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EU BANKING SECTOR STABILITY

AUGUST 2009

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Unless otherwise stated, this document uses data available as at 27 July 2009.

ISSN xxxx-xxxx (print)
ISSN 1725-5554 (online)

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ABBREVIATIONS

COUNTRIES

AT	Austria	IT	Italy
BE	Belgium	LT	Lithuania
BG	Bulgaria	LU	Luxembourg
CY	Cyprus	LV	Latvia
CZ	Czech Republic	MT	Malta
DE	Germany	NL	Netherlands
DK	Denmark	PL	Poland
EE	Estonia	PT	Portugal
ES	Spain	RO	Romania
FI	Finland	SE	Sweden
FR	France	SI	Slovenia
GR	Greece	SK	Slovakia
HU	Hungary	UK	United Kingdom
IE	Ireland		

EXECUTIVE SUMMARY

This report has been prepared by the **Banking Supervision Committee (BSC)** of the European System of Central Banks (ESCB). It is based on the main findings of the annual macro-prudential analysis of EU banking sector stability. The report reviews the financial condition of the entire EU banking sector in 2008 and of large EU banks in the first quarter of 2009 based, respectively, on supervisory and publicly available data. The report also discusses the main risks surrounding the outlook for the EU banking sector and provides an assessment of the financial soundness and shock-absorption capacity of EU banks.

THE FINANCIAL CONDITION OF EU BANKS IN 2008 AND IN THE FIRST QUARTER OF 2009

After a significant decrease in the profitability of the EU banking sector in the second half of 2007, the financial performance of EU banks deteriorated further in 2008, and the aggregate return on equity (ROE) of EU banks moved into negative territory. Nevertheless, significant differences could be observed across banks and countries. The overall fall in profitability was heavily influenced by the very large losses experienced by some banks, which influenced the overall EU aggregate. It should be noted that the reclassification of assets, upon amendments to IAS/IFRS rules in October 2008, helped some banks avoid recognising larger marking-to-market losses via their profit and loss statements. The use of reclassification of assets and its impact on profit and loss statements varied widely across institutions and countries. Nevertheless, the deterioration in profitability was broad-based, as indicated by a significant downward shift in the distribution of country-level ROEs. Although the financial results for the first quarter of 2009 reported by a sample of large EU banks indicate some improvement in comparison with 2008 it is important to stress, however, that the spread of banks' performances remained large in early 2009. In particular, many banks reported outright losses or weak results on account of further write-downs on legacy assets or a significant increase in loan loss provisions.

EU banks' operating income, expressed as a ratio of their total assets, fell significantly in 2008. Non-interest income and, in particular, losses on financial instruments accounted for most of the decrease, while net interest income held up relatively well in many EU countries and, indeed, increased as a share of total assets. Along with a deterioration in asset quality in many parts of the EU banking sector, rising impairment and provisioning costs contributed to the decline in profitability. Given the significant worsening of macroeconomic conditions in the first half of 2009 and taking into account that, typically, loan loss provisioning costs tend to rise with some lag following economic downturns, loan loss ratios are likely to increase further in the second half of 2009 and 2010. In addition, several banks could still continue to see their earnings dented by marking-to-market write-downs on their holdings of legacy assets and securities.

Notwithstanding reduced or negative profits, measures of capital adequacy showed a slight improvement for the EU banking sector a whole in 2008. The recovery in capital ratios was due, in part, to increased efforts to raise private capital or because of government capital injections. Furthermore, the marked deceleration in credit growth as well as the phased implementation of Basel II brought with it a slower increase or even a reduction of risk-weighted assets for a number of banks which also contributed to the improvement of capital ratios in 2008. Developments in regulatory capital ratios for a smaller sub-sample of large EU banks suggest that this trend may have continued further into the first quarter of 2009.

BANKS' OUTLOOK AND RISKS

Since the fourth quarter of 2008, the economic outlook in the EU has deteriorated substantially. This was confirmed by a significant broad-based weakening of EU economic activity that took place in the first quarter of 2009, characterised by a contraction of domestic demand and a significant decline in trade volumes. Despite signs that the pace of the economic contraction may be moderating, the outlook for the EU economy continues to be surrounded by a high degree of uncertainty. In particular, a stronger impact of the turmoil in the financial markets on the real economy remains a downside risk to the economic outlook. Both global and EU domestic demand are expected to decline further in 2009, and to recover only gradually in the course of 2010, which may impose further strains on the credit quality of EU banks' loan portfolios.

Information obtained from recent bank lending surveys across the EU suggests that the tightening of credit standards for new loans to households and, in particular, the non-financial corporate sector, while less severe than that recorded in previous quarters, was still substantial. While this revision of credit standards may be expected to have a positive impact on banks' newly originated credit risk exposures, this does not necessarily apply to drawings by borrowers on credit lines that were agreed before the start of the credit market turmoil. Furthermore, at the current juncture, tight lending policies might pose additional risks to banks by contributing to a protraction of the economic downturn.

As regards household sector credit risk, despite considerable differences across EU countries, the condition of households' balance-sheets in the first months of 2009 deteriorated in comparison with the previous year, as financial sector strains started spilling over to the real economy in earnest. In some countries, this had already started to impact households' ability to service their debt in 2008, as revealed by increasing non-performing loan ratios and arrears. The outlook for household sector loan quality deteriorated further in the first half of 2009. This was due to a substantial deterioration in the outlook for both the labour market and household income as well as to tight credit market conditions and to weakening house prices (even though there were significant differences across EU countries). Cross-country differences derive from divergences in households' vulnerability to housing market developments, in the prospects for growth and employment, and in potential exposures to exchange rate risk. However, non-performing loan ratios for mortgage and consumer credit in particular are expected to increase in many parts of the EU, although this should be seen in the context of the historically very low levels reported until just recently. On the other hand, the significant decline in interest rates since October 2008 has contributed to improve the financial condition of households and their ability to repay loans. The mitigating impact of low interest rates on the rate of increase of non-performing loans could in particular relieve banks from credit risks in countries where most mortgages are granted at variable interest rates.

Turning to corporate sector credit risk, the spilling over of financial sector strains to the real economy has highlighted key fragilities in the condition of European corporates, which may further increase pressures on the banking sector. Corporate sector vulnerabilities arise from, in particular, a relatively high aggregate level of firm indebtedness, deteriorating actual and expected profitability and fragilities in the cost and availability of financing. Against the background of a global and European economic downturn, the risk of potential credit losses for banks stemming from exposures to vulnerable non-financial sector borrowers is likely to rise, possibly reinforcing the negative interplay between the financial sector and the real economy.

Regarding the most vulnerable sectors, signs of deteriorating loan quality in real estate-related sectors already started to emerge in some large EU banks in the course of 2008. Related to these are the risks deriving from lending activities to commercial property firms. These risks increased substantially as capital value growth continued to ease or prices started to decline in a number of countries, or declined further in the first months of 2009. Banks with significant exposures to this sector thus face the risk of potentially increasing loan losses if the collateral value of commercial property loans were to decline further.

More in general, it was to be expected that credit risks in sectors strongly oriented to export markets would increase not only as a result of the decline in external demand but also because of currency pressures that had an impact on competitiveness (e.g. the strengthening of the euro). Furthermore, exposures to leveraged lending businesses may pose considerable risks to banks. This is because historical experience has shown that default rates in banks' leveraged finance businesses have tended to rise in the past when economic activity has been contracting.

Regarding banks' key funding markets, largely on account of the provision of ample liquidity by central banks, there have been some signs of improvement in money market conditions, as is indicated by a marked decline in spreads between unsecured interbank deposit rates and overnight index swap rates in major money markets. This notwithstanding, interbank lending still tends to be skewed towards short maturities and money market conditions had not returned to normal at the time of finalisation of this report. Moreover, the scarcity of medium and long-term funding liquidity remains a challenge for several banks, although these concerns have, at least in part, been mitigated by the implementation of schemes by governments in most EU countries which guaranteed new debt issued by banks. The market for covered bonds, which represents an important source of medium to long-term funding in many EU countries, showed signs of recovery in the first half of 2009, in particular following the announcement of the ECB's purchase programme for covered bonds in early May.

Regarding intra-group funding liquidity risk, there have been no signs of a cutback in parent bank funding to subsidiaries in the countries of central and eastern Europe. This suggests that parent banks remained committed to maintaining their operations in this region. All in all, funding liquidity conditions seem to have improved somewhat since the fourth quarter of 2008, as indicated by tightening money market spreads and the reopening of some debt markets. However, some EU banks still remain largely dependant on central bank refinancing and government guarantees on debt issuance. Therefore, in the longer term, banks will need to find alternative sources of funding when their government guaranteed debt will mature.

The evolution of forward-looking market indicators suggests that the gradual implementation of various support measures by EU governments may have led to a decrease in systemic risk in the EU banking sector since March 2009, as indicated by the significant narrowing of spreads on banks' credit default swaps (CDSs). However, most market indicators continue to suggest that the outlook for EU banks remains uncertain, not least on account of concerns about the likely impact of increasing loan losses on banks' balance sheets.

1 INTRODUCTION

The report reviews the recent performance of EU banks, identifies the main sources of potential risks to EU banks' stability and assesses banks' ability to withstand adverse disturbances. It should be noted that materialisation of the key sources of risk identified should not necessarily be seen as the most probable prospect, but they should rather be seen as potential and plausible downside risks for banks.

The analysis in the report draws upon a number of sources. The review of EU banks' performance in 2008 is based on the consolidated banking data (CBD) collected annually by the BSC. These data cover nearly the entire EU banking sector and are among the timeliest of comparable data collected by national authorities (see Box 2 in the Statistical Annex). The assessment of EU banks' financial condition in the first quarter of 2009 draws on publicly available data for a sample of large EU banks. The selection of the institutions for this analysis is in line with the approach used for the consolidated banking data (see Box 2).

Regarding the data for 2008, the introduction of the International Accounting Standards (IASs)/ International Financial Reporting Standards (IFRSs) and Basel II triggered a complete revision of the CBD reporting framework. The rollout of the Financial Reporting Framework (FINREP) and the Common Reporting Guidelines (COREP), sponsored by the Committee of European Banking Supervisors (CEBS) also provided a basis for the new scheme. The new CBD framework for providing supervisory data was implemented for the 2009 data collection, referencing 2008 data, and has been adopted by all the EU-27 countries. Although several reporting countries have also endeavoured to reproduce 2007 data under the new scheme, for the purposes of making historical comparisons, it was deemed best (in the interests of full coverage) to review the current CBD indicators in comparison with the indicators calculated last year.[1]

The report is structured as follows. Section 2 discusses the major developments affecting the financial condition of EU banks in 2008 and in the first quarter of 2009. Section 3 introduces and discusses the major sources of risk faced by EU banks, covering credit risks, funding liquidity risks and risks originating from EU banks' exposures to emerging market economies. Section 4 presents a forward-looking analysis based on various types of quantitative market indicators, with a special focus on the most recent events. The report concludes with an overall assessment of the stability of the EU banking sector.

2 EU BANKS' PERFORMANCE IN 2008 AND IN THE FIRST QUARTER OF 2009

Stresses on the EU banking sector increased further during the second half of 2008 and remained intense in the first quarter of 2009. Write-downs on structured products, the deterioration of the macroeconomic outlook and a very unfavourable financial market environment all adversely impacted on banks' earnings and asset quality in the second half of 2008. Marking-to-market write-downs on structured credit investments, as well as trading losses related to the financial market turmoil, severely depressed the income of most large EU banks. Although most of the large banks still managed to report positive income for the full year, the dispersion of performances widened, and some institutions suffered significant losses and an erosion of their regulatory capital. An improvement in financial market conditions in the first quarter of 2009, including a significant rise in capital market activity (e.g. corporate bond issuance) contributed to a tentative recovery in banks' earnings in the first three months of 2009. Nevertheless, the outlook for EU banks' profitability in 2009 remains highly uncertain on account of not least the prospect of further significant increases in provisioning costs for loans losses.

1 It should be noted that the indicators for 2007 were constructed as the weighted average of indicators for the two groups covered in previous issues of the Banking Stability Report, i.e. IFRS and non-IFRS reporting countries.

PROFITABILITY FELL ACROSS THE BOARD

After a significant decrease in the profitability of the EU banking sector in the second half of 2007, the aggregate return on equity (ROE) of EU banks moved into negative territory in 2008. This sharp decrease was due to a general decline in profitability for almost all national banking sectors. The ROE for the EU as a whole fell to -3% in 2008, from an average of 15% in 2007 (see Chart 2.1).

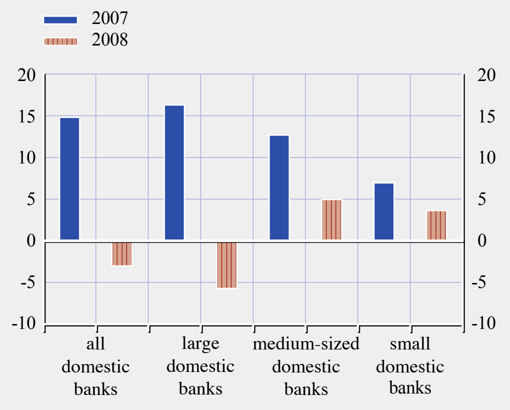
The fall in profitability was influenced by some very large losses experienced by some banks, which influenced the overall EU aggregate.[2] However, the deterioration in profitability was broad-based, as indicated by a significant downward shift in the distribution of country-level ROEs (see Chart 2.2). Nevertheless, significant differences could be observed across banks and countries. It should be also noted that the median value of country-level ROEs remained positive also in 2008, although it dropped from 17.6% in 2007 to 6.3%.

As regards size groups, the deterioration in financial performance was most pronounced for large banks, as this group of banks – as a whole – suffered a loss in 2008, which compares with an average ROE of 15% in 2007. This reflects the sizeable write-downs related predominantly to structured credit investments which were concentrated on the group of large banks within the EU (see also Chart C in Box 1). It should be also stressed, however, that several large banks with business models focusing on traditional intermediation activities weathered the financial turmoil well in 2008 and remained profitable. The profitability of medium-sized and small banks also declined significantly from levels of 13% and 7% in 2007 to 5% and 3.6% respectively. Similar to the group of large banks, the decline in profitability of medium-sized banks was due mainly to losses on trading assets, and only to a lesser extent due to rising provisioning costs. As highlighted in previous issues of the Banking Stability Report, on the whole, small banks' relatively low profitability seems to have persisted for several years now and might be due to less diversified business activities, as well as to lower cost efficiency.

2 In some cases, these losses also included exceptional items such as write-downs on goodwill or losses from discontinued operations.

Chart 2.1 ROE of EU banks

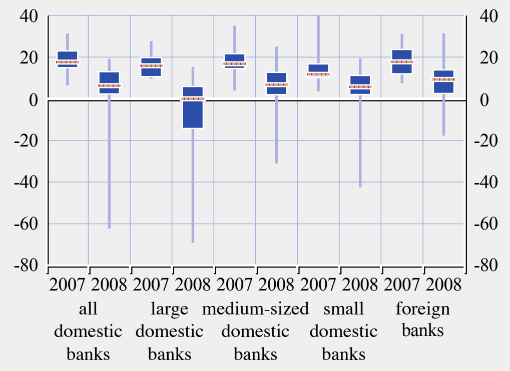
(all domestic banks; percentages)



Source: BSC.

Chart 2.2 Dispersion of ROEs for EU banks

(all domestic banks; minimum, maximum, inter-quartile range and median of country values; percentages)



Source: BSC.

It should be noted that a significant number of large EU banks made use of the amendment of the IFRS rules, i.e. IAS 39, effected in the second half of 2008, which allowed them to reclassify financial assets, and thereby to avoid larger marking-to-market losses recognised via their profit and loss statements or direct write-downs of their capital (see Box 1 for more details). Nevertheless, the use of such asset reclassifications varied across institutions and countries.

OPERATING PROFITS DECLINED SIGNIFICANTLY

As a consequence of the negative impact of the financial turmoil, the share of EU banks' operating income in their total assets declined markedly. Similar to what occurred in 2007, non-interest income accounted for most of the decrease, which was due, in turn, to the negative result related to financial transactions, including large marking-to-market losses on structured investment portfolios, but also on other financial assets. Banks' net fee and commission income also decreased as a share of their total assets, which mainly reflects the adverse impact of the turmoil on investment banking and asset management activities. Nevertheless, the overall decline in this income component was limited by the relative stability of retail business-based fee income. Net interest income held up relatively well and, indeed, increased slightly as a share of total assets. This reflects the fact that credit growth remained relatively robust in many parts of the EU until mid-2008, whereas weaker volume growth in the second half of the year was partly compensated for by widening lending margins (see Chart 2.3). As a consequence, net interest income increased significantly in importance in 2008, with its share in total income rising from 55% in 2007 to 66% in 2008.

While the growth of EU banks' operating costs remained contained in 2008, costs increased slightly as a share of total assets. Average cost-to-income ratios increased sharply from around 55.5% in 2007 to 70.2% in 2008, albeit mostly as a result of declining revenues.

Chart 2.3 Lending margins of euro area MFIs

(January 2003 – May 2009; percentage points)

Source: ECB.

Overall, the decrease in pre-provisioning profits in 2008 was due mainly to large marking-to-market losses on structured credit products and other trading assets. It should be noted, however, that banks' recurring earnings also deteriorated slightly, as indicated by a modest decline in the combined share of net interest and net fee and commission income in total assets. The average figures hide diverse developments across countries as banks in some parts of the EU, in particular in countries that still experienced robust growth in 2008, largely benefited from a stable flow of retail business volumes.

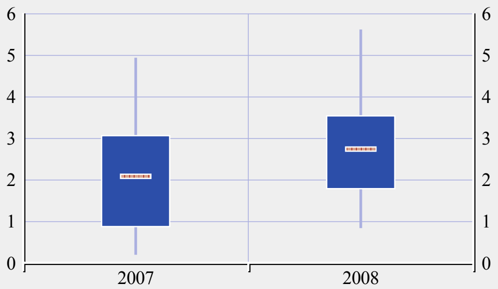
IMPAIRMENT CHARGES INCREASED MARKEDLY

Overall, the asset quality of EU banks deteriorated in 2008, although developments in non-performing loan ratios differed significantly across countries. For the EU banking sector as a whole, the ratio of doubtful and non-performing loans to the total outstanding loans and advances increased from 2.1% in 2007 to 2.4% at the end of 2008. This was due to both a significant increase in non-performing loans and slowing credit growth in 2008 and reflects the worsening macroeconomic conditions in many parts of the EU in this period.

The deterioration of asset quality was relatively broad based across the EU, as indicated by the

Chart 2.4 Dispersion of non-performing loan ratios for EU banks

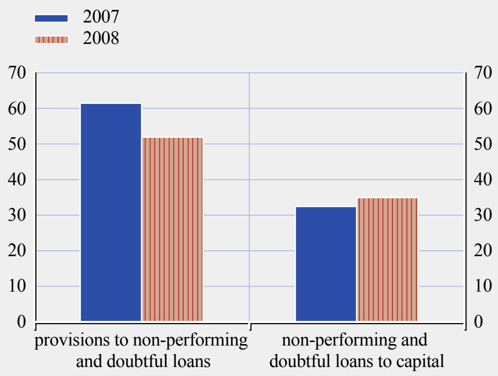
(all banks; minimum, maximum, inter-quartile range and median of country values; percentages)



Source: BSC.
Note: On account of missing data for either 2007 or 2008, five countries were excluded from the calculations.

Chart 2.5 Total loss provisions as a share of doubtful and non-performing loans and non-performing loans as a percentage of capital

(all domestic banks; percentages)



Source: BSC.

upward shift of the distribution of country-level non-performing loan ratios (see Chart 2.4). However, marked differences in macroeconomic conditions, or property market developments, were also reflected in the extent of the loan quality deterioration. As regards different size groups, the deterioration in asset quality was most pronounced for medium-sized and small banks.

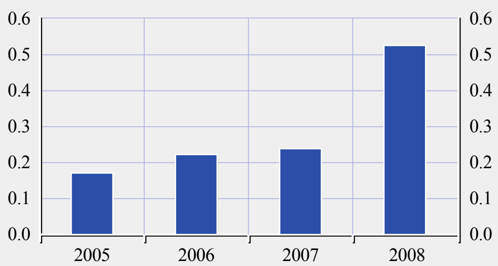
The coverage of total doubtful and non-performing loans by loss provisions fell significantly during 2008. Whereas EU banks' loss provisions constituted approximately 61% of the doubtful and non-performing loans at the end of 2007, this coverage ratio dropped to 52% in 2008 (see Chart 2.5). This drop was mainly caused by a strong increase in the non-performing loan and asset base. The ratio of doubtful and non-performing loans to banks' regulatory capital also increased slightly compared to the average ratio one year earlier, although it remained relatively stable in spite of the increase of the non-performing loans.

Following only a slight increase in 2007, impairment and provisioning costs rose sharply in 2008 (see Chart 2.6). The rise in the costs of credit risk was broad-based in 2008, as it affected almost all size groups and most EU countries. It should be noted that a part of the increase in total impairment costs could be attributed to the marked rise in impairments on available-for-sale financial assets. Developments (relating to large banks) in the first quarter of 2009 suggest that loan impairment charges will increasingly put pressure on the profitability of many EU banks in the period ahead.

Country-level information suggests that the rate of increase in non-performing loans rose further in many parts of the EU in the first quarter of 2009. The deterioration in asset

Chart 2.6 Impairment and provisioning costs of EU banks

(all domestic banks; percentage of total assets)



Source: BSC.

quality was particularly significant in those countries where output contracted most sharply (especially in the Baltic states).

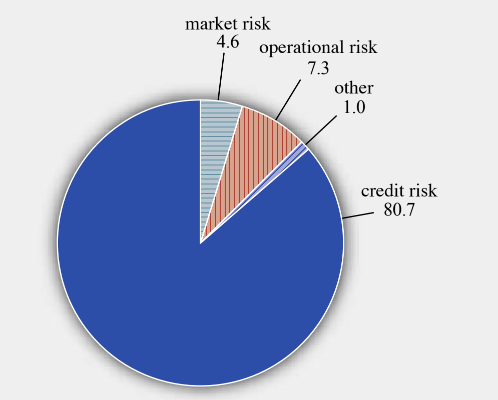
SOLVENCY POSITION SLIGHTLY IMPROVED

In spite of the sizable marking-to-market losses recorded by the EU banking sector, on the whole, regulatory capital ratios slightly improved in 2008, in part as a consequence of both increased efforts to raise capital and government-assisted recapitalisations in the latter part of 2008. The overall solvency ratio edged up from around 11.4% in 2007 to 11.7% in 2008. The aggregate Tier 1 ratio of the EU banking sector increased to a similar extent, namely from 8.1% in 2007 to 8.3% in 2008 (see Chart 2.7). Banks in most EU countries started to report their regulatory capital under Basel II in 2008, which may also have contributed to the improvement of both the overall solvency and the Tier 1 ratios as a result of the lowering of risk-weighted assets.[3] Furthermore, the rate of credit growth decreased markedly in many parts of the EU, which also contributed to the slower increase of credit risk-related capital requirements.

As regards the breakdown of capital requirements by type of risk, credit risk represents more than 80% of minimum capital requirements under Pillar I, whereas the newly introduced requirements for operational risk account for 7.3% of the total (see Chart 2.8).

Chart 2.8 Breakdown of capital requirements by type of risk

(percentages)

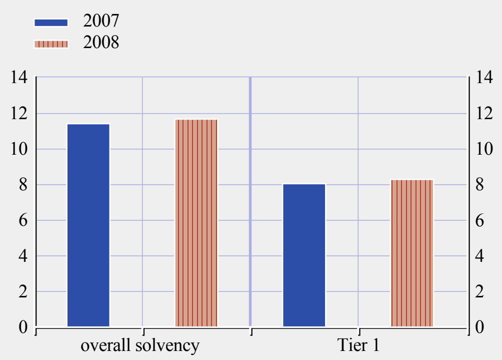


Source: BSC.

3 Indeed, a study based on a review of 158 banks, including 99 EU banks, by A. Mongiardino and A. Cortese found that, in particular, medium-sized to large EU banks that had adopted the internal rating-based (IRB) approach for measuring credit risk under Basel II demonstrated marked increases due to this effect. See, A. Mongiardino and A. Cortese, "The rollout of Basel II and its impact on banks regulatory metrics", *Risk Professional*, April 2009.

Chart 2.7 Overall solvency and Tier I capital ratios for EU banks

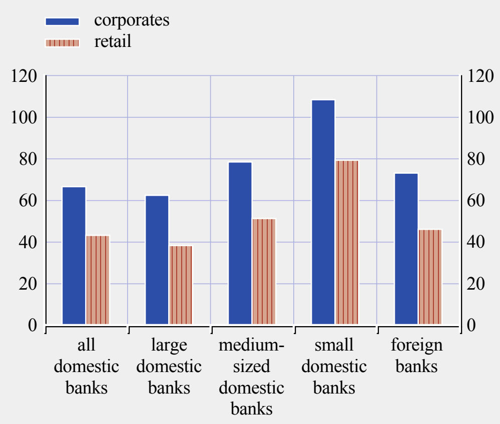
(all domestic banks; percentages)



Source: BSC.

Chart 2.9 Risk-weighted assets as a percentage of exposures

(percentages)



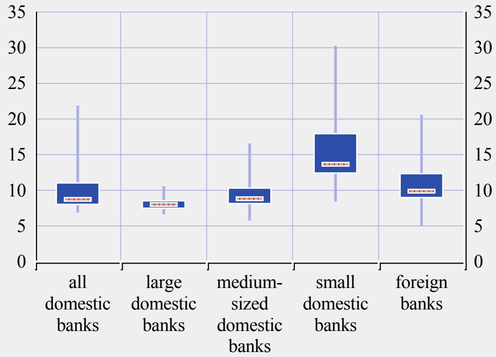
Source: BSC.

Regarding the risk profile of banks' loan portfolios, the relative riskiness of credit portfolios appears to be negatively related to bank size. This is indicated by the higher risk-weighted assets as a share of exposures for small banks, in the case of both corporate and retail loans (see Chart 2.9). This suggests that a relatively larger proportion of lending by small banks is directed towards small and medium-sized enterprises (SMEs), or is in the form of unsecured retail lending.

Finally, looking at the solvency positions across different size groups, the level of capital ratios appears to be negatively related to bank size as small banks continued to report above-average Tier 1 and overall solvency ratios.

Chart 2.10 EU banks' Tier 1 capital ratios

(2008; percentages; minimum, maximum, inter-quartile range and median of country values)



Source: BSC.

Box 1

THE FINANCIAL CONDITION OF LARGE EU BANKS IN THE FIRST QUARTER OF 2009[1]

Stresses on the EU banking sector increased further in the second half of 2008 and remained intense in the first quarter of 2009. An improvement in financial market conditions in the first quarter of 2009, including a significant rise in capital market activity (e.g. corporate bond issuance) contributed to a tentative recovery in banks' earnings in the first three months of 2009. Nevertheless, the outlook for EU banks' profitability in 2009 remains highly uncertain, not least on account of the prospect of further significant increases in provisioning costs for loans losses. All in all, the median return on equity (ROE) of large EU banks declined significantly from 14.2% in 2007 to 5.8% in 2008 (see Chart A). The deterioration of large EU banks' performances was largely due to sizeable valuation losses on structured credit securities and falling trading revenues, as well as to rising loan impairment charges for many of those banks.

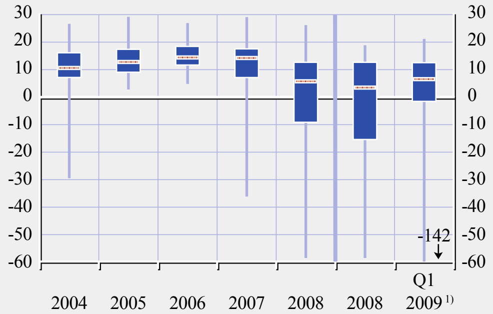
It should also be noted that a significant part of large EU banks made use of the amendment made to the IFRS rules, i.e. IAS 39, in the second half of 2008, although there were differences across institutions and countries. This allowed them to reclassify financial assets and, thereby, to avoid larger marking-to-market losses recognised via their profit and loss statements or direct write-downs of their capital. An analysis of large EU banks revealed that a total of 24 large EU banks (out of the sample of 38 large banks) reclassified an aggregate amount of €570 billion of trading and available-for-sale assets in the second half of 2008. As a consequence, the additional reduction in pre-tax profits would have amounted to €14.2 billion (which compares with aggregate profits of €3.3 billion for this sample of large EU banks in 2008 as a whole).[2]

1 For the analysis of large EU banks, a sample of 38 banks is considered, which is broadly in line with the large bank sample used in the CBD data collection (for a definition, see Box 2 in the Statistical Annex). Note that data for the first quarter were only available for a sub-set of these large EU banks (as not all EU banks report quarterly).

2 It should be noted that some large banks which may be part of the group of large banks in the Consolidated Banking Data collection were not included in the sample of banks considered for the analysis in this box (for instance due to split-up or other reasons). Therefore the profitability figures for 2008 are not directly comparable between these two groups.

Chart A Dispersion of ROEs for a sample of large EU banks

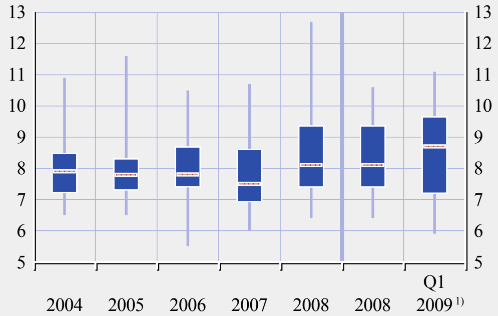
(2004 – Q1 2009; minimum, maximum, inter-quartile range and median; percentage)



Sources: Bloomberg, published financial accounts of individual institutions and ECB calculations.
Notes: The ROE is calculated as the net result for the period divided by the average of total common equity. Figures for Q1 2009 are annualised and based on available data.
1) For a sub-sample of banks which reported Q1 2009 results.

Chart B Dispersion of Tier I ratios for a sample of large EU banks

(2004 – Q1 2009; minimum, maximum, inter-quartile range and median; percentage)



Sources: Bloomberg, published financial accounts of individual institutions and ECB calculations.
1) For a sub-sample of banks which reported Q1 2009 results.

In addition, the reclassification of assets also had a positive impact on equity, amounting to €16.1 billion (equivalent to 2.9% of shareholders' equity for the banks that reclassified assets). It should be noted, however, that some of these "reversed" marking-to-market losses will eventually materialise as impairment charges.

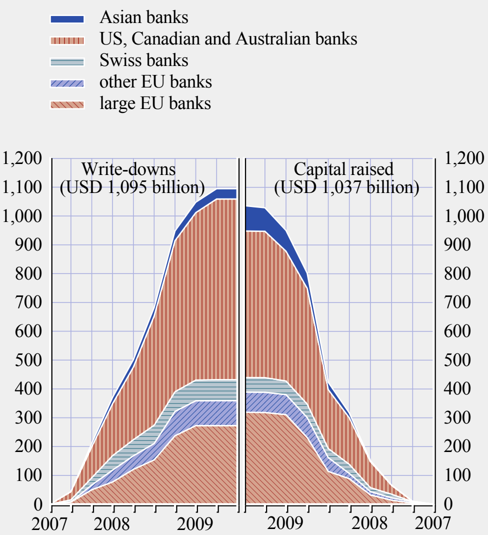
For the sample of large EU banks for which quarterly results were available, the median ROE rose from 4.9% in 2008 to 6.5% in the first three months of 2009. Fee income improved on the back of a recovery in bond issuance in early 2009. Widening lending margins and a steep yield curve also supported banks' revenues from new loan issuance, partly compensating for the significant decline in volumes. For some banks, marking-to-market gains related to the widening spreads on their outstanding debt also contributed to the improvement of their earnings in much of the first quarter of 2009. Despite this tentative improvement in bank results in the first quarter of 2009, performances of large EU banks were characterised by wide dispersion and some banks reported significant losses. The negative performances of these banks were due to further significant write-downs on structured products, or were related in few cases to exposures to monolines. In addition, on account of a deteriorating asset quality, rising provisions for loan losses put increasing pressure on some banks' net results, both in 2008 and in the first quarter of 2009. The deterioration in asset quality in the fourth quarter of 2008 and the first quarter of 2009 is illustrated by the shift in the frequency distribution of net impairment charges towards higher brackets. In particular, the asset-weighted share of banks with net impairment charges higher than 0.4% of their total assets increased from 8% in 2007 to 30% and 27% in 2008 and in the first three months of 2009 respectively (see Chart D).

To overcome the negative impact of a reduction in earnings and to shore up their solvency, many large EU banks have taken major steps to deleverage their balance sheets mainly through a combination of asset-shedding and public and private equity capital injections. In total, EU banks had raised USD 389.2 billion by late July 2009, while cumulative write-downs amounted to USD 359.4 billion, according to data compiled by Bloomberg (see Chart C).[3]

3 In general, the amount of capital raised by banks in a given period need not be equal (or closely related) to the write-downs in that period, as banks may draw on the capital buffers built up previously or retain earnings from other activities.

Chart C Turmoil-related bank write-downs and capital raised by region

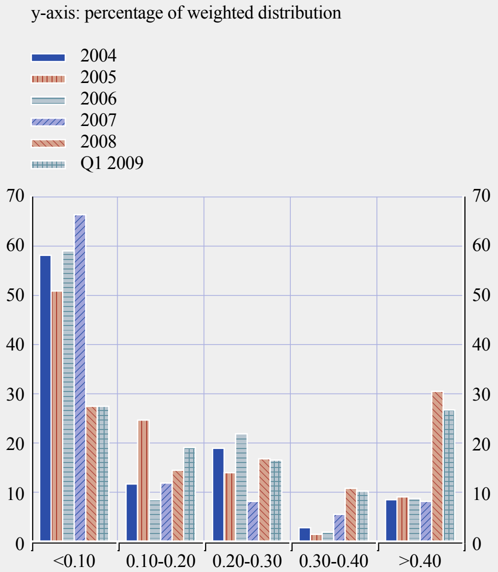
(data as of 23 July 2009)



Sources: Bloomberg and ECB calculations.
Note: The data do not cover all banks in the EU, nor do they cover all banks across the globe.

Chart D Frequency distribution of net loan impairment charges for EU banks

(2004 – Q1 2009; percentage of total assets)



Sources: Individual institutions' financial reports, Bloomberg and ECB calculations.
Notes: Distribution weighted by total assets. Based on available figures for EU banks. Figures for Q1 2009 are annualised.

It should be noted, however, that some large banks were able to sufficiently increase their capital through the retention of earnings, allowing these institutions to keep their solvency ratios stable without raising capital. Notwithstanding the adverse effects of the turmoil, overall, large EU banks' regulatory capital ratios increased during the second half of 2008 and further into the first quarter of 2009 (see Chart B). Looking at the full sample of large EU banks, the median Tier 1 ratio edged up from 7.5% in 2007 to 8.1% at the end of 2008. The impact of the phased implementation of Basel II, and the associated reduction in risk-weighted assets for a number of large banks, as well as the impact of prudential filters for some banks, also contributed to this increase. The distribution of Tier 1 ratios suggests for the sample of large EU banks for which results for the first quarter of 2009 were available at the time this report was finalised that the improvement in (regulatory) solvency ratios may have continued in the first quarter of 2009 as well. For the latter sample, the median Tier 1 ratio increased from 8.1% at the end of 2008 to 8.7% at the end of the first quarter of 2009. As for government-assisted recapitalisations, the amount actually drawn down as injections of public capital (within and outside the scope of the announced national rescue schemes) in the form of instruments such as common equity, preferred equity or convertible notes, stood at €160.5 billion in late July 2009, of which €120.2 billion was drawn down under measures announced by euro area governments.[4] Furthermore, banks' capital positions in several EU countries were also strengthened by asset relief provided by asset protection schemes.

4 It should be noted that the group of banks that have benefited from government-assisted recapitalisations also includes institutions other than the large EU banks under investigation.

3 EU BANKS' OUTLOOK AND RISKS

Looking forward, the outlook for the EU banking sector as a whole has deteriorated significantly since September 2008 and future risks to EU banks increasingly relate to the turn of the credit cycle.

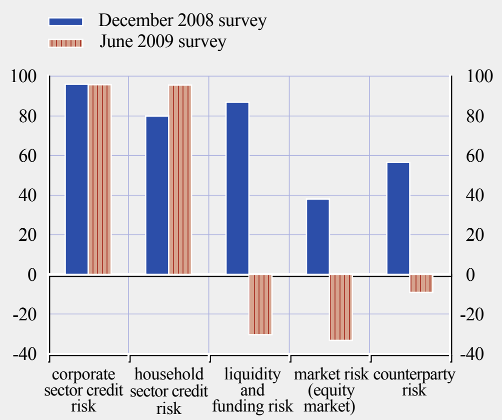
This is also confirmed by survey responses of members of the BSC/WGMA. Chart 3.1 shows that the risk outlook has deteriorated significantly for banks' credit risk. As for other types of risk, survey results suggest that liquidity and funding risks have decreased somewhat since December 2008 when the first survey was carried out. In line with improving investor sentiment since March 2009, the perception of market risks by authorities has also improved in comparison with that six months ago.

EARNINGS OUTLOOK HAS DETERIORATED

Despite the slightly improved financial results reported by several large EU banks for the first quarter of 2009 (see Box 1 in Section 2), the slowdown in global economic growth

Chart 3.1 Assessment of changes the in main risks to the EU banking sector, based on survey results

(net percentage balance)



Sources: WGMA survey and ECB calculations.
Notes: The survey on main risks facing the EU banking sector is carried out at half-yearly intervals among member organisations of the BSC/WGMA, starting from December 2008. Net percentage balance: difference between the share of 'significant increase' and 'moderate increase' responses and the share of 'significant decrease' and 'moderate decrease' responses.

and the prospect of a further deterioration in macroeconomic conditions in most EU countries imply significant challenges for banks' earnings from core banking activities in the period ahead. In addition to cyclical pressures on banks' profitability, some banks' business models, and thus their recurring earnings power, may be negatively affected by structural changes in their operating environment.

Looking at different components of banks' income, growth in net interest income will be negatively affected by a lower volume of net new lending (both in domestic and in foreign markets) and downward pressure on deposit margins. However, this could be offset, at least in part, by the steepening of the yield curve and the widening of lending margins for new loans to the extent that banks are pricing in higher credit risk into their lending rates. The share of variable rate lending could be a source of differentiation between banks with regard to their outlook for net interest income in the period ahead. In some parts of the EU where the share of variable rate lending (e.g. mortgages) is dominant, banks are likely to see the growth of their net interest income slow down, while the low interest rate environment could contribute to boosting net interest revenues in the case of banks in countries where lending at fixed rates is predominant. On the other hand, the sharp decline in interest rates since October 2008 will help to contain the deterioration of asset quality, in particular in the case of loans to households and firms that were granted at variable interest rates. This, in turn, will contribute to improve the outlook for the profits of those banks that lend mostly at variable rates (both in mortgages and loans to firms). At the same time, competition has also intensified in the retail deposit markets, which would reduce banks' earnings potential by increasing their financing costs.

On the non-interest income side, as discussed in Section 2 above, large EU banks' earnings from underwriting businesses increased in the first quarter of 2009 and it is to be expected, given the significant pick-up in primary issuance activity in several segments of debt markets in the second quarter of 2009, that these income sources will continue to support those banks that are most active in these businesses in the period ahead, thereby partly making up for an expected decrease of corporate loans. On the other hand, fee income related to commercial banking activities may be adversely affected by lower intermediation volumes or consumer spending (e.g. lending or payment services related fees).

At the same time, several banks could continue to see their earnings dented by marking-to-market write-downs on their holdings of legacy assets and securities. In addition, the ongoing deleveraging process, which has largely focused on more liquid trading book assets, will constrain these institutions' capacity for generating earnings for some time to come.

Growing pressure from banks' shareholders to return to profitability will put the banks' cost structures under intense scrutiny. Despite the substantial cost-cutting that has been carried out by many of these institutions to date, costs will probably need to be reduced further. The expected intensification of consolidation in the EU banking sector will probably contribute to lowering costs by reducing overcapacity in some markets.

While the outlook for pre-provisioning earnings may have improved in relative terms in the first half of 2009, it is important to stress that, with the intensification of the credit cycle downturn, rising loan impairment charges (loan loss provisioning) are likely to be the main drag on EU banks' profitability for the rest of 2009 and possibly further into 2010. Country-specific information and data on large banks (see Box 1) suggest that the increase in loan loss provisioning costs accelerated in the latter part of 2008 and in early 2009 due to the more significant than expected worsening of macroeconomic conditions. It should be noted that the increase in loan losses typically follows on the downturn in the macroeconomic cycle with a lag. The overall impact of declining revenues and rising impairments is likely to depend on the severity of the credit cycle downturn.

CREDIT RISKS ARE GROWING AMID THE ECONOMIC DOWNTURN

Since October 2008, the economic outlook in the EU has deteriorated substantially. This was confirmed by a significant and broad-based weakening of EU economic activity in the first quarter of 2009, characterised by a contraction in domestic demand and a significant decline in trade volumes.

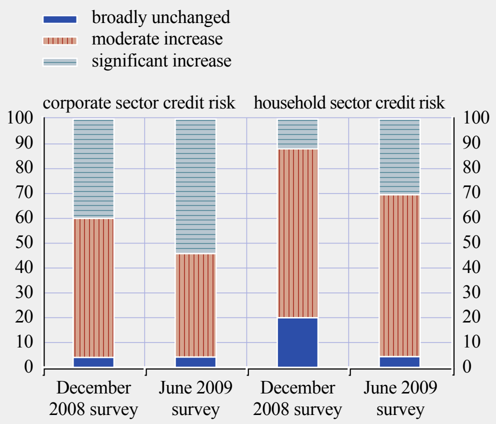
Despite some signs of improvement (although from a low base), mostly derived from survey-based information, the outlook for the EU economy continues to be surrounded by a high degree of uncertainty. In particular, a stronger impact of the turmoil in the financial markets on the real economy remains a downside risk to the economic outlook. Both global and domestic EU demand are expected to decline further in 2009, and to recover gradually in the course of 2010, which may impose further strains on the credit quality of EU banks' loan portfolios.

Information derived from recent bank lending surveys across the EU suggests that the tightening of credit standards for new loans to households and, in particular, the non-financial corporate sector, although less severe than that recorded in previous quarters, was still substantial. While this revision of credit standards may be expected to have a positive impact on banks' newly originated credit risks, this does not necessarily apply to drawings by borrowers on credit lines that were agreed before the start of the credit market turmoil. Furthermore, at the current juncture, tight lending policies may pose additional risks to banks by contributing to the lengthening of the period of economic downturn.

The results of the survey carried out among the members of the BSC/WGMA suggest that corporate credit risk is perceived in the EU as a whole to have increased most significantly since December 2008 (see Chart 3.2). Credit risks emanating from exposures to emerging markets, including some countries in central and eastern Europe, are also perceived to be significantly higher than in December 2008.

Chart 3.2 Assessment of changes in credit risk in EU countries, based on survey results

(percentages)



Sources: WGMA survey and ECB calculations.
Notes: The survey on the main risks facing the EU banking sector is carried out at half-yearly intervals among member organisations of the BSC/WGMA, starting from December 2008.

HOUSEHOLD SECTOR CREDIT RISKS HAVE GENERALLY INCREASED

Despite considerable differences across EU countries, the condition of households' balance sheets deteriorated in the first months of 2009, as compared with the previous year, as financial sector strains started to spill over to the real economy in earnest. In some countries, this had already started to impact households' ability to service their debt in 2008, as revealed by a deterioration in banks' mortgage asset quality with increasing non-performing loan ratios and arrears.

The outlook for household loan quality deteriorated further in the first half of 2009 on account of a substantial worsening of the outlook for the labour market and household income, as well as developments in house prices, even though there are wide differences across EU countries. As mortgages account for a large proportion of credit to households, house prices are a crucial element in determining the quality of household loans. Cross-country differences derive from divergences in households' vulnerability to housing market developments, the prospects for growth and employment, and potential exposures to exchange rate risk.

Risks to household income began to rise steadily in some EU countries as the financial sector strains spilled over to the real economy and affected the labour markets. This adverse development could turn out to be particularly acute in countries where the share of resources in the economy that is devoted to housing construction has subsided considerably in comparison with previous years. It should be noted, however, that the sharp decline in interest rates since October 2008 will, at least in part, help to offset the impact of the deterioration of the household income outlook, in particular in countries where mortgages are predominantly set at variable interest rates.

EU households' balance-sheets have also been affected, in general, by a negative wealth effect. The value of EU households' assets tended to decline in 2008 – as can be confirmed by those countries for which this information is available – possibly impairing the ability of households to repay their debt.

In addition, concerns about the foreign exchange risk from foreign currency-denominated debt increased substantially in some EU countries, especially in those parts of the EU where the practice of offering foreign currency-denominated loans coincided with dynamic house price developments. It should be noted, however, that these concerns have, to some extent, been alleviated in markets where floating rate mortgages prevail by the environment of falling interest rates. Continued strains in some financial markets have also complicated the situation of, in particular, those banks that fund foreign currency lending from local currency sources, and are thus dependent on the functioning of the foreign exchange swap markets for the management of their exchange rate risk.

With respect to new loans to households, the April 2009 bank lending survey for the euro area indicated that the net demand for housing loans had remained negative, albeit considerably less so than in the previous quarter, reflecting mainly weak housing market prospects and deteriorating consumer confidence (see Chart 3.3).

The information available on a number of other EU countries, i.e. those in the central and eastern European region, indicated a significant tightening of credit standards for household loans in the second half of 2008. The net tightening of standards was expected to continue in most non-euro area countries in the first half of 2009, albeit to a lesser extent.

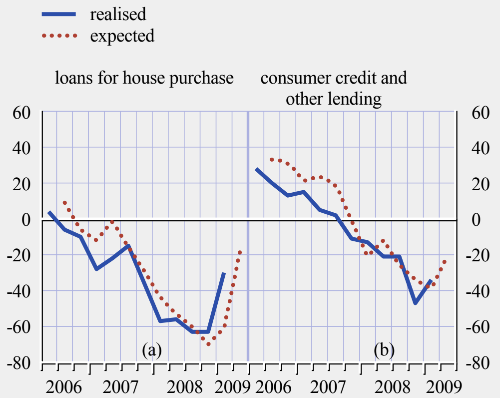
There are also clear signs that household demand for loans has continued to decline across the board. Coupled with lower demand, the generalised further tightening of credit standards for mortgage and consumer loans granted to households is likely to be reflected in the further moderation of the growth rate of total loans granted to households in the euro area and in most non-euro area EU countries.

Overall, developments in loan growth are broadly consistent with the slowdown in house price growth observed in the euro area (see Chart 3.4) and in most parts of the EU, even if developments may be quite diverse when focusing on country-level data. For a large number of EU countries, an outright decline in house prices has been recorded in recent quarters or on an annual basis. For countries where there are signs that the correction in house prices may not yet be over, and that further falls in house prices could be expected, there is a higher likelihood of households falling into negative equity – especially where loan-to-value ratios have been high in the past – thus increasing household default risk and the risk to banks' collateral values (debt deflation).

The outlook for household sector credit risk thus continues to be adversely influenced by slowing economic growth, deteriorating labour market prospects, tight credit market conditions and, in some countries, a moderation or outright decline in residential real estate prices. On the other hand, the sharp decline in interest rates could, to some extent, help mitigate pressures on asset quality, in particular in countries where mortgages are predominantly granted at variable interest rates. The severity of household income risk will strongly depend on the ease with which resources from ailing sectors in the economy can be re-absorbed. A number of government measures are addressing problems in specific sectors. However, non-performing loan ratios for mortgage and consumer credit in particular are expected to increase in many parts of the EU, even if this should be seen in the context of the historically very low levels reported until

Chart 3.3 Changes in demand for loans to households

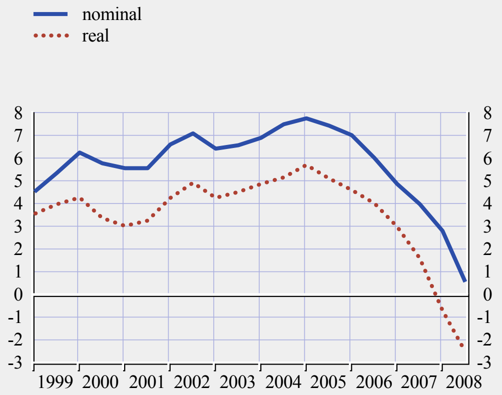
(net percentages of banks reporting a positive contribution to demand)



Source: ECB.

Chart 3.4 Residential property prices in the euro area

(Q2 1999 – Q4 2008; annual percentage changes)



Source: ECB calculations based on national data.

recently. All in all, and despite the heterogeneous developments across the EU, household sector credit risk is among the key vulnerabilities that the EU banking system will face in the future.

CORPORATE CREDIT RISK IS CONCENTRATED ON HIGHLY INDEBTED SECTORS

The challenging operating environment confronting EU corporates towards the end of 2008 was aggravated further in the first months of 2009 by high uncertainty about the macroeconomic outlook. Evidence thereof is to be found in private sector and international institutions' growth projections for EU countries and regions in 2009, which have continuously been revised downwards since the turn of the year.

The EU non-financial corporate sector endured a substantial decline in global and domestic demand in the first quarter of 2009, after the deceleration in average earnings growth that started in the second half of 2008. This had a strong impact on firms' actual and expected profitability, inducing firms to postpone investment projects and, in aggregate terms, even increasing the default risk of EU non-financial corporate firms. Looking at the euro area as a proxy for the EU, the latest data suggest that the average earnings growth rate was considerably lower than that recorded a year earlier (see Chart 3.5).

Earnings prospects and cash flow problems have contributed to intensifying strains in corporates' internal funding sources. At the same time, as reported in recent bank lending surveys across the EU (over the last six months), the credit standards applied by banks for loans to EU firms have generally tightened.

Even if the availability of funding never came to a stop for some firms, they were generally confronted with higher costs of funding, as banks increased their margins and their lending terms and conditions became more demanding. Cash flow pressures on short-term debt obligations may have caused firms to resort to markets at

Chart 3.5 Actual and expected growth of the earnings per share of non-financial corporations in the euro area

(percentage points)

Sources: Thomson Financial Datastream, I/B/E/S and ECB calculations.

unfavourable times and to issue debt securities at considerably high costs. Even though the real cost of external funding in some countries may generally have decreased in the first quarter of 2009 (as was the case in the euro area), the overall cost of financing remained elevated when compared with the situation before the outbreak of the financial turmoil in the summer of 2007. In the euro area, the annual growth of MFI loans to non-financial corporations decelerated further from 9.6% in the last quarter of 2008 to 2.8% in the second quarter of 2009, accompanied by an increase in the annual growth of issuance of (mostly long-term) debt securities from 7.1% in December 2008 to 9.9% in May 2009.

Demand-side factors may also be playing an important role in moderating loan growth. As suggested by recent bank lending surveys in some EU countries, net demand for loans to enterprises has been falling, possibly driven by a slowdown in merger and acquisition activity, and in corporate restructuring, and a decline in financing needs for fixed investment.

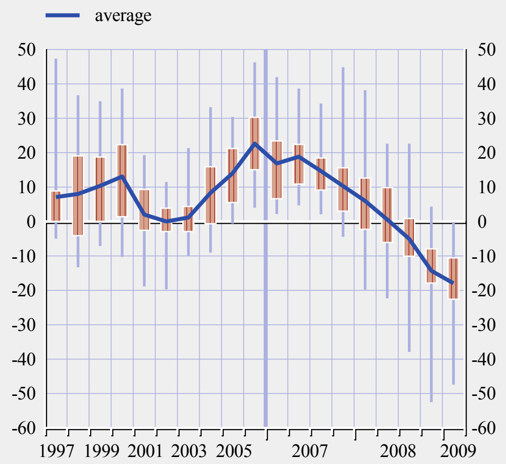
Another important vulnerability of corporate sector balance sheets is the fact that EU firms – abstracting from differences between countries – generally entered the economic downturn with considerable debts, so that refinancing pressures are likely to emerge over the next few years.

These high leverage levels that were built up in some countries in the years up to the crisis, were consistent with the past strong growth in external financing, cheap funding and a favourable macroeconomic environment. However, in the present macro-financial context and given significant risks on the downside, the highly leveraged sectors appear increasingly vulnerable to adverse shocks to cash flows or debt servicing costs, as well as to disruptions in the refinancing of existing loans and short-term debt.

Regarding the most vulnerable sectors, signs of a deteriorating quality of loans of some large EU banks to real estate-related sectors (e.g. construction in the building sector and in property development) already started to emerge in the course of 2008. Related to these are the risks deriving from lending activities to commercial property firms. These risks increased substantially as capital value growth continued to ease or prices started to decline in a number of countries in the first months of 2009 (see Chart 3.6). The outlook is likely to remain negative until economic conditions improve and investor appetite for commercial property returns. Banks with significant exposures to this sector thus face potentially rising loan losses if the collateral value of commercial property loans were to decline further.

Chart 3.6 Changes in the capital value of prime commercial property in EU countries

(1997 – Q1 2009; percentage change per annum; maximum, minimum, interquartile distribution and weighted average)



Source: Jones LangLasalle.

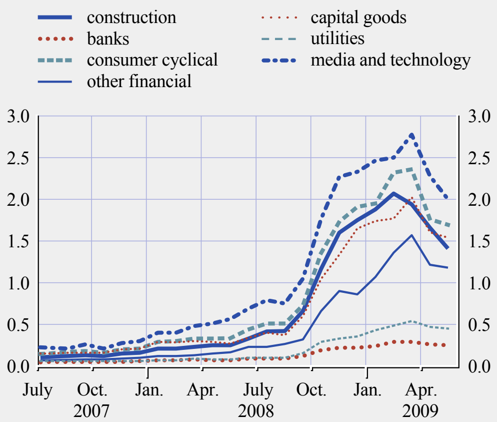
In general, it was to be expected that credit risks would also tend to increase in sectors that are strongly oriented to export markets, driven not only by the decline in external demand, but also by currency pressures affecting competitiveness (e.g. the strong euro).

A more in-depth look at the vulnerabilities at the sectoral level reveals indications that these risks could be significant for technology-intense sectors on account of weak actual and future earning prospects and high refinancing risks. Industries active in fields related to commodities and other basic materials, which also face significant refinancing pressures, at least in the euro area, could also be among the most fragile sectors going forward. The same could apply to consumer services (including airlines, travel and tourism), a sector that has, according to some indicators, been hit harder by the downturn than, for example, the food industry. The consumer durables sector, which includes the automobile industry, remains vulnerable, despite the extensive government support provided in some countries. As mentioned earlier, industries related to heavy construction and industrial machinery are also among those that are most vulnerable, given their dependence on housing market developments, a broad economic recovery, and the global investment cycle. The indications of vulnerabilities in some industries are roughly in line with the information on expected default frequencies for selected sectors in the EU (see Chart 3.7).

Regarding leveraged lending, some large EU banks with leveraged loan portfolios of significance could face the risk of increasing loan losses, as slowing economic growth and tighter financing conditions are likely to have a negative impact on the cash flows and refinancing prospects of more highly geared firms. Many large EU banks were unable to off-load exposures to leveraged loans intended for distribution in secondary markets, or only if they accepted deeply discounted prices.

Chart 3.7 Unconditional expected default frequencies for selected sectors in the EU

(July 2007 – May 2009; percentage probability)



Sources: Moody's KMV and ECB calculations.
Notes: The expected default frequencies (EDFs) provide an estimate of the probability of default over the following year. Owing to measurement considerations, the EDF values are restricted by Moody's KMV to the interval between 0.01% and 35%. The sector "capital goods" covers the production of industrial machinery and equipment.

Chart 3.8 European speculative-grade-rated corporations' default rates and forecast

(January 1999 – June 2010; percentage; 12-month trailing sum)

Source: Moody's.

Country-level information suggests that firms' refinancing needs are expected to grow in the period from 2009 to 2011, when a significant proportion of the outstanding stock of leveraged loans extended in the boom years of 2005 and 2006 matures. Exposures to leveraged lending business may pose considerable risks to banks since peaks in default rates in banks' leveraged finance business have tended in the past to coincide with times of a contraction in economic activity much like that experienced at present.

The number of corporate bankruptcies across the EU has generally increased over the last two quarters, according to the country-based information available. While, in general terms, the picture may be still quite contained in a number of countries (for which this information was made available), the increase in the number of registered bankruptcies in the last quarter of 2008 or first quarter of 2009 was well in excess of 50% with respect to figures from the last quarter of 2007.

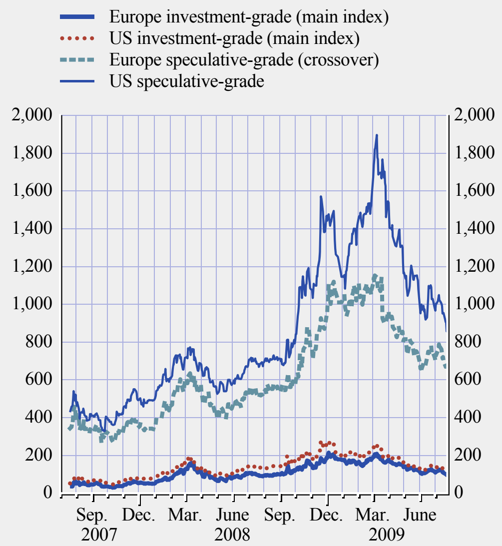
For European speculative-grade-rated firms that came through the year 2008 rather well, actual default rates increased considerably in the first half of 2009 and are expected to rise sharply throughout the year (see Chart 3.8).

It should be noted that sub-investment-grade companies tend at the moment to have limited access to sources of funding other than bank loans, given the thin liquidity conditions in the European high-yield bond market. This continues to be the case even though low-grade corporate bond and credit default swap (CDS) spreads have come down significantly from the historical highs observed in March 2009 (see Chart 3.9).

The spilling-over of financial sector strains to the real economy has highlighted major fragilities in the condition of European corporates, which may further increase pressures on the banking sector. Corporate sector vulnerabilities derive, in particular, from a relatively high level of firm indebtedness, deteriorating actual and expected profitability and fragilities in the cost and availability of financing. Amid a global and European economic downturn, further risks of potential credit losses for banks that stem from

Chart 3.9 Credit default swap indices in Europe and the United States

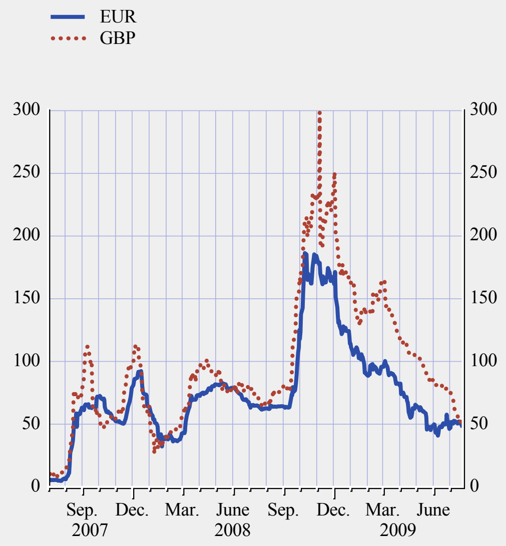
(July 2007 – July 2009; basis points)



Source: JP Morgan Chase & Co.

Chart 3.10 Spreads between three-month deposit and overnight index swap rates

(July 2007 – July 2009; basis points)



Source: Bloomberg.

their exposures to vulnerable non-financial sector borrowers are likely to rise, possibly reinforcing the negative interplay between the financial sector and the real economy.

FUNDING LIQUIDITY RISKS DECREASED MODERATELY

Regarding banks' key funding markets, there have been some signs of improvement in money market conditions, as indicated by a marked decline in spreads between unsecured interbank deposit rates and overnight index swap rates in major money markets (including those for the euro and the pound sterling) since November 2008 (see Chart 3.10). This improvement was also reflected in higher transaction volumes in unsecured interbank markets and by a decline in recourse to the ECB deposit facility.

The maturity of interbank liabilities has shortened owing to the limited availability of funds beyond one to three months in interbank markets and the reluctance of money market funds to invest in money market instruments with longer maturities. Furthermore, risk aversion and remaining concerns about counterparty risk have continued to impair access to interbank funding for some EU banks and, in turn, increased their dependence on central bank funding.

The scarcity of medium and long-term funding liquidity remains a key challenge for many banks. These concerns have been mitigated, at least in part, by the implementation of government guaranteed debt schemes in most EU countries. By late July 2009, EU banks had issued €604.5 billion of bonds under government guarantees, of which €443.8 billion was issued by euro area banks. Furthermore, some EU banks were also able to issue non-guaranteed senior unsecured debt in the first half of 2009, although this may have been limited to better-quality issuers.

The market for covered bonds, which represents an important source of medium to long-term funding in many EU countries, showed tentative signs of a recovery in the first quarter of 2009, following the last three months of 2008 when there was no activity in the primary market of jumbo covered bonds. Furthermore, the announcement of the ECB's covered bond purchase programme seems to have reinforced this recovery. Since the ECB announcement (7 May 2009), issuance of European jumbo covered bonds has picked up considerably and the volume of covered bonds issued in this period accounted for 75% of total year-to-date issuance. However, due to the relatively weak issuance activity in the first four months of the year, in late July 2009, year-to-date issuance of European jumbo covered bonds was still about 25% lower than that issued in the corresponding period of last year. It should be noted that the recovery in covered bond issuance since early May 2009 may also have drawn investors and issuers away from government guaranteed debt issues, as is illustrated by the slowing pace of government guaranteed debt issuance in May-June 2009.

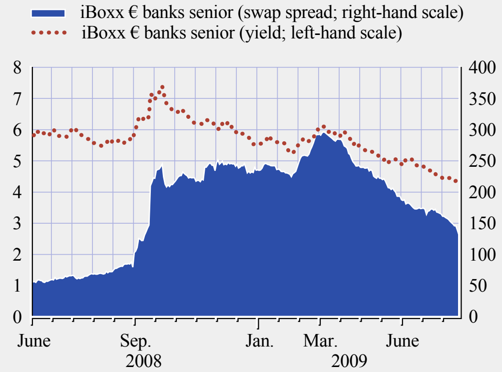
As regards other sources of wholesale funding, according to MFI statistics, external liabilities of EU banks, which largely comprise deposits from foreign credit institutions, decreased sharply in the period from September 2008 to May 2009. On average, the share of external liabilities in total liabilities dropped from 22% in August 2008 to 19.5% in May 2009, but this ratio declined even more significantly in some countries.

Regarding intra-group funding liquidity risk, there have been no signs of a cutback in parent bank funding to subsidiaries in countries of central and eastern Europe (CEE countries). This suggests that parent banks remained committed to maintaining their operations in this region. In fact, in May 2009, for the group of CEE countries (as a whole), banks' external liabilities, which include parent bank funding, remained at levels similar to September 2008. It should be noted, however, that this average figure hides significant differences across CEE countries.

The cost of banks' capital market funding has decreased since March 2009 and, along with the general improvement in credit markets, the asset swap spread on senior

Chart 3.11 Cost of banks' euro-denominated senior debt

(June 2008 – July 2009; percentage)



Source: Markit iBoxx.

bank debt dropped significantly from the peak level of around 300 basis points in mid-March 2009 to less than 150 basis points in late July 2009 (see Chart 3.11). Despite declining spreads and increasing issuance volumes, it should be noted that access to wholesale funding markets remains difficult for several EU banks, so that some banks are likely to remain dependant on guaranteed debt issuance or central bank refinancing for some time to come. Therefore, in the longer term, banks will need to find alternative sources of funding when their liabilities which derive from government guaranteed debt issuance will mature.

Against the background of continued stresses in the wholesale funding markets, banks have focused their funding strategies on increasing or maintaining retail deposits, thereby trying to reduce customer funding gaps. In the period from September 2008 to May 2009, the customer funding gap of the EU banking sector as a whole was reduced by nearly €700 billion, and the funding gap ratio (defined as the ratio of the customer funding gap to customer loans) dropped significantly, from 17% in September 2008 to 12.6% in May 2009.[4] Despite

4 MFI data were used to calculate the customer funding gap, since the CBD data (based on FINREP core tables) do not include a breakdown of loans.

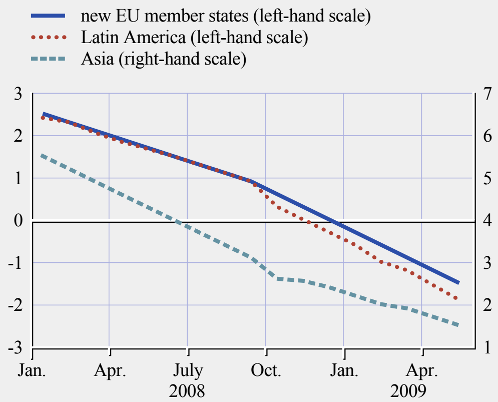
Chart 3.12 Deposit margins of euro area MFIs

(January 2003 – May 2009; percentage points)

Source: ECB.

Chart 3.13 Macroeconomic projections for emerging market regions

(year-on-year percentage change; GDP projections for 2009)



Source: Consensus Forecast.

this decrease, many EU banks maintain a wide customer funding gap, and thus remain vulnerable to possible adverse shocks in the wholesale funding markets.

Banks' efforts to strengthen or maintain their deposit bases are also reflected in the competitive pricing of deposits as indicated by squeezed deposit margins (see Chart 3.12). Looking forward, however, banks may also face challenges to sustain deposit growth in the current low interest rate environment.

RISKS FROM EXPOSURES TO EMERGING MARKET ECONOMIES AND NEW EU MEMBER STATES INCREASED MARKEDLY

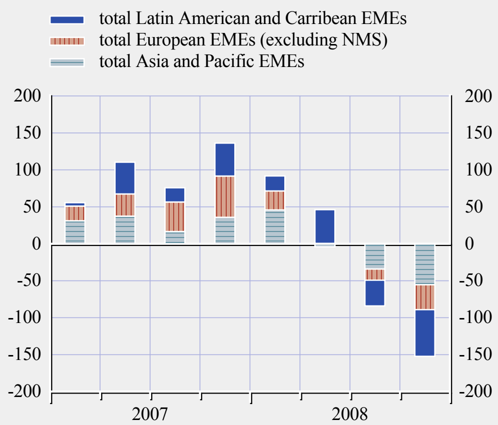
The risks to EU banking sector stability stemming from exposures to emerging markets have increased markedly since September 2008. To a large extent, this was due to a sharp deterioration of both macroeconomic conditions and the outlook in many of these countries (see Chart 3.13). The significant worsening of macroeconomic conditions reflects a combination of weak external demand, tightening financing conditions and falling commodity prices.

Due to increased risk aversion, EU banks reduced their exposures to most emerging market regions in the second half of 2008, and in particular in the fourth quarter of 2008 (see Chart 3.14).

The exposures of several EU banking groups to some countries in the central and south-eastern European region and to other countries in emerging Europe (Russia, Ukraine and Turkey) may add to the pressures that these banks face from their domestic operations. It is important to stress

Chart 3.14 Change in exposures of EU banks to emerging market economies

(USD billions)



Source: BIS.

that these countries do not form a homogenous group. The scope and magnitude of risks and vulnerabilities vary widely across countries in this region. For some EU banks, a significant share of assets and profits is related to their engagement in these regions (also in the new EU Member States in central and eastern Europe). According to BIS data on consolidated foreign claims, the exposures are diverse across countries. In terms of overall exposures as a percentage of home country GDP, banks in Austria, Belgium, Greece and Sweden have the highest exposures to this region. Due to the diversity of economic situations in this region, the risk profiles of EU banking groups may also vary according to the relative weight of exposures to more vulnerable countries in the region.

The results of some EU banks with significant exposures to the most vulnerable countries in this region for 2008 and the first quarter of 2009 indicate that the rate of deterioration in asset quality has increased significantly since the fourth quarter of 2008. Loan loss ratios have increased sharply in the case of exposures to some countries in south-eastern Europe, as well as in that of exposures to CIS countries (Russia, Ukraine). Looking forward, since the macroeconomic outlook remains uncertain in some emerging market regions, EU banks that are significantly exposed to the most vulnerable countries in these regions may see their loan loss provisioning needs increase further in the second half of 2009, which could put additional pressure on their bottom-line results.

4 OUTLOOK FOR THE EU BANKING SECTOR BASED ON MARKET INDICATORS

WORSENING EARNINGS PROSPECTS

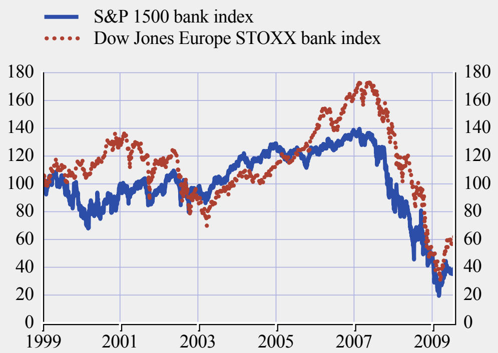
According to market-based indicators, the outlook for EU banks has deteriorated significantly over the last 12 months. This was due to the uncertainty surrounding the depth and the length of the global economic meltdown, and thus a greater risk for the EU banking sector to be confronted with an adverse feed-back loop related to a downturn in the credit cycle. Financial institutions were under particular stress amid fears about their ability to survive possible further credit losses and uncertainty about the efficiency of government support programmes. Moreover, shareholders were concerned about the dilution of their shares following public capital injections, which prompted a process of decline in EU banks' share prices. Furthermore, the possibility of some banks being nationalised automatically caused banks' CDS spreads to increase further, since nationalisation is treated as a credit event in standard CDS contracts. These two factors make a word of caution necessary in interpreting market-based indicators, since financial market-based indicators may depict a more pessimistic picture than the fundamentals would suggest. Nevertheless, in market-based indicators there have also been some recent signs of a possible bottoming-out, so that the outlook for the EU banking sector may, according to market participants, improve in the future.

That having been said, European banks' equity prices decreased significantly and reached new record lows in March 2009, dropping to levels well below those seen at the beginning of 2003 when the banking sector last faced a similarly challenging environment after the dot-com bubble burst (see Chart 4.1). Since that time, equity prices have rebounded rapidly, by as much as 100% by late July 2009. Although this may, to some extent, reflect a certain improvement in the outlook for EU banks, there is also a risk that banks' stock prices have experienced what are known as "green shoots", i.e. significant but not sustainable rebounds of stock prices during recessions that are related to high uncertainty about the prospects for an economic recovery.

All in all, the significant decrease in stock prices experienced by EU banks over the last year reflects a marked downward adjustment of market participants' expectations about EU banks' earnings prospects as a result of possible further losses on their loan exposures in view of a significant deterioration in the macroeconomic outlook for the EU.

Chart 4.1 Bank stock prices in Europe and the United States

(January 1999 – July 2009; index: January 1999 = 100)



Source: Bloomberg.

Chart 4.2 Option-implied risk-neutral density bands for the Dow Jones EURO STOXX bank index

(January 2003 – July 2009; index value; 10%, 30%, 50%, 70% and 90% confidence intervals of estimations on 11 May 2007, 8 November 2007, 6 May 2008, 27 November 2008 and 27 July 2009)

Sources: Bloomberg and ECB calculations.

On the positive side in the short term, market participants appeared to be less uncertain about the further development of banks' share prices. By late July 2009, the short-term outlook for EU banks had improved slightly, with the strong negative skewness of option-implied risk-neutral density confidence bands, which has been observed constantly since the beginning to the financial market turmoil, disappearing. This may suggest that banks' stock prices have, in the view of market participants, fallen below their intrinsic values and should not fall further in the short run (see Chart 4.2).

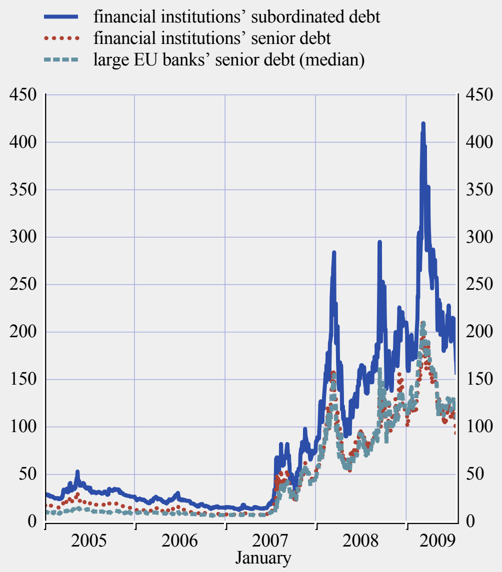
CDS spreads exhibited the same pattern as equity prices. The cost of credit protection against banks' default increased in March 2009, reaching new highs that exceeded the levels last seen in the aftermath of the Lehman default, in spite of the announcement of government support measures. Nevertheless, this did not necessarily reflect market participants' disbelief in the effectiveness of government support, but rather fears that problems with the pricing of troubled assets might compel governments to temporarily nationalise some banks. Since nationalisation, according to the ISDA master agreement that serves as a standard for the majority of CDS transactions, is a credit event, banks' CDS spreads may have included an additional premium for default driven by nationalisation. Further insight into the composition of CDS spreads tends to support this hypothesis. A decomposition of CDS spreads revealed that, although the default risk premium, driven mainly by liquidity and systemic risks, still accounts for a relatively large share of CDS spreads, the expected loss component, which represents the pure default risk, more than doubled over the last few months. Nevertheless, following the announcement of details of government support schemes, CDS spreads narrowed significantly and had, by late July 2009, reached the levels last seen at the end of 2008 (see Chart 4.3).

Another market-based indicator of the credit risk of EU banks, namely the distance to default, also suggests that default probabilities have increased in the EU banking sector. By March-2009, this indicator had fallen to the lowest level ever recorded (see Chart 4.4). However, this indicator rose in the second quarter of 2009 which suggests that default probabilities of EU banks may decrease in the future. This conclusion is in line with the introduction of government support measures, which are, in principle, aimed at avoiding further defaults in the EU banking sector.

To some extent, the widening of CDS spreads and the decrease in the distance to default may also have been a reflection of the higher systemic

Chart 4.3 European financial institutions' credit default swap spreads

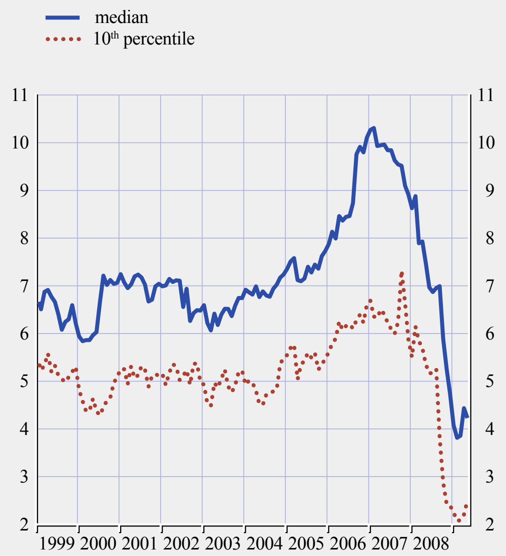
(May 2002 – July 2009; basis points; five-year maturity)



Source: JP Morgan Chase & Co.
Note: European financial institutions correspond to the definitions of JP Morgan Chase & Co.

Chart 4.4 Distance to default for a sample of large EU banks

(January 1999 – May 2009)



Sources: Moody's KMV and ECB calculations.
Note: An increase in the distance to default reflects an improving assessment.

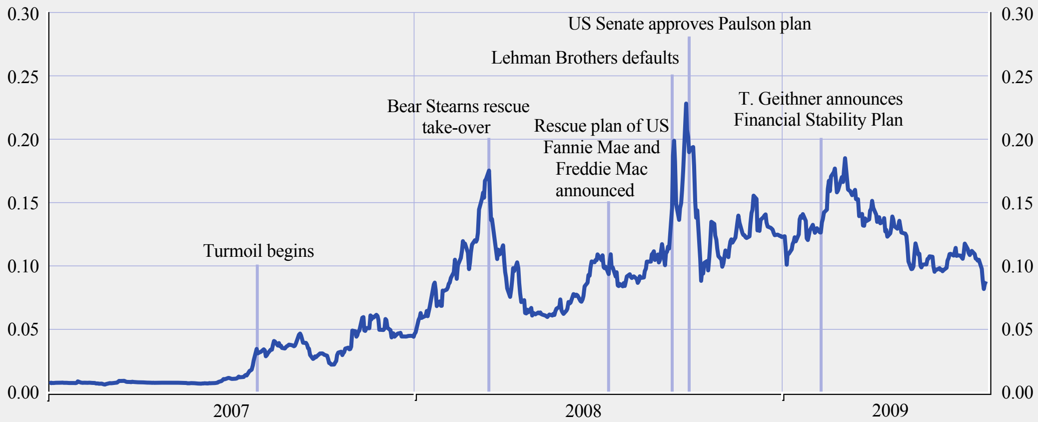
risk faced by the EU banking sector. This can be gauged by a market-based indicator of a systemic event – more specifically, an indicator of the probability of two or more large EU banks defaulting simultaneously. This indicator of systemic risk reached all-time highs in mid-March 2009 and then retreated somewhat, although its level is still relatively high (see Chart 4.5).[5] This suggests that, as perceived by market participants, systemic risk in the EU remained high in late July 2009, although the recent developments in this indicator have to be interpreted with caution. Since banks' CDS spreads are an important input to calculations of the indicator, the increase of the indicator by mid-March 2009 may have been related to increasing fears of market participants that the only possible solution to the problems which banks are facing is their nationalisation. However, at the current juncture, nationalisation would be a step taken in order to avoid possible systemic consequences, so that it would decrease systemic risk in the banking system. Bearing in mind the recent developments in the composition of risk premiums in banks' CDS spreads and taking into account the substantial efforts undertaken, and the progress made, by governments and other institutions in solving problems of the EU banking sector, including guarantees on new debt, systemic risk appears to have decreased materially in comparison with the situation seen in the aftermath of the Lehman default.

A substantial downward adjustment of the future profit generation prospects of EU banks seems also to be supported by the rapid and steep decline in price-earnings (P/E) ratios in the EU banking sector over the last two years (see Chart 4.6). Changes in the P/E ratios can shed some light on how market participants expect future profitability to develop in view of the recent performance of earnings. Nevertheless, after a trough at a record low in early 2009, P/E ratios rose and had, by June 2009, reached the average value recorded in 2008. Although

5 See Box 16 in ECB, *Financial Stability Review*, December 2007, for a description of how this indicator is constructed.

Chart 4.5 Systemic risk indicator for large EU banks

(January 2007 – July 2009)



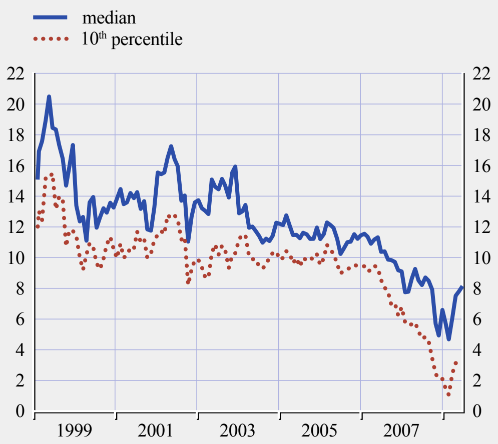
Sources: Moody's KMV and ECB calculations.
Note: Implied probability of two or more large EU banks defaulting simultaneously within the next two years.

this indicator is still in a relatively low territory, the recent increase of the P/E ratios may suggest that expectations of banks' future profits have been revised upwards by market participants.

All in all, according to forward-looking market indicators, the outlook for the EU banking sector has worsened further over the last 12 months. This further deterioration was related to uncertainty about the strength of the feed-back effects from the rapid decline of general economic conditions and the increased default risk faced by EU banks. Nevertheless, the gradual implementation of various support measures by EU governments seems to have led to a decrease in systemic risk in the EU banking sector, which had reached a high in the aftermath of the Lehman default. This, in turn, could suggest that, despite their having increased over the last 12 months, the overall risks faced by the EU banking sector had been adequately buffered by recapitalisation and government guaranteed schemes by late July 2009. Nevertheless, the outlook for EU banks remains uncertain and challenging market conditions may put further pressure on these institutions in the period ahead.

Chart 4.6 Price-earnings ratios for large EU banks

(January 1999 – June 2009)



Sources: Bloomberg and ECB calculations.

5 OVERALL ASSESSMENT

The sharp deterioration of global and European macroeconomic conditions since the third quarter of 2008 and the prospect of a deepening recession in 2009 have added to the stresses on the EU banking sector. Full-year 2008 financial results for the EU banking sector as a whole showed that losses related to the credit market turmoil led to either a significant decline in profits or outright losses for many EU banks, although significant variation in performances could be observed across banks and countries. While the deterioration in banks' financial performances in the second half of 2008 was due mainly to large marking-to-market losses on structured credit securities and other trading book assets, rising loan impairment charges also started to weigh on banks' results in the latter part of 2008 and, increasingly, in the first quarter of 2009. This notwithstanding, the shock-absorption capacities of EU banks generally improved in the second half of 2008 and in early 2009, due to enhanced efforts by banks to raise capital from private sector sources or as a result of public capital injections.

Wide-ranging policy measures have been taken so far in order to stabilise the EU banking sector and to revive the intermediation of credit to the economy. Central banks have lowered interest rates and have taken significant measures to stabilise the money markets. In some cases, they have even resorted to the use of unconventional monetary policy tools. At the same time, governments have injected capital, provided debt guarantees and established asset support schemes. Tentative signs of an improvement in money market conditions and of banks' access to short-term financing were observed in the first half of 2009, although longer-term (non-guaranteed) funding remained difficult to obtain or expensive for many banks. Furthermore, patterns in market-based indicators, such as CDS spreads, suggests that market participants' perception of counterparty risks may have improved since March 2009.

Notwithstanding the progress made by authorities in reducing systemic risk, the outlook for the EU banking sector remains uncertain. In particular, risks to EU banking sector stability have become increasingly connected with the turn of the credit cycle. The uncertainty surrounding the probable depth and duration of the economic downturn makes it difficult to assess the likely impact on banks' financial soundness, but indications are that the credit losses facing EU banks in 2009 and 2010 could be significant. This, in turn, could put pressure on banks to deleverage and derisk their balance sheets further. Although recent bank lending survey results suggest that the extent of the tightening of banks' credit standards may be moderating, credit growth in many parts of the EU slowed down markedly in the first half of 2009, partly on account of persisting deleveraging pressures. At the same time, despite tentative signs of improvement in banks' financial results in the first quarter of 2009, many banks could also find it challenging to boost their pre-provisioning earnings in the period ahead.

In summary, while the unprecedented policy measures taken by central banks and governments were successful in stabilising the EU banking sector, the outlook for banks remains uncertain. Despite recent signs that the pace of macroeconomic deterioration may be moderating in many parts of the EU, risks to stability remain elevated as the credit cycle has not yet reached its trough, meaning that loan losses may not peak before the end of 2009. Hence, there is no room for complacency and banks will need to ensure that they maintain adequate capital and liquidity buffers to mitigate against possible future shocks, possibly by taking advantage of existing public sector schemes for financial support.

STATISTICAL ANNEX

Box 2

DATA ON EU BANKS

The macro-prudential analysis conducted by the Banking Supervision Committee (BSC) is based on aggregated information on the banking systems of all EU Member States. The key set of data for this analysis, on which this report is based, is the consolidated banking data (CBD) provided by the member organisations of the BSC. These data include detailed information on bank profitability, balance sheets, asset quality and solvency.

In former issues of the Report on EU Banking Sector Stability, data that comply with the International Financial Reporting Standards (IFRSs) have been treated separately from data that comply with local Generally Accepted Accounting Principles (GAAP), since the conceptual differences between the accounting regimes were thought to be too substantial to render the aggregation of IFRS and non-IFRS data meaningful.

Regarding the data for 2008 in the Statistical Annex, the introduction of the International Accounting Standards (IASs)/IFRSs and the new prudential architecture Basel II motivated a complete revision of the CBD reporting framework. The rollout of the Financial Reporting Framework (FINREP) and the Common Reporting Guidelines (COREP), sponsored by the Committee of European Banking Supervisors (CEBS), also provided a basis for the new scheme. The new CBD framework was implemented for the 2009 data collection referencing 2008 data and has been adopted by all the EU-27 countries for their provisioning of banking data to the ECB.

The data are fully consolidated on a cross-border (data on branches and subsidiaries located outside the domestic market are included in the data reported by the parent institution) and cross-sector (branches and subsidiaries of banks that can be classified as other financial institutions are included) basis. Insurance companies are not included in the consolidation and this applies to all countries.

The CBD data cover nearly 100% of the EU banking sector. However, due to the introduction of the IFRSs in 2005, and their implementation for supervisory purposes, coverage has been reduced slightly in order to preserve the quality of the data. In countries where IFRS accounting has already been adopted for supervisory purposes, local GAAP reporting is generally still permitted, in particular for small or non-listed banks.[1] The consequent loss in coverage was, however, small in terms of the domestic banking assets.

The data on EU banks are divided into three size groups (small, medium-sized and large banks). In addition, information is provided on foreign-controlled institutions active in EU countries.

Key definitions for domestic banks

Consolidation

In order to provide a fully consolidated view of risks, the EU authorities report cross-border and cross-sector consolidated data on domestically controlled banks. In the cross-border consolidation, data on branches and subsidiaries located outside the domestic market (from the

1 In at least two EU countries, small cooperative and savings banks will not be required to adopt the new accounting standards in the near future.

reporting country's point of view) are included in the data reported by the parent institutions. In the cross-sector consolidation, branches and subsidiaries of banks that can be classified as "other financial institutions" are included. The definition of other financial institutions excludes insurance companies. This consolidation basis was maintained for all countries in 2008, although it differs from the basis recommended in the IFRSs, which includes the insurance sector.

Size groups

Large domestic banks are defined as banks with assets totalling more than 0.5% of the total consolidated assets of EU banks, while medium-sized banks have total assets of between 0.005% and 0.5% of total consolidated assets. Banks with total assets of less than 0.005% of total consolidated assets are considered small. The thresholds in terms of absolute amounts are defined on the basis of the total assets of the banking sector recorded in the data collection exercise conducted in the preceding year. In the 2009 collection exercise (concerning end-2008 data), the thresholds were computed on the basis of total assets of €34,269 billion, as recorded in the 2008 data collection exercise. This figure comprises the total assets of both domestic banks and non-EU foreign subsidiaries in all EU Member States as at the end of 2007.

Key definitions for foreign banks

Foreign banks are defined as subsidiaries and branches that are controlled by either an EU or a non-EU parent that is "foreign" from the reporting country's point of view. The data for these institutions are excluded from the definition of the domestic banking sector, and are aggregated under the heading "foreign banks" in the tables presenting the consolidated banking data. A separate analysis of the data on foreign banks is justified by their large share of the domestic banking sector in some EU countries.

Key definitions for all banks

For some items in the tables, separate data on domestic and foreign banks are not available. For these items, most of which refer to solvency indicators, the category "all banks", which includes all domestic and foreign banks, is reported.

Differences in definitions used for specific items

Indicators of non-performing assets and provisioning should be interpreted with caution owing to some differences between national definitions of impaired assets (non-performing and doubtful assets) and provisions.

Country-level tables and aggregation

Although the reports on EU banking sector stability aim to analyse banking sector developments at the aggregate EU level, additional information at the country level is provided in the Statistical Annex for reference (see Tables 8-13). When analysing the data presented in these tables, and especially when attempting a comparison across countries, it should be borne in mind that country-level indicators differ both in coverage and in the definitions used. In addition, differences in banking sector structures across the EU should be taken into consideration. Finally, country-level information may differ from that published in individual countries' reports on account of differences in the reporting populations.

Table 1 EU consolidated banking data reporting population

	EU-27	
	2008	2007
Number of credit institutions		
Stand-alone credit institutions	4,488	4,418
Banking groups	465	457
Credit institutions	4,953	4,873
Domestic credit institutions	3,908	3,874
Foreign-controlled subsidiaries and branches	1,045	999
Total assets of credit institutions in the sample (EUR billions)		
Domestic credit institutions	37,720	
of which:		
Large	*29,323*	
Medium-sized	*7,405*	
Small	*992*	
Foreign-controlled subsidiaries and branches	7,020	

Source: BSC.

Table 2 EU banks: selected income statement items

(2008; EUR billions)

	All domestic banks	Large domestic banks	Medium-sized domestic banks	Small domestic banks	Foreign banks
Income					
Net interest income	429.99	295.58	114.39	20.02	72.56
Dividend income	16.86	10.92	5.72	0.21	2.68
Net fee and commission income	201.95	149.48	42.37	10.10	36.04
Gains (losses) on financial transactions	-40.46	-34.75	-5.51	-0.20	-4.93
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net	5.81	2.24	3.44	0.12	2.12
Gains (losses) on financial assets and liabilities held for trading, net	-51.72	-47.45	-4.21	-0.06	-1.59
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	19.13	22.93	-3.80	0.00	-2.00
Exchange rate differences	0.90	-0.50	0.87	0.52	2.77
Other net operating income	37.47	31.40	5.94	0.13	0.80
Total operating income	652.04	443.07	175.51	33.63	116.92
Expenditure structure					
(Staff expenses)	-222.51	-174.98	-43.24	-4.29	-31.63
(General and administrative expenses)	-157.11	-121.97	-32.34	-2.79	-24.38
(Depreciation)	-34.23	-27.58	-6.14	-0.51	-4.92
(Total operating expenses)	-457.91	-324.74	-109.04	-24.13	-69.43
Profitability					
Operating profits	194.14	118.34	66.30	9.50	47.49
(Provisions)	-75.79	-68.83	-6.34	-0.63	-6.58
(Impairment)	-122.49	-86.80	-34.51	-1.18	-21.44
(of which Impairment on financial assets not measured at fair value through profit or loss)	-105.17	-74.00	-30.51	-0.66	-19.09
Total profit before tax from continuing operations	-45.89	-67.68	20.38	1.41	18.87
Tax (expense) income related to profit or loss from continuing operations	4.98	7.19	-1.98	-0.23	-4.79
Total profit (loss) after tax from continuing operations	-52.38	-67.00	13.67	0.95	13.03

Source: BSC.
Note: The “provisions” data for UK also includes “impairments”.

Table 3 EU banks: profitability and efficiency indicators

(2008)

	All domestic banks	Large domestic banks	Medium-sized domestic banks	Small domestic banks	Foreign banks
Income (% of total assets)					
Net interest income	1.14	1.01	1.54	2.02	1.03
Dividend income	0.04	0.04	0.08	0.02	0.04
Net fee and commission income	0.54	0.51	0.57	1.02	0.51
Gains (losses) on financial transactions	-0.10	-0.12	-0.06	0.03	-0.03
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net	0.02	0.01	0.06	0.05	0.03
Gains (losses) on financial assets and liabilities held for trading, net	-0.15	-0.17	-0.08	-0.02	-0.02
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	0.06	0.08	-0.07	0.00	-0.03
Other net operating income	0.10	0.11	0.08	0.01	0.01
Total operating income	1.73	1.51	2.37	3.39	1.67
Expenditure structure (% of total assets)					
(Staff expenses)	-0.59	-0.60	-0.58	-0.44	-0.45
(General and administrative expenses)	-0.42	-0.42	-0.44	-0.28	-0.35
(Depreciation)	-0.09	-0.09	-0.08	-0.05	-0.07
(Total operating expenses)	-1.21	-1.11	-1.47	-2.43	-1.00
Profitability (% of total assets)					
Operating profits	0.51	0.40	0.90	0.96	0.68
(Provisions)	-0.20	-0.23	-0.09	-0.06	-0.09
(Impairment)	-0.32	-0.30	-0.47	-0.12	-0.31
(of which: Impairment on financial assets not measured at fair value through profit or loss)	-0.28	-0.25	-0.41	-0.07	-0.27
Total profit before tax from continuing operations	-0.12	-0.23	0.28	0.12	0.27
Tax (expense) income related to profit or loss from continuing operations	0.01	0.02	-0.03	-0.02	-0.07
Total profit (loss) after tax from continuing operations	-0.14	-0.23	0.19	0.08	0.18
Total profit (loss) after tax and discontinued operations (ROA)	-0.11	-0.20	0.21	0.13	0.19
Return on equity (%)					
Total profit (loss) after tax and discontinued operations (% of total equity; ROE)	-3.02	-5.71	4.95	3.63	4.59
Efficiency					
Cost-to-income ratio (% of total income)	70.23	73.29	62.13	72.15	59.78
Distribution of return on equity (% of total assets)					
% of total banking assets of institutions with ROE < 0%	42.12				
% of total banking assets of institutions with ROE 0-5%	19.16				
% of total banking assets of institutions with ROE 5-10%	26.53				
% of total banking assets of institutions with ROE 10-15%	5.02				
% of total banking assets of institutions with ROE 15-20%	3.99				
% of total banking assets of institutions with ROE > 20%	3.19				

Source: BSC.
Note: The “provisions” data for UK also includes “impairments”.

Table 4 EU banks: selected balance sheet items

(2008; EUR billions)

	All domestic banks	Large domestic banks	Medium-sized domestic banks	Small domestic banks	Foreign banks
Assets					
Cash and cash balances with central banks	644.43	490.99	146.91	6.53	154.42
Financial assets held for trading	7,686.88	7,394.60	286.02	6.25	1,639.05
Financial assets designated at fair value through profit or loss	5,052.62	4,472.43	517.65	62.54	559.62
Available-for-sale financial assets	1,641.89	1,311.61	322.50	7.78	321.62
Loans and receivables (including finance leases)	14,664.46	11,049.52	3,534.02	80.92	2,938.70
Held-to-maturity investments	249.82	104.67	138.72	6.42	66.92
Derivatives – hedge accounting	1,465.39	1,417.37	46.22	1.80	29.32
Tangible and intangible assets	553.79	433.24	114.28	6.28	42.89
Investments in associates, subsidiaries and joint ventures	159.92	123.59	35.21	1.12	11.88
Assets IFRS and NON-IFRS reporting banks					
Total loans and advances	20,141.57	15,788.50	4,083.91	269.15	3,955.04
Total debt instruments	4,675.75	3,872.25	765.28	38.22	852.06
Total equity instruments	530.85	440.14	79.45	11.27	64.99
Liabilities					
Deposits from central banks	677.82	486.94	183.32	7.56	318.33
Financial liabilities held for trading	4,439.13	4,255.32	179.75	4.06	1,032.29
Financial liabilities designated at fair value through profit or loss	7,439.83	6,698.70	678.96	62.16	891.02
Financial liabilities measured at amortised cost	14,278.51	10,935.15	3,257.99	85.37	2,823.04
Financial liabilities associated with transferred financial assets	22.79	2.38	19.97	0.44	12.16
Derivatives – hedge accounting	1,827.28	1,780.24	46.17	0.86	276.93
Provisions	201.53	175.63	25.20	0.70	19.57
Liabilities IFRS and NON-IFRS reporting banks					
Total deposits from credit institutions	4,416.82	3,630.54	745.57	40.71	1,640.30
Total deposits (other than from credit institutions)	12,064.45	9,138.64	2,687.33	238.48	1,805.38
Total debt certificates (including bonds)	6,501.31	5,146.40	1,329.03	25.87	902.90
Value of equity					
Total equity	1,384.58	1,030.68	318.71	35.19	287.49
– of which: Issued capital	200.84	128.29	65.26	7.28	89.16
– of which: Revaluation reserves and other valuation differences	-40.28	-34.11	-6.66	0.49	-8.49
– of which: Reserves (including retained earnings)	827.62	645.17	171.89	10.56	138.27
– of which: Income from current year	25.20	1.59	19.81	3.80	16.14
– of which: Minority interest	124.74	97.76	26.24	0.74	5.63

Source: BSC.

Table 5 EU banks: balance sheet and off-balance sheet items

(2008; percentage of total assets)

	All domestic banks	Large domestic banks	Medium-sized domestic banks	Small domestic banks	Foreign banks
Assets					
Financial assets held for trading	22.62	26.16	5.21	2.68	25.63
Financial assets designated at fair value through profit or loss	14.87	15.82	9.42	26.79	8.75
Available-for-sale financial assets	4.83	4.64	5.87	3.33	5.03
Loans and receivables (including finance leases)	43.14	39.10	64.32	34.66	45.95
Held-to-maturity investments	0.73	0.37	2.52	2.75	1.05
Derivatives – hedge accounting	4.31	5.02	0.84	0.79	0.46
Tangible and intangible assets	1.63	1.53	2.08	2.75	0.68
Investments in associates, subsidiaries and joint ventures	0.47	0.44	0.64	0.49	0.19
Assets IFRS and NON-IFRS reporting banks					
Total loans and advances	53.40	53.84	55.15	27.14	56.34
Total debt instruments	12.40	13.21	10.33	3.85	12.14
Total equity instruments	1.41	1.50	1.07	1.14	0.93
Liabilities					
Deposits from central banks	1.99	1.72	3.34	3.31	5.01
Financial liabilities held for trading	13.06	15.06	3.27	1.74	16.14
Financial liabilities designated at fair value through profit or loss	21.89	23.70	12.36	26.63	13.93
Financial liabilities measured at amortised cost	42.01	38.69	59.30	36.57	44.14
Financial liabilities associated with transferred financial assets	0.07	0.01	0.36	0.19	0.19
Derivatives – hedge accounting	5.38	6.30	0.84	0.37	4.33
Provisions	0.59	0.62	0.46	0.30	0.31
Liabilities IFRS and NON-IFRS reporting banks					
Total deposits from credit institutions	11.71	12.38	10.07	4.12	23.53
Total deposits (other than from credit institutions)	31.99	31.17	36.30	24.16	25.89
Total debt certificates (including bonds)	17.24	17.55	17.95	2.62	12.95
Value of equity					
Total equity	3.67	3.51	4.30	3.55	4.10
– of which: Issued capital	0.59	0.45	1.19	3.12	1.39
– of which: Revaluation reserves and other valuation differences	-0.12	-0.12	-0.12	0.21	-0.13
– of which: Reserves (including retained earnings)	2.43	2.28	3.13	4.52	2.16
– of which: Income from current year	0.07	0.01	0.27	0.38	0.23
– of which: Minority interest	0.33	0.33	0.35	0.07	0.08
Tangible equity / tangible total assets (%)	2.94	2.72	3.76	3.43	3.88
Off-balance sheet items					
Loan commitments given	6.18	6.46	5.55	2.62	5.57
Financial guarantees and other commitments given	4.84	5.47	2.49	3.70	3.78
Financial guarantees and credit derivatives received	6.85	6.58	8.69	0.79	4.70
Liquidity ratios					
Cash and trading assets ratio	24.51	27.90	7.88	5.48	28.04
Cash, trading and available-for-sale assets ratio	29.34	32.54	13.75	8.81	33.07
Interbank market dependence ratio	12.99	12.85	13.57	17.44	25.65
Funding base stability ratio (denominator other than total assets)	52.49	51.01	56.43	78.17	41.52

Source: BSC.
Notes: The interbank market dependence ratio is defined as the ratio of deposits from credit institutions to total assets. The funding base stability ratio is defined as the ratio of total deposits (other than from credit institutions) to the sum of total deposits and total debt certificates.

Table 6 EU banks: asset quality and provisioning indicators

(2008)

	All domestic banks	Large domestic banks	Medium-sized domestic banks	Small domestic banks	Foreign banks
Asset quality (% of total loans and advances and total debt instruments)					
Non-performing and doubtful loans and debt securities (gross)	2.38	2.07	3.54	4.17	2.03
Asset quality (% of own funds for solvency purposes)					
Non-performing and doubtful loans and debt securities (gross)	35.03	32.04	35.62	34.78	29.54
Non-performing and doubtful loans and debt securities (net)	17.07	15.26	17.78	17.55	15.85
Provisioning (stock) (% of non-performing and doubtful loans and debt instruments)					
Total loss provisions	51.66	52.38	50.09	49.54	46.35

Source: BSC.
Note: Non-performing and doubtful loans and debt securities held by small domestic banks in Germany are not included.

Table 7 EU banks: capital adequacy indicators

(2008)

	All domestic banks	Large domestic banks	Medium-sized domestic banks	Small domestic banks	Foreign banks
Capital adequacy indicators					
Overall solvency ratio	11.69	11.44	11.83	15.56	13.60
Tier 1 ratio	8.30	8.02	8.58	11.76	11.03
Capital buffer (%)	3.69	3.44	3.83	7.56	5.60
Total own funds (total own funds percentages)					
Total original own funds for general solvency purposes	71.01	70.11	72.55	75.59	81.10
Total additional own funds for general solvency purposes	30.15	31.43	27.77	24.61	18.50
Total additional own funds for specific to cover market risks	0.43	0.51	0.29	0.01	0.50
Deductions from total own funds	-1.59	-2.05	-0.61	-0.21	-0.09
Capital requirements (% of capital requirements)					
Total capital requirements for credit, counterparty credit, dilution and delivery risks	80.68	77.33	89.58	82.32	79.59
Standardised approach (SA)	46.09	32.83	77.49	80.35	59.33
of which: securitisation position SA	1.38	0.92	2.75	0.44	2.31
Internal ratings based approach (IRB)	34.58	44.50	12.08	1.97	20.15
of which: securitisation position IRB	1.86	2.45	0.52	0.07	0.61
Settlement / delivery risk	0.00	0.01	0.00	0.02	0.12
Total capital requirements for position, foreign exchange and commodity risks	4.56	5.69	2.03	0.70	4.93
Standardised approach (SA)	2.05	2.20	1.83	0.70	2.17
Internal ratings based approach (IRB)	2.51	3.49	0.20	0.00	2.76
Total capital requirements for operational risks	7.3	7.24	7.20	10.52	7.26
Basic andicator approach	1.83	0.49	4.33	10.07	2.57
Standardised approach / alternative standardised	3.50	3.96	2.69	0.23	3.58
Advanced measurement approach	2.02	2.79	0.18	0.22	1.09
Other capital requirements	0.97	1.69	-0.90	0.40	2.33
Average risk-weights for credit risk (%)	41.47	39.85	44.63	51.75	37.05
… per approach					
Standardised approach (SA)	45.28	43.83	45.92	54.37	41.41
Foundation IRB approach (IRB)	45.02	42.45	65.47	38.72	38.29
Advanced IRB approach (IRB)	37.34	36.98	43.52	29.66	25.07
… per exposure class (risk weighted assets as a percentage of exposures)					
Central governments and central banks	5.04	5.24	4.59	1.50	3.76
Institutions	16.75	17.65	15.11	11.59	15.58
Corporates	66.50	62.33	78.34	108.24	73.02
Retail	43.08	38.24	51.20	79.21	46.01
Securitisation positions	48.26	40.12	100.41	58.86	47.21
Minimum regulatory capital (MRC) for total exposures to credit, counterparty credit and dilution risks and free deliveries (post-CCF and post-CRM) (%)	3.54	3.44	3.72	4.15	2.92
Distribution of overall solvency ratio (% of total assets)					
Overall solvency ratio < 8%	0.54				
Overall solvency ratio 8-10%	20.19				
Overall solvency ratio 10-12%	38.58				
Overall solvency ratio 12-14%	20.13				
Overall solvency ratio > 14%	20.56				

Source: BSC.

Table 8 Country-level indicators: consolidated banking data reporting population

	AT 2008	AT 2007	BE 2008	BE 2007	BG 2008	BG 2007
Number of credit institutions						
Stand-alone credit institutions	690	703	11	10	30	29
Banking groups	39	40	5	5		
Credit institutions	729	743	16	15	30	29
Domestic credit institutions	671	692	10	10	8	8
Foreign-controlled subsidiaries and branches	58	51	6	5	22	21
Total assets of credit institutions in the sample (EUR billions)						
Domestic credit institutions	830.29		1,200.74		5.72	
of which:						
Large	*0.00*		*1,148.37*		*0.00*	
Medium-sized	*716.89*		*49.74*		*0.00*	
Small	*113.40*		*2.62*		*5.72*	
Foreign-controlled subsidiaries and branches	345.35		218.91		29.84	

	CY 2008	CY 2007	CZ 2008	CZ 2007	DE 2008	DE 2007
Number of credit institutions						
Stand-alone credit institutions	40	38	23	23	1,783	1,691
Banking groups	1	2	7	7	45	30
Credit institutions	41	40	30	30	1,828	1,721
Domestic credit institutions	7	7	3	3	1,743	1,656
Foreign-controlled subsidiaries and branches	34	33	27	27	85	65
Total assets of credit institutions in the sample (EUR billions)						
Domestic credit institutions	86.59		6.04		8,934.20	
of which:						
Large	*0.00*		*0.00*		*6,281.45*	
Medium-sized	*84.39*		*2.80*		*2,026.31*	
Small	*2.19*		*3.24*		*626.44*	
Foreign-controlled subsidiaries and branches	38.75		141.46		1,023.37	

	DK 2008	DK 2007	EE 2008	EE 2007	ES 2008	ES 2007
Number of credit institutions						
Stand-alone credit institutions	142	152	10	7	189	183
Banking groups	7	6	5	6	99	101
Credit institutions	149	158	15	13	288	284
Domestic credit institutions	128	136	2	2	164	165
Foreign-controlled subsidiaries and branches	21	22	13	11	124	119
Total assets of credit institutions in the sample (EUR billions)						
Domestic credit institutions	804.70		0.41		3,287.29	
of which:						
Large	*649.35*		*0.00*		*2,006.99*	
Medium-sized	*118.17*		*0.00*		*1,238.43*	
Small	*37.17*		*0.41*		*41.87*	
Foreign-controlled subsidiaries and branches	148.78		36.84		350.06	

Table 8 Country-level indicators: consolidated banking data reporting population (cont'd)

	2008	2007	2008	2007	2008	2007
	FI		FR		GR	
Number of credit institutions						
Stand-alone credit institutions	110	111		0	33	27
Banking groups	10	10	22	22	14	14
Credit institutions	120	121	22	22	47	41
Domestic credit institutions	90	89	18	18	12	12
Foreign-controlled subsidiaries and branches	30	32	4	4	35	29
Total assets of credit institutions in the sample (EUR billions)						
Domestic credit institutions	116.29		6,874.35		358.12	
of which:						
Large	*0.00*		*6,666.75*		*0.00*	
Medium-sized	*101.85*		*203.83*		*357.29*	
Small	*14.44*		*3.78*		*0.83*	
Foreign-controlled subsidiaries and branches	269.64		276.06		99.85	

	HU		IE		IT	
Number of credit institutions						
Stand-alone credit institutions	189	201	31	31	0	0
Banking groups	3	3	8	9	63	65
Credit institutions	192	204	39	40	63	65
Domestic credit institutions	155	171	6	6	55	57
Foreign-controlled subsidiaries and branches	37	33	33	34	8	8
Total assets of credit institutions in the sample (EUR billions)						
Domestic credit institutions	52.05		538.15		2,555.53	
of which:						
Large	*0.00*		*358.69*		*1,863.61*	
Medium-sized	*40.96*		*179.46*		*684.89*	
Small	*11.09*		*0.00*		*7.03*	
Foreign-controlled subsidiaries and branches	82.05		1,082.96		233.49	

	LT		LU		LV	
Number of credit institutions						
Stand-alone credit institutions	15	12	122	126		9
Banking groups	1	1	30	29	16	16
Credit institutions	16	13	152	155	16	25
Domestic credit institutions	5	4	15	12	9	11
Foreign-controlled subsidiaries and branches	11	9	137	143	7	14
Total assets of credit institutions in the sample (EUR billions)						
Domestic credit institutions	4.42		133.18		11.09	
of which:						
Large	*0.00*		*0.00*		*0.00*	
Medium-sized	*0.00*		*127.55*		*6.60*	
Small	*4.42*		*5.63*		*4.49*	
Foreign-controlled subsidiaries and branches	25.29		874.90		17.52	

Table 8 Country-level indicators: consolidated banking data reporting population (cont'd)

	MT 2008	MT 2007	NL 2008	NL 2007	PL 2008	PL 2007
Number of credit institutions						
Stand-alone credit institutions	21	20	86	95	645	644
Banking groups	0	0	4	4	2	1
Credit institutions	21	20	90	97	647	645
Domestic credit institutions	6	6	31	33	589	592
Foreign-controlled subsidiaries and branches	15	14	59	64	58	53
Total assets of credit institutions in the sample (EUR billions)						
Domestic credit institutions	7.72		2,873.57		69.93	
of which:						
Large	*0.00*		*2,495.99*		*0.00*	
Medium-sized	*5.98*		*371.12*		*51.87*	
Small	*1.74*		*6.46*		*18.06*	
Foreign-controlled subsidiaries and branches	36.41		121.12		184.86	

	PT 2008	PT 2007	RO 2008	RO 2007	SE 2008	SE 2007
Number of credit institutions						
Stand-alone credit institutions	85	78	33	32	4	3
Banking groups	19	21	10	10	14	14
Credit institutions	104	99	43	42	18	17
Domestic credit institutions	49	46	6	6	16	15
Foreign-controlled subsidiaries and branches	55	53	37	36	2	2
Total assets of credit institutions in the sample (EUR billions)						
Domestic credit institutions	367.38		4.88		1,165.14	
of which:						
Large	*0.00*		*0.00*		*901.10*	
Medium-sized	*362.61*		*4.30*		*259.23*	
Small	*4.77*		*0.57*		*4.80*	
Foreign-controlled subsidiaries and branches	96.00		39.65		4.51	

	SI 2008	SI 2007	SK 2008	SK 2007	UK 2008	UK 2007
Number of credit institutions						
Stand-alone credit institutions	12	12	3	3	181	178
Banking groups	8	8	23	23	10	10
Credit institutions	20	20	26	26	191	188
Domestic credit institutions	9	9	3	3	98	105
Foreign-controlled subsidiaries and branches	11	11	23	23	93	83
Total assets of credit institutions in the sample (EUR billions)						
Domestic credit institutions	37.91		2.36		7,392.42	
of which:						
Large	*0.00*		*0.00*		*6,950.85*	
Medium-sized	*34.90*		*0.00*		*376.31*	
Small	*3.01*		*2.36*		*65.27*	
Foreign-controlled subsidiaries and branches	15.06		60.48		1,166.54	

Source: BSC.

Table 9 Country-level indicators: selected income statement items

(2008; all banks; EUR billions)

	AT	BE	BG	CY	CZ	DE	DK	EE	ES
Income									
Net interest income	19.31	14.51	1.43	2.17	3.82	84.23	10.48	0.95	59.57
Dividend income	2.14	0.39	0.00	0.03	0.07	1.51	0.16	0.01	3.19
Net fee and commission income	8.47	6.31	0.40	0.63	1.37	37.45	2.76	0.28	22.91
Gains (losses) on financial transactions	-4.23	-3.78	0.05	-0.06	-0.74	-35.62	-2.47	-0.03	7.07
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net	0.62	-0.24	0.02	0.03	-0.04	-2.63		0.00	5.95
Gains (losses) on financial assets and liabilities held for trading, net	-2.13	-6.55	0.03	-0.04	-0.24	-13.20		-0.03	0.65
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	-2.85	2.39	0.00	-0.06	-0.45	-4.34		0.00	0.46
Exchange rate differences	0.74	0.58	0.00	0.27	0.45	0.00	0.99	0.07	1.18
Other net operating income	0.88	0.54	0.02	0.08	0.01	10.60	0.45	0.06	0.79
Total operating income	33.64	18.92	1.90	3.12	5.07	106.20	12.36	1.36	94.71
Expenditure structure									
(Staff expenses)	-8.01	-8.66	-0.36	-0.92	-1.21	-26.18	-4.73	-0.28	-26.04
(General and administrative expenses)	-5.28	-6.44	-0.49	-0.50	-1.25	-21.84	-3.21	-0.24	-15.33
(Depreciation)	-1.48	-0.99	-0.10	-0.10	-0.30	-3.19	-1.26	-0.03	-3.98
(Total operating expenses)	-25.79	-16.09	-0.96	-1.52	-2.77	-92.75	-9.20	-0.55	-45.34
Profitability									
Operating profits	7.85	2.83	0.95	1.60	2.31	13.45	3.16	0.81	49.36
(Provisions)	-0.20	-0.69	0.00	0.00	0.06		0.00	0.00	-4.06
(Impairment)	-7.60	-12.66	-0.18	-0.35	-0.72	-19.89	-4.33	-0.28	-28.13
(of which Impairment on financial assets not measured at fair value through profit or loss)	-5.65	-10.34	-0.18	-0.35	-0.70	-17.46		-0.27	-26.44
Total profit before tax from continuing operations	0.67	-11.32	0.78	1.25	1.89	-28.95	-1.16	0.53	28.74
Tax (expense) income related to profit or loss from continuing operations	-0.34	-0.53	-0.08	-0.16	-0.31	1.34	-0.16	-0.04	4.49
Total profit (loss) after tax from continuing operations	0.33	-11.85	0.70	1.09	1.58	-27.61	-1.32	0.49	24.18

	FI	FR	GR	HU	IE	IT	LT	LU	LV
Income									
Net interest income	4.60	50.81	11.92	4.02	14.54	52.34	0.68	7.46	0.80
Dividend income	0.04	3.78	0.13	0.55	0.20	4.53	0.00	0.54	0.00
Net fee and commission income	1.24	44.24	2.81	1.07	2.31	24.95	0.24	6.40	0.24
Gains (losses) on financial transactions	0.20	10.92	0.35	0.69	-0.51	-5.58	-0.02	-1.00	0.08
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net		3.56	0.06		-0.63	0.68	0.00	0.94	-0.01
Gains (losses) on financial assets and liabilities held for trading, net		-10.99	0.37		0.21	-5.90	0.00	-1.51	0.09
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net		18.35	-0.17		-0.45	-0.36	-0.02	-0.44	-0.01
Exchange rate differences		-3.43	0.13	0.00	-0.13	0.52	0.03	-0.05	0.00
Other net operating income	-0.17	10.88	0.19	-0.47	0.72	2.49	-0.01	0.50	0.06
Total operating income	5.89	119.04	15.58	5.87	17.11	79.25	0.93	13.90	1.18

Table 9 Country-level indicators: selected income statement items (cont'd)

(2008; all banks; EUR billions)

	FI	FR	GR	HU	IE	IT	LT	LU	LV
Expenditure structure									
(Staff expenses)	-1.69	-47.25	-4.82	-1.69	-4.38	-29.92	-0.24	-4.17	-0.32
(General and administrative expenses)	-1.14	-35.15	-3.12	-1.43	-2.80	-18.46	-0.17	-2.79	-0.25
(Depreciation)	-0.28	-6.96	-0.66	-0.32	-0.94	-5.07	-0.03	-0.44	-0.06
(Total operating expenses)	-3.11	-89.36	-8.59	-3.44	-8.12	-53.45	-0.45	-7.39	-0.64
Profitability									
Operating profits	2.78	29.67	6.99	2.43	8.99	25.81	0.48	6.51	0.54
(Provisions)		-1.61	-0.78	-0.86	-2.87	-1.47	0.00	0.05	-0.22
(Impairment)	-0.36	-21.87	-2.83		-5.31	-18.17	-0.21	-5.72	-0.21
(of which Impairment on financial assets not measured at fair value through profit or loss)	-0.35	-19.71	-2.75		-4.72	-15.55	-0.20	-5.66	-0.21
Total profit before tax from continuing operations	2.42	9.65	3.40	1.57	0.80	6.16	0.27	0.84	0.11
Tax (expense) income related to profit or loss from continuing operations	-0.66	-1.05	-0.75	-0.26	-0.59	-0.52	-0.04	-0.44	-0.04
Total profit (loss) after tax from continuing operations	1.76	8.60	2.65	1.31	0.21	5.64	0.23	0.40	0.06

	MT	NL	PL	PT	RO	SE	SI	SK	UK
Income									
Net interest income	0.52	30.37	7.01	8.73	1.80	10.89	1.16	1.55	96.87
Dividend income	0.00	0.36	0.04	0.28	0.01	0.05	0.02	0.02	1.48
Net fee and commission income	-0.01	10.79	3.08	3.19	0.78	4.73	0.40	0.46	50.49
Gains (losses) on financial transactions	-0.18	-12.63	0.39	0.00	0.24	1.58	-0.08	-0.03	
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net	0.01	-1.78	0.07	0.55	0.24		0.06		0.45
Gains (losses) on financial assets and liabilities held for trading, net	0.24	-11.05	0.20	0.03	0.01		-0.11		-3.41
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	-0.39	-0.34	0.13	-0.21	-0.02		-0.02		5.92
Exchange rate differences	0.01	-0.09	1.47	0.19	0.38		0.05	0.31	
Other net operating income	0.08	3.24	0.19	0.04	0.02	0.67	0.06	-0.08	6.45
Total operating income	0.46	18.03	12.20	13.94	3.29	17.91	1.63	2.23	163.25
Expenditure structure									
(Staff expenses)	-0.14	-18.63	-3.46	-4.01	-0.77	-5.73	-0.51	-0.51	-49.50
(General and administrative expenses)	-0.09	-12.87	-2.75	-2.88	-0.59	-3.54	-0.34	-0.55	-37.98
(Depreciation)	-0.02	-2.06	-0.61	-0.60	-0.13	-0.64	-0.12	-0.16	-8.63
(Total operating expenses)	-0.25	-33.56	-6.81	-7.49	-1.49	-9.90	-0.97	-1.23	-96.11
Profitability									
Operating profits	0.21	-15.54	5.39	6.44	1.81	8.00	0.66	1.00	67.13
(Provisions)	0.00	-3.56	-0.09	0.06	-0.01	-1.46	0.02	0.00	-64.65
(Impairment)	-0.06	-9.16	-1.01	-3.63	-0.46	-0.14	-0.40	-0.31	
(of which Impairment on financial assets not measured at fair value through profit or loss)	-0.02	-8.24	-1.03	-3.57	-0.46		-0.40		
Total profit before tax from continuing operations	0.15	-29.38	4.33	2.86	1.39	6.81	0.29	0.69	-31.81
Tax (expense) income related to profit or loss from continuing operations	-0.06	2.52	-0.87	0.61	-0.21	-1.51	-0.07	-0.16	0.10
Total profit (loss) after tax from continuing operations	0.09	-26.86	3.46	0.00	1.18	5.30	0.22	0.53	-31.71

Source: BSC.
Notes: For AT and DE some items do not cover banks which report their financial statements under local GAAP. The "provisions" data for UK also includes "impairments".

Table 10 Country-level indicators: profitability and efficiency indicators

(2008; all banks)

	AT	BE	BG	CY	CZ	DE	DK	EE	ES
Income (% of total assets)									
Net interest income	1.64	1.02	4.01	1.73	2.59	0.85	1.10	2.54	1.64
Dividend income	0.21	0.03	0.01	0.02	0.04	0.02	0.02	0.03	0.09
Net fee and commission income	0.72	0.44	1.12	0.50	0.93	0.38	0.29	0.76	0.63
Gains (losses) on financial transactions	-0.30	-0.27	0.15	0.16	-0.20	-0.36	-0.16	0.11	0.23
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss. net	0.07	-0.02	0.06	0.02	-0.03	-0.04		0.00	0.16
Gains (losses) on financial assets and liabilities held for trading. net	-0.24	-0.46	0.10	-0.03	-0.16	-0.18		-0.09	0.02
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss. net	-0.32	0.17	-0.01	-0.04	-0.30	-0.06		0.00	0.01
Other net operating income	0.09	0.04	0.05	0.07	0.01	0.15	0.05	0.15	0.02
Total operating income	2.86	1.33	5.35	2.49	3.44	1.07	1.30	3.65	2.60
Expenditure structure (% of total assets)									
(Staff expenses)	-0.80	-0.61	-1.02	-0.73	-0.82	-0.36	-0.50	-0.76	-0.72
(General and administrative expenses)	-0.53	-0.45	-1.39	-0.40	-0.85	-0.30	-0.34	-0.63	-0.42
(Depreciation)	-0.15	-0.07	-0.28	-0.08	-0.20	-0.04	-0.13	-0.08	-0.11
(Total operating expenses)	-2.19	-1.13	-2.69	-1.21	-1.88	-0.93	-0.96	-1.48	-1.25
Profitability (% of total assets)									
Operating profits	0.67	0.20	2.66	1.27	1.56	0.14	0.33	2.17	1.36
(Provisions)	-0.02	-0.05	0.01	0.00	0.04		0.00	-0.01	-0.11
(Impairment)	-0.65	-0.89	-0.50	-0.28	-0.49	-0.20	-0.45	-0.74	-0.77
(of which: Impairment on financial assets not measured at fair value through profit or loss)	-0.48	-0.73	-0.49	-0.28	-0.47	-0.18		-0.74	-0.73
Total profit before tax from continuing operations	0.07	-0.80	2.19	1.00	1.28	-0.38	-0.12	1.42	0.80
Total profit (loss) after tax from continuing operations	0.03	-0.83	1.98	0.87	1.07	-0.38	-0.14	1.31	
Total profit (loss) after tax and discontinued operations (ROA)	0.09	-1.47	1.98	0.87	1.07	-0.38	-0.14	1.31	0.68
Return on equity (%)									
Total profit (loss) after tax and discontinued operations (% of total equity; ROE)	1.73	-44.82	17.32	14.68	14.57	-22.30	-3.37	15.98	12.18
Efficiency									
Cost-to-income ratio (% of total income)	-76.65	-85.04	-50.24	-48.72	-54.53	-87.34	-74.41	-40.50	-47.88
Distribution of return on equity (% of total assets)									
% of total banking assets of institutions with ROE < 0%	16.39	83.19	0.99	1.38	0.08	78.90	74.00	0.74	1.44
% of total banking assets of institutions with ROE 0-5%	14.76	0.20	0.80	1.95	24.01	21.10	23.00	0.00	3.07
% of total banking assets of institutions with ROE 5-10%	58.63	12.98	5.96	36.73	2.36	0.00	0.00	14.60	26.50
% of total banking assets of institutions with ROE 10-15%	6.95	3.14	24.08	11.85	10.13	0.00	3.00	0.94	16.28
% of total banking assets of institutions with ROE 15-20%	1.03	0.37	22.20	2.30	8.93	0.00	0.00	67.74	36.92
% of total banking assets of institutions with ROE > 20%	1.32	0.11	46.04	38.10	54.49	0.00	0.00	0.50	15.80

Table 10 Country-level indicators: profitability and efficiency indicators (cont'd)

(2008; all banks)

	FI	FR	GR	HU	IE	IT	LT	LU	LV
Income (% of total assets)									
Net interest income	1.19	0.71	2.60	3.00	0.90	1.88	2.30	0.74	2.79
Dividend income	0.01	0.05	0.03	0.41	0.01	0.16	0.01	0.05	0.01
Net fee and commission income	0.32	0.62	0.61	0.80	0.14	0.89	0.81	0.64	0.84
Gains (losses) on financial transactions	0.05	0.10	0.10	0.51	-0.04	-0.18	0.03	-0.10	0.29
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss. net		0.05	0.01		-0.04	0.02	0.01	0.09	-0.02
Gains (losses) on financial assets and liabilities held for trading. net		-0.15	0.08		0.01	-0.21	0.01	-0.15	0.32
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss. net		0.26	-0.04		-0.03	-0.01	-0.08	-0.04	-0.02
Other net operating income	-0.05	0.15	0.04	-0.35	0.04	0.09	-0.04	0.05	0.20
Total operating income	1.53	1.66	3.40	4.37	1.06	2.84	3.12	1.38	4.12
Expenditure structure (% of total assets)									
(Staff expenses)	-0.44	-0.66	-1.05	-1.26	-0.27	-1.07	-0.82	-0.41	-1.13
(General and administrative expenses)	-0.30	-0.49	-0.68	-1.06	-0.17	-0.66	-0.58	-0.28	-0.88
(Depreciation)	-0.07	-0.10	-0.14	-0.24	-0.06	-0.18	-0.11	-0.04	-0.22
(Total operating expenses)	-0.80	-1.25	-1.88	-2.56	-0.50	-1.92	-1.51	-0.73	-2.23
Profitability (% of total assets)									
Operating profits	0.72	0.41	1.53	1.81	0.55	0.93	1.61	0.65	1.89
(Provisions)		-0.02	-0.17	-0.64	-0.18	-0.05	0.00	0.01	-0.79
(Impairment)	-0.09	-0.31	-0.62		-0.33	-0.65	-0.70	-0.57	-0.73
(of which: Impairment on financial assets not measured at fair value through profit or loss)	-0.09	-0.28	-0.60		-0.29	-0.56	-0.69	-0.56	-0.73
Total profit before tax from continuing operations	0.63	0.13	0.74	1.17	0.05	0.22	0.92	0.08	0.37
Total profit (loss) after tax from continuing operations	0.46	0.12	0.58	0.97	0.01	0.20	0.78	0.04	0.22
Total profit (loss) after tax and discontinued operations (ROA)	0.46	0.11	0.58	0.97	0.01	0.25	0.79	0.04	0.22
Return on equity (%)									
Total profit (loss) after tax and discontinued operations (% of total equity; ROE)	8.31	2.94	10.70	15.06	0.42	3.53	11.39	1.07	2.68
Efficiency									
Cost-to-income ratio (% of total income)	-52.74	-75.07	-55.15	-58.59	-47.46	-67.44	-48.40	-53.15	-54.03
Distribution of return on equity (% of total assets)									
% of total banking assets of institutions with ROE < 0%	4.00	22.00	8.64	0.90	61.61	6.23	2.66	20.77	18.00
% of total banking assets of institutions with ROE 0-5%	24.00	29.00	12.29	9.02	13.03	16.91	0.00	18.85	17.00
% of total banking assets of institutions with ROE 5-10%	9.00	44.00	4.99	8.00	16.93	73.67	33.72	23.82	4.00
% of total banking assets of institutions with ROE 10-15%	62.00	1.00	44.09	11.41	1.31	0.80	34.12	7.78	49.00
% of total banking assets of institutions with ROE 15-20%	0.00	0.00	24.67	14.46	1.36	0.15	29.49	9.34	11.00
% of total banking assets of institutions with ROE > 20%	1.00	4.00	5.31	56.21	5.76	2.25	0.00	19.42	1.00

Table 10 Country-level indicators: profitability and efficiency indicators (cont'd)

(2008; all banks)

	MT	NL	PL	PT	RO	SE	SI	SK	UK
Income (% of total assets)									
Net interest income	1.18	1.01	2.75	1.88	4.04	0.93	2.19	2.46	1.13
Dividend income	0.01	0.01	0.02	0.06	0.01	0.00	0.05	0.04	0.02
Net fee and commission income	-0.03	0.36	1.21	0.69	1.76	0.40	0.76	0.73	0.59
Gains (losses) on financial transactions	-0.37	-0.42	0.73	0.04	1.38	0.13	-0.07	0.45	
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss. net	0.02	-0.06	0.03	0.12	0.55		0.11		0.01
Gains (losses) on financial assets and liabilities held for trading. net	0.55	-0.38	0.08	0.01	0.02		-0.21		-0.04
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss. net	-0.88	-0.01	0.05	-0.05	-0.04		-0.04		0.07
Other net operating income	0.19	0.11	0.08	0.01	0.05	0.06	0.12	-0.13	0.08
Total operating income	1.03	0.60	4.79	3.01	7.40	1.53	3.08	3.55	1.91
Expenditure structure (% of total assets)									
(Staff expenses)	-0.32	-0.62	-1.36	-0.87	-1.73	-0.49	-0.96	-0.82	-0.58
(General and administrative expenses)	-0.19	-0.43	-1.08	-0.62	-1.33	-0.30	-0.65	-0.88	-0.44
(Depreciation)	-0.04	-0.07	-0.24	-0.13	-0.28	-0.05	-0.23	-0.26	-0.10
(Total operating expenses)	-0.56	-1.12	-2.67	-1.62	-3.34	-0.85	-1.84	-1.96	-1.12
Profitability (% of total assets)									
Operating profits	0.47	-0.52	2.12	1.39	4.06	0.68	1.24	1.59	0.78
(Provisions)	0.00	-0.12	-0.03	0.01	-0.03	-0.12	0.03	0.00	-0.76
(Impairment)	-0.14	-0.31	-0.39	-0.78	-1.04	-0.01	-0.75	-0.50	
(of which: Impairment on financial assets not measured at fair value through profit or loss)	-0.06	-0.28	-0.40	-0.77	-1.03		-0.75		
Total profit before tax from continuing operations	0.34	-0.98	1.70	0.62	3.12	0.58	0.54	1.09	-0.37
Total profit (loss) after tax from continuing operations	0.21	-0.90	1.36	0.00	2.64	0.45	0.41	0.84	-0.37
Total profit (loss) after tax and discontinued operations (ROA)	0.21	-0.37	1.37	0.49	2.65	0.46	0.41	0.84	-0.37
Return on equity (%)									
Total profit (loss) after tax and discontinued operations (% of total equity; ROE)	2.58	-11.93	14.77	8.09	29.49	12.06	5.23	10.26	-9.71
Efficiency									
Cost-to-income ratio (% of total income)	-54.20	-186.18	-55.83	-53.77	-45.16	-55.31	-59.66	-55.19	-58.88
Distribution of return on equity (% of total assets)									
% of total banking assets of institutions with ROE < 0%	9.62	8.51	3.39	3.34	3.16	0.64	2.99	6.26	40.61
% of total banking assets of institutions with ROE 0-5%	22.36	38.71	3.17	28.55	0.00	3.19	59.82	2.97	9.10
% of total banking assets of institutions with ROE 5-10%	18.25	28.20	8.50	52.92	0.00	3.13	18.04	22.15	26.88
% of total banking assets of institutions with ROE 10-15%	28.44	0.00	43.03	3.29	8.63	0.54	15.68	2.23	19.13
% of total banking assets of institutions with ROE 15-20%	0.00		10.77	11.89	0.00	75.25	3.48	60.99	4.19
% of total banking assets of institutions with ROE > 20%	21.33	23.08	31.15	0.00	88.21	17.00	0.00	3.89	0.09

Source: BSC.
Note: The “provisions” data for UK also includes “impairments”.

Table 11 Country-level indicators: selected balance sheet items

(2008; all banks; EUR billions)

	AT	BE	BG	CY	CZ	DE	DK	EE	ES
Assets									
Financial assets held for trading	35.73	281.83	0.43	2.16	13.10	1,199.19		0.91	292.42
Financial assets designated at fair value through profit or loss	34.67	28.46	0.40	0.86	2.11	576.83		1.10	57.80
Available-for-sale financial assets	55.39	222.00	0.96	10.22	11.96	375.30		0.03	287.54
Loans and receivables (including finance leases)	648.45	773.19	28.51	95.05	90.73	3,462.06		30.28	2,635.02
Held-to-maturity investments	44.26	13.14	0.80	3.04	10.45	36.32		0.14	40.24
Derivatives – hedge accounting	3.74	4.38	0.00	0.03	0.77	1,278.82		0.01	31.60
Tangible and intangible assets	24.17	13.05	0.78	3.03	2.71	45.82	8.88	0.29	73.67
Investments in associates, subsidiaries and joint ventures	8.81	1.55	0.07	0.32	0.14	8.32	10.16	0.01	38.01
Assets IFRS and NON-IFRS reporting banks									
Total loans and advances	817.46	769.63	28.51	93.69	91.52	3,524.34[1]	643.17	30.97	2,645.66
Total debt instruments	158.27	306.66	2.49	16.79	28.58	1,393.58[1]	111.97	1.19	393.54
Total equity instruments	33.94	15.92	0.04	0.83	1.10	82.98[1]	3.98	0.20	70.96
Liabilities									
Deposits from central banks	21.35	64.91	0.00	5.30	1.41	116.67	166.04	0.00	134.48
Financial liabilities held for trading	22.47	240.02	0.07	1.55	8.17	1,018.55		0.09	201.35
Financial liabilities designated at fair value through profit or loss	57.54	60.89	0.00	16.99	2.47	1,689.81		0.03	38.93
Financial liabilities measured at amortised cost	725.11	955.24	31.13	91.69	121.42	3,534.58		33.07	2,927.00
Financial liabilities associated with transferred financial assets	5.54	7.44	0.00	0.00	0.00	0.06		0.00	
Derivatives – hedge accounting	5.53	10.05	0.01	0.26	0.51	85.19		0.00	21.30
Provisions	8.80	3.08	0.05	0.58	0.37	73.42	1.46	0.35	35.79
Liabilities IFRS and NON-IFRS reporting banks									
Total deposits from credit institutions	235.36	276.45	7.82	32.80	15.16	1,414.39[1]	166.04	16.57	497.78
Total deposits (other than from credit institutions)	477.61	557.24	24.45	72.60	98.61	1,392.23[1]	238.03	14.75	1,765.44
Total debt certificates (including bonds)	247.23	124.42	0.48	2.10	9.83	1,360.97[1]	270.99	1.07	643.61
Value of equity									
Total equity	63.60	46.61	4.05	7.44	10.86	145.49	39.88	3.04	201.71
– of which: Issued capital	4.41[1]	23.09	1.34	1.78	2.34	25.40[1]	4.57	0.29	14.07
– of which: Revaluation reserves and other valuation differences	-3.45[1]	-9.30	0.08	-0.51	0.32	-22.08[1]	0.18	-0.04	-9.64
– of which: Reserves (including retained earnings)	20.56[1]	25.32	1.82	1.62	5.68	108.89[1]	11.02	2.18	117.82
– of which: Income from current year	-0.09[1]	-21.14	0.70	1.08	1.55	-7.65[1]	21.75	0.49	23.07
– of which: Minority interest	9.23[1]	4.53	0.00	0.14	0.23	19.28[1]	1.45	0.00	9.85

Table 11 Country-level indicators: selected balance sheet items (cont'd)

(2008; all banks; EUR billions)

	FI	FR	GR	HU	IE	IT	LT	LU	LV
Assets									
Financial assets held for trading		2,783.64	9.10		504.39	342.78	0.20	35.01	0.38
Financial assets designated at fair value through profit or loss		101.14	1.11		24.59	20.90	0.78	25.76	0.69
Available-for-sale financial assets		315.53	27.51		119.63	80.31	0.23	121.16	0.61
Loans and receivables (including finance leases)		3,159.95	359.44		903.26	2,061.06	26.00	750.05	22.79
Held-to-maturity investments		63.17	13.63		5.49	28.24	0.43	9.90	1.52
Derivatives – hedge accounting	1.84	40.36	0.15		11.58	16.53	0.00	4.05	0.02
Tangible and intangible assets	3.20	117.94	11.05		4.81	110.24	0.31	5.29	0.50
Investments in associates, subsidiaries and joint ventures	0.16	46.13	1.70		5.28	17.38	0.02	0.72	0.02
Assets IFRS and NON-IFRS reporting banks									
Total loans and advances	240.19	3,522.98	359.44	96.50	898.41	1,819.71	25.49	670.52	21.28
Total debt instruments	8.17	1,009.71	49.38	10.45	161.74	237.46	1.92	232.25	2.72
Total equity instruments	1.97	195.21	1.70	1.86	2.51	21.39	0.14	13.87	0.08
Liabilities									
Deposits from central banks	6.82	19.85	30.16		158.56	105.53	0.00	46.76	0.87
Financial liabilities held for trading	88.46	2,416.91	13.00		494.33	251.05	0.08	39.07	0.48
Financial liabilities designated at fair value through profit or loss		224.00	30.13		40.10	57.10	0.00	12.44	0.06
Financial liabilities measured at amortised cost		3,826.83	346.88		830.50	0.00	26.97	845.45	24.25
Financial liabilities associated with transferred financial assets		8.08	0.00		3.36	0.00	0.00	0.05	0.21
Derivatives – hedge accounting	3.02	51.85	1.94		25.63	18.19	0.05	10.84	0.01
Provisions	0.10	22.15	1.82		3.53	23.95	0.26	3.40	0.01
Liabilities IFRS and NON-IFRS reporting banks									
Total deposits from credit institutions	48.48	934.99	59.49	33.61	235.20	403.10	10.75	432.03	11.17
Total deposits (other than from credit institutions)	118.75	2,040.41	267.18	64.79	339.87	1,113.20	11.78	330.74	12.52
Total debt certificates (including bonds)	75.40	1,156.43	51.14	11.62	233.83	748.99	0.78	87.99	0.26
Value of equity									
Total equity	21.15	267.71	24.69	8.67	54.14	196.15	2.06	39.00	2.32
– of which: Issued capital	3.98	34.09	11.10	2.33	7.41	37.98	1.02	14.67	1.18
– of which: Revaluation reserves and other valuation differences	1.25	9.92	-3.47	0.06	-7.99	-0.09	0.01	-2.68	-0.09
– of which: Reserves (including retained earnings)	14.09	139.27	3.90	5.30	34.98	140.04	0.64	19.89	1.03
– of which: Income from current year	1.79	5.89	2.53	0.98	-1.44	9.69	0.23	0.45	0.06
– of which: Minority interest	0.03	20.13	2.91	0.00	1.92	7.85	0.02	0.28	0.01

Table 11 Country-level indicators: selected balance sheet items (cont'd)

(2008; all banks; EUR billions)

	MT	NL	PL	PT	RO	SE	SI	SK	UK
Assets									
Financial assets held for trading	0.32	473.42	19.34	17.14	0.43		1.19	5.78	3,307.03
Financial assets designated at fair value through profit or loss	2.01	67.36	3.72	3.89	0.34		0.19	0.50	4,657.05
Available-for-sale financial assets	3.42	273.41	24.11	25.96	0.88		5.06	2.28	
Loans and receivables (including finance leases)	0.00	1,882.81	179.61	378.05	29.53		41.69	45.62	
Held-to-maturity investments	4.65	19.43	9.56	4.90	0.19		1.38	5.88	
Derivatives – hedge accounting	0.14	20.68	0.19	1.97	0.06		0.01	0.01	77.78
Tangible and intangible assets	0.28	39.96	4.95	5.58	1.26		1.08	0.92	116.91
Investments in associates, subsidiaries and joint ventures	0.15	7.43	0.24	2.48	0.05		0.15	0.35	22.17
Assets IFRS and NON-IFRS reporting banks									
Total loans and advances	31.07	1,991.35	180.28	365.84	29.35		41.69	48.27	5,109.28
Total debt instruments	0.00	362.93	43.76	47.30	1.73		6.88	10.81	927.52
Total equity instruments	0.00	28.77	0.40	6.04	0.18		0.63	0.09	111.05
Liabilities									
Deposits from central banks	0.49	97.30	4.36	13.97	0.01		1.23	0.07	0.00
Financial liabilities held for trading	0.57	456.28	14.21	17.34	0.56		0.25	0.89	185.68
Financial liabilities designated at fair value through profit or loss	0.00	119.94	0.21	0.00	0.00		0.07	2.92	5,977.20
Financial liabilities measured at amortised cost	0.97	2,048.54	203.17	390.81	38.68		46.15	53.14	
Financial liabilities associated with transferred financial assets	0.00	5.72	0.73	3.30	0.00		0.44	0.00	
Derivatives – hedge accounting	0.21	41.12	0.44	2.49	0.06		0.02	0.03	1,825.46
Provisions	0.01	8.26	0.54	1.25	0.06		0.21	0.15	31.49
Liabilities IFRS and NON-IFRS reporting banks									
Total deposits from credit institutions	13.26	292.21	62.33	84.55	8.69		20.21	12.14	732.53
Total deposits (other than from credit institutions)	15.12	1,304.27	155.25	210.57	25.43		23.09	39.87	3,088.45
Total debt certificates (including bonds)	0.03	107.10	4.14	104.08	0.49		1.28	4.05	1,956.63
Value of equity									
Total equity	3.56	93.74	23.63	27.87	4.00	44.76	4.17	5.12	326.64
– of which: Issued capital	2.38	6.11	3.76	16.42	2.02	6.21	0.70	1.68	59.66
– of which: Revaluation reserves and other valuation differences	0.17	-7.17	0.06	-1.64	-0.02	7.68	-0.07	-0.26	
– of which: Reserves (including retained earnings)	0.53	48.56	2.59	3.49	0.77	24.83	2.07	1.91	227.10
– of which: Income from current year	0.26	-11.32	3.46	1.79	1.18	5.40	0.13	0.53	
– of which: Minority interest	0.19	5.07	0.36	6.76	0.02	0.12	0.10		39.88

Source: BSC.
1) For AT and DE the selected balance sheet items do not cover banks which report their financial statements under local GAAP.

Table 12 Country-level indicators: balance sheet and off-balance-sheet items

(2008; all banks; percentage of total assets)

	AT	BE	BG	CY	CZ	DE	DK	EE	ES
Assets									
Financial assets held for trading	3.78	19.85	1.22	1.72	8.88	16.68		2.46	8.04
Financial assets designated at fair value through profit or loss	3.67	2.00	1.13	0.68	1.43	8.02		2.96	1.59
Available-for-sale financial assets	5.86	15.64	2.69	8.15	8.11	5.22		0.08	7.91
Loans and receivables (including finance leases)	68.60	54.46	80.17	75.84	61.51	48.14		81.27	72.44
Held-to-maturity investments	4.68	0.93	2.26	2.43	7.08	0.50		0.37	1.11
Derivatives – hedge accounting	0.40	0.31	0.01	0.03	0.52	17.78		0.04	0.87
Tangible and intangible assets	2.56	0.92	2.19	2.42	1.84	0.62	0.93	0.79	2.03
Investments in associates, subsidiaries and joint ventures	0.93	0.11	0.19	0.26	0.10	0.12	1.07	0.03	1.04
Liabilities									
Deposits from central banks	2.26	4.57	0.00	4.23	0.96	1.62	17.41	0.00	3.70
Financial liabilities held for trading	2.38	16.91	0.21	1.23	5.54	14.16		0.23	5.54
Financial liabilities designated at fair value through profit or loss	6.09	4.29	0.00	13.56	1.68	23.50		0.08	1.07
Financial liabilities measured at amortised cost	76.71	67.29	87.54	73.16	82.32	49.15		88.77	80.47
Financial liabilities associated with transferred financial assets	0.59	0.52	0.00	0.00	0.00	0.00		0.00	
Derivatives – hedge accounting	0.59	0.71	0.03	0.20	0.34	1.18		0.00	0.59
Provisions	0.93	0.22	0.14	0.46	0.25	1.02	0.15	0.94	0.98
Assets IFRS and NON-IFRS reporting banks									
Total loans and advances	69.53	54.21	80.17	74.75	62.05	49.00[1]	67.46	83.14	72.74
Total debt instruments	13.46	21.60	7.02	13.40	19.37	19.38[1]	11.74	3.19	10.82
Total equity instruments	2.89	1.12	0.12	0.66	0.75	1.15[1]	0.42	0.53	1.95
Liabilities IFRS and NON-IFRS reporting banks									
Total deposits from credit institutions	20.02	19.47	21.98	26.17	10.28	19.67[1]	17.41	44.48	13.69
Total deposits (other than from credit institutions)	40.62	39.25	60.33	57.93	66.85	19.36[1]	24.96	39.59	48.54
Total debt certificates (including bonds)	21.03	8.76	1.35	1.67	6.67	18.92[1]	28.42	2.86	17.69
Value of equity									
Total equity	5.41	3.28	11.40	5.93	7.36	1.46	4.18	8.17	5.55
– of which: Issued capital	0.47[1]	1.63	3.77	1.42	1.59	0.35[1]	0.48	0.79	0.39
– of which: Revaluation reserves and other valuation differences	-0.37[1]	-0.65	0.21	-0.41	0.22	-0.31[1]	0.02	-0.10	-0.27
– of which: Reserves (including retained earnings)	2.18[1]	1.78	5.13	1.29	3.85	1.51[1]	1.16	5.86	3.24
– of which: Income from current year	-0.01[1]	-1.49	1.98	0.86	1.05	-0.08[1]	2.28	1.30	0.63
– of which: Minority interest	0.98[1]	0.32	0.00	0.12	0.15	0.19[1]	0.15	0.00	0.27
Tangible equity / tangible total assets (%)	3.87	2.96	11.19	4.37	6.90	1.26	3.70	8.03	4.69
Off-balance sheet items									
Loan commitments given		22.35	10.21	1.64	14.89			4.64	14.18
Financial guarantees and other commitments given		45.54	5.95	2.52	5.54			2.52	3.09
Liquidity ratios									
Cash and trading assets ratio	7.26	20.82	10.89	8.45	17.78	17.73	0.56	13.50	2.83
Cash, trading and available-for-sale assets ratio	13.12	36.46	13.58	16.61	25.89	22.95	0.56	13.58	2.83
Interbank market dependence ratio	20.02	19.47	21.98	26.17	10.28	14.26	17.41	44.48	13.69
Funding base stability ratio (denominator other than total assets)	49.74	58.16	72.11	67.54	79.78	32.50	35.26	45.54	60.73

Table 12 Country-level indicators: balance sheet and off-balance-sheet items (cont'd)

(2008; all banks; percentage of total assets)

	FI	FR	GR	HU	IE	IT	LT	LU	LV
Assets									
Financial assets held for trading		38.93	1.99		31.11	12.29	0.69	3.47	1.32
Financial assets designated at fair value through profit or loss		1.41	0.24		1.52	0.75	2.63	2.56	2.40
Available-for-sale financial assets		4.41	6.01		7.38	2.88	0.77	12.02	2.12
Loans and receivables (including finance leases)		44.19	78.48		55.72	73.90	87.50	74.40	79.66
Held-to-maturity investments		0.88	2.98		0.34	1.01	1.43	0.98	5.31
Derivatives – hedge accounting	0.48	0.56	0.03		0.71	0.59	0.00	0.40	0.06
Tangible and intangible assets	0.83	1.65	2.41		0.30	3.95	1.06	0.53	1.75
Investments in associates, subsidiaries and joint ventures	0.04	0.65	0.37		0.33	0.62	0.06	0.07	0.08
Asset ratios									
Cash		4.84	5.53		2.48	1.12	5.14	5.72	7.03
Cash and trading assets		48.23	7.74		36.86	15.09	5.84	9.70	8.44
Cash, trading and available-for-sale assets		50.78	13.82		41.74	17.81	6.62	21.19	10.61
Liabilities									
Deposits from central banks	1.77	0.28	6.59		9.78	3.78	0.00	4.64	3.04
Financial liabilities held for trading	22.92	33.80	2.84		30.49	9.00	0.26	3.88	1.69
Financial liabilities designated at fair value through profit or loss		3.13	6.58		2.47	2.05	0.00	1.23	0.20
Financial liabilities measured at amortised cost		53.52	75.74		51.23	0.00	90.76	83.87	84.76
Financial liabilities associated with transferred financial assets		0.11	0.00		0.21	0.00	0.00	0.00	0.75
Derivatives – hedge accounting	0.78	0.73	0.42		1.58	0.65	0.17	1.07	0.02
Provisions	0.03	0.31	0.40		0.22	0.86	0.88	0.34	0.04
Assets IFRS and NON-IFRS reporting banks									
Total loans and advances	62.24	49.27	78.48	71.96	55.42	65.25	85.80	66.52	74.36
Total debt instruments	2.12	14.12	10.78	7.79	9.98	8.51	6.47	23.04	9.52
Total equity instruments	0.51	2.73	0.37	1.39	0.15	0.77	0.48	1.38	0.27
Liabilities IFRS and NON-IFRS reporting banks									
Total deposits from credit institutions	12.56	13.08	12.99	25.06	14.51	14.45	36.18	42.86	39.03
Total deposits (other than from credit institutions)	30.77	28.54	58.34	48.32	20.97	39.91	39.64	32.81	43.75
Total debt certificates (including bonds)	19.54	16.17	11.17	8.66	14.42	26.85	2.63	8.73	0.89
Value of equity									
Total equity	5.48	3.74	5.39	6.46	3.34	7.03	6.93	3.87	8.11
– of which: Issued capital	1.03	0.48	2.42		0.46	1.36	3.44	1.46	4.13
– of which: Revaluation reserves and other valuation differences	0.32	0.14	-0.76		-0.49	0.00	0.02	-0.27	-0.32
– of which: Reserves (including retained earnings)	3.65	1.95	0.85		2.16	5.02	2.15	1.97	3.59
– of which: Income from current year	0.46	0.08	0.55	0.73	-0.09	0.35	0.79	0.04	0.22
– of which: Minority interest	0.01	0.28	0.64	0.00	0.12	0.28	0.05	0.03	0.04
Tangible equity / tangible total assets (%)	5.13	2.93	4.60	6.46	3.21	4.29	6.60	3.69	7.96
Off-balance sheet items									
Loan commitments given	8.78	10.96			6.40	10.80	10.54	18.89	5.94
Financial guarantees and other commitments given	6.77	8.11			1.59	8.86	4.64	6.65	3.90
Liquidity ratios									
Cash and trading assets ratio	5.04	41.18	6.58		32.53	13.13	5.43	7.99	7.34
Cash, trading and available-for-sale assets ratio	5.04	45.59	12.59		39.91	16.01	6.20	20.01	9.46
Interbank market dependence ratio	12.56	13.08	12.99		14.51	14.45	36.18	42.86	39.03
Funding base stability ratio (denominator other than total assets)	48.94	49.38	70.72	58.89	42.02	49.14	50.53	38.88	52.28

Table 12 Country-level indicators: balance sheet and off-balance-sheet items (cont'd)

(2008; all banks; percentage of total assets)

	MT	NL	PL	PT	RO	SE	SI	SK	UK
Assets									
Financial assets held for trading	0.72	16.10	7.59	3.70	0.98		2.25	9.21	38.64
Financial assets designated at fair value through profit or loss	4.56	2.33	1.46	0.84	0.75		0.36	0.79	54.41
Available-for-sale financial assets	7.75	9.30	9.46	5.60	1.98		9.55	3.63	
Loans and receivables (including finance leases)	0.00	64.04	70.49	81.59	66.32		78.70	72.61	
Held-to-maturity investments	10.54	0.67	3.75	1.06	0.43		2.61	9.35	
Derivatives – hedge accounting	0.31	0.72	0.07	0.42	0.13		0.02	0.01	0.91
Tangible and intangible assets	0.63	1.36	1.94	1.20	2.83		2.05	1.46	1.37
Investments in associates, subsidiaries and joint ventures	0.34	0.25	0.09	0.54	0.10		0.27	0.55	0.26
Asset ratios									
Cash		2.64	5.04	2.39	26.76		4.07	2.60	
Cash and trading assets		21.79	13.85	6.53	27.54		6.64	13.30	
Cash, trading and available-for-sale assets		29.76	22.78	12.17	29.08		16.13	16.91	
Liabilities									
Deposits from central banks	1.10	3.37	1.71	3.01	0.03		2.32	0.11	0.00
Financial liabilities held for trading	1.30	15.52	5.58	3.74	1.25		0.48	1.42	2.17
Financial liabilities designated at fair value through profit or loss	0.00	4.09	0.08		0.00		0.13	4.65	69.84
Financial liabilities measured at amortised cost	2.21	69.67	79.74	84.34	86.85		87.11	84.57	
Financial liabilities associated with transferred financial assets	0.00	0.22	0.29	0.71	0.00		0.83	0.00	
Derivatives – hedge accounting	0.47	1.40	0.17	0.54	0.13		0.04	0.05	21.33
Provisions	0.01	0.28	0.21	0.27	0.13		0.40	0.24	0.37
Assets IFRS and NON-IFRS reporting banks									
Total loans and advances	70.42	66.50	70.76	78.95	65.90		78.70	76.82	59.70
Total debt instruments	0.00	12.12	17.17	10.21	3.89		13.00	17.20	10.84
Total equity instruments	0.00	0.96	0.16	1.30	0.41		1.19	0.14	1.30
Liabilities IFRS and NON-IFRS reporting banks									
Total deposits from credit institutions	30.04	9.76	24.46	18.25	19.53		38.15	19.32	8.56
Total deposits (other than from credit institutions)	34.26	43.55	60.93	45.44	57.11		43.58	63.45	36.08
Total debt certificates (including bonds)	0.07	3.58	1.62	22.46	1.11		2.42	6.44	22.86
Value of equity									
Total equity	8.07	3.13	9.28	6.01	8.97	3.83	7.87	8.15	3.82
– of which: Issued capital	5.40	0.21	1.48	3.54	4.53		1.32	2.67	0.70
– of which: Revaluation reserves and other valuation differences	0.40	-0.24	0.02	-0.35	-0.04		-0.13	-0.41	
– of which: Reserves (including retained earnings)	1.20	1.65	1.02	0.75	1.72		3.91	3.04	2.65
– of which: Income from current year	0.58	-0.38	1.36	0.39	2.65	0.46	0.24	0.84	
– of which: Minority interest	0.44	0.18	0.14	1.46	0.05	0.01	0.19		0.47
Tangible equity / tangible total assets (%)	7.90	2.84	8.68	5.74	8.67	3.83	7.39	7.81	3.12
Off-balance sheet items									
Loan commitments given	9.63	10.42	16.74	13.58	7.67	16.97	8.87	16.30	
Financial guarantees and other commitments given	6.72	6.54	33.22	16.22	9.75		7.09	3.60	
Liquidity ratios									
Cash and trading assets ratio	2.53	17.84	11.34	5.70	25.21		5.59	11.14	40.49
Cash, trading and available-for-sale assets ratio	10.29	27.14	20.80	11.30	27.19		15.14	14.78	40.49
Interbank market dependence ratio	30.04	9.94	24.46	18.25	19.53		38.15	19.32	8.56
Funding base stability ratio (denominator other than total assets)	53.23	76.56	70.02	52.75	73.46		51.79	71.12	53.46

Source: BSC.
Notes: The interbank market dependence ratio is defined as the ratio of deposits from credit institutions to total assets. The funding base stability ratio is defined as the ratio of total deposits (other than from credit institutions) to the sum of total deposits and total debt certificates.
1) For AT and DE the selected balance sheet ratios do not cover banks which report their financial statements under local GAAP.

Table 13 Country-level indicators: capital adequacy indicators

(2008; all banks)

	AT	BE	BG	CY	CZ	DE	DK	EE	ES
Capital adequacy indicators									
Overall solvency ratio	11.02	16.43	14.93	10.99	11.58	13.01	13.10	10.53	11.32
Tier 1 ratio	7.73	11.47	11.20	8.33	10.56	9.29	10.23	8.21	8.14
Total own funds (total own funds percentages)									
Total original own funds for general solvency purposes	70.16	69.84	75.04	75.76	91.19	71.40	78.07	77.97	71.91
Total additional own funds for general solvency purposes	28.11	31.23	24.96	26.47	8.81	28.03	23.96	22.03	28.09
Total additional own funds for specific to cover market risks	1.73	0.18		0.00	0.00	0.57		0.00	0.00
Deductions from total own funds		-1.25		-2.23		0.00	-2.03	0.00	0.00
Capital requirements (% of capital requirements)									
Total capital requirements for credit, counterparty credit, dilution and delivery risks	88.98	85.19	60.80	90.12	85.76	87.50		86.99	88.02
Standardised approach (SA)	67.05	23.38	60.80	90.12	37.71	50.53		77.35	57.56
of which: securitisation position SA	0.87	0.06	0.00	0.22	0.00	1.20			1.03
Internal ratings based approach (IRB)	21.93	61.81	0.00	0.00	48.05	36.97		9.63	30.46
of which: securitisation position IRB	0.52	6.56	0.00	0.00	0.16	3.42			0.22
Settlement / delivery risk	0.01	0.01	0.00	0.00	0.01	0.00		0.00	0.00
Total capital requirements for position, foreign exchange and commodity risks	3.53	6.25	0.54	1.09	4.43	5.37		1.14	2.90
Standardised approach (SA)	2.68	2.55	0.54	1.09	2.88	2.85		1.16	2.16
Internal ratings based approach (IRB)	0.85	3.70	0.00	0.00	1.54	2.52			0.74
Total capital requirements for operational risks	6.95	8.54	5.32	8.79	9.63	7.12		4.90	7.69
Basic indicator approach	4.31	1.56	4.17	5.09	0.84	3.36		0.37	2.54
Standardised approach / alternative standardised	2.16	3.42	1.16	3.70	6.59	1.68		4.14	5.14
Advanced measurement approach	0.47	3.55	0.00	0.00	2.20	2.08		0.40	0.01
Other capital requirements	0.48	0.02	33.33	0.00	0.17	0.00		6.38	1.39
Average risk-weights for credit risk (%)	43.00	39.19	70.25	50.10	45.70	35.52		80.03	54.91
…per exposure class (risk-weighted assets as a percentage of exposures)									
Central governments and central banks	11.52		4.45	4.42	2.53	3.24		2.59	6.59
Institutions	22.71		31.18	25.09	24.56	13.98		18.82	23.13
Corporates	86.40		99.65	78.64	79.64	64.70		118.15	81.91
Retail	68.91		99.94	64.31	36.92	52.70		69.56	41.34
Securitisation positions	191.52			2.22		37.92			48.82
Minimum regulatory capital (MRC) for total exposures to credit, counterparty credit and dilution risks and free deliveries (post-CCF and post-CRM) (%)	3.44		5.62	4.01	3.66	2.84		6.40	4.39
Distribution of overall solvency ratio (% of total assets)									
Overall solvency ratio < 8%				0.32					0.77
Overall solvency ratio 8 -10%	48.84			13.39	25.46	14.90			16.64
Overall solvency ratio 10-12%	30.33	0.59		77.42	42.73	21.77			39.32
Overall solvency ratio 12-14%	6.65	23.44	61.58	0.00	24.41	41.37		80.15	39.76
Overall solvency ratio > 14%	14.19	75.97	38.42	8.87	7.40	21.96		19.85	3.50

Table 13 Country-level indicators: capital adequacy indicators (cont'd)

(2008; all banks)

	FI	FR	GR	HU	IE	IT	LT	LU	LV
Capital adequacy indicators									
Overall solvency ratio	13.71	10.34	9.44	12.90	11.98	10.41	10.72	15.14	10.94
Tier 1 ratio	12.55	8.42	7.93	10.86	9.24	6.91	8.38	12.74	9.57
Total own funds (total own funds %)									
Total original own funds for general solvency purposes	91.56	81.40	84.00	84.17	77.07	66.36	78.16	84.18	87.53
Total additional own funds for general solvency purposes	8.21	25.51	16.44	16.00	22.53	35.56	21.84	15.85	12.47
Total additional own funds for specific to cover market risks	0.22	0.59	0.00	-0.17	0.56	1.12	0.00	0.26	0.00
Deductions from total own funds		-7.51	-0.44		-0.16	-3.04	0.00	-0.29	0.00
Capital requirements (% of capital requirements)									
Total capital requirements for credit, counterparty credit, dilution and delivery risks	84.91	76.69	87.68	87.15	84.86	115.05	84.34	83.57	88.30
Standardised approach (SA)	55.11	36.72	79.97	76.46	55.54	92.48	62.92	60.23	75.89
of which: securitisation position SA	0.38	0.55	0.89	2.63	1.37	11.67	0.00	0.53	0.00
Internal ratings based approach (IRB)	29.80	40.04	7.71	10.69	29.32	22.56	21.42	23.33	
of which: securitisation position IRB	0.06	2.11	0.04	0.00	0.44	0.47	0.00	2.15	
Settlement / delivery risk	0.00	0.01	0.00	0.00	0.41	0.01	0.00	0.00	0.00
Total capital requirements for position, foreign exchange and commodity risks	3.26	5.98	3.04	3.08	2.38	3.81	3.76	1.32	2.90
Standardised approach (SA)	1.31	2.33	1.85	2.97	1.82	2.64	3.76	1.12	2.90
Internal ratings based approach (IRB)	1.95	3.80	1.19	0.11	0.56	1.17	0.00	0.21	0.00
Total capital requirements for operational risks	6.19	7.83	8.08	9.55	4.32	7.72	5.90	8.06	7.01
Basic indicator approach	2.79	0.31	2.09	4.17	0.26	1.75	2.24	2.77	4.92
Standardised approach / alternative standardised	3.39	3.89	5.97	5.36	3.90	4.32	2.93	3.22	0.00
Advanced measurement approach	0.01	3.77	0.03	0.02	0.17	1.65	0.73	2.07	
Other capital requirements	5.64	9.51	1.19	0.23	8.03	-26.59	6.00	7.05	
Average risk-weights for credit risk (%)	41.35	36.75	40.67	54.13	44.51	39.08	67.70	26.26	77.65
…per exposure class (risk-weighted assets as a percentage of exposures)									
Central governments and central banks	2.92	2.80	9.28	2.11	3.45	2.66		3.58	1.77
Institutions	24.14	13.54	24.19	31.12	22.62	14.81		17.53	34.22
Corporates	72.05	58.71	59.23	88.55	82.28	50.65		64.03	98.62
Retail	39.40	30.76	33.44	49.67	27.60	46.74		24.78	75.12
Securitisation positions	46.73	30.35	42.32		25.96	572.46		23.93	
Minimum regulatory capital (MRC) for total exposures to credit, counterparty credit and dilution risks and free deliveries (post-CCF and post-CRM) (%)	3.31	2.94	3.25	4.33	3.56	3.13	5.42	2.10	6.21
Distribution of overall solvency ratio (% of total assets)									
Overall solvency ratio < 8%			7.08	0.02		0.90			
Overall solvency ratio 8-10%		47.22	66.36	24.46	21.69	15.11	28.47	20.24	27.61
Overall solvency ratio 10-12%		50.86	24.76	30.15	69.27	82.37	38.73	8.78	22.21
Overall solvency ratio 12-14%	87.74	1.86	1.71	4.02	0.89	0.78	29.49	19.69	33.59
Overall solvency ratio > 14%	12.26	0.06	0.09	41.34	8.16	0.84	3.31	51.29	16.60

Table 13 Country-level indicators: capital adequacy indicators (cont'd)

(2008; all banks)

	MT	NL	PL	PT	RO	SE	SI	SK	UK
Capital adequacy indicators									
Overall solvency ratio	17.69	11.99	11.43	10.32	12.88	10.48	11.67	11.30	12.97
Tier 1 ratio	15.00	9.67	10.24	7.49	10.54	7.92	8.83	10.10	8.16
Total own funds (total own funds percentages)									
Total original own funds for general solvency purposes	84.79	80.67	89.66	72.56	81.77	75.56	75.66	89.40	62.94
Total additional own funds for general solvency purposes	15.21	19.12	10.34	31.46	18.23	26.11	24.34	10.60	36.77
Total additional own funds for specific to cover market risks	0.00	0.25		0.00	0.00	0.00	0.00	0.00	0.33
Deductions from total own funds	0.00			-4.02	0.00	-1.67		0.00	-0.03
Capital requirements (% of capital requirements)									
Total capital requirements for credit, counterparty credit, dilution and delivery risks	93.88	74.48	87.25	90.27	89.80	68.29	91.97	84.60	60.85
Standardised approach (SA)	88.31	27.38	87.25	90.27	89.80	17.21	91.78	70.18	26.56
of which: securitisation position SA	0.41	-3.10	0.00	2.35	0.00	0.03	0.00	0.00	0.27
Internal ratings based approach (IRB)	5.57	47.36	0.00	0.00		51.09	0.19	14.42	34.29
of which: securitisation position IRB	0.27	3.77	0.00	0.00		0.36		0.00	1.47
Settlement / delivery risk	0.00	0.03	0.02	0.00	0.00	0.01	0.20	0.00	
Total capital requirements for position, foreign exchange and commodity risks	0.50	3.09	1.85	2.56	1.15	2.89	1.99	6.07	7.10
Standardised approach (SA)	0.42	0.72	1.85	2.56	1.15	2.29	1.99	5.61	1.29
Internal ratings based approach (IRB)	0.08	2.43	0.00	0.00		0.60	0.00	0.46	5.81
Total capital requirements for operational risks	5.62	9.05	10.60	7.15	9.06	4.98	5.79	9.33	7.54
Basic indicator approach	3.63	2.57	5.19	7.13	8.35	0.34	4.97	3.35	0.54
Standardised approach / alternative standardised	1.99	3.16	5.41	0.00	0.00	3.97	0.74	5.98	5.20
Advanced measurement approach	0.00	6.23	0.00	0.02	0.70	0.67	0.08	0.00	1.81
Other capital requirements	0.00	14.10	0.28	0.02	0.00	23.82	0.05	0.00	0.12
Average risk-weights for credit risk (%)	59.15	32.21	60.11	63.17	57.80	55.83	74.67	54.34	41.50
…per exposure class (risk-weighted assets as a percentage of exposures)									
Central governments and central banks	9.08	7.09	1.51	17.29	1.21		0.94	0.11	7.86
Institutions	33.59	17.66	30.19	23.94	36.74		41.19	34.48	14.55
Corporates	94.43	40.69	99.57	93.56	99.47		100.17	98.88	67.20
Retail	69.99	22.55	75.23	76.25	74.98		75.05	69.92	37.68
Securitisation positions	52.24	4.60		86.56		16.81		0.00	17.17
Minimum regulatory capital (MRC) for total exposures to credit, counterparty credit and dilution risks and free deliveries (post-CCF and post-CRM) (%)	4.73	2.58	4.81	5.05	4.62	4.47	5.97	4.35	3.32
Distribution of overall solvency ratio (% of total assets)									
Overall solvency ratio < 8%		2.18	0.50	1.09					0.92
Overall solvency ratio 8-10%	6.82	0.00	16.99	24.63	1.87	43.12	9.80	75.92	8.05
Overall solvency ratio 10-12%	47.01	62.26	49.50	69.17	28.69	51.59	71.69	5.38	28.93
Overall solvency ratio 12-14%	16.89	4.66	29.18	3.84	48.85	0.22	9.10	10.02	20.20
Overall solvency ratio > 14%	29.28	30.90	3.83	1.27	20.58	5.07	9.41	8.68	41.89

Source: BSC.