EUROPEAN CENTRAL BANK

REPORT ON EU BANKING STRUCTURE

NOVEMBER 2004

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LIST OF COUNTRY ABBREVIATIONS

AT	Austria
BE	Belgium
CY	Cyprus*
CZ	Czech Republic*
DE	Germany
DK	Denmark
EE	Estonia*
ES	Spain
FI	Finland
FR	France
GR	Greece
HU	Hungary*
IE	Ireland
IT	Italy
LT	Lithuania*
LU	Luxembourg
LV	Latvia*
MT	Malta*
NL	Netherlands
PL	Poland*
PT	Portugal
SE	Sweden
SI	Slovenia*
SK	Slovakia*
UK	United Kingdom
EEA	European Economic Area (18 countries; EU-15 plus Norway, Iceland, and Liechtenstein)
EU	European Union (25 countries, after enlargement)
EU-15	European Union (15 countries, before enlargement)
NMS	New Member States (10 countries, marked with *)

EXECUTIVE SUMMARY

This report aims at reviewing structural developments in the EU banking sector in 2003 and, where possible, in the first half of 2004. The analysis is based on a wide range of indicators drawn from different data sources as well as from an exchange and assessment of qualitative information by the Banking Supervision Committee's (BSC) member organisations.

This report continues the annual monitoring of structural developments in the EU banking sector, following previous publications in November 2002 and 2003. Structural changes in the banking industry, although slow moving, can have important consequences for financial stability in the longer term for several reasons. For instance, strategic choices made by banks can affect profit and risk trade-offs and cost efficiency, ultimately having a bearing on the shock-absorptive capacity of the banking system. Consolidation can change the ways in which banks are linked to one another and, if banks expand into new activities, it can change their longer-term risk profiles.

The format of this report differs somewhat from previous years' publications, which contained a broad review of general trends in the banking sector of the EU-15. This report provides a brief sketch of the main structural developments in the EU banking sector, making a distinction between the EU before the enlargement on 1 May 2004 (the so-called EU-15) and the ten new Member States (NMS). In addition, the report contains two short topical studies, which pertain to recent structural developments in the EU banking sector. More specifically, they deal with banks' strategies and strategic developments and outsourcing by EU banks.

The economic environment for banks in the EU-15 was characterised by persistently low economic growth in 2003. Nevertheless, banks in most EU-15 countries were more profitable in 2003 than in the previous year and solvency levels remained high. Internationalisation and consolidation continued to shape developments in 2003 and in the current year. Consolidation within and across borders as well as sectors has led to greater diversification of the activities of individual institutions. By making them less reliant on any single region or product line, this should contribute positively to financial stability in the medium term. Intermediation activities concentrated on (domestic) retail business have been generating a larger share of banks' profits than a few years ago. Direct market finance, through seasoned equity and bond issues, grew fast in 2003 and may be sustained if the economic environment continues to improve. Looking ahead, these tendencies will remain important drivers for change over the coming years. Clearly, the EU-15 banking system is becoming more highly integrated and, as a result, competitive conditions will likely intensify.

Banking structures in NMS display great variety, but some common factors and trends can be identified. A catching up process, characterised by rapid financial development and high economic growth, has been taking place. Many NMS saw increased price competition and narrower margins as a result of strong competition in the banking sector. However, margins have on average remained higher than in the EU-15. While the presence of NMS banks abroad is limited, foreign ownership of NMS banks, mainly by EU-15 entities, has been important. Another trend has been the high growth in household lending, in line with but exceeding the EU-15 lending growth rates. Furthermore, in most NMS asset quality improved and profitability increased in 2003. NMS banks performed relatively well in terms of cost efficiency and solvency ratios have been stable in most NMS.

As regards the outlook and future strategies of EU banks, a survey of 103 banks showed that the main focus for the coming years is on maintaining and improving performance in an environment characterised by high macroeconomic and financial market uncertainty. Strategic risks are high on the agenda of NMS banks, mainly because of structural change. Consolidating domestic positions and adapting organisational structures are also of strategic importance to many banks. Finally, the adoption of regulatory changes will significantly affect EU banks in the coming years. The study shows that EU banks are ready to take the necessary actions to maintain adequate profitability and solvency levels. These may lead some banks to target dimensional growth, possibly through M&A operations.

Finally, special attention is devoted to outsourcing in banking, which is becoming more pervasive in many areas of bank operations. In addition, the topic is very timely, as various consultations are taking place in the current year to agree on a set of supervisory principles on outsourcing in the financial services sector.

The evidence from a survey of a sample of EU banks shows that two types of outsourcing have been taking place: one of them involves reliance on external suppliers, the other is intra-group outsourcing. Typically, support and back-office activities are outsourced, while core activities remain within the bank. Within larger group structures, some core activities are often carried out by specialised affiliates and their products are distributed by the other companies of the group. Outsourcing is mainly driven by cost reduction motives, but banks also commonly mention the acquisition of professional management and expertise and the opportunity to free resources for core activities as reasons.

Although most banks were satisfied with the results of outsourcing, some banks pointed to negative experiences, such as a deterioration in service quality levels and high costs. Supervisors share many of the banks' concerns over outsourcing, and have various technical and supervisory mechanisms in place to mitigate the risks. In the future, intra-group outsourcing and outsourcing to external providers could deserve distinct consideration, given the different organisational implications they entail for banks and the different concerns they entail for supervisory authorities. In fact, in the event of intra-group outsourcing, the outsourcer is better able to mitigate the risks, on the one hand, and, on the other, supervisory access is more easily ensured. Finally, potential financial stability implications need to be monitored closely, particularly where multiple financial institutions are outsourcing to a single provider.

1 OVERVIEW OF DEVELOPMENTS IN THE EU-15 BANKING SECTOR IN 2003

This chapter provides an overview of the structural developments that took place in the banking sectors of EU-15 Member States -that is the European Union before the enlargement on 1 May 2004- during 2003 and the first half of 2004. For this set of countries, a number of indicators are collected each year from supervisory authorities and central banks, and are reported in Annex 1.

1.1 THE EXTERNAL ENVIRONMENT

In 2003, banking sectors in EU-15 countries continued to operate under difficult economic conditions. These included GDP growth below 1% for the second consecutive year and an appreciation in the euro's effective exchange of around 10%. However, there were incipient signs of an economic recovery in the first half of 2004, as the EU growth rate started to pick up. Stock prices began to recover during 2003 and continued their improvement during the first half of 2004. Inflation remained at historically low levels and short and long-term interest rate levels declined further across the EU.

Various legal initiatives pertaining to the banking sector were completed in 2003 and the first half of 2004. These included new EU Directives adopted under the Financial Sector Action Plan (FSAP), national legislation to implement the European Company Statute, and revisions to the national legislation of the cooperative banking sector.

Directives adopted under the FSAP will have a structural impact on EU banking markets. The new Take-over Directive aims at increasing the transparency of EU cross-border mergers and acquisitions (M&A) handled by supervisory authorities. Furthermore, the Investment Services Directive, Transparency Directive, and Market Abuse Directive are all expected to foster the cross-border provision of (investment) banking services significantly.

The European Company Statute allows the establishment of companies, including financial institutions, governed by a common set of EU rules, and allows certain national restrictions to be bypassed. Two key features of this legislation are the free transfer of company domicile and the possibility of performing relatively easily cross-border mergers. In this context, the Commission additionally issued a proposal for cross-border mergers (November 2003) as well as a consultation on the forthcoming revised 14th Company Law Directive on the cross-border transfer of the registered office of limited companies (February 2004).

Furthermore, for financial services, new institutional arrangements were set up at the European level to allow the EU to respond far more quickly to developments in the financial sector. The aim of this reform is to improve regulatory and supervisory cooperation in the EU. In the banking area, this has been realised through the creation of the European Banking Committee (EBC) and the Committee of European Banking Supervisors (CEBS).[1]

Work has advanced on the transposition of the new Basel Accord on risk-based capital adequacy standards into European legislation. Another pending issue relates to the implementation of international accounting standards (IAS). These developments will have a significant role on banks' strategies in the coming years (see also Chapter 3).[2, 3]

These external conditions affected some of the longer-term trends under way in

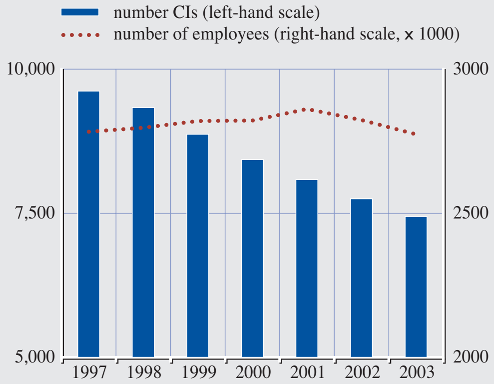
1 The European Banking Committee advises the Commission on the development of legislation and assists in the exercise of its implementing powers in the banking field (Decision 2004/10/EC). The CEBS reflects, debates, and advises the Commission in the field of banking regulation and supervision. It also contributes to the consistent and timely implementation of Community legislation in the Member States and to the convergence of Member States' supervisory practices throughout the Community and promotes supervisory cooperation (Decision 2004/5/EC).

2 See *Study on the financial and macroeconomic consequences of the draft proposed new capital requirements for banks and investment firms in the EU*, PriceWaterhouseCoopers, 8 April 2004.

3 See *Fair value accounting and financial stability*, ECB Occasional Paper 13, April 2004, for a more in-depth analysis of the issues concerning IAS.

Chart 1 Number of EU-15 banks and level of employment

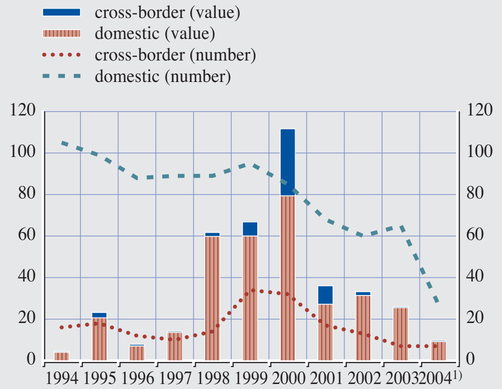
('000)



Source: ECB.

Chart 2 M&A within EU-15 banking sector

(value in billion euro and number of deals)



Source: Thomson Financial (SDC Platinum).
Note: Cross-border refers to inter-EU-15 M&A activity. Number of deals also includes deals with no reported value.
1) Refers to figures for the first half of 2004. Both value and number of deals are on a scale from 0 to 120.

the EU banking sector, in particular consolidation, internationalisation, integration and disintermediation.

1.2 CONSOLIDATION

Consolidation continued to advance as the number of credit institutions declined by 4% in the EU-15 during 2003. At the end of the year, the EU-15 counted slightly less than 7,500 credit institutions (see Chart 1). In the period from 1997 to 2003, almost 2,200 credit institutions, or around 23% of the number of institutions existing in 1997, ceased to exist. This is mainly attributable to mergers and acquisitions.

As a result of the ongoing consolidation and organic growth of the sector, the size of the average institution in the EU-15 grew by 9% in 2003 and had almost doubled when compared with 1997, reaching more than €3.5 billion of assets. Further consolidation is expected in the coming years, especially among cooperative and public banks. Accompanying this trend towards consolidation were further cost-saving and efficiency-enhancing efforts, as income streams suffered from the challenging operating environment. This entailed a restructuring of branch networks and a scaling down in the number of employees by almost 50,000 in 2003, after a reduction of nearly 40,000 in 2002 (see Chart 1). In particular, institutions in need of additional financial resources frequently engaged in asset sales and spun off non-core activities.

In many countries, a trend toward centralisation or bundling of services across institutions could be observed, especially in the area of credit risk management, settlement, invoicing, and payment transactions. In addition, many banks considered outsourcing various non-core services, especially IT and back-office functions. This topic is analysed in more detail in Chapter 4.

As can be seen from Chart 2, significant mergers and acquisitions (M&A) activity among large credit institutions took place in the run-up to and the early years of the Monetary Union (1998-2000). During 2003, M&A activity in terms of value stabilised at levels comparable with those seen in 2001 and 2002. For the most part, but mainly in the last few years, M&A activity was confined to domestic consolidation. There were however some smaller cross-border deals in Central and Eastern European countries, but these were often offset by retrenchments from activities in other regions.

No clear indication of a revamping in M&A activity has yet emerged in 2004. While preliminary data on domestic deals in the first half of the year point to a status quo, the recent acquisition of Abbey National by BSCH has focused increased attention on cross border M&A. Observers point to a number of factors – such as the strong competition for market share, the significant amount of liquidity available in the banking sector and the new EU Takeover Directive – that could lead to increased international M&A activity.[4] In the future, the importance of cross-border M&A may increase since domestic markets have become more concentrated and the potential for domestic mergers is drying up in smaller EU-15 countries (see also the next section).

Looking at cross-sector M&A activity between EU banks and insurance companies, Chart 3 and Chart 4 show that the value and number of deals dropped significantly in 2002 and 2003 after some more active years. Compared with intra-sector M&A activity, the total value and number of deals was significantly lower for cross-sector M&A, most likely due to large differences in regulatory frameworks and corporate cultures.

The charts also show that, throughout the years, the majority of the deals involve insurance companies taking over banks, especially when looking at the number of M&A deals. In terms of value, some years like 1998, 2000 and 2001 are heavily influenced by a few deals involving large institutions. Furthermore, similar to intra-sector M&A activity, most deals are still concluded between domestic partners, possibly due to lower perceived benefits of cross-border diversification and fewer potential synergies.

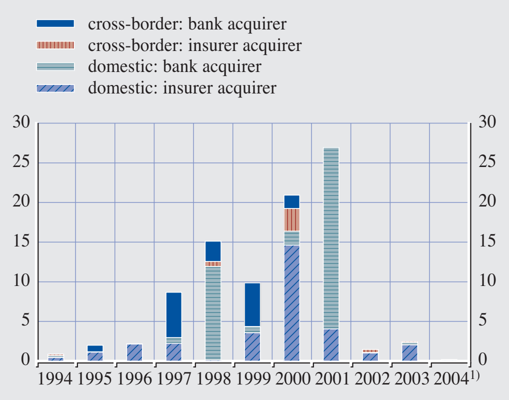
1.3 MARKET STRUCTURE

The consolidation process also led to an increase in the concentration of most EU-15 countries' banking sectors. On average, the five largest institutions' share of total bank assets (CR-5) amounted to 53% in the EU-15 in 2003 (on a non-consolidated basis), up from 46% in 1997 (see Table 6 of Annex 1). A similar trend is visible from the Herfindahl index, which rose

4 See, inter alia, Moody's, *Mergers and Acquisitions in European Banking: Between Myth and Reality*, June 2004.

Chart 3 Bank-insurance sector M&A in the EU-15

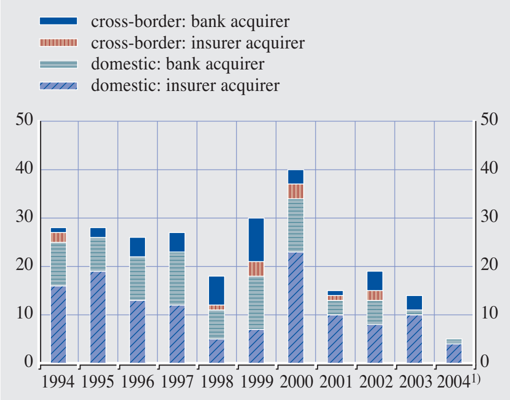
(value of deals in billion euro)



Source: Thomson Financial (SDC Platinum).
1) Refers to figures for the first half of 2004. See also Chart 2.

Chart 4 Bank-insurance sector M&A in the EU-15

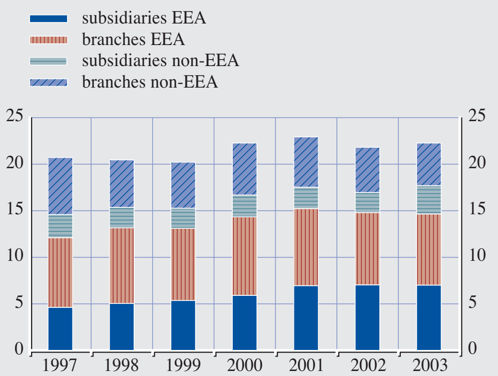
(number of deals)



Source: Thomson Financial (SDC Platinum).
1) Refers to figures for the first half of 2004. See also Chart 2.

Chart 5 Share of foreign presence in EU-15 banking sector assets

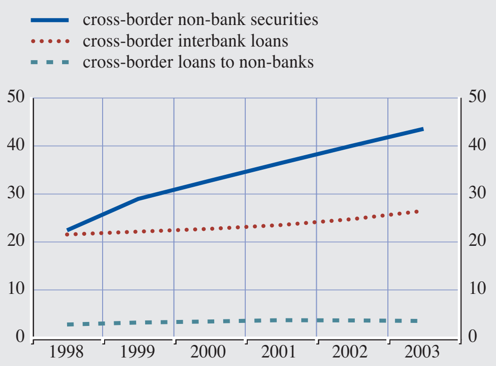
(%)



Source: ECB.

Chart 6 Cross-border activity of euro area banks

(in percent of total holdings)



Source: ECB.
Note: Lacking data from non-euro area EU-15 countries, the chart focuses on euro area figures. Cross-border activity refers to cross-euro area activity in % of outstanding amounts (i.e., excludes crossborder activity in non-euro area and third countries).

from 383 in 1997 to 540 in 2003 (see Table 7 of Annex 1). [5] As a whole, it appears that the EU-15 banking market is relatively unconcentrated, although the CR-5 ratios and Herfindahl indices exhibit a fair amount of dispersion across the EU-15 countries.[6] Concentration is closely related to market size, as some of the smaller countries tend to have a higher degree of concentration due to the presence of a few large banks. This may point towards the presence of scale economies, since in a smaller market fewer banks may be able to reach an adequate scale, whereas in a large market, a smaller percentage share may provide a sufficient scale to operate efficiently.

Furthermore, there are significant differences in the density of bank branch networks across EU-15 countries (see Table 3 of Annex 1). The number of branches per 100,000 inhabitants varies between less than 25 in five EU-15 countries and more than 50 in six EU-15 countries.

1.4 INTERNATIONALISATION

While international banking activities were scaled down in various countries, linkages to specific regions, such as Central and Eastern Europe, and regional cross-border banking activities in the EU-15 grew further in 2003.

The share of non-domestic branches and subsidiaries of credit institutions in the banking assets of the EU-15 reached more than 20% (see Chart 5). More than two-thirds of this foreign presence has been due to branches and subsidiaries from EEA countries, with less than one-third due to non-EEA countries. Hence, EU banks' cross-border presence positively contributes to financial integration in Europe. Chart 5 also shows that the increase in activity from EEA subsidiaries since the start of EMU in 1999 has accounted for most of the increase in the share of foreign presence in the EU-15 banking sector.

Another way in which banks have expanded their activities internationally is via the cross-

5 The Herfindahl concentration index is calculated as the sum of the squares of each bank's market share. It reflects more accurately the entry of new and smaller banks, as well as the impact of a single bank with a very large market share. The US Department of Justice defines a market as highly concentrated when the index exceeds 1800 and unconcentrated when the index is below 1000.

6 These two indices suffer from statistical limitations since they are calculated (i) on the basis of total assets instead of market shares in specific markets and (ii) based on non-consolidated positions.

border provision of financial services, albeit to differing degrees depending on the activity. In particular, euro area banks have significant cross-border holdings of interbank loans, equal to nearly 30% of total interbank loans, and of cross-border securities issued by non-banks, equal to more than 40% of total securities holdings, both up from 20% in 1997 (see Chart 6). Cross-border loans to the private sector remain low, however, making up less than 5% of the total loan book. The latter shows that cross-border competition in retail bank services is limited and, as indicated by the strong cross-border presence, that proximity to bank customers remains very relevant.

Finally, internationalisation is also signalled by cross-border shareholding relations between EU banks, which include both minority and majority participations (i.e. shareholdings derived from M&A operations discussed in section 1.2).

1.5 INTERMEDIATION

Despite generally weak macroeconomic conditions, favourable financial market developments contributed to a strengthening of equity and bond issuance activity, while bank loans to the corporate sector showed mixed developments in the different EU-15 countries. On average, securities issuance (other than shares) grew in 2003 at a rate of 10% in 2003 in the countries that reported these figures, compared with 0.6% rate of loan growth (see Tables 10, 15 and 16 of Annex 1). Long-term issues in particular grew very rapidly, at a rate of more than 50%, following several years of low activity, possibly because large firms attempted to take advantage of the low interest rate environment. However, long-term debt issuance constitutes a relatively small part of total issuance, between 10% and 15%.

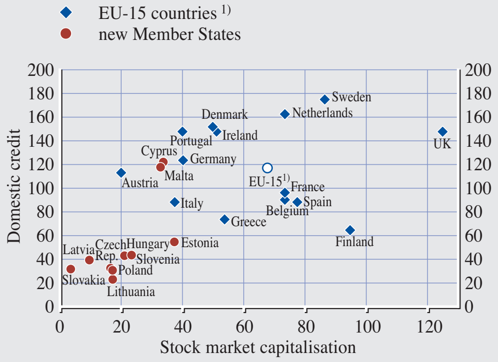
Chart 7 shows that for the EU-15, the domestic credit to GDP ratio stood at almost 120% in 2003, compared to a stock market capitalisation to GDP ratio of around 70%. As can be seen from the chart, the NMS have significantly smaller credit to GDP and stock market capitalisation ratios (see also Chapter 2).

The banking sector remains predominant in financial intermediation in the EU. In terms of GDP, bank assets in the EU-15 reached 280% in 2003, an increase of 9 percentage points compared with 2002, and of almost 40 percentage points since 1997.

In an uncertain operating environment, banks continued to focus predominantly on retail

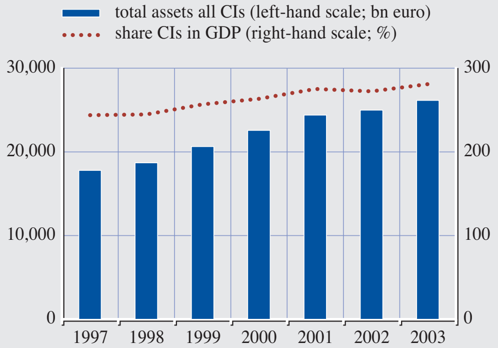
Chart 7 Banking sector versus Stock market

(as % of GDP; 2003)



Sources: IMF and World Federation of Stock Exchanges.
1) Excluding Luxembourg.

Chart 8 Total EU-15 banking assets and ratio of banking assets to GDP



Source: ECB.

operations in their home markets, reinforcing the trend observed since 2002.[7] The focus on retail activities such as mortgage and SME lending and fund management was further reinforced by the current low interest rate environment.

As for distribution channels, branches remain the core distribution channel, but banks have simultaneously become more focused on providing advice-intensive services and moved away from the pure processing of transactions. The trend towards one-stop shopping and conglomeration of financial services gained further ground in 2003. At the same time, in some countries, direct banking arms (e-banking) have been reintegrated into the traditional bank structures. A further expansion of some non-standard bank service delivery channels such as supermarkets, post offices and phone banking was seen in 2003.

A number of new products and services were offered for the first time to the public in 2003, including in some countries the facility of mobile phone banking, investing in hedge funds, non-standard securitisation techniques and the offering of some forms of equity-linked bonds.

Hedge funds in particular have come into the spotlight, as their number and importance are rapidly growing. They became very important to a number of (investment) banks, making up an important share of commission income, in addition to other paid services (e.g., lending cash and securities, clearing, research). Since hedge funds turn over their portfolio more frequently than ordinary mutual funds, they may have a disproportionate effect on banks' income. Furthermore, more and more pension funds and foundations have become investors in hedge funds, although it is becoming harder for most hedge funds to achieve large returns. Currently, bank regulators and supervisors are beginning to collect information on hedge funds (albeit indirectly) and on banks' dealings with hedge funds as concerns have been raised over the extension of credit lines to and decreased margin requirements for hedge funds, which has been fuelling their leverage.

As noted in the previous years, consumer protection and the restoration of investor confidence remain important structural issues to which banks responded via organisational changes and efforts to improve corporate governance. Banks also took steps to further improve their risk management procedures so that they could control credit and operational risks, respond to expected changes in the regulatory capital framework (Basel II and IAS) and keep pace with financial innovations, such as in the field of securitisation and credit risk transfer.[8]

1.6 OUTLOOK

With regard to the potential future outlook, internationalisation and consolidation may continue to shape the coming year and disintermediated finance may persist if the economic environment improves and if, as expected, the gradual economic recovery gains pace. The banking market will continue to be characterised by increasing concentration and high competition due to the integration of EU financial markets and the increasing links between the different regions in the European Union. This also implies that inefficiencies are bound to be exploited very rapidly due to the increasing ease of entering banking markets abroad or providing cross-border financial services.

7 For the euro area, in the absence of data for EU-15, loan growth amounted to 4% in 2003, up from 3% in the preceding year. Mortgages displayed the strongest growth, on average 8.5% in 2003, while loans to corporate clients grew only by around 2%. The balance sheet of the financial sector as a whole shows a stable loans-to-assets ratio, at nearly 50%, while on the liabilities' side, deposits constitute slightly more than one-third of liabilities. Mortgage loans make up 25% of total loans, other household lending accounts another 10% and loans to the corporate sector slightly more than 30%.

8 See, e.g., "*Credit risk transfer by EU banks: Activities, risks and risk management*", ECB, May 2004.

2 BANKING STRUCTURES IN THE NEW MEMBER STATES IN 2003

With the accession of the new member states to the European Union on 1 May 2004, there is a need for a detailed analysis of banking structures and developments in the ten new member states (NMS), especially since their banking sectors have experienced significant structural changes.

The objective of this chapter is to present an overview of the structure of the banking sector in the NMS in 2003 and show how it is integrated with the rest of the EU. A more extensive study of NMS banking structures will be published later on in the year.

2.1 THE EXTERNAL ENVIRONMENT

The banking sector in the NMS operated under favourable economic conditions, with GDP growth rates of 2.6% in 2002 and 3.6% in 2003, compared with 1.0% and 0.8%, respectively, in the EU-15. Some NMS countries enjoyed even higher growth rates, such as the Baltic States with more than 7%. At the same time, inflation is on a downward path in all NMS, from more than 10% on average in 1997 to 2.8% in 2002 and 2.1% in 2003, which facilitated a decline in short- and long-term interest rates. NMS stock markets have also showed a strong performance since 2001, with nominal returns of about 15% in 2002 and 30% in 2003. These conditions gave rise to high lending growth and sound bank profitability in most NMS. On the other hand, these developments may pose certain risks to the banking sector. In particular, strong lending growth could entail higher credit defaults in the future, should the macroeconomic environment deteriorate. Also, the considerable amount of credit denominated in foreign currency could trigger higher defaults in the future, should the exchange rate depreciate significantly.

In recent years, changes in the supervisory structure have taken place in NMS. As outlined in ECB (2003),[9] the trend is towards a consolidation of the supervisory structures. Supervisory structures also vary less in the NMS than within the EU-15. Furthermore, most NMS have signed, or are in the midst of completing, memoranda of understanding (MoUs) with supervisory authorities from countries whose banks have a strong local presence in the respective domestic banking sector.

NMS banks are usually subject to the same corporate governance rules that apply to other (listed) firms. In most NMS countries, banking law includes additional principles of corporate governance, which often relate to adequacy of risk management and internal control systems, and fit and proper tests of board members.

Independent audit committees are mandatory in a few NMS countries and exist de facto in other NMS countries. Alternatively, audit functions are performed by the supervisory board. In all NMS except MT, which follows the Anglo-Saxon tradition, a two-tier (legal) governance structure, distinguishing between daily management and the supervision of management, is applied in the banking and corporate sector.

Deposit protection in NMS is arranged mostly as an explicit and compulsory scheme and was implemented between 1993 and 2003.[10] Generally, it covers deposits in local as well as in foreign currency. In most NMS, there is an element of co-insurance, as the cover is restricted to the lower of the maximum cover or a percentage (usually 90%) of the actual deposit amount. The level of the protection ranges between €6,400 and €25,000. For the countries that have a cover below the EU minimum of €20,000, transitional arrangements are in place so that they will reach the EU minimum by 2008. Except in SI, where the central bank runs the deposit insurance fund, and LV, where the supervisory authority manages the deposit insurance fund, all other NMS have a special

9 See "*Developments in National Supervisory Structures*", ECB, June 2003.
10 See Nenovsky and Dimitrova, *"Deposit Insurance during EU Accession"*, William Davidson Institute Working Paper 617, Michigan Business School, October 2003.

body responsible for the management of the deposit insurance fund. Annual premiums range from 0.1% to 0.75% of insured deposits. Funding is completely private in four countries (CZ, LT, MT and SI) and funded with private and official means in the other countries.

2.2 MARKET STRUCTURE

Bank privatisation programmes were fully completed in most NMS in 2002-2003, with the exception of PL, SI, and SK, where the process is however largely completed. As a result, state ownership in most NMS is now negligible.[11] The value of bank assets that were privatised in 2002 and 2003 amounted to €8.5 and nearly €4 billion, respectively. The largest part of privatisation took place in the mid-1990s, through M&A. In the period from 1998 to 2002, a large number of M&A deals were concluded involving foreign banks. The value of M&A deals, however, is very much below that registered in EU-15 countries (compare with section 1.2).

No major M&A deals were concluded in 2003. In HU, two savings banks merged and foreign banks acquired two commercial banks in 2003.

Many NMS are characterised by a large number of very small institutions with assets below €0.5 billion (see Chart 10). In total, the NMS count 1,033 credit institutions, 32 less than in 2002, with total assets of around €350 billion. By EU-15 standards,[12] banks in NMS are generally "small" in terms of asset size. The main category in terms of size is composed of institutions between €1 and €10 billion (see Chart 11). Only in CZ, HU, and PL are there a few larger institutions with assets between €10 and €20 billion.

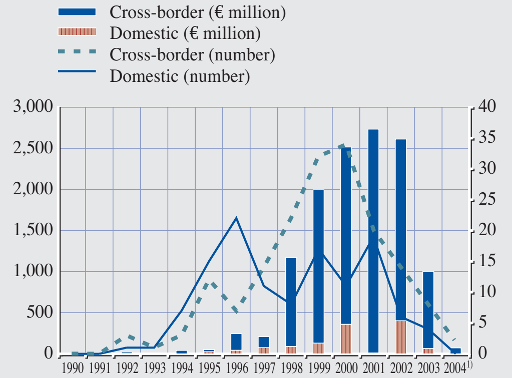
Looking at market shares, Chart 12 shows that the top 5 players account for more than 80% of banking sector assets in EE, CY, MT and LT. The market share of top-5 players (CR-5) is the lowest in HU and PL at around 52%. However, the latter still equals the average CR-5 in the EU-15, which shows that NMS banking markets are very concentrated.

Four countries characterise their banking sector as having a medium level of competition in the

11 In EE, LT and MT, no banks are state-owned. With the exception of PL (24%) and SI (19%), state ownership is below 5% in other NMS.

12 See *Banking stability in the EU*, ECB, November 2003, where large banks are defined as having total assets over €120 billion.

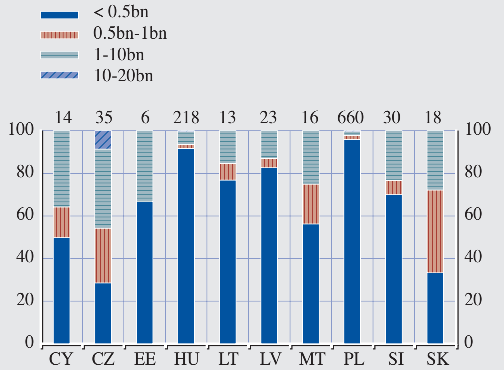
Chart 9 Domestic and cross-border M&A



Source: Thomson Financial (SDC Platinum).
1) First half of 2004.
Note: Except for cross-border deals, NMS countries are viewed only as target. Value on the left-hand scale, number of deals on the right-hand scale.

Chart 10 Number of banks in NMS, 2003, per size category

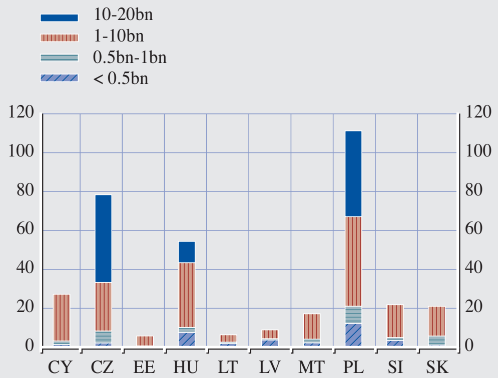
(%)



Source: ECB.
Note: Figure for CY excludes international banking units and cooperative credit institutions. For HU, PL and SI, cooperative banks are also included.

Chart 11 Distribution of assets per size categories of CIs in NMS

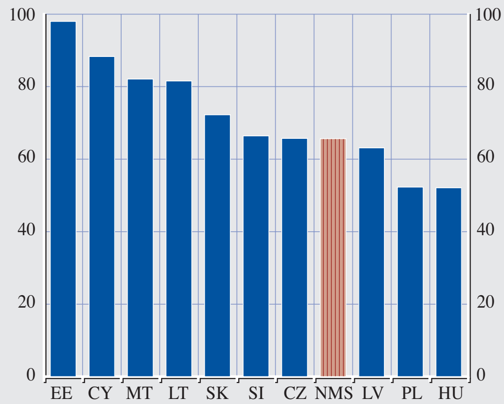
(2003)



Source: ECB.
Note: See note to Chart 10.

Chart 12 CR-5 in NMS for 2003

(%)



Source: ECB.
Note: See note to Chart 10.

domestic banking market, while the other six countries prefer to call the competition level "strong". Many countries mention increased price competition and narrower margins as a feature of the strong competitive environment. Some countries also attribute the strong competition variously to deregulation; to the presence of foreign banks, which provides access to comparably cheaper funding from parent companies abroad; and, in one country, to an economic slowdown, which reduced banks' profits and increased competition for market share.

The number of banks listed on the stock exchange ranges from one or two to more than 10 in PL. These banks usually represent a major share of the banking sector assets. In most countries, the number of banks listed on the stock exchange is stable.

2.3 FOREIGN PRESENCE

In many countries, foreign and mainly EU presence takes a prominent role in the local banking sector, as could be inferred already from the description of M&A activity in section 2.2. Chart 13 shows that on average nearly 70% of NMS banking assets are controlled by foreign banks, against only 23% in the EU-15.[13] Foreign presence is notably high, over 80%, in CZ, EE, HU, LT and SK. On the other end of the scale are CY and SI, where, respectively, less than 20% and 36% of the assets are held by foreign banks.

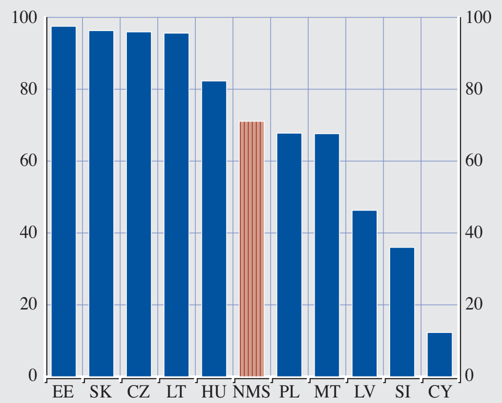
Foreign ownership has a significant influence on banking operations and management. Not only does it influence the composition of the local banks' senior management, it also makes the decision-making process heavily reliant on foreign influence, especially in strategic management. IT and risk management systems are often integrated with the foreign parent bank and audit standards are also usually adopted from the parent.

In general, foreign ownership has a positive impact on the reputation, risk profile and risk management of local banks, as well as on the stability of the NMS financial system. However, foreign banks' expectations about local bank profitability may be too high, which could induce them to compete aggressively on the local market. It may also entail capital flows in the form of repatriation of profits. Also from

13 See *Mergers and acquisitions involving the EU banking industry: Facts and implications*, ECB, December 2000.

Chart 13 Foreign ownership

(% banking sector assets in 2003)



Source: ECB.
Note: See note to Chart 10. Only foreign ownership by banks is considered.

the regulatory and supervisory perspective, cross-border groups active in NMS may present a number of challenges.

Generally, the NMS banks have little or no[14] presence abroad, except for HU and EE, where banks have a more significant foreign presence. The limited presence abroad usually occurs via branches in neighbouring regions.

2.4 PRODUCTS AND DISTRIBUTION CHANNELS

In many NMS, it is mainly household (mortgage) lending that is the fastest growing. On average, domestic lending in NMS grew at nearly 20% per year between 2000 and 2003. Also, deposits showed a high growth rate in NMS, on average more than 25%. In some countries, however, there are concerns that the rapid growth of lending is outpacing the growth of deposit volumes, which ultimately could lead to funding problems for the banking sector.

In different countries the rapid growth rate of loans – new loans as well as refinancing – has been associated with an environment of decreasing interest rates, a favourable economic situation, and the low leverage of local firms and households. Country-specific issues have also played a role; e.g., the increased price competition after interest rate liberalisation, pension reforms and the availability of foreign-currency loans and deposits.

Financial services which are relatively new to the respective countries have been growing quickly; e.g., loans linked to insurance, e-banking and mobile phone banking, equity-linked deposits, asset and investment management services, retirement planning products, mortgage bonds for households and mutual funds.

Branches are the most important distribution channel for banks in NMS, as is the case in the EU-15. In terms of branch network density, there are substantial differences among the NMS and compared with the EU-15. In LT and LV, for example, there are on average less than 10 branches per 100,000 inhabitants, whereas in CY and SI, there are more than 60. The average number of branches per 100,000 inhabitants in the NMS (around 15) is considerably lower than in the EU-15 countries (around 50).

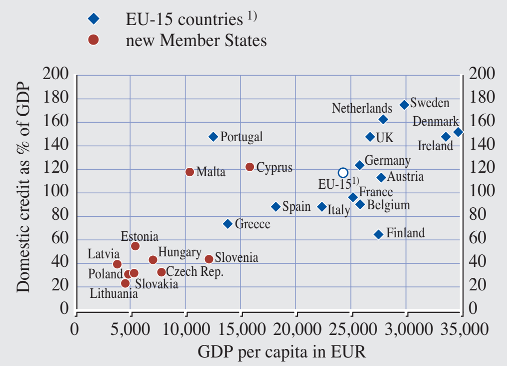
The importance of branches may decrease in the future, as cash dispensers and ATMs become more widely available and internet accounts become more widespread. On the other hand, internet banking seems to be growing in importance in all NMS and it is already very important in a few countries, such as EE and LV. Other intermediaries, such as credit intermediaries, savings and post office institutions, play an important role in some countries, such as HU, LV, PL and SI.

2.5 FINANCIAL STRUCTURE AND PERFORMANCE

Financial and economic development. Looking at the ratio of bank credit as a percentage of GDP against the GDP per capita,

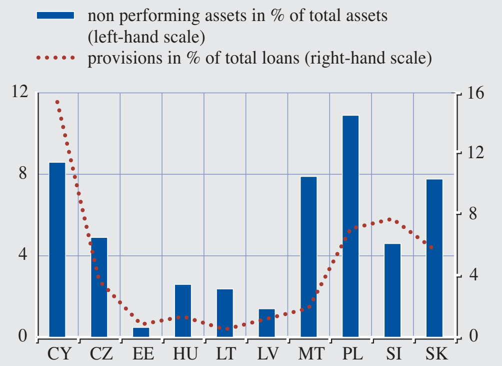
14 CY, CZ, PL and SI banks have some equity participations in foreign banks. Furthermore, CZ, MT, PL, LV and SI banks have a limited presence abroad via representative offices.

Chart 14 Financial versus economic development in 2003: Bank credit versus GDP per capita



Sources: European Commission and IMF.
1) Excluding Luxembourg.

Chart 15 NPL and LLP in 2003



Source: ECB.
Note: See note to Chart 10.

a significant degree of catching up remains for the NMS compared with EU-15 countries. Chart 14 shows that all NMS countries except CY, MT and SI have a level of GDP per capita below the EU-15, as well as a substantially lower ratio of domestic credit in percent of GDP, compared with the EU-15 countries.

Asset quality. NMS banks have different levels of non-performing loans (NPL) and loan loss provisions (LLP), mainly due to differences in domestic accounting principles, which makes a comparison difficult. The level of NPL as a percentage of total assets varies between 0.9% and 10.9% (Chart 15). Likewise, the level of LLP as a percentage of total loans varies between 0.5% and 15.4%. A general observation, however, is that provisioning and NPL levels decreased in 2003.

In most NMS, the low interest rate environment and favourable economic climate both enabled most debtors to pay off their loans as expected and increased banks' capital positions. In addition, in some countries, structural changes occurred, such as the transfer of NPL to a special bailout company, changes in government subsidies and new directives on credit risk management.

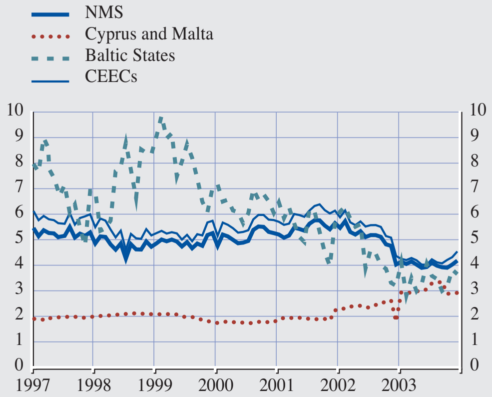
Profitability. Many countries reported a significant growth of banking profits in 2003, although interest margins have been narrowing steadily (see Chart 16).

More generally, cost cutting, through a reduction of staff and bank branches, and strict cost control were factors contributing to profit sustainability and efficiency in some NMS (see also Chart 17). NMS banks are focusing on improving efficiency, either by reducing costs or increasing charges for services.

Solvency. Capital buffers are ample in most NMS banks, although there are large country differences in levels and in regulatory minima (see Chart 17). In part, a higher capital adequacy ratio is deemed necessary in some small countries which have limited diversification opportunities, high levels of NPL and heavy reliance on real estate as collateral – which is, according to some observers, subject to potential large price swings. Solvency ratios are stable in most NMS thanks to a strengthening of the capital base, the issuance of subordinated debt or increases in (retained) profits. In some countries, solvency ratios declined compared with 2002 for various reasons, including higher credit risk requirements.

Chart 16 Bank margins in NMS

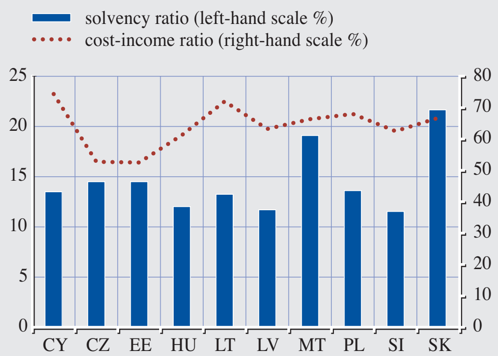
(%)



Source: IMF.
Note: Bank margin is defined as the difference between the average lending and deposit rate. For CY and MT, the lending rate refers to central bank lending rate. Figures are country-weighted with lending and deposit volumes.

Chart 17 Solvency and cost-income ratios for NMS banking sectors

(2003)



Source: ECB.
Note: See note to Chart 10.

2.6 CONCLUSION

The economic environment in which banks in NMS operate continues to be characterised by favourable conditions. This contributed to the positive developments observed in most NMS banking sectors. While price competition has become more intense over the past few years, profits have increased and solvency ratios have remained firm.

NMS banks are confronted with several challenges. In the first place, many NMS are still undergoing rapid (technological) changes, which may have an impact on risk measurement and management systems. Second, foreign ownership has a large influence on banks' operations and activities in many NMS. While generally positive, it may raise specific issues in times of stress. Third, NMS banks will have to keep a firm control on balance sheets and asset growth, as they may reach limits on the funding side or be faced with (negative) shocks on the asset side, e.g., if the exchange rate depreciates and causes a deterioration in foreign-currency denominated loans. Finally, in terms of the institutional setting, some NMS still have to transpose certain aspects of EU Banking Directives into their local legislation and have obtained a grace period during which they can do so.

3 EU BANKS' STRATEGIES AND STRATEGIC DEVELOPMENTS

This chapter analyses the results of a survey conducted in the first quarter of 2004 on a sample of 103 banks across the European Union.[15] The aim of the survey was to determine what EU banks saw as major risks for the year ahead. It also asked them to describe their medium-term strategic targets and the strategic changes they expected to face or implement over the coming years. The remainder describes the results of this survey, focusing mostly on the strategic part, and draws some implications with respect to likely structural changes for the EU banking sector.

3.1 STRATEGIC RISKS AND OTHER SOURCES OF RISK FOR 2004

Banks that took part in the survey were asked to determine the importance of five sources of risk for their institution over the coming year (i.e., first quarter 2004-first quarter 2005), by ranking them from low to high on a scale from 1 (very low) to 5 (very high).[16] These sources of risk were (i) macroeconomic developments, (ii) financial markets, (iii) banking sector developments, (iv) strategic risks related to changes affecting the individual institution, and (v) regulatory developments.

Chart 18 presents the distribution of the banks' scores for the different broad sources of risk on the scale from 1 to 5, as a percentage of the total replies for each score. If more banks consider a source of risk as very important, then this will be reflected in a relatively larger bar within the score 5, which is the "very important" score. Similarly, if many banks consider a risk as relatively unimportant, this will be reflected in a larger bar within the score 1, which is a "very low importance" score. The results for all countries are further disaggregated into EU-15 banks (Chart 19) and NMS banks (Chart 20).

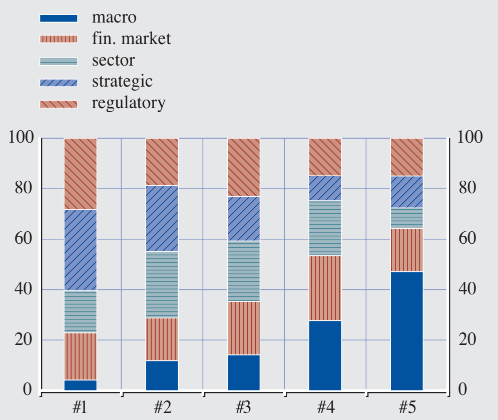
Most EU banks seem to attach relatively less importance to strategic risks and relatively more importance to macroeconomic risks. The

15 More specifically, it concerns 58 banks from fourteen of the EU-15 countries and 45 banks from the ten NMS. There are some differences in sampling characteristics between the two groups. For example, the EU-15 sample counted more "large" banks than the NMS (i.e., assets above €120 billion). Relatively more NMS banks were mainly domestically orientated and a larger fraction was foreign-owned, compared with EU-15 banks.

16 This means they had to determine which source of risk was the most important, which was the second most important, etc.

Chart 18 Relative importance of sources of risk for EU banks

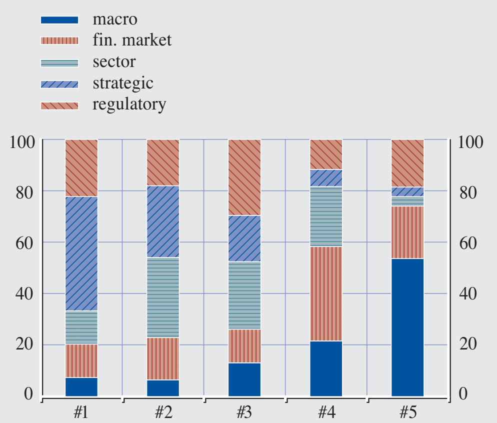
(% of total answers on each score)



Source: ECB.
Note: The chart shows the distribution of the broad sources of risks by respondent banks, expressed as a percentage of all answers for each score, ranging from 1 (very low importance) to 5 (very high importance).

Chart 19 Relative importance of sources of risk for EU-15 banks

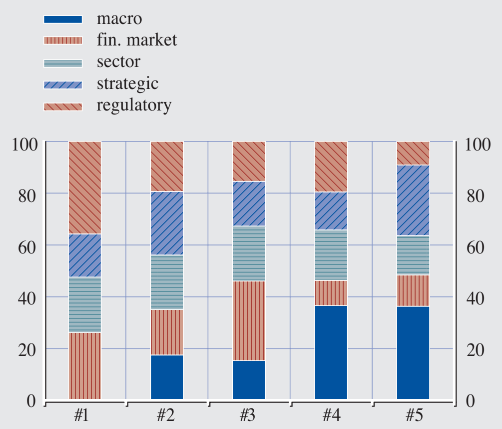
(% of total answers on each score)



Source: ECB.
Note: See Chart 18.

Chart 20 Relative importance of sources of risk for NMS banks

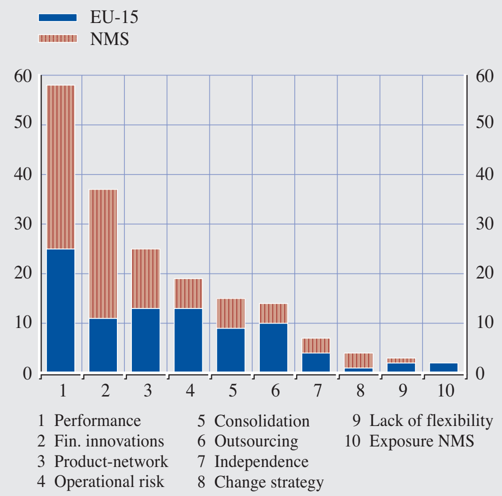
(% of total answers on each score)



Source: ECB.
Note: See Chart 18.

Chart 21 Main strategic risks for the year ahead at EU-15 and NMS banks

(number of responses out of 103)



Source: ECB.

former's relatively low scores may reflect the high degree of stability and continuity of strategies in the EU banking sector. In a sense, it is also natural from a bank's perspective to assume that the major risks are situated in the external operating environment, which can cause major credit and trading losses. However, strategic risk can be far greater than operational risk and may affect the long-term performance of banks. It relates to fundamental choices as to which markets to participate in, how to compete in those markets and the impact of those choices on its true risk profile.[17]

There also appear to be some differences between the EU-15 and NMS banks regarding the importance of strategic risks (see Chart 19 and Chart 20). Less than 10% of EU-15 banks attach high importance to strategic risks (scores 4 or 5), against one-third of NMS banks, which may be due to the fact that more banks in the latter are foreign-owned, relatively small and active in a rapidly developing environment.

Foreign ownership creates a strategic dependency on the foreign parent company and perhaps restricts the development of an independent strategy. This may in turn increase the risk of changes in the strategic course at the local level or make local banks more concerned with fulfilling short-term goals.

In addition, NMS countries are still undergoing deep structural changes (e.g., economic reform, privatisation, foreign bank entry) and NMS banks are developing rapidly (e.g., need to improve risk management, corporate governance, etc.). This may also make strategic planning more difficult and pose challenges to the bank management, especially since the number of experienced and trained banking experts is relatively low in some NMS.

Further analysis shows that most banks relate strategic risks for the coming year to the need to increase operational performance and the fear of not being able to do so (see Chart 21). Furthermore, some banks mention that their shareholders and/or foreign owners impose high profit expectations, which are hard to meet on a continuous basis.

17 See, e.g., M. Jenkins, *The drivers of risk*, Risk Magazine, August 2004.

Financial and technological innovations, including risk management, also pose some strategic risks for the coming year, especially at NMS banks. This may be due to the fact that they have to implement advanced risk modelling and management techniques, as well as start dealing in new types of financial assets with which they have so far had relatively little experience. Similarly, operational risks are seen as important by some banks, mainly from the EU-15. This highlights the risk of a breakdown of the internal control system or an inability of the risk management system to deal with the growth of the institution, possibly damaging the image and risk profile of the bank. A significant number of banks also see strategic risks stemming from a desire to expand the product range and optimise the distribution network. Mainly, this reflects banks' desire to diversify, reduce dependency on interest income and overcome the erosion of margin income. Outsourcing and other types of strategic alliances are also seen as strategic risks by a number of banks.

A small but significant number of banks, from both the EU-15 and NMS, see strategic risks attached to consolidation. This reflects both a concern about the high price of M&As (direct and indirect costs) and risks related to planned (international) expansion. Banks from the EU-15 – both small domestically orientated and large international banks – seem particularly concerned about the high price to pay for consolidation. An equal number of mainly small (NMS) banks see strategic risks related to a planned or ongoing expansion (abroad). Related to this is the uncertainty of some, primarily small, banks about whether or not to stay independent in a banking environment where size becomes more and more important.

3.2 MEDIUM-TERM STRATEGIES

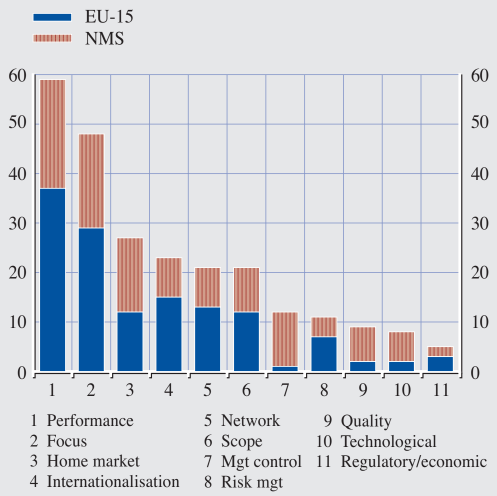
Respondent banks were asked what they currently saw as their three main medium-term strategic targets and which strategic changes – if any – they expected to face or implement over the coming years. This section summarises the answers received from individual banks, distinguishing between EU-15 and NMS. Strategic targets were ranked according to their importance in terms of number of responses. It should be noted that these strategic targets are sometimes highly interdependent. For example, consolidation and growth may necessitate a reorganisation of the branch network or pose managerial or risk management challenges; a stronger domestic or international position may not be possible without compromising profitability; an increased focus on specific customer segments may imply less scope for diversification.

3.2.1 CURRENT STRATEGIC TARGETS

From the answers, it is evident that the main strategic target is performance (see Chart 22). This is consistent with the results from the above section on sources of risk. More than half of the banks include improving performance, through actions to either increase profits, cut costs, better allocate capital or increase efficiency, as one of their current strategic targets.

Chart 22 Medium-term strategic targets at EU-15 and NMS banks

(number of responses out of 103)



Source: ECB.

Another main strategic target is the increasing focus on specific customer segments -in retail banking (e.g., bancassurance or increase of one-stop shopping), investment/corporate banking, or asset management. These two strategies often go hand in hand. More than 20 banks are targeting simultaneously a higher performance and a focus on specific customer segments.

Strengthening the bank's position as an important market player is also common in many banks' medium-term strategies. If one adds the domestic and international components of position strengthening, slightly less than half of the banks seem to be involved in trying to maintain or increase their market share.

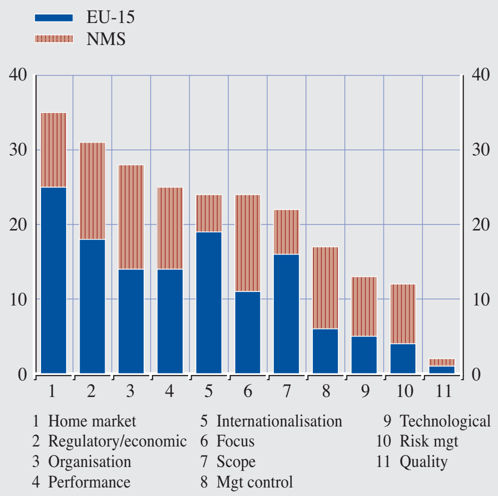
Adapting the organisation structure and distribution channels (e.g., via outsourcing, divesting, restructuring, finding alternative distribution channels) and diversification into new business lines seem to be part of the strategic goals at about 20% of the banks.

More specific to some institutions are issues such as changes in corporate governance, risk management capacity building, improving or maintaining service quality, and adapting to regulatory and economic changes.

Furthermore, it can be noted that these strategic targets do not differ very much between EU-15 and NMS banks. Only the improvement of performance seems relatively more prevalent in EU-15 banks, while developing appropriate corporate governance structures and quality of services is more of a strategic issue for NMS banks. These differences may be attributed to differences in the economic environment, as low growth in the EU-15 led banks to look for ways to improve performance, whereas NMS banks were confronted with a different set of challenges, including a fear of losing market share, increased competition, and a focus on the booming local market. Specific factors also affected NMS banks' strategies. These included privatisation and increased foreign presence, which forces them to increase the quality of services, improve their corporate governance rules, develop risk management, etc.

Chart 23 Expected changes in strategic targets at EU-15 and NMS banks

(number of responses out of 103)



Source: ECB.

3.2.2 EXPECTED STRATEGIC CHANGES

Over the medium term, some changes in strategic targets are visible. Chart 23 shows that most strategic issues remain important in the future, but the two major issues that banks are targeting in their current strategy, performance and focus, receive lower overall importance. The chart also suggests that strategic targets become more dispersed as a smaller number of banks adopt a similar strategy.

Further analysis shows that most banks that identified performance enhancement or customer focus as part of their current strategy perceive new targets, mainly in the area of domestic and international consolidation, changes in organisational structure, and responding to regulatory changes. This may be explained by the fact that these banks are confident in the measures currently underway to maintain or increase shareholder value, and by their belief of having an adequate customer focus. More generally, the detailed evidence suggests that many banks are adjusting their medium-term strategic targets. In general, less than one-third of the banks see a need for follow-up on current strategic targets.

Over the medium term, 35 of the banks that participated in the survey listed consolidation of their home market positions as their main goal. However, this was more true for EU-15 than for NMS banks, possibly because NMS markets are more concentrated (see section 2.2). Weaker economic growth perspectives may also play a role. Reaching a sizeable scale, either domestically or internationally, will become the main strategic concern for more than half of the banks surveyed. This is relatively more true for large banks, although a great number of small banks are also increasingly seeking an international presence.

In second instance, one-third of the banks see adapting to regulatory changes as a main challenge over the coming years. This is due to the expected increase in compliance costs and organisational changes due to new regulation, in particular Basel-II (capital adequacy standards) and changes in international accounting standards (such as the introduction of fair value accounting).

Furthermore, around 30 banks seem to be considering some organisational changes over the coming years, which may be attributed to the rapid pace of consolidation taking place (see Chapter 1). Some banks also mentioned that they are considering divesting current shareholdings or breaking up alliances, others see value in outsourcing or trying to find additional distribution channels to sell (new) banking products.

Over the medium term, fewer banks deem it necessary to continue concentrating on improving performance, compared with the evidence in section 3.2.1. This may be due to their confidence in the measures currently under way to maintain or increase shareholder value. Similarly, fewer banks seem worried about whether they are correctly focusing on retail or wholesale banking, perhaps because many banks have already decided on their future focus (see above discussion and Chart 22). However, a number of banks are still considering changing scope further by offering different types of products to their existing customers.

Medium-term strategic changes in corporate governance and management control, risk management, technological innovations, and quality-care are specific to a small number of banks, and more so in NMS. This suggests that most banks are comfortable with their existing management (control) structures and technologies, and also that a smaller number of banks, particularly in NMS, are planning to catch up with higher standards. As mentioned before, these differences may be attributed to the recent restructuring and privatisation of many NMS banks, whereas the domestic economic slowdown is forcing many EU-15 banks to focus more on performance-enhancing measures and growth.

3.3 IMPLICATIONS FOR THE EU BANKING SECTOR STRUCTURES

The above results show that, in the short run, most EU banks are primarily concerned with risks stemming from the macroeconomic environment. However, strategic risks are also likely to be an important source of risk to banks, as is the case especially in NMS. Some studies argue that strategic risks should be at the top of the agenda. In this sense, it is reassuring that EU banks seem ready to take the necessary strategic actions to maintain adequate profitability and solvency levels, by deciding where, when and how to invest the institution's money.

The results from this survey seem to point towards the potential for further consolidation in the EU banking sector, which may well accelerate in the near future. This may take the form of domestic M&A among banks and cross-sectoral consolidation, e.g., between banks and insurance companies or securities firms.

International consolidation, as described in Chapter 1 and 2, is also a possibility. This could augment already tense competitive conditions and increase EU banking sector concentration – which is already quite high in many of the smaller countries.

NMS banks seem to be rapidly converging towards the rest of the EU banking sector in terms of risk assessment and strategies. This follows from their countries' fast financial development, high economic growth and large foreign presence, which leads to a transfer of skills and catching-up of banks with their counterparts in the EU-15.

Over the medium term, banks expect regulatory changes and changes in the economic environment to have a significant impact. This calls for a careful consideration and planning of any regulatory reforms that may significantly affect the EU banking sector, as well as a constant dialogue between supervisory authorities and banks.

4 OUTSOURCING IN THE EU BANKING SECTOR

This chapter looks in detail at outsourcing patterns in the EU banking sector, and relies on a March-April 2004 survey of 82 individual banks from nineteen EU countries and the aggregated answers from five supervisory authorities.[18] It also addresses authorities' concerns about banks' outsourcing behaviour that emerged from a separate questioning of the supervisory authorities.

4.1 WHAT IS OUTSOURCING?

For the purpose of the survey, outsourcing is defined as the supply to a credit institution by another entity of services and facilities that form part of the business processes that are necessary for the provision of banking or other financial services. A specific feature of outsourcing is that the direct control over these operations is shifted to the external service provider, which can be an intra-group company, an independent third party or a joint venture with an independent third party.

From this definition it is clear that the outsourcing envisaged in this survey covers the core activities of banks, as well as activities supporting this core business. Peripheral functions, not at all related to the provision of financial services (e.g., cleaning, catering), are not considered.

Furthermore, a distinction can be made between the outsourcing of activities and processes. In the former case, only parts -individual activities- of a whole process are outsourced, such as the printing of account statements, whereas in the latter case the whole business process -consisting of a set of activities- is outsourced; e.g., the entire management of customer accounts.

4.2 PERSPECTIVE OF EU BANKS

This section describes the experience of EU banks that took part in the survey on outsourcing. It first looks at the relevance of the phenomenon, before depicting business models used and activities subject to outsourcing, and then describes the motives banks have cited. Finally, it expresses banks' opinions on the risks of outsourcing and what banks do to mitigate these risks.

4.2.1 RELEVANCE OF OUTSOURCING

Outsourcing has become a widespread phenomenon in Europe's corporate sector. A recent survey by UNCTAD showed that nearly half of Europe's top-500 companies have undertaken outsourcing of some kind or plan more in coming years.[19] It also showed that financial services stood out in terms of size of the projects mentioned.

Since the 1970s, banks have outsourced quasi-clerical activities, such as printing and storage of data. In the 1980s and 1990s, outsourcing of information services gathered pace due to the rapid developments in the information technology sector. Currently, more strategic areas are also becoming subject to outsourcing. Another trend that has received wide attention recently is offshore outsourcing, which is outsourcing beyond national borders.[20]

Experience has shown that firms in the EU increasingly specialise in a limited number of core activities, determined by their core competencies, while they externalise the non-core tasks. Outsourcing was adopted somewhat later by the banking sector, but as attention turned increasingly to efficiency and the need to focus on core businesses and as transaction costs started to drop (i.e., outsourcing service providers were able to reduce costs), banks started to outsource a growing share of their activities.[21]

18 The survey was conducted in the enlarged European Union by the authorities represented in the BSC. One country did not provide answers. Each Member State was asked to survey a maximum of five banks. Banks were selected to reflect both large and small banks, without prejudice to the importance and role of outsourcing in their organisation.
19 *Service offshoring in Europe*, UNCTAD and Roland Berger Strategy Consultants, June 2004.
20 "*Outsourcing in financial services*", Joint Forum, August 2004.
21 See *Banking behind the scenes*, The McKinsey Quarterly (2002), for a review of the outsourcing behaviour of over 30 institutions in Western Europe for 11 specific ICT-related and operations services. The study finds that the market for outsourcing in European banking is large and rapidly expanding.

Although outsourcing is becoming more important, there is still uncertainty surrounding the various aspects and concepts of outsourcing, as well as the implications for banks. Banks sometimes lack a clear picture of the achievements and experiences of industry peers, the degree to which outsourcing has been adopted in the banking industry, and how the outsourcing market is shaping up to meet their demands. This problem may be partly due to banks being generally rather unwilling to disclose details on their outsourcing models, as they do not want other banks to copy their strategies.

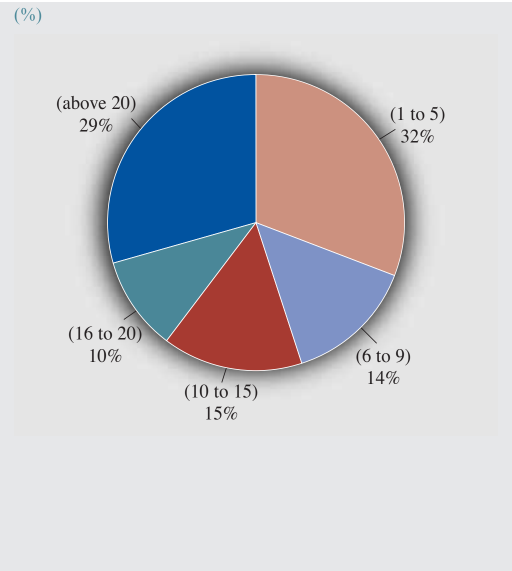
The present study shows that 80 out of 82 banks surveyed reported some form of outsourcing. The sample of 80 banks consisted of 45 banks from EU-15 countries and 35 from the NMS. Three EU-15 countries and two NMS provided an aggregate view on outsourcing in their country's banking sector. Also, the answers from the five supervisory authorities reporting aggregate information show that outsourcing is a widespread phenomenon in their country. Moreover, their answers are broadly in line with the patterns observed for the 80 banks in the current sample discussed below.

4.2.2 BUSINESS MODELS

Chart 24 shows a wide variety in outsourcing patterns across the 80 EU banks that undertook some form of outsourcing. Basically, a distinction can be made between banks that have relatively few contractors, say, fewer than 10, and banks that have a large number of outsourcing contractors, say, more than 10 or 15. The latter are presumably banks that are part of a financial group that resorts to intra-group outsourcing, whereas the former refers to banks that have recourse to external service providers.

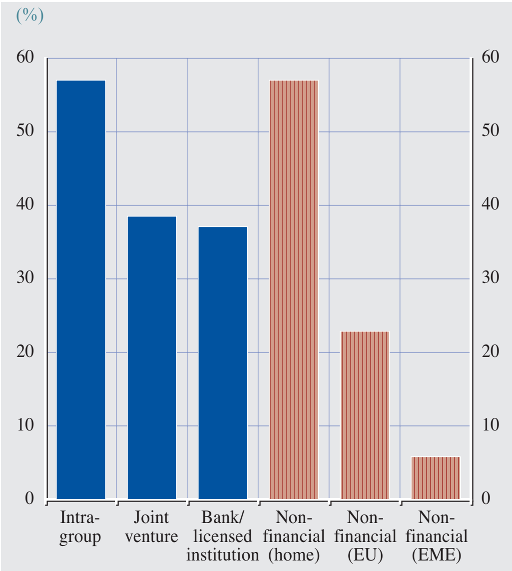
This assertion is borne out by Chart 25, reporting the scope of business models used in outsourcing. It shows that nearly two-thirds of the respondent banks apply captive models (intra-group, joint venture or strategic alliance). Purely intra-group solutions and local non-financial (NFI) companies are equally preferred. Moreover, banks often use different types of business models simultaneously,

Chart 24 Number of service providers



Source: ECB.

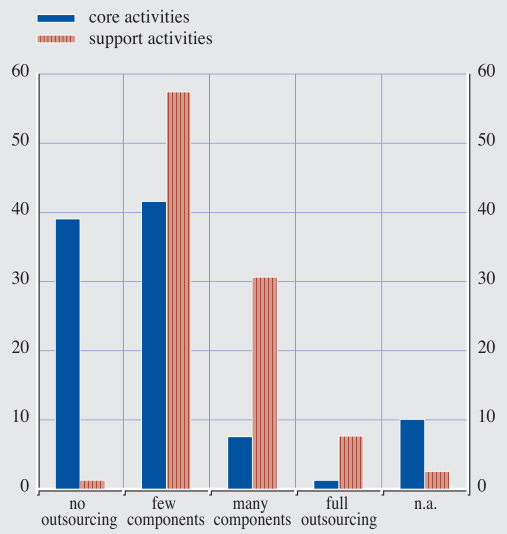
Chart 25 Scope of business models



Source: ECB.

Chart 26 Type and extent of activities outsourced

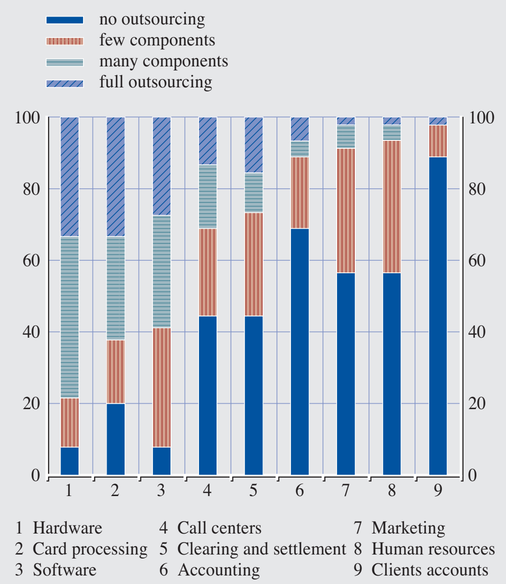
(%)



Source: ECB.

Chart 27 Relative importance of EU banks' support activities outsourcing

(%)



Source: ECB.

depending on the type of the outsourced activities. On average, almost two business models for outsourcing are used within a bank.

In contrast to the results of previous studies[22], the respondent EU banks do not seem to have many outsourcing projects with providers in emerging market economies as offshore centres. In addition, only 25% of the respondent banks said they are considering future outsourcing to offshore locations, which in general have a reputation of being more cost efficient but less regulated. Around 60% of the banks surveyed said they definitely would not outsource activities to offshore locations.

4.2.3 ACTIVITIES OUTSOURCED

A look at the types of activities that are reportedly outsourced (see Chart 26) shows that most are support activities, which in nearly 40% of the cases are significantly or completely outsourced. On the other hand, outsourcing of core activities such as treasury activities, risk management or asset management is very limited or non-existent at 80% of the banks. When banks belong to larger group structures, core activities are often outsourced within the group, whereby the production of certain financial products (mortgages, leasing, etc.) is concentrated in certain specialised companies, while the distribution of these products is carried out by the other companies of the group.

Of the support activities, Chart 27 shows that for the reporting banks those most often outsourced include IT functions – hardware installation and maintenance and software development – and card processing. Nearly one-third of the surveyed banks had outsourced its telephone services to a call centre. To sum up,

22 See, e.g., UNCTAD and Roland Berger Strategy Consultants, *Service offshoring in Europe*, June 2004; Siems and Rattner, *Do what you do best, outsource the rest*?, Federal Reserve Bank of Dallas Southwest Economy, November/December 2003; Feenstra, *Integration of trade and disintegration of production in the global economy*, Journal of Economic Perspectives, Fall 1998; McCarthy and Anagnostou, *The impact of outsourcing on the transaction costs and boundaries of manufacturing*, International Journal of Production Economics, March 2004; Hunter, *Security Issues with Offshore Outsourcing*, Network Security, August 2003.

the focus of outsourcing lies on back-office services.

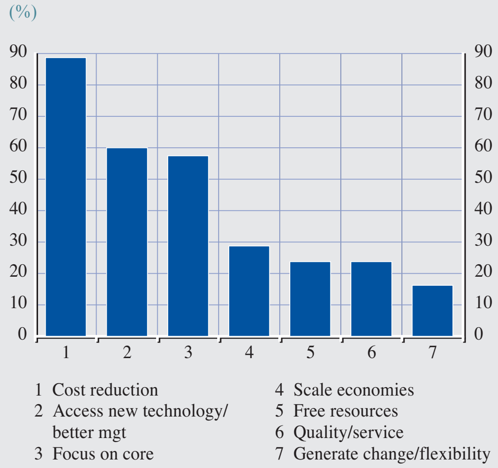
Furthermore, around 50% of the banks surveyed said they were aware of the fact that their outsourced activities were outsourced in a chain, i.e., the service provider in its turn sub-contracted elements of the service to other providers. The percentage was slightly higher in EU-15 compared to NMS banks. Chain outsourcing mainly relates to IT (60%), payment services (20%) and facility and other support functions (20%).

4.2.4 MOTIVES FOR OUTSOURCING

The prime motive for outsourcing is cost reduction, cited by almost 90% of respondent banks (see Chart 28). In second instance, around 60% of the banks' cited access to better technology and infrastructure (including a professional management of the services) and the strategy of focusing on core activities. A smaller number of banks also see additional benefits arising from scale advantages, as they are able to improve synergies, achieve diversification benefits or streamline services. One-quarter of the surveyed banks also said that outsourcing allows them to relieve resource constraints, e.g., when there is a lack of internal staff or know-how, and to enhance services and improve quality of services.

Finally, in one out of six banks, generating a momentum for change or seeking to achieve greater flexibility throughout the organisation is seen as a valid motive for outsourcing. In this regard, it can be mentioned that some innovative financial institutions actually see a potential for participating as a supplier in the outsourcing market by transforming high-cost, low-performing back office functions into commercial enterprises by partnering with key suppliers. The suppliers typically centralise, standardise, and web-enable the customer's back-office processes. They also retrain, empower and motivate transitioned back-office staff and leverage the assets to attract external customers.[23]

Chart 28 EU banks' motives for undertaking outsourcing



Source: ECB.

4.2.5 RISKS AND RISK MITIGATION

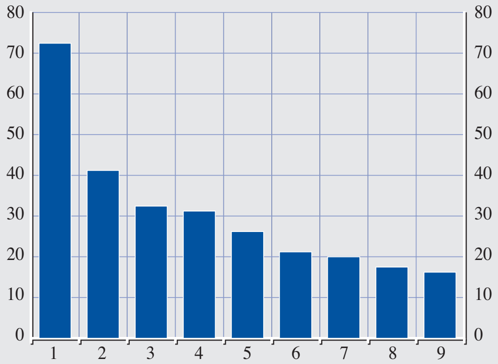
Clearly, banks do not consider outsourcing to be risk free. Most banks cite two to three different risks related to outsourcing. A small number of banks, around 15% of the sample, cite five or more risks. More specifically, almost 75% of the banks involved in the survey see a potential risk arising from the loss of control over the activities or services being outsourced or from an undesirable dependency on the service provider (see Chart 29). About 40% see operational risks, such as a breakdown in accessibility, a loss of data, etc. Around one-third of the banks fear that they might lose certain institutional skills or lose the flexibility to react to changes in customer behaviour or to changes in the economic environment, which can be seen as strategic risks.

Furthermore, 20% to 25% of the respondent banks see outsourcing risks stemming from high costs or cost intransparency and a potential decline in the quality level of service combined with a reduction of its competitive advantage

23 See, e.g., Lacity, Willcocks and Feeny, *Commercializing the Back Office at Lloyds of London: Outsourcing and Strategic Partnerships Revisited*, European Management Journal, April 2004.

Chart 29 EU banks' assessment of risks to outsourcing

(%)

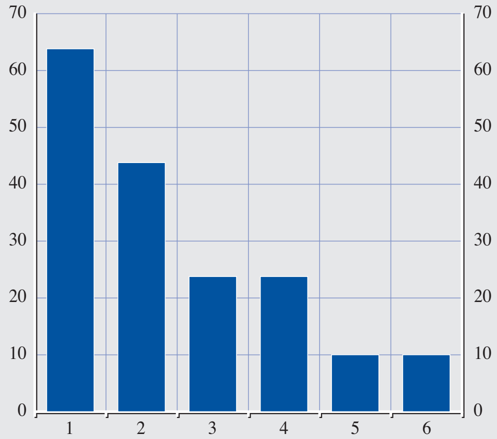


1 Loss of control over service
2 Operational risks
3 Loss of internal skills
4 Loss of flexibility
5 High costs – cost transparency
6 Decline quality/ competitive adv.
7 Cultural-social problems
8 Technical constraints
9 Info protection failure

Source: ECB.

Chart 30 EU banks' mechanisms for mitigating outsourcing risk

(%)



1 Service level agreements
2 Regulatory reporting
3 Selection of partners
4 Management rules
5 Shareholding/joint venture
6 Time limitation

Source: ECB.

(entailing a loss of customers). Cultural and social problems (e.g., resistance by current staff, differences between the bank and the service provider in understanding and approaching the customer, etc.) and technical constraints (e.g., due to technical complexity) are also quoted as relevant by several banks.

Most EU banks have specific contracts, so-called service level agreements[24], and also require a regular reporting to the bank's management on the service provider's outsourcing performance (also for regulatory purposes). These are the main methods used to manage the above-mentioned risks (see Chart 30). Banks with external outsourcing activities also apply a careful screening of service providers and limit the time duration of contracts. Mutual shareholding as in a joint venture business model can be seen as a natural risk mitigation technique, as it involves a closer cooperation and a larger commitment by both partners.

Despite all possible risks attached to outsourcing, and consistent with earlier studies[25], most EU banks seem to be satisfied with the experiences they had so far with outsourcing. The current survey shows that outsourcing arrangements achieved the expected results in around 75% of the banks. The remaining 25% indicated it was too early to tell whether outsourcing had created the expected value. In this respect, careful monitoring, awareness of risks, and an implied development of trust between the two sides by which the two companies evolve from being contractually obligated to becoming strategic partners, have certainly contributed to this positive assessment. In addition, the high degree of satisfaction may be related to the large extent of intra-group outsourcing (see section 4.2.2).

24 Only a few banks mention contingency planning as a risk mitigation technique. Most likely, however, most banks have included some form of contingency planning in the service level agreements or consider it as part of the follow-up on the reporting to bank's management if there were deficiencies in the service provision at the outsourcing provider.

25 See, e.g., Kakabadse and Kakabadse, *Trends in Outsourcing: Contrasting USA and Europe*, European Management Journal, April 2002.

Some banks nevertheless pointed out some negative experiences, mainly involving a deterioration in the quality of the service (15% of the banks surveyed ,12 banks, in 8 countries) and high costs or market power of the provider (12% of the banks surveyed ,10 banks, in 7 countries).

4.3 PERSPECTIVE OF EU AUTHORITIES

This section analyses supervisory authorities' responses to what they saw as the most important risks related to outsourcing by banks in their country and how these risks have been mitigated through prudential regulation. The survey was answered by the authorities of 24 out of the 25 EU countries that are represented in the BSC.

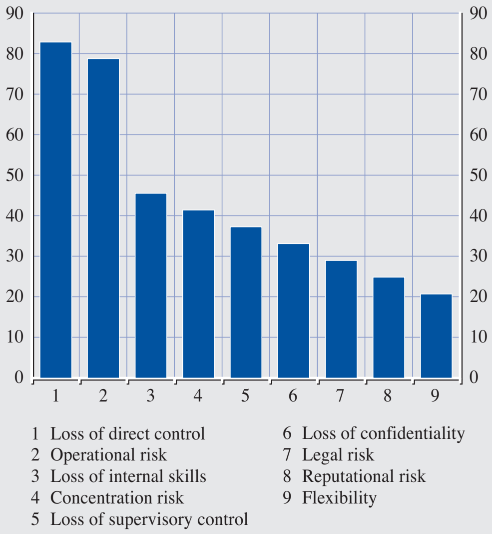
The results show that supervisory authorities have expressed various concerns over banks' outsourcing strategies. The most important risks related to outsourcing as perceived by supervisors are indicated in Chart 31. Compared with banks' own assessment of risks, the three main risks are shared by the banking supervisors in the European Union. It appears that 20 out of 24 supervisors are concerned about the fact that banks lose direct control over outsourced activities, and 19 out of 24 see potentially high operational risks (e.g., business continuity threat or operational failures).

In second instance, about half of the supervisors appear to share concerns that banks may lose certain internal skills and that they become too dependent on a small number of outsourcing companies. Indeed, it has been argued that there is a high concentration in the market for outsourcing – with only a few service providers, which may lead to an excessive dependence and high switching costs. This is especially true for specialised activities, but much less so for IT and basic functions.

Nearly one-third of the supervisors were concerned about confidentiality risks and the potential for their supervisory control to be

Chart 31 Supervisors' concerns over outsourcing in banking

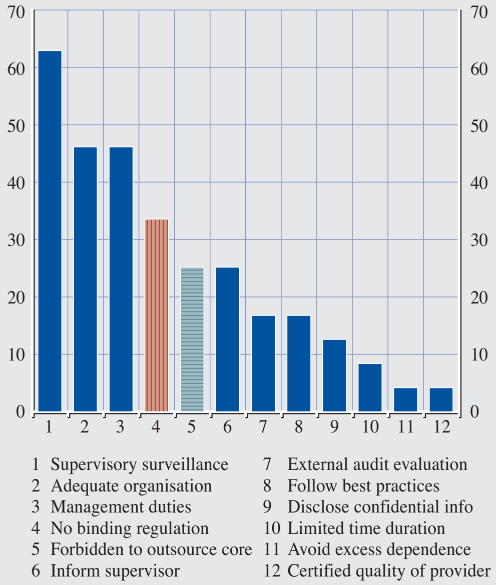
(in % of respondent supervisors)



Source: ECB.

Chart 32 Bank supervisors' techniques for mitigating outsourcing risk

(in % of respondent supervisors)



Source: ECB.

hampered. Other concerns, such as legal risks, reputational risks and reduced flexibility, seem to be more country-specific.[26]

Bank supervisors have already taken active approaches to deal with outsourcing in banking, as they have various technical and supervisory mechanisms in place to mitigate the above risks (see Chart 32). In 16 countries, some form of regulation on outsourcing is in place. Most commonly, this takes the form of supervisory surveillance (the granting of inspection rights at the service provider), laws on internal control and adequate organisation and bank management's ability regularly to monitor and review the quality of activities at the service provider.

In 6 countries, it is explicitly forbidden for banks to outsource (parts of) core banking activities, such as the management of risks and loan/deposit taking, to external service providers. Some supervisors also require banks' to inform them about their intention to outsource –either in advance or ex-post– and their implementation of outsourcing. In some cases, this has to be accompanied by an evaluation report by an external audit company.

To summarise, bank supervisors seem to deal with outsourcing risk by encouraging precautionary measures on the part of banks and service providers, and some convergence of supervisory approaches and practices in relation to outsourcing is under way. This is also clear from the high level principles that are currently under discussion in the Committee of European Banking Supervisors (CEBS) and the Joint Forum.[27]

4.4 CONCLUSION AND OUTLOOK

Looking at the results of this survey, some conclusions emerge regarding the state of play in the EU outsourcing market.

First, outsourcing currently involves mainly IT services and card and payment processing. The question arises whether other parts of banking may also become subject to outsourcing. Bearing in mind the motives cited by the banks, especially the need to enhance efficiency and reduce costs, the answer to that question will probably be positive. In particular in the current macroeconomic environment, with a continued focus on cost efficiency and performance (see also Chapter 3), many banks may want to consider (or reconsider) outsourcing to offshore locations. There is already ample anecdotal evidence of major banks outsourcing certain services to call centres as far away as India or Brazil, even though a number of banks state that they do not envisage outsourcing to low-cost countries. Other activities that seem potentially suitable for outsourcing are situated in the area of higher-end functions such as asset management, financial analysis, accounting, legal services or human resources. Also standardised custodian services may be increasingly subject to outsourcing, given that modern technology enables real-time access to major exchanges and to information networks, independent of the location where transactions are initiated or executed. This may cause some further pressures on the EU banking sector in terms of employment and consolidation.

Second, although randomly sampled, the current review draws mainly on the experiences of banks actively engaged in outsourcing – either intra-group outsourcing or outsourcing to external providers. However, there may be banks that are not involved in or opposed to outsourcing and that have no intention to undertake some outsourcing in the future. It is thought that public reactions to outsourcing, inspired by cost motives, may cause banks to hesitate, especially as this could create social or cultural problems and jeopardise banks'

26 Not mentioned are some minor risks shared by less than 5 supervisors. These include technical risks, potential hampering of internal and external audit, loss of cost transparency, risk management, loss of accountability, conflicts of interest, labour market rules, high agency or transaction costs, and settlement risks.

27 "*Consultation Paper on high level principles on outsourcing*", CEBS (30 April 2004); "*Outsourcing in financial services*", Joint Forum (2 August 2004).

reputations.[28] Furthermore, the risks that banks perceive as mentioned in the current survey may lead some banks not to undertake outsourcing. In addition, there may be concerns as to transparency, concentration and depth of the outsourcing market for certain services. Furthermore, in follow-up work, a clearer distinction could be made between intra-group outsourcing and outsourcing to external providers, given the different organisational implications they entail for banks and different supervisory concerns they entail for authorities. In particular, the two distinct types of outsourcing may have important regulatory and supervisory implications. In fact, in the case of intra-group outsourcing, outsourcers are better able to mitigate the risks and supervisory authorities are better able to gain access than in the case of outsourcing to third parties. This may call for a different treatment in the regulation and in supervisory surveillance. In particular, increased cooperation between home and host supervisors may be needed in the case of outsourcing to external providers located abroad.

Third, a constant monitoring of developments in outsourcing in the EU banking sector is needed, as it may entail some form of regulatory arbitrage, especially with less regulated jurisdictions. Supervisory and regulatory policy can also play a role in promoting or opposing outsourcing, as indicated in section 4.3. Therefore, an international regulatory definition of outsourcing and a set of commonly accepted principles are desirable in order to promote supervisory and regulatory convergence in the EU and beyond.

Finally, noting the large potential operational risks associated with outsourcing, the high geopolitical or supplier concentration for certain services, and the fact that chain outsourcing already occurs in a significant number of cases, supervisors need to be aware of potential financial stability implications. Particularly in countries where a number of large financial institutions outsource parts of their activities to the same provider, concentration may become a concern, from both a supervisory and a financial stability perspective.

28 See, e.g., Jennings, *Outsourcing opportunities for financial services*, Long Range Planning, June 1996

ANNEX I

STRUCTURAL INDICATORS OF THE EU-15 BANKING SECTOR

Table 1 Number of credit institutions (CIs)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	131	123	117	118	112	111	108
DK	Denmark	213	212	210	210	203	178	203
DE	Germany	3,420	3,238	2,992	2,742	2,526	2,363	2,225
GR	Greece	55	59	57	57	61	61	59
ES	Spain	416	404	387	368	366	359	348
FR	France	1,258	1,226	1,158	1,099	1,050	989	939
IE	Ireland	71	78	81	81	88	85	80
IT	Italy	909	934	890	861	843	821	801
LU	Luxembourg	215	212	211	202	194	184	172
NL	Netherlands	648	634	616	586	561	539	481
AT	Austria	928	898	875	848	836	823	814
PT	Portugal	238	227	224	218	212	202	200
FI	Finland	348	348	346	341	369	369	366
SE	Sweden	237	223	212	211	211	216	222
UK	United Kingdom	537	521	496	491	452	451	426
MU12	Monetary Union	8,637	8,361	7,954	7,521	7,218	6,906	6,593
EU15	European Union	9,624	9,337	8,872	8,433	8,084	7,751	7,444

Source: ECB and national authorities. For Denmark and Netherlands, there is a change in definition in 1998 (different accounting of cooperative banks). For Sweden, finance companies are also included in the definition of CIs. For Finland, CIs other than banks are included (including finance companies) starting in 2001.

Table 2 Number of local units (branches) of CIs

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	7,358	7,129	6982	6616	6,168	5,550	4,989
DK	Denmark	2,283	2,291	2,294	2,365	2,376	2,128	2,118
DE	Germany	63,186	59,929	58,546	56,936	53,931	50,867	47,351
GR	Greece	2,510	2,779	2,850	3,004	3,134	3,263	3,300
ES	Spain	38,039	39,039	39,376	39,311	39,024	39,021	39,762
FR	France	25,464	25,428	25,501	25,657	26,049	26,162	25,789
IE	Ireland	942	1026	977	880	970	926	924
IT	Italy	25,601	26,748	27,134	28,177	29,270	29,926	30,502
LU	Luxembourg	318	324	345	335	274	271	269
NL	Netherlands	6,800	6,787	6,258	5,983	5,207	4,610	3,671
AT	Austria	4,691	4,587	4,589	4,570	4,561	4,466	4,395
PT	Portugal	4,746	4,947	5,401	5,662	5,534	5,390	5,440
FI	Finland	1,289	1,254	1,193	1,202	1,257	1,267	1252
SE	Sweden	2,521	2,197	2,140	2,059	2,040	2,040	2,061
UK	United Kingdom	16,344	15,854	15,387	14,756	14,554	14,392	14,186
MU12	Monetary Union	180,944	179,977	179,152	178,333	175,379	171,719	167,644
EU15	European Union	202,092	200,319	198,973	197,513	194,349	190,279	186,009

Source: ECB.

Table 3 Number of local units (branches) of CIs per 100,000 inhabitants

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	72	70	68	65	60	54	48
DK	Denmark	43	43	43	44	44	40	39
DE	Germany	77	73	71	69	65	62	57
GR	Greece	23	26	26	28	29	30	30
ES	Spain	97	99	99	98	97	96	97
FR	France	43	42	42	42	43	43	42
IE	Ireland	26	28	26	23	25	24	23
IT	Italy	45	46	47	49	51	52	52
LU	Luxembourg	76	76	80	76	62	61	60
NL	Netherlands	44	43	40	38	32	29	23
AT	Austria	59	58	57	57	57	55	54
PT	Portugal	47	49	53	55	54	52	52
FI	Finland	25	24	23	23	24	24	24
SE	Sweden	28	25	24	23	23	23	23
UK	United Kingdom	28	27	26	25	25	24	24
MU12	Monetary Union	60	59	59	58	57	56	54
EU15	European Union	54	53	53	52	51	50	49

Source: ECB.

Table 4 Number of employees of CIs

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	76,603	76,607	76,288	76,333	76,104	75,370	73,553
DK	Denmark	48,049	48,617	47,974	48,498	48,538	47,613	45,994
DE	Germany	765,850	768,300	772,400	775,800	772,100	753,950	725,550
GR	Greece	56,722	57,798	58,606	60,154	59,624	60,495	61,074
ES	Spain	245,916	246,045	243,509	243,172	244,781	243,429	243,460
FR	France	414,093	411,614	408,571	404,698	415,979	421,297	420,291
IE	Ireland	n.a.	n.a.	37,667	34,770	40,928	36,585	35,658
IT	Italy	343,005	342,906	340,470	344,348	343,814	341,614	337,689
LU	Luxembourg	19,135	19,814	21,197	23,035	23,894	23,300	22,513
NL	Netherlands	111,487	119,106	124,309	129,294	131,420	126,036	119,857
AT	Austria	74,321	73,819	73,511	73,648	74,606	74,048	73,308
PT	Portugal	64,554	61,965	61,319	58,097	55,538	55,260	53,931
FI	Finland	26,816	25,344	24,721	25,167	26,733	27,190	26,668
SE	Sweden	43,197	43,526	43,222	41,995	42,001	42,357	39,456
UK	United Kingdom	455,422	463,923	486,799	482,836	506,278	495,240	495,173
MU12	Monetary Union	n.a.	n.a.	2,242,568	2,248,516	2,265,521	2,238,574	2,193,552
EU15	European Union	n.a.	n.a.	2,820,563	2,821,845	2,862,338	2,823,784	2,774,175

Source: ECB.

Table 5 Number of employees of CIs per 100,000 inhabitants'

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	752	751	746	745	740	730	709
DK	Denmark	909	917	902	909	906	886	853
DE	Germany	933	937	941	944	938	914	879
GR	Greece	526	533	539	551	545	552	554
ES	Spain	625	624	615	609	608	600	597
FR	France	692	685	678	668	683	688	683
IE	Ireland	n.a.	n.a.	1003	915	1062	936	901
IT	Italy	596	595	591	596	594	589	581
LU	Luxembourg	4,545	4,646	4,901	5,253	5,412	5,222	5,011
NL	Netherlands	714	758	786	812	819	781	738
AT	Austria	933	925	920	919	929	919	907
PT	Portugal	640	612	603	568	540	533	516
FI	Finland	522	492	479	486	515	523	512
SE	Sweden	488	492	488	473	472	475	440
UK	United Kingdom	783	796	832	823	857	836	833
MU12	Monetary Union	n.a.	n.a.	737	737	739	728	710
EU15	European Union	n.a.	n.a.	749	746	754	741	725

Source: ECB.

Table 6 CR5: Share of the 5 largest CIs in total assets (%)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	54	63	76	75	78	82	83
DK	Denmark	70	71	71	60	68	68	67
DE	Germany	17	19	19	20	20	20	22
GR	Greece	56	63	67	65	67	67	67
ES	Spain	32	35	41	46	45	44	44
FR	France	40	41	43	47	47	45	47
IE	Ireland	41	40	41	41	43	46	44
IT	Italy	25	25	25	23	29	31	27
LU	Luxembourg	23	25	26	26	28	30	32
NL	Netherlands	79	82	82	81	83	83	84
AT	Austria	44	42	41	43	45	46	44
PT	Portugal	46	45	44	59	60	60	63
FI	Finland	88	86	86	87	80	79	81
SE	Sweden	58	56	56	57	55	56	54
UK	United Kingdom	24	25	28	28	29	30	33
MU12	Monetary Union	45	47	49	51	52	53	53
EU15	European Union	46	48	50	51	52	52	53

Source: ECB. The euro area and EU figures are calculated as unweighted averages. For Finland, the change in 2001 is due to a reclassification (see Table 1).

Table 7 Herfindahl index for CIs' total assets

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	699	909	1,518	1,506	1,587	1,905	2,065
DK	Denmark	1,431	1,442	1,499	863	1,119	1,145	1,114
DE	Germany	114	133	140	151	158	163	173
GR	Greece	885	1,165	986	1,122	1,113	1,164	1,130
ES	Spain	285	329	441	581	551	529	521
FR	France	449	485	509	587	606	551	597
IE	Ireland	500	473	480	486	512	553	562
IT	Italy	201	210	220	190	260	270	240
LU	Luxembourg	210	222	236	242	275	296	315
NL	Netherlands	1,654	1,802	1,700	1,694	1,762	1,788	1,744
AT	Austria	515	515	511	548	561	618	557
PT	Portugal	577	575	566	986	991	963	1,044
FI	Finland	2,150	2,120	1,960	2,050	2,240	2,050	2,420
SE	Sweden	830	790	790	800	760	800	760
UK	United Kingdom	208	221	250	264	282	307	347
MU12	Monetary Union	383	429	468	508	544	553	581
EU15	European Union	373	411	445	464	497	513	541

Source: ECB.
Scale: 0 – 10,000. The euro area and EU figures are asset-weighted.

Table 8 Total assets of CIs

(EUR million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	661,487	667,464	714,467	698,809	776,173	774,330	828,975
DK	Denmark	314,739	349,789	382,589	431,756	481,927	534,201	568,873
DE	Germany	4,774,748	5,276,266	5,656,443	6,063,568	6,268,700	6,370,194	6,393,524
GR	Greece	114,628	129,133	162,115	191,862	202,736	201,608	213,171
ES	Spain	844,807	908,597	1,006,157	1,124,944	1,254,044	1,347,935	1,507,864
FR	France	3,026,370	3,101,720	3,402,082	3,502,581	3,768,943	3,831,610	3,994,237
IE	Ireland	184,808	234,637	302,753	355,346	422,106	474,630	575,168
IT	Italy	1,602,929	1,530,772	1,628,804	1,771,126	1,851,990	2,024,156	2,125,409
LU	Luxembourg	516,683	540,719	598,536	647,896	721,001	662,615	655,971
NL	Netherlands	769,034	896,155	983,664	1,148,942	1,265,906	1,356,397	1,472,531
AT	Austria	411,520	452,235	486,709	527,933	573,384	554,528	586,458
PT	Portugal	222,244	286,587	302,824	315,312	352,251	351,773	348,691
FI	Finland	104,969	107,885	119,344	127,999	163,416	165,661	185,777
SE	Sweden	389,130	348,190	390,628	434,669	466,009	487,211	519,272
UK	United Kingdom	3,851,807	3,864,018	4,501,190	5,227,636	5,830,158	5,854,356	6,175,311
MU12	Monetary Union	13,234,227	14,132,170	15,363,898	16,476,318	17,620,650	18,115,437	18,887,776
EU15	European Union	17,789,903	18,694,167	20,638,305	22,570,379	24,398,744	24,991,205	26,151,232

Source: ECB.
Data for Denmark and Sweden refer to monetary and other financial institutions (2000-2003; 2001-2003). For Finland, the increase in 2001 is also due to a reclassification (see Table 1).

Table 9 Total loans of CIs to non-CIs

(EUR million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	205,425	214,295	234,332	248,687	263,488	279,079	287,353
DK	Denmark	199,995	213,078	228,773	237,492	261,579	274,981	291,870
DE	Germany	2,546,768	2,706,869	2,817,723	2,951,888	3,051,658	3,021,886	3,025,616
GR	Greece	38,425	45,461	53,414	66,824	81,779	95,084	110,018
ES	Spain	412,417	467,041	531,331	617,222	689,908	765,142	867,709
FR	France	1,060,336	1,076,518	1,155,240	1,270,232	1,336,503	1,370,384	1,431,686
IE	Ireland	79,148	96,046	132,838	160,761	190,891	198,836	207,917
IT	Italy	744,366	787,727	855,283	955,991	1,009,773	1,065,791	1,128,514
LU	Luxembourg	84,257	104,243	122,093	130,355	148,113	131,989	118,528
NL	Netherlands	415,654	475,287	538,203	606,355	654,621	704,470	761,692
AT	Austria	210,885	221,811	235,614	256,797	268,367	273,066	278,626
PT	Portugal	73,713	93,847	122,750	152,760	170,615	183,214	185,730
FI	Finland	52,417	57,573	64,243	71,861	81,058	85,991	94,136
SE	Sweden	212,127	196,028	227,655	243,396	254,300	271,700	283,927
UK	United Kingdom	1,422,611	1,404,759	1,705,821	1,912,167	2,124,785	2,195,037	2,220,985
MU12	Monetary Union	5,923,811	6,346,718	6,863,064	7,489,733	7,946,774	8,174,932	8,497,525
EU15	European Union	7,758,544	8,160,583	9,025,313	9,882,788	10,587,438	10,916,650	11,294,307

Source: ECB. See notes to Table 8.

Table 10 Loans of CIs to non-financial corporations

(EUR million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	75,691	81,475	92,371	95,094	94,247	90,840	86,851
DK	Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	83,458
DE	Germany	719,928	769,796	761,870	811,330	844,235	840,675	813,746
GR	Greece	n.a.	30,920	33,820	41,796	48,603	52,294	58,319
ES	Spain	175,872	200,169	227,958	266,944	306,019	340,980	387,804
FR	France	433,347	442,973	469,316	521,693	540,083	548,764	534,405
IE	Ireland	22,290	26,178	34,991	44,523	52,830	54,912	64,952
IT	Italy	384,007	401,114	427,967	486,620	520,856	546,559	588,026
LU	Luxembourg	23,614	30,149	33,981	40,878	45,391	40,159	36,625
NL	Netherlands	145,053	171,777	188,183	204,165	213,284	205,966	216,725
AT	Austria	105,996	114,117	119,741	129,060	134,059	132,166	131,284
PT	Portugal	32,026	39,743	50,533	62,446	72,597	78,715	82,717
FI	Finland	17,178	19,150	21,705	24,644	30,943	32,991	34,718
SE	Sweden	n.a.	n.a.	n.a.	n.a.	88,361	91,870	85,117
UK	United Kingdom	290,999	293,951	358,113	401,115	439,735	439,530	408,628
MU12	Monetary Union	n.a.	2,327,561	2,462,436	2,729,193	2,903,147	2,965,021	3,036,172
EU15	European Union	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3,653,211

Source: ECB. See notes to Table 8.

Table 11 Total loans of CIs for housing purchase

(EUR million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	43,624	44,878	51,487	57,128	58,006	63,609	71,704
DK	Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	151,820
DE	Germany	n.a.	n.a.	839,788	873,325	901,839	918,113	937,379
GR	Greece	n.a.	6,780	8,518	11,165	15,517	21,064	26,364
ES	Spain	104,519	123,552	145,627	177,407	206,815	240,539	277,573
FR	France	254,163	260,089	280,963	301,400	320,761	347,954	385,078
IE	Ireland	16,701	20,488	24,944	30,058	34,710	44,126	55,012
IT	Italy	53,710	63,476	80,354	96,980	107,711	131,660	154,365
LU	Luxembourg	4,583	4,557	4,744	5,823	6,533	7,052	8,291
NL	Netherlands	135,712	161,128	190,626	232,276	259,812	282,937	302,393
AT	Austria	21,596	22,138	23,620	26,235	29,631	35,998	39,746
PT	Portugal	24,097	32,444	42,208	50,803	57,448	64,954	66,350
FI	Finland	16,839	19,101	22,020	24,346	27,329	30,960	36,127
SE	Sweden	n.a.	n.a.	n.a.	n.a.	6,154	6,085	12,011
UK	United Kingdom	650,592	647,806	793,797	853,891	965,761	1,035,139	1,099,584
MU12	Monetary Union	n.a.	n.a.	1,714,899	1,886,946	2,026,112	2,188,966	2,360,382
EU15	European Union	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3,695,915

Source: ECB. See notes to Table 8.

Table 12 Total loans of CIs for consumer credit

(EUR million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	7,875	8,170	8,541	8,677	8,472	8,651	8,648
DK	Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13,357
DE	Germany	n.a.	n.a.	216,774	223,562	223,380	206,322	174,919
GR	Greece	n.a.	2,937	3,862	5,512	7,854	9,757	12,386
ES	Spain	29,247	36,707	43,379	48,597	48,819	52,544	55,603
FR	France	83,756	94,370	104,196	113,256	118,108	121,116	128,415
IE	Ireland	5,275	6,367	8,793	10,615	12,991	14,485	12,310
IT	Italy	12,952	13,575	17,330	20,042	23,895	28,446	33,011
LU	Luxembourg	615	686	951	1,047	1,097	1,114	1,185
NL	Netherlands	10,864	12,266	12,848	13,831	13,903	18,647	20,442
AT	Austria	14,259	15,189	16,963	24,612	24,043	22,886	21,525
PT	Portugal	5,215	6,223	6,913	8,225	8,156	8,161	8,671
FI	Finland	3,056	3,055	3,065	3,123	6,387	6,641	7,324
SE	Sweden	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	9,528
UK	United Kingdom	132,853	144,996	186,745	204,213	231,566	242,093	242,378
MU12	Monetary Union	173,114	199,545	443,615	481,099	497,105	498,770	484,439
EU15	European Union	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	749,702

Source: ECB. See notes to Table 8.

Table 13 Other household lending from CIs

(EUR million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	23,712	25,280	22,757	19,423	18,799	17,372	15,522
DK	Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	17,200
DE	Germany	294,143	308,632	284,783	289,213	282,928	274,380	319,502
GR	Greece	n.a.	56	71	189	324	518	1,260
ES	Spain	37,186	42,577	49,890	54,602	58,136	65,597	77,598
FR	France	69,678	64,289	63,272	62,859	63,730	66,087	71,938
IE	Ireland	562	677	1,426	1,540	1,472	1,343	4,300
IT	Italy	106,321	114,138	124,899	128,248	126,929	122,174	122,870
LU	Luxembourg	6,702	9,569	10,901	13,202	12,085	14,088	13,502
NL	Netherlands	14,787	17,803	19,829	22,947	21,366	22,364	22,641
AT	Austria	9,934	10,483	12,543	7,818	8,138	6,638	7,015
PT	Portugal	4,746	5,865	7,802	9,902	10,511	10,534	9,996
FI	Finland	7,200	8,763	8,085	8,400	8,850	9,100	9,587
SE	Sweden	n.a.	n.a.	n.a.	n.a.	39,822	43,252	44,716
UK	United Kingdom	108,520	109,332	138,298	155,703	181,174	191,658	182,943
MU12	Monetary Union	574,971	608,132	606,258	618,343	613,268	610,195	675,731
EU15	European Union	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	920,590

Source: ECB. See notes to Table 8.

Table 14 Total deposits of CIs from non-CIs

(EUR million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	228,213	263,052	288,480	292,832	326,154	345,106	367,498
DK	Denmark	220,068	233,533	258,658	83,873	88,232	93,903	99,069
DE	Germany	1,952,011	2,071,843	2,185,363	2,256,097	2,380,289	2,401,166	2,447,673
GR	Greece	80,702	86,878	101,917	117,827	135,733	133,847	140,032
ES	Spain	436,346	455,507	525,396	617,682	707,473	752,900	806,804
FR	France	888,271	934,793	945,993	977,803	1,051,205	1,076,283	1,195,353
IE	Ireland	64,603	78,077	98,708	115,046	131,066	142,957	160,192
IT	Italy	623,681	615,489	617,478	643,659	681,266	741,205	744,497
LU	Luxembourg	206,607	205,801	189,262	216,686	217,375	198,582	207,235
NL	Netherlands	343,706	374,636	404,616	455,162	524,993	537,790	570,133
AT	Austria	169,074	178,439	187,410	192,077	210,262	211,128	222,070
PT	Portugal	100,804	107,430	120,146	129,327	134,370	133,803	137,323
FI	Finland	58,992	58,922	63,874	66,229	68,977	71,530	75,634
SE	Sweden	106,348	84,474	99,497	110,731	112,962	118,613.98	126,555.74
UK	United Kingdom	1,265,059	1,281,820	1,505,574	1,680,787	1,851,098	1,819,966	1,821,776
MU12	Monetary Union	5,153,010	5,430,867	5,728,643	6,080,427	6,569,163	6,746,297	7,074,444
EU15	European Union	6,744,485	7,030,694	7,592,372	7,955,818	8,621,455	8,778,780	9,121,844

Source: ECB. See notes to Table 8.

Table 15 Gross issues of long-term debt securities by non-financial companies

(EUR million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	735	721	541	2,860	1,406	1,997	3,415
DK	Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
DE	Germany	822	1,472	2,692	6,347	6,948	15,850	21,513
GR	Greece	33	0	0	0	63	87	452
ES	Spain	488	1,644	3,391	852	379	572	1,496
FR	France	10,673	15,799	35,654	37,372	55,599	30,227	51,450
IE	Ireland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
IT	Italy	1,450	1,093	3,303	4,063	13,195	10,235	6,563
LU	Luxembourg	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
NL	Netherlands	1,055	4,528	5,172	13,649	15,725	3,931	7,315
AT	Austria	1,183	307	1,004	840	2,106	1,913	5,265
PT	Portugal	1,502	1,775	2,043	158	1,649	389	1,032
FI	Finland	470	511	1,451	2,717	1,938	1,236	1,722
SE	Sweden	933	1,660	2,925	3,847	3,068	4,587	2,721
UK	United Kingdom *	23,552	19,265	39,849	61,472	54,376	30,808	18,006

Source: ECB. For UK, figures refer to net issues of long–term and short-term securities.

Table 16 Gross issues of short-term debt securities by non-financial companies

(EUR million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	9,938	10,012	19,675	35,142	46,291	39,469	43,854
DK	Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
DE	Germany	62,110	58,737	55,850	85,427	123,476	116,629	197,864
GR	Greece*	0	0	0	0	0	0	0
ES	Spain	3,027	3,984	9,284	9,862	10,095	9,815	7,293
FR	France	257,955	267,741	285,467	397,073	545,855	449,687	403,855
IE	Ireland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
IT	Italy	0	0	30	19	5	2	21
LU	Luxembourg	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
NL	Netherlands	1,015	830	1,690	1,271	1,263	1,703	3,452
AT	Austria	1	0	1,632	1,879	18	370	778
PT	Portugal	11,122	12,278	16,657	26,098	33,227	42,649	54,388
FI	Finland	25,678	30,023	41,263	50,899	58,481	57,940	62,860
SE	Sweden	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
UK	United Kingdom	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: ECB. For UK, figures refer to net issues of long–term and short-term securities. In Greece, only credit institutions have issued short-term securities (other than shares).

Table 17 Total investments of insurance corporations

(EUR million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	73,672	84,028	96,501	105,726	115,669	123,080	140,040
DK	Denmark	69,073	77,973	90,176	102,049	96,655	98,703	107,602
DE	Germany	668,032	749,302	815,902	871,206	943,367	1,001,579	1,058,276
GR	Greece	4,187	5,008	7,238	7,839	8,390	8,201	9,205
ES	Spain	86,461	105,268	117,967	133,674	150,422	170,072	183,661
FR	France	572,263	632,800	713,600	787,400	839,700	874,500	953,000
IE	Ireland	28,277	34,779	44,919	53,423	56,393	61,592	n.a.
IT	Italy	141,995	186,773	245,618	281,424	306,155	322,785	354,711
LU	Luxembourg	14,103	17,384	22,482	26,428	28,631	28,941	33,448
NL	Netherlands	190,516	215,444	243,931	249,999	297,044	284,283	293,337
AT	Austria	45,019	47,093	50,867	54,134	57,471	60,092	62,864
PT	Portugal	14,522	17,565	21,481	24,691	26,550	29,559	32,761
FI	Finland	6,216	6,744	9,913	9,637	7,492	7,242	7,629
SE	Sweden	138,800	153,668	206,003	206,998	189,172	175,351	195,044
UK	United Kingdom	1,216,000	1,292,000	1,728,000	1,713,000	1,740,000	1,556,748	1,573,864
MU12	Monetary Union	1,845,263	2,102,188	2,390,419	2,605,581	2,837,284	2,971,926	n.a.
EU15	European Union	3,269,136	3,625,829	4,414,598	4,627,628	4,863,111	4,802,728	n.a.

Source: ECB.

Table 18 Total assets under management by investment funds

(EUR million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	30,570	48,236	70,411	83,925	86,784	78,288	84,306
DK	Denmark	11,865	16,605	27,351	34,515	38,025	39,042	49,306
DE	Germany	n.a.	568,701	755,592	811,825	793,665	741,402	826,764
GR	Greece	8,436	9,061	21,764	15,621	17,392	15,065	14,997
ES	Spain	163,344	203,752	168,179	165,822	158,249	144,150	178,858
FR	France	450,501	564,621	580,289	662,844	648,548	601,353	703,601
IE	Ireland	43,207	70,392	149,207	n.a.	n.a.	n.a.	n.a.
IT	Italy	190,279	372,274	473,514	448,893	383,887	325,909	297,269
LU	Luxembourg	349,706	433,036	707,927	837,346	854,000	725,781	818,462
NL	Netherlands	58,965	69,134	97,414	118,007	112,320	90,109	97,025
AT	Austria	48,191	51,774	58,007	61,982	65,520	67,968	71,975
PT	Portugal	22,251	26,876	27,746	25,442	25,588	25,421	28,456
FI	Finland	3,223	4,878	9,240	12,608	12,300	11,573	15,429
SE	Sweden	41,700	47,136	82,674	n.a.	n.a.	n.a.	n.a.
UK	United Kingdom	213,325	243,606	369,398	387,828	364,762	347,945	n.a.
MU12	Monetary Union	n.a.	2,422,735	3,133,655	n.a.	n.a.	n.a.	n.a.
EU15	European Union	n.a.	2,730,082	3,613,078	n.a.	n.a.	n.a.	n.a.

Source: ECB. Funds of funds and money market funds are excluded. For Ireland, data refer to total funds (UCITS and nonUCITS). For Portugal, only mutual funds are excluded.

Table 19 Total assets under management by pension funds

(EUR million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	10,731	12,683	14,408	14,608	14,373	13,543	10,833
DK	Denmark	29,119	33,750	39,781	41,913	41,812	42,307	45,682
DE	Germany	n.a.	n.a.	n.a.	n.a.	n.a.	100,077	260,000
GR	Greece	0	0	0	0	0	0	0
ES	Spain	22,124	27,489	32,261	38,979	44,606	49,610	57,161
FR	France	0	0	0	0	0	0	0
IE	Ireland	32,712	39,097	50,283	53,960	51,149	44,810	n.a.
IT	Italy	3,447	4,343	4,289	6,176	6,653	8,362	11,685
LU	Luxembourg	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
NL	Netherlands	309,071	365,678	436,266	444,953	451,133	423,268	475,347
AT	Austria	3,173	4,681	7,141	7,848	8,049	7,876	9,111
PT	Portugal	10,060	11,578	12,911	13,767	14,826	15,552	16,200
FI	Finland	9,758	12,778	15,902	21,463	23,108	24,523	27,272
SE	Sweden	78,902	78,415	87,820	82,777	58,599	52,975	63,877
UK	United Kingdom	1,003,000	1,003,000	1,320,000	1,238,000	1,180,000	950,920	1,036,932

Source: ECB. In Greece and France, all pension funds are state-owned.

Table 20 Number of branches of CIs from EEA countries

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	25	25	30	34	35	36	38
DK	Denmark	7	8	9	9	9	8	15
DE	Germany	46	53	57	62	59	64	65
GR	Greece	14	14	13	13	13	14	14
ES	Spain	35	36	41	41	49	51	50
FR	France	52	53	56	59	55	51	52
IE	Ireland	18	21	26	28	32	31	31
IT	Italy	62	65	70	82	94	91	76
LU	Luxembourg	61	61	60	55	55	48	43
NL	Netherlands	9	10	16	18	19	19	20
AT	Austria	6	9	12	13	15	15	18
PT	Portugal	15	15	17	23	23	21	22
FI	Finland	6	6	7	5	18	19	18
SE	Sweden	14	17	16	19	19	18	17
UK	United Kingdom	100	100	99	95	87	85	84
MU12	Monetary Union	349	368	405	433	467	460	447
EU15	European Union	470	493	529	556	582	571	563

Source: ECB. For Finland, the increase in 2001 is due to a reclassification (see Table 1).

Table 21 Total assets of branches of CIs from EEA countries

(EUR million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	56,565	42,757	38,600	39,940	29,844	27,221	25,902
DK	Denmark	14,088	21,688	15,424	21,743	19,649	22,334	24,131
DE	Germany	44,027	65,171	70,946	79,039	91,316	76,738	67,539
GR	Greece	10,345	9,422	10,964	12,204	8,934	11,489	12,769
ES	Spain	41,515	39,959	36,742	39,103	49,454	61,713	85,993
FR	France	84,046	81,744	90,855	122,676	119,647	118,053	99,917
IE	Ireland	32,640	38,575	50,064	56,522	58,411	60,167	69,773
IT	Italy	56,808	71,102	65,372	77,174	69,641	80,663	87,191
LU	Luxembourg	99,230	106,803	107,269	117,532	130,562	108,816	90,089
NL	Netherlands	16,209	20,437	21,231	30,582	27,626	26,600	26,091
AT	Austria	2,924	3,221	3,913	3,918	4,458	3,242	3,363
PT	Portugal	8,972	11,299	11,425	13,206	14,808	15,839	16,923
FI	Finland	8,176	8,212	10,611	9,490	10,404	14,345	13,030
SE	Sweden	5,476	10,793	11,521	19,596	22,838	27,486	33,443
UK	United Kingdom	850,441	986,742	1,054,191	1,262,304	1,363,463	1,285,518	1,345,804
MU12	Monetary Union	461,457	498,711	518,037	601,468	615,166	604,921	598,625
EU15	European Union	1,331,461	1,517,925	1,599,128	1,905,029	2,021,055	1,940,225	2,001,958

Source: ECB.

Table 22 Number of subsidiaries of CIs from EEA countries

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	16	17	21	21	22	21	20
DK	Denmark	-	4	5	5	7	8	7
DE	Germany	31	32	23	22	21	22	20
GR	Greece	-	-	-	-	-	3	3
ES	Spain	46	39	35	38	44	40	44
FR	France	109	129	134	159	162	146	123
IE	Ireland	21	24	24	24	25	25	20
IT	Italy	4	5	6	7	7	7	7
LU	Luxembourg	97	96	99	96	90	85	83
NL	Netherlands	9	9	9	12	14	14	13
AT	Austria	17	11	10	11	13	13	14
PT	Portugal	6	8	8	10	9	9	11
FI	Finland	3	3	3	3	3	3	3
SE	Sweden	11	11	12	12	12	12	14
UK	United Kingdom	21	15	15	16	17	17	15
MU12	Monetary Union	360	374	373	405	412	391	354
EU15	European Union	394	404	405	438	448	428	390

Source: ECB. Only the subsidiaries of foreign credit institutions are included, i.e. subsidiaries of foreign holding companies are not included. Country data are not reported (-) for confidentiality reasons if the number of subsidiaries is less than three.

Table 23 Total assets of subsidiaries of CIs from EEA countries

(EUR million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	93,570	98,734	107,659	114,957	146,339	141,749	144,321
DK	Denmark	-	452	877	845	58,560	66,965	66,676
DE	Germany	68,440	74,565	72,412	75,241	110,716	225,311	227,597
GR	Greece	-	-	-	-	-	24,453	27,730
ES	Spain	34,641	38,710	35,700	42,246	49,426	52,897	63,731
FR	France	97,147	118,664	202,922	292,822	298,786	301,275	287,559
IE	Ireland	53,359	75,426	99,126	119,143	145,854	105,145	121,688
IT	Italy	31,241	38,520	46,518	25,499	20,416	23,348	26,390
LU	Luxembourg	332,248	367,809	421,638	439,450	507,151	480,267	495,726
NL	Netherlands	21,680	21,684	13,453	77,653	96,588	94,456	126,420
AT	Austria	6,222	4,141	4,382	4,677	102,813	112,152	107,755
PT	Portugal	20,146	42,782	25,999	53,649	68,275	69,150	72,796
FI	Finland	649	642	744	841	722	741	716
SE	Sweden	3,650	3,942	1,900	2,145	2,250	2,605	3,508
UK	United Kingdom	58,493	53,784	64,968	69,000	71,887	61,982	60,800
MU12	Monetary Union	761,765	885,714	1,038,110	1,262,888	1,566,551	1,630,944	1,702,429
EU15	European Union	824,139	943,893	1,105,856	1,334,878	1,699,248	1,762,496	1,833,413

Source: ECB. Country data are not reported (-) for confidentiality reasons if the number of subsidiaries is less than three.

Table 24 Number of branches of CIs from third countries

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	15	14	14	13	11	10	10
DK	Denmark	-	-	-	-	-	-	-
DE	Germany	31	31	30	28	21	19	19
GR	Greece	9	9	9	9	8	7	6
ES	Spain	18	15	11	10	7	8	7
FR	France	41	36	32	31	28	28	28
IE	Ireland	-	-	-	-	-	-	-
IT	Italy	19	18	18	16	16	15	15
LU	Luxembourg	7	7	8	8	8	7	7
NL	Netherlands	11	11	10	10	9	9	8
AT	Austria	-	-	-	-	-	-	-
PT	Portugal	-	3	3	-	-	-	-
FI	Finland	-	-	-	-	-	-	-
SE	Sweden	-	-	-	-	-	-	-
UK	United Kingdom	152	142	128	126	115	105	97
MU12	Monetary Union	157	148	138	130	111	105	102
EU15	European Union	311	292	268	259	228	212	201

Source: ECB. Country data are not reported (-) for confidentiality reasons if the number of branches is less than three.

Table 25 Total assets of branches of CIs from third countries

(EUR million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	43,859	34,069	20,180	12,995	13,110	10,971	12,928
DK	Denmark	-	-	-	-	-	-	-
DE	Germany	35,439	35,020	34,189	42,368	38,525	31,826	20,315
GR	Greece	7,764	7,014	6,929	10,127	8,911	5,881	6,383
ES	Spain	13,200	8,690	5,883	5,255	2,684	3,911	2,502
FR	France	57,409	42,921	27,318	26,922	21,112	13,701	11,351
IE	Ireland	-	-	-	-	-	-	-
IT	Italy	22,725	10,786	7,698	11,669	11,057	10,102	9,735
LU	Luxembourg	7,127	7,076	6,132	7,755	7,438	6,264	4,912
NL	Netherlands	3,915	3,692	3,320	3,302	2,107	1,795	1,582
AT	Austria	-	-	-	-	-	-	-
PT	Portugal	-	681	543	-	-	-	-
FI	Finland	-	-	-	-	-	-	-
SE	Sweden	-	-	-	-	-	-	-
UK	United Kingdom	895,102	797,949	902,882	1,135,936	1,210,305	1,128,190	1,123,725
MU12	Monetary Union	193,851	153,508	114,990	123,720	105,777	84,786	70,006
EU15	European Union	1,089,541	952,184	1,020,120	1,261,056	1,317,672	1,213,077	1,193,804

Source: ECB. Country data are not reported (-) for confidentiality reasons if the number of branches is less than three.

Table 26 Number of subsidiaries of CIs from third countries

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	15	10	6	6	7	8	6
DK	Denmark	-	-	-	-	-	-	-
DE	Germany	45	40	38	34	32	27	25
GR	Greece	-	-	-	-	-	3	-
ES	Spain	14	13	13	14	12	11	10
FR	France	89	102	85	79	67	62	57
IE	Ireland	7	7	7	8	10	11	10
IT	Italy	3	3	3	-	-	5	n.a.
LU	Luxembourg	45	41	39	39	36	33	32
NL	Netherlands	20	19	17	16	17	17	16
AT	Austria	13	12	13	12	10	10	10
PT	Portugal	3	3	4	3	3	4	4
FI	Finland	0	0	0	0	0	0	0
SE	Sweden	5	6	7	7	7	8	9
UK	United Kingdom	79	79	75	74	76	78	76
MU12	Monetary Union	256	252	227	215	198	190	171
EU15	European Union	340	337	309	297	283	278	258

Source: ECB. Country data are not reported (-) for confidentiality reasons if the number of subsidiaries is less than three.

Table 27 Total assets of subsidiaries of CIs from third countries

(EUR million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	7,376	3,665	3,096	5,990	3,707	6,280	6,880
DK	Denmark	-	-	-	-	-	-	-
DE	Germany	57,684	50,646	50,931	54,779	56,811	52,062	65,009
GR	Greece	-	-	-	-	-	1,927	-
ES	Spain	16,424	17,016	13,783	14,566	15,397	14,436	14,310
FR	France	76,259	63,572	64,691	82,571	74,947	54,801	46,503
IE	Ireland	12,770	17,200	23,839	30,004	46,266	59,393	61,252
IT	Italy	1,753	2,686	1,487	-	-	-	n.a.
LU	Luxembourg	39,432	29,054	30,861	32,549	36,593	27,577	25,171
NL	Netherlands	13,851	12,487	13,143	17,313	16,809	16,421	19,119
AT	Austria	4,817	4,729	4,922	6,172	4,070	3,454	4,108
PT	Portugal	3,803	5,431	6,425	3,279	3,669	3,335	2,563
FI	Finland	0	0	0	0	0	0	0
SE	Sweden	651	669	771	1,778	1,771	2,044	2,383
UK	United Kingdom	205,816	203,877	232,954	276,047	297,724	297,125	547,052
MU12	Monetary Union	235,141	207,119	214,074	250,122	261,924	242,054	249,549
EU15	European Union	441,608	411,665	447,799	528,076	561,616	541,392	799,239

Source: ECB. Country data are not reported (-) for confidentiality reasons if the number of subsidiaries is less than three.

Table 28 Number of domestic mergers and acquisitions (M&A) involving CIs

Country		1997	1998	1999	2000	2001	2002	2003	2004 H1
BE	Belgium	1	6	1	0	1	0	1	0
DK	Denmark	0	0	2	1	1	1	1	0
DE	Germany	15	12	22	10	8	6	13	5
GR	Greece	1	8	3	4	0	2	3	0
ES	Spain	7	12	9	7	3	3	4	2
FR	France	17	9	7	10	11	9	8	9
IE	Ireland	0	0	0	0	0	0	1	0
IT	Italy	17	16	24	31	21	17	22	6
LU	Luxembourg	0	0	0	0	0	0	0	0
NL	Netherlands	3	1	1	0	1	2	1	0
AT	Austria	5	2	4	4	1	1	0	1
PT	Portugal	2	3	1	5	2	0	1	0
FI	Finland	0	0	0	0	0	2	0	0
SE	Sweden	1	0	1	0	0	1	1	1
UK	United Kingdom	4	0	0	1	1	6	7	3
MU12	Monetary Union	68	69	72	71	48	42	54	23
EU15	European Union	73	69	75	73	50	50	63	27

Source: SDC Platinum database (Thomson Financial).

Table 29 Number of EEA country M&A between CIs

Country		1997	1998	1999	2000	2001	2002	2003	2004 H1
BE	Belgium	2	1	6	1	2	1	0	1
DK	Denmark	1	0	4	3	1	1	0	1
DE	Germany	3	5	9	5	2	3	1	1
GR	Greece	0	1	1	2	1	2	0	2
ES	Spain	2	4	10	9	3	4	3	1
FR	France	3	2	7	8	4	3	1	3
IE	Ireland	0	0	1	0	1	1	0	0
IT	Italy	0	4	12	5	2	4	0	0
LU	Luxembourg	2	4	3	4	4	1	1	2
NL	Netherlands	2	1	3	3	2	3	2	1
AT	Austria	0	1	0	0	3	0	0	0
PT	Portugal	0	0	2	5	2	1	4	0
FI	Finland	0	0	1	1	1	2	0	0
SE	Sweden	1	0	5	2	1	3	0	0
UK	United Kingdom	2	0	3	2	2	2	0	0
MU12	Monetary Union	8	12	30	24	14	13	6	5
EU15	European Union	9	12	35	26	17	16	6	6

Source: SDC Platinum database (Thomson Financial).

Table 30 Number of third country M&A between CIs

Country		1997	1998	1999	2000	2001	2002	2003	2004 H1
BE	Belgium	6	0	5	5	2	6	1	1
DK	Denmark	0	1	0	1	1	0	0	0
DE	Germany	5	6	14	11	8	5	2	0
GR	Greece	0	0	3	4	0	1	2	0
ES	Spain	6	10	3	8	5	6	3	1
FR	France	6	7	6	3	8	3	5	1
IE	Ireland	1	0	2	0	0	0	0	0
IT	Italy	1	2	2	4	3	3	7	0
LU	Luxembourg	0	1	0	1	0	0	0	1
NL	Netherlands	4	4	2	1	5	1	0	0
AT	Austria	1	3	2	3	4	8	4	2
PT	Portugal	0	1	1	3	0	0	1	0
FI	Finland	0	0	2	3	0	0	0	0
SE	Sweden	1	3	2	4	1	2	0	0
UK	United Kingdom	4	3	8	3	4	2	6	3
MU12	Monetary Union	30	34	42	46	35	33	25	6
EU15	European Union	35	41	52	54	41	37	31	9

Source: SDC Platinum database (Thomson Financial).

Table 31 Population

(number, end of period)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	10,180,000	10,203,000	10,222,000	10,246,000	10,281,000	10,330,000	10,374,000
DK	Denmark	5,285,000	5,303,000	5,321,000	5,338,000	5,357,000	5,376,000	5,390,000
DE	Germany	82,052,000	82,029,000	82,087,000	82,188,000	82,340,000	82,482,000	82,520,000
GR	Greece	10,776,518	10,834,859	10,882,572	10,917,436	10,937,669	10,950,200	11,018,400
ES	Spain	39,348,100	39,453,400	39,626,200	39,927,400	40,265,500	40,546,200	40,809,300
FR	France	59,830,650	60,046,700	60,296,500	60,594,250	60,916,250	61,236,750	61,539,650
IE	Ireland	3,660,590	3,712,956	3,754,238	3,799,325	3,852,552	3,908,556	3,956,698
IT	Italy	57,512,200	57,588,000	57,646,300	57,762,000	57,927,000	58,027,758	58,132,218
LU	Luxembourg	421,000	426,500	432,500	438,500	441,500	446,200	449,293
NL	Netherlands	15,607,000	15,703,000	15,809,000	15,922,000	16,043,000	16,148,000	16,244,856
AT	Austria	7,968,040	7,976,790	7,992,320	8,011,570	8,031,560	8,053,110	8,078,540
PT	Portugal	10,091,120	10,129,290	10,171,949	10,225,836	10,292,999	10,368,403	10,443,608
FI	Finland	5,140,000	5,153,000	5,165,000	5,176,000	5,188,000	5,201,000	5,213,000
SE	Sweden	8,846,000	8,851,000	8,858,000	8,872,000	8,896,000	8,925,000	8,958,229
UK	United Kingdom	58,167,000	58,305,000	58,481,000	58,643,000	59,051,000	59,232,000	59,422,800
MU12	Monetary Union	302,587,218	303,256,495	304,085,579	305,208,317	306,517,030	307,698,176	308,779,563
EU15	European Union	374,885,218	375,715,495	376,745,579	378,061,317	379,821,030	381,231,176	382,550,592

Source: Eurostat.

Table 32 Gross domestic product at market price

(EUR or ECU million)

Country		1997	1998	1999	2000	2001	2002	2003
BE	Belgium	216,137	223,687	235,713	247,792	253,800	260,011	267,480
DK	Denmark	149,169	154,069	162,430	171,584	177,871	183,125	188,183
DE	Germany	1,863,458	1,916,370	1,978,600	2,030,000	2,074,000	2,107,300	2,128,200
GR	Greece	107,103	108,977	117,850	123,140	131,024	141,334	152,572
ES	Spain	495,627	525,454	565,419	609,734	653,289	696,208	743,046
FR	France	1,241,129	1,297,574	1,355,102	1,420,138	1,475,584	1,526,821	1,557,245
IE	Ireland	70,719	77,670	89,614	102,845	114,742	129,344	131,922
IT	Italy	1,029,991	1,068,947	1,107,994	1,166,548	1,218,535	1,260,428	1,300,926
LU	Luxembourg	15,417	16,890	18,738	21,278	21,971	22,506	23,476
NL	Netherlands	332,654	351,648	374,070	402,291	429,127	444,649	460,039
AT	Austria	181,645	189,333	197,064	206,671	212,511	218,333	224,270
PT	Portugal	93,901	100,355	108,030	115,548	122,801	129,171	130,428
FI	Finland	108,215	115,596	119,985	130,145	135,468	139,803	142,518
SE	Sweden	218,263	221,163	235,768	259,907	244,880	256,236	267,297
UK	United Kingdom	1,170,206	1,269,327	1,371,052	1,559,626	1,598,902	1,660,457	1,589,468
MU12	Monetary Union	5,755,996	5,992,502	6,268,178	6,576,130	6,842,852	7,075,909	7,262,121
EU15	European Union	7,293,635	7,637,061	8,037,429	8,567,248	8,864,505	9,175,726	9,307,069

Source: ECB.

ANNEX 2

METHODOLOGICAL NOTE ON THE STRUCTURAL INDICATORS

Data included in Annex 1 are derived from a variety of sources, using different statistical concepts, collection techniques, etc. This makes it difficult to compare series across indicators, countries and – perhaps to a somewhat lesser extent – over time as well. The reader should keep this caveat in mind when interpreting and possibly using the data any further. The set of indicators can be grouped according to the data source used, namely:

– Indicators derived from data already available at the ECB;

– Indicators that required a new data collection from the statistical departments of national central banks;

– Other sources, such as commercial databases.

The ECB's directorate general statistics department was entrusted with setting up the second category of indicators. Guidelines for the compilation and transmission of these indicators are included in Annex VI of Statistical Guideline ECB/2003/2 (as amended).

NUMBER OF CREDIT INSTITUTIONS (TABLE 1)

Credit institutions are a subset of monetary financial institutions or MFIs, on which the ECB publishes more detailed information on its website (*www.ecb.int*) under "MFIs and Eligible Assets"/"Monetary Financial Institutions".

The number of credit institutions in each Member State includes the credit institutions under the law of that country, regardless of whether they are subsidiaries of foreign banks or not. The number also includes the branches of foreign banks in that Member State. If a foreign bank has several branches in a given country, then they are counted as a single branch. However, if the same bank has several subsidiaries, the latter are counted separately because they are considered to be separate legal entities.

In the case of credit institutions that depend on a central organisation (such as groups of cooperative banks), these may be counted separately, in accordance with Statistical Regulation ECB/2001/13 (as amended).

NUMBER OF BRANCHES OF CREDIT INSTITUTIONS PER 100,000 INHABITANTS (TABLE 2)

A local unit or branch is an unincorporated entity (without independent legal status) wholly owned by the parent. Only branches that belong to credit institutions are included. The indicator refers to the number of branches at the end of the reference period.

The set of credit institutions considered in the calculation of the local units is consistent with the definition used for the indicator in Table 1. If the same foreign bank has several branches in a given country, these are counted as a single branch. For additional information, please consult the above mentioned ECB Regulation.

NUMBER OF EMPLOYEES OF CREDIT INSTITUTIONS PER 100,000 INHABITANTS (TABLE 5)

The indicator refers to the average number of staff employed during the reference year by the credit institutions mentioned in Table 1. Employees of financial institutions which are not themselves credit institutions are excluded, even if these institutions belong to the same group of the credit institution.

CR5 (TABLE 6)

The CR5 of a Member State is the percentage share of the five largest credit institutions, ranked according to assets, in the sum of the assets of all the credit institutions in that particular Member State. The set of credit institutions and the definition of assets used in the calculation are consistent with the definitions used for the indicators in Tables 1 and 8. The set of the five largest credit institutions may vary over time.

The ratio is calculated on the basis of a sub-set of the ECB list of monetary financial institutions (MFI) used for monetary policy purposes. The sub-set of the MFI list concerns credit institutions only. This list follows a host country residence approach and a non-consolidated basis, meaning that banking subsidiaries and foreign branches of a particular credit institution are considered to be separate credit institutions which are resident in another EU Member State. Domestic banks' branches and subsidiaries resident outside the EU are not captured, while domestic branches and subsidiaries of credit institutions resident outside the EU are included.

HERFINDAHL INDEX (TABLE 7)

The Herfindahl index of a Member State is calculated as the sum of the squares of all the credit institutions' market shares, according to total assets. The set of credit institutions and the definition of assets used in the calculation are consistent with the definitions used for the indicators in Tables 1 and 8.

The ratio is calculated on the basis of a sub-set of the ECB list of monetary financial institutions (MFI) used for monetary policy purposes. The sub-set of the MFI list concerns credit institutions only. This list follows a host country residence approach and a non-consolidated basis, meaning that banking subsidiaries and foreign branches of a particular credit institution are considered to be separate credit institutions which are resident in another EU Member State. Domestic banks' branches and subsidiaries resident outside the EU are not captured, while domestic branches and subsidiaries of credit institutions resident outside the EU are included.

TOTAL ASSETS OF CREDIT INSTITUTIONS PER GDP (TABLE 8)

The set of credit institutions considered in the calculation of this indicator is consistent with the definition of the indicator in Table 1.

The total assets are calculated on a residential basis, meaning that for each Member State, the credit institutions under the law of that Member State are included (independent of whether or not they are a subsidiary of a foreign bank). However, the activity of the foreign branches of these credit institutions is not included, as this is reported by the host country. For additional information, please consult the above mentioned ECB Regulation.

TOTAL LOANS OF CREDIT INSTITUTIONS TO NON-MFIS PER GDP (TABLE 10)

The approach followed for these indicators is very similar to the one used for total assets.

Monetary financial institutions (MFIs) are a set of institutions that mainly comprises credit institutions and, to a lesser extent, money market funds as well.

NUMBER OF BRANCHES/SUBSIDIARIES OF CREDIT INSTITUTIONS FROM EEA/NON-EEA COUNTRIES (TABLES 28 TO 39)

Two distinctions are made in these tables. The first is according to the entry mode of the foreign credit institution in the Member State, i.e. as a branch (which is not considered to be a separate legal entity) or as a subsidiary (which is considered to be a separate legal entity). If the same foreign bank has several places of business, the latter are counted as a single branch. The second is according to the nationality of the foreign credit institution, i.e. either EEA (European Economic Area) or non-EEA. The EEA as at end-2003 includes the 15 Member States of the European Union, plus Norway, Iceland, and Liechtenstein. The European banking directives also apply in the last three countries.

The figures for a particular Member State only include the non-domestic component: the branches and subsidiaries of credit institutions under the law of that Member State are not included.

If less then three institutions are present, the underlying figures are not shown.

NUMBER OF M&AS (TABLES 40 TO 45)

As data on the number of mergers and acquisitions (M&A) in the banking sector are not readily available from all authorities, making their collection very time-consuming, data have been retrieved from a commercial database, Thomson Financial SDC Platinum Database.

The authorities represented on the Banking Supervision Committee have expressed reservations about the coverage of the data, especially where small to medium-sized deals are concerned.