EUROPEAN CENTRAL BANK

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STRUCTURAL ANALYSIS OF THE EU BANKING SECTOR

Year 2001

November 2002

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Contents

Abbreviations[1]

BE	Belgium
DK	Denmark
DE	Germany
GR	Greece
ES	Spain
FR	France
IE	Ireland
IT	Italy
LU	Luxembourg
NL	Netherlands
AT	Austria
PT	Portugal
FI	Finland
SE	Sweden
UK	United Kingdom

[1] In accordance with Community practice, the EU countries are listed using the alphabetical order of the country names in the national languages.

Executive summary

This report – prepared by the Banking Supervision Committee (BSC) of the European System of Central Banks – aims to give an overview of the most important structural developments in the EU banking sector over the year 2001. Some significant developments in the first half of 2002 are also highlighted in order to cover the most recent events.

The global banking system experienced some sizeable shocks over this period. In spite of this, the international and European banking systems have shown a remarkable robustness. The trends identified in this report have certainly contributed to this resilience. European banks have benefited, for example, from the diversification of their activity. Consolidation has increased banks' financial strength and removed many of the less efficient players. Improved risk management techniques have also been important. However, this somewhat comforting message should not make banks complacent about the risks associated with some of the trends.

The broad range of trends identified in this report can be summarised as following three major themes. A ***first set of trends*** can be grouped along the theme of the cost/income pressures to which banks are exposed. There is growing competition in the financial sector because of factors such as deregulation and internationalisation. Financial firms have become increasingly active in each others' business areas, and in more and more European countries non-financial firms are now also offering traditional banking services. At the same time banks are facing growing pressure to create "shareholder value".

These driving forces translate into a need for banks to increase income and control costs. On the income side, this is reflected in continued diversification across geographical areas and business lines. Some of these diversification efforts, such as in private banking, investment banking and asset management, have suffered from the poor market conditions, which in turn has resulted in some scaling back of ambitions. The long-term potential for these activities remains, however, as they are underpinned by structural trends such as increasing financial wealth and an ageing population. Difficult market conditions have also encouraged banks to explore alternative and often more complex investment strategies.

Banks are making more determined efforts to cut costs (including staff costs), streamline their organisations, and concentrate more on core businesses. This is also reflected in a more cautious approach to risks, including the risk associated with mergers and acquisitions. Adverse market conditions are another reason why the major banks seem to be taking a "wait and see" approach towards further domestic and cross-border consolidation. In the area of medium-sized banks and in certain other banking segments, by contrast, there is continued domestic merger activity since the primary objective is often to cut costs. In some countries, concerns have been raised about the implications of highly concentrated banking sectors for competition.

Developing internet banking is another way to improve the cost basis, but some European banks have been too ambitious in the past couple of years and are now scaling back their expansion plans. Most

European banks continue to prefer the "multi-channel" strategy, but such a strategy also implies certain risks. The branch network remains the pivotal point, thus relieving the pressure on institutions with a large branch network to radically restructure, but at the same time putting greater pressure on their costs. In order to put this network more efficiently to work the "open architecture" concept is gaining favour.

A ***second set of trends*** can be grouped along the theme of changes in risk and risk management. Financial innovation allows banks to (un)bundle risk more efficiently for proprietary purposes as well as customer-related business. This is reflected in the rapid development of more sophisticated approaches to risk management, such as the use of credit derivatives and securitisation. These techniques may help promote the stability of the financial system by spreading risk more widely, although their development poses challenges for supervisors, both in monitoring developments and in determining appropriate responses. Further improvements in risk management techniques have been observed – especially in the area of credit risk and operational risk – as banks have started to prepare themselves for the new regulatory framework for capital adequacy ("Basel II").

The volatility and generally poor performance of the financial markets during the period under review increased the risks – some of them relatively new – for banks. Legal and reputation risks became more important, as customers complained about (allegedly) poor investment advice, inadequate information, etc. Legal and reputation risks are also evident should a bank come under investigation for money laundering or the financing of terrorism.

Supervisors responded to these developments by, inter alia, analysing the implications of credit derivatives and other risk transfer techniques; continuing to work on credit risk, as part of the preparations for Basel II; and, in several countries, moving towards a risk-based supervisory process.

A ***third important theme,*** which is related to the previous one, is the growing importance of consumer issues. This reflects the extent to which commercial banks have themselves participated in the disintermediation process in recent years, moving into areas such as investment banking and asset management. Financial innovation also permits banks to increasingly offer products where the customer takes on market risk, which is fundamentally absent in deposits repayable at par. Banks have found themselves coping with new issues relating to the sale of such products, the handling of complaints and questions of consumer redress.

The fundamental issue is the extent to which individual investors should take responsibility for their decisions and what the role of banks and authorities in this should be. The relevance of this issue is highlighted by the poor performance of markets over the past two years, and the exposure of various practices during the prior financial market boom for which the financial services industry is now facing criticism. The reactions that can be observed on the part of authorities are a growing awareness of consumer protection issues, the development of more risk-based banking supervision and considerable restructuring of financial sector supervision, most of it directed towards closer co-operation between different supervisory authorities or the integration of different supervisory functions.

1. Introduction

This report – prepared by the Banking Supervision Committee (BSC) of the European System of Central Banks – aims to give a relatively comprehensive overview of the most important structural developments in the EU banking sector over the year 2001. Some significant developments in the first half of 2002 are also highlighted in order to cover the most recent evolution. The report focuses mainly on EU15 banks and, to a slightly lesser extent, the markets in which they operate. Even though it maintains an EU perspective, many of the trends can also be observed in other regions and some are truly global in nature.

The remainder of the report is set out in ***nine main sections***. *Section 2* gives an overview of the most important developments in the environment in which banks operate, distinguishing between changes in the legal framework and changes in the financial market infrastructure. *Section 3* discusses changes in the competitive conditions and market structure of domestic banking. The international dimension of banking is addressed in *Section 4*, distinguishing between cross-border expansion within the European Economic Area (EEA) and cross-border expansion outside the EEA. *Section 5* looks at the way in which banks organise their business, covering issues such as corporate governance, group structures, etc. Developments in banking products and services are reviewed in *Section 6,* and the channels through which these products/services are delivered in *Section 7*. *Section 8* contains a discussion of how the different risk areas are evolving and reviews the changes taking place in banks' risk management. Supervisory measures taken in response to the identified developments in the period analysed are presented in *Section 9*. Finally, in *Section 10*, some general conclusions and assessments are made.

The ***input for the report*** came from: (i) publicly available qualitative information, such as market reports, reports by rating agencies, academic papers, etc.; (ii) a qualitative assessment of the relevant developments provided by the BSC authorities in specific country reports; and (iii) quantitative information gathered through a standard set of statistical structural indicators assembled in a statistical annex.

Data included in the ***statistical annex*** are from a variety of sources, using different statistical concepts, collection techniques, etc. This makes it difficult to compare series across indicators, countries and, perhaps to a somewhat lesser extent, also over time. Nevertheless, it was thought useful to start establishing a EU-wide database with a number of key structural indicators, on the assumption that their quality will improve over time. The reader should keep this caveat clearly in mind when interpreting and possibly using the data. This also explains why the report takes a predominantly qualitative approach and the data are used only as a supporting element.

The indicators in the statistical annex can be grouped according to the data source used, namely:

- Indicators derived from data already available at the ECB.
- Indicators that required the collection of new data from national central banks (NCBs).
- Other sources (authorities represented in the BSC, commercial databases, Eurostat).

Most of the data for the second category of indicators have in the past been collected directly by the authorities represented in the BSC. The change of procedure through the involvement of NCB and ECB statisticians in the data collection process should lead to greater data comparability. Since this is the first time data has been gathered using this new procedure, the data should still be interpreted with considerable caution.

In addition, there is in some countries a difference between prudential banking assets and statistical banking assets, as a number of credit institutions may not be covered by the national banking law. This in turn has an impact on all other indicators. Such exceptions, however, are of relatively minor importance and do not have adverse effects on the time series, nor do they imply serious changes as far as this report is concerned.

Finally, in case the number of institutions in tables 14, 17, 20 and 23 of the statistical annex was for a particular country less than three, asset figures have not been reported because of confidentiality reasons.

2. Recent changes in the banking environment

In the period analysed the important changes in the regulatory framework were mainly related to ongoing long-term projects such as the review of the Capital Accord and the Financial Services Action Plan (FSAP). At the domestic level, a major trend is the institutionalisation of the cross-sector co-operation between different authorities, which can range from memoranda of understanding containing general principles for co-operation to the establishment of a unified supervisor. The financial infrastructure banks use, in particular the securities and derivatives exchanges, is also undergoing major changes such as demutualisation and consolidation, which are to a large extent driven by the need to realise the full cost potential of an integrated European financial market.

2.1 Regulatory framework

2.1.1 International level

At the ***international level,*** first and foremost the Basel Committee on Banking Supervision continues to work on a revision of the ***capital requirements for banks*** ("Basel II" or the "New Capital Accord"), while the European Commission is working in parallel to prepare changes in the EU rules. The finalisation of the New Capital Accord has been postponed, but once introduced it is expected to have an important structural impact on the banking industry. The basic features of the new framework are its increased sensitivity to credit risk and a new capital charge for operational risk. As this report will discuss further, banks and supervisors are already changing their behaviour in anticipation of the new framework even though it is not yet final.

An important, tragic event in 2001 was the terrorist attacks of 11 September in the United States. In terms of the legal and regulatory environment in which banks have to operate, the attacks have in the first place led to increased international attention to possible ***abuses of the financial system*** for money laundering purposes and the financing of terrorist activities[2]. The events also underscored the importance of the "know your customer" principle[3], operational risk and the need for banks to have contingency plans in place. Apart from the international initiatives, several national authorities have imposed stricter rules to prevent the use of the banking system for illicit activities.

The default of the US energy corporation ***Enron*** raised a host of issues and questions related to derivatives, risk management, corporate governance, accounting, transparency, market discipline, the role of auditors and rating agencies. The case equally illustrates that the drive to create shareholder value, which is also becoming more important in European banking, generates some risks. Although the key regulatory issues highlighted by the Enron default were already being tackled by EU initiatives, further work has been launched to examine the implications of the case for Europe, which might lead to changes in the regulatory framework[4].

At the ***European level,*** several initiatives have been taken in the context of the ongoing ***Financial Services Action Plan (FSAP)***, which aims to create a single EU wholesale market by 2005 and achieve open and secure retail markets for financial services. These initiatives are discussed in greater detail in Annex 1. Many of the directives that have been finalised or were under discussion in the period analysed cover areas that directly or indirectly affect banks.

2.1.2 National level

In addition to the international and European developments mentioned, there have been various significant changes in individual European countries.

The role of financial conglomerates and the blurring of the traditional borders between financial products are important elements in the restructuring process now under way in many European countries in the area of ***financial sector supervision***. There is increasing cross-sector co-operation between different supervisory authorities, but the form of this co-operation varies extensively from country to country. A loose form is through a memorandum of understanding (MoU) containing general principles of co-operation, and the most integrated solution is the establishment of a unified supervisor. There are also in-between solutions such as joint councils or mutual board representation. Annex 2 provides an overview of the present supervisory structures in Europe for banks, insurance companies and investment firms, as well as the cross-sectoral arrangements that exist.

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2 See, for example, Financial Action Task Force on Money Laundering (October 2001) and Basel Committee on Banking Supervision (April 2002). Moreover, in 2001 a new EU regulation was adopted on the freezing of assets of individuals suspected of supporting or financing terrorist activities. It was followed by the adoption of the second EU Money Laundering Directive, which also applies to terrorism.

3 See Basel Committee on Banking Supervision (October 2001).

4 European Commission (18 April 2002).

Denmark and Sweden have long had a unified financial supervisor[5]. A major development in the "unified supervisor" model in Europe took place in 1997 with the establishment of the Financial Services Authority (FSA) in the UK, as a successor to the Securities and Investments Board (SIB). In different phases the FSA assumed more regulatory responsibilities, some of which were transferred from several other organisations. This process was completed by the coming into force of the Financial Services and Markets Act (December 2001), whereby the authority assumed a range of new responsibilities and powers, including the power to levy fines. Among measures to counterbalance the powers of the FSA, the role of complaints commissioner was created, to act as an independent investigator of complaints about the FSA.

The UK organisation of supervision seems to have inspired other European countries to follow the same route. Recent examples are Austria, Germany and Ireland. In April 2002, the Austrian Finanzmarktaufsichtsbehörde (Financial Market Authority) was established to supervise banks, insurance companies and investment firms, thus replacing the fragmented supervision by sector. One month later, the Bundesanstalt für Finanzdienstleistungsaufsicht (BAFin), the German unified supervisor, started its activities. This new authority combines the responsibilities of the former sectoral supervisors for banking, insurance and securities trading. The involvement of the Deutsche Bundesbank in banking supervision has been increased, particularly in the field of ongoing supervision, and is now legally established and defined in the Banking Act. The BAFin will remain the authority to take regulatory measures, but this will generally be based on the assessments and findings of inspections by the Deutsche Bundesbank. The Irish government has announced that a single regulatory authority, the Irish Financial Services Regulatory Authority (IFSRA), will be set up within a restructured central bank, although it will have independent functions. This authority will bring together the functions of the existing regulators, i.e. the central bank, the insurance regulator, the supervisor of credit unions and the Office of Consumer Affairs.

Instead of merging authorities, Belgium is at this stage considering an intermediate solution of increasing supervisory co-operation through a Council for Financial Stability that will act as an umbrella organisation for the three authorities involved, the Banking and Finance Commission, the Office of Insurance Supervision and the National Bank of Belgium. To some extent, the Belgian model resembles that of the Council of Financial Supervisors which was earlier adopted by the Netherlands, and somewhat later by France and Portugal.

The Netherlands has experienced that such a Council of Financial Supervisors is not sufficient to meet the challenges of the far-reaching cross-sectoral integration of financial institutions typical of that country. It is therefore reorganising its supervision on the basis of functions rather than institutions, whereby a clear distinction will be made between prudential supervision and conduct-of-business supervision. The former will become the joint responsibility of De Nederlandsche Bank and the Pensions and Insurance Supervisory Authority, and the latter will become the responsibility of the

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[5] Denmark also passed a financial act in 2001 to provide for a more homogenous supervision of the different financial sectors.

Authority for Financial Markets (the former Securities Board). The central bank will retain responsibility for systemic stability and the soundness of financial institutions, and the cross-sector Council of Financial Supervisors will remain a common consultative platform.

Finally, there has also been a noteworthy development in the looser form of co-operation between authorities through an MoU. In France, the banking and insurance supervisors signed an agreement covering reinforced co-operation and co-ordination. However, a board of financial sector supervisory authorities has existed since the Savings and Financial Security Act of 1999 (and also functioned informally before the Act) to facilitate the sharing of information between authorities responsible for the supervision of diversified financial groups.

The importance of ***financial conglomerates*** does not only have an impact on the way supervision is organised, it also requires an appropriate supervisory regime, hence the specific directive now being developed at the European level. Ahead of the directive, a number of countries, such as Belgium, the Netherlands and Finland, have already adopted national measures to cope with the challenges that such groups pose. Not surprisingly, financial conglomerates are important players in these countries. The proposal now being discussed in the Netherlands would give more direct powers to the authorities (i.e. De Nederlandsche Bank and the Pension and Insurance Board) to supervise the top holding company of a conglomerate. In Finland, a law on the supervision of financial conglomerates came into force early February 2002. It covers areas such as co-operation between the Financial Supervision Authority (FSA) and the Insurance Supervision Authority, requirements for reporting to supervisors, and internal control measures.

Several EU countries are engaged in or planning an ***overhaul of their financial laws*** in order to keep up with market developments. In some cases, the overhaul takes the form of a horizontal law introducing changes in different areas related to financial markets and financial institutions. In the reporting period, such reviews took place in Germany, Spain, Finland and Sweden, and there are plans for a similar review in Portugal.

2.2 Financial market infrastructure

Infrastructure changes in the period analysed related mostly to securities and derivatives exchanges, trading systems, and payment and securities settlement systems. Important developments took place especially in the area of ***securities*** infrastructure.

With the strong demand for non-domestic securities, boosted by factors such as financial deregulation and the introduction of the euro, there is an increasing need for ways to ***perform cross-border securities transactions on a cost-efficient basis.*** Banks are important players in this area because of their growing investment banking and asset management businesses. Moreover, they often participate in the technical infrastructure through significant shareholdings in exchanges and clearing and settlement houses.

The securities industry has reacted to these efficiency demands with cross-border consolidation of front-office and back-office systems and by increasing investment in cost-saving technology. The merger of stock exchanges, the current debate about the optimal structure of the settlement and clearing infrastructure, as well as the growing reliance on electronic trading systems are all well-known examples of this. Another clear manifestation of the changing character of the securities business is the demutualisation and subsequent ***public listing of exchanges*** which has been under way since the mid-1990s[6]. In the course of 2001 the three major European exchanges (Euronext, the London Stock Exchange or LSE, and Deutsche Börse) all became publicly listed companies, which obviously has an impact on their business strategy and their corporate governance.

Euronext, established in September 2000 as a result of the merger of the exchanges in Amsterdam, Brussels and Paris, will upon completion of the planned integration process be the first fully-integrated cross-border securities and derivatives exchange in Europe. A similar trend towards integrated exchanges has been observed in the Nordic and Baltic region. In 2001 Euronext considerably expanded the scope of its activities by acquiring LIFFE, the London-based financial derivatives exchange, after a takeover battle that involved the LSE and Deutsche Börse. The Lisbon Stock Exchange has also joined the Euronext structure and the Warsaw exchange may follow in the near future. An agreement was reached with the Helsinki Stock Exchange that will allow members of the two exchanges direct access to both. The takeover of LIFFE is especially important and could be a catalyst for further developments, also in the back-office area.

But in spite of exchange consolidation at the front end, user banks continue to press for a further reduction in transaction costs. For example, some of the major (investment) banks are arguing that they should be allowed to perform the cheaper in-house matching or “internalisation” of retail trades, instead of having to execute them through an exchange[7]. In this way, they would compete directly with regulated markets and alternative trading systems. From the banking supervisor’s perspective, this raises issues of consumer protection, risk management and a level playing field with regulated markets. For example, if the bank were to act as a counterparty in an internal transaction, it might not have an incentive to execute the transaction at the best possible conditions for the customer. Internal matching may additionally lead to further market fragmentation, as it means that not all transactions are executed in the regulated market, thus possibly impairing market transparency and market liquidity. On the other hand, competition in order execution can spur innovation and bring down spreads. Lower transaction costs are also the chief selling argument for start-up electronic exchanges

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6 The following securities/derivatives exchanges in the EEA are now demutualised (in chronological order): Stockholm Stock Exchange (1993), Tradepoint/Virt-x (established in 1995; never mutualised), Helsinki Stock Exchange (1995), Copenhagen Stock Exchange (1996), Amsterdam Exchanges (1997), Borsa Italiana (1997), Iceland Stock Exchange (1999), Athens Stock Exchange (1999), LIFFE (1999), Bolsa de Valores de Lisboa e Porto (1999), London Stock Exchange (2001), Deutsche Börse (2001), Oslo Exchanges (2001), Euronext (2001). See Steil, B., (2002).

7 The in-house matching of orders would be allowed under the present draft of the revised Investment Services Directive. According to “The Economist” (2002), as much as 30% of share trading in Europe is now already carried out in-house.

such as Virt-x[8], an exchange for European blue-chip stocks established in mid-2001, which seem to have found more efficient solutions to the back-office problem.

Although there has evidently been considerable consolidation at the front-office level, integration at the back-office level, i.e. the ***clearing and settlement business***[9], has been much less forthcoming. There, fragmentation and therefore the potential for cost savings remains high. The recent Giovannini report came to the conclusion that the settlement of cross-border transactions is substantially less efficient than the settlement of domestic transactions, which is due to national differences in technical requirements/market practice, in tax procedures and in issues relating to legal certainty.[10] It has been said that if European transactions were to run over an infrastructure similar to that which exists in the United States, the cost per transaction would be around seven times smaller.[11] This obviously means that financial intermediaries in Europe have a very great incentive to see that the full potential for cost reduction is realised, which in turn is a strong driving force for further consolidation.

Basically, there are two possible approaches to integrating securities market infrastructure, the vertical approach and the horizontal approach[12]. The former refers to the integration of institutions providing different services along the value chain (i.e. trading, clearing, settlement and custody); the latter to integration of institutions providing the same services but, for example, for different customers or financial instruments. The horizontal model is defended especially by the European Securities Forum[13], a group of global market participants (i.e. end-users) that promotes the establishment of a single pan-European central counterparty clearing house. Deutsche Börse, on the other hand, advocates the vertical model and made an important step towards realising its objective with the takeover of Clearstream. Some end-users fear that a vertical approach could be anti-competitive and lead to higher costs.

3. Competition and market structure of domestic banking

In all European countries the long term upward trend in banking assets continues. Domestic banking consolidation continues but has slowed down, with the major banks adopting a "wait and see" attitude. Merger activity in the area of medium-sized banks and certain other banking segments (e.g. mortgage banks, savings banks, and co-operative banks), by contrast, remains high and is mainly driven by competition and cost considerations. In a number of countries, concentration in certain domestic banking markets has reached such levels that competition concerns have been raised. The

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8 Virt-x is the result of a merger between Tradepoint, an electronic order-driven stock exchange, and the Swiss Stock Exchange.

9 *Clearing* is the process of transmitting, reconciling and, in some cases, confirming payment orders or security transfer instructions prior to settlement. *Settlement* is an act that discharges obligations in respect of funds or securities transfers between two or more parties.

10 Giovannini Group (2001). See also Lannoo, K. and Levin, M. (2001).

11 Cruickshank, D. (2002).

12 For more information on consolidation of the clearing business in Europe, see European Central Bank (August 2001).

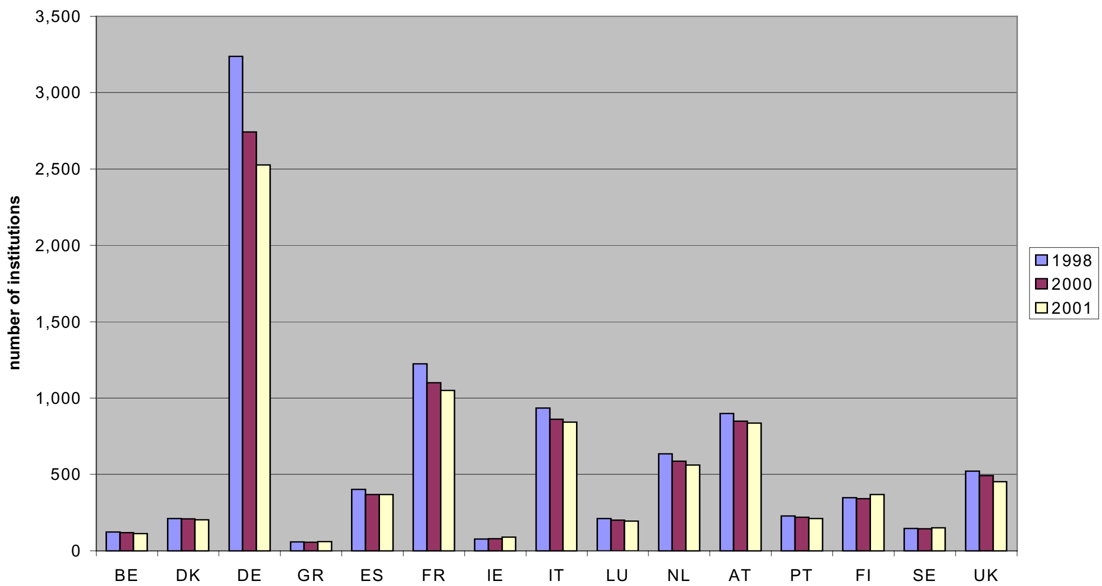
13 European Securities Forum (2000).

state continues its withdrawal from the European banking sector, while non-financial companies (supermarkets, retail stores) are becoming more important as providers of banking services.

In all European countries the growth of banking continued to outpace GDP growth (Tables 8 and 9 of the statistical annex), both for loans (Tables 10 and 11) and deposits (Tables 12 and 13). This is a long-term trend which continues unabated, and does not seem to be particularly affected by the increase in direct debt issues by companies. There was a relatively strong increase in bank deposits in 2001, which is most certainly due to growing investor disappointment with poorly performing equity markets.

Chart 1 below and Table 1 of the statistical annex show that the long-term trend towards a declining number of credit institutions continues, although the rate of decline has somewhat levelled off. The number and value of ***domestic mergers and acquisitions (M&A)*** in European banking in 2001 were significantly lower than in 2000, with the first quarter of 2002 following the same trend. According to Thomson Financial, a commercial data provider, the value of domestic M&A deals reached about EUR 26 billion in 2001, or less than 40% of the value a year earlier. Nevertheless, from a longer-term perspective, M&A activity was still at a high level. Most of the deals involved Italian, German and, albeit to a somewhat lesser extent, French banks.

Chart 1: Number of credit institutions



The most important individual transactions in the period under review, ranked according to deal value, were[14]:

- Merger of DG Bank and GZ Bank[15] (Germany; EUR 6.2 billion).
- Merger of Banca Intesa and Banca Commerciale Italiana (Italy; EUR 3.6 billion).

[14] Based on information from the SDC Platinum database (Thomson Financial).

[15] Both institutions act as regional central organisations for *Volksbanken* and *Raiffeisenbanken,* or local co-operative banks

- Creation of Eulia, the third largest French banking group, as a result of an agreement between Caisse d'Epargne (CNCE) and Caisse des Dépots et Consignations (CDC) (France; EUR 3.5 billion).
- Merger of Artesia and Dexia Bank Belgium, creating Belgium's second largest banking group (Belgium; EUR 3.3 billion).

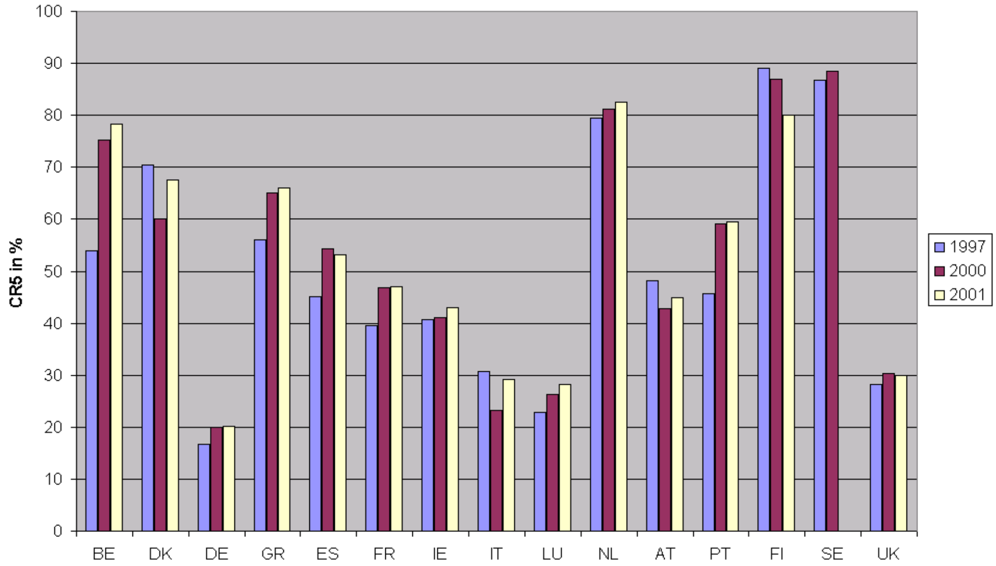
Although there was hardly any consolidation in Greece, Spain, the Netherlands, Finland or Sweden over the last year, in other countries it continued but was limited to small and medium-sized credit institutions or specific segments of the industry, such as mortgage banks, savings banks or co-operative banks. The slowdown in activity may be partly due to the lacklustre performance of stock markets, which makes acquisitions through an exchange of shares more expensive. Germany is a clear illustration of a market which has seen continued but reduced activity in the second-tier segment of co-operative banks, savings banks and mortgage banks. Several German banks ran into serious financial difficulties in the period under review because of problem loans in certain areas (e.g. real estate) and the economic slowdown, accompanied by an increase in corporate bankruptcies. In some instances, the intervention of the public authorities or other private banks was required.

An exception to the trend is Belgium, where two large and complementary banks, Dexia Bank Belgium and Artesia, merged in an already rather concentrated market. A major national merger was heralded in Greece, where National Bank of Greece and Alpha Bank entered into talks. With a national market share of around 50%, the new entity would have been a national champion and a major regional player, but in the end the deal was not pursued. Also in the Nordic countries, the restructuring of the Nordea Group and its expansion in Norway have resulted in a pan-Nordic financial group that is now operating in four Nordic countries.

Some of the consolidation in Austria, Belgium and Denmark was due to intra-group restructuring. Any acquisition or merger phase has to be followed by an integration phase, and intra-group restructuring is just one manifestation of this. Other examples of integration observed in the period analysed are the introduction of one instead of multiple brands, the establishment of joint decision-making bodies, the development of integrated risk management (e.g. through global risk committees), the trimming down of the number and size of decision-making bodies, the transfer of joint services from the level of the individual entity to the holding company level, and the replacement of a multiple equity structure by a single one.

With the exception of Finland, which already has one of the highest banking concentration levels in Europe, the degree of concentration in European countries either increased further or stabilised in the period under review (see Chart 2, and Tables 6 and 7 of the statistical annex). On a non-consolidated basis, the five largest credit institutions now control more than 70% of the domestic banking market in Belgium, the Netherlands, Finland and Sweden.

Chart 2: Share of the 5 largest credit institutions in total assets (CR5)



The question arises as to what reference market should be used to assess the degree of concentration and competition in a single European market for financial services. This reference market will differ depending on the type of services considered (e.g. retail versus wholesale and capital market activities). Additionally, concentration may not necessarily be an adequate measure of competition.

The consolidation wave of the past few years has led in some EU countries to such levels of concentration that ***competition concerns*** have been raised. This goes especially for the retail and SME (small and medium-sized enterprises) banking segments, where the possibilities for cross-border or even domestic competition continue to be limited and the presence of a local branch network is still very important. In order to keep expanding, major banks in these countries may therefore have to resort to organic growth, internationalisation, or acquisitions in non-banking areas such as insurance and asset management. Domestic consolidation would therefore be limited de facto to small and medium-sized institutions. On the other hand, if there are fewer possibilities for further domestic consolidation, the scope for foreign banks to acquire domestic banks increases substantially.

In the period analysed, some significant banking competition issues were raised in the Netherlands, Sweden and the UK. In the UK, a Treasury-sponsored study (the "Cruickshank Report") had concluded in 2000 that competition problems existed in the markets for money transmission, services to personal customers and services to SMEs.[16] For services to personal customers, it found that the supply of current accounts was dominated by a few large firms. For banking services to SMEs, the levels of concentration were even higher. This market structure resulted in high prices, in particular for money transmission services, and high bank profits. The conclusions of the Cruickshank report were instrumental in the Department of Trade and Industry's decision to block a bid by Lloyds TSB (July 2001), the third largest bank in the UK, for Abbey National, the sixth largest bank.

[16] HM Treasury (2000).

As a follow-up to the Cruickshank report, the Competition Commission carried out a more detailed analysis of small business banking. This ultimately led the government, very unusually, to consider introducing price controls by requiring banks to pay interest on business current accounts or to provide money transfers for free. However, a number of signs of increasing competitive pressure were already visible before this, such as the announcement by some banks that they would pay interest on SMEs' current accounts. Others are offering small businesses a credit history service, which makes it easier for them to switch banks.

But the low degree of competition in the SME business is not an EU-wide phenomenon. In Germany, for example, the *Mittelstand* business is quite competitive because it is dominated by local savings *(Sparkassen*) and co-operative banks (*Volksbanken*). Some of the major German banks are reportedly even considering limiting their activities in this area because of the low margins.

Like the Lloyds TSB/Abbey National takeover, the planned merger between Skandinaviska Enskilda Banken (SEB) and Föreningssparbanken (Swedbank) in Sweden was not pursued because of competitive concerns. The official reason given by the banks for calling off the merger was the European Commission's insistence that the new bank should make large-scale divestitures in the retail banking segment, which would have undermined the logic of the deal. Reportedly, the European Commission based its objections mainly on the retail banking market in Sweden, which was criticised by some who argued that the reference market should have been the European or at least the Nordic market.

In Finland, too, where the three biggest banking groups dominate the lending and deposit markets, concentration has reached such levels that the competition authorities would probably object to any domestic merger of large players.

The Netherlands Bureau for Economic Policy Analysis recently concluded that a number of sub-markets were characterised by a tight oligopoly where competitive forces tend to be weak.[17] High sunk costs, low transparency and high switching costs were seen as the most important factors limiting competition in the Dutch retail banking market. Various trends were likely to substantially increase transparency and decrease these costs in most markets considered, with the noticeable exception of the market for credit to SMEs. Enforcing number portability[18] was seen as a possible policy measure which could be taken to achieve more competition among current players.

There is a general expectation that consolidation in banking will continue in the coming years, especially in the segment of small to medium-sized banks. For the major banks, a peak seems to have reached in the 1990s, and further developments will very much depend on the particular situation in individual countries. For countries where domestic concentration levels are already high, such as Belgium, Denmark, Greece, the Netherlands, Portugal, Finland, Sweden and the UK, the next step in the consolidation process is likely to be on a cross-border basis.

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[17] Canoy, M. et al. (2001).

[18] The possibility for customers to keep the same account number when changing from one bank to another.

Over the period analysed, the ***state withdrew further from the banking sector*** in many countries, and in countries where there is still a significant state involvement, this trend is expected to continue. The withdrawal relates to the direct involvement of public authorities in the sector, basically as shareholders of banks, as well as to their indirect involvement, for example as guarantor of banks' liabilities.

In Ireland, the two remaining state-owned banks were privatised and sold to foreign banking groups. Both cases demonstrate that a privatisation process may be an excellent opportunity for foreign banks to strengthen their presence in a rather closed domestic market, and this may ultimately lead to increased competition and benefit customers. This is particularly the case in Ireland, where the local market continues to be dominated by two large domestic players. Privatisation also continued in Greece, and further privatisation plans have been made for the near future. The French state also continued its retreat from the banking sector, perhaps most clearly illustrated by the announcement that it planned to sell its remaining participating interest in Crédit Lyonnais. In Finland, Parliament gave its consent for the Government to fully relinquish its ownership in the Sampo banking and insurance group. In Italy, with the completion of the transaction between Sanpaolo IMI and Cardine, the share of total assets held by banks and banking groups controlled by public authorities and foundations fell further. Public authorities continue to be significantly involved in the banking sector in Portugal and in Sweden.

The clearest example of reduced involvement of public authorities in banking can be found in Germany, where the Government and the European Commission reached an agreement in July 2001 on the phasing out of state support[19] for the *Sparkassen* and *Landesbanken* (which act as wholesale central organisations for the retail savings banks). With a market share of more than a third, these public institutions represent a very significant proportion of the German banking market.[20] Recently, the European Commission has started a similar investigation in Austria into whether the state guarantee for the regional mortgage banks (*Landeshypothekenbanken*) and certain savings banks would qualify as illegal state aid. These institutions, however, have a much less important role in the domestic banking market than the public sector banks in Germany.

The new competitive environment after the abolition of the public guarantees poses a major strategic challenge for the German *Landesbanken* and *Sparkassen,* which in addition are suffering from chronically low profitability. As a reaction, the sector is already going through some important structural changes, such as a reorganisation of activities, horizontal and vertical consolidation of institutions, and the development of new business models (e.g. expansion abroad, more private sector financing, move into investment banking).

19 The *Anstaltslast* (obligation to maintain an institution's solvency) and *Gewährträgerhaftung* (statutory ultimate guarantee obligation).

20 According to recent press reports, the European Commission has reserved the right to start another investigation into *Landesbanken* that have acquired building co-operatives from municipalities or other state entities at favourable terms.

The ***co-operative banks*** sector continues to be especially important in Germany, France, Italy, the Netherlands, Austria, and Finland.[21] In countries such as Austria and France, there was in the period analysed a further tendency towards demutualisation, which started in the UK (*building societies*) and Italy (*banche popolari*) some years ago. Demutualisation can be a way to access capital markets in order to fund external growth. The most important event in the last year was probably the floating of a minority stake in Crédit Agricole SA (CASA), the central entity and holding company of the French Crédit Agricole group. As a result of cost pressure, some co-operative banks are reorganising their groups into a more unified structure, for example by pooling certain functions. This evolution is discussed more in detail in Section 5.

In a number of countries ***non-banks***, such as supermarkets and telecommunications companies, are becoming increasingly important. Their entry into the banking market increases competitive pressures on traditional banks. The pioneering European country in this respect is probably the UK, where for several years a number of supermarket chains have been active in the banking market. This example is now being followed by continental retailers, for example in Denmark, Germany and Sweden. But not all such diversification initiatives prove to be successful, as witnessed by the recent winding up of joint ventures between banks and leading retail supermarket chains in Ireland and Portugal.

4. Internationalisation

European banking integration is developing further through cross-border branching and acquisitions. However, cross-border M&As are still mainly with non-European banks rather than with other European banks. In a drive to gain high-margin business, banks are showing a strong interest in expanding into central and eastern Europe and Latin America. Some important acquisitions have also been made in the United States. With a few rare exceptions, internet banking is not yet being used to significantly develop cross-border banking.

4.1 Within the European Economic Area

The analysis here is focused on the organisational form of cross-border activity through branches and subsidiaries rather than on individual banking markets.[22] Figures on branches and subsidiaries of banks from other EEA countries (Charts 3 and 4, Tables 14 to 19) point to a ***continuing integration of the European banking market.*** In 2001 there was a particularly strong increase in the significance of such branches in terms of numbers or business volume in Germany, Spain, Italy and Luxembourg. In Belgium, on the other hand, EEA branches further reduced their activity, a trend that has already been under way for a number of years and which is related to a decline in interbank activities as a result of the parent companies' restructuring. The European integration trend is even clearer for the business volume of EEA subsidiaries, in which there was a very large increase in countries such as Denmark

[21] European Association of Co-operative Banks (2002).

[22] In some markets, a large degree of European integration can be observed. For example, the unsecured and swap segments of the money market; see European Central Bank (July 2001).

and Austria due to cross-border acquisitions of some important local banks. Whether a bank prefers to expand internationally through a branch or subsidiary may also be linked to remaining differences in national regulations (e.g. on deposit guarantee schemes).

Chart 3: Number of branches of credit institutions from other EEA countries

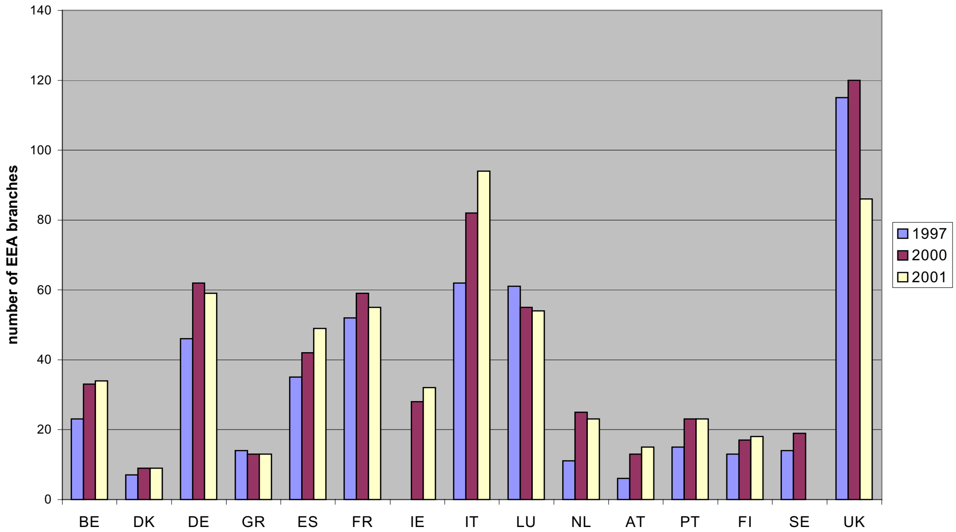
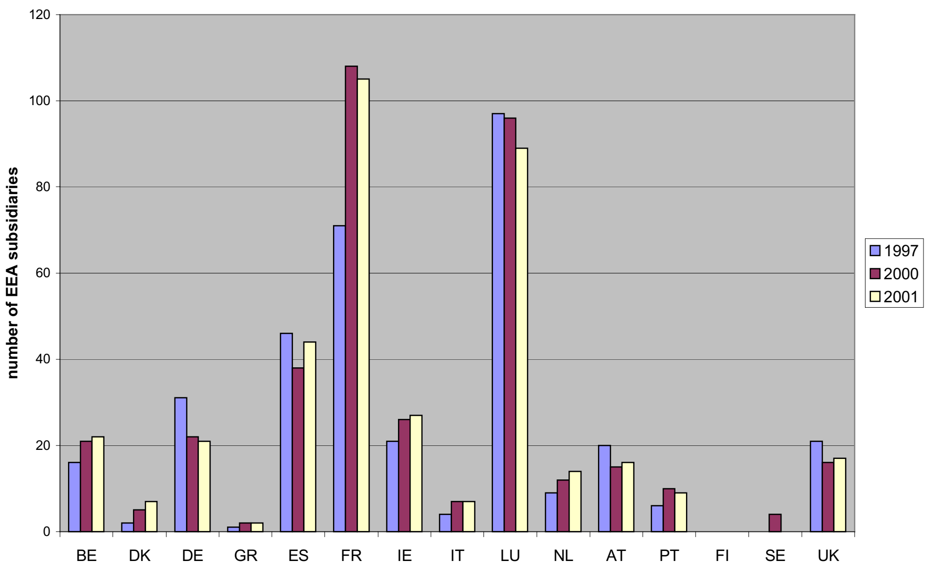


Chart 4: Number of subsidiaries of credit institutions from other EEA countries



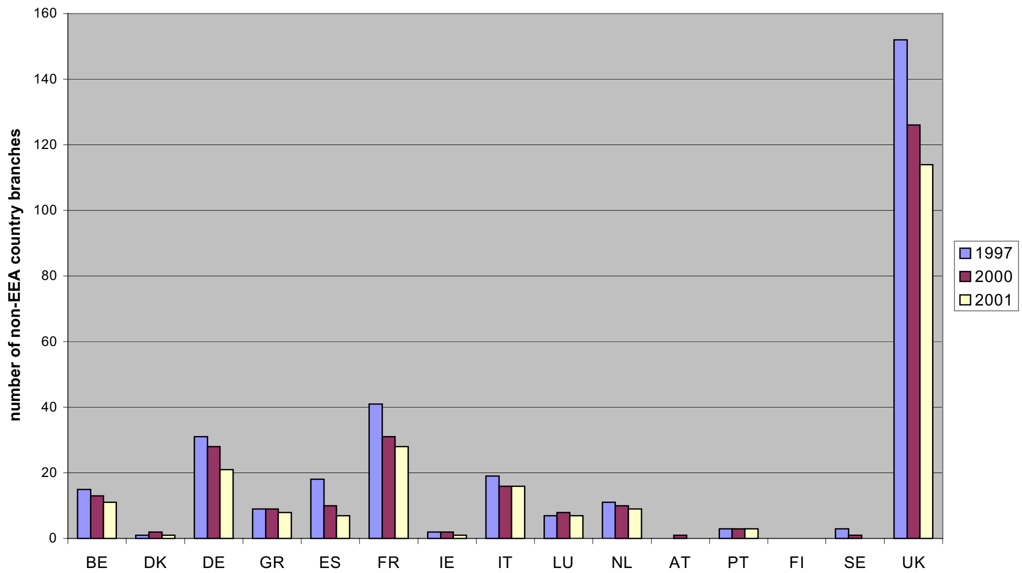
As with domestic deals, the cross-border M&A activity of EEA banks was much lower in 2001 than in 2000, and in the first quarter of 2002 almost no intra-EEA activity took place. The present situation can perhaps best be described as "wait and see", and a further round of cross-border M&As might not occur until one of the major European banks makes an important acquisition. The recent political agreement on a European Company Statute may also open up the prospects for cross-border corporate structures.

In terms of value, the biggest deals involved German, Austrian and Finnish banks. Only two transactions really stand out in terms of value, the acquisition of Bank Austria by the German HypoVereinsbank and the acquisition of the Norwegian Christiana Bank by the pan-Nordic group Nordea. They are also clear illustrations of a trend that, in the process of outward internationalisation, banks show a preference for countries that are an extension of their home market (neighbouring countries) or with which they have some cultural affinity. In that respect, there are similarities with the US experience after the abolishment of geographic restrictions on banking.[23]

While the growing number of branches and subsidiaries of other EEA banks is a sign that the European banking market is becoming more integrated, cross-border mergers continue to be hampered by a variety of factors such as the lack of common rules on M&As, cultural differences and the complexity of the organisational set-ups. This may explain why alternatives such as collaboration agreements are often preferred.

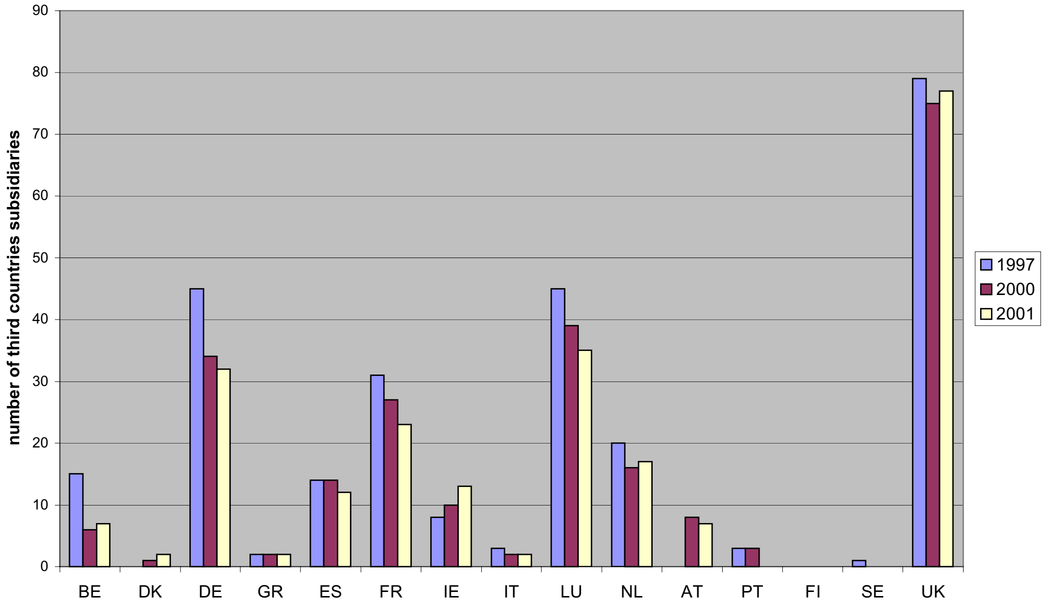
As far as ***non-EEA banks*** are concerned, there seems all in all to be a further reduction in their presence and activity, in particular that of Japanese and US institutions (Charts 5 and 6, Tables 20 to 25 of the statistical annex). For the Japanese banks, this is probably due to continued domestic problems; for the US banks it is due to consolidation in their home market. US and Japanese banks are reportedly continuing to centralise their business in London and away from their other branches in the EEA.

Chart 5: Number of branches of credit institutions from non-EEA countries



[23] Buch, C.M. (2000).

Chart 6: Number of subsidiaries of credit institutions from non-EEA countries



Using the internet to develop cross-border banking[24] remains relatively rare so far. One of the reasons for this is that the internet is often used as a complementary channel to the branch network, which is by definition local. So if a bank wants to enter a foreign market via the internet, it may prefer to do this on an "establishment" basis, i.e. through a branch or subsidiary, in combination with the internet. But there have been a number of cross-border internet initiatives, ING Direct being perhaps the clearest example.

4.2 Outside the European Economic Area

The M&A activity of EU banks involving banks of non-EEA countries remained in the period under review at the high level of the previous two years. In fact, most of the M&A deals in the EU over the period analysed were either on a domestic basis or were realised with institutions outside the EEA, such as central and eastern Europe, the United States, Latin America and Turkey.

In search of higher profitability, especially banks in EU countries that are geographically close to ***central and eastern Europe***, such as Austria, Germany and Italy, expanded further in this region, and the trend is expected to continue over the coming years. In addition to risk-diversification possibilities, this strategy offers considerable growth potential because the local markets are still underbanked and provide possibilities for efficiency gains. On the other hand, it also requires extensive management expertise and capital reserves, and can sometimes involve country risk. Expansion into central and eastern Europe can be done on a stand-alone basis or through joint ventures, a strategy that some French and German banks seem to be following. For some European banks, subsidiaries in the region already contribute very substantially to total operating income. Because of the strong expansion in the

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24 The supervisory requirements related to the provision of banking services on a cross-border (intra-EEA) basis through the internet has been recently investigated by the Groupe de Contact (2002). Also the Electronic Banking Group of the Basel Committee is working on principles related to the management and supervision of cross-border electronic activities.

last couple of years, foreign shareholders and in particular EU banks already have a significant market share in a number of these countries. For example, in Hungary, the Czech Republic, Estonia, Latvia and Croatia the majority of the market is now in foreign hands.

With this expansion, supervisory authorities in EU countries have begun to pay more attention to these foreign activities and have increased their co-operation with local supervisors. In a number of cases, this has led to the conclusion of formal arrangements or MoUs with the authorities in the countries concerned.

It is not always the largest and geographically most diversified European banks that have expanded in the region, which could raise the question whether those which have done so have the necessary experience to enter such markets and whether they are fully aware of all the risks that such an expansion implies. The importance of this question is underscored by the difficulties, and sometimes losses, suffered by some banks as a result of this strategy.

Especially some Austrian, French, German and Italian banks have become important players in central and eastern Europe. The countries that seem to attract most of the EU 5 banks' attention are Croatia, the Czech Republic, Hungary and Poland. There are also distinct geographical patterns. Swedish banks are especially active in the Baltic states and Greek banks in the Balkans.

A number of Belgian, Irish and Portuguese institutions also have strategic bank ownership in this area. However, it is probably no coincidence that these are institutions from countries with a highly concentrated domestic banking market. Banks from Denmark, Spain, Luxembourg and the UK, by contrast, have very few holdings at all.

Many of the central and eastern European banks were acquired as the result of a privatisation process, which underlines the earlier argument that privatisation can be an excellent entry opportunity for foreign banks. "Greenfield" operations, or the starting up of own activities from zero, on the other hand, seem to be relatively rare.

As regards the rest of the world, it is worth highlighting the activity of European banks in Switzerland, the United States, Latin America, Turkey and China. A number of banks showed quite a strong interest in ***Switzerland*** in the period under review, especially in the area of private banking and asset management. About one-third of all foreign expansion initiatives by Luxembourg banks were with respect to this country, about four out of ten being greenfield operations and the rest acquisitions. Italian and Irish banks also expanded their presence in Switzerland.

Some of the major Dutch, British, French and German banks have increased their foothold in the ***United States***. In fact, the most important transactions involving EU15 banks outside the EEA in terms of deal value were acquisitions in the United States by Royal Bank of Scotland, ABN-AMRO and BNP Paribas. On the other hand, because of disappointing results in the area of investment banking, some of the large Dutch banks scaled down their US ambitions and closed down a number of businesses.

Latin America, and in particular Brazil, continued in 2001 to be an attractive expansion ground for the major Spanish banks. The financial crisis in ***Turkey*** created buying opportunities for British, French and Greek banks, and the scheduled privatisation of two state-owned Turkish banks by the end of 2003 is also bound to create further European interest. Finally, the entrance of ***China*** into the WTO and the forthcoming opening of the Chinese financial markets have increased the interest of some European banks. Several have entered into joint ventures with local partners in areas such as asset management.

5. Organisational structure

The general economic slowdown and increased competition are leading banks to concentrate more on their core business and organise their activities more efficiently. This is reflected in a tendency towards leaner and clearer management structures, outsourcing, activity pooling, reduction of the workforce, downsizing of branch networks and the sale of non-core shareholdings. Bancassurance continues to be important as a diversification strategy. Partly as the result of some organisational and conduct-of-business concerns that have developed in the wake of the past financial market boom, corporate governance issues and the role of external auditors have received considerable attention.

Corporate governance is high on the agenda of a number of authorities, not least because abuses have taken place in this area. The outcome of these more general discussions will also have an impact on the way banks organise their business. At the European level, the European Commission has launched a comparative study of existing codes of corporate governance in the context of the FSAP.[25] The study will serve as background material for the High Level Group of Company Experts that is now in the process of reviewing how company law in Europe can be modernised.[26]

Following the recent "Turnbull Report" on corporate governance, UK firms are obliged to report whether or not they are in compliance with a number of principles of good corporate governance, such as the use of audit committees and the presence of non-executive directors on the board. In Germany, a review of corporate governance took place in the period under review, resulting in the "Cromme Code". This code addresses issues such as rules for executive and supervisory boards, disclosure of conflicts of interest, establishment of committees and independence of auditors. In Belgium, company law is to be changed to introduce a number of sound corporate governance principles related to, inter alia, management committees, conflicts of interests, the independence of external auditors and shareholders' meetings. Additionally, the banking law has recently been amended to allow bankers to accept mandates in non-financial companies. It is expected that they will use this possibility to foster relationships with corporate customers. The Central Bank of Ireland has taken a number of initiatives to monitor corporate governance. For example, it reviewed the banks' "codes of ethics", issuing three

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25 European Commission (March 2002).

26 European Commission (April 2002).

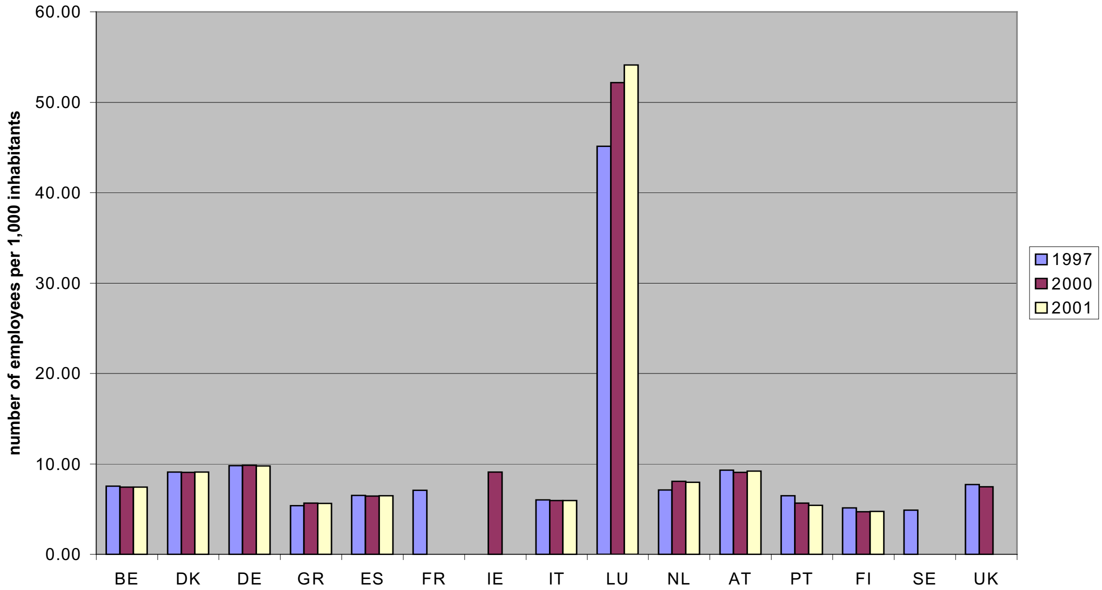
codes (code of conduct, code of advertising requirements, code of practice) and introducing requirements for detailed information to be provided about banks' directors and senior management.

An issue related to corporate governance is the ***role of external auditors***, the importance of which was again underscored by the Enron case. The accounting profession will play an important role in the forthcoming introduction of the International Accounting Standards (IAS) and needs to understand the consequences and requirements of these new accounting rules for banks. Austria amended its commercial and company law in the period under review, introducing a tighter liability regime for external auditors and stiffer legal penalties for the board of directors should it fail to keep the supervisory board adequately informed. External bank auditors also now have to adhere to a rotation scheme. In Ireland, a review was carried out by a government-sponsored committee on the question of whether self-regulation is working effectively in the audit profession. A working group is now studying how to best implement the recommendations.

Still in the area of corporate governance is the ***management structure*** of banks, where there seems to be a tendency towards leaner and clearer structures. This may be related to shareholder pressure and, as pointed out earlier, can constitute the next phase in the integration process for groups resulting from M&As. It is important, however, that the checks and balances built into the way banks are organised are not compromised by the streamlining of the decision-making processes.

The general economic slowdown and increased competition are leading banks to ***concentrate more on their core business and organise their activities more efficiently.*** For example, in Italy the major banking groups have now re-focused their strategies – previously aimed at expanding business – on streamlining their corporate structures to achieve a better integration of their groups and higher returns for shareholders. There is a growing focus on managing the cost base, in particular by further reducing the workforce (Chart 7, Tables 4 and 5 of the statistical annex), perhaps most clearly illustrated in Germany and the Netherlands where several tens of thousands of job cuts have been announced in the banking industry. The cost/income ratio of German and Dutch (and to a somewhat lesser extent also Austrian and Belgian) banks is indeed significantly higher than the European average. Also in Portugal, the banking workforce was reduced significantly in the period under review, for example through early retirement programmes. Nevertheless, there are countries (such as Luxembourg and Austria) where the banking workforce continued to expand in 2001.

Chart 7: Number of employees of credit institutions per 1,000 inhabitants



As a result of these pressures, there is a trend towards ***outsourcing*** non-core activities. Some financial institutions are also observed to be increasingly outsourcing important business activities, for example back office settlement processing, credit card processing, some IT business, and call centre management. Likewise, some are developing partnerships with service providers with the aim of continuously improving core business processes. An example is the Bank of New York, which recently set up a Belgian branch of its Luxembourg custodial bank in order to provide administration services for small and medium-sized banks' asset management activities. The trend towards streamlining groups may even lead to the reverse movement of insourcing. For example, in Sweden, parent banks are seen to be taking over some of the activities of their specialised mortgage institutions, which nevertheless maintain final responsibility for the transferred activities. This raises certain supervisory issues, such as whether the subsidiary has really the adequate means to take these responsibilities.

In a drive for cost reduction through economies of scale, banks can ***pool activities or develop activities together***. This is perhaps more common in certain sectors such as savings banks and co-operative banks. Confronted with very low margins on mortgage lending business, the large German commercial banks are for example merging their mortgage banks into one institution. Likewise, the German co-operative banks are bundling all their real estate activities into a central co-operative holding company. A similar structure already exists for small and medium-sized banks in Denmark. These banks have also begun to combine their market funding in order to reduce individual funding costs and to gain access to certain markets.

Another area where potential competitors can work together is financial infrastructure, where costs can be shared with the additional advantage that a common industry standard is developed. Danish banks, for example, have set up a strategic alliance to develop a joint system for the clearing of small banking transactions effected via the mobile telephone network and the internet. In Germany, two major commercial banks are pooling their payments and settlement activities in a joint transaction banking unit, and another commercial bank is discussing with one of the central co-operative banks a wide co-operation arrangement, including the back-office functions for securities trading.

Bancassurance continues to develop in several EU countries, spurred by a fast growing market of long-term savings in the form of life insurance and private pension schemes. Even in countries where *bancassurance* is traditionally not very important, such as Greece, banks' involvement in the insurance business is increasing. The starting situation differs markedly from country to country, however.

The most important changes in the period under review seem to have taken place in Germany, where the three large commercial banks applied different organisational models to their *bancassurance* activities. An example of the most integrated model is probably the newly formed Allianz-Dresdner Bank combination, which plans to become a true *bancassurance* group, integrating its banking and insurance businesses. Such groups may require a specific management structure to represent the interests of both professions in strategic decisions. In Belgium, for example, two large *bancassurance* groups both created an executive committee at the holding level with members from both professions. Other German banks and insurance companies are extending their strategic alliances, often reinforced by capital holdings, to include the cross-selling of products without full integration. Still another strategy is being followed by Deutsche Bank, which even sold its participating interest in an insurance company and is instead focusing on its co-operation with asset management companies.

In Finland, there have also been some recent (international) strategic initiatives related to co-operation between banks and insurance companies. Partners are being primarily sought in the Nordic countries and the Baltic region. Examples are the failed offer by Sampo Group for Storebrand, Norway's leading insurance group and the parent of Finansbanken, and the decision of Sampo and insurer IF to combine their property and casualty (P&C) businesses to form the largest P&C insurer in the Nordic countries.

In a number of countries, banks hold (significant) ***participating shareholdings in non-financial companies***. But the trend seems to be towards disposing of them, as can be observed for example with several banks in Germany, Greece and Spain. Additionally, the constantly depressed stock market over the period under review was not very conducive to the development of banks' private equity businesses. In Germany, disinvestment by banks is being stimulated by the reform of capital gains tax in 2002. In Greece a few large, state-owned banks have sold their interests in areas such as cement, textiles, hotels, etc. and are concentrating on their core business.

6. Product and service mix

Financial innovation, which allows the bundling and unbundling of risks, permits banks to construct increasingly complex financial instruments which are used both for proprietary business and as end-products for customers. Banks' appetite for such products is stimulated by their need to actively *manage their risk profile. On the customer side, important factors are the continued demand for asset management products and the possibility of realising higher returns in adverse market conditions. A number of consumer protection concerns have arisen with the marketing of such products to relatively unsophisticated investors.*

In spite of the lacklustre performance of the financial markets over the period analysed, ***asset management and private banking*** remain important in many banks' strategies, not least because of pension system reforms and government initiatives to stimulate long-term saving. Because of structural developments such as ageing populations and increased financial wealth, the long-term potential for these activities remains. On a macro level, the growing importance of asset management and private banking seems to imply that the demand for bank products for consumption smoothing is changing from nominal value deposits (i.e. a bank-based financial system) to financial assets valued at market price (i.e. a market-based financial system). Such an evolution has an impact on the way risks are borne by individuals and are shared among them and over time.[27] In banks' income structures, the evolution is reflected in the growing importance of non-interest income, in particular fee income. At the end of 2000, slightly less than half of EU banks' operating income was non-interest income, and slightly less than 30% was net commissions. However, this source of income is quite volatile and its development in 2001 had a negative impact on some banks' profitability.

The boom that characterised the units in collective investment (UCIs) business over the past few years has come, at least temporarily, to an end. Some of the banks' insurance business, in particular unit-linked insurance schemes, suffered equally. Bank customers showed more appetite for less risky products such as money market funds, bond funds and saving deposits. Other challenges confronting the industry are integrating acquisitions and investments, increased governmental and regulatory pressure[28], and competition for key professionals. As a result, the historically high levels of profitability have come under increased pressure and costs are rising. Despite this, market participants remain optimistic, perhaps too optimistic, about short-term prospects.[29]

The stock market slump and low interest rates have increased some customers' appetite for ***alternative, often more complex products*** with a high return potential, such as hedge funds, structured deposits, convertible bonds[30] and reverse convertible bonds[31].

Hedge funds continue to grow in Europe, although reportedly at lower rates than in previous years. Since there is no uniform definition of a hedge fund, it can cover funds with a very diverse risk profile. The involvement of European banks in the hedge fund business seems to be increasing. In countries such as Belgium, Germany, the Netherlands and Sweden, banks and asset management companies are

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27 For a more detailed discussion, see Allen, F. and Gale, D. (2001), p. 153 and following.

28 For example, because of concerns about money laundering and terrorist financing (see Section 2.1.1). Harmful tax practices are also a concern of authorities. See OECD (18 April 2002).

29 PriceWaterhouseCoopers (2001).

30 The investor holds a call option on shares underlying the bond.

31 The investor sells a put option on shares underlying the bond.

targeting the retail segment by offering hedge fund certificates with an entry barrier as low as a few thousand euro.

Some banks are ***redesigning traditional bank products*** in order to increase their attractiveness. In Spain, for example, there is considerable competition for deposits, which can be explained at least partially by aggressive inroads made by e-banks. Traditional banks are reacting with product innovation, e.g. by offering structured deposits whose return is partially determined by a fixed interest rate and partially by a variable reference index. Similar products have emerged in Greece, where banks have started marketing capital-guaranteed products linked to stock indices, commodity prices or foreign exchange rates. In Portugal, the trend towards redesigning traditional bank products has even led the National Council of Financial Supervisors to increase the requirements for the financial information banks must disclose to customers about this type of products.

Also banks themselves are increasingly using complex financial instruments, such as credit derivatives, securitisation and structured finance. ***Credit derivatives*** are now the fastest growing segment of the OTC derivatives business, and the expectation is that this will continue, in spite of some recent defaults by important entities whose debt securities had been used as a reference asset. According to an ISDA survey, the global notional outstanding volume of credit derivative transactions reached USD 632 billion in the first half of 2001 and USD 890 billion by the end of that year.[32] The share of euro area banks can be estimated to be between 35 and 40%[33]. The market continues to be very concentrated.

Like credit derivatives, European ***securitisation*** soared in 2001 to the record level of EUR 154 billion, up from EUR 78 billion a year earlier, and expectations are for further growth to EUR 162 billion in 2002.[34] British and Italian assets account for more than half the issuance volume in the European securitisation market. By sector, residential mortgage-backed securities account for nearly three-quarters of the volume. Issues of Pfandbrief-like instruments declined in 2001, mainly under influence of the German figures. The decrease in issuance is partly attributable to bank consolidations and an erosion of the credit quality of issuers.

As pointed out in Section 3, in some European countries questions have been raised about inadequate competition in ***banking services to SMEs***. There are also worries that credit may become less easily available for this customer segment. The review of the Basel Capital Accord, which has raised some concerns about its potential impact on SME financing, is sometimes cited as a contributing factor in this, although authorities are addressing the issue. The New Capital Accord will in any case increase the banks' need for improved information to assess corporate credit risk. Other elements, such as greater economic uncertainty (and therefore risk) as well as an increased focus on shareholder value,

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32 ISDA (2002), p. 7. According to the BIS (June 2001), worldwide positions in credit derivatives rose to USD 693 billion at the end of June 2001 from USD 118 billion at the end of June 1998.

33 Based on BIS data.

34 European Securitisation Forum (Spring 2002 and January 2002).

might equally be at play. In Belgium, the concerns have led to a task force being set up by the Minister of Finance to investigate the matter further.

7. Delivery channels

Banks continue to prefer the multi-channel distribution strategy, of which the bricks-and-mortar branch network is an important cornerstone. In an environment of increasing cost pressure, such a strategy may become more difficult to sustain. Internet banking is growing but is, with the exception of the Nordic countries, still relatively unimportant. Although quite a number of banks have scaled back their too optimistic ambitions in this area, the long-term growth potential for internet banking remains. In order to put distribution networks to more efficient use, the "open architecture" concept is gaining more acceptance, even among the largest banks.

The ***multi-channel strategy*** remains the preferred distribution model for most European banks, which continue to combine new distribution channels with traditional ones, and the expectation is that this strategy will continue to develop in the future. This preference may also explain why branch networks are not decreasing as significantly as one would perhaps expect on the basis of banks' investments in IT. An important driving force behind the development of delivery channels is cost-efficiency, and in that respect the multi-channel strategy clearly implies some risks. The cost of transactions using new distribution channels such as internet banking are significantly lower than with branches, so banks have a long-term incentive to develop these channels further. In the shorter term, some banks have been observed to be scaling back their e-banking ambitions.

The ***"open architecture" model*** is expected to become more important in the future. Under this model, a bank distributes products and services of third parties, be they banks or other financial firms such as insurance companies and asset managers, thus becoming a real "financial supermarket". Second tier European banks have already been selling third parties' products for some time, but recently some of the major banks have also decided to apply the "open architecture" concept to their asset management business. A bank may even decide to stop the production of some of its own products and instead focus on distributing those of other providers. For foreign fund managers, this is a way to gain access to a market from which they would otherwise be excluded because of a lack of distribution capacity. Moreover, an expensive branch network can be put to work more efficiently. The customer, increasingly wary of the one-stop shop as a way to get the best value for his/her money, also benefits because of a wider access to products.

To some extent related to the concept of "open architecture", but in the area of e-banking, is ***"account aggregation"***[35]**.** However, so far this does not seem to be a service widely offered by European banks. In fact, recent plans in the UK suffered a setback because of the legal difficulties some banks

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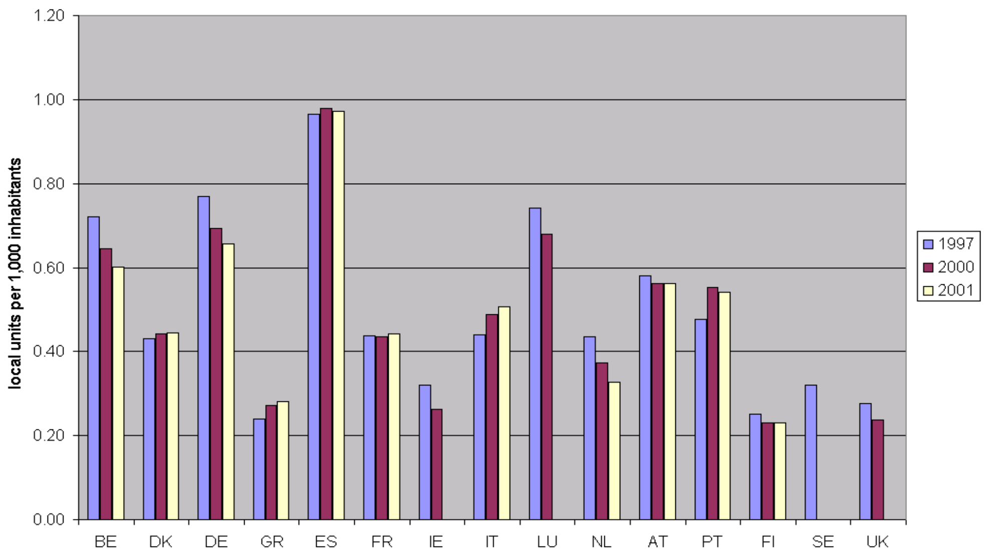
[35] A service that gathers information (ranging from publicly available information to personal account information) from many websites and presents it in a consolidated format to the customer. Typically, the aggregator obtains the personal account information using customer-provided usernames and passwords to enter websites. In most cases, the bank provides the aggregation service under its brand name through a third-party service provider. For a more detailed discussion, also on the risks involved and control requirements, see Comptroller of the Currency (2001).

experienced. Nevertheless, independent aggregators are seen by the vast majority of Irish and UK banks as their main new competitors[36].

In spite of the ongoing consolidation process and the expansion of alternative distribution channels, the ***branch network*** remains very important for European banks, in line with the multi-channel strategy most of them apply. It has even been observed that because of the difficulties which pure internet banks are presently experiencing, some of them are trying to complement their business with bricks-and-mortar branches**.** Chart 8 and Tables 2 and 3 of the statistical annex show that in countries such as Greece, where bank density is still relatively low, the branch network even increased slightly on an aggregate basis in the period under review. In some countries there are also different developments in different segments of the banking sector. For example in Spain, the commercial banks are seen to be reducing their branch network while savings banks, by contrast, are increasing it, sometimes even by taking over outlets from commercial banks. In countries such as Germany and the Netherlands, on the other hand, the branch network was reduced very substantially in 2001 in a drive to cut costs. Not surprisingly, banks in these countries have a high cost/income ratio.

Chart 8: Number of local units ("branches") of credit institutions per 1,000 inhabitants



While the evolution of the number of branches differs substantially from country to country, one is also able to identify a number of fairly general qualitative changes. Banks are clearly trying to redesign and upgrade their branch networks, for example by closing branches, automating tasks and allocating staff to more advisory-orientated tasks. An interesting process is taking place in Belgium, where some of the major banks seem to be developing two parallel networks, one of large and advanced branches, and one of small and less advanced branches often run by independent agents and targeted at less sophisticated customers.

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[36] Cap Gemini – Ernst & Young (2001).

In the period analysed, there were a number of noteworthy developments related to ***other financial intermediaries.*** Although the main business activity of these companies is not in banking, the changes may affect competition in the banking sector since the intermediaries frequently offer banking-related services. At the European level, developments include the proposed insurance mediation directive and the recent proposal by the Committee of European Securities Regulators (CESR) for the harmonisation of conduct-of-business rules[37]. In order to guarantee a high level of professionalism and competence, the proposed directive would require that individuals or companies which carry out (re)insurance mediation be registered and fulfil minimum requirements. The set of Standards and Rules published by the CESR fits into the scheduled update of the Investment Services Directive (ISD) and provides harmonised core conduct-of-business rules for the provision of such services to retail investors. For banks, the potential impact seems to be especially on their distribution channels, internal organisation and the issue of consumer protection.

At the national level, there were important initiatives in the UK, Belgium and the Netherlands. Spurred by consumer protection concerns, the UK's FSA issued a consultation document, which proposes ending "polarisation", the rule that requires a financial adviser either to be wholly independent or to sell only the products of one producer. If accepted, this could lead to radical changes in the retail sector and open up opportunities for banks to acquire distribution networks. In a similar vein, the Belgian Banking and Finance Commission is considering abolishing the requirement that independent banking agents work for one, and only one, credit institution. In the Netherlands, the Authority of Financial Markets[38] is to become responsible for the supervision of financial intermediaries in insurance, securities, mortgage loans, consumer loans and deposits. Until now, such intermediaries have been largely unregulated.

The use of the internet grows, ***internet banking*** is becoming more important and will continue to do so for the coming years. But it is still predominantly used for rather simple and standardised retail products and services, such as savings deposits, domestic fund transfers, mortgage loans and securities trading. Other alternatives to the branch model, such as telephone banking, are more important. Through their pricing policy, banks are trying to divert relatively simple customer transactions to these alternative distribution channels. Although most internet strategies have been developed especially for the retail segment, some banks in France are now in the process of developing plans to target the corporate segment, a strategy Nordic banks have already been practising for some time. Other innovative areas for possible expansion are account aggregation and electronic bill presentation and payment (EBPP). These services are already developed in the United States and are now emerging in the UK.

Security concerns appear to be an element restraining the further expansion of e-banking and e-commerce.[39] These concerns may be alleviated in the future as the use of electronic signatures

37 CESR (2002).

38 Autoriteit Financiële Markten, the former Stichting Toezicht Effectenverkeer (STE) or Securities Board.

39 Deutsche Bank Research (2002), Forschungsgruppe Wahlen Online (2000).

continues to develop towards a suitable legal and operational environment. A number of countries took initiatives in the period analysed to meet these concerns. Banks have set up joint ventures that will produce electronic signatures to guarantee the identity of counterparties. Legal concerns may also be alleviated by the forthcoming European directive on the distance selling of financial services.

Pure stand-alone internet banks are still relatively unimportant in the EU as a whole. However, looking at this type of institution only gives a partial picture of the e-banking business, since most banks now offer some form of internet banking, without necessarily setting up a separate subsidiary. In some EU countries, stand-alone internet banks do not yet exist (Greece) or have only been set up very recently (Ireland, Finland). However, in countries such as Spain, pure e-banks have become a very important competitive force.

Some banks have ***overestimated the potential for internet banking,*** possibly as a result of overconfidence in the so-called "new economy" paradigm. Advertising expenses and investments are high, while the economic slowdown means the number of new accounts may not develop as expected. The continuing slump in the stock market weighs heavily on the performance of online brokers and e-commerce is also performing below expectations.[40] As a result, quite a number of European internet banking and brokering projects are facing serious difficulties or have even been abandoned.

It is not clear ***whether internet banking is actually profitable*** for European banks. A complicating factor in such an assessment is that banks are often not able to break down costs and revenues according to the specific distribution channels. Internet banking leads to a reduction in operational costs since it requires a smaller workforce and no physical branch network. On the other hand, start-up and publicity costs are high, customer habits may be difficult to change and if a strategy of very competitive pricing is used to gain market share, profitability may be threatened if anticipated higher-margin cross-selling does not materialise. Nevertheless, e-banking continues to have strong potential to help banks reduce their costs and operate more efficiently. European banks seem to be well aware of this potential, as expenditure on e-banking is expected to continue to increase. The Nordic countries could be a case in point. It is probably no coincidence that in these countries, where internet banking has gained already a wide acceptance, the numbers of bank branches and bank staff per 1,000 inhabitants are, by European standards, very low (see Tables 2 to 5). The Finnish and Swedish experience shows that supplying a wide range of internet banking services can increase efficiency in banking and reduce costs.

Telephone and home banking probably account in many EU countries for a larger share of banking business than internet banking. ***Mobile banking*** is still insignificant and one can doubt whether it has major potential since most bank transactions, with the possible exception of stock market transactions, are not time-critical. An illustration of this is the UK, where WAP technology has failed to take off in banking, in spite of the high level of mobile phone ownership in the country. The important issues in the coming years will be the development of suitable devices for mobile banking, such as mobile

[40] Cap Gemini – Ernst & Young (2001).

phones, personal digital assistants (PDAs), laptops and pocket micros with mobile banking capacity, and the substitution of services offered through different channels.

8. Risks and management of risks

Risk measurement and management techniques continue to improve in anticipation of the Revised Capital Accord, in particular in the areas of credit risk and operational risk. Integrated risk management is becoming more important. Some abuses during the equity boom of the past years and the growing complexity of investor products have increased banks' legal and reputation risk. Consumer protection issues have come to the fore.

There were a number of significant developments in the period under review which affected banks' risk profiles, in particular their income risk, credit risk and market risk. However, since many of these developments seem to be related to the particular phase of the European business cycle, they are not discussed here any further.

Of a more structural nature are the risks related to the ***integration process following the wave of mergers and acquisitions*** in the banking sector. There is a ***strategic risk*** that customers and employees may not endorse the new group's policy, thus leading to a loss of staff and sales. ***Operational risk*** can also increase. Combining IT systems is a major challenge, and in some cases banks have suffered financial losses because of integration problems. Both risks have the complicating feature that they are very hard to quantify. Supervising a newly formed group is also particularly challenging for authorities as risks are very difficult to assess, for example because of different accounting and risk management systems, difficulties in establishing harmonised databases, and co-ordination problems between different authorities.

As there will be a capital requirement for ***operational risk*** under the New Capital Accord, some banks are already trying to identify and quantify this risk. Operational risk may well have increased over time because of system expansions, the growing demand for execution speed and, as mentioned above, integration problems as a result of M&A activities. The importance of operational risk was clearly underscored by the events of 11 September 2001.

Legal and reputation risk seems to have become more important for banks as a result of some excesses during the past equity boom. In the United States, there are a number of ongoing high-profile cases related to conflicts of interests between the customer business and the proprietary business of investment banks, as well as to abusive practices in the allocation of shares in initial public offerings during the internet bubble. The recent collapse of the energy corporation Enron also raised questions about the role of investment banks, which are accused of having been too focused on reaping significant fees from high-profile deals while neglecting to carefully check the emerging signs of the firm's fragility.

In Europe, similar concerns have arisen in relation to banks' asset management and investment banking businesses, as evident, for example, from an increasing number of customer complaints relating to problems with the execution of orders on the stock exchange, the poor performance of collective investment products, inadequate customer information and bad investment advice. In some cases, banks were fined by the securities authorities for abuses or had to compensate customers for losses suffered. Especially in the segment of the (potentially) high-growth technology stocks, firms had not always been adequately scrutinised before they were brought to the stock exchange by banks. Some banks are responding by setting up or re-organising their compliance function, which has to ensure that all relevant internal and external rules and regulations are complied with; others are sharpening their internal rules to avoid or mitigate conflicts of interests. A number of authorities have also reacted by issuing new rules (See Section 9).

On a more general note, banks are seen to be improving their ***internal risk measurement and management techniques*** in anticipation of the New Capital Accord, e.g. by developing integrated risk management, credit scoring techniques, internal ratings, credit risk models and capital allocation models. In Spain, the development of internal ratings and in-house credit models is also being spurred by the supervisor's requirement that banks establish statistical loan loss provisions. Since authorities in other European countries are considering similar "dynamic provisioning" policies (see Section 9), banks may have an additional stimulus to work on this area. Newly formed groups can face difficulties in developing such techniques if they have not yet established a single policy, databases and IT systems are not compatible, etc. As many of the smaller banks are unlikely to have the resources and skills to develop models, banking sector federations are already working on joint projects to develop the necessary systems and know-how for distribution to member institutions.

Integrated risk management, e.g. through global market risk committees or global credit risk committees, is developing as a consistent and group-wide risk perspective becomes more important. Elements contributing to this evolution are the New Capital Accord, the growing importance of financial conglomerates, and the need to integrate mergers and acquisitions. In the management structure of a bank, there is (and should be) a clear distinction between business management and risk management, so that the same manager cannot be responsible for business activities and risk management at the same time.

9. Responses by authorities

Authorities have taken a variety of measures in response to the developments identified earlier, e.g. in the areas of increasing cross-border banking business, credit derivatives, reputation and legal risk, etc. The growing awareness and sensitivity to the different banking risks is translated into an increasing importance of risk-based supervision.

Apart from the responses by authorities that have already been addressed in Section 2, initiatives in the following areas can be mentioned.

The growing ***cross-border dimension of banking*** in Europe poses important challenges to national authorities. At the European level, the Economic and Financial Committee (EFC)[41] assessed the arrangements for prudential supervision and financial stability in Europe in 2000 and 2001. The two reports (the "Brouwer I and II" reports) recommend strengthening the operational functioning of the present arrangements, enhancing co-operation between supervisors on a cross-border and cross-sector basis, and reinforcing co-ordination between supervisory and central banking functions. Different European forums for authorities, such as the Banking Advisory Committee, the Groupe de Contact and the ECB's Banking Supervision Committee (BSC), are now in the process of implementing these recommendations. Recently, a more general debate was started within the EFC and the ECOFIN on the future set-up of prudential supervision in the EU.

At the national level, significant responses in the areas of credit risk, reputation and legal risk, outsourcing, e-banking and the organisation of supervision are worth highlighting

Firstly, ***credit risk*** has moved up on the supervisory agenda because of structural (Basel II) as well as conjunctural (worsened business climate) factors. Many initiatives in this area can be identified over the period analysed. The Spanish authorities, for example, have reviewed banks' credit risk control and management practices in the context of the statistical provisioning requirement recently introduced. Following the Spanish example, the French, Portuguese and Irish authorities are investigating or promoting loan loss provisioning through the economic cycle, i.e. "dynamic provisioning". This provisioning technique is a way to alleviate the so-called "pro-cyclicality" concern[42] related to the new capital framework that is under discussion for banks. A number of authorities also took particular measures in response to concerns about the loan development in certain geographical areas (e.g. Latin America, United States) or sectors (e.g. real estate).

As banks increasingly use ***complex financial instruments***, such as credit derivatives, securitisation and structured finance, several authorities have introduced a specific regulation to cope with such instruments. Also in the New Capital Accord, considerable attention is devoted to credit risk mitigation techniques and securitisation. Because of the innovative and complex nature of these instruments, banks' operational and legal/documentation risk may have increased.

For example, the Dutch and Greek central banks issued guidelines on credit derivatives, covering issues such as the conditions under which banks must enter credit derivatives in the banking or the trading book and what solvency requirements apply. In the UK, building societies have been allowed by the FSA since mid-2001 to use credit derivatives for risk mitigation. The supervisor restricts the use of credit derivatives to groups, which it assesses as having adequate financial risk management. The Bank of England has investigated the credit derivatives markets, their development and possible implications for financial stability. A number of issues were raised such as the concentration of the

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41 The Economic and Financial Committee's main task is to assist the European Council of Economic and Finance Ministers (ECOFIN) in its work. The EFC is composed of representatives of the Member States, the European Commission and the European Central Bank.

42 I.e. the concern that the new regime for capital requirements would exacerbate business cycle fluctuations.

market, lack of fully tried and tested documentation, and the moral hazard of a reduced incentive to monitor debtors' creditworthiness.[43]

In response to growing concern about banks' ***reputation and legal risk***, inter alia as a result of some abuses during the equity boom and the growing complexity of investment products, some authorities have taken measures aimed at limiting the risk for banks and providing more protection to investors. At the European level, measures may also be taken as a follow-up to the EU finance ministers' meeting in Oviedo (April 2002) where stability in financial markets was a central theme. Measures being contemplated relate to financial analysts, credit rating agencies, derivatives and hedge funds. At the national level measures can include paying more attention to whether business conduct rules are respected by banks or thoroughly scrutinising new products and assuring adequate transparency. As already discussed in Section 5, increased attention for corporate governance is another consequence of the concerns mentioned.

The Belgian Banking and Finance Commission has issued a circular letter on compliance, listing ten basic principles on how banks should organise and run a compliance function. It also recommends that new units of collective investment (UCIs) under Belgian law have at least one independent director on their boards. Very often, such UCIs have close links with their sponsoring credit institutions, which could lead to conflicts of interests; having an independent director on the board is one way to limit this risk. In the Netherlands, there are plans to oblige financial intermediaries from mid-2002 to provide their customers with summary information on financial products sold, covering risks, returns and costs. Similarly, the supervisor also now requires UCIs to provide more detailed information on the structure of the prices charged, which are reported to be growing rapidly. In Germany, as a reaction to abuses in the "Neuer Markt", the recently adopted Fourth Financial Market Promotion Act requires financial analysts to take proper care in their analysis and to disclose their interests in securities analysed.

In Section 5 a growing trend towards ***outsourcing*** was identified, not only for non-core business but also for key business areas. As a response, Germany's BAFin has issued a circular letter covering the supervisory requirements which must be met by banks outsourcing specific functions and services, primarily back-office functions such as payments and settlement services. The letter's main objective is to prevent outsourcing from reducing the ability of bank management and bank supervisors to monitor critical functions and systems. The Finnish FSA has also issued a statement on outsourcing, and the British FSA has prepared a detailed report on the phenomenon and distributed it to the firms that participated in the survey.

In the period under review, two authorities took initiatives in the area of ***e-banking***. The Banco de España issued a circular letter covering specific transparency and consumer protection requirements for this type of banking. In addition, an extensive questionnaire was launched to identify the activities banks have developed in this area and the related costs. Likewise, the Finnish FSA issued a statement

[43] Rule, D. (June 2001).

on electronic financial services, clarifying a number of questions linked to areas such as the applicable jurisdiction in e-banking, confidentiality requirements, customer identification, etc.

Annex 3 shows that in almost all EU15 countries, there is no specific prudential regulation for e-banks, the only exception seeming to be Belgium. However, this does not imply that the banking authorities do not pay due attention to the peculiarities of e-banking. The familiar banking risks are encountered in e-banking, but their relative importance may be different. For example, strategic risk, operational risk, legal risk and reputation risk could be more important. A range of supervisory measures can be taken to address these specific concerns: definition of sound practices, transparency and consumer protection measures, additional requirements in the area of organisation and internal control, on-site inspections of technical platforms, etc.

Capital regulation, and in particular the pending review of the Basel Capital Accord, is preoccupying supervisors, and several initiatives have been taken in this context. In Belgium, the supervisor organised on-site inspections to assess the progress large banks had made in developing internal models. A circular letter is scheduled to be distributed, specifying the organisational, quantitative and qualitative requirements for the use of market risk models. In Italy, the supervisor developed a methodology for validating banks' internal market risk models. The Luxembourg supervisor issued a number of circular letters covering issues such as the approach banks are likely to take to credit risk and operational risk measurement, disclosure requirements regarding financial instruments and the role of external auditors in some supervisory review assessments ("pillar 2" of the New Capital Accord). In the UK, the FSA issued a consultative paper on individual capital ratios for banks. The paper sets out the framework that the FSA will use to determine the individual capital ratios for UK banks and how this framework will be used to review the ratios.

With respect to the ***organisation of supervision***, a number of changes were already identified in Section 2. In terms of the internal organisation of supervisory authorities, the following significant changes can be reported. The Spanish supervisor has adopted a system of risk-based supervision, which has now reached the testing and implementation phase. Additionally, it has created transversal working groups, covering specialised areas (e.g. internal models and treasury activities, Latin America). Risk-based supervision and group-wide risk assessment are also being given more prominence by Sweden's Finansinspektionen in anticipation of the introduction of the supervisory review process under Basel II. Similar systems already exist in countries such as Belgium, Italy, Luxembourg, the Netherlands and the UK. In line with the principle of risk-based supervision, the UK is now investigating the creation of a lighter supervisory regime for banks that do not perform transactions with retail customers. Risk-based supervision is expected to become even more important in the future, as under the proposed new capital framework supervisors will have to make sure that banks have adequate capital in relation to their risk profile.

10. Conclusions

Within the space of the past one or two years, the international financial system at large and the banking system in particular have witnessed sizeable shocks: a world-wide economic slowdown, major corporate defaults (Enron), a sovereign default (Argentina), the events of 11 September 2001, and the bursting of the technology bubble. Many of these shocks originated in the United States, or have been felt most acutely there, but the spillover into the European banking sector has been considerable.

In spite of these strains, the banking system has shown all in all a remarkable robustness. A number of the structural trends identified in this report have contributed to this robustness. Banks have diversified their activity in terms of geographical scope and business lines, risk management has improved, banks are now often part of bigger and more diversified financial groups, increasing competition and consolidation have removed many of the less efficient players, etc. From a financial stability and systemic risk point of view, this is a somewhat comforting message.

However, it should not make banks complacent of the risks involved in the strategies that they have applied. These risks can perhaps be best analysed from the perspective of three major common themes that run through this report, i.e. the cost-income pressure to which banks are exposed, changes in risk profile and risk management capabilities, and the associated increasing importance of consumer protection.

Banks continue to operate in an increasingly competitive world, as witnessed by phenomena such as deregulation, privatisation, demutualisation, the entrance of new banking services providers, and demands to create value for shareholders, often institutional investors. They are therefore under pressure to increase or even just maintain income and at the same time control costs. Expansion into central and eastern Europe, Latin America, investment banking, asset management and the insurance business are examples of strategies on the income side. Internet banking, streamlining organisation and management structure, and reducing the work force, on the other hand, focus more on the cost side. Such business-model changes in response to more competition expose banks to strategic risk.

Authorities are taking action in order to make sure that such strategies are underpinned by sound analysis covering all relevant elements, without of course trying to make decisions for a bank's management. Some critical issues relating to these strategies include the following:

- Banks should critically review their e-banking business plans as some of them have in the past been clearly too ambitious and optimistic about the immediate potential of this distribution channel.

- Open architecture can be a strategy for using a distribution network more efficiently, but banks should also be aware of the risks this implies. A question which arises, for example, is what the distributor's liabilities are in the event that the product/service does not perform as described or as expected. Even if there is no direct legal liability for the distributor, there may be reputation risk.

- A multi-channel distribution strategy seems to be a relatively safe bet as the bank keeps all its options open. However, one can question whether such a strategy can still be financed in an environment where shareholders are pressing for ever lower cost/income ratios. It may also be advisable to investigate how these different channels are integrated.

- Expansion into central and eastern Europe can bring access to a growing high-margin business, but the bank should have a sufficient knowledge of the local markets it is diversifying into, and properly check whether there are no hidden liabilities in the acquisition of a local bank.

- Financial innovation has developed in such a way that banks are increasingly able to (un)bundle financial risks and manage them actively, e.g. by trading or hedging them away. For example, the development of credit derivatives may have led to a spreading of credit risk over the whole financial sector, and may thus have ultimately increased the banking sector's stability. However, banks should satisfy themselves on the robustness of their monitoring system and the extent to which risk has truly been transferred.

- Financial innovation is also allowing investors to invest in a much broader set of products and tailor the risk profile to their specific needs. On the other hand, risks may now more easily end up with relatively unsophisticated investors that are perhaps not able to adequately assess the risks they take on. This increases both regulatory risk and reputation risks for the banks. They may have themselves breached conduct-of-business rules, or they may be exposed to the risk that other financial intermediaries selling their products have done so. Banks therefore need to make sure that they can adequately cope with the growing importance of consumer issues. This also raises questions regarding the interaction between prudential and conduct-of-business supervision, which in some EU countries calls for co-operation between different authorities.

These issues are being addressed at the national level, in line with the allocation of responsibilities according to the European institutional framework. However, co-operation between authorities within the BSC and other EU forums contributes to identifying the main concerns, exchanging views on common problems and defining best practices to tackle the questions posed by such structural changes.

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Annex 1:Significant developments in the European legal and regulatory framework affecting credit institutions

The European Commission identified in 1999 a number of areas in which action was needed to complete financial integration in Europe. This took the form of the Financial Services Action Plan (FSAP), covering policy measures to be implemented by 2005 in the areas of financial law, regulation and supervision, and taxation. The FSAP is designed to achieve the completion of a single EU wholesale market and the development of open and secure retail markets for financial services. The importance of fully integrated financial markets as a catalyst for European economic growth was underscored by two recent reports, one by the EFC (the "Van Dijkhuizen report"[44]) and one by the European Financial Services Round Table (the "Gyllenhammar report"[45]), and at the political level by the European Council in Barcelona. Many important initiatives have already been taken to realise these objectives, some of them in 2001.

In the banking field, the Directive on the Reorganisation and Compulsory Winding Up of Credit Institutions, which will enhance investor protection, was adopted. Following the well-established principle of "home country control", a failing credit institution with branches in other Member States will under the directive be subject to a single winding-up process and governed by a single bankruptcy law.

As regards securities markets, an ad hoc "Committee of Wise Men", chaired by Alexandre Lamfalussy, emphasised in its report[46] the need to increase the speed and flexibility of the European regulatory processes in order to meet the objectives of the FSAP. Consequently, a European Securities Committee (ESC) and a Committee of Securities Regulators (CESR) have been set up. The two committees will assist the Commission in its task of implementing the FSAP and help to speed up the legislative process. The ESC will also, once implementing powers have been transferred to it, act as a regulatory committee. The Commission has already put forward two directive proposals under the new structure: one on market abuse, covering both insider dealing and market manipulation, and one on prospectuses, aiming to have only one prospectus approved by the issuer's home country authority and accepted throughout the EU. The European Council has reached a political agreement on the first proposal, implying that adoption is likely to take place in 2002. As regards content, however, both proposals have met with criticism from market participants. They are of direct interest to banks, as the latter increasingly rely on capital markets to finance themselves and offer investment banking and asset management services. Moreover, a regulatory process similar to that for the securities business may perhaps in the future be developed for the banking and insurance sector.

44 Economic and Financial Committee (2002).

45 Heinemann, F. and Jopp, M. (2002).

46 Committee of Wise Men (2001).

Still related to securities, the proposal by the European Commission to introduce a simplified EU legal framework for the provision of securities and cash as collateral in financial transactions has been finally agreed. Given the increasing importance of the repo business in the money markets, such a clear framework of legal certainty would clearly benefit banks.

In the course of 2001, two directives were approved which update the existing regulation of undertakings for collective investment in transferable securities (UCITS). The directives extend the range of financial assets in which UCITS benefiting from a single licence under the "home country control" rule may invest. The single licence regime is also established for management companies engaging in individual and/or collective portfolio management. Since European banks are very active in the UCITS market, their cross-border asset management business is expected to benefit from these initiatives.

In the retail field, the FSAP recognised as major obstacles the lack of harmonisation in the field of customer information and lack of cross-border redress procedures for solving disputes. As regards the progress so far, the aim of the recently launched revision of the Consumer Credit Directive (although formally not part of the FSAP) is to promote transparency and to ensure harmonised conditions for cross-border credit flows. Also, an out-of-court complaints network for financial services ("FIN-NET") has been launched to help customers to resolve disputes without having to resort to lengthy and expensive legal action. Similarly, a voluntary code of conduct has been concluded between the mortgage-lending industry and consumer groups covering harmonised information to be made available to consumers before a home loan contract is signed; a list of institutions complying with this code is made public. Finally, as e-commerce and e-banking are becoming more widespread, a well-defined regulatory framework for the provision of financial services through the new distribution channels has become necessary. A political agreement has been reached on a proposed directive concerning the distance marketing of consumer financial services, covering the provision of retail financial services marketed by mail, telephone, fax or the internet.

Some general legal conditions have to be fulfilled for an efficient and integrated EU financial market to be achieved, in particular as regards corporate governance and taxation of cross-border savings income. A regulation and a directive on the establishment of a European Company Statute have been adopted. It will give companies operating in more than one Member State the option of being established as a single company under Community law and operating throughout the EU with one set of rules. Existing cross-border banking groups may in the future opt for this new legal form and the formation of new cross-border groups could well be stimulated.

Key prudential rules are also under review. A political agreement has been reached in the European Council on a proposal for the supplementary supervision of financial conglomerates. Important features of this proposal are the introduction of group-wide capital adequacy requirements and the nomination of a co-ordinating supervisor for such groups. In parallel to the work of the Basel Committee on Banking Supervision, a review of the EU capital framework for banks and investment firms is being carried out, complemented by a review of supervisory powers and disclosure requirements. A review of the EU solvency rules for insurance companies is also under way.

An important setback was the European Parliament's rejection of the draft Directive on takeover bids; a new proposal is expected to be submitted by the Commission in the course of 2002 on the basis of a report prepared by a group of company law experts[47]. The lack of minimum harmonised rules on takeovers continues to act as a brake on the development of an integrated market for corporate control.

Capital market issuers, including banks, would also benefit from increased transparency and convergence in information disclosure requirements. A Regulation on the application of International Accounting Standards (IAS) by listed EU companies for their consolidated accounts has recently been adopted. Such standards are relevant because the increased transparency and comparability of financial information will ultimately translate into easier access to the single capital market. The Investment Services Directive (ISD) also needs to be revised in order to keep up with market developments, such as e-brokerage and alternative trading systems. The planned revision will allow investment firms to become members of several exchanges simultaneously through the use of a single passport. In the context of the revision of this directive, the CESR recently published a proposal for the harmonisation of conduct-of-business rules.[48] Other important areas that would be tackled by a revised ISD are the in-house matching of securities transactions, the inclusion of the giving of investment advice as an activity subject to the ISD with capital adequacy implications, and organisational requirements for investment firms. A Commission proposal to this end is scheduled for the end of 2002.

In the retail field, local conduct-of-business regulations, taxation and different infrastructures can constitute an effective entry barrier since they require specific products to be developed for national environments. Also the process of establishing harmonisation in consumer information and redress procedures is still incomplete. In the area of taxation rules for savings, an agreement has been reached that Member States will exchange information on savings held by residents of other Member States, but there is a long transition period before this agreement will enter into full force. Finally, according to the information collected by the ECB and the European Commission, the high bank charges for cross-border retail payments are an important concern, since they act as a brake on the development of cross-border trade and e-commerce. After failed attempts to bring these costs down, the European Council has adopted a regulation to oblige banks to charge the same for domestic and similar cross-border payments. As a result of this regulation, the European banking sector has agreed to take the necessary initiatives to launch a single payments area no later than 2010.

[47] High Level Group of Company Law Experts (2002),

[48] CESR (2002).

Annex 2: Supervisory structures for banks, insurance companies and investment firms (April 2002)

	Banks	Insurance companies	Investment firms	Co-ordinating mechanisms – recent developments
BE	Commission bancaire et financière / Commissie voor het Bank- en Financiewezen (CBF)	Office de contrôle des assurances (OCA) / Controledienst voor de Verzekeringen (CDV)	Commission bancaire et financière / Commissie voor het Bank- en Financiewezen (CBF)	• General Memorandum of Understanding (MoU) between CBF and OCA/CDV. • Under a proposed reform, the National Bank of Belgium will be represented on the supervisory boards and management committees of the CBF and the OCA/CDV. In addition, a new Committee for Financial Stability and a new Supervisory Board of the Financial Services Authority will be established. The former will consist of the members of the management committees of the CBF, OCA/CDV and the National Bank of Belgium; the latter of the members of the supervisory boards of the three institutions.
DK	Finanstilsynet	Finanstilsynet	Finanstilsynet	
DE	• Bundesaufsichtsamt für das Kreditwesen (BAKred) • Deutsche Bundesbank	Bundesaufsichtsamt für das Versicherungswesen (BAV)	• Bundesaufsichtsamt für das Kreditwesen (BAKred) • Deutsche Bundesbank	From May 2002, the new Bundesanstalt für Finanzdienstleistungaufsicht (BAFin) has become the unified supervisor, combining the responsibilities of the present BAKred, BAV and Bundesaufsichtsamt für den Wertpapierhandel. The Forum for Financial Market Supervision, with representatives from BAFin, the Deutsche Bundesbank and the Ministry of Finance, continues to exist.
GR	Bank of Greece	Ministry of Development	Capital Market Commission	
ES	Banco de España	Ministerio de Economia – Dirección General de Seguros	Comisión Nacional del Mercado de Valores (CNMV)	
FR	Banque de France / Commission bancaire (CB)	Commission de contrôle des assurances (CCA) / Ministère de l'Economie.	Banque de France / Commission bancaire (CB)	General MoU between the Banque de France / Commission bancaire and Commission de contrôle des assurances. Board of financial sector supervisory authorities, composed of the governor of the Banque de France chairing the CB, the chairman of the CCA, the chairman of the Commission des Opérations de Bourse (COB) and the chairman of the Conseil des Marchés Financiers (CMF). The Finance Minister attends the meetings. Purpose is to facilitate the exchange of information on financial groups and to discuss questions of common concern on the co-ordination of supervision of such groups. The board has also an advisory function; the initiative for this lies with the Finance Minister or the chairpersons of the authorities involved.
IE	Central Bank of Ireland	Department of Enterprise, Trade and Employment	Central Bank of Ireland	Within the Central Bank of Ireland, an independent single regulatory authority called the Irish Financial Services Regulatory Authority (IFSRA), will be set

				up. It will bring together the functions of existing regulators (central bank, insurance regulator, supervisor of credit unions, office of consumer affairs).
IT	Banca d'Italia for prudential supervision and Commissione Nazionale per le Società e la Borsa (CONSOB) for transparency and proper conduct.	Instituto per la vigilanza sulle assicurazioni private e di interesse collettivo (ISVAP)	Banca d'Italia for prudential supervision and Commissione Nazionale per le Società e la Borsa (CONSOB) for transparency and proper conduct.	Banca d'Italia and ISVAP have made arrangements to better define patterns of co-operation and information-sharing.
LU	Commission de Surveillance du Secteur Financier (CSSF)	Commissariat aux Assurances	Commission de Surveillance du Secteur Financier (CSSF)	
NL	Prudential supervision: De Nederlandsche Bank [+ Pensioen- en Verzekerings-kamer, PVK, for financial conglomerates] Conduct-of-business supervision: Autoriteit Financiële Markten (Au-FM) [49].	Prudential supervision: PVK [+ De Nederlandsche Bank, for financial conglomerates] Conduct-of-business supervision: Au-FM	Prudential supervision: De Nederlandsche Bank [+ PVK, for financial conglomerates] Conduct of business supervision: Au-FM	MoU between Au-FM and De Nederlandsche Bank. A co-operation agreement has reently been signed between PVK and De Nederlandsche Bank and a cross-representation of the two authorities has been introduced. The Council of Financial Supervisors acts as consultative platform for De Nederlandsche Bank, PVK and Authoriteit Financiële Markten in matters of common concern, new developments in supervision, the assessment of legislation, and agreements on international operations
AT	• Finanzmarktaufsichtsbehörde (Financial Market Authority or FMA) • Österreichische Nationalbank	Finanzmarktaufsichtsbehörde (FMA)	Finanzmarktaufsichtsbehörde (FMA)	Since April 2002, the FMA has been the unified supervisor, combining the former responsibilities of the Bundesministerium für Finanzen and the Bundes-Wertpapieraufsicht. The central bank has kept its responsibilities in banking supervision, which have even been extended in some areas: the FMA must ask the central bank to examine the limitation of credit and market risk; it may ask the central bank to examine the limitation of other risks.
PT	Banco de Portugal	Instituto de Seguros de Portugal (ISP)	Banco de Portugal and Comissão do Mercado de Valores Mobiliários (CMVM)	Council of National Supervisors with representatives of the Banco de Portugal, ISP and CMVM.
FI	• Rahoitustarkastus (Financial Supervision Authority or FSA) • Suomen Pankki	Vakuutusvalvontavirasto (Insurance Supervision Authority)	Rahoitustarkastus	
SE	Finansinspektionen	Finansinspektionen	Finansinspektionen	
UK	Financial Services Authority (FSA)	Financial Services Authority (FSA)	Financial Services Authority (FSA)	

49 The former Stichting Toezicht Effectenverkeer (STE) or Securities Board.- Source: Authorities represented in the Banking Supervision Committee; Courtis, N. (2002)

Annex 3: Specific national regulations in the area of e-banking

	Is there a specific regulation for e-banking?
BE	Yes. Circular letter from the banking supervisor (2000),[50] with update forthcoming. Describes risks run by an institution when using the internet to provide services and specifies a number of prudential requirements (e.g. in terms of organisation, compliance, internal control).
DK	No.
DE	No. However, since 2001 BAFin, the Bundesbank and the Federal Office for Security in Information Technology have examined the technical security precautions in place at various credit institutions for e-banking platforms.
GR	No.
ES	No. However, the banking supervisor issued a circular letter in 2001 covering a number of rules on customer protection and transparency.
FR	No. However, in 2000 the banking supervisor issued (in co-operation with the banking industry) a white paper promoting good practices in e-banking.[51] One of the results is that the banking industry is working on a security benchmark for transactional sites.
IE	No.
IT	No.
LU	No. However, the banking supervisor is working on a circular letter that will set general criteria for the offering of services via the internet on both a domestic and cross-border basis. It will also address a number of technical and organisational issues.
NL	No.
AT	No.
PT	No. However, in 2001 the banking supervisor issued a number of specific recommendations (not strictly binding) on the organisation and internal control of electronic activities and specifically of transactional websites.
FI	No. However, the banking supervisor issued a statement in 2001 clarifying questions linked to areas such as the jurisdiction in e-banking, notifications, information provided on websites, confidentiality obligations, use of e-mail, information security, electronic contracts and customer identification.
SE	No.
UK	No. However, the banking supervisor has issued a discussion paper covering the qualitative differences in risk posed by e-banking operations.[52]

Source: Authorities represented in the Banking Supervision Committee

[50] Banking and Finance Commission (2000).

[51] Banque de France and General Secretariat de la Commission bancaire (2000).

[52] Financial Services Authority (2001).

Statistical Annex

Table 1					
Number of credit institutions					
COUNTRY		**YEAR**			
		1998	**1999**	**2000**	**2001**
BE	**Belgium**	123	117	118	112
DK	**Denmark**	212	210	210	203
DE	**Germany**	3,238	2,992	2,742	2,526
GR	**Greece**	59	57	57	61
ES	**Spain**	402	387	368	367
FR	**France**	1,226	1,159	1,099	1,050
IE	**Ireland**	78	81	81	88
IT	**Italy**	934	890	861	843
LU	**Luxembourg**	212	211	202	194
NL	**Netherlands**	634	616	586	561
AT	**Austria**	898	875	848	836
PT	**Portugal**	227	224	218	212
FI	**Finland**	348	346	341	369
SE	**Sweden**	148	148	146	149
UK	**United Kingdom**	521	496	491	452
MU12	**Monetary Union**	8,379	7,955	7,521	7,219
EU15	**European Union**	9,260	8,809	8,368	8,023

Source: ECB.
End of year figures. The 1998 figures are as of 1 January 1999.

Table 2						
Number of local units ("branches") of credit institutions						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	7,358	7,129	6,975	6,610	6,168
DK	**Denmark**	2,283	2,291	2,294	2,365	2,376
DE	**Germany**	63,186	59,929	58,546	56,936	53,931
GR	**Greece**	2,510	2,687	2,742	2,862	2,968
ES	**Spain**	38,039	39,039	39,376	39,311	39,024
FR	**France**	25,464	25,428	25,501	25,657	26,049
IE	**Ireland**	1,180	1,076	1,083	1,007	#N/A
IT	**Italy**	25,265	26,283	27,154	28,189	29,266
LU	**Luxembourg**	314	289	310	300	#N/A
NL	**Netherlands**	6,800	6,787	6,258	5,983	5,230
AT	**Austria**	4,691	4,587	4,589	4,570	4,561
PT	**Portugal**	4,746	4,947	5,401	5,662	5,534
FI	**Finland**	1,294	1,254	1,188	1,194	1,190
SE	**Sweden**	2,823	2,197	2,140	#N/A	#N/A
UK	**United Kingdom**	16,344	15,873	15,470	14,225	#N/A
MU12	**Monetary Union**	180,847	179,435	179,123	178,281	#N/A
EU15	**European Union**	202,297	199,796	199,027	#N/A	#N/A

Source: ECB or authorities represented in the BSC.

Table 3						
Number of local units ("branches") of credit institutions per 1,000 inhabitants						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	0.72	0.70	0.68	0.64	0.60
DK	**Denmark**	0.43	0.43	0.43	0.44	0.44
DE	**Germany**	0.77	0.73	0.71	0.69	0.66
GR	**Greece**	0.24	0.26	0.26	0.27	0.28
ES	**Spain**	0.97	0.99	0.99	0.98	0.97
FR	**France**	0.44	0.43	0.43	0.43	0.44
IE	**Ireland**	0.32	0.29	0.29	0.26	#N/A
IT	**Italy**	0.44	0.46	0.47	0.49	0.51
LU	**Luxembourg**	0.74	0.67	0.71	0.68	#N/A
NL	**Netherlands**	0.43	0.43	0.39	0.37	0.33
AT	**Austria**	0.58	0.57	0.57	0.56	0.56
PT	**Portugal**	0.48	0.50	0.53	0.55	0.54
FI	**Finland**	0.25	0.24	0.23	0.23	0.23
SE	**Sweden**	0.32	0.25	0.24	#N/A	#N/A
UK	**United Kingdom**	0.28	0.27	0.26	0.24	#N/A
MU12	**Monetary Union**	0.60	0.60	0.59	0.59	#N/A
EU15	**European Union**	0.54	0.53	0.53	#N/A	#N/A

Source: ECB or authorities represented in the BSC.

Table 4						
Number of employees of credit institutions						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	76,603	76,607	76,288	76,333	76,096
DK	**Denmark**	48,049	48,617	47,974	48,498	48,538
DE	**Germany**	767,000	768,450	770,500	771,950	766,000
GR	**Greece**	56,722	57,798	58,606	60,154	59,655
ES	**Spain**	245,916	246,045	243,547	243,203	244,805
FR	**France**	414,093	413,733	414,661	#N/A	#N/A
IE	**Ireland**	#N/A	#N/A	37,667	34,770	#N/A
IT	**Italy**	346,345	342,906	340,470	344,045	343,846
LU	**Luxembourg**	19,135	19,814	21,197	23,035	23,894
NL	**Netherlands**	111,487	119,106	124,309	129,294	127,317
AT	**Austria**	75,244	73,819	73,511	73,648	74,606
PT	**Portugal**	64,554	61,965	61,319	58,097	55,518
FI	**Finland**	26,304	24,755	24,088	24,489	24,583
SE	**Sweden**	43,197	43,526	43,222	#N/A	#N/A
UK	**United Kingdom**	455,422	463,923	481,304	445,281	#N/A
MU12	**Monetary Union**	#N/A	#N/A	2,246,163	#N/A	#N/A
EU15	**European Union**	#N/A	#N/A	2,818,663	#N/A	#N/A

Source: ECB or authorities represented in the BSC.

Table 5						
Number of employees of credit institutions per 1,000 inhabitants						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	7.52	7.50	7.45	7.44	7.41
DK	**Denmark**	9.07	9.15	9.00	9.07	9.07
DE	**Germany**	9.78	9.80	9.83	9.85	9.77
GR	**Greece**	5.40	5.49	5.55	5.69	5.65
ES	**Spain**	6.53	6.54	6.47	6.46	6.50
FR	**France**	7.10	7.07	7.06	#N/A	#N/A
IE	**Ireland**	#N/A	#N/A	9.97	9.09	#N/A
IT	**Italy**	6.02	5.95	5.90	5.95	5.94
LU	**Luxembourg**	45.16	46.16	48.65	52.20	54.14
NL	**Netherlands**	7.12	7.56	7.84	8.09	7.96
AT	**Austria**	9.32	9.13	9.07	9.07	9.19
PT	**Portugal**	6.48	6.21	6.02	5.67	5.42
FI	**Finland**	5.11	4.80	4.66	4.73	4.74
SE	**Sweden**	4.88	4.92	4.88	#N/A	#N/A
UK	**United Kingdom**	7.71	7.81	8.07	7.44	#N/A
MU12	**Monetary Union**	#N/A	#N/A	7.42	#N/A	#N/A
EU15	**European Union**	#N/A	#N/A	7.49	#N/A	#N/A

Source: ECB or authorities represented in the BSC.

Table 6						
CR5-Share of the 5 largest credit institutions in total assets (%)						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	54	63	76	75	78
DK	**Denmark**	70	71	71	60	68
DE	**Germany**	17	19	19	20	20
GR	**Greece**	56	63	67	65	66
ES	**Spain**	45	45	52	54	53
FR	**France**	40	41	43	47	47
IE	**Ireland**	41	40	41	41	43
IT	**Italy**	31	26	26	23	29
LU	**Luxembourg**	23	25	26	26	28
NL	**Netherlands**	79	82	82	81	82
AT	**Austria**	48	42	41	43	45
PT	**Portugal**	46	45	44	59	60
FI	**Finland**	89	86	86	87	80
SE	**Sweden**	87	86	88	88	#N/A
UK	**United Kingdom**	28	28	29	30	30

Source: ECB or authorities represented in the BSC.
CR5 is on a non-consolidated basis

Table 7						
Herfindahl index for total assets credit institutions						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	0.0699	0.0909	0.1518	0.1505	0.1587
DK	**Denmark**	0.1431	0.1442	0.1499	0.0863	0.1119
DE	**Germany**	0.0114	0.0133	0.0140	0.0151	0.0158
GR	**Greece**	0.0885	0.1165	0.0986	0.1122	0.1113
ES	**Spain**	0.0496	0.0488	0.0716	0.0874	0.0844
FR	**France**	0.0449	0.0485	0.0509	0.0589	#N/A
IE	**Ireland**	0.0500	0.0470	0.0480	0.0486	0.0512
IT	**Italy**	0.0306	0.0210	0.0220	0.0190	0.0260
LU	**Luxembourg**	0.0210	0.0222	0.0236	0.0242	0.0278
NL	**Netherlands**	0.1654	0.1802	0.1700	0.1694	0.1762
AT	**Austria**	0.0831	0.0515	0.0511	0.0548	0.0561
PT	**Portugal**	0.0600	0.0600	0.0600	0.1000	0.1000
FI	**Finland**	0.2307	0.2324	0.2152	0.2359	0.2186
SE	**Sweden**	0.2040	0.2010	0.1951	0.1975	#N/A
UK	**United Kingdom**	0.0207	0.0216	0.0263	#N/A	0.0292

Source: ECB or authorities represented in the BSC.
Herfindahl index is on a non-consolidated basis

Table 8						
Total assets of credit institutions (EUR millions)						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	662,933	668,754	715,479	699,764	777,441
DK	**Denmark**	314,739	349,789	382,589	425,241	467,897
DE	**Germany**	4,774,747	5,276,267	5,656,443	6,063,568	6,268,700
GR	**Greece**	114,628	133,543	167,247	191,864	202,735
ES	**Spain**	844,804	908,597	1,006,154	1,124,946	1,254,046
FR	**France**	3,026,371	3,101,535	3,402,082	3,502,578	3,768,943
IE	**Ireland**	184,808	234,634	302,751	418,012	531,899
IT	**Italy**	1,602,933	1,530,768	1,628,805	1,771,128	1,851,991
LU	**Luxembourg**	516,683	540,713	598,538	647,895	720,998
NL	**Netherlands**	769,040	896,155	983,665	1,148,947	1,265,906
AT	**Austria**	413,025	451,577	486,710	527,931	573,301
PT	**Portugal**	222,242	286,588	302,825	315,428	352,420
FI	**Finland**	105,237	108,088	119,706	129,715	166,728
SE	**Sweden**	389,130	348,190	390,628	434,669	#N/A
UK	**United Kingdom**	3,715,426	3,739,293	4,331,309	5,137,407	5,748,488
MU12	**Monetary Union**	13,237,451	14,137,218	15,370,405	16,541,776	17,735,108
EU15	**European Union**	17,656,746	18,574,490	20,474,931	22,539,093	#N/A

Source: ECB or authorities represented in the BSC.

Table 9						
Total assets of credit institutions per GDP						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	3.06	2.98	3.04	2.82	3.03
DK	**Denmark**	2.11	2.27	2.34	2.45	2.60
DE	**Germany**	2.56	2.75	2.87	2.99	3.04
GR	**Greece**	1.07	1.23	1.42	1.56	1.55
ES	**Spain**	1.70	1.73	1.78	1.85	1.93
FR	**France**	2.44	2.39	2.51	2.47	2.57
IE	**Ireland**	2.62	3.04	3.40	4.04	4.61
IT	**Italy**	1.56	1.43	1.47	1.52	1.52
LU	**Luxembourg**	33.22	32.08	32.55	31.66	33.97
NL	**Netherlands**	2.31	2.55	2.63	2.86	2.98
AT	**Austria**	2.27	2.39	2.47	2.58	2.72
PT	**Portugal**	2.37	2.86	2.81	2.74	2.87
FI	**Finland**	0.97	0.94	0.99	0.99	1.23
SE	**Sweden**	1.85	1.63	1.72	1.75	#N/A
UK	**United Kingdom**	3.17	2.94	3.17	3.31	3.61
MU12	**Monetary Union**	2.30	2.36	2.45	2.52	2.60
EU15	**European Union**	2.42	2.43	2.55	2.64	#N/A

Source: ECB or authorities represented in the BSC.

Table 10						
Total loans of credit institutions to MFIs (EUR millions)						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	205,425	214,295	234,332	248,698	263,559
DK	**Denmark**	199,995	213,078	228,773	252,344	276,596
DE	**Germany**	2,546,768	2,706,869	2,817,723	2,951,888	3,051,658
GR	**Greece**	38,425	47,061	55,105	66,835	81,779
ES	**Spain**	412,417	467,041	531,331	617,222	689,908
FR	**France**	1,060,336	1,076,518	1,155,240	1,270,170	1,336,503
IE	**Ireland**	79,148	96,046	132,838	160,761	190,891
IT	**Italy**	744,366	787,727	855,283	955,991	1,009,773
LU	**Luxembourg**	84,257	104,243	122,093	130,355	148,113
NL	**Netherlands**	415,654	475,287	538,203	606,355	654,621
AT	**Austria**	213,283	221,658	235,615	256,795	268,378
PT	**Portugal**	73,713	93,847	122,750	152,760	170,615
FI	**Finland**	52,417	57,573	64,243	71,861	81,058
SE	**Sweden**	212,127	196,028	227,655	243,396	#N/A
UK	**United Kingdom**	1,383,956	1,362,844	1,655,885	1,875,531	2,080,751
MU12	**Monetary Union**	5,926,209	6,348,165	6,864,756	7,489,691	7,946,856
EU15	**European Union**	7,722,286	8,120,114	8,977,069	9,860,962	#N/A

Source: ECB or authorities represented in the BSC.
MFIs: monetary financial institutions. These are mainly credit institutions and to a lesser extent also money market funds.

Table 11						
Total loans of credit institutions to MFIs per GDP						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	0.95	0.96	0.99	1.00	1.03
DK	**Denmark**	1.34	1.38	1.40	1.45	1.53
DE	**Germany**	1.37	1.41	1.43	1.46	1.48
GR	**Greece**	0.36	0.43	0.47	0.54	0.63
ES	**Spain**	0.83	0.89	0.94	1.01	1.06
FR	**France**	0.85	0.83	0.85	0.90	0.91
IE	**Ireland**	1.12	1.24	1.49	#N/A	#N/A
IT	**Italy**	0.72	0.74	0.77	0.82	0.83
LU	**Luxembourg**	5.42	6.18	6.64	6.37	6.98
NL	**Netherlands**	1.25	1.35	1.44	1.51	1.54
AT	**Austria**	1.17	1.17	1.20	1.25	1.27
PT	**Portugal**	0.79	0.94	1.14	1.33	1.39
FI	**Finland**	0.49	0.50	0.53	0.55	0.60
SE	**Sweden**	1.01	0.92	1.00	0.98	#N/A
UK	**United Kingdom**	1.18	1.07	1.21	1.21	1.31
MU12	**Monetary Union**	1.03	1.06	1.10	1.14	1.17
EU15	**European Union**	1.06	1.06	1.12	1.16	#N/A

Source: ECB or authorities represented in the BSC.
MFIs: monetary financial institutions. These are mainly credit institutions and to a lesser extent also money market funds.

Table 12						
Total deposits of credit institutions from non-MFIs (EUR millions)						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	228,213	263,052	288,480	293,237	326,183
DK	**Denmark**	220,068	233,533	258,658	91,580	96,668
DE	**Germany**	1,952,010	2,071,841	2,185,363	2,256,097	2,380,289
GR	**Greece**	80,702	99,359	112,557	126,664	141,625
ES	**Spain**	436,346	455,507	525,396	617,682	707,473
FR	**France**	888,271	934,793	945,993	977,804	1,051,205
IE	**Ireland**	64,603	78,077	98,708	115,046	131,066
IT	**Italy**	623,681	615,489	617,478	643,659	681,266
LU	**Luxembourg**	206,606	205,806	189,262	216,680	217,375
NL	**Netherlands**	343,706	374,636	404,616	455,162	524,762
AT	**Austria**	167,864	179,025	187,410	192,077	210,262
PT	**Portugal**	100,804	107,430	120,146	129,327	134,370
FI	**Finland**	58,992	58,922	63,874	66,229	68,977
SE	**Sweden**	106,348	84,474	99,497	110,731	#N/A
UK	**United Kingdom**	1,169,790	1,172,984	1,362,318	1,535,739	1,715,620
MU12	**Monetary Union**	5,151,798	5,443,937	5,739,283	6,089,664	6,574,853
EU15	**European Union**	6,648,004	6,934,928	7,459,756	7,827,715	#N/A

Source: ECB or authorities represented in the BSC.
MFIs: monetary financial institutions. These are mainly credit institutions and to a lesser extent also money market funds.

Table 13						
Total deposits of credit institutions from non-MFIs per GDP						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	1.05	1.17	1.22	1.18	1.27
DK	**Denmark**	1.48	1.52	1.58	0.53	0.54
DE	**Germany**	1.05	1.08	1.11	1.11	1.15
GR	**Greece**	0.75	0.91	0.95	1.03	1.09
ES	**Spain**	0.88	0.87	0.93	1.01	1.09
FR	**France**	0.72	0.72	0.70	0.69	0.72
IE	**Ireland**	0.91	1.01	1.11	1.11	1.14
IT	**Italy**	0.61	0.58	0.56	0.55	0.56
LU	**Luxembourg**	13.28	12.21	10.29	10.59	10.24
NL	**Netherlands**	1.03	1.07	1.08	1.13	1.24
AT	**Austria**	0.92	0.95	0.95	0.94	1.00
PT	**Portugal**	1.07	1.07	1.12	1.12	1.10
FI	**Finland**	0.55	0.51	0.53	0.50	0.51
SE	**Sweden**	0.50	0.40	0.44	0.45	#N/A
UK	**United Kingdom**	1.00	0.92	1.00	0.99	1.08
MU12	**Monetary Union**	0.90	0.91	0.92	0.93	0.97
EU15	**European Union**	0.91	0.91	0.93	0.92	#N/A

Source: ECB or authorities represented in the BSC.
MFIs: monetary financial institutions. These are mainly credit institutions and to a lesser extent also money market funds.

Table 14						
Number of branches of credit institutions from EEA countries						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	25	25	30	34	35
DK	**Denmark**	7	8	9	9	9
DE	**Germany**	46	53	57	62	59
GR	**Greece**	14	14	13	13	13
ES	**Spain**	35	36	41	42	49
FR	**France**	52	53	56	59	55
IE	**Ireland**	#N/A	#N/A	26	28	32
IT	**Italy**	62	65	70	82	94
LU	**Luxembourg**	61	61	60	55	54
NL	**Netherlands**	11	15	21	25	23
AT	**Austria**	6	9	12	13	15
PT	**Portugal**	15	15	17	23	23
FI	**Finland**	13	13	16	17	18
SE	**Sweden**	14	17	16	19	#N/A
UK	**United Kingdom**	100	100	99	95	87
MU12	**Monetary Union**	#N/A	#N/A	419	453	470
EU15	**European Union**	#N/A	#N/A	543	576	#N/A

Source: ECB or authorities represented in the BSC.

Table 15						
Total assets of branches of credit institutions from EEA countries (EUR millions)						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	56,565	42,757	38,600	39,941	29,841
DK	**Denmark**	14,094	21,688	15,427	21,741	19,651
DE	**Germany**	44,027	65,171	70,946	79,039	91,316
GR	**Greece**	10,345	9,422	10,964	12,204	8,934
ES	**Spain**	41,515	41,004	37,372	40,558	51,070
FR	**France**	84,031	81,729	90,841	122,660	119,680
IE	**Ireland**	#N/A	#N/A	50,064	56,522	58,411
IT	**Italy**	56,808	83,345	79,011	97,633	103,758
LU	**Luxembourg**	99,230	106,803	107,269	117,532	130,961
NL	**Netherlands**	16,209	20,437	21,231	30,582	27,626
AT	**Austria**	2,909	3,230	3,958	4,000	4,519
PT	**Portugal**	8,972	11,299	11,425	13,206	14,808
FI	**Finland**	8,176	8,212	10,611	9,490	9,424
SE	**Sweden**	5,490	6,922	11,263	#N/A	#N/A
UK	**United Kingdom**	845,651	986,106	1,054,291	1,262,304	1,363,463
MU12	**Monetary Union**	#N/A	#N/A	532,292	623,367	#N/A
EU15	**European Union**	#N/A	#N/A	1,613,273	#N/A	#N/A

Source: ECB or authorities represented in the BSC.

Table 16						
Total assets of branches of credit institutions from EEA countries per GDP x 100						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	26	19	16	16	12
DK	**Denmark**	9	14	9	13	11
DE	**Germany**	2	3	4	4	4
GR	**Greece**	10	9	9	10	7
ES	**Spain**	8	8	7	7	8
FR	**France**	7	6	7	9	8
IE	**Ireland**	#N/A	#N/A	56	55	51
IT	**Italy**	6	8	7	8	9
LU	**Luxembourg**	638	634	583	574	617
NL	**Netherlands**	5	6	6	8	7
AT	**Austria**	2	2	2	2	2
PT	**Portugal**	10	11	11	11	12
FI	**Finland**	8	7	9	7	7
SE	**Sweden**	3	3	5	#N/A	#N/A
UK	**United Kingdom**	72	78	77	81	86
MU12	**Monetary Union**	#N/A	#N/A	8	9	#N/A
EU15	**European Union**	#N/A	#N/A	20	#N/A	#N/A

Source: ECB or authorities represented in the BSC.

Table 17						
Number of subsidiaries of credit institutions from EEA countries						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	16	17	21	21	22
DK	**Denmark**	2	4	5	5	7
DE	**Germany**	31	32	23	22	21
GR	**Greece**	1	1	1	2	2
ES	**Spain**	46	40	36	38	44
FR	**France**	71	71	82	108	105
IE	**Ireland**	21	24	26	26	27
IT	**Italy**	4	5	6	7	7
LU	**Luxembourg**	97	96	99	96	89
NL	**Netherlands**	9	9	9	12	14
AT	**Austria**	20	14	14	15	16
PT	**Portugal**	6	8	8	10	9
FI	**Finland**	0	0	0	0	0
SE	**Sweden**	0	3	3	4	#N/A
UK	**United Kingdom**	21	15	15	16	17
MU12	**Monetary Union**	322	317	325	357	356
EU15	**European Union**	345	339	348	382	#N/A

Source: ECB or authorities represented in the BSC.

Table 18						
Total assets of subsidiaries of credit institutions from EEA countries (EUR millions)						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	93,570	98,734	107,659	114,956	146,337
DK	**Denmark**	#N/A	452	877	845	58,564
DE	**Germany**	68,440	74,565	72,412	75,241	110,716
GR	**Greece**	#N/A	#N/A	#N/A	#N/A	#N/A
ES	**Spain**	34,641	39,896	36,140	41,955	49,708
FR	**France**	142,768	135,303	121,213	292,425	#N/A
IE	**Ireland**	51,347	72,347	102,710	121,090	148,511
IT	**Italy**	31,241	38,520	46,518	25,499	20,416
LU	**Luxembourg**	332,248	367,809	421,638	439,450	499,479
NL	**Netherlands**	21,680	21,684	13,453	77,653	96,588
AT	**Austria**	6,962	4,964	5,765	6,184	104,578
PT	**Portugal**	20,146	42,782	25,999	53,649	68,275
FI	**Finland**	0	0	0	0	0
SE	**Sweden**	0	5,656	2,616	#N/A	#N/A
UK	**United Kingdom**	58,164	53,749	64,968	69,001	71,887
MU12	**Monetary Union**	#N/A	#N/A	#N/A	#N/A	#N/A
EU15	**European Union**	#N/A	#N/A	#N/A	#N/A	#N/A

Source: ECB or authorities represented in the BSC.
France: The figures are the sum of the assets of subsidiaries from both EEA countries and non-EEA countries.

Table 19						
Total assets of subsidiaries of credit institutions from EEA countries per GDP x 100						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	43	44	46	46	57
DK	**Denmark**	#N/A	0	1	0	32
DE	**Germany**	4	4	4	4	5
GR	**Greece**	#N/A	#N/A	#N/A	#N/A	#N/A
ES	**Spain**	7	8	6	7	8
FR	**France**	12	10	9	21	#N/A
IE	**Ireland**	73	94	115	117	129
IT	**Italy**	3	4	4	2	2
LU	**Luxembourg**	2,136	2,182	2,293	2,148	2,353
NL	**Netherlands**	7	6	4	19	23
AT	**Austria**	4	3	3	3	50
PT	**Portugal**	21	43	24	47	56
FI	**Finland**	0	0	0	0	0
SE	**Sweden**	0	3	1	#N/A	#N/A
UK	**United Kingdom**	5	4	5	4	5
MU12	**Monetary Union**	#N/A	#N/A	#N/A	#N/A	#N/A
EU15	**European Union**	#N/A	#N/A	#N/A	#N/A	#N/A

Source: ECB or authorities represented in the BSC.
France: The figures are the sum of the assets of subsidiaries from both EEA countries and non-EEA countries.

Table 20						
Number of branches of credit institutions from non-EEA countries						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	15	14	14	13	11
DK	**Denmark**	1	1	1	2	1
DE	**Germany**	31	31	30	28	21
GR	**Greece**	9	9	9	9	8
ES	**Spain**	18	15	11	10	7
FR	**France**	41	36	32	31	28
IE	**Ireland**	2	2	2	2	1
IT	**Italy**	19	18	18	16	16
LU	**Luxembourg**	7	7	8	8	7
NL	**Netherlands**	11	11	10	10	9
AT	**Austria**	0	2	1	1	0
PT	**Portugal**	3	3	4	3	3
FI	**Finland**	0	0	0	0	0
SE	**Sweden**	3	2	1	1	#N/A
UK	**United Kingdom**	152	142	128	126	114
MU12	**Monetary Union**	156	148	139	131	111
EU15	**European Union**	312	293	269	260	#N/A

Source: ECB or authorities represented in the BSC.

Table 21						
Total assets of branches of credit institutions from non-EEA countries (EUR millions)						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	43,859	34,069	18,592	12,995	13,109
DK	**Denmark**	#N/A	#N/A	#N/A	#N/A	#N/A
DE	**Germany**	35,439	35,020	34,189	42,368	38,525
GR	**Greece**	7,764	7,014	6,929	10,127	8,911
ES	**Spain**	13,200	8,749	5,939	5,286	2,704
FR	**France**	57,409	42,921	27,296	26,921	21,026
IE	**Ireland**	#N/A	#N/A	#N/A	#N/A	#N/A
IT	**Italy**	21,993	12,858	9,956	15,480	17,600
LU	**Luxembourg**	7,127	7,076	6,132	7,755	7,031
NL	**Netherlands**	3,915	3,692	3,320	3,302	2,107
AT	**Austria**	#N/A	#N/A	#N/A	#N/A	#N/A
PT	**Portugal**	3,803	5,431	6,425	3,279	3,669
FI	**Finland**	0	0	0	0	0
SE	**Sweden**	431	#N/A	#N/A	#N/A	#N/A
UK	**United Kingdom**	890,061	797,434	901,861	1,134,682	1,209,082
MU12	**Monetary Union**	#N/A	#N/A	#N/A	#N/A	#N/A
EU15	**European Union**	#N/A	#N/A	#N/A	#N/A	#N/A

Source: ECB or authorities represented in the BSC.

Table 22						
Total assets of branches of credit institutions from non-EEA countries per GDP x 100						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	20	15	8	5	5
DK	**Denmark**	#N/A	#N/A	#N/A	#N/A	#N/A
DE	**Germany**	2	2	2	2	2
GR	**Greece**	7	6	6	8	7
ES	**Spain**	3	2	1	1	0
FR	**France**	5	3	2	2	1
IE	**Ireland**	#N/A	#N/A	#N/A	#N/A	#N/A
IT	**Italy**	2	1	1	1	1
LU	**Luxembourg**	46	42	33	38	33
NL	**Netherlands**	1	1	1	1	0
AT	**Austria**	#N/A	#N/A	#N/A	#N/A	#N/A
PT	**Portugal**	4	5	6	3	3
FI	**Finland**	0	0	0	0	0
SE	**Sweden**	0	#N/A	#N/A	#N/A	#N/A
UK	**United Kingdom**	76	63	66	73	76
MU12	**Monetary Union**	#N/A	#N/A	#N/A	#N/A	#N/A
EU15	**European Union**	#N/A	#N/A	#N/A	#N/A	#N/A

Source: ECB or authorities represented in the BSC.

Table 23						
Number of subsidiaries of credit institutions from non-EEA countries						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	15	10	6	6	7
DK	**Denmark**	0	0	0	1	2
DE	**Germany**	45	40	38	34	32
GR	**Greece**	2	2	2	2	2
ES	**Spain**	14	13	13	14	12
FR	**France**	31	32	26	27	23
IE	**Ireland**	8	10	9	10	13
IT	**Italy**	3	3	3	2	2
LU	**Luxembourg**	45	41	39	39	35
NL	**Netherlands**	20	19	17	16	17
AT	**Austria**	0	9	9	8	7
PT	**Portugal**	3	3	4	3	#N/A
FI	**Finland**	0	0	0	0	0
SE	**Sweden**	1	0	0	0	#N/A
UK	**United Kingdom**	79	79	76	75	77
MU12	**Monetary Union**	186	182	166	161	#N/A
EU15	**European Union**	266	261	242	237	#N/A

Source: ECB or authorities represented in the BSC.

Table 24						
Total assets of subsidiaries of credit institutions from non-EEA countries (EUR millions)						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	7,376	3,539	3,095	3,365	6,608
DK	**Denmark**	0	0	0	#N/A	#N/A
DE	**Germany**	57,684	50,646	50,931	54,779	56,811
GR	**Greece**	#N/A	#N/A	#N/A	#N/A	#N/A
ES	**Spain**	16,424	18,411	14,279	14,999	15,478
FR	**France**	142,768	135,303	121,213	292,425	#N/A
IE	**Ireland**	13,189	17,611	24,612	32,489	49,643
IT	**Italy**	1,753	2,686	1,487	#N/A	#N/A
LU	**Luxembourg**	39,432	29,054	30,861	32,549	38,664
NL	**Netherlands**	13,851	12,487	13,143	17,313	16,809
AT	**Austria**	0	4,373	3,790	4,782	2,606
PT	**Portugal**	1,954	2,405	4,159	3,104	#N/A
FI	**Finland**	0	0	0	0	0
SE	**Sweden**	#N/A	0	0	0	#N/A
UK	**United Kingdom**	204,657	203,745	232,954	276,047	297,724
MU12	**Monetary Union**	#N/A	#N/A	#N/A	#N/A	#N/A
EU15	**European Union**	#N/A	#N/A	#N/A	#N/A	#N/A

Source: ECB or authorities represented in the BSC.
France: The figures are the sum of the assets of subsidiaries from both EEA countries and non-EEA countries.

Table 25						
Total assets of subsidiaries of credit institutions from non-EEA countries per GDP x 100						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	3	2	1	1	3
DK	**Denmark**	0	0	0	#N/A	#N/A
DE	**Germany**	3	3	3	3	3
GR	**Greece**	#N/A	#N/A	#N/A	#N/A	#N/A
ES	**Spain**	3	4	3	2	2
FR	**France**	12	10	9	21	#N/A
IE	**Ireland**	19	23	28	31	43
IT	**Italy**	0	0	0	#N/A	#N/A
LU	**Luxembourg**	254	172	168	159	182
NL	**Netherlands**	4	4	4	4	4
AT	**Austria**	0	2	2	2	1
PT	**Portugal**	2	2	4	3	#N/A
FI	**Finland**	0	0	0	0	0
SE	**Sweden**	#N/A	0	0	0	#N/A
UK	**United Kingdom**	17	16	17	18	19
MU12	**Monetary Union**	#N/A	#N/A	#N/A	#N/A	#N/A
EU15	**European Union**	#N/A	#N/A	#N/A	#N/A	#N/A

Source: ECB or authorities represented in the BSC.
France: The figures are the sum of the assets of subsidiaries from both EEA countries and non-EEA countries.

Table 26						
Population (number of units, end of period)						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	10,192,264	10,213,752	10,239,100	10,263,400	10,263,400
DK	**Denmark**	5,294,860	5,313,577	5,330,000	5,349,200	5,349,200
DE	**Germany**	82,057,379	82,037,011	82,163,500	82,192,600	82,192,600
GR	**Greece**	10,510,965	10,521,669	10,554,400	10,564,700	10,564,700
ES	**Spain**	39,387,500	39,519,200	39,733,000	40,121,700	40,121,700
FR	**France**	58,299,000	58,496,600	58,748,700	59,037,200	59,037,200
IE	**Ireland**	3,693,999	3,734,901	3,776,600	3,826,200	3,826,200
IT	**Italy**	57,563,354	57,612,615	57,679,900	57,844,000	57,844,000
LU	**Luxembourg**	423,700	429,200	435,700	441,300	441,300
NL	**Netherlands**	15,654,192	15,760,225	15,864,000	15,987,100	15,987,100
AT	**Austria**	8,075,425	8,082,819	8,102,600	8,121,300	8,121,300
PT	**Portugal**	9,957,270	9,979,450	10,178,200	10,242,900	10,242,900
FI	**Finland**	5,147,349	5,159,646	5,171,300	5,181,100	5,181,100
SE	**Sweden**	8,847,625	8,854,322	8,861,400	8,882,800	8,882,800
UK	**United Kingdom**	59,089,589	59,391,100	59,623,400	59,832,100	59,832,100
MU12	**Monetary Union**	300,962,397	301,547,088	302,647,000	303,823,500	303,823,500
EU15	**European Union**	374,194,471	375,106,087	376,461,800	377,887,600	377,887,600

Source: Eurostat.
Data for 2001 are not yet available. 2000 figures have been used for 2001 as working assumption.

Table 27						
Gross Domestic Product at market price (EUR or ECU millions)						
COUNTRY		**YEAR**				
		1997	**1998**	**1999**	**2000**	**2001**
BE	**Belgium**	216,404	224,312	235,538	248,336	256,591
DK	**Denmark**	149,169	154,069	163,215	173,889	180,264
DE	**Germany**	1,863,458	1,916,370	1,974,300	2,025,500	2,063,000
GR	**Greece**	107,102	108,978	118,028	122,881	130,436
ES	**Spain**	495,627	525,436	565,483	608,787	650,193
FR	**France**	1,241,129	1,297,574	1,355,102	1,416,877	1,463,722
IE	**Ireland**	70,609	77,240	89,029	103,470	115,473
IT	**Italy**	1,029,991	1,068,947	1,108,497	1,164,767	1,216,583
LU	**Luxembourg**	15,554	16,858	18,387	20,463	21,223
NL	**Netherlands**	332,654	351,648	373,664	401,089	424,807
AT	**Austria**	181,645	188,646	196,658	204,842	210,702
PT	**Portugal**	93,890	100,320	107,741	115,042	122,705
FI	**Finland**	108,072	115,256	120,485	131,229	135,057
SE	**Sweden**	210,815	213,701	227,607	248,479	234,162
UK	**United Kingdom**	1,171,548	1,271,085	1,368,181	1,550,364	1,590,763
MU12	**Monetary Union**	5,756,135	5,991,586	6,262,913	6,563,283	6,810,492
EU15	**European Union**	7,287,667	7,630,440	8,021,915	8,536,016	8,815,682

Source: ECB / Datastream.
Figures are in euro from 1.1.1999 on and in ecu up to 31.12.1998