned.

The sector is very diverse in terms of inter-linkages with the domestic economy, and can be split into three groups according to the extent of linkage with the Maltese economy, as in 2015.

(i) Seven core domestic banks, whose assets (around €20 billion) represented 235% of Malta's GDP, and which employ 82% of the sector's workforce numbering around 4,000 employees. Two of these banks are the local market leaders, owning around 80% of this group's assets, and operating 62 of the 93 core bank branches in the Maltese islands. The core banks exercise a conservative business model consisting mainly in the raising of deposits and the granting of loans to Maltese residents.

These banks rely mainly on resident deposits for their funding, and have a stable deposit base thanks to the high propensity to save by Maltese households. Their loan-to-deposit ratio is low at around 57%, and this insulated the banks from the volatility on the international wholesale markets during the financial crisis. In effect, the banks did not need any government support, nor did they need to resort to the ECB's long-term refinancing operations to any meaningful degree to improve their liquidity. On the asset side, over 98% of total loans are to Maltese residents, with the banks applying prudent lending norms and loan-to-value ratios, as well as a cautious valuation of collateral. Their investment portfolios are also widely diversified in well-rated securities.

Overall, the core domestic banks are characterised by a sound capital base (Tier 1 capital adequacy ratio of around 15%), high liquidity and healthy profitability. These positive features were acknowledged in the International Monetary Fund's Report on Malta for 2015, which attributed Malta's remarkable economic resilience in the past few years to its sound banking system and vibrant domestic demand.

(ii) Six non-core domestic banks, whose assets (€2.1 billion) represented 27% of Malta's GDP. These banks undertake some business with Maltese residents, but not as their core activity. As such, the linkages with the domestic economy remained limited, with resident assets and resident liabilities each accounting for less than one-fifth of the banks' balance sheet size. With a Tier 1 capital adequacy ratio of around 22%, these banks have a good shock absorbing capacity to cover a potential deterioration in asset quality.

Considering their limited exposure to the domestic economy, these banks are not deemed to pose a threat to domestic financial stability.

(iii) Fifteen internationally-oriented banks which are mainly subsidiaries and branches of large international institutions. These banks have almost no links to the domestic economy. Their combined assets, amounting to €24.2 billion, represented around 275% of Malta's GDP. They fund themselves mainly through the wholesale market or through their parent banks, and deal mainly with intra-group activities. Overall, this group is also very well capitalised, has strong liquidity and is profitable. Here again, therefore, the very low level of business carried out with residents, and the fact that these banks have negligible contingent claims on the Deposit Guarantee Scheme, mitigates possible concerns regarding the size of their asset base in relation to GDP, or the threat which they might pose to domestic financial stability.

Since 2002, the Malta Financial Services Authority (MFSA) has assumed full regulatory and supervisory powers as the single regulator for financial services in Malta. The MFSA is therefore the sole regulator for all banking, investment and insurance business carried out in or from the Maltese islands. On the other hand, the Central Bank of Malta is primarily responsible for maintaining price stability through the formulation and implementation of monetary policy. It is also responsible for the promotion of a sound financial system and orderly capital markets. To this end, a Joint Financial Stability Board, set up between the MFSA and the Central Bank of Malta, focuses on macro-prudential aspects of financial stability, extending its remit to the entire financial sector.

The Netherlands

The Dutch banking sector is characterised by its relatively large size, high level of concentration and its international orientation. Measured against the size of the Dutch economy, the Dutch banking sector is large from an international perspective. Nonetheless, Dutch banking has shrunk considerably in the past years. The size of the assets relative to the GDP of the Netherlands has decreased from 600% in 2008 to 389% in 2015.

The banking sector continues to make a significant contribution to the economy, namely around 6% of GDP in 2015. It has a relatively high degree of concentration: the five largest banks in the Netherlands have a combined share of about 85% of total banking assets. They play an important role in providing payment services to other financial institutions and consumers**.** About 84% of Dutch consumers have their savings in deposits at one of the five largest banks. These banks have a comparably high share in the mortgage market.

The Dutch banking industry is internationally oriented, which fits the open, export-oriented, Dutch economy. Dutch banks emerged reinforced after a period of global economic turbulence. The sound stress test results as published by the European Banking Authority in July 2016 confirm the strong capital position of the major Dutch banks.

The Dutch banking sector aims to remain competitive at a national, European and global level, contributing to a sound national and European economy. Whilst Dutch banks have returned to the "basics of banking" focusing in particular on taking deposits and granting loans, the Dutch banking sector has benefited from an ever increasing diversity in external investment with a number of international banks expanding their operations in the Netherlands.

The Dutch banking sector feels a responsibility towards the broader economy and society. From 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) efforts to restore trust in the banking sector. Furthermore, the report of the Committee on the Structure of Dutch Banks (the ‘Wijffels Committee’) (2013) laid the foundations for the further strengthening of Dutch banks. It paid great attention to the stability of the industry and the importance of competition and diversity in banks. The committee also called on banks to set out their societal role in a social charter.

By introducing a Social Charter, updating the Banking Code and implementing the bankers’ oath in 2015 (with the associated rules of conduct and disciplinary system), the banking sector demonstrated what it stands for and that it can be held accountable for its ongoing renewal. That its commitment is serious is shown by the disciplinary measures that can be taken following a violation of the banking oath.

The Social Charter, the Banking Code and the rules of conduct associated with the bankers' oath together form the “Future-oriented Banking” package. The Social Charter describes the (preferred) position of the sector in society and its shared values. The Banking Code safeguards sound administration in every bank and the rules of conduct set out the responsibility of every individual employee at the bank. These building blocks specify the way in which the sector wishes to achieve an ethical, customer-oriented and sustainable sector.

Norway

The Norwegian economy currently experiences lower growth than normal due to weak demand abroad and the persistent low oil price. The latter has resulted in large regional challenges and accelerated the transition to a less oil-dependent economy. Both monetary and fiscal policy are expansionary and the key policy rate is currently at 0.5%.

Banking structure and developments

The Norwegian banking sector is characterised by a few large commercial banks and numerous savings banks. At the end of 2015, the Norwegian banking sector consisted of 105 savings banks, 19 commercial banks and 24 covered bond companies. In addition, there were 40 licensed branches of foreign banks operating in Norway. Subsidiaries and branches of foreign banks have a market share of approximately 26% based on gross lending in the retail and corporate market.

At year-end 2015, the aggregate assets of the entire banking sector (including foreign entities) amounted to around €656 billion, corresponding to 188% of Norway's total GDP (in nominal terms). The financial intermediation sector contributes to approximately 7% of national GDP and the industry employs around 2% (50,000 people) of the total labour force.

Norwegian banks are profitable and loan losses are at a low level despite the challenges in the petroleum industry. Return on equity was on average 12.2% in 2015 while losses were 0.17% of gross lending. Norwegian banks have strengthened their financial position in recent years by retaining a larger share of their profits and by issuing new equity. The overall common equity Tier 1 ratio for Norwegian banking groups was 14.7% by the end of 2015.

There were 991 branches by end-2015, and the overall number of inhabitants per bank branch was about 5,250. As more and more people are using banking services online, the number of branches has decreased significantly over several years. Mobile payment solutions have also been well received by Norwegian households and are becoming increasingly popular. More digital banking has given the banking sector large productivity gains and hence lower costs. The cost/income ratio continued to decline in 2015 to 46.4% for all Norwegian banks.

Norwegian banks' liabilities largely comprise retail deposits, covered bonds and senior bonds. Large banks have a considerably larger share of market-based, international funding than smaller banks, which base their operations largely on deposit funding and inter-bank loans. Bank deposits are guaranteed by the Norwegian deposit guarantee scheme and have thus proven to be a stable source of funding, also during the financial crisis. The guarantee provided by the Banks' Guarantee Fund covers up to NOK 2 million (approximately €225,000) per depositor per bank, but could be changed in the future to the equivalent of €100,000 in order not to differ from the system in the EU. Banks' deposit structure is dominated by household deposits. The deposit-to-loan ratio (deposits as a share of gross loans to customers) for parent banks was 92.5% at year-end 2015. The high level is due to the transfer of mortgages to separate credit institutions (with the purpose of issuing covered bonds). By including these loans, the deposit-to-loan ratio decreases to 57%.

Domestic credit growth has recently decreased somewhat. Household credit growth however remained at a high level and exceeds the growth in income. This development is linked to the growth in house prices, which has continued to increase although economic activity has declined. Credit demand from SMEs has been lower and banks have been more focused on household lending because of lower risk weights and a desire to limit the growth in risk-weighted assets. In view of this, it is important to note that the reduced capital factor for loans to SMEs is not implemented in Norway but is still valid for branches of foreign banks operating in Norway. Consequently, the branches of foreign banks have increased their lending to such companies and their market share has improved.

Norwegian banks strongly support the progress in the stability and governance of the European financial sector to ensure a level-playing field and improve the functioning of the market economy as well as the increasing harmonisation of regulation and supervision throughout Europe. The new regulatory framework in Norway is based on the EU's Capital Requirements Directive, but the Norwegian supervisory practice in the capital area has been stringent from a European perspective.

Norway is not a direct member of the EU which has led to a need for clarification when it comes to the European Union's structure for supervision of the financial markets. Norwegian authorities have not accepted that EBA, ESMA and EIOPA are the decision-making authorities for private Norwegian entities, since transferring powers to international organisations of which Norway is not a member, violates the Norwegian constitution. The Norwegian Government, EU countries and other EEA-countries were able to find a solution to the problem in the autumn of 2014. Under the agreed model, the EFTA Surveillance Authority (ESA) is responsible for decisions that are binding for Norwegian companies. The suggested solution was approved by the Norwegian Parliament on 13 June 2016 and the EEA-joint committee on 30 September 2016.

Poland

Poland is the largest economy in Central and Eastern Europe. According to data presented by Eurostat, Poland's economy has been one of the fastest growing among the EU Member States. This trend, with rising credit demand, makes Poland a favourable destination for investment in the banking sector. It has a competitive landscape, focused on domestic business and playing an important role in financing private households, SMEs, big infrastructure projects, and project financing. It should be noted that interest rates in Poland remain positive and the probability of their reduction is low.

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 the 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 institution responsible for operating the deposit guarantee scheme is the Bank Guarantee Fund (Bankowy Fundusz Gwarancyjny, BFG). Due to the transposition of the BRRD provisions to national legislation, the BFG has received new powers of resolution authority. The competent authority responsible for macro-prudential supervision is the Financial Stability Committee (Komitet Stabilności Finansowej, KSF), which is a collective body, consisting of four main institutions crucial for the financial safety net: the Polish central bank (Narodowy Bank Polski), the Ministry of Finance, the Financial Supervision Authority (KNF) and the Bank Guarantee Fund (BFG).

At the end of 2015 the Polish financial landscape was made up of 38 commercial banks, 561 cooperative banks and 27 branches of credit institutions. The Polish banking sector is dominated by foreign-owned institutions: foreign owners hold majority stakes in most commercial banks, totalling 59% of the sector's assets (26 commercial banks and all credit institutions' branches). It is worth noting that comparing to 2014 this share decreased by 2.5%. Cooperative banks are members of two associated banks; despite the large number of these institutions, their market share is under 7% of the total assets of the sector. Due to the preparation for the new requirements of the CRD IV package, cooperative banks established and are operating now within the two institutional protection schemes.

On 15 January 2016, the Polish parliament passed a law on the taxation of wealth of certain financial institutions. The new law came into force on 1 February 2016. The banking tax act applies to selected financial institutions such as domestic banks, branches of foreign banks and insurance companies operating in Poland, consumer lending institutions and insurance companies. The new tax does not cover investment and pension funds. The rate applied to the taxable base is 0.0366% per month (0.44% annually). The first period for which taxpayers were required to calculate and pay the bank tax was February 2016.

In 2015 the Polish banking sector's assets reached the value of €375.583 million. In recent years banks' assets have been growing slightly faster than the overall economy. As a consequence, the size of the banking sector has increased relative to GDP. However, this ratio remains quite low in comparison to other EU economies (just over 90% in September 2015). It indicates that the indebtedness of the economy is not excessive.

The year 2015 was characterised by a rapid growth of household deposits, which represents 41.6% of all non-financial sector deposits (compared to 39.6% in 2014). The ratio of non-financial sector deposits to GDP was estimated at around 52.4%.

Importantly, Polish banks registered a relatively high level of profitability: in 2015 return on equity stood at 9.8% and return on assets equalled 0.73%. However after taxation of bank assets these indicators are distinctly lower.

The average total capital ratio (TCR) in the domestic banking sector increased slightly. At the end of September 2015, the ratio was 15.4%, and the Common Equity Tier 1 and Tier 1 capital ratios 14.1%. Banks with the total capital ratio (TCR) above 12% represented 97.7% of domestic banks assets. Banks with the Tier 1 ratio above 9% represented 98.6% of domestic banks assets.

It is worth noting that in a stress test carried out by EBA in 2016, the biggest Polish bank (PKO BP) turned out to be the fourth most resistant financial institution to shock scenario tests. The survey studied the reaction of the 51 largest banks in Europe.

Furthermore, Poland is the European leader when it comes to the development of innovative banking services and modern payment system. At the end of the fourth quarter of 2015 the number of clients with access to online banking services amounted to 30.4 million, representing a 20.8% increase in comparison to the fourth quarter of 2014. Year by year mobile payments have a bigger share in the total amount of all transactions. In 2015, the number of transactions made with cards increased by 20% compared to 2014 and their value grew by 12%.

The Polish financial institutions strongly support the improvements in the stability and governance of the European financial system. Our banking sector may be considered as a promising growth market with economic growth prospects in 2017 expected to be at a higher level than in 2016.

Portugal

The Portuguese banking system comprises 158 institutions, of which 66 are banks (31 being branches of foreign banks), 88 are mutual agricultural credit banks and four are savings banks.

The five largest banks account for approximately 70% of the assets of the entire sector. Despite an apparent concentration, the Herfindahl Index (1,159 in 2015, close to the European Union average of 1,136 and below euro area average of 1,242) suggests that the market is only moderately concentrated.

The sector is dominated by commercial banks, mainly focused on capturing savings and lending to the economy. Banks' key role in the economy stems from the high reliance of non-financial corporations, particularly SMEs, on bank loans.

The focus on the classic intermediation activity by the Portuguese banking sector is reflected in one of the widest branch networks in Europe. At the end of 2015, there were around 5,600 branches, corresponding on average, to fewer than 2,000 inhabitants per branch. The number of employees was approximately 52,500. Additionally, the Portuguese banking system provides access to a wide range of technology-based services to customers. The network of ATMs, of approximately 16,000 units, is the second largest in Europe when adjusting for the population, a ratio of 667 inhabitants per ATM. The sector is also characterised by a network exceeding 286,000 points-of-sale, available for the use of 14.5 million active debit and credit cards related to 11.1 million active bank accounts.

The system's total assets decreased for the fifth consecutive year in 2015 to €450 billion (250% of the nominal GDP), following a sharp downward trend in loans and advances to customers, which reflects the ongoing deleveraging process of the Portuguese economy. Loans and advances to customers, corresponded to around 59% of the total assets at the end of 2015.

On the liability side, deposits from customers remained the main source of funding, representing 61% of the sector's total balance sheet in December 2015 (compared with 58.6% at the end of 2014). This solid deposit base has been crucial for Portuguese banks to achieve both a stable funding structure and their deleveraging goals, reflected in a system's loan-to-deposit ratio of 103% in 2015. Furthermore, Portuguese banks have managed to reduce their dependency on ECB funding, with the amounts borrowed from the Eurosystem decreasing by 16.1% in 2015, to €28.3 billion.

Profitability, which turned positive in 2015, has been one of the main challenges for the Portuguese banking sector having recorded consecutive losses since 2011. The high volume of impairments, mostly driven by the deterioration of credit quality and the significant increase in non-performing loans (a result of the Economic and Financial Adjustment Program), has been a heavy burden on the Portuguese banks' net income.

With regard to solvency, Portuguese banks underwent, in recent years, a significant recapitalisation process, which contributed to the strengthening of the capital ratios. At the end of 2015, the system's total capital ratio stood at 13.3% and the Common Equity Tier 1 (CET 1) ratio at 12.4%.

In terms of major events in 2015, there were two that should be highlighted.

In November, the ECB (the Single Supervisory Mechanism) published the results of the Comprehensive Assessment conducted on nine financial institutions of the euro area that had not been included in the same exercise held in 2014, including, the Portuguese bank, Novo Banco (the transition bank that resulted from Banco Espírito Santo's resolution in August 2014). Novo Banco surpassed the minimum threshold of 8% for the CET1 ratio in every year of the test under the baseline scenario, even considering the applicable phased-in criteria, reaching a ratio of 8.23% at the end of 2017. Under the adverse scenario, the bank surpassed the 5.5% threshold for the CET 1 ratio in the first two years of the test, even taking into account the applicable phased-in criteria. However, Novo Banco registered a decrease of the ratio to 2.43% at the end of 2017, which corresponded to a projected capital shortfall of €1.398 billion. This shortfall was covered at the end of 2015 through the transfer of five senior bonds, valued at €1.9 billion, from Novo Banco back to the "bad bank" Banco Espírito Santo.

In December, the Portuguese authorities announced the resolution of the Banco Internacional do Funchal, S.A. (Banif) and the sale of the majority of its assets and liabilities to Banco Santander Totta for €150 million. The measure also involved the transfer of assets with a book value (before the application of a haircut around 66%) of €2.2 billion from Banif to an asset management vehicle owned by the National Resolution Fund and required the injection of a total of €2.255 billion into the bank, of which 1.766 billion was provided by the Portuguese Treasury and €489 million by the National Resolution Fund.

Romania

Romania contemplates entering the euro area, possibly after 2019. Although the nominal convergence criteria are tangible, the experience of different states during the crisis has shown us that additional reforms must be made before joining.

In 2015, GDP per capita expressed as the purchasing power parity (PPP) stood at 57% of the EU average.

The forecasts for 2016 indicate the economic growth amounting to 3.5- 4%.

The annual inflation rate continued its downward trend, consumer prices in December 2015 compared to December 2014 were lower by - 0.9%, measured via the consumer price index (CPI) and by - 0.7%, measured via the harmonised consumer price index.

The unemployment rate stood at 5.1%, down from the 5.3% in 2014.

The fiscal standing is sustainable, considering that the budget deficit was 1.5% of the GDP in 2015, and that the public debt was under 60% of the GDP, thresholds established by the convergence criteria.

At the end of 2015, the Romanian banking sector included 36 credit institutions: two banks with full or majority Romanian capital, four credit institutions with majority domestic, private capital, 23 banks with majority foreign capital and seven branches of foreign banks.

About 90.2% of bank assets are held by institutions with foreign capital. The banks with Austrian capital have a market share of 33.3%, followed by the banks with French capital, (13.5% market share) and those with Greek capital (10.6%).

Banks have adjusted their employee number in the sector to around 55,900 persons, while the number of bank outlets shrank to 4,947 at the end of 2015.

The Romanian banking sector has demonstrated its structural stability by being among the few banking sectors in the European Union not needing the State's support during the crisis. The solvency rate was maintained at a high level, i.e. 19.10% in June 2016, and above the minimal threshold set in conformity with the European regulatory framework CRD IV/CRR of 8%. Balance sheet cleaning and the change in the non-performing loan (NPL) calculation methodology have led to the halving of the NPL weight, with the NPL rate standing at 11.30% in June 2016.

The priorities of the banking industry pertain to maintaining the banking sector's role of main financier of Romania's economy, including via actions to strengthen financial discipline. In Romania, banks provide about 90% of the funding of the economy. The loans/deposits ratio stood at 83.66% end-June 2016.

The banking community is open to bringing its contribution to the drawing up of a national strategy having as aim Romania's economic development.

The banking market in Romania is on a par to that of all the banking sectors in the European Union, integrating new regulations as regards lending, payments, saving, dispute resolution etc.

The banking community from Romania has been involved in the efforts of harmonisation and standardisation performed across the European payment industry by adhering to SEPA euro schemes. Romania also adopted the SEPA payment schemes for lei, Romania's currency, and the Romanian Banking Association, based on the mandate received from the central bank, has taken over the role of governing authority.

The banking community in Romania is actively involved in adopting digital solutions in financial and banking services, strongly believing that they will generate numerous benefits for customers as well for the entire financial and banking ecosystem. The RBA intends to contribute actively to the updating of the legal and regulatory frameworks governing the banking system, in order to eliminate the current barriers as regards the introduction of integral digital processes.

The financial industry of Romania via its stakeholders has committed itself to the joint leadership of a mobilising project from which Romanians are to benefit: the public-private initiative of a Financial Education Platform, in compliance with the principles of the National Strategy on Financial Education drawn up by the OECD. The integrated promotion of all the stakeholders’ projects aims to enhance the level of financial education and intensify the dissemination of the outcomes via programmes.

The outlook on the Romanian banking sector depends, among others, upon uniform regulation of the European banking sector and the harmony of the domestic legal acts in banking matters with the principles imposed by the European directives. Any deviation from European norms, i.e. introducing locally a more unfavourable legislation could move investing options away from Romania.

Slovakia

Since the national banking crisis in the late 1990s the Slovakian banking sector has been transformed into one of the soundest, most stable and profitable banking sectors in the European Union.

Slovakian banks have avoided the financial crisis without any government support. The main reason has been the banking sector's orientation to conservative banking functions: receiving deposits and providing loans in domestic currency. As we now witness, the traditional banking business model fared well in the financial crisis.

Our banking sector consists of 27 financial institutions. The majority of them are universal banks, focused on retail and corporate banking. Three of them are specialised banking institutions. Since privatisation (1999-2001), most of the banks in Slovakia are controlled by foreign entities, mainly banking groups from Austria, Italy and Belgium. Only five banks are now fully controlled by domestic investment groups or government.

The Slovakian banking sector is concentrated in the hands of three major players (Slovenska Sporitelna, VUB Banka and Tatra banka) who control up to 55% of the banking assets. Despite this concentration, some new players have entered the market in recent years and market share of small and medium-sized banks has slightly increased.

In comparison to the national GDP, the banking sector is one of the smallest in the European Union. Assets to GDP ratio is 86%. Slovakia has some of the most stable and soundest banks in the euro area. According to the study of the World Economic Forum (the Global Competitiveness Report 2015-2016), Slovakia has the fifth soundest banking sector in the euro area. Slovakia is also among the four countries in the euro area to have avoided the crisis in the banking sector without government support.

One of the principal differences between Slovakian financial institutions and banks in most of the EU countries, is their liquidity position. Funding of Slovakian banks is based primarily on the domestic clients' deposits. The loan-to-deposit ratio is still one of the lowest in the EU (90%). As a result, the Slovakian banking sector is well insulated from shocks, and banks can support the economy.

Retail loans have been dominating the domestic lending market and Slovakia has one of the highest retail loans' growth rates in the EU. The outstanding amount of consumer loans rose in 2015 by 16.2% (on year-to-year basis) and it was the highest growth in the euro area. The growth of housing loans was also the highest in the euro area (13.5%). The main reasons are low interest rates and rising disposable incomes. In 2015, property prices increased by 7% another consequence of credit growth. According to the regulator, current fast growth of retail loans could be a potential risk. In 2014 the central bank issued recommendations for banks in response to the existence of potential risks on the retail lending market.

From 2014 the demand for corporate loans improved. Last year banks increased lending not only to large companies, but also to SMEs. The growth of outstanding amounts of loans to corporates was 9% end-2015.

Mainly due to retail credit growth, most of the Slovakian banks have remained profitable, but their outlook for the next period is worsening. Profits for the banking sector increased last year by 13.3% to the second highest level in history (€626 million). Return on equity increased from 10.03% to 11.05% in 2015.

In the last few years most net profits have supported the capital bases of Slovakian banks. Tier 1 capital ratio, a core measure of the financial strength of banks, increased on average to 16.49% (2015) with the lowest individual level at 12.8%. All banks met their minimal requirements. The total capital adequacy ratio was 17.75%.

Profitability and stability enable banks in Slovakia to focus on innovation. Slovakian banks are leaders in the use of new technologies in the day-to-day banking e.g. contactless cards, contactless mobile payments and peer-to-peer payments.

Slovenia

The environment in which banks have been operating in 2016 has been characterised on the one hand by a relatively stabilised economic activity (2.3% in 2016) and favourable prospects for a solid 2,9% growth in 2017, and on the other hand by low and even negative interest rates accompanied by challenging local market conditions determined by heavy consolidation pressures. For the sixth consecutive year the total assets of the banking system contracted again and stood at €37.4 billion at the end of 2015, the equivalent to 97.6% of GDP. The peak level was reached in 2009 when total assets amounted to €52 billion or 144% of GDP. Credit activity of banks has not been restored completely yet and apart from credit risk the income (profitability) risk has developed as one of the most significant risks in the industry.

A 2.4% year-on-year decline in total assets in the first half of 2016 can be attributed mostly to the 12% decrease in loans to non-financial corporations (-10% in 2015), while the loans to households have increased by 1.5% in the first half of 2016 (+1.2% in 2015), mostly due to positive growth in housing loans while the consumer loans have still not improved. For most of the banks the problem is still in a lack of good quality demand for loans, which is a result of persistently high indebtedness and not sufficient levels of equity at borrowing firms, therefore banks are reluctant to relax their credit standards. At the same time a beneficial economic environment and favourably low interest rates are stimulating borrowers to increase demand for loans, especially for longer terms, which has been reflected in the extended average maturity of new loans. Similarly, low interest rates in combination with affordable real estate prices are contributing to maintain a persistent growth in housing loans. As the indebtedness level of Slovenian households is relatively low (45% of disposable income) it is expected that the consumer loans' growth can be restored in the near future. However, the structure of banking assets has changed dramatically in last eight years, as the share of financial assets (securities) in total assets increased from 15.3% in 2008 to 25.4% in August 2016. In the same period the share of loans to non-financial corporations fell from 42.3% to 21.1% of total assets and the share of loans to households went up from 15.8% to 23.4% of total assets. Parallel to these structural changes the quality of the credit portfolio has improved since the level of non-performing loans has been decreasing and the coverage with impairments/provisions has reached 64% of the exposures.

As regards the funding structure the deleveraging pressure faced by banks in the past few years has eased and the non-bank deposits representing 69% of total assets (June 2016) have become the most important and relatively stable funding source, while the debt held by foreign banks diminished to 8.7% of total assets in June 2016, from 33% of total assets in 2008. The low interest rates have also caused some adjustment of the banks' liabilities. As a result, the average maturity of the deposits by the non-banking sector has shortened significantly. For example the proportion of sight deposits had already reached 60% in the first quarter of 2016. A high proportion of cost free sight deposits has had a positive impact on the net interest margin of the banks, although due to the decreasing loan rates the net interest margin in the banking sector was squeezed down to 1.95% in the first half of 2016. The shrinking net interest margin has been translated into an approximately 10% lower net interest income. Therefore, the income risk has been recognized as one of the most pronounced risks banks will have to face in the upcoming years.

The capital adequacy is abundant and, at the level of the banking system, jumped from 11.4% in 2012 to 18.6% in 2015, while the Tier 1 capital adequacy ratio was raised from 9.7% in 2012 to 17.9% in 2015.

Consequently, the capitalisation of banks in Slovenia exceeds the average capitalisation in other Euro area countries.

As a consequence of all adjustments on banks' balance sheets the LTD ratio further decreased to 77% in August 2016, which caused the severest decline in the ratio since 2008 when it stood at the peak level of 162%. In an attempt to stabilise the LTD ratio the Bank of Slovenia introduced a macro-prudential instrument gross loans-to-deposits flow (GLTDF) in 2014 with the purpose of aligning the credit activity of banks with the annual dynamics of the deposits taken from the depositors. The GLTDF instrument has remained in force throughout 2016. Additionally the central bank issued an extra non-binding macro-prudential recommendation for the banks at the end of August 2016. The macro-prudential recommendation includes the maximum level of the loan-to-value (LTV) ratio and the maximum level of the debt service-to-income (DSTI) ratio with the purpose of pursuing the intermediate objective of macro-prudential policy which is to mitigate and prevent excessive credit growth and excessive leverage. Banks are recommended to readjust their housing loans' policies so they will not exceed the maximum level of the LTV ratio of 80% and at the same time observe the maximum level of DSTI ratio at 50% and 67% for borrowers with monthly income of up to €1700 and more than €1700 respectively.

Banks in Slovenia are going to operate in a relatively challenging environment in 2017. They have to reconsider their existing business models and prepare for intensified competition on the market and a challenging environment determined by historically low interest rates. In the long run only banks that prove to be flexible enough and manage to respond properly to all the challenges in the industry, will be able to survive and maintain the profitability required by the shareholders.

Explanatory note: data was taken from different publications of the Bank of Slovenia, the web page of the Bank Association of Slovenia and the OECD web page.

Spain

The formation of a new Spanish government supports the view that the Spanish economy could maintain its economic dynamism well above the European Union average growth. The recovery is projected to continue in 2016 and 2017, although at a more moderate pace. In particular, in 2016 the economy is growing at 3.1% and next year GDP growth will be around 2.5%. This positive outlook is supported by some relevant aspects such as a high value-added economy, ongoing financial sector adjustment and an improved current account position. Deleveraging trends of businesses and households will keep providing support and, additionally, the government is committed to reducing the fiscal deficit and unemployment.

The Popular Party (PP) minority Government faces an inherent challenge in securing support for its policy agenda and, formulating a revised budget will be one of its first challenges. Also, the new government must discuss with other political parties a substantial reform in the social security system in order to assure its medium-term sustainability.

In 2015, the Spanish banking sector completed its post-crisis process of restructuring. During 2014 the Spanish Fund for Orderly Bank Restructuring (FROB) sold two entities and the government has already announced its intention to sell the only two remaining public-owned banks as soon as possible, either separated or merged.

Therefore, and as a result of this reorganisation process, the Spanish current banking system is mainly formed of 14 banking groups (67 private banks, 2 savings banks and 65 small cooperative banks). These banks have more than 30,200 branches over the country, following the optimisation process on its structures (32% reduction in branches and 28% in employees from the peak period). However, the extensive network of subsidiaries that some Spanish banks have abroad deserves special mention.

It is worth highlighting the fact that the Spanish private sector is going through an intense deleveraging process. This is illustrated by a substantial reduction of the level of indebtedness of non-financial players (non-financial companies and households). As a result, the volume (on a solo basis) of domestic credit continues decreasing in the balance sheet of the Spanish banks and has been reduced by €65 billion in one year, reaching €1,232 billion at the end of 2015.

This factor eclipses the efforts that Spanish banks have been making throughout the year, and since mid-2013, in providing fresh credit to SMEs which reached €165.5 billion of new credits in 2015 compared to €146.4 billion in 2014.

On the other hand, with regard to Spanish banks' deposits in the domestic resident sector in 2015 (continuing previous years' trend), they slightly decreased to €1,248 billion at the end of the exercise, and it is hoped they will stabilise in 2016.

Spanish banks' profitability, as of December 2015, in terms of return on equity, reached 5.6% (consolidated basis). With regard to banks' capital, we have to highlight the increase in both equity (already reaching 10% of its balance sheets) and capital ratios (above 12% CET 1 phase-in), maintaining one of the best efficiency ratios of the European Union (below 50%).

Regarding the securities markets, Spain is involved in the process of implementing MiFID II/MiFIR, in its dual role of process adaptation required by the entities and on the transposition at national level (by the regulator) of the Directive that has to be completed by July 2017.

Finally, the Spanish banking sector has considered the technology transformation of the banking business as a priority in the last few decades. Consequently, banks have encouraged an early adoption of new technologies by customers. This has allowed for a massive adoption of home banking solutions, prior to that, other channels such as telephone banking or the ATM have been the main access points for daily transactions. Transformation in this field implies new types of relationships between banks and their customers. The follow up of this tradition and the availability of new technologies are critical for the digital transformation of the banking sector itself and as part of society at large or a community. The most recent and clear example of the commitment to new banking technologies, is the development, since 2015, of the person-to-person (P2P) immediate payment solution, known as BIZUM, finally launched in October 2016.

BIZUM is an instant, easy and secure way of making payments. It is conceived by the banking sector to allow clients' instant payments from a payment account to another payment account. BIZUM is integrated into the current bank app or home banking solution. There is no need to know the counterparty's IBAN, only the telephone number, and the funds are transferred from one account to the other within seconds.

Financial education is one of the main pillars of the corporate social responsibility strategy for the Spanish Banking Association's (AEB) associated banks. In 2015, 29 financial education initiatives were developed by our members, in which 2,000 banking employee volunteers were involved in devoting their time and expertise. As a result of this effort, 540,000 people benefited in 2015 from financial education programmes. Not only that, thanks to the implementation of new technologies, our financial education initiatives reached 1.9 million beneficiaries that received financial education programmes online.

Sweden

Economic environment

Investment activity in Sweden has increased strongly since 2014 and has been a key driver of GDP growth according to the National Institute of Economic Research (NIER). Investments in housing and other business investments have increased. Investments as a share of GDP are at a normal level during an economic boom. Employment figures continue to climb by around 0.5% per quarter.

Structure

There are four main categories of banks on the Swedish market: commercial banks, foreign banks, savings banks and co-operative banks. In December 2015, Sweden had a total of 116 banks: 38 commercial banks, 29 foreign bank branches, 47 savings banks and two co-operative banks.

The number of commercial banks and foreign bank branches in Sweden has increased from 54 in 2005 to 67 in 2015. The increase is due to the fact that the number of Swedish commercial banks have increased, including securities firms and credit market companies that have become banks.

The number of foreign banks and bank branches has been stable and around 30 during the last ten years. However, the composition of foreign banks has changed since several have left the market whilst new ones have entered. The fifth largest bank in Sweden, in relation to the total balance sheet, is a foreign bank branch.

The Swedish State has diminished its ownership in banks for several years. The State is still owner of one bank, which mainly offers mortgage loans.

The Swedish banks have 1,644 branch offices compared to 1,910 branch offices in 2005. A large share of the branch offices in Sweden are cash-less. Branch offices are still an important way to meet the customer and the number of branch offices has only diminished slightly over the last ten years. Swedish banks have around 40,300 employees compared to the whole financial sector in Sweden which employs 86,000.

Banking activity

The high activity in the Swedish economy is mirrored in the growth of loans and deposits. In particular, the high demand in housing has increased housing lending. Lending to the public increased by 9.0% in 2015 and deposits from the public increased by 5.6% in 2015.

The most common means of payment in Sweden are the various charge cards and electronic giro systems. Most payments are linked to bank transaction accounts, which register salary deposits, ATM withdrawals, credit and charge card purchases and automatic transfers. In Sweden, there are 3,200 ATMs and 185,000 card payment terminals.

Over the past few decades, the use of paper-based payments such as giro forms, cheques and cash payments have rapidly been replaced by electronic payments of various types. For example, the use of different kinds of cards has increased from 500 million transactions in 2005 to around 2,500 million in 2015. While the share of electronic giro payments, mainly online, has increased, the share of paper-based giro transactions has decreased. The use of cheques has in practice ceased at the end of the 1990s.

According to a query by the Central Bank of Sweden, 97% of Swedish citizens have access to a bank card and 85% have access to online banking. The mobile payment service Swish, with real time account-to-account transfer, was introduced three years ago and has already 3.7 million users.

Key developments

Today normal bank services are to a large extent performed through mobile phones, tablets/iPads and computers. Moreover, new ways to perform bank services have increased rapidly, e.g. mobile payment services, Bank e-ID, e-invoices, etc. Means of payments, especially, have become electronic or digital to a large extent. According to ECB statistics, Swedes use non-cash payments to a greater extent than any other Europeans. For that reason, cash in circulation is declining rapidly.

These new channels of distribution of bank services 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 Fintech. The bank market environment and competition are changing rapidly.

Supervision of Swedish banks

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

Finansinspektionen and the Riksbank form together with the Government and the Swedish National Debt Office the forum called the Financial Stability Council. In the Financial Stability Council members discuss issues of financial stability and how financial imbalances could be counteracted. If a financial crisis arises, the Council will also discuss and handle measures.

Switzerland

Key economic trends

Banks contribute to Switzerland's international top competitiveness rank:

- as centres of innovation and training sites, banks are a catalyst for economic development;

- as employers, banks offer a large number of skilled jobs paying above-average salaries;

- as taxpayers, they contribute a considerable share to public sector funding.

In 2015, banks in Switzerland were significantly affected by the negative interest rate environment. On 15 January 2015, the Swiss National Bank (SNB) lifted the 1.20 CHF/€floor. At the same time, it set the negative interest rate at -0.75%, which banks must pay on sight deposits at the SNB that exceed a fixed exemption threshold.

The added value banks create for other economic sectors remains high, since banks are important consumers of goods and services. Alongside the CHF 32.0 billion generated by the Swiss banking sector, the indirect effects create an additional CHF 14.0 billion of value added to other sectors, leading to a total of 7.35% share of gross value added.

The financial sector paid CHF 19.8 billion in direct and indirect taxes in 2015. This represents about 14.6% of all federal, cantonal and municipal tax receipts. CHF 14.4 billion, i.e. more than 10% of all tax receipts, can be attributed to the banking sector alone.

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

Structure, assets and liabilities

As of year-end 2015, there were 266 banks, 3,124 branches and 6,966 ATMs in Switzerland. In addition, banks in Switzerland have 260 branches abroad.

The aggregate balance sheet of all the banks in Switzerland fell by 0.5% to CHF 3,026.1 billion in 2015 (approximately €2,805.2 billion). The total credit utilisation was CHF 1,247 billion. Liabilities to banks have fallen by half to CHF 346.2 billion over ten years. Half of the CHF 6,568 billion assets currently managed in Swiss banks originate from abroad. This is equivalent to a 25% market share in global cross-border wealth management business, making Switzerland a global leader in the field.

More than 255,200 people or 5.0% of the entire Swiss workforce are employed in the entire financial sector. Of these, 167,300 work for banks and securities dealers.

The banks' lending business experienced no restrictions during the financial crisis and remains crucial for the economic development of Switzerland. The total outstanding domestic credit volume rose moderately in 2015 to CHF 1,076.4 billion, of which, CHF 924.7 billion are attributable to domestic mortgage lending.

The survival rate of Swiss start-ups is high with international comparison.

Banks thus fulfil their function as financiers. Swiss SMEs that make use of external capital primarily rely on bank loans. 95% of the companies which were dependent on a bank loan in 2012 received an approval. The number of banks offering E-factoring services is rapidly rising.

Despite the negative rates, the 2.6% growth in mortgage loans in 2015 was the lowest most moderate increase in many years. To date, banks have generally not passed these negative interest rates on to their private customers.

Capital and performance updates

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

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

Digital transformation of banks

The banking sector is currently undergoing a process of industrialisation with the break-up of the value chain. To ensure Switzerland remains a leading global financial centre requires top framework conditions for financial technology and first class infrastructure. The Federal Council recently called for a reduction of regulatory barriers to market entry for providers in the Fintech area and an increase of legal certainty for the sector overall.

Switzerland's payment system is currently adapting to the technological developments. After its merger with its competitor Paymit, Twint appears to emerge as the standard digital wallet for Switzerland and plans its rollout in April 2017.

Financial education

Swiss banks are major investors in supporting youth employment and providing apprenticeships to nearly 3,500 trainees. This corresponds to 11.6% of all commercial apprenticeship training positions in Switzerland.

The Federal Council adopted the dispatch on the Financial Services Act (FinSA) and on the Financial Institutions Act (FinIA) at the start of November 2015. The FinSA and FinIA will create uniform competitive conditions for financial intermediaries and improve client protection. Both laws should enter into force in 2018. In its financial market strategy of October 2016, the Swiss Government aims to increase competitiveness by optimising regulatory content and processes and using existing national regulatory leeway, while still focusing on internationally recognised standards.

United Kingdom

The UK has the fourth largest banking sector in the world and the largest in Europe. Holding assets of more than €9 trillion at the end of 2015, the UK is the largest centre in the world for cross-border banking. Banks in the UK employ more than 425,000 people who pay over GBP 18 billion annually in employment taxes, around 10% of the national total. Banking output is the equivalent of 4.6% of the UK's GDP and is a significant contribution to the UK's balance of payments, the export of financial services reflects more than half (some GBP 20 billion in 2015) of UK net exports.

Economic environment

The Bank of England's Monetary Policy Committee expects UK GDP to weaken in the second half of 2016, while inflation is expected to rise to its 2% target in the first half of 2017, partly driven by the depreciation in sterling's effective exchange rate by more than 20% relative to its November 2015 peak. In August 2016, the Bank of England announced a package of measures to support the UK economy, including a reduction in Bank Rate to 0.25% (having been at 0.5% since March 2009); a funding scheme to reinforce the reduction pass-through to end customers; purchases of up to GBP 10 billion of sterling non-financial investment-grade corporate bonds issued by firms making a material contribution to the UK economy; and an increase from GBP 60 billion in the stock of purchased UK government bonds to GBP 435 billion; all measures to be financed by the issuance of central bank reserves.

Structure, assets and liabilities

With over 350 institutions in total, the UK sector has more foreign banks than in any other financial centre. Domestic banking has historically been concentrated, with the main high street groups accounting for around two-thirds of retail banking activity. Banks in the UK operate around 150 million current and deposit accounts for households, with some 50 million operated online. Plastic payment card holding has increased rapidly over the last decade with 60 million credit cards and 99 million debit cards now in issue. They can be used across a network of 70,000 automated teller machines. The growth in 'distance-and-convenience' banking, particularly with the rapid growth of digital banking by customers using their own tablet devices or smartphones, has seen a contraction in branch networks, though there are still 8,600 bank branches, 1,500 building societies' branches (mutual credit institutions) and 11,500 post offices where banking activity can be carried out.

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

Banking activity and performance

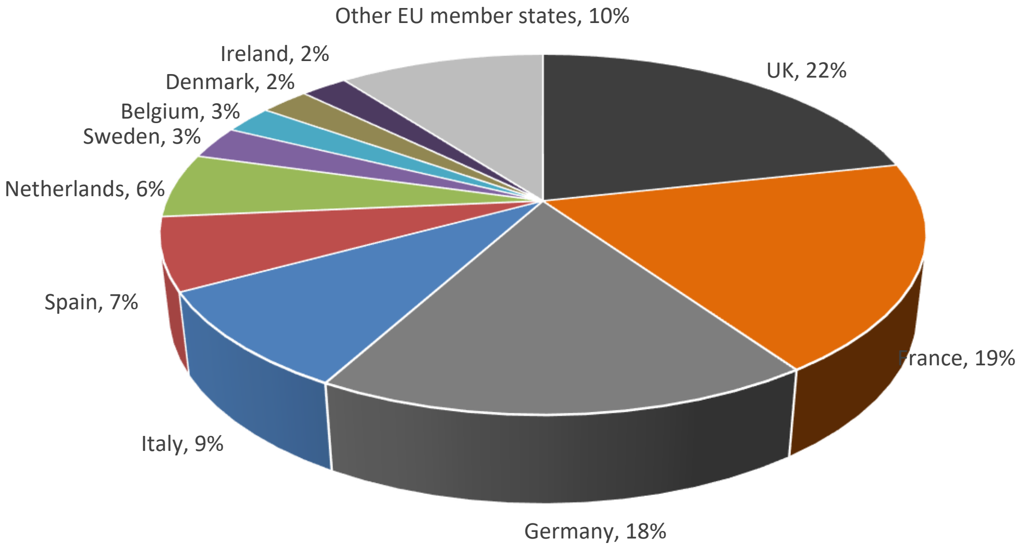
The provision of monetary financial institutions (MFI) credit to the UK economy at end-2015 showed outstanding lending of GBP 536 billion to other (non-MFI) financial companies, GBP 370 billion to UK non-financial companies and GBP 1,261 billion to UK households. These components of credit all saw growth in 2015, with unsecured lending to households growing by 7% annually and lending to non-financial companies seeing annual growth (of 1%) for the first time since 2009.

The cost of banks' wholesale debt funding decreased during 2016 as spreads narrowed and with a lower countercyclical capital buffer and the removal of central bank reserves from leverage ratios, help banks structure their balance sheets to mitigate upward pressure on funding costs.

STATISTICAL ANNEX

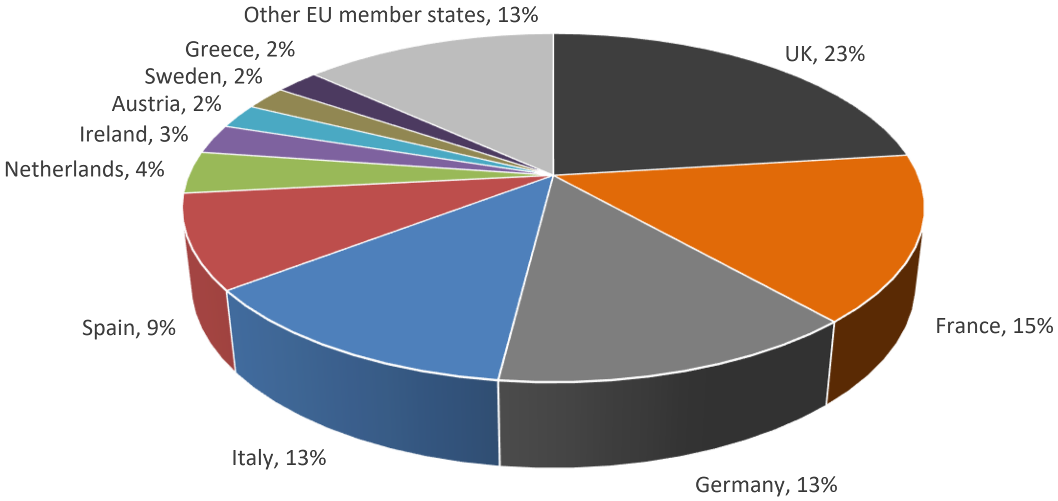
All figures as at 31 December 2015

Figure 22: Share of total assets held by banks in the EU-28
Total assets: €43,380944,



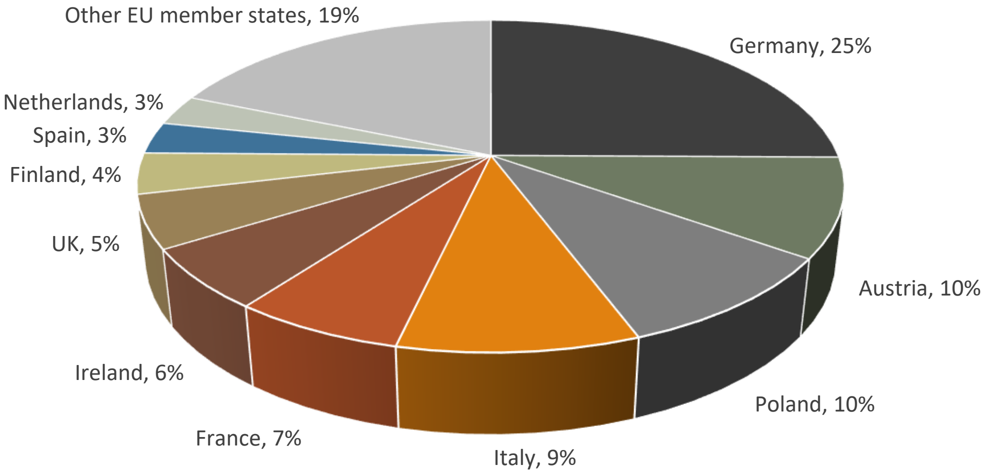
Numbers may not add up precisely due to rounding.

Figure 23: Share of total capital and reserves in the EU-28 banking sector
Total capital and reserves: €3,551,431



Numbers may not add up precisely due to rounding.

Figure 24: Share of total number of banks in the EU-28
Total number of banks: 7,049



Numbers may not add up precisely due to rounding.

Country-by-country statistics – Eurozone Member States

	Number of banks	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Austria	678	854,229	532,150	504,841	81,561	73,315
Belgium	99	1,073,500	517,696	619,648	60,468	55,783
Cyprus	56	91,020	69,468	45,701	21,743	10,983
Germany	1,774	7,665,206	4,503,190	4,577,398	479,020	646,400
Estonia	39	23,240	21,232	14,252	2,919	4,979
Spain	218	2,828,440	1,684,302	1,943,921	310,433	196,553
Finland	281	556,050	280,695	194,901	33,587	21,806
France	467	8,150,044	4,465,315	4,080,837	548,306	407,645
Greece	40	386,025	223,075	249,713	81,123	46,086
Ireland	416	1,086,843	312,900	328,624	97,721	27,091
Italy	656	3,920,746	2,427,500	2,396,028	448,490	298,575
Lithuania	90	24,783	20,465	18,433	3,198	8,434
Luxembourg	143	1,002,751	415,111	462,646	62,017	25,980
Latvia	61	31,932	19,778	13,180	4,214	9,401
Malta	28	47,349	15,167	24,402	4,080	4,583
Netherlands	209	2,503,867	1,402,002	1,172,177	138,598	90,137
Portugal	147	450,078	254,102	280,966	58,002	52,496
Slovenia	23	41,603	27,089	29,250	4,620	10,444
Slovakia	27	69,104	46,950	50,992	9,237	18,900
Eurozone	**5,452**	**30,806,810**	**17,238,187**	**17,007,910**	**2,449,337**	**2,009,591**

Country-by-country statistics – Non-Eurozone EU Member States

	Number of banks	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Bulgaria	28	48,585	34,036	33,991	8,789	30,657
Croatia	33	57,879	42,565	37,590	11,643	20,914
Czech Republic	57	206,630	127,204	129,711	24,726	40,672
Denmark	113	1,024,778	629,020	103,511	76,318	40,748
Hungary	143	112,408	68,486	67,052	9,104	38,205
Poland	670	394,333	275,017	256,607	58,655	175,151
Romania	38	92,288	61,888	58,390	16,056	55,928
Sweden	153	1,281,511	747,808	437,274	78,487	53,987
United Kingdom	362	9,355,722	4,338,076	4,064,825	818,316	398,253
Non-Eurozone	**1,597**	**12,574,134**	**6,324,100**	**5,188,951**	**1,102,094**	**854,515**

	Number of banks	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
EU-28	**7,049**	**43,380,944**	**23,562,287**	**22,196,861**	**3,551,431**	**2,864,106**

Country-by-country statistics – EFTA Member States

	Number of banks	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Iceland	8	37,512	27,612	21,240	7,780	3,005
Liechtenstein	15	55,700	20,870	34,060	5,380	1,902
Norway	134	788,960	582,920	321,500	59,000	25,042
Switzerland	266	2,805,241	1,155,900	1,597,499	n/a	117,725
EFTA	**423**	**3,687,413**	**1,787,302**	**1,974,299**	**72,160**	**147,674**

Country-by-country statistics – EBF Associate Members

	Number of banks	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Albania	16	9,956	4,295	8,148	1,185	6,922
Andorra	5	14	6	11	1	2,522
Armenia	19	6,780	4,580	3,740	1,240	11,516
Monaco	35	116,700	22,300	40,200	n/a	3,051
Montenegro	14	3,472	2,385	1,439	462	2,452
Russia	681	1,201,463	826,778	751,375	130,404	1,277,919
San Marino	7	3,044	1,229	2,061	239	620
Serbia	30	3,048	1,977	1,885	619	24,175