EUROPEAN CENTRAL BANK

POSSIBLE EFFECTS OF EMU ON THE EU BANKING SYSTEMS IN THE MEDIUM TO LONG TERM

February 1999

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ISBN 92-9181-031-2

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EXECUTIVE SUMMARY

The present report addresses the possible effects of Economic and Monetary Union (EMU) on the EU banking systems in the medium to long term and evaluates how banks are responding to the related forces for change. The report has been prepared in the context of the task of the Eurosystem to contribute to the smooth conduct of policies followed by competent authorities in the field of banking supervision and financial stability (Article 105 (5) of the Treaty establishing the European Community) and draws on the contribution provided by the banking supervisory authorities of the EU countries. Its main purpose is to increase awareness of the underlying trends in the EU banking systems and the possible developments triggered by EMU.

The main finding of the report is that EMU is likely to act in the medium and long term as a catalyst to reinforce already prevailing trends in the EU banking systems. In particular, EMU is expected to reinforce the pressure for the reduction of existing excess capacity, to put profitability under pressure and to lead to increased internationalisation and geographical diversification, also outside EMU, as well as to increased conglomeration and mergers and acquisitions. Overall competition in banking within the euro area is likely to increase considerably, but most probably to a different extent in wholesale and retail banking.

Over the past few months – after the decision concerning the countries participating in the euro area – EU banks seem to have increased significantly their awareness of the challenges that EMU will bring in the medium and long term. Accordingly, they have started reconsidering their strategic orientation. This should be seen as a very positive aspect. In addition, the favourable situation of profitability recorded in the recent past by the EU banking systems strengthens their position in the new environment.

Two relevant aspects should, however, be borne in mind. First, in the short term, the possible protracted nature of the Asian and Russian crises, the possible further spillover effects of developments in Latin America or other emerging markets and the Year 2000 problem might represent a dangerous combination for the EU banking systems, not to mention the revenue and cost implications of the transition to the euro. In particular, the current international crises represent a source of uncertainty for the future profitability of EU banks exposed to crisis-stricken countries. Second, in the medium term, the negative effects of the structural adjustment process in the EU banking systems could be concentrated in strategically unfavourably placed banks that may not cope with the risks and difficulties associated with the adaptation to that process.

Nevertheless, in the longer term, the adjustment process should result in a stronger and fitter banking sector and generate customer gains due to increased competition. In addition, the transition to a stable monetary environment should bring positive effects to the EU banking systems (to be felt especially by the national banking systems previously operating in a high inflation environment). All in all, the above-mentioned picture should warn banks not to be complacent and not to delay their responses to the envisaged new environment.

In the following sections, after a brief description of recent major developments in the EU banking systems, the possible effects of EMU on relevant aspects of banking business are set out.

- **Recent developments in the EU banking systems**

A number of general developments have characterised the EU banking systems in the recent past. First, further decreases in interest rates were recorded in the course of 1998. This downward trend was especially pronounced in those EU countries which were still recording a substantial differential with long-term German rates. As a consequence, the banks concerned have made substantial gains on their securities portfolios. In the short term, the decrease in interest rates is beneficial to banks due to capital gains and increased income from maturity transformation, whereas in the long term, a low level of interest rates will reduce the margin earned by banks on their interest-free or low interest rate resources. Second, against the rather favourable intra-European developments, the protracted Asian financial crisis, the developments in Russia and Latin America and the prolonged difficulties in the Japanese banking sector have been and continue to be a source of concern. Time will be necessary to assess all financial consequences for the EU banking systems. In particular, the impact of the increased provisioning for doubtful loans on banks' profit and loss accounts has not yet been fully assessed, while the provisioning needs of the exposed hanks have clearly increased. Third, a shift on the assets side from the public to the private debtors has been observed as a consequence of the reduction in public debt due to the Stability and Growth Pact. The consolidation of this process might entail a more risky asset profile of credit institutions. Fourth, an increase in mergers and acquisitions within the EU banking systems has been a part of a wider trend affecting other regions of the world and other sectors. Some of the mergers and acquisitions have occurred on a cross-border basis.

With regard to bank profitability, data available until end-1997 indicate that a reversal in the downward trend in profitability has taken place in the European Union since 1994. Average return on equity (ROE) has increased from a low of 8.1% in 1994 to 11.1% in 1996, while average return on assets (ROA) rose, during the same period, from 0.42% to 0.54%. The 1997 figures tend to stagnate at the 1996 level. Despite its recent improvement, bank profitability in the EU is still at a lower level than in the United States, where banks are recording, on average, a ROE in the range of 20% according to OECD data and in the range of (a historically high) 15% of ROE for commercial banks according to data published by the US Federal Deposit Insurance Corporation (FDIC).[1]

[1] Basic differences in accounting and calculation methods as well as in the structure of the banking business which may systematically bias the data have to be kept in mind and can clearly be seen when comparing the data provided for the US by the OECD and the FDIC.

Those good results were mainly due to the favourable economic conditions. This is reflected by both the 1994 to 1997 increase in non-interest income and the relative reduction in net provisions. One of the reasons is the downward trend in interest rates, which contributed to the boosting of capitael gains and, more generally, trading and underwriting activities. However, this additional income has to be considered to a large extent as a windfall gain. Indeed, despite those favourable cyclical conditions which prevailed until recently, the more general pressure on bank profitability still exists, given that the overall net interest margin has continued to decrease over recent years and that costs are reduced at a rather slow pace.

- **Effects of EMU on banking activities**

A large number of EU banks of various sizes were interviewed in mid-1997, and a smaller number of banks were contacted again in spring 1998, in order to investigate banks' own assessment of the medium to long-term effects of EMU on the different banking activities. Bankers were also of the opinion that EMU would mainly reinforce the existing trends in the banking industry. A majority of banks expected their overall profitability to be negatively affected after the introduction of the euro, but the size of the profitability loss was usually considered relatively small. Small and medium-sized banks were generally more pessimistic than the large ones. A slight positive change in banks' assessments occurred in spring 1998, which could be attributed to some extent to the favourable macroeconomic situation and improved profitability.

The establishment of EMU is expected to affect the various activities undertaken by banks in different ways. The reduction in foreign exchange activity of currencies replaced by the euro was regarded by banks as the main negative consequence of EMU. However, banks are likely to increase their money and especially securities market activities to even out lower revenues from foreign exchange trading. The introduction of the euro and the single monetary policy will favour the setting-up of deep and liquid integrated money and capital markets that will, in turn, generate growth, but also trigger further competition in this area. The reduction of government debt owing to fiscal consolidation under EMU is likely to boost the spreading of other securities and, possibly, the securities activities of banks. Retail deposit business might be affected to the extent that the establishment of a low interest rate environment would induce customers to seek alternative investments to deposits. Lending business might be favoured by the positive macroeconomic environment brought about by EMU, but the expected further securitisation and disintermediation might operate in the reverse direction. Correspondent banking services are likely to decrease owing to the centralisation of treasury functions at large banks. All in all, the final result on banking activities will depend on the interaction among all the above factors that is difficult to predict.

- **Effects of EMU on banking structure**

EMU is expected to reinforce the current tendency in the EU banking systems towards a reduction of banking capacity. Notwithstanding the measurement problems for bank capacity, there are good reasons to assume that excess capacity exists in several Member States. This can be regarded as the result of imperfect competition and/or regulation in the past. There has already been a reduction in capacity in many countries over the past few years. However, EMU is expected to exert, through increased competition, further pressure towards the reduction of excess capacity. In particular, the branch network and staffing levels, given the existing marked differences across countries, are expected to be affected, thus enabling banks to achieve efficiency gains.

EMU is also likely to speed up the process of <u>disintermediation</u> (reducing the share of banks in the borrowing or saving activities within an economy) which is already under way in the EU banking systems. Over the past few years, the relative importance of credit institutions has decreased in the majority of Member States in favour of institutional investors (investment funds, insurance companies and pension funds), although this took place in a context within which financial assets (including assets of credit institutions) increased in general at a considerably higher pace than GDP. Among the institutional investors, investment funds recorded the highest rate of growth. However, in many Member States, more than 80% of undertakings for collective investments in transferable securities (UCITS) are controlled by banks. Institutional investors are expected to continue to grow mainly owing to demographic and social changes. In terms of the relative importance of the different financial instruments, disintermediation is still at an early stage (e.g. with regard to the use of commercial paper or private bonds instead of bank credit) and it is difficult to foresee the possible effects of EMU. One aspect relates to the consolidation efforts under way in public finance in the EU countries and entails a possible reduction in the issuance of government bonds. In addition, as the single currency will increase market liquidity, the lower costs associated with commercial paper or bonds are expected to encourage the issuance of these instruments, thus giving a boost to disintermediation.

- **Effects of EMU on banks' strategies**

The establishment of EMU will create a more competitive environment and put further pressure on banks' profitability. In view of these challenges, the EU banking systems have already adopted or are in the process of devising appropriate strategic responses. Current developments show that banks are devising strategic responses in three main directions: (i) improvements in services and procedures (concerning the quality of services, staff and IT; risk management and internal control systems, cost-cutting and efficiency improvements); (ii) changes in product ranges **(**shift from operating services to consulting; reconsideration of product ranges, development of alternative sources of income, e.g. through geographical expansion); and (iii) mergers, strategic alliances and co-operation agreements. These are undertaken for a variety of reasons, including cost and efficiency improvements (economies of scale and scope), product diversification, new distribution channels (electronic banking) and geographical expansion.

Further internationalisation of the EU banking systems can be expected to occur under EMU. The level of internationalisation of most EU banking systems is currently relatively low. The EU countries (with the exception of IE, LU, UK) report, in fact, a domestic market share of branches and subsidiaries from foreign countries (EEA and third countries) below 11%.[2] This situation may at least partly be caused by still existing legal, fiscal and institutional obstacles. A higher degree of internationalisation might help banks to ensure a sound preparation for future waves of international competitive pressure.

With regard to geographical diversification in bank lending, the EU banking systems seem to have adopted an important, if not leading, role as international lender in comparison with other banking systems. This may partly be explained by increased diversification efforts in view of EMU, but can also be seen as a sign of excess capacity and liquid funds, market saturation and/or lower growth rates within the EU, and lower returns on investment within the EU than elsewhere. As of mid-1998, total lending by EU banks to all reported emerging, transitional or developing “BIS debtor countries”[3] amounted to 57% of all international banks’ lending, compared with 14% for Japan and 12% for the United States. The rest is covered by Swiss, Canadian and other banks. The recent financial crisis prevailing in emerging countries might induce the EU banks to become more cautious in the process of geographical diversification.

With regard to mergers and acquisitions (M&As), it may be difficult to assess the extent to which these activities are triggered by EMU since a similar activity can be observed in other markets (e.g. the United States, Canada and Japan). The current wave of M&As taking place in the EU banking systems seems to indicate at least that many credit institutions are reconsidering their strategies also in light of EMU. Two main types of mergers are observed at the EU level. First, strategic mergers, involving at least one large player, aimed at repositioning in the EMU markets and, second, mergers to mop up excess capacities, notably in the sector of smaller banks. In the latter case, the consolidation process took place mainly in order to reduce excess capacity in the local retail bank area, to consolidate central functions (e.g. IT services) and to resolve solvency problems resulting from bad debts. The establishment of EMU will require a revision of the notion of “local”, “regional” and “national” markets. Given that the degree of concentration within the EU area as a whole can be regarded as relatively low (10% for all categories of banks and 15% for universal banks against 18% for US banks), there seems to be room for further consolidation within the EU banking systems. Strategic choices are gaining additional importance at a time

[2] Market share of foreign branches/subsidiaries from the EEA and third countries as a percentage of total domestic assets.

[3] Source: Bank for International Settlements, Quarterly Review: International Banking and Financial Market Developments, November 1998. PT and GR figures are added from national sources to obtain EU-15 figures. The emerging Asian countries exclude Hong Kong and Singapore.

when considerable structural pressures for change are mounting and strategic mistakes (failure to react or acting in an ill-prepared manner) may undermine the soundness of the institutions in question.

- **Effects of EMU on banking risks**

The establishment of EMU is likely to have a significant impact on the risks incurred by banks in their activity. The positive macroeconomic effects of EMU are, on the one hand, expected to mitigate credit risk in the euro area. On the other, a number of factors could operate in the reverse direction. First, the possibility exists of a concentration of likely “EMU losers” among individual banks’ debtors that could increase credit risk. Second, individual small and medium-sized enterprises in particular may face the risk of not being adequately prepared with regard to their systems and strategies concerning EMU and the Year 2000 with possible spillover effects into the banking system. Third, under competitive pressure banks might shift their business towards more profitable but also more risky business. Market risk under EMU is expected to decrease, especially with regard to foreign exchange and interest rate risk. It is likely that banks will seek to replace a part of their lost foreign exchange business with new or increased involvement in non-EMU markets with the possibility of increased country risk. Liquidity risk is likely to decrease owing to deeper and more liquid markets within the euro area. Legal risks and operational risks may be relevant in the short term owing respectively to the overall new legal environment in the euro area and the necessary system adaptations for the transition to the euro and the imminent Year 2000 problem.

INTRODUCTION

This report focuses on the medium to long-term effects that the establishment of EMU is likely to have on the EU banking systems and the responses that banks are devising to cope with the challenges created by EMU. A discussion of the effects that are specific to the changeover to the euro, such as an estimation of changeover costs or similar issues, falls outside the scope of this report, which concentrates on longer-term effects. The report has been prepared in the context of the task of the Eurosystem, laid down in Article 105 (5) of the Treaty. In accordance with this provision, the Eurosystem shall contribute to the smooth conduct of policies pursued by the competent authorities relating to banking supervision and the stability of the financial system. The report has been drawn up on the basis of the contributions of the supervisory authorities (national central banks and separate authorities) of the 15 EU countries that are represented within the Banking Supervision Committee of the Eurosystem. The report also draws on interviews conducted with selected credit institutions at the national level as well as on an extensive data collection.

The discussion of the effects of EMU takes place against the backdrop of the liberalised and harmonised financial regulation allowing free competitive conduct and cross-border operation within the Single Market and creating a level playing-field between banks from different Member States. Financial liberalisation (replacement of stringent “structural” regulations by the current “prudential” regulations) has certainly been one of the most important developments shaping the EU banking systems. In the EU this process has developed hand in hand with the establishment of the harmonised EU regulatory framework and the liberalisation of capital movements. The process of liberalisation has already made extensive progress throughout the EU, the main part of the activity being carried out in the 1980s and early 1990s. Differences in tax, consumer protection and other non-harmonised regulations across Member States are not investigated here, but there are examples of the (greater or lesser) influence of such provisions on the banking industry or location of financial activities.

The report is structured as follows: *Chapter 1* describes recent relevant developments which occurred in the EU banking systems prior to the changeover to the euro. *Chapter 2* gives an account of the assessment of the effects of EMU on different banking activities based, inter alia, on the interviews with banks. *Chapter 3* discusses the effects of EMU on banking structure (banking capacity and disintermediation). *Chapter 4* addresses the main strategic responses of banks in view of EMU. *Chapter 5* covers the effects of EMU on banking risks. The tables and charts on trends in the EU banking systems, attached in Annex 2, are based on contributions from national EU banking supervisors and central banks.[4]

[4] It must be noted that the data presented in Annex 2 to this report are **not** collected on the basis of a harmonised statistical framework. The data in Annex 2 are presented as an illustration; some of the data presented are not commented on in this report. Due to these facts, the data must be examined with great care.

1. RECENT DEVELOPMENTS IN THE EU BANKING SYSTEMS

1.1 General aspects

On 2 May 1998 the official decision on EMU membership was taken. The participation of eleven countries in EMU reinforces the significance of the euro for the whole European banking sector. The selection procedure and the adoption of the bilateral parities were not preceded by any significant tension on the foreign exchange and the money markets of the future participating countries. Inside the European Monetary System (EMS), exchange rate fluctuations were very limited. No national central bank had to effect a temporary increase in short-term interest rates to defend the parity of its currency. In short, the financial markets have not put in doubt or tested the decision concerning participation in EMU, but have generally endorsed the decision on EMU membership.

EMU is expected to create a zone of stable macroeconomic conditions with low inflation, low interest rates and the euro, as a stable currency, will stimulate growth and investment and also the demand for credit. Price stability has already contributed to financial market stability, although the EU has not been by any means fully insulated against the global asset price movements. Further decreases in interest rates have been recorded during the second half of 1997 and in the course of 1998. This downward trend has been especially pronounced on the capital markets of those European countries which were still recording a substantial differential with long-term German rates (e.g. IT, PT, ES and FI). As a consequence, banks in those countries made substantial capital gains on their securities portfolios. More generally, until mid-1998 a favourable climate prevailed on the entire European capital market, in all countries and on all market segments, bonds as well as equities. In particular, buoyant stock markets stimulated new issues and helped to finance a wave of mergers and acquisitions. Where these operations concerned non-financial institutions, they were an important source of non-interest commission and fee income for banks. The global market turnaround and the Russian financial in crisis in August/September 1997 triggered a flight to quality. Subsequently, markets recovered and the flight has eased to some extent. The banking sector should be aware that some of the benefits due to buoyant markets could be of a temporary nature, especially in view of the recent market turmoil.

In the short term, the decrease in interest rates is beneficial to banks due to capital gains and increased income from maturity transformation, whereas in the long term, a low level of interest rates will reduce the margin earned by banks on their interest-free or low interest rate resources. Expressed as percentage of total assets, the net interest income that banks were able to earn by collecting low cost resources (see Table 6.1) showed considerable reductions within the five-year period from 1992 to 1997 in most Member States. In 1997 an increase in this net income was observed in several countries (GR, FI, UK, NL, BE and AT). These differences should, however, be treated with great caution, as they might be attributable to cyclical factors affecting the demand for the low cost resources as well as to a temporary increase in short-term interbank deposit rates, which might not have been passed on to the same extent to the interest paid by banks on low cost resources, thus increasing the net interest income on those resources.

Another important recent development is the shift on the assets side from the public to the more risky private debtors as a consequence of the reduction in public debt due to the Stability and Growth Pact. Owing to the current efforts made towards fiscal consolidation, the majority of EU governments reduced direct borrowing from banks. The change in relative importance of banks' direct lending to the government sector from 1995 to 1997, in terms of total non-bank loans, decreased in most EU countries (see Table 2.14). An analysis of domestic claims by banks on different sectors of the economy (households, non-financial corporations, general government and credit institutions) in terms of total domestic assets leads to similar conclusions (see Tables 2.13a and 2.13b). An analysis of credit institutions' claims on domestic governments (including securities) shows that governments' retreat from borrowing from banks became most evident in the course of 1997. In 1997 an increase in lending to other categories of counterparties was also noted: interbank claims increased in most countries which submitted data (except for FR, LU, BE and NL), claims to non-financial companies gained importance in BE, IE and ES, and an increase in household claims was observed in BE, ES, IT, NL and SE.

The Asian and Russian financial crises, the protracted difficulties in the Japanese banking sector and the potential spillover effects of these crises have been – and still are – major sources of concern. Time will be needed to assess all financial consequences for the EU banking systems. In particular, the exact repercussions of the increased provisions for doubtful loans on banks' profit and loss accounts have not yet been fully appreciated, although the provisioning needs of the exposed banks have increased. The external financial crises could still have negative effects on economic activity also in Europe, which could increase the general credit risks incurred by banks. The greater uncertainties prevailing in those emerging countries could make it more difficult for European banks to explore what have often been considered as promising avenues for diversification, such as Eastern European and Latin American countries.

The wave of mergers and acquisitions (M&As) is among the most important recent structural developments to be observed in the EU banking systems. This is part of a wider trend affecting other parts of the world and other industries. M&As outside the EU and in particular involving the United States may have manifold effects on the EU banking systems. First, US banks are already starting to set up separate banks in Europe to handle euro-denominated business and to carry out acquisitions and alliances with European institutions. This might increase competitive pressures in the EU. Moreover, mergers between US investment banks or securities houses might increase competitive pressures on EU banks with regard to their investment banking activities and asset management. Second, the newly created euro area might be seen as a major area of business growth for non-EU banks and companies. In this context, overseas companies doing business in Europe might tend to rely on only one correspondent bank in the euro area, thus further increasing price competition (at least in the wholesale banking area) and further reducing profitability. Finally, after the current wave of M&As in the corporate sector, non-financial companies might even increase their tendency to tap financial markets directly via their own centralised treasuries and issues for refinancing purposes, thus reinforcing disintermediation.

1.2 Banking profitability

Based on a longer-term historical study of the OECD Bank Profitability Statistics,[5] the major tendencies on the income and expenditure side in the EU banking systems relative to balance sheet totals from 1979 until 1994 can be summarised as follows:

- a narrowing of net interest margins and a rise in non-interest income;
- a reduction in operating expenses and staff costs;
- increased provisioning; and
- a decline in profitability.

Given the large variety of country-specific developments and differences in the coverage of the OECD data, these generalisations must be viewed with caution. The results, however, indicate significant changes in the structure of banking business and competitive environment during and after the period of financial liberalisation.

More recent OECD bank profitability data (see Table 9) indicate that a reversal in the downward trend in profitability has taken place in the EU since 1994. Average return on equity (ROE) has increased from a low of 8.1% in 1994 to 11.1% in 1996, while average return on assets (ROA) rose, during the same period, from 0.42% to 0.54%. The 1997 figures tend to stagnate more or less at the 1996 level. These good results are mainly due to the favourable economic conditions. This is reflected by both the 1994 to 1997 increase in non-interest income and the relative reduction in net provisions. The figures relating to ROE and ROA may be partly explained in terms of a downward trend in interest rates, which contributed to the boosting of capital gains and, more generally, trading and underwriting activities. Despite those favourable cyclical conditions, the more general pressure on bank profitability still exists, given that the overall net interest margin has continued to decrease steadily over recent years as well.

On the basis of the evolution of the cost-income ratio, efforts to increase efficiency in the EU banking sector are taking place at a slow pace on aggregate, but at significantly different speeds in the various

[5] OECD, “Bank Profitability; Financial Statements of Banks” (various issues), OECD, Paris.

Member States. Cost reductions have been slow in general, but banks in some countries have realised quite substantial cost reductions through capacity reductions. Additional costs have been triggered by the EMU changeover and the Year 2000 problem. Changes in strategies may, furthermore, imply that credit institutions will tend to move from staff quantity to staff quality, while the costs of mergers and acquisitions could have an impact on the operating expenses of credit institutions.

Despite its recent improvement, bank profitability in the EU is still at a lower level than in the United States, where banks record, on average, a ROE in the range of 20% according to the OECD data. The picture is somewhat altered if one refers to data published by the Federal Deposit Insurance Corporation, which reported for the US commercial banks (a historically high) ROE for the year-end 1997 of circa 15%.[6] However, basic differences in accounting methods as well as in the structure of the banking business have to be kept in mind. The comparatively more favourable situation of US banks does not seem to be attributable to more efficient cost control, as cost-income ratios are, on average, quite similar in the European Union and United States. In general, US banks seem to derive a higher proportion of their income from non-interest sources. More fundamentally, around twice as high interest margins prevail in the United States, which are now at a level close to 4%. This does not apparently seem to be explained by a higher appetite for risks, as net provisions as a percentage of pre-provisioning income are lower in the United States, hence explaining a large share of the overall profitability difference. All in all, ROA is now more than three times higher in the United States than in the European Union.

2. THE EFFECTS OF EMU ON BANKING ACTIVITIES

The establishment of EMU is expected to affect the different activities undertaken by banks. These may vary across banking systems as well as among individual institutions. A number of EU banks of different sizes were interviewed in mid-1997, and a smaller number of banks were contacted again in spring 1998, in order to investigate banks' own assessment of the medium to long-term effects of EMU on the various banking activities.[7]

A majority of banks were of the opinion, according to the mid-1997 interview, that their overall profitability would be negatively affected after the introduction of the euro, but the size of the profitability loss was usually considered relatively small. There was, however, a significant number of banks that considered the overall effect neutral or expected an improvement. Small and medium-sized banks were generally more pessimistic than the large ones. A somewhat positive change in banks' assessments

6 See the FDIC quarterly banking profile, fourth quarter 1997 "The industry's return on equity (ROE) rose to 14.70 % in 1997 from 14.46 % in 1996. This is the second highest annual industry ROE since the inception of the FDIC. The record high was 15.34 percent, set in 1993." (http://www2.fdic.gov/qbp/1997/qbpcom.html).

7 Overall, around 60 to 70 banks were contacted in mid-1997. 39 banks gave their evaluation of the effects of EMU on their own bank in 1998.

occurred in spring 1998, which could be to some extent attributed to the favourable profitability and macroeconomic situation.

2.1 Foreign exchange wholesale activities including derivatives

The reduction in this activity (including the reduction in hedging needs) is regarded as one of the main negative effects of the introduction of the euro. Banks' responses were clearly concentrated on the negative side for this item. Another factor which might reduce foreign exchange wholesale activities is the possible reaction to the Asian financial crisis and the most recent market turmoil in Russia. Foreign currency markets have already largely anticipated the effects of EMU and the prospects for this activity are regarded as mainly stable, with a slight inclination to improvement due to the removed uncertainty concerning EMU. Competition in the foreign currency market (euro/dollar and euro/yen) is likely to increase with a consequent narrowing of margins and a decline in fees. It is also supposed that banks will try to increase their money and securities market activities to even out lower revenues from foreign exchange trading activities, e.g. by developing innovative products. "Pre-in" countries might have a temporary franchise in dealing their home currency against the euro.

2.2 Money market activities including related derivatives

The introduction of the euro and of the single monetary policy will determine the establishment of a deep, liquid and standardised single European money market and thus an increase of competition in this area can be expected. The euro will bring to an end the arbitrage between the different national money markets, which is currently common practice in larger institutions. The disappearance of the pricing advantage in the "home" interest rate is likely to have a negative effect on the profitability of banks specialised in dealing in the relevant currency. The concentration of substantial market values on a few markets, and within them on a few large banks is assumed. This tendency could also increase the trend towards concentration and the pressure for bank mergers.

2.3 Securities market activities

The reduction in government debt securities owing to fiscal consolidation under EMU is expected to boost markets for securities issued by private entities. This is also likely to be supported by the enhanced liquidity of the private equity and bond markets resulting from the increase in the number of investors and issuers operating in the same currency, which, in turn, reduces the cost of using this funding channel. It is also likely that a larger currency area will attract new investors and issuers to the European securities markets. In this context, the efforts already undertaken to set up alliances between stock exchanges should be mentioned. These will allow the participants to share costs in the developments of a pan-European trading system and enable them to introduce the latest technological innovations. In principle, it is expected that trading will be localised on those markets in which the organisation of trading is more efficient, the costs of transactions are lower and the security and reliability of trading and settlement are higher. These developments may be further reinforced by the possibility of remote access to stock exchanges. Due to the general concentration process to be expected, investment banks with adequate capital, client relations and expertise might represent a strong competitor for traditional banks, which have been dominant in their national market but will not be big enough to compete at the EU-wide level.

2.4 Retail deposit business

The trend in credit institutions' non-bank deposits is not uniform across Member States (see Table 2.1). On average, EU credit institutions' non-bank deposits as a percentage of GDP show the following generally increasing development, i.e. at the EU level, a shift away from deposits cannot be observed in relation to GDP:

	1985	1990	1995	1996	1997	% change 85-95	% change 95-96	% change 96-97
EU weighted average[8]	**84.44**	**98.85**	**98.81**	**99.95**	**101.95**	**+17.03**	**+1.15**	**+2.01**

EMU is not regarded as the main factor affecting developments in this area, as the quite neutral response of banks indicates. Instead, remote banking and electronic money, which tend to increase competition against the established banks and shifts in customer preferences towards other forms of saving away from ordinary bank deposits, may be seen as the most important driving forces for change in this field. EMU might have an indirect impact on both forces. It may speed up the adoption of new delivery technologies as the market size in a common currency increases and the establishment of a low interest rate environment can increase the inclination of banks' retail customers to seek higher returns through alternative forms of investment. In this context, it should be noted that the relative importance of non-bank deposits in terms of selected financial instruments decreased from 1995 to 1997 in most EU countries, mostly in favour of equities (see Table 2.7).

2.5 Lending business

The trend in credit institutions' loans to non-banks varies across countries (see Table 2.2). At the EU level, the following increasing trend in non-bank loans as a percentage of GDP can be observed:

	1985	1990	1995	1996	1997	% change 85-95	% change 95-96	% change 96-97
EU weighted average	**96.34**	**116.68**	**116.89**	**118.46**	**123.86**	**+21.34**	**+1.34**	**+4.56**

Nevertheless, the relative importance of non-bank loans in terms of selected financial instruments (see Table 2.7) shows a decline from 1995 to 1997 in most EU countries.

The possible impact of EMU differs for wholesale and retail lending. The positive macroeconomic environment triggered by EMU is expected to improve growth prospects for wholesale lending. However, EMU is also expected to favour further securitisation and disintermediation with the consequent increase in competition between banks and non-bank institutions in this area. As to retail lending, EMU could affect this activity mainly through the impact of the reduction in interest rates on interest margins. In general, those retail lending products requiring personal advice and local knowledge should be more sheltered from increased international competition even with the spread of modern distribution technology, because the asymmetries in information and acceptance related to these products may persist.

2.6 Money transmission services

Banks' profits from money transmission and correspondent banking services are deemed to be negatively affected. Large firms are expected to concentrate their treasury functions within the euro area and to reduce their correspondent banking relations. Multinational corporations might also tend to minimise the number of their accounts within the euro area. However, new opportunities were identified for banks in providing cash management services within the euro area. Furthermore, the limited harmonisation of retail payment systems might result in the long run in a competitive electronic retail banking service.

2.7 Off-balance-sheet activities

The effects of EMU on off-balance-sheet business are generally considered positive. Many observers consider off-balance-sheet activities to be a major market that can replace reduced profits to some extent. In addition, a broader range of the risk spectrum is expected to be covered with more standardised instruments (e.g. credit derivatives). As a consequence, banks might also be encouraged to take on generally more risk in their business activities. Interest rate and foreign exchange-related derivatives within the euro area will most probably lose importance, in contrast to equity and credit derivatives, which are expected to continue to rise significantly. Prospects for asset management, however, with declining fees and commissions seem to improve.

3. THE EFFECTS OF EMU ON BANKING STRUCTURE

The structure of the banking systems varies across the EU countries and is expected to be affected tangibly by the establishment of EMU. Two particular aspects are of particular relevance in this context: banking capacity and disintermediation.

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[8] Average calculated by multiplying the respective country data as a percentage of GDP by the weight representing the country's GDP share in the EU GDP for 1996 (see also Annex 1: Introduction to tables and charts).

3.1 Banking capacity

The extent of excess capacity is closely linked to the underlying competitive structure of the sector. Conventional indicators of capacity – such as branches or staff per head of population – continue to show marked differences across countries, both in terms of level and trend. The effects of regulation and the traditional structures of national banking systems complicate the measurement of excess capacity and comparisons between countries, as banks' functions and size distributions differ. However, the existence of excess capacity is confirmed in several Member States, e.g. with regard to branching and employment in banking.

The developments in capacity in the EU banking systems may be summarised as follows:

Number of	1985	1990	1995	1996	1997	% change 85-95	% change 95-96	% change 96-97
credit institutions	**12,256**	**11,957**	**9,896**	**9,589**	**9,285**	**-23.86**	**-3.17**	**-3.17**
branches per 1000 capita	**0.52**	**0.51**	**0.49**	**0.48**	**0.48**	**-5.59**	**-0.69**	**-0.17**
ATMs per 1000 capita	**0.10**	**0.20**	**0.36**	**0.40**	**0.44**	**+253.06**	**+9.93**	**+11.04**
bank employees per 1000 capita	**8.36**	**9.94**	**9.60**	**9.49**	**9.73**	**+14.83**	**-1.14**	**+0.56**

Number of credit institutions: UK is not included in 1985, 1990 and % change 85-95.
Figures for branches, ATMs and bank employees are calculated as unweighted EU averages.

An overall reduction in the number of credit institutions is to be observed at the EU level in the period between 1985 and 1997.[9] In the past two years, the process has been more evident, probably due to the increase in some countries of the number of mergers and acquisitions. With regard to the number of branches per 1000 capita, a reduction was also observed in the period concerned but at a lower rate than that pertaining to the number of credit institutions. This is due to different patterns at the national level. A potential for further consolidation in countries with a comparatively high density of branches seems to persist. However, further developments in technology might only partly be able to reduce the future importance of banking presence via branches, especially with regard to personal advice-intensive banking activities. The number of ATMs increased substantially in the period concerned in the EU countries. However, there are still significant differences with regard to the extent to which ATMs have already spread in individual countries. As of end-1997, ES, AT and PT have the highest number of ATMs per capita.

[9] The developments at the national level for this variable as well as for the other three are described in Tables 4.1 to 4.4.

As to the number of employees per 1000 capita, banking employment has declined or stagnated over the past few years in the majority of EU countries, with the only exception being the UK. The decline has been particularly strong in one country (FI: 10 employees per 1000 inhabitants in 1990 and 5.2 in 1997). The marked difference between the highest and lowest number at the national level might lead to the suggestion that there is still scope for a reduction in staff in a number of EU banking systems.

All in all, there has been over the past few years a reduction in the capacity of the EU banking systems. The establishment of EMU is expected to affect the level of capacity in the EU banking systems mainly through the increase in competition.

3.2 Disintermediation

Disintermediation is understood as the movement of services or functions (notably borrowing and saving) away from the banking business towards other financial or non-financial intermediaries, economic agents or markets. Basically, the disintermediation process in the banking system can be assessed from two angles, namely from the institutional and the instrument perspective. The former focuses on the relative importance of different financial intermediaries, the latter on the importance of different financial instruments.

From an institutional perspective, the statistics collected for this report show that banking intermediation, although still growing, has been losing its relative share in financial intermediation to institutional investors (investment funds, insurance companies and pension funds). On the one hand, banking intermediation in the EU – in terms of assets of credit institutions as a percentage of GDP – has been on average growing steadily over time as shown by the following table:

	1985	1990	1995	1996	1997	% change 85-95	% change 95-96	% change 96-97
Assets of credit institutions as a % of GDP	**177.24**	**206.86**	**221.60**	**230.01**	**244.23**	**+25.03**	**+3.80**	**+6.18**

The figures given above are calculated as a weighted average for all EU Member States based on weights representing the respective EU countries' GDP share in the total EU GDP.

The growth has been significant in all EU countries especially in 1997 with a few exceptions (see Table 1.1a). An interesting aspect in this context is that in some countries (FI, PT and SE) interbank lending has increased substantially its share in the total assets (see Table 1.1b). On the other hand, the most recent figures (period 1995-1997) indicate that the relative importance of credit institutions (in terms of assets, compared with the assets of institutional investors) decreased in the majority of Member States (see Table 1.4). Among the institutional investors, investment funds recorded the highest rate of growth.

Investment funds' assets under management as a percentage of GDP show considerable differences within the EU (see Table 1.2a), with the highest values in LU (2,771) and the lowest values in FI (3) in 1997. It should nevertheless be borne in mind that in the majority of Member States, more than 80% of UCITS are controlled by banks, thus enabling banks in these countries (see Table 1.2b) to internalise a part of the disintermediation process. This indicates that EU banks have responded to the customer demand for a wider variety of financial services. This responsiveness implies an ability to adjust on the part of banks and hence it should be seen as a favourable development.

In the same period (1995-1997), the annual growth rate of <u>pension funds' assets</u> was considerably lower than that of investment funds (see Table 1.3). The highest rate of growth in 1997 was observed in AT, PT, ES and BE. The possible arguments for pension funds' growth range from legal or tax reasons to increased awareness of the possible future effects of overageing on public pension systems. This development might also lead to the assumption of a more pronounced rise in life insurance and pension funds' assets in the years to come. One additional, and possibly more significant factor is that a policy shift may be under way in a number of countries in order to restructure the public social security schemes so as to address the problems of underfunded schemes.

The establishment of EMU is, in principle, expected with some exceptions to speed up the process of disintermediation from an institutional perspective, which is already under way. In addition, the euro area is likely to attract non-EU financial institutions, thus further reinforcing competitive pressures from outside the EU.

From an <u>instruments perspective</u>, the main conclusion that can be drawn from available data is that bank deposits and bank loans to non-banks grew at a lower rate than many of the other financial instruments (equities, bonds, commercial papers and certificates of deposit), although they remain the most important financial instruments in many countries. It should be noted, however, that relevant differences exist across the EU countries. Commercial paper (see Table 2.5) seems still to have future potential (or may not be widely accepted). In 1997 the highest share of CP in terms of GDP was outstanding in IE (5.7%) followed by BE and PT. With regard to certificates of deposit (see Table 2.6), the highest level in terms of GDP in 1997 was to be observed in FI (13.84%), followed by SE, IT and UK. There is no clear trend to be observed with regard to the relative importance of the different categories of bonds issued by governments, credit institutions and the private sector (see Table 2.12). For instance, the relative importance of bonds in 1997 is lower than it was in 1995, in marked contrast to the development with regard to equities (see Table 2.7).

In general, EMU is expected to have widening, deepening and liquidity-increasing effects on financial markets. This should encourage the growth of stock exchanges and the issuance of commercial paper and other medium to long-term securities by non-financial corporations, which currently still show very low levels. Government or alternatively financial institutions' paper has tended to dominate the bond markets in Europe. Moreover, the development of credit derivatives is expected to reduce entrance barriers for new competitors due to the higher tradability and transparency of credit risks. As far as securitisation is concerned, it may be expected that disintermediation tendencies will be further fostered, but banks themselves would probably be in a prime position to benefit from this trend, e.g. when they securitise their loan portfolios. Finally, it is expected that banks' funding costs will increase when disintermediation and securitisation progress.

4. THE EFFECTS OF EMU ON BANKS' STRATEGIES

Banks' strategies gain additional importance at a time when structural changes are under way. In this context it seems essential for banks to adopt the right strategies concerning their diversification efforts, M&A activities and other relevant choices. A failure to make the right selections may endanger their position in the market and increase their fragility, given the fact that the establishment of EMU will bring more intense competition and further pressure on banks' profitability.

New financial products are expected to spread much more rapidly and a fast market penetration will occur due to both supply side effects (banks creating new products) and most likely also to demand effects (e.g. higher demand on the part of institutional investors). With regard to the structure, it is expected that a two to three tier banking system might develop in the EU, with national, EU regional and large EU-wide players along with niche players and specialised institutions. Against this background, banks will have to review their strategic options. One major advantage of the euro area for the EU banking systems is that it enables banks to unbundle and rebundle risks more easily than under the domestic banking perspective. Nevertheless, the risk exists that banks under pressure might favour the adoption of high-risk strategies, e.g. those arising from the rather short-term oriented shareholder value philosophy. There is also a possibility that some banks might adopt the same strategies and that many of them might pursue the same targets "on the same village green".

The research undertaken has shown that many banks have already or are in the process of devising strategic choices in response to the changes generated by the establishment of EMU. In the following three sections, consideration is given first to the strategic choices in general and second to specific strategic issues, notably internationalisation and mergers and acquisitions.

4.1 General strategic responses

Current developments in the EU banking systems show that the strategic responses by the EU banking systems cover three main areas, notably: (i) improvements in services and procedures; (ii) changes in product ranges; and (iii) mergers, strategic alliances and co-operation agreements.

The first strategic response takes various forms. First, the pursuit of a better quality of services, staff and IT. However, the hiring of well-trained staff at a time when the banking system is confronted with high staff costs might be difficult. Second, banks aim to improve risk management and internal control systems. Third, they attempt to cut costs and improve efficiency (e.g. lean management and increased use of technology in the retail business) in order to enhance profitability and/or to increase the shareholder value. Finally, banks resort more and more to outsourcing.

The second strategic response is aimed at broadening the range of products and services supplied to customers. The most recurrent observed developments are: a shift from operating services to consulting; a reconsideration of product ranges (selective or expansionary); the seeking of alternative sources of income (geographical expansion, asset management, corporate finance and payment services).

In this context, it is also observed that banks operating in universal banking systems have, in general, not yet decided to withdraw from any major field of activity in view of EMU. In general terms, the "universal banking concept" may offer opportunities with regard to using resources more efficiently, if one business activity is temporarily less occupied than another. Furthermore, the information or know-how achieved in one line of business may be used in others to attract and hold customers ("relationship banking"). Another advantage of the universal banking system is the possibility of cross-subsidisation, which, however, due to increased competition, specialisation and market transparency will also come under pressure. A need for specialisation may nevertheless exist, even more for smaller institutions that are required to master activities already characterised by a high level of competition, thus increasing the need for strategic partnerships.

The third line of strategic responses includes mergers, strategic alliances and co-operation agreements. The reasons vary from cost and efficiency improvements (economies of scale and scope) to diversification effects with reference to products (bancassurance), alternative distribution channels (electronic banking) and geographical expansion. In addition, in some EU countries, the reason is linked to the need to develop EU regional players (e.g. in Nordic countries).

With specific regard to the economies of scale and scope, it should be noted that various studies carried out on the matter in the United States over recent years indicate that the responses are somewhat inconclusive. In particular, signs of economies of scale and scope are of limited importance and often restricted to smaller institutions, whereas they tend to disappear for larger institutions. Beyond a given threshold, economies may even result in diseconomies, as additional expenses incurred in the management and control of very large organisations seem to exceed the cost advantage by size. In addition, conclusions drawn from the US situation might not be valid for the EU situation, given the difference in the underlying banking structure and profitability. Nevertheless there seem to be indications of possible economies of scale and scope within the EU financial sector. In particular, the application of new technologies in banking entails heavy investment expenditure, which can often be made profitable only by a sufficient number of transactions. A larger size permits a more efficient organisation of resources, and small banks are less able to achieve a high degree of division of labour owing to the small size of their business. EMU is likely to change the critical mass with regard to break-even volumes, which will differ depending on the kind of target market. Studies carried out in recent years also indicate that a positive relationship between profitability and size (in terms of total assets) is not a general rule. By contrast, reliance on past performance may not prove very useful in evaluating strategic decisions to be made in order to cope with the upcoming challenges, with special regard to EMU.

With regard to the strategic responses of banks in “pre-in” countries, it is observed that an active approach has mainly occurred at the level of large players, but not with reference to the medium-sized to smaller institutions. This can be explained in terms of uncertainty surrounding the level of customers’ demand for products in euro. In this context, the additional burden for banks in “pre-in” countries, for which the transition to the euro will be a slow and gradual process during which they will be forced to offer services both in euro and in national currencies, should be taken into consideration in the strategies of banks in order to limit possible competitive disadvantages.

4.2 Internationalisation and geographical diversification

The degree of internationalisation of the EU banking systems may be seen from two basic perspectives: inward and outward internationalisation. Given the difficulty of obtaining reliable data on branches and subsidiaries, the figures currently available may underestimate the importance of internationalisation, at least with regard to larger players, due to a high proportion of off-balance-sheet business (which is not taken into account in the respective figures in Tables 5.1a to 5.2b).

With regard to <u>inward internationalisation</u>[10] (see Tables 5.1a and 5.1b), the overall level in the EU banking systems, if one excludes the particular role of countries like IE, LU and UK, is currently relatively low. This may be due, at least in part, to still existing legal, fiscal and institutional obstacles. The function of LU, IE and UK as international banking centres is confirmed by overall market shares of foreign branches

[10] Number and assets of banks’ branches and subsidiaries from the EEA and third countries in a given EU country.

and subsidiaries of more than 50% of total domestic assets, whereas the majority of EU countries report overall foreign market shares below 11%. However, foreign market shares grew considerably in 1997 at a rate higher than 25% in BE, PT and SE, and at a rate between 10% and 20% in IE and FI. Overall, the number as well as the market share of foreign branches[11] vary considerably within the EU, with a clear bias towards branches from EEA countries, apparently driven by the freedom of establishment. The number of subsidiaries from foreign countries, however, showed no clear overall bias towards EEA or third countries. As regards domestic market shares of foreign branches and subsidiaries together, a bias towards foreign penetration by EEA institutions was observed, except for the UK.

With respect to the possible impact of EMU, it might be assumed that those countries which are already exposed to a high degree of competition by non-domestic financial institutions might be better prepared for future waves of competitive pressures than the national banking markets which have not yet been exposed to a large degree of international competition in their home markets.

As to outward internationalisation[12] (see Tables 5.2a and 5.2b), the total number of branches and subsidiaries has increased or at least remained stable in all countries which submitted data. The regional distribution pattern, e.g. concerning subsidiaries, however, is different, as BE, DE and IE banks have a higher number of subsidiaries in other EEA countries, whereas the opposite (i.e. a higher number of subsidiaries in third countries) is true for AT, ES and PT, at least partly resulting from diversification efforts in Eastern European and Latin American countries. Overall, a considerable increase in internationalisation tendencies towards the EEA as well as third countries is noted, giving rise to the argument that banks are looking for new business opportunities abroad.

A specific development in the area of internationalisation relates to the Nordic countries (especially SE and FI), where domestic banks enter each other's markets, regarding the whole Nordic area as their "home market". This attitude has the declared aim of operating as traditional, universal banks with branch networks, thus affecting the traditional markets comprising households and small businesses. However, the Nordic area is perceived as a relatively homogenous market, with high cultural affinities. The intention of Nordic banks seems to be to expand in order to gain strength for the prospect of increased international competition.

In addition, the picture with regard to loans/deposits in foreign currency and to non-residents (see Table 2.14) points to the fact that the international aspect of the banking business is constantly gaining importance. There are notable increases in the relative importance (in terms of total non-bank deposits/loans) in the majority of reporting countries in the case of foreign currency and in all reporting

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[11] Measured in terms of total domestic assets.

Member States in the case of the lending/deposit business with non-residents (except LU for both categories[13] and PT for deposits). These data again confirm the importance of LU, IE and UK as international financial centres.

With reference to <u>geographical diversification in lending activities</u> – and with regard to possible concentration patterns in regional lending – the EU banking systems' exposure towards Eastern Europe and Latin America was examined on the basis of BIS international banking statistics. However, it should be noted that there are differences in the content of the reported data which may compromise the comparability between countries, e.g. some countries' data include guarantees, while other countries' data do not. Therefore, all data should be read with caution and taken to be indicative only.

Overall, the EU banking systems seem to have adopted an important, if not leading, role as international lenders in comparison with other banking systems, as total lending by EU banks to all reported emerging, transitional or developing "BIS debtor countries" amounted to 57% of all international banks' lending,[14] compared with 14% for Japan and 12% for the United States. The rest is covered by Swiss, Canadian and other banks. This may partly be explained as a reaction to increased diversification efforts due to EMU, but can also be seen as a sign of excess capacity and liquidity, as well as market saturation and low returns within the European Union.

In terms of different regions, EU banks hold the majority of claims to emerging Asian countries (46% compared with 35% of Japanese banks still being important lenders to this region and 9% for US banks). The EU countries show a higher relative share in lending to Eastern Europe (including the former Yugoslavia) (see Table 7.1a) than their share in total international lending to all reported debtor countries. As of mid-1998 the EU lending to Eastern Europe amounted to 79% of all international banks' lending, compared with 3% for Japan and 9% for the United States. With regard to lending to Latin America, the relative market share of EU banks is also highest (56%), followed by the United States (22%) and Japan (5%). The recent financial crisis prevailing in emerging countries might induce the EU banks to become more cautious in the process of geographical diversification.

The total Asian exposures of EU banks fell during the first half of 1998, while exposures towards Latin America and Eastern Europe (including Russia) continued to increase. EU banks have generally had faster growth rates in their exposures towards the selected debtor countries than US and Japanese banks over the past two years. This development has significantly increased EU banks' exposures towards these countries.

12 Indicated here by the number and assets of branches and subsidiaries from a given EU country in the EEA and third countries.
13 LU already reports the highest underlying ratio.
14 The lending figure also covers the international claims of affiliates and branches of banks which have their head offices outside the reporting area: these data are not regionally split by creditor countries.

EU banks have replaced Japanese banks as the most important lenders to the emerging Asian economies and increased their dominance in lending to Latin America, and recently also to Eastern Europe.

4.3 Merger and acquisition activities

A favourable climate has prevailed over the past two years until recently across the entire European capital market, in bonds as well as equities; this and, in particular, buoyant stock markets have stimulated new issues and helped to finance a wave of mergers and acquisitions (M&As). An ongoing wave of mergers is occurring within the EU banking systems and is expected to keep momentum at least in the short to medium term. In general, it may be difficult to assess the extent to which M&A activity is purely due to EMU, since a similar activity can be observed in other markets (e.g. the United States, Canada and Japan). The current wave of M&As taking place in the EU indicates at least that many banks are reconsidering their strategies.

The M&A activity affects the degree of concentration of the banking system. The degree of concentration varies quite significantly across the EU countries (see Table 3.1). Larger economies tend to have less concentrated banking systems than the smaller ones, and some European countries exhibit quite high banking concentration. In particular, three groups of countries can be identified with regard to the status of concentration:[15] first, countries with a high concentration above 70% (SE, NL, FI, PT, DK and GR); second, countries with a medium concentration between 40 and 60% (AT, BE, ES, IE and FR); and third, countries with a relatively low concentration below 30% (DE, LU, UK and IT). As regards the development of the concentration ratio over the past few years, three patterns can be observed. First, the tendency of polarisation at the upper end (i.e. an increase in concentration in countries where the highest concentration levels persist). Second, a slight reduction in concentration for the medium group (with the exception of BE and AT). Third, a slight catch-up in DE, which shows the lowest concentration level. The evidence above and the fact that concentration in banking is considerably lower than in other industries could lead to the conclusion that the concentration level might further increase in the EU banking systems under EMU, even though to a different extent at the national level, depending on the respective already prevailing degree of concentration and the competitive environment.

In this context, it is argued that, to the extent that EMU will favour a concentration process, there is the possibility that the overall environment might become less competitive, following some empirical studies[16] that have claimed that there exists a negative correlation between the degree of competition and concentration. However, according to the literature, this finding is not robust across different measurement techniques, and the rigorous studies concern mainly the United States. Moreover, taking potentially

15 In terms of assets of the five largest credit institutions as a percentage of total assets.
16 See, for example, Bikker and Groeneveld, Competition and Concentration in the EU banking industry, De Nederlandsche Bank Research Series Supervision No. 8, 1998.

increasing external competition from abroad or non-bank institutions into account, the possible reverse effects of concentration on competition would be alleviated. In addition, changes in competition might also be driven significantly by cyclical conditions.[17] Countries with a comparatively low degree of concentration report that – at the same time – increases in competition and concentration were observed.

The concepts of “local”, “regional” and “national” markets are expected to change over time under EMU and the Single Market. The increasing recourse to information and communication technologies will further link up banking markets. The concentration of the banking sector should therefore not be assessed on the basis of individual countries, but on the whole EU banking system. There appears to be room for further consolidation.

In general, two main types of mergers are to be observed at the EU level: first, strategic mergers in which at least one large player is involved, aimed at repositioning in the EMU markets and, second, mergers to mop up excess capacities, notably in the sector of smaller banks. Mergers in the latter category are sometimes referred to as “defensive mergers”, with the main purpose of efficiency gains. Basically, the following reasons can be mentioned with regard to mergers in the EU banking systems: realisation of economies of scale and scope, extension of the product range, increase in the market share, insufficient size to operate as a standalone bank, privatisation, transfer of resources and capabilities, international expansion and geographical diversification, exploitation of market niches, risk diversification and development of synergies (bancassurance).

In various countries (e.g. AT, BE, DK and FI), both tendencies (i.e. M&As involving all sizes of institutions) are to be observed, with the involvement of the largest players in the domestic market on the one hand and, on the other, consolidation among the smaller, co-operative banks in order to reduce excess capacities in the local retail bank area, to consolidate central functions, such as IT services, etc., and to resolve solvency problems resulting from bad debt. In AT, BE, FI and SE, the major market players were also or especially involved in M&A activities. In some countries, the current wave of mergers is primarily affecting the larger domestic banks. In addition, the breaking of traditional sector barriers (between co-operative and savings banks, commercial banks and mortgage banks and specialised credit institutions) was reported, as well as purchases of insurance companies and pension fund managers by banks. Privatisation waves have been an important reason for mergers e.g. in AT, BE, GR, IT and PT.

[17] For Finland (see Vesala, Testing for competition in banking: Behavioural evidence from Finland, Studies E:1, Bank of Finland, 1995) it was concluded that deregulation triggered a short period of price war among banks and changes in competition were driven significantly by cyclical conditions. There was no apparent dependency between competition and changes in market concentration.

Most mergers and acquisitions at the EU level (with the exception of ES, where cross-border acquisitions of 28 Latin American banks have been reported for the past two years, the Nordic countries and BE) take place in the domestic arena, which can be seen as an effort to increase market power at the domestic level, thus increasing their size from an EU perspective and creating the necessary preconditions for future cross-border expansion. With reference to cross-border mergers, two basic strategies are to be observed, i.e. expanding into market niches abroad and entering into foreign retail markets. The latter strategy involves a need for access to an adequate distribution network, which is easier to achieve via strategic alliances or mergers. Moreover, joint ventures were quoted as a reasonable possibility for providing access to existing distribution network structures. Recent developments in the area of remote banking, however, make the cross-border conduct of banking activities easier. It has to be borne in mind that, especially in the case of cross-border mergers, cultural differences with regard to management style and strategic goals, including changes in management philosophy and customers' preferences, may be the major obstacles to success, apart from legal or fiscal difficulties.

An important aspect for "pre-in" countries associated with cross-border mergers involving one EMU institution is to control a bank with direct access to a euro-denominated deposit base. In general, however, no basic differences in the overall tendencies with regard to mergers are to be observed between "in" and "pre-in" countries. In the UK, however, a comparative lack of interest among retail banks to build up a significant presence in Europe was noted, with the possible reasons of more profitable business opportunities in the UK itself and regulatory obstacles (e.g. labour laws) in continental Europe to rationalisation tendencies. For LU, as most of the banks incorporated are subsidiaries of international banks, M&As are the consequence of international merger policies.

As for all other strategic choices, the quality of management emerges as the decisive factor also with regard to mergers. In particular, the presence of a well-managed institution in a position to take over a less efficient competitor may count more than the combined size of the merged institutions or even the complementarity of activities. Operational risks arising in merger situations, e.g. due to the necessary integration of information technology systems and internal controls, cultural barriers, ill-timed mergers as well as possible competitive disadvantages, since resources are devoted to in-house aspects rather than to the business itself, have to be kept in mind. The most likely winners will be those who best individualise their strategic choice according to their own situation and potential, avoiding herding behaviour and non-justifiable followers' policies which may lead to many of them being active in the same market segment.

5. THE EFFECTS OF EMU ON BANKING RISKS

The establishment of EMU is expected to have a significant impact on the risks incurred by banks in their activity. The issue of strategic risk has already been addressed in Section 4.1 above and, therefore, this section focuses on all other categories of banking risks (credit risk, market risk, market liquidity risk, credit institutions' liquidity risk, settlement risk, operational risk and legal risk). When assessing the effects of EMU on banking risks, a distinction between business activities conducted within the euro area or between euro area and non-EU countries, and, in specific instances, between "ins" and "pre-ins" is relevant. In addition, given the fact that EMU will have different implications among EU countries, risks may also differ regionally (e.g. with regard to credit risk). Finally, the overall direction of the different risk effects under EMU (i.e. the extent to which a balancing out of possible positive and negative effects can be expected) may differ considerably across countries. Overall, credit risk (e.g. due to the stable macroeconomic environment), market risk, liquidity risk and market liquidity risk (the last three being positively affected by deeper and more liquid markets) are generally expected to decrease within the euro area, whereas legal and operational risks are likely to increase at least in the short term.

The positive macroeconomic effects of EMU are, on the one hand, expected to mitigate credit risk in the euro area. Credit derivatives are likely to have a positive influence on the management of credit risks – an effect which is, however, not directly associated with EMU but may be facilitated by it, since the latter will contribute to a larger and more transparent credit market. On the other hand, a number of factors are identified which could operate in the reverse direction. First, the risk of asymmetric information and the importance of an adequate degree of transparency in credit markets should be taken into due consideration. In particular, the concentration of likely EMU losers among individual banks' debtors could possibly increase credit risk. Second, small and medium-sized enterprises face the risk of not being adequately prepared with regard to their systems and strategies concerning EMU and the Year 2000. This risk also includes possible spillover effects to the banking system. Third, credit risk may also increase due to the fact that banks will shift their business to areas which seem to be more profitable, but which probably seem so due to higher risks and lower transparency (e.g. in niche markets outside EMU). Fourth, the Asian crisis and the latest developments in Russia and Latin America as well as banks' exposures towards other non-bank financial intermediaries (such as hedge funds) not subject to regulatory requirements show that credit risk may at any moment be affected by a variety of unexpected events. Against this background, the overall effects of EMU on credit risk are expected to be positive in terms of mitigating credit risk, mainly due to the higher importance of the larger and more transparent credit markets and, of course, the implications of the positive macroeconomic effects that EMU is expected to bring to the EU area.

While market risk within EMU is expected to be reduced significantly, the classical maturity transformation risk will persist. It also seems likely that banks will seek to replace part of their lost foreign exchange business by new or increased involvement in non-euro area markets (e.g. with credit derivatives, OTC products in emerging markets or in exotic currencies), where interest rate, foreign exchange and price risks are significantly higher and where increased country risks might occur. Foreign exchange risks under

EMU are hardly predictable, given the non-availability of historic volatility data on the euro/dollar and euro/yen rates. “Pre-in” countries may, on the one hand, have a temporary franchise in foreign exchange, but, on the other, banks in “pre-in” countries could be more sensitive to shocks in the bond and foreign exchange markets.

The <u>liquidity risk of markets as well as credit institutions</u> is expected to decrease due to deeper and more liquid markets. The establishment of TARGET, which is based on real-time gross settlement systems, is expected to reduce settlement risk and, as a consequence, also the systemic risk associated with payments in the EU area. It is expected that market liquidity may focus on certain marketplaces, possibly giving rise to the emergence of a group of deep-market products, which will crowd out regional products with lower liquidity. As regards <u>credit institutions’ liquidity risk</u>, it is likely that, in relation to the impact of the instruments used by the ESCB for its monetary policy, banks’ short-term funding may undergo structural changes (e.g. being channelled through the euro interbank market) as well as changes in maturity breakdowns and liquidity management. Some banks also seem to envisage a further centralisation of treasury functions.

<u>Legal risk</u> is expected to be relevant mainly in the short –term, owing to the major changes brought to the overall legal environment within the euro area. In the longer term, however, this kind of risk is likely to decrease. Similar considerations can apply to <u>operational risks</u> (including the risk of inadequate risk management and internal control procedures) that might be more important in the short term, given the efforts made to cope with the changeover issues and the imminent Year 2000 problem (not to mention the necessary system adaptations for those banks that are subject to mergers). In the longer term, the process of upgrading the systems should bring benefits and reduce this kind of risk.

ANNEX 1

Introduction to the tables and charts

The following charts and tables have been produced primarily on the basis of contributions of national EU banking supervisors. **The data are not collected on the basis of an agreed statistical framework**. Therefore data should be taken as indicative only and be read with due caution. Footnotes in the tables and charts indicating peculiarities in data series have been kept to a minimum. Due to national differences and differences in data availability (e.g. where data for 1980 were not available, data for 1981 or 1982 have been inserted for 1980, etc.), there are smaller or greater inconsistencies between data in a number of cases. These inconsistencies may be due to flawed comparability over time (changes of reporting frameworks or populations, data availability), across countries (different definitions of reporting populations, e.g. the well-known difference between the definitions of "credit institution"), in values (nominal values, market values) and across sectors (e.g. assets and assets under management may be understood differently). The caveat also applies notably to the EU aggregates which are given for indicative purposes in a number of cases.

List of charts and tables:

5.1a Inward internationalisation: Number of branches and subsidiaries of foreign institutions
5.1b Inward internationalisation: Market share of foreign branches and subsidiaries as a percentage of total domestic assets
5.2a Outward internationalisation: Number of branches and subsidiaries of domestic institutions in foreign countries
5.2b Outward internationalisation: Assets of branches and subsidiaries of domestic institutions in foreign countries as a percentage of total domestic assets

6.1 Interest margin on low-cost resources

7 Distribution of the exposures of industrialised country banks towards emerging, transitional and developing countries as at June 1998

8 Domestic and cross-border M&A activities in the EU from 1995 to 1998

9 Selected bank profitability ratios

Explanations to the tables and charts
Blank field/country not mentioned in the table: data not available.

Weightings and averages
Some of the tables contain averages. These averages are presented for illustrative purposes only.

1. Tables 1.1a, 1.2a, 2.1, 2.2 and 2.11 contain weighted averages. These weighted averages were calculated only for those years for which data for all Member States were available (mostly 1995 and 1996) by multiplying the respective country data by a weight representing the country's GDP share in the EU GDP for 1996. The following weights were used:

AT	BE	DE	DK	ES	FI	FR	GR	IE	IT	LU	NL	PT	SE	UK
2.66	3.12	27.38	2.03	6.76	1.46	17.87	1.43	0.82	14.12	0.20	4.61	1.21	2.92	13.41

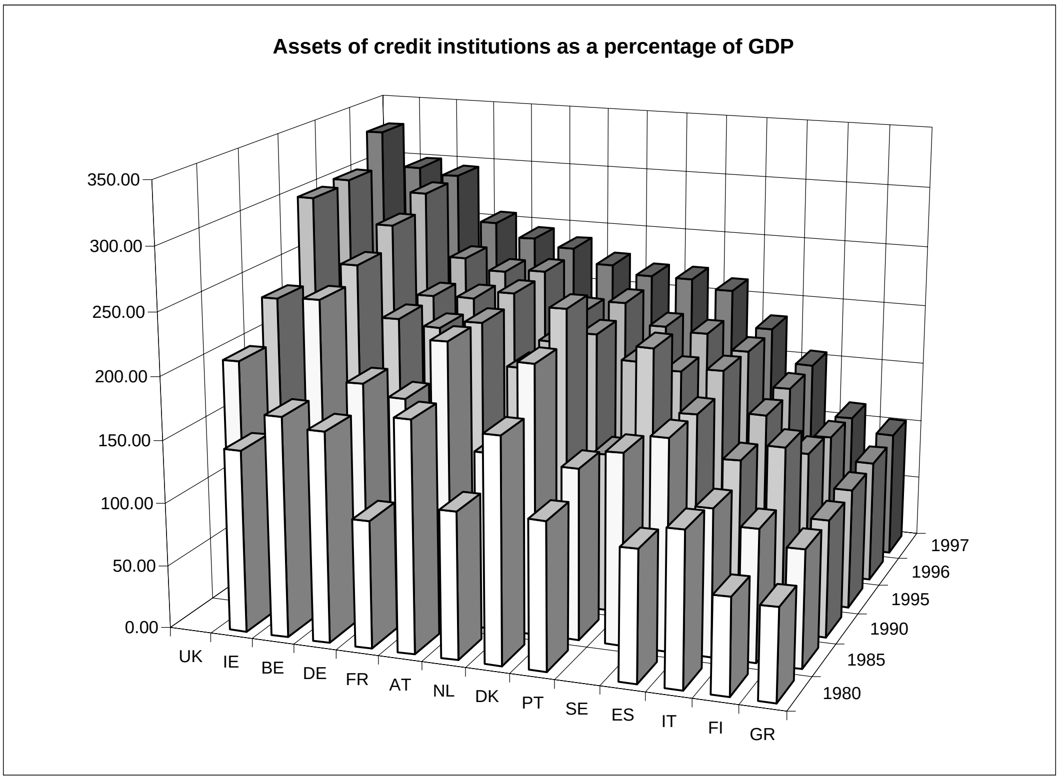
2. The averages in the Tables 3.1 to 3.3 and 4.2 to 4.4 are unweighted averages and were obtained by dividing the sum of the resulting data for the individual countries by the number of countries for which data were available.

Calculation of changes in relative importance
Tables 1.4, 2.7, 2.12 and 2.14 contain calculations on the percentage change in relative importance for a given time interval (e.g. from 1995 to 1997): first, the total of several items (e.g. in Table 1.4 assets of credit institutions, investment funds and insurance and pension funds) was calculated, and the relative share of every single item in the total was derived for both observation periods (e.g. for 1995 and 1997) – *this step is not included in the table*. As a last step, percentage changes in relative importance with reference to the two observation periods were calculated. These percentage changes are mentioned in the table, but cannot be deducted directly from the figures mentioned in the first part of the table. These changes are again mentioned for indicative purposes only.

Assets of credit institutions as a percentage of GDI

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
UK		193.58	227.88	296.40	298.60	327.60	+53.11	+0.74	+9.71
IE	144.59	111.85	145.16	195.45	223.02	299.05	+74.74	+14.11	+34.09
BE	174.80	248.35	260.80	278.65	291.98	294.17	+12.20	+4.78	+0.75
DE	166.74	185.47	220.24	222.95	239.51	255.82	+20.21	+7.43	+6.81
FR	101.00	177.00	216.00	224.00	231.00	244.60	+26.55	+3.13	+5.89
AT	182.98	224.77	222.80	230.59	233.36	238.38	+2.59	+1.20	+2.15
NL	116.00	141.00	190.00	194.00	203.00	227.00	+37.59	+4.64	+11.82
DK	178.00	214.00	240.00	203.00	213.00	220.00	-5.14	+4.93	+3.29
PT	117.00	136.00	127.00	184.00	196.00	220.00	+35.29	+6.52	+12.24
SE		152.00	215.00	179.00	193.00	213.00	+17.76	+7.82	+10.36
ES	103.77	167.08	166.20	182.75	181.20	183.23	+9.38	-0.85	+1.12
IT	122.40	116.60	133.30	150.00	153.50	155.40	+28.64	+2.33	+1.24
FI	76.08	105.00	147.37	122.26	116.17	113.35	+16.43	-4.98	-2.43
GR	72.82	93.14	93.62	96.26	98.09	102.03	+3.35	+1.90	+4.02
LU	*2,670.82*	*3,368.07*	*3,609.65*	*3,604.39*	*3,665.28*	*3,695.99*	*+7.02*	*+1.69*	*+0.84*
EU weighted average		**177.24**	**206.86**	**221.60**	**230.01**	**244.23**	**+25.03**	**+3.80**	**+6.18**

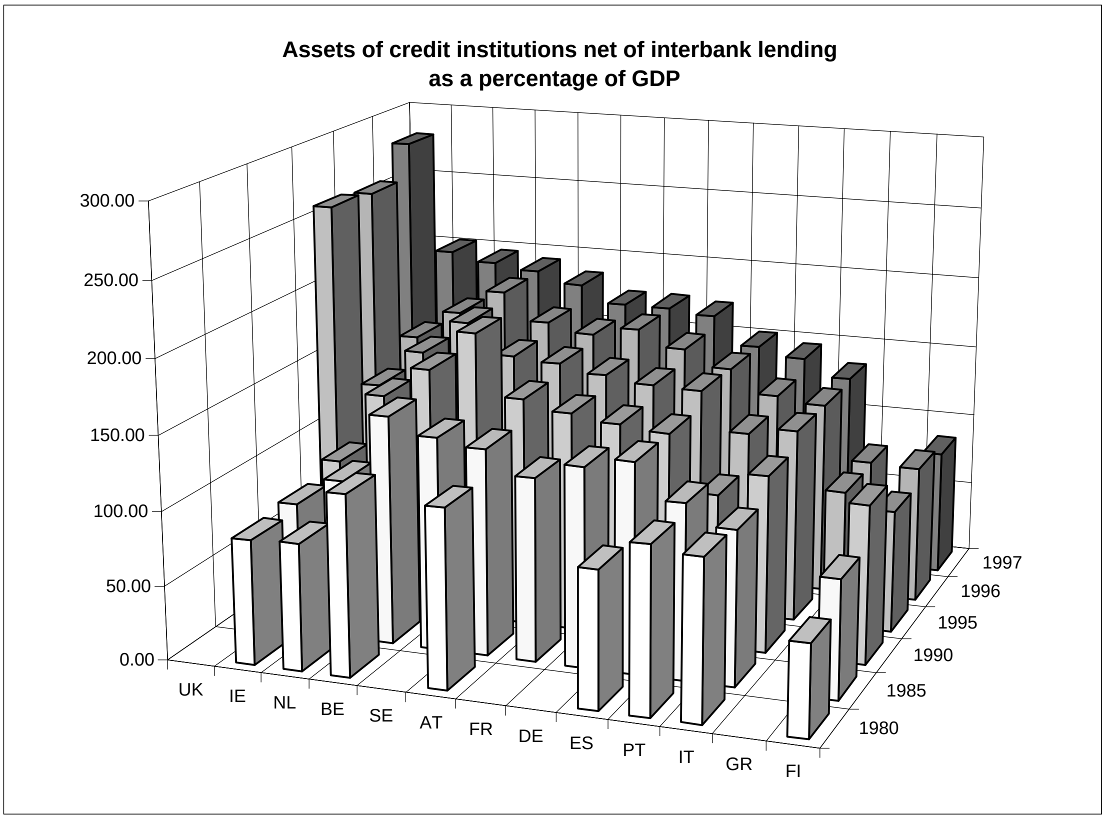
LU: not shown in the chart for reasons of scaling.



Assets of credit institutions net of interbank lending
as a percentage of GDP

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
UK				257.79	254.97	279.21		-1.09	+9.51
IE	83.63	87.92	98.69	134.75	153.29	201.64	+53.26	+13.76	+31.54
NL	85.00	107.00	147.00	161.00	174.00	196.00	+50.47	+8.07	+12.64
BE	121.13	153.71	168.26	184.74	191.41	192.34	+20.19	+3.61	+0.49
SE		142.65	195.82	164.34	172.43	184.91	+15.20	+4.93	+7.23
AT	119.51	138.67	154.32	161.96	166.72	173.06	+16.80	+2.94	+3.80
FR		123.00	148.00	157.00	173.00	173.00	+27.64	+10.19	0.00
DE		133.69	143.86	153.14	162.00	170.24	+14.55	+5.79	+5.09
ES	91.15	140.41	140.73	152.28	150.77	150.58	+8.45	-0.99	-0.13
PT	111.00	117.00	103.00	126.00	135.00	145.00	+7.69	+7.14	+7.41
IT	107.00	103.50	119.20	130.90	131.20	133.20	+26.47	+0.23	+1.52
GR				92.40	94.07			+1.81	
FI	60.73	79.33	106.75	82.58	93.20	85.19	+4.10	+12.86	-8.60
LU	*1,254.52*	*1,544.95*	*1,430.55*	*1,503.32*	*1,693.94*	*1,684.29*	*-2.69*	*+12.68*	*-0.57*

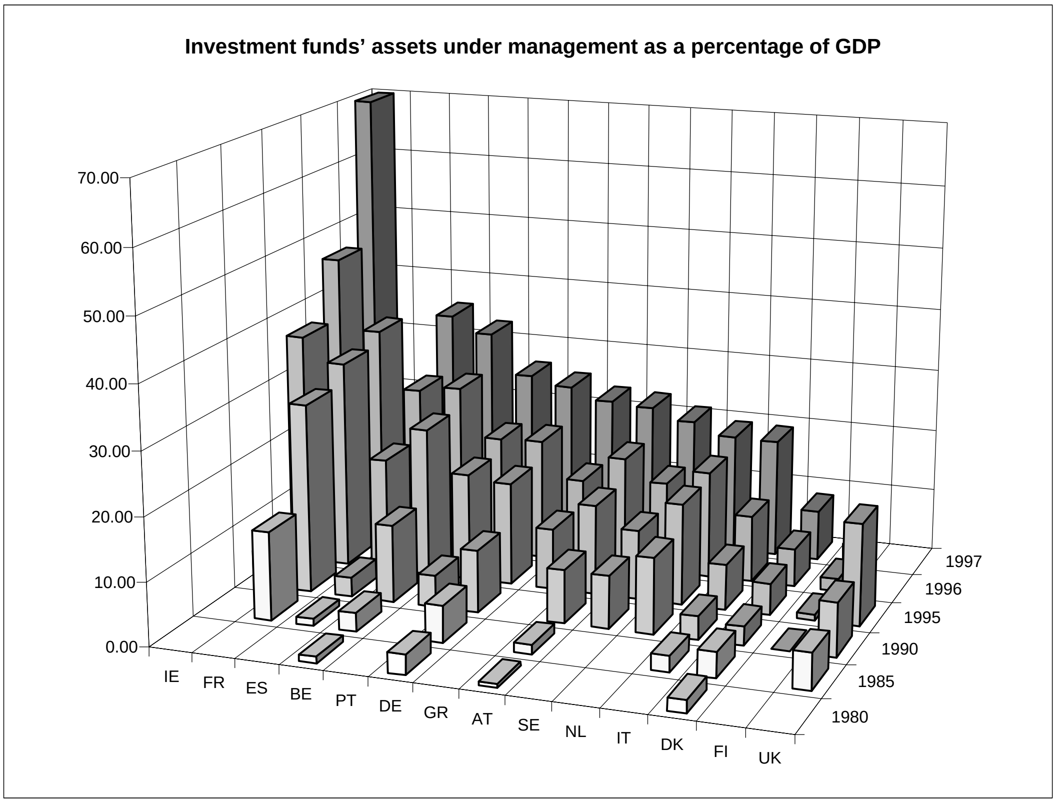
LU: not shown in the chart for reasons of scaling.



Investment funds' assets under management as a percentage of GD

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
IE			5.45	36.78	46.24	69.85		+25.72	+51.06
FR		14.00	30.00	33.00	35.00		+135.71	+6.06	
ES		1.13	3.07	17.95	25.73	34.93		+43.34	+35.76
BE	1.00	2.95	12.23	23.63	26.74	32.44	+702.23	+13.16	+21.33
PT			5.00	17.00	19.00	26.00		+11.76	+36.84
DE	3.20	5.82	9.85	16.33	19.32	24.72	+180.58	+18.31	+27.95
GR				9.68	13.49	22.92		+39.36	+69.90
AT	0.60	1.48	8.43	14.26	17.82	22.55	+863.66	+25.01	+26.50
SE			8.32	11.00	14.52	20.82		+32.00	+43.39
NL			12.00	16.00	17.00	19.00		+6.25	+11.76
IT		2.50	3.70	7.20	10.60	18.90	+188.00	+47.22	+78.30
DK	2.00	4.00	3.00	5.00	6.00	8.00	+25.00	+20.00	+33.33
FI			0.06	0.95	2.04	3.05		+114.74	+49.51
UK		5.70	8.44	16.09			+182.28		
LU	*80.79*	*279.19*	*842.92*	*2,071.82*	*2,369.50*	*2,770.98*	*+642.08*	*+14.37*	*+16.94*
EU weighted average				**21.79**					

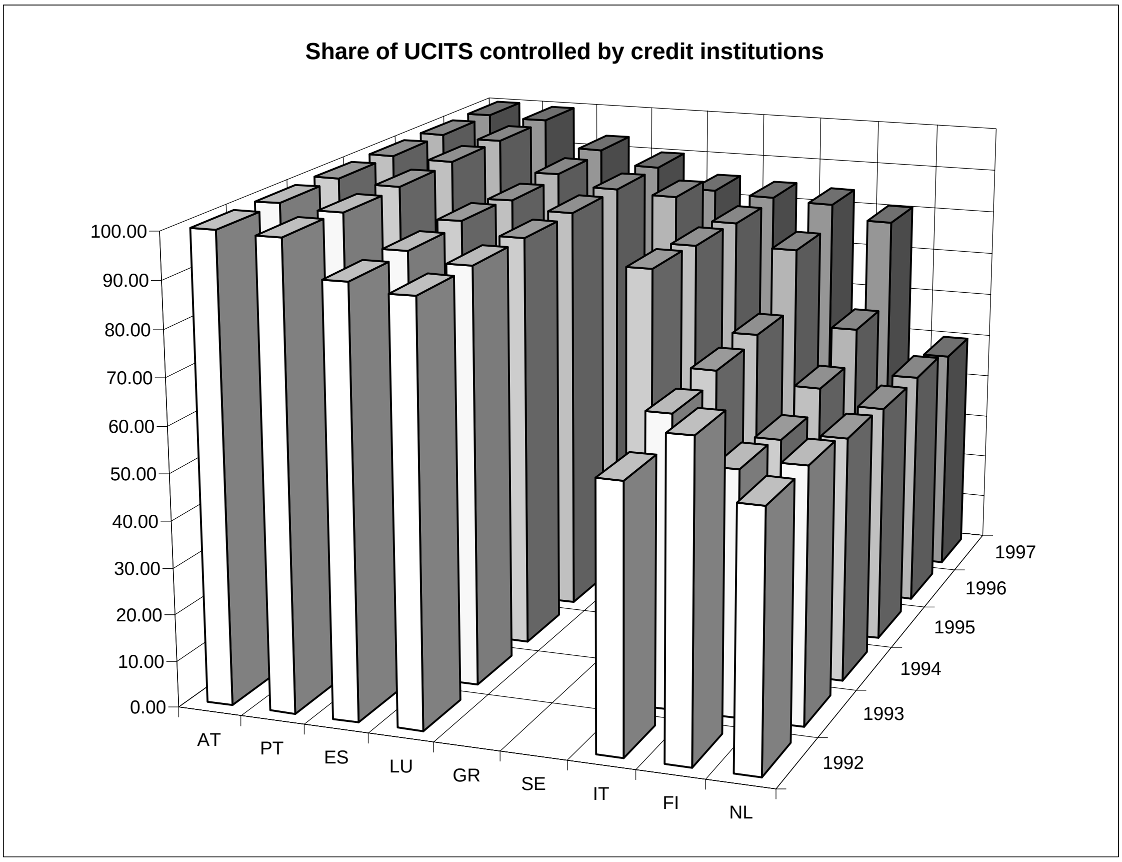
LU: not shown in the chart for reasons of scaling.



Share of UCITS controlled by credit institutions

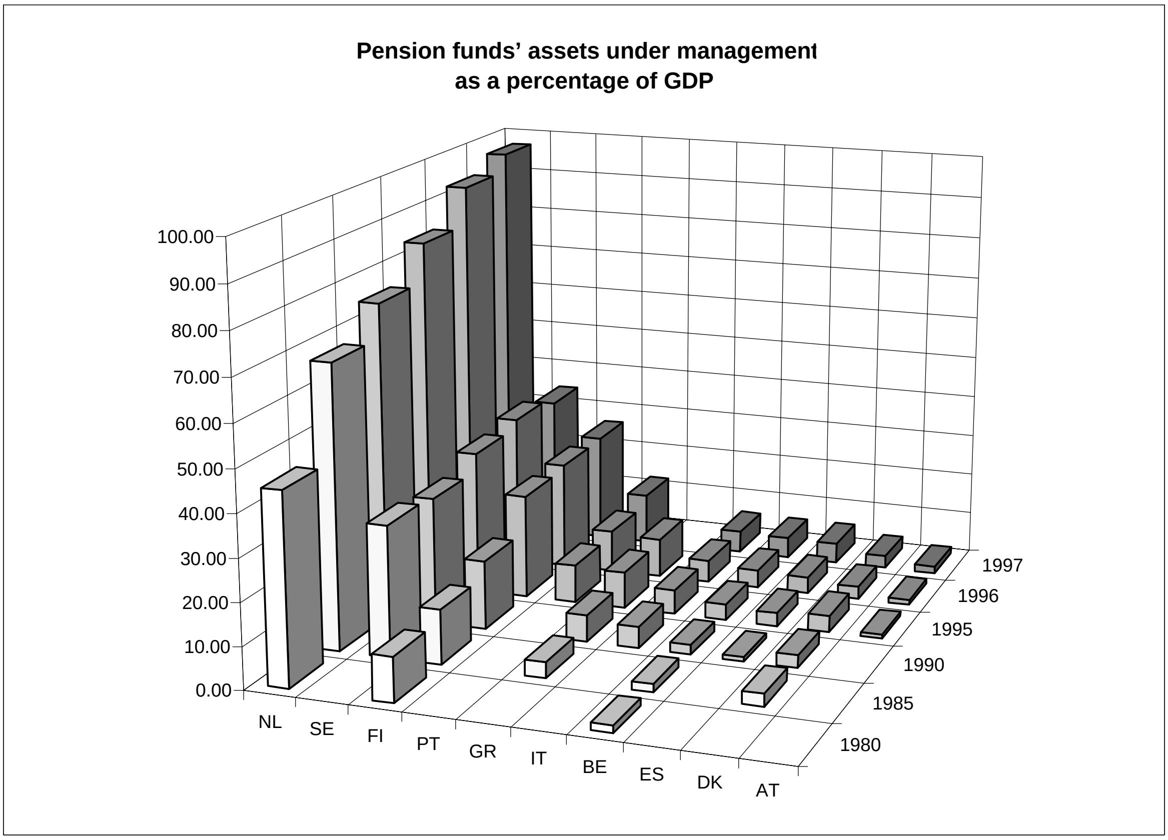
	1992	1993	1994	1995	1996	1997	%change 1992-1997	%change 1995-1996	%change 1996-1997
AT	100.00	100.00	100.00	100.00	100.00	100.00	0.00	0.00	0.00
PT	99.50	99.00	99.20	99.60	99.50	99.60	+0.10	-0.10	+0.10
ES	91.70	92.00	92.70	91.80	92.60	93.30	+1.74	+0.87	+0.76
LU	90.00	90.00	90.00	90.00	90.00	90.00			
GR					89.22	85.43			-4.25
SE			85.60	84.70	84.10	84.70		-0.71	+0.71
IT	57.00	63.00	65.00	66.00	79.00	84.00	+47.37	+19.70	+6.33
FI	67.42	52.85	51.32	55.32	61.89	80.79	+19.83	+11.88	+30.54
NL	55.00	55.00	53.00	52.00	52.00	50.00	-9.09	0.00	-3.85

LU: share is higher than 90% at all 5 dates.



Pension funds' assets under management as a percentage of GDP

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
NL	45.00	67.00	75.00	84.00	93.00	97.00	+25.37	+10.71	+4.30
SE		31.00	30.00	34.00	36.00	34.00	+9.68	+5.88	-5.56
FI	10.50	12.86	16.41	24.73	25.60	25.87	+92.25	+3.52	+1.03
PT				9.00	10.00	12.00		+11.11	+20.00
GR		3.71	6.40	8.71	9.33		+134.77	+7.12	
IT			5.10	5.80	5.30	5.20		-8.62	-1.89
BE	1.71	1.97	2.28	3.74	4.28	4.88	+89.51	+14.43	+14.17
ES			1.07	3.15	3.96	4.82		+25.71	+21.72
DK		3.00	3.00	4.00	3.00	3.00	+33.33	-25.00	0.00
AT				0.97	1.23	1.73		+26.85	+40.80



The relative importance of financial intermediaries: Assets of credit institutions, investment funds' assets and insurance companies' and pension funds' assets under management

expressed as a percentage of GDP (1997 and 1995)

sorted by the assets of credit institutions as a percentage of GDP in 1997

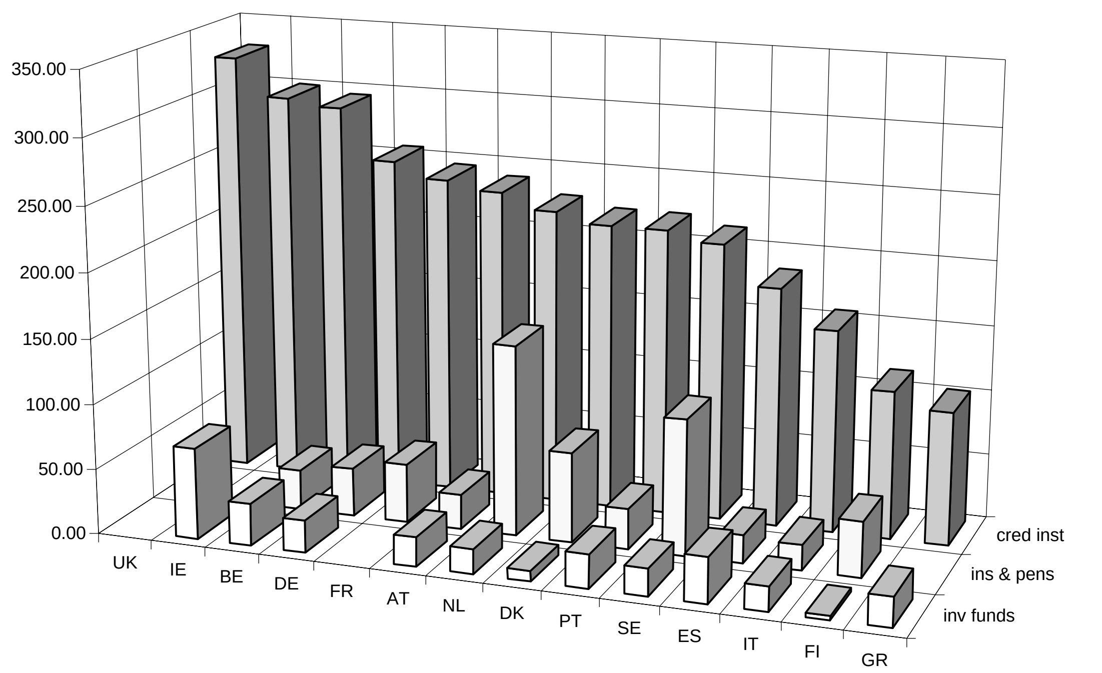
	1997 absolute value as a % of GDP			1995 absolute value as a % of GDP			% change in relative importance 1995-1997		
	inv funds	ins & pens	cred inst	inv funds	ins & pens	cred inst	inv funds	ins & pens	cred inst
UK			327.60	16.09		296.40			
IE	69.85		299.05	36.78	26.29	195.45			
BE	32.44	30.97	294.17	23.63	26.15	278.65			
DE	24.72	36.99	255.82	16.33	32.28	222.95	+29.62	-2.02	-1.86
FR		45.00	244.60	33.00	40.00	224.00			
AT	22.55	26.49	238.38	14.26	23.20	230.59	+47.37	+6.47	-3.58
NL	19.00	146.00	227.00	16.00	124.00	194.00	+1.25	+0.30	-0.29
DK	8.00	69.00	220.00	5.00	66.00	203.00	+47.80	-3.57	-0.03
PT	26.00	31.00	220.00	17.00	23.00	184.00	+23.72	+8.96	-3.31
SE	20.82	104.00	213.00	11.00	86.00	179.00	+54.39	-1.19	-2.79
ES	34.93	21.71	183.23	17.95	17.80	182.75	+77.13	+11.04	-8.67
IT	18.90	19.40	155.40	7.20	17.40	150.00	+136.89	+0.50	-6.61
FI	3.05	42.46	113.35	0.95	38.42	122.26	+225.42	+12.45	-5.67
GR	22.92		102.03	9.68	12.48	96.26			
LU	*2,770.98*		*3,695.99*	*2,071.82*	*44.82*	*3,604.39*			

For the calculation methodology of the percentage change in relative importance see Annex 1 (Introduction to the tables and charts).

LU: not shown in the chart for reasons of scaling.

DE: insurance companies' assets under management only, 1997 figures are preliminary.

The relative importance of financial intermediaries as at end-1997



GDP growth in national currencies
sorted by 1997 growth rate

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
IE	9.83	18.72	27.53	40.25	44.19	49.78	+115.01	+9.79	+12.65
GR	2,072.00	5,592.00	13,143.00	26,590.00	29,595.00	32,705.00	+375.50	+11.30	+10.51
LU	146.67	226.48	345.74	509.74	525.39	563.80	+125.07	+3.07	+7.31
FI	191.38	331.63	515.43	549.86	576.92	618.04	+65.81	+4.92	+7.13
UK	231.23	356.17	549.39	701.50	739.26	785.22	+96.96	+5.38	+6.22
PT	1,438.00	4,035.00	9,621.00	15,073.00	15,995.00	16,921.00	+273.56	+6.12	+5.79
ES	15,168.00	28,201.00	50,145.00	69,779.00	73,591.00	77,806.00	+147.43	+5.46	+5.73
DK	373.80	615.10	799.10	969.10	1,013.90	1,071.40	+57.55	+4.62	+5.67
NL	341.68	425.54	516.55	638.38	667.64	703.58	+50.02	+4.58	+5.38
BE	3,507.20	4,838.00	6,550.00	8,055.60	8,305.00	8,662.10	+66.51	+3.10	+4.30
IT	385.30	810.10	1,310.70	1,771.00	1,873.50	1,951.60	+118.61	+5.79	+4.17
AT	1,016.10	1,369.10	1,813.50	2,334.40	2,421.60	2,516.90	+70.51	+3.74	+3.94
FR	2,808.30	4,700.10	6,509.50	7,662.40	7,860.50	8,125.90	+63.03	+2.59	+3.38
SE	531.10	866.60	1,359.90	1,649.90	1,688.20	1,739.00	+90.39	+2.32	+3.01
DE	1,472.00	1,823.20	2,426.00	3,459.60	3,541.50	3,641.80	+89.75	+2.37	+2.83
EU	**2439.70**	**3653.20**	**5196.40**	**6449.30**	**6774.10**	**7132.30**	**+76.54**	**+5.04**	**+5.29**

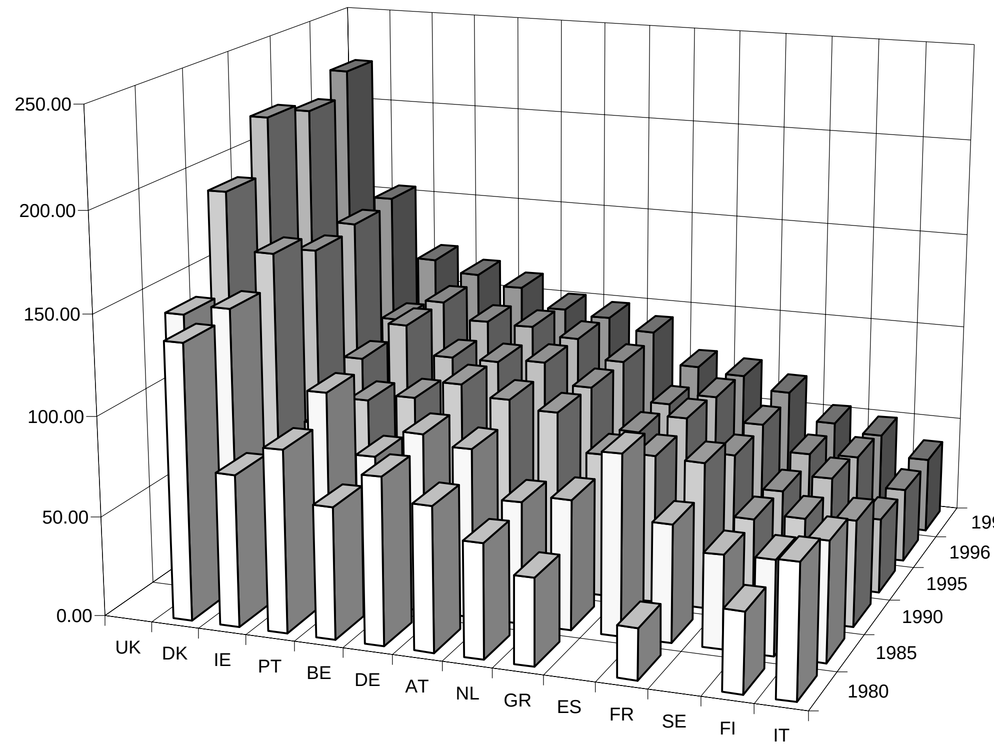
Source: EUROSTAT (Ameco database), ECB calculation, data in billion of local currency, for EU in billion of ECU.

Credit institutions' non-bank deposits as a percentage of GDP

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
UK		136.79	187.35	215.80	209.80	222.50	+57.76	-2.78	+6.05
DK	138.00	142.00	158.00	148.00	151.00	154.00	+4.23	+2.03	+1.99
IE	75.83	56.77	72.63	93.07	101.33	122.11	+63.94	+8.88	+20.51
PT	91.00	105.00	87.00	113.00	113.00	116.00	+7.62	0.00	+2.65
BE	65.65	75.30	90.93	98.47	104.61	110.93	+30.77	+6.23	+6.05
DE	83.33	89.42	100.47	98.52	104.07	101.09	+10.18	+5.63	-2.86
AT	72.03	84.66	95.16	100.51	100.19	98.71	+18.73	-0.32	-1.48
NL	57.00	61.00	91.00	90.00	90.00	93.00	+47.54	0.00	+3.33
GR	43.40	64.94	72.22	69.36	69.75	76.33	+6.81	+0.56	+9.43
ES		90.52	74.53	79.09	76.25	73.86	-12.63	-3.59	-3.13
FR	25.40	58.80	73.70	62.70	64.00	67.30	+6.63	+2.07	+5.16
SE		46.77	48.24	46.76	50.99	52.93	-0.02	+9.04	+3.81
FI	39.80	47.38	51.46	56.04	52.14	49.11	+18.27	-6.96	-5.81
IT	66.20	59.70	53.30	37.80	37.40	38.30	-36.68	-1.06	+2.41
LU	*497.03*	*775.34*	*1,451.09*	*1,417.59*	*1,442.55*	*1,389.32*	*+82.83*	*+1.76*	*-3.69*
EU weighted average		84.44	98.85	98.81	99.95	101.95	+17.03	+1.15	+2.01

LU: not shown in the chart for reasons of scaling.

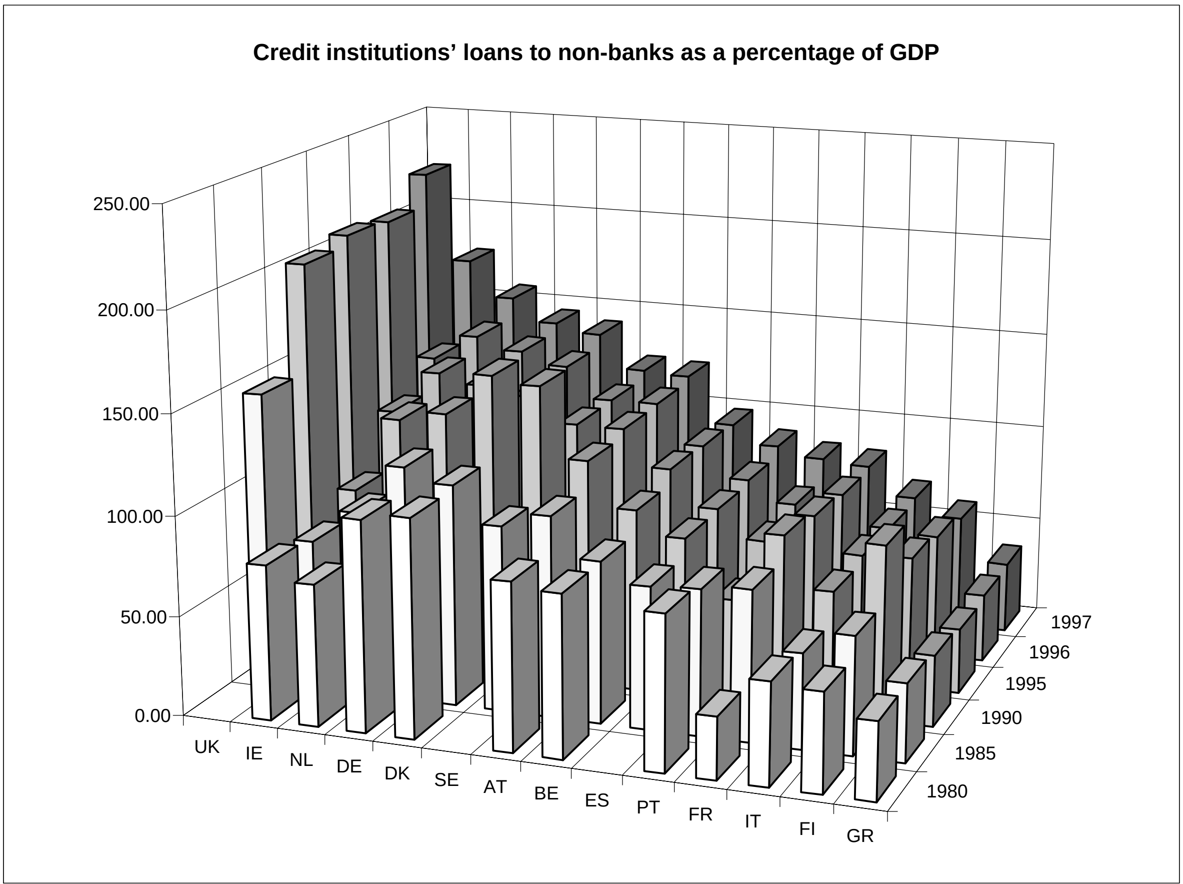
Credit institutions' non-bank deposits as a percentage of GDP



Credit institutions' loans to non-banks as a percentage of GDF

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
UK		146.64	201.03	205.90	203.70	220.20	+40.41	-1.07	+8.10
IE	77.65	74.84	87.01	115.46	132.22	174.59	+54.28	+14.52	+32.05
NL	71.00	92.00	126.00	138.00	146.00	156.00	+50.00	+5.80	+6.85
DE	105.51	117.40	131.11	133.70	140.00	144.18	+13.88	+4.71	+2.99
DK	109.00	111.00	153.00	130.00	134.00	140.00	+17.12	+3.08	+4.48
SE		93.01	149.79	117.83	118.17	122.37	+26.68	+0.30	+3.55
AT	83.72	100.73	114.40	117.81	118.57	121.24	+16.96	+0.65	+2.25
BE	80.86	81.16	91.97	99.47	98.34	96.98	+22.56	-1.14	-1.38
ES		71.50	80.34	81.10	82.64	87.53	+13.43	+1.90	+5.92
PT	77.00	73.00	52.00	67.00	72.00	83.00	-8.22	+7.46	+15.28
FR	31.00	75.60	87.30	82.70	79.70	81.20	+9.39	-3.63	+1.88
IT	50.90	47.50	61.90	65.10	64.80	66.60	+37.05	-0.46	+2.78
FI	49.17	59.12	87.79	66.34	62.73	57.97	+12.22	-5.44	-7.58
GR	38.56	39.04	35.76	32.64	34.48	35.92	-16.39	+5.64	+4.18
LU	*936.80*	*1,079.57*	*865.10*	*680.54*	*676.45*	*692.27*	*-36.96*	*-0.60*	*+2.34*
EU weighted average		96.34	116.68	116.89	118.46	123.86	+21.34	+1.34	+4.56

LU: not shown in the chart for reasons of scaling.



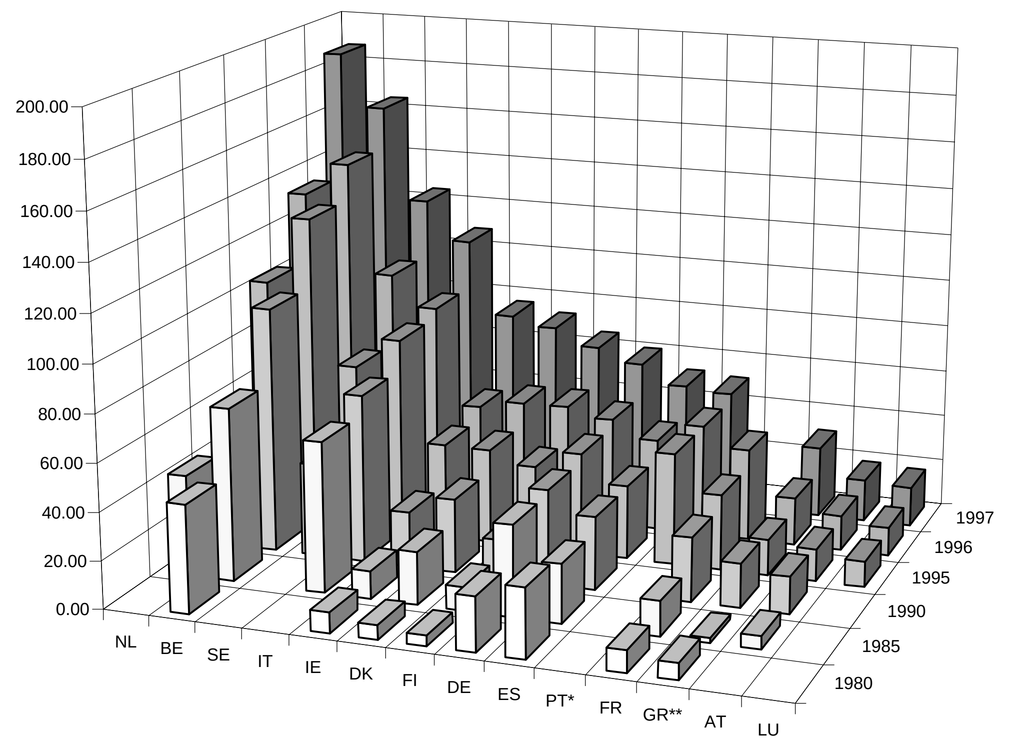
Market value of equities as a percentage of GDP

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
NL		42.00	49.00	103.00	132.60	186.80	+145.24	+28.74	+40.87
BE	44.94	72.35	103.05	131.86	146.78	164.08	+82.25	+11.31	+11.79
SE			39.00	70.00	100.00	124.00		+42.86	+24.00
IT		62.80	70.40	83.30	87.00	107.30	+32.64	+4.44	+23.33
IE	8.40	11.53	23.24	40.02	45.28	75.53	+247.09	+13.14	+66.81
DK	6.00	22.00	31.00	40.00	49.00	72.00	+81.82	+22.50	+46.94
FI	4.31	9.92	16.08	34.85	49.38	65.03	+251.28	+41.69	+31.69
DE	22.68	37.97	39.48	42.65	45.79	59.50	+12.33	+7.36	+29.94
ES	28.60	24.46	30.55	30.93	38.87	51.44	+26.45	+25.67	+32.34
PT*				47.00	47.00	50.00		0.00	+6.38
FR	9.20	14.40	26.80	31.80	38.90		+120.83	+22.33	
GR**	6.77	2.02	18.46	15.14	20.09	30.00	+649.50	+32.69	+49.33
AT		5.43	15.50	13.47	14.76	17.96	+148.07	+9.62	+21.64
LU				10.75	11.97	16.81		+11.35	+40.43

* PT: nominal values

** GR: equities listed at the Athens Stock Exchange.

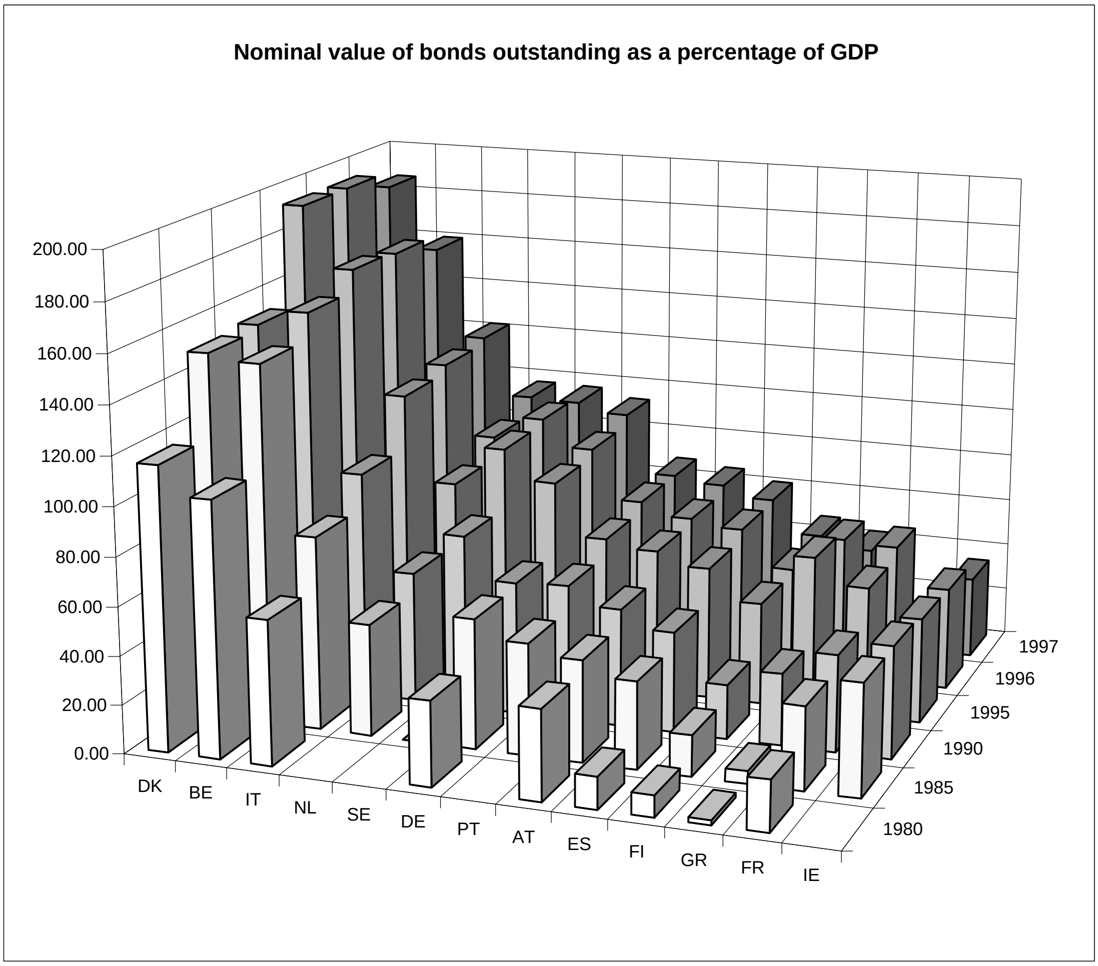
Market value of equities as a percentage of GDP



Nominal value of bonds outstanding as a percentage of GDP

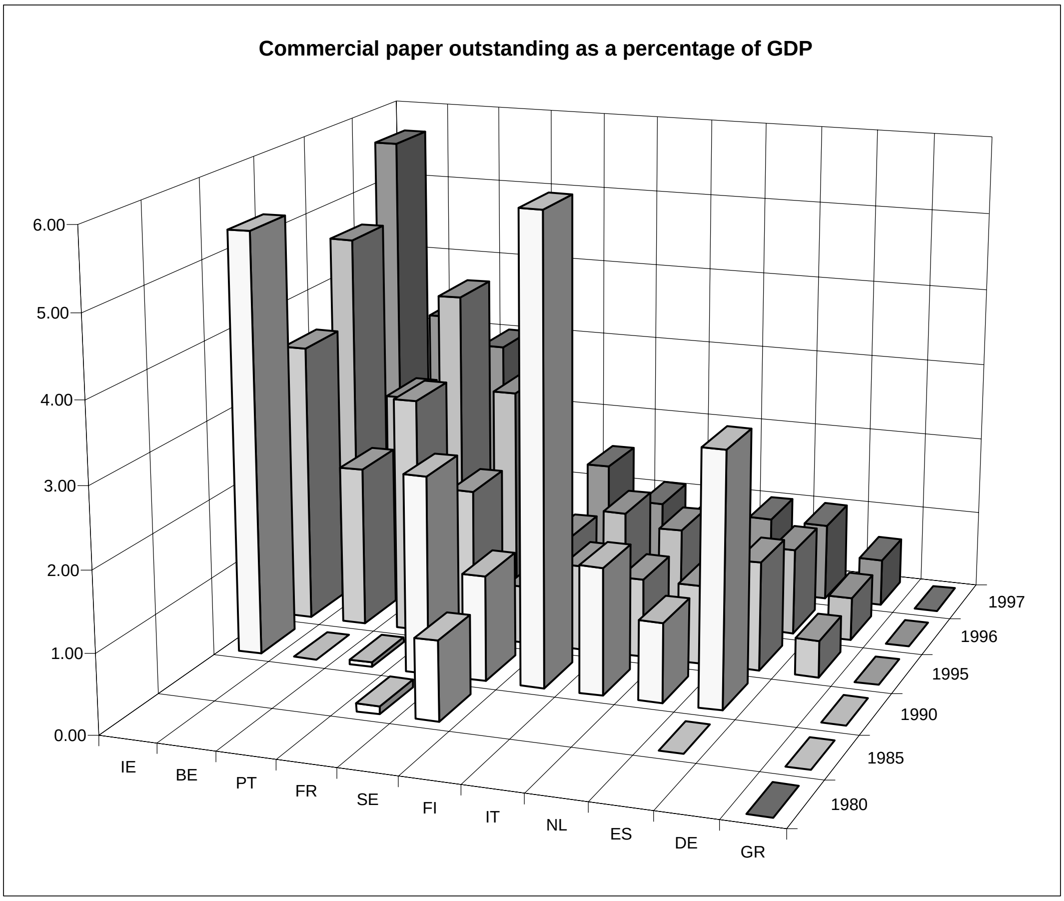
	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
DK	116.00	150.00	152.00	193.00	193.00	186.00	+28.67	0.00	-3.63
BE	104.58	147.64	158.67	167.58	166.10	159.46	+13.50	-0.88	-4.00
IT	59.10	79.50	93.60	115.70	119.10	121.50	+45.53	+2.94	+2.02
NL		46.00	54.00	80.00	89.20	96.50	+73.91	+11.50	+8.18
SE		0.00	72.00	97.00	99.00	96.00		+2.06	-3.03
DE	34.85	53.27	54.73	84.68	87.78	92.43	+58.96	+3.66	+5.30
PT		46.00	56.00	63.00	67.00	67.00	+36.96	+6.35	0.00
AT	37.04	41.70	48.61	60.02	61.73	64.58	+43.92	+2.86	+4.61
ES	13.19	35.75	41.61	54.96	59.31	60.19	+53.73	+7.91	+1.48
FI	8.74	16.87	22.34	42.38	44.03	46.46	+151.23	+3.88	+5.53
GR	1.96	5.20	29.64	64.24	59.25	42.00	+1,135.38	-7.77	-29.11
FR	20.80	34.00	40.00	53.80	58.30		+58.24	+8.36	
IE		45.94	46.20	43.28	42.35	33.83	-5.79	-2.15	-20.12
LU				348.59	414.43	419.50		*+18.89*	*+1.22*

LU: not shown in the chart for reasons of scaling.
GR: equities listed at the Athens Stock Exchange.



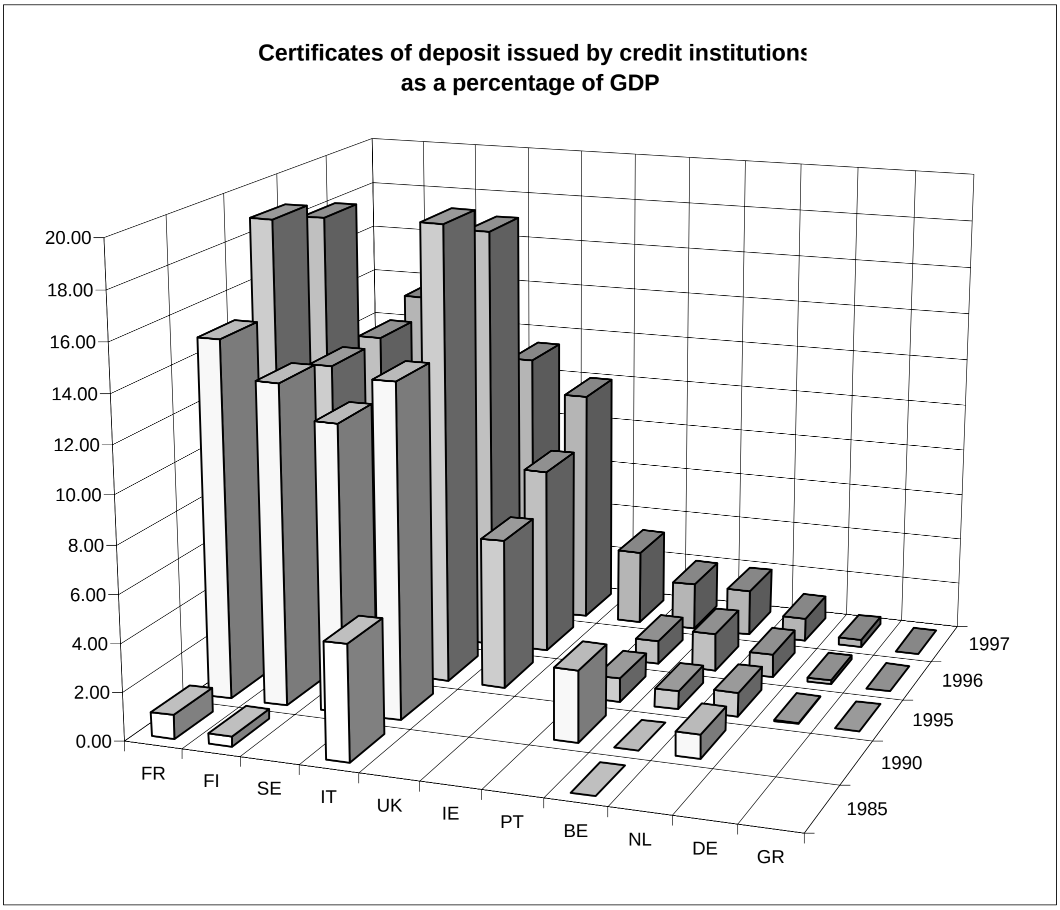
Commercial paper outstanding as a percentage of GDP

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
IE			5.34	3.55	4.64	5.65		+30.70	+21.77
BE			0.01	2.04	2.61	3.36		+28.06	+28.77
PT			0.06	3.00	4.00	3.00		+33.33	-25.00
FR		0.10	2.50	1.90	2.80		+1,800.00	+47.37	
SE		1.00	1.33	0.73	0.95	1.50	-27.00	+30.14	+57.89
FI			5.86	1.08	1.35	1.06		+25.00	-21.48
IT			1.60	1.00	1.20	1.00		+20.00	-16.67
NL			1.00	1.00	0.00	1.00		-100.00	
ES		1.02	3.19	1.38	1.10	0.99	+35.29	-20.29	-10.00
DE				0.47	0.55	0.60		+17.02	+9.09
GR	0.00	0.00	0.00	0.00	0.00	0.00			



Certificates of deposit issued by credit institutions as a percentage of GDP

	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
FR	1.00	15.00	18.90	18.10		+1,790.00	-4.23	
FI	0.43	13.42	12.98	13.09	13.84	+2,942.07	+0.85	+5.73
SE		12.00	9.00	11.00	12.00		+22.22	+9.09
IT	4.80	13.90	19.20	18.00	11.40	+300.00	-6.25	-36.67
UK			6.30	7.90	10.00		+25.40	+26.58
IE					3.18			
PT		3.00	1.00	1.00	2.00		0.00	+100.00
BE	0.00	0.00	0.76	1.60	1.96		+108.97	+23.16
NL		1.00	1.00	1.00	1.00		0.00	0.00
DE			0.04	0.17	0.32		+325.00	+88.24
GR			0.01	0.00	0.00		-50.00	-45.00



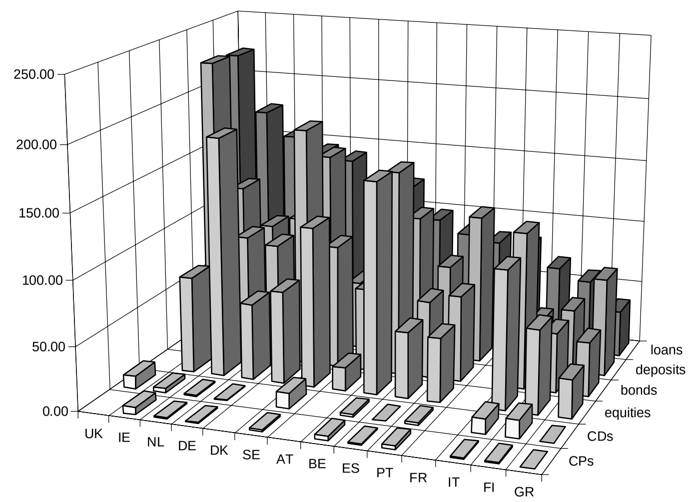
The relative importance of different financial instruments:

expressed as a percentage of GDP (1997 and 1995)
sorted by banks' loans as a percentage of GDP in 1997

	1997						1995						% change in relative importance 1995-1997					
	CPs	CDs	equities	bonds	deposits	loans	CPs	CDs	equities	bonds	deposits	loans	CPs	CDs	equities	bonds	deposits	loans
UK		10.00			222.50	220.20		6.30			215.80	205.90						
IE	5.65	3.18	75.53	33.83	122.11	174.59	3.55		40.02	43.28	93.07	115.46	+13.33		+34.32	-44.37	-6.60	+7.65
NL	1.00	1.00	186.80	96.50	93.00	156.00	1.00	1.00	103.00	80.00	90.00	138.00	-20.83	-20.83	+40.18	-6.76	-20.10	-12.60
DE	0.60	0.32	59.50	92.43	101.09	144.18	0.47	0.04	42.65	84.68	98.52	133.70	+15.38	+700.00	+26.16	-1.28	-7.20	-2.45
DK			72.00	186.00	154.00	140.00			40.00	193.00	148.00	130.00			+66.54	-10.78	-3.66	-0.31
SE	1.50	12.00	124.00	96.00	52.93	122.37	0.73	9.00	70.00	97.00	46.76	117.83	+76.19	+11.36	+47.88	-17.38	-5.47	-13.30
AT			17.96	64.58	98.71	121.24			13.47	60.02	100.51	117.81			+28.57	+3.79	-5.28	-0.72
BE	3.36	1.96	164.08	159.46	110.93	96.98	2.04	0.76	131.86	167.58	98.47	99.47	+53.66	+146.67	+15.97	-11.31	+4.98	-9.15
ES	0.99	0.00	51.44	60.19	73.86	87.53	1.38	0.00	30.93	54.96	79.09	81.10	-35.71		+50.16	-1.08	-15.64	-2.53
PT	3.00	2.00	50.00	67.00	116.00	83.00	3.00	1.00	47.00	63.00	113.00	67.00	-8.82	+82.35	-2.56	-2.61	-5.98	+13.47
FR					67.30	81.20	1.90	18.90	31.80	53.80	62.70	82.70						
IT	1.00	11.40	107.30	121.50	38.30	66.60	1.00	19.20	83.30	115.70	37.80	65.10	-6.45	-44.80	+19.88	-2.26	-5.71	-4.80
FI	1.06	13.84	65.03	46.46	49.11	57.97	1.08	12.98	34.85	42.38	56.04	66.34	-11.76	-2.31	+70.75	+0.30	-19.79	-20.03
GR	0.00	0.00	30.00	42.00	76.33	35.92	0.00	0.01	15.14	64.24	69.36	32.64			+94.97	-35.66	+8.34	+8.39
LU			*16.81*	*833.29*	*1,389.32*	*692.27*			*10.75*	*681.50*	*1,417.59*	*680.54*			*+46.15*	*+16.38*	*-6.71*	*-3.20*

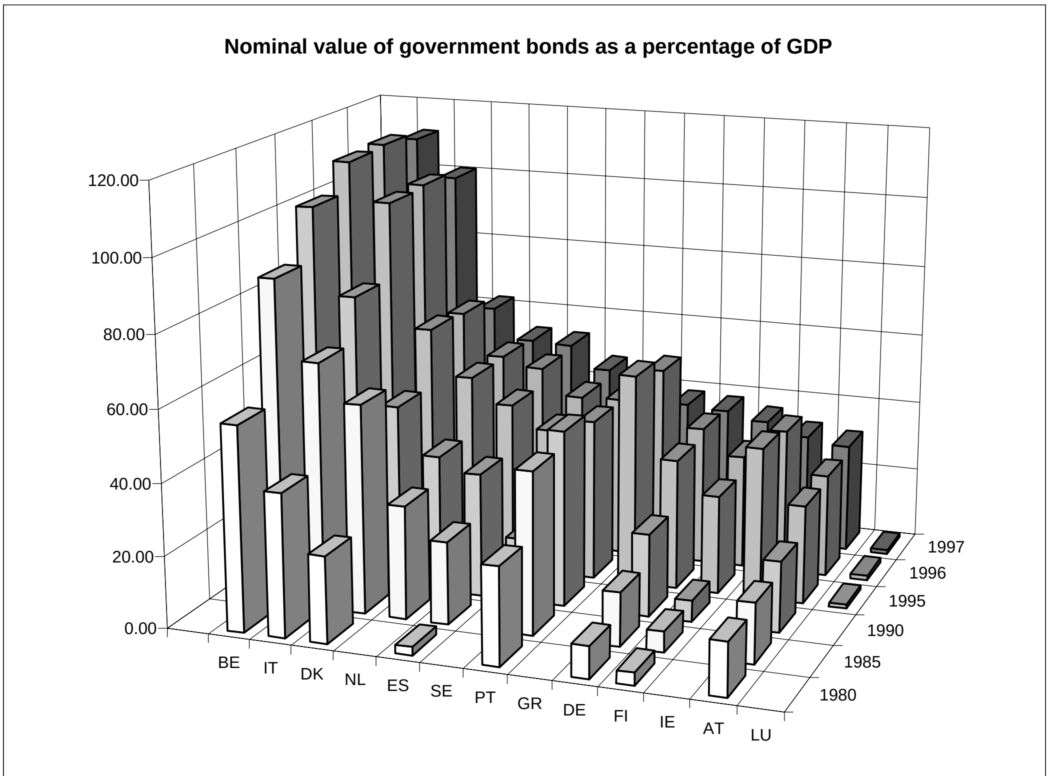
For the calculation methodology of the percentage change in relative importance see Annex 1 (Introduction to the tables and charts).
LU: not shown in the chart for reasons of scaling.

The relative importance of different financial instruments as at year-end 1997



Nominal value of government bonds as a percentage of GDI

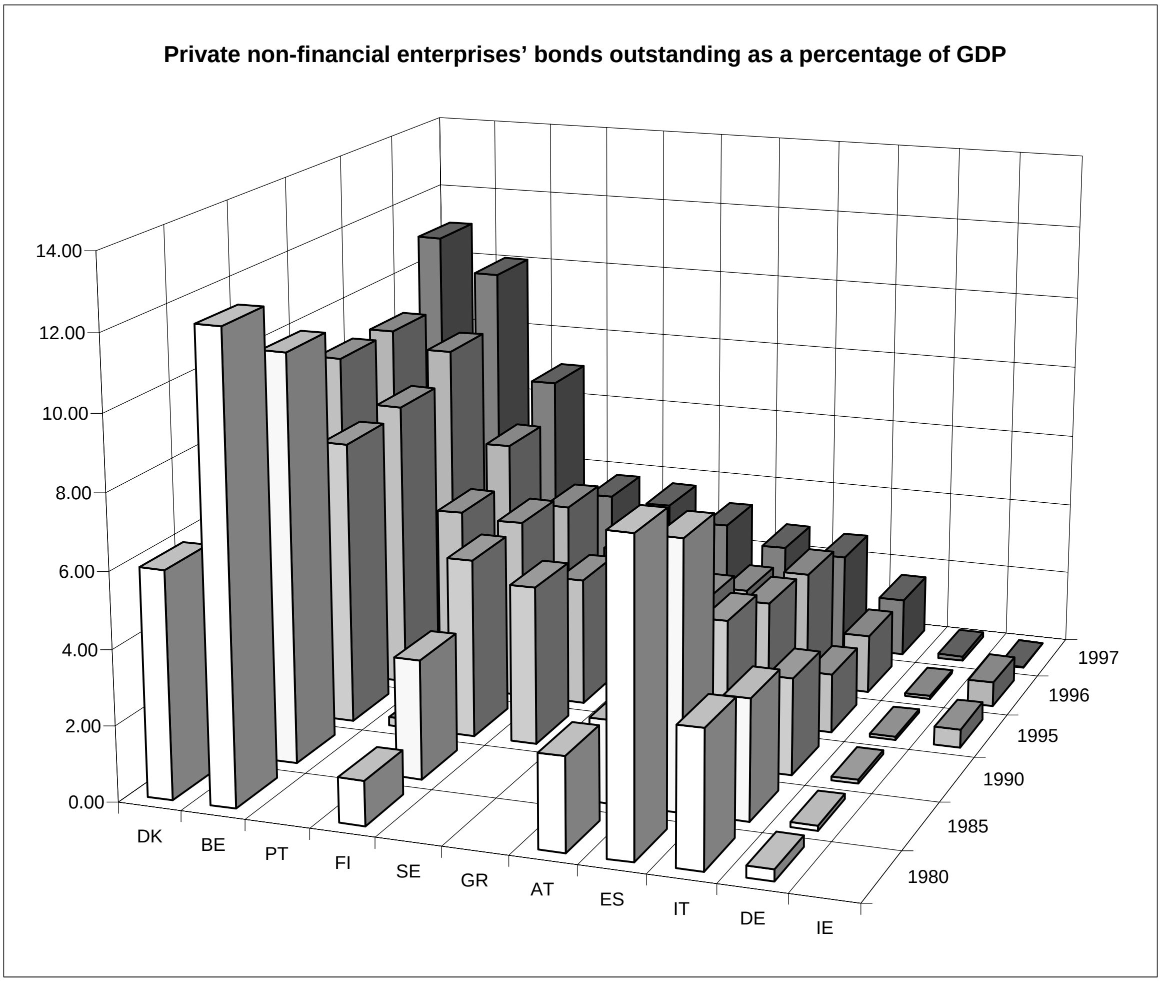
	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
BE	56.70	90.01	104.53	112.72	113.48	111.06	+25.23	+0.67	-2.13
IT	39.70	68.30	80.70	101.90	102.60	100.40	+49.19	+0.69	-2.14
DK	24.00	58.00	51.00	67.00	66.00	62.00	+15.52	-1.49	-6.06
NL		31.40	38.20	54.20	54.40	53.40	+72.61	+0.37	-1.84
ES	2.31	22.94	34.42	47.42	51.94	52.93	+106.71	+9.53	+1.91
SE			17.57	41.40	44.60	46.58		+7.75	+4.43
PT	27.00	45.00	49.00	45.00	45.00	40.00	0.00	0.00	-11.11
GR				59.12	54.62	38.33		-7.61	-29.82
DE	8.88	14.94	22.98	36.45	38.82	37.65	+143.98	+6.50	-3.01
FI	3.45	5.80	5.93	27.46	31.86	35.57	+373.41	+16.01	+11.67
IE				42.39	40.51	32.22		-4.44	-20.46
AT	14.84	16.59	19.74	27.49	28.84	30.62	+65.67	+4.89	+6.20
LU				1.16	1.37	1.05		+13.13	-23.36



Private non-financial enterprises’ bonds outstanding as a percentage of GDP

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
DK	6.00	7.00	7.00	9.00	9.00	11.00	+28.57	0.00	+22.22
BE	12.26	10.85	7.62	7.79	8.56	10.06	-28.25	+9.93	+17.45
PT			0.23	5.00	6.00	7.00		+20.00	+16.67
FI	1.18	3.18	4.82	4.88	4.40	3.79	+53.59	-9.91	-13.85
SE			4.27	3.45	3.32	3.68		-3.98	+10.94
GR				0.93	3.66	3.26		+293.55	-10.93
AT	2.46	2.20	2.55	3.28	2.52	2.77	+49.11	-23.38	+10.22
ES	8.16	7.08	3.93	3.36	3.17	2.67	-52.54	-5.65	-15.77
IT	3.60	3.20	2.60	1.60	1.60	1.60	-50.00	0.00	0.00
DE	0.31	0.13	0.11	0.08	0.09	0.13	-38.46	+12.50	+44.44
IE				0.49	0.67	0.01		+36.73	-98.51
LU				*87.24*	*99.97*	*115.68*		*+14.59*	*+15.71*

LU: not shown in the chart for reasons of scaling.
NL: private non-financial enterprises’ bonds are included in Table 2.10 (Nominal value of credit institutions’ bonds).

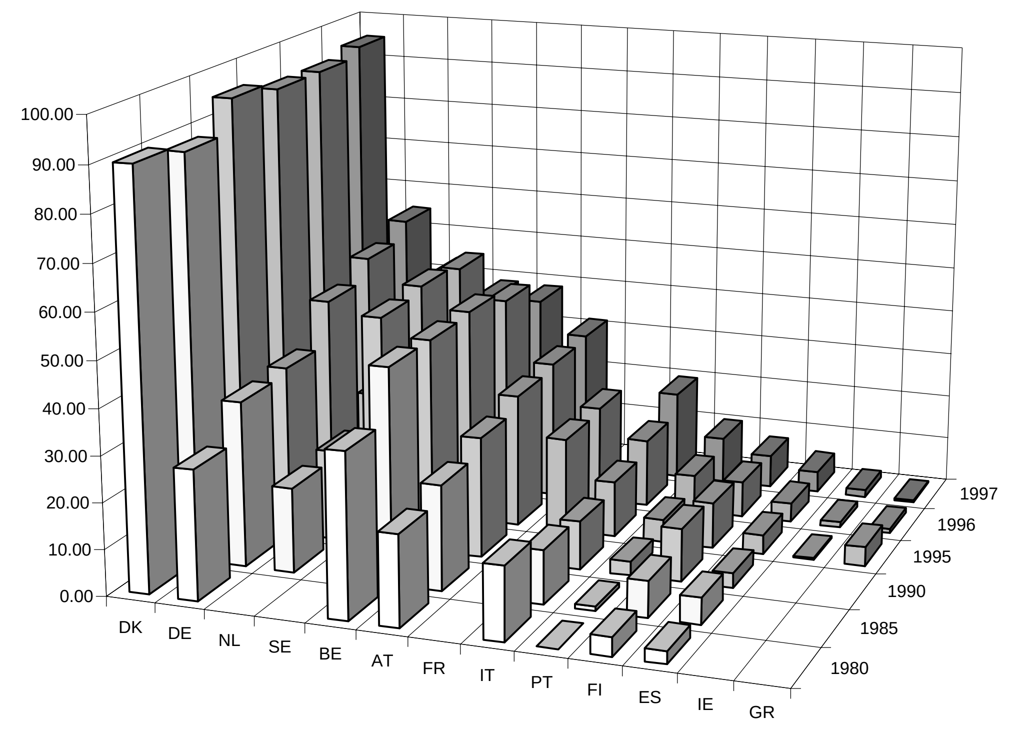


Nominal value of credit institutions' bonds outstanding as a percentage of GD

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
DK	90.00	88.00	95.00	93.00	93.00	95.00	+5.68	0.00	+2.15
DE	28.08	35.91	37.14	46.35	50.87	54.64	+29.07	+9.75	+7.41
NL		18.40	19.70	26.20	34.80	43.10	+42.39	+32.82	+23.85
SE			50.44	51.82	50.47	38.64		-2.61	-23.44
BE	35.62	46.77	46.53	47.07	44.06	38.34	+0.64	-6.39	-12.98
AT	19.73	22.90	26.32	29.24	30.38	31.18	+27.67	+3.89	+2.65
FR				20.60	21.30			+3.40	
IT	15.90	11.70	10.50	12.20	14.90	19.40	+4.27	+22.13	+30.20
PT	0.07	1.00	3.00	5.00	8.00	10.00	+400.00	+60.00	+25.00
FI	4.11	7.89	11.59	10.04	7.77	7.10	+27.25	-22.59	-8.67
ES	2.71	5.73	3.25	4.17	4.20	4.59	-27.23	+0.72	+9.29
IE				0.40	1.17	1.60		+192.50	+36.75
GR				4.19	0.97	0.41		-76.85	-57.73
LU				*260.19*	*313.11*	*307.55*		*+20.34*	*-1.78*

LU: not shown in the chart for reasons of scaling.

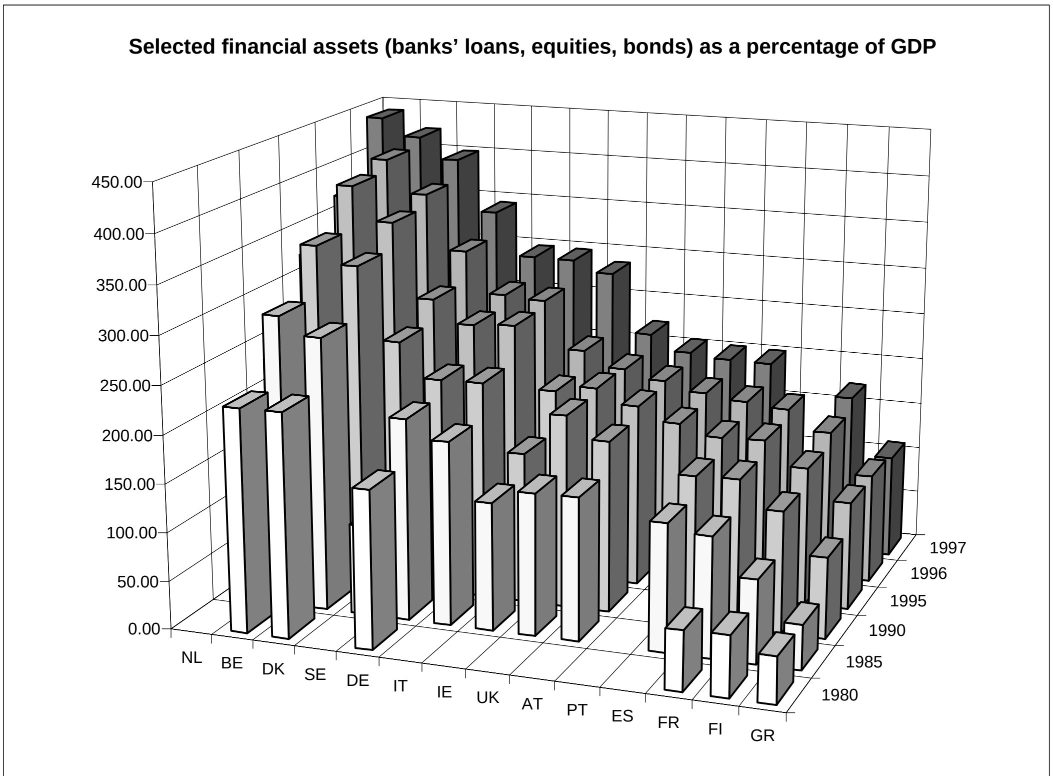
Nominal value of credit institutions' bonds outstanding as a percentage of GDP



Selected financial assets (banks' loans, equities, bonds) as a percentage of GD

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
NL		180.00	229.00	321.00	367.80	439.30	+78.33	+14.58	+19.44
BE	230.38	301.15	353.70	398.91	411.22	420.51	+32.46	+3.09	+2.26
DK	231.00	283.00	336.00	363.00	376.00	398.00	+28.27	+3.58	+5.85
SE		93.01	260.79	284.83	317.17	342.37	+206.24	+11.36	+7.94
DE	163.04	208.64	225.32	261.03	273.57	296.11	+25.11	+4.80	+8.24
IT		189.80	225.90	264.10	270.90	295.40	+39.15	+2.57	+9.04
IE		132.31	156.45	198.76	219.85	283.95	+50.22	+10.61	+29.16
UK		146.64	201.03	205.90	203.70	220.20	+40.41	-1.07	+8.10
AT		147.85	178.50	191.29	195.07	203.78	+29.38	+1.97	+4.47
PT				177.00	186.00	200.00		+5.08	+7.53
ES		131.71	152.50	166.99	180.82	199.16	+26.79	+8.28	+10.14
FR	61.00	124.00	154.10	168.30	176.90		+35.73	+5.11	
FI	62.21	85.91	126.21	143.57	156.14	169.47	+67.12	+8.75	+8.54
GR	47.29	46.26	83.86	112.02	113.82	107.92	+142.15	+1.61	-5.18
LU				1,372.79	1,491.06	1,542.37		+8.62	+3.44
EU weighted average				**235.94**	**247.09**			**+4.72**	

This table aggregates data of Tables 2.2, 2.3 and 2.4.
LU: not shown in the chart for reasons of scaling.



The relative importance of different categories of bonds: government bonds, credit institutions' bonds, private non-financial enterprises' bonds

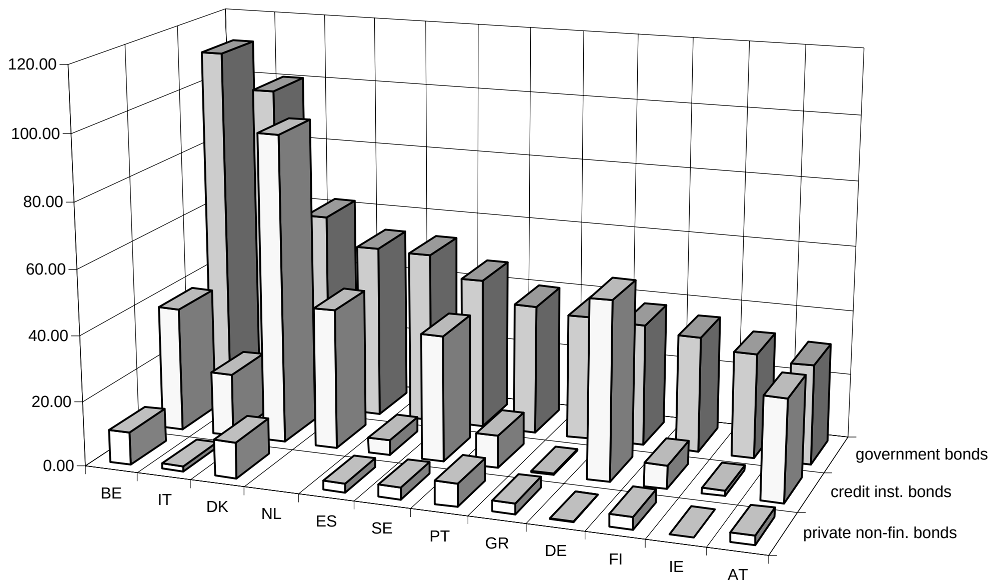
expressed as a percentage of GDP (1997 and 1995)

sorted by government bonds as a percentage of GDP in 1997

	1997			1995			% change in relative importance 1995-1997		
	private non-fin. bonds	credit inst. bonds	government bonds	private non-fin. bonds	credit inst. bonds	government bonds	private non-fin. bonds	credit inst. bonds	government bonds
BE	10.06	38.34	111.06	7.79	47.07	112.72	+35.70	-14.42	+3.54
IT	1.60	19.40	100.40	1.60	12.20	101.90	-4.35	+51.61	-6.10
DK	11.00	95.00	62.00	9.00	93.00	67.00	+22.89	+2.76	-6.91
NL		43.10	53.40		26.20	54.20		+37.04	-17.91
ES	2.67	4.59	52.93	3.36	4.17	47.42	-27.33	+0.53	+1.90
SE	3.68	38.64	46.58	3.45	51.82	41.40	+15.97	-18.93	+22.37
PT	7.00	10.00	40.00	5.00	5.00	45.00	+35.09	+92.96	-14.23
GR	3.26	0.41	38.33	0.93	4.19	59.12	+435.17	-84.97	-0.84
DE	0.13	54.64	37.65	0.08	46.35	36.45	+40.00	+5.72	-7.37
FI	3.79	7.10	35.57	4.88	10.04	27.46	-29.25	-35.53	+18.18
IE	0.01	1.60	32.22	0.49	0.40	42.39	-97.35	+414.13	-2.76
AT	2.77	31.18	30.62	3.28	29.24	27.49	-21.57	-0.88	+3.51
LU	*115.68*	*307.55*	*308.50*	*87.24*	*260.19*	*223.91*	*+3.54*	*-7.71*	*+7.58*

For the calculation methodology of the percentage change in relative importance see Annex 1 (Introduction to the tables and charts).
LU: not shown in the chart for reasons of scaling.

The relative importance of different bond categories as at year-end 1997



Banks’ domestic claims on the government and household sector
as a percentage of banks’ total domestic assets

1. Banks’ domestic claims on the government sector

	1992	1995	1996	1997	% change 92-97	% change 95-96	% change 96-97
BE	26.12	26.18	24.50	22.85	-12.55	-6.45	-6.73
GR	24.34	25.54	22.10			-13.45	
ES	14.61	17.75	18.28	15.91	+8.87	+2.99	-12.98
IT	12.98	16.91	17.38	15.83	+21.96	+2.83	-8.92
DE	12.42	14.16	13.85	13.27	+6.84	-2.17	-4.18
NL	11.40	10.96	10.17	8.88	-22.06	-7.20	-12.66
PT	19.73	15.10	12.72	8.39	-57.47	-15.78	-34.05
FR	2.74	5.50	6.76	6.78	+147.04	+22.90	+0.24
DK	12.25	11.40	8.62	6.45	-47.34	-24.40	-25.19
SE	6.59	14.52	6.64	4.86	-26.20	-54.26	-26.77
FI	3.21	10.48					
IE		7.89	6.39	2.77		-18.99	-56.63
UK	1.47	2.12	1.81	1.28	-13.03	-14.25	-29.51
LU		0.21	0.20			-1.76	

2. Banks’ domestic claims on the household sector

	1992	1995	1996	1997	% change 92-97	% change 95-96	% change 96-97
SE	34.81	32.60	34.25	34.51	-0.85	+5.04	+0.77
FI	28.84	31.35					
GR	18.94	24.23	25.08			+3.52	
DE	24.62	25.39	24.80	23.82	-3.24	-2.32	-3.94
NL	16.96	21.68	22.97	23.44	+38.15	+5.97	+2.02
ES	20.10	18.46	19.29	20.68	+2.85	+4.49	+7.20
UK	21.13	19.95	20.07	18.01	-14.74	+0.58	-10.24
IT	12.59	14.11	13.71	13.87	+10.16	-2.88	+1.16
FR	15.00	14.58	14.18	13.50	-10.00	-2.74	-4.74
IE		15.64	14.48	12.13		-7.44	-16.21
BE	11.70	10.48	10.39	10.59	-9.48	-0.89	+1.90
DK	12.96	11.44	10.59	10.09	-22.16	-7.43	-4.70
LU		1.38	1.30			-5.94	

Banks' domestic interbank claims and claims on non-financial corporations

as a percentage of banks' total domestic assets

3. Banks' domestic claims on non-financial corporations

	1992	1995	1996	1997	% change 92-97	% change 95-96	% change 96-97
SE	52.06	42.21	44.26	42.30	-18.76	+4.87	-4.44
FI	37.73	30.97					
ES	25.67	21.03	21.15	22.17	-13.66	+0.56	+4.83
IT	21.13	23.33	21.59	21.49	+1.72	-7.47	-0.44
NL	24.73	23.46	22.88	20.78	-15.97	-2.47	-9.16
DK	27.01	18.82	17.44	16.98	-37.14	-7.33	-2.64
FR	22.41	19.31	17.59	16.26	-27.44	-8.92	-7.52
DE	19.88	16.74	16.41	15.85	-20.27	-1.95	-3.42
BE	13.39	11.80	11.25	11.45	-14.50	-4.62	+1.75
IE		9.35	8.68	9.93		-7.23	+14.49
UK	13.13	10.15	10.23	8.62	-34.38	+0.80	-15.79
LU		1.35	1.39			+2.51	

4. Banks' domestic interbank claims

	1992	1995	1996	1997	% change 92-97	% change 95-96	% change 96-97
FR	25.16	30.44	30.74	29.83	+18.57	+0.99	-2.95
DE	24.93	24.67	25.73	26.32	+5.59	+4.31	+2.28
GR	20.58	22.26	22.98			+3.22	
ES	23.67	20.87	20.42	21.11	-10.81	-2.18	+3.38
IT	24.53	18.39	20.08	20.14	-17.88	+9.23	+0.29
DK	7.61	15.87	16.16	17.58	+130.99	+1.83	+8.77
SE	6.35	9.97	14.17	17.30	+172.65	+42.20	+22.09
UK	14.25	12.97	14.18	15.57	+9.27	+9.36	+9.81
IE		13.06	13.15	13.70		+0.67	+4.19
FI	13.80	13.37					
LU	9.01	14.82	13.05	12.46	+38.32	-11.99	-4.51
BE	8.35	9.76	12.41	11.00	+31.67	+27.08	-11.38
NL	6.65	5.87	5.38	5.05	-24.12	-8.32	-6.23

The relative importance of deposits/loans in foreign currency, from/to governments and by non-residents as a percentage of total deposits/loans

sorted by total deposits/loans in 1997

1. Change in relative importance of foreign currency+B36, government and non-resident deposits

	1995				1997				change in relative importance 1995-1997		
	total deposits	FX deposits	governm. deposits	non-res. deposits	total deposits	FX deposits	governm. deposits	non-res. deposits	FX	gov.	non-res
LU	1,417.59	1,310.35	19.73	1,048.53	1,389.32	1,282.93	24.28	963.39	-0.10	+25.57	-6.25
UK	215.80	112.10	2.79	114.06	222.50	115.73	2.93	126.71	+0.13	+1.86	+7.75
DK	148.00		2.00	8.00	154.00		2.00	11.00		-3.90	+32.14
IE	93.07	27.19	0.60	24.65	122.11	49.30	0.62	40.95	+38.20	-21.24	+26.62
PT	113.00	5.00	5.00	23.00	116.00	5.00	5.00	23.00	-2.59	-2.59	-2.59
BE	98.47	20.02	2.41	23.07	110.93	25.93	1.22	28.45	+14.99	-55.23	+9.48
DE	98.52		8.08	25.96	101.09		7.72	34.02		-6.88	+27.72
AT	100.51	6.45		10.88	98.71	6.32	2.77	11.94	-0.26		+11.70
NL	90.00	5.90	2.10	38.70	93.00	6.30	2.00	47.60	+3.34	-7.83	+19.03
GR	69.36	18.80	1.72		76.33	25.27	2.05		+22.14	+8.30	
ES	79.09	7.12	4.71	6.71	73.86	7.78	4.18	6.86	+17.01	-4.97	+9.47
FR	62.70	3.80		3.70	67.30	4.30		4.10	+5.42		+3.24
SE	46.76	6.33	0.00	26.13	52.93	10.37	0.00	32.01	+44.73		+8.25
FI	56.04	2.70	0.14		49.11	1.99	0.03		-16.06	-76.25	
IT	37.80	1.40	1.50	0.60	38.30	1.50	1.50	0.80	+5.74	-1.31	+31.59

2. Change in relative importance of foreign currency+B75, government and non-resident loans

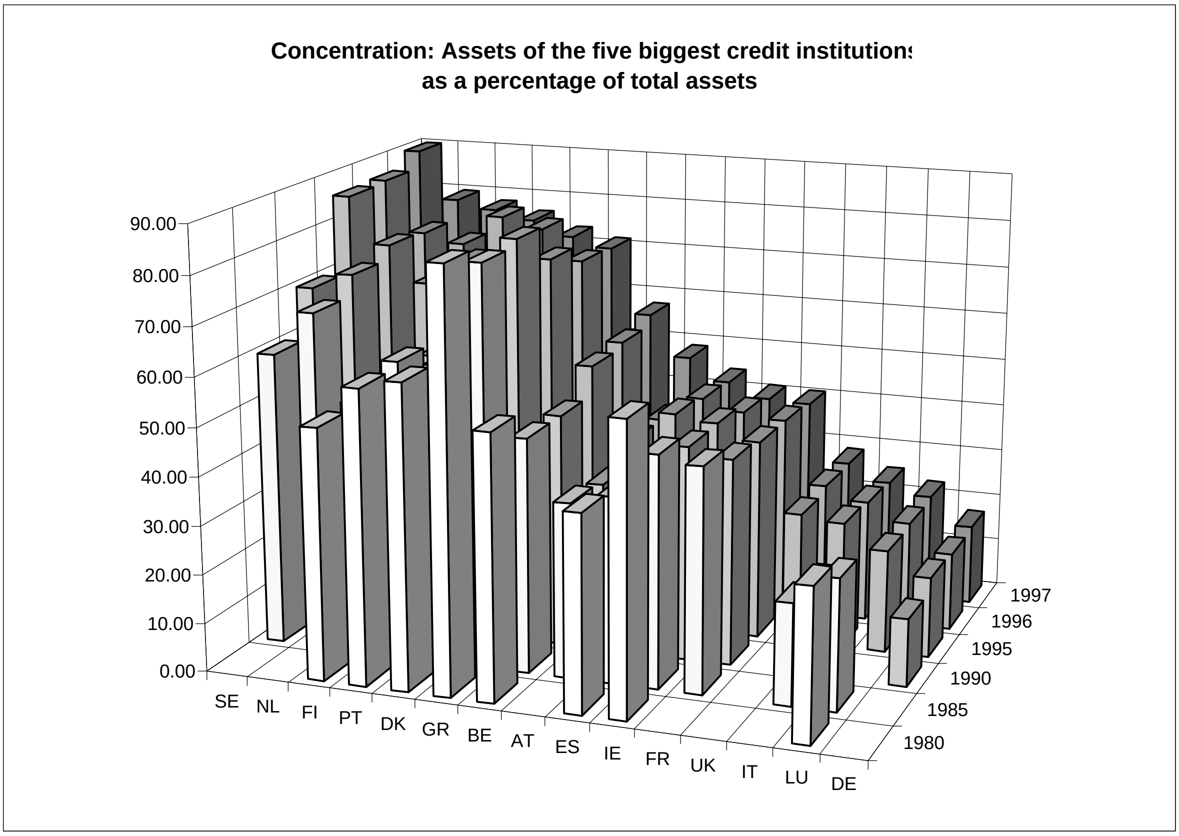
	1995				1997				change in relative importance 1995-1997		
	total loans	FX loans	governm. loans	non-res. loans	total loans	FX loans	governm. loans	non-res. loans	FX	gov.	non-res
LU	680.54	606.22	4.17	576.59	692.27	611.43	3.75	583.38	-0.85	-11.60	-0.54
UK	205.90	88.50	0.72	94.13	220.20	108.10	0.50	103.92	+14.21	-35.07	+3.23
IE	115.46	45.95	19.59	31.62	174.59	96.21	24.63	75.39	+38.47	-16.85	+57.68
NL	138.00	2.60	12.70	12.40	156.00	3.40	10.40	17.60	+15.68	-27.56	+25.56
DE	133.70		30.95	23.99	144.18		33.28	32.01		-0.29	+23.73
DK	130.00		1.00	13.00	140.00		1.00	20.00		-7.14	+42.86
SE	117.83	13.37		9.03	122.37	16.72		13.18	+20.42		+40.57
AT	117.81	5.85	21.04	11.68	121.24	8.81	17.38	15.63	+46.36	-19.74	+30.03
BE	99.47	17.31	18.13	12.56	96.98	15.44	12.80	12.88	-8.53	-27.56	+5.19
ES	81.10	8.72	8.40	3.99	87.53	11.74	7.94	4.59	+24.74	-12.42	+6.59
PT	67.00			2.00	83.00			3.00			+21.08
FR	82.70	4.90		4.60	81.20			4.70			+4.06
IT	65.10	6.40	5.90	2.10	66.60	5.40	6.10	3.20	-17.53	+1.06	+48.95
FI	66.34	6.02	0.09	0.05	57.97	2.63	0.02		-50.07	-74.17	
GR	32.64	5.85	3.91		35.92	8.78	3.76		+36.38	-12.62	

For the calculation methodology of the percentage change in relative importance see Annex 1 (Introduction to the tables and charts).

Concentration: Assets of the five biggest credit institutions as a percentage of total assets

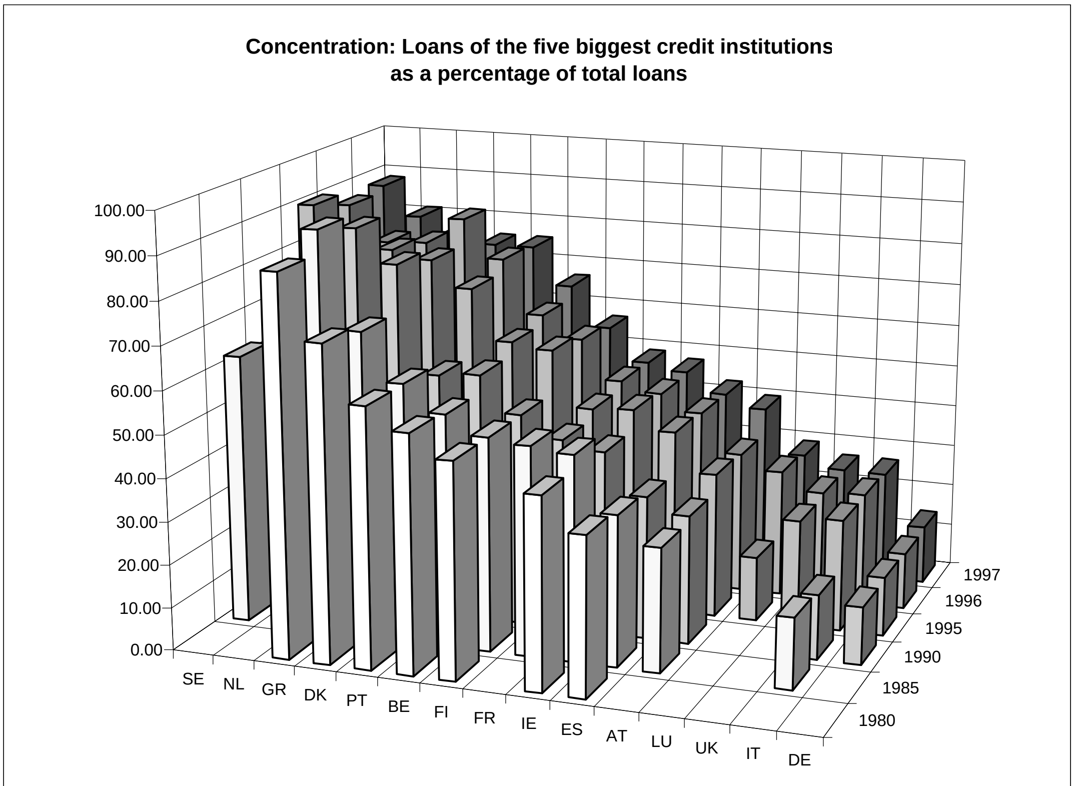
	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
SE		60.22	70.02	85.85	86.21	89.71	+42.55	+0.42	+4.06
NL		69.30	73.40	76.10	75.40	79.40	+9.81	-0.92	+5.31
FI	51.43	51.72	53.48	68.60	73.56	77.77	+32.64	+7.23	+5.72
PT	60.00	61.00	58.00	74.00	80.00	76.00	+21.31	+8.11	-5.00
DK	62.00	61.00	76.00	74.00	78.00	73.00	+21.31	+5.41	-6.41
GR	85.44	82.06	83.32	75.66	71.72	71.05	-7.80	-5.21	-0.93
BE	54.00	48.00	48.00	54.00	55.00	57.00	+12.50	+1.85	+3.64
AT		35.88	34.64	39.19	38.96	48.26	+9.22	-0.57	+23.85
ES	40.10	38.10	34.90	45.55	44.35	43.60	+19.55	-2.63	-1.69
IE	59.10	47.50	44.20	44.40	42.20	40.70	-6.53	-4.95	-3.55
FR		46.00	42.50	41.30	41.20	40.30	-10.22	-0.24	-2.18
UK				27.00	28.00	28.00		+3.70	0.00
IT		20.90	19.10	26.10	25.40	24.60	+24.88	-2.68	-3.15
LU	31.06	26.83		21.23	21.81	22.43	-20.87	+2.73	+2.84
DE			13.91	16.67	16.08	16.68		-3.54	+3.73
EU average (unweighted)				**51.31**	**51.86**	**52.57**		**+1.07**	**+1.36**

UK: The concentration figures above include foreign-owned banks incorporated in the UK. The respective figure for UK-owned banks and building societies would only amount to 57% in 1997.



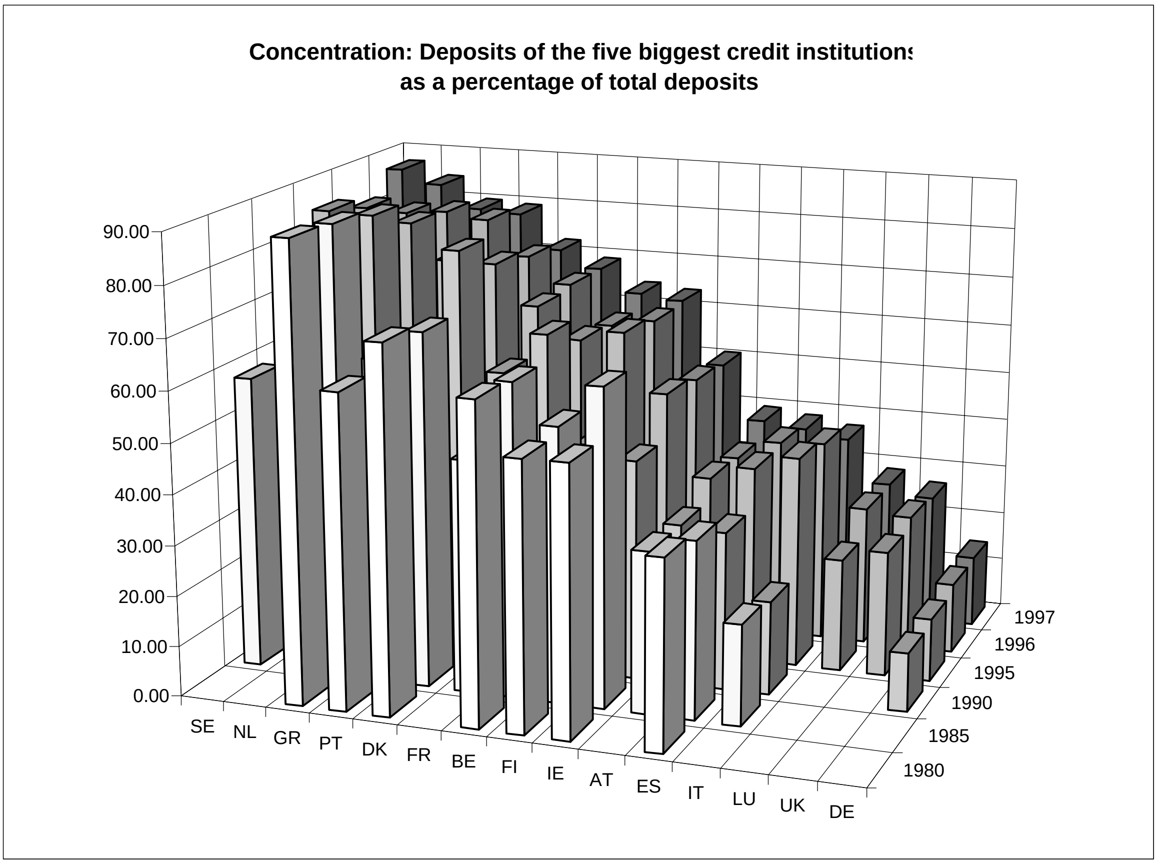
Concentration: Loans of the five biggest credit institution
as a percentage of total loans

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
SE		62.65	64.89	90.06	86.45	87.84	+43.76	-4.01	+1.61
NL		67.10	76.70	78.50	78.10	80.60	+16.99	-0.51	+3.20
GR	87.79	93.16	89.67	80.75	78.65	76.90	-13.32	-2.60	-2.23
DK	73.00	71.00	82.00	79.00	85.00	75.00	+11.27	+7.59	-11.76
PT	60.00	60.00	57.00	73.00	76.00	75.00	+21.67	+4.11	-1.32
BE	55.00	54.00	58.00	61.00	63.00	66.00	+12.96	+3.28	+4.76
FI	49.85	49.68	49.65	59.93	57.98	56.23	+20.63	-3.25	-3.02
FR		48.70	44.70	46.80	48.60	48.30	-3.90	+3.85	-0.62
IE	44.40	47.70	42.90	47.50	46.40	46.80	-0.42	-2.32	+0.86
ES	36.70	35.10	33.40	43.12	42.54	42.13	+22.85	-1.35	-0.96
AT		28.87	30.07	34.01	33.38	39.31	+17.77	-1.85	+17.79
LU				15.13	30.06	28.63		+98.68	-4.76
UK				25.00	26.00	26.00		+4.00	0.00
IT		16.60	15.10	26.30	26.60	25.90	+58.43	+1.14	-2.63
DE			13.48	13.83	13.26	13.71		-4.12	+3.39
EU average (unweighted)				**51.60**	**52.80**	**52.56**		**+2.34**	**-0.46**



Concentration: Deposits of the five biggest credit institutions as a percentage of total deposits

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
SE		57.94	61.36	84.31	81.77	86.90	+45.51	-3.01	+6.27
NL		85.00	79.50	81.90	81.30	84.20	-3.65	-0.73	+3.57
GR	89.93	89.24	87.67	82.95	82.08	79.57	-7.05	-1.05	-3.06
PT	62.00	64.00	62.00	76.00	81.00	79.00	+18.75	+6.58	-2.47
DK	72.00	70.00	82.00	76.00	74.00	72.00	+8.57	-2.63	-2.70
FR		46.00	58.70	68.10	68.80	68.60	+48.04	+1.03	-0.29
BE	63.00	62.00	67.00	62.00	61.00	64.00	0.00	-1.61	+4.92
FI	52.80	54.20	*46.08*	64.17	62.69	63.12	+18.39	-2.31	+0.69
IE	52.90	62.60	43.70	52.60	51.20	50.20	-15.97	-2.66	-1.95
AT		32.01	31.95	36.37	35.77	39.06	+13.62	-1.64	+9.21
ES	37.20	35.10	31.40	39.20	39.78	38.16	+11.68	+1.48	-4.07
IT		19.90	18.60	42.10	40.40	36.70	+111.56	-4.04	-9.16
LU				22.48	27.76	28.02		+23.49	+0.94
UK				25.00	27.00	26.00		+8.00	-3.70
DE			11.57	12.55	14.02	14.19		+11.71	+1.21
EU average (unweighted)				**55.05**	**55.24**	**55.31**		**+0.35**	**+0.14**

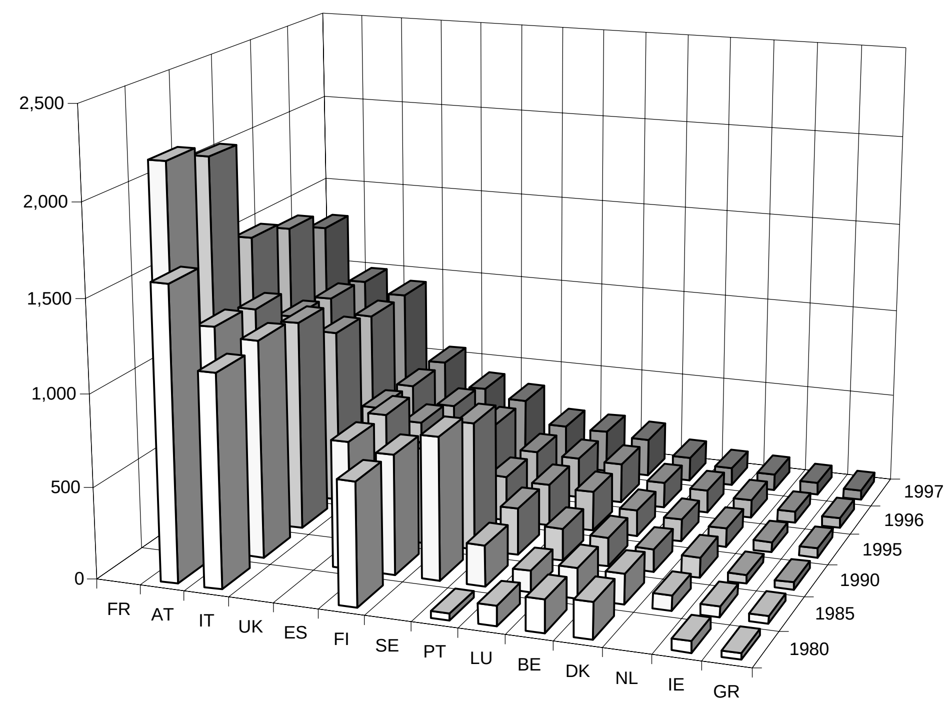


Capacity indicator 1: Number of credit institutions

	1980	1985	1990	1995	1996	1997	% change 1985-1995	% change 1995-1996	% change 1996-1997
FR		2,105	2,027	1,469	1,407	1,299	-30.21	-4.22	-7.68
AT	1,595	1,241	1,210	1,041	1,019	995	-16.12	-2.11	-2.36
IT	1,156	1,192	1,156	970	937	935	-18.62	-3.40	-0.21
UK				564	550	551		-2.48	+0.18
ES		695	696	506	458	416	-27.19	-9.49	-9.17
FI	669	654	529	381	373	371	-41.74	-2.10	-0.54
SE		779	704	249	237	242	-68.04	-4.82	+2.11
PT	35	224	260	233	228	235	+4.02	-2.15	+3.07
LU	111	118	177	220	221	215	+86.44	+0.45	-2.71
BE	176	165	157	145	141	134	-12.12	-2.76	-4.96
DK	197	166	124	122	125	100	-26.51	+2.46	-20.00
NL		81	111	102	101	90	+25.93	-0.98	-10.89
IE	61	58	48	56	62	70	-3.45	+10.71	+12.90
GR	34	38	39	53	55	54	+39.47	+3.77	-1.82
DE	*5,356*	*4,740*	*4,720*	*3,785*	*3,675*	*3,578*	*-20.15*	*-2.91*	*-2.64*
EU total		12,256	11,958	9,896	9,589	9,285	-23.86	-3.10	-3.17

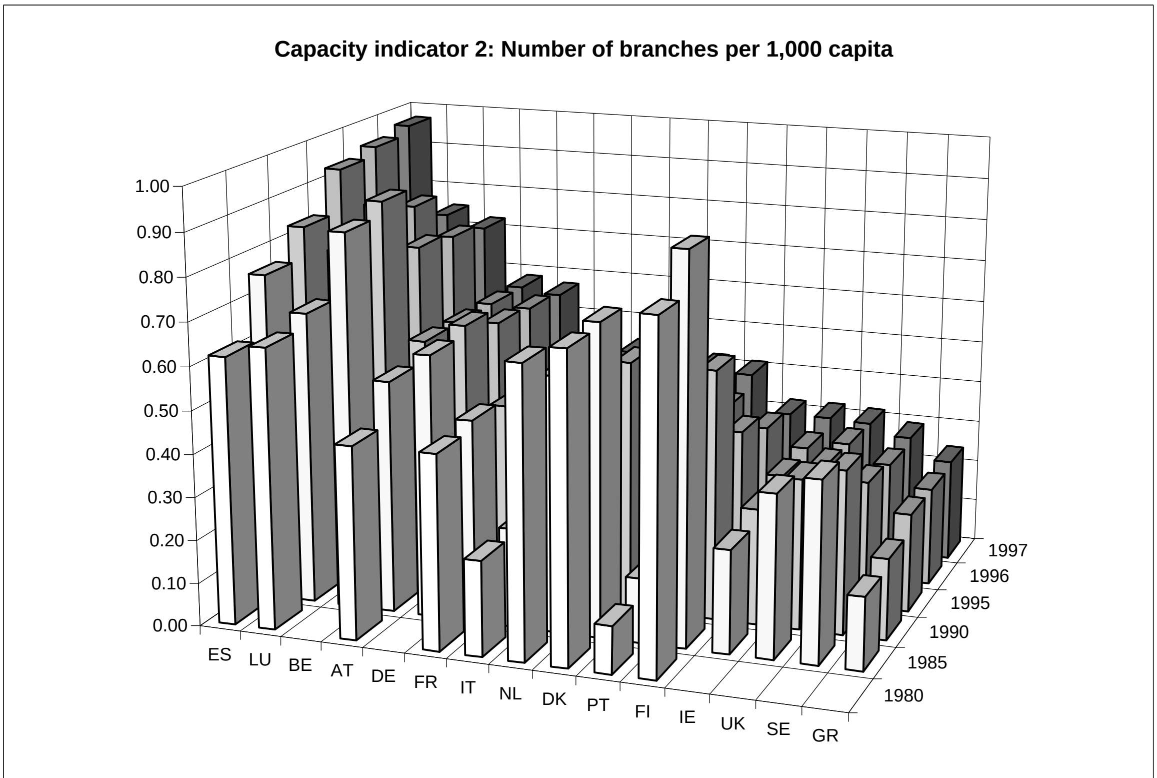
The EU total percentage change from 1985-95 does not include UK institutions.
DE: not included for reasons of scaling; figures since 1990 include eastern Germany.
DK: the reduction results from a change in the reporting system.

Capacity indicator 1: Number of credit institutions



Capacity indicator 2: Number of branches per 1,000 capita

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
ES	0.62	0.76	0.83	0.93	0.95	0.97	+22.37	+2.15	+2.11
LU	0.65	0.68	0.78	0.85	0.81	0.75	+25.00	-4.71	-7.41
BE		0.87	0.90	0.76	0.74	0.72	-13.28	-2.02	-2.44
AT	0.45	0.54	0.58	0.58	0.58	0.58	+7.94	-0.01	-0.22
DE		0.61	0.63	0.59	0.58	0.57	-3.28	-1.69	-1.72
FR	0.45	0.47	0.45	0.44	0.44	0.44	-6.38	0.00	0.00
IT	0.22	0.23	0.31	0.41	0.43	0.44	+78.26	+4.88	+2.33
NL	0.67	0.59	0.54	0.44	0.44	0.44	-25.42	0.00	0.00
DK	0.71	0.72	0.58	0.42	0.42	0.42	-41.67	0.00	0.00
PT	0.11	0.15	0.20	0.35	0.38	0.41	+133.33	+8.57	+7.89
FI	0.80	0.89	0.58	0.38	0.34	0.32	-57.08	-11.72	-5.60
IE		0.24	0.27	0.29	0.30	0.32	+20.83	+3.45	+6.67
UK		0.38	0.35	0.33	0.32	0.32	-14.02	-1.54	-1.25
SE		0.42	0.38	0.30	0.28	0.29	-29.71	-5.15	+3.57
GR		0.17	0.19	0.23	0.23	0.24	+35.29	0.00	+4.35
EU average (unweighted)		0.52	0.51	0.49	0.48	0.48	-5.59	-0.69	-0.17

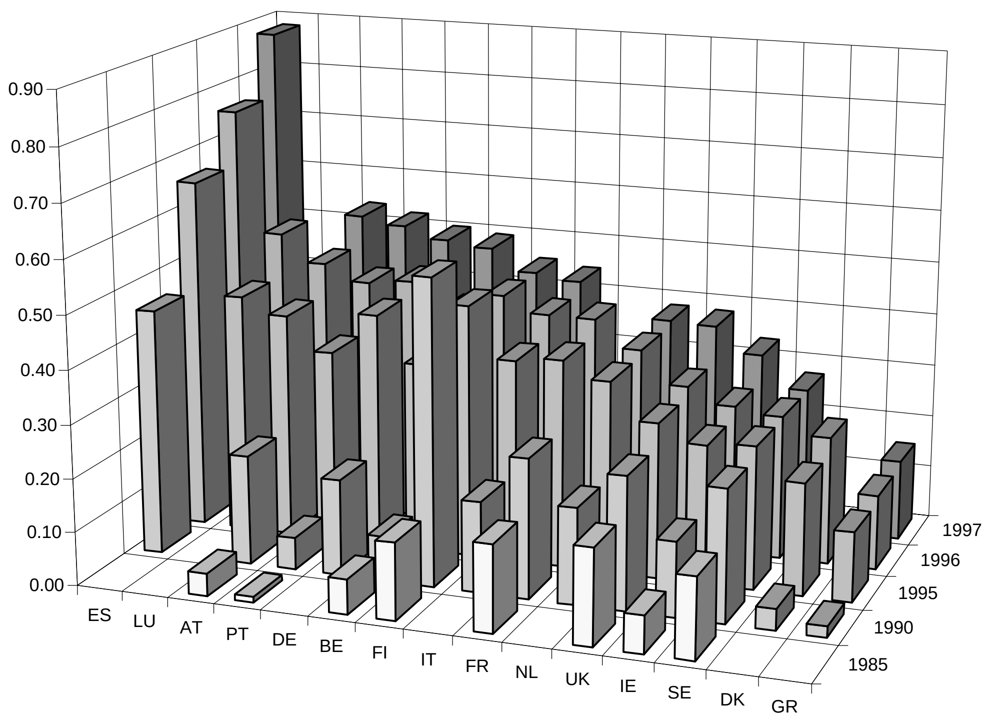


Capacity indicator 3: Number of ATMs per 1,000 capita

	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
ES		0.46	0.66	0.76	0.88		+15.15	+15.79
LU			0.45	0.53			+17.78	
AT	0.04	0.20	0.42	0.48	0.53	+891.84	+13.71	+11.16
PT	0.01	0.06	0.36	0.45	0.52	+3,500.00	+25.00	+15.56
DE		0.18	0.44	0.46	0.50		+4.55	+8.70
BE	0.06	0.08	0.35	0.41	0.49	+445.98	+16.32	+19.03
FI	0.14	0.57	0.47	0.45	0.45	+229.98	-5.27	+0.22
IT		0.17	0.38	0.42	0.44		+10.53	+4.76
FR	0.16	0.26	0.39	0.42		+139.26	+7.69	
NL		0.18	0.36	0.37	0.38		+2.78	+2.70
UK	0.18	0.25	0.29	0.31	0.38	+62.57	+6.19	+22.01
IE	0.07	0.14	0.26	0.28	0.33	+271.43	+7.69	+17.86
SE	0.15	0.25	0.27	0.27	0.27	+78.40	+0.90	0.00
DK		0.04	0.21	0.24			+14.29	
GR		0.02	0.13	0.14	0.15		+7.69	+7.14
EU average	0.10	0.20	0.36	0.40	0.44	+253.06	+9.93	+11.04

The EU average is unweighted and calculated on the basis of the number of countries available in the respective years.

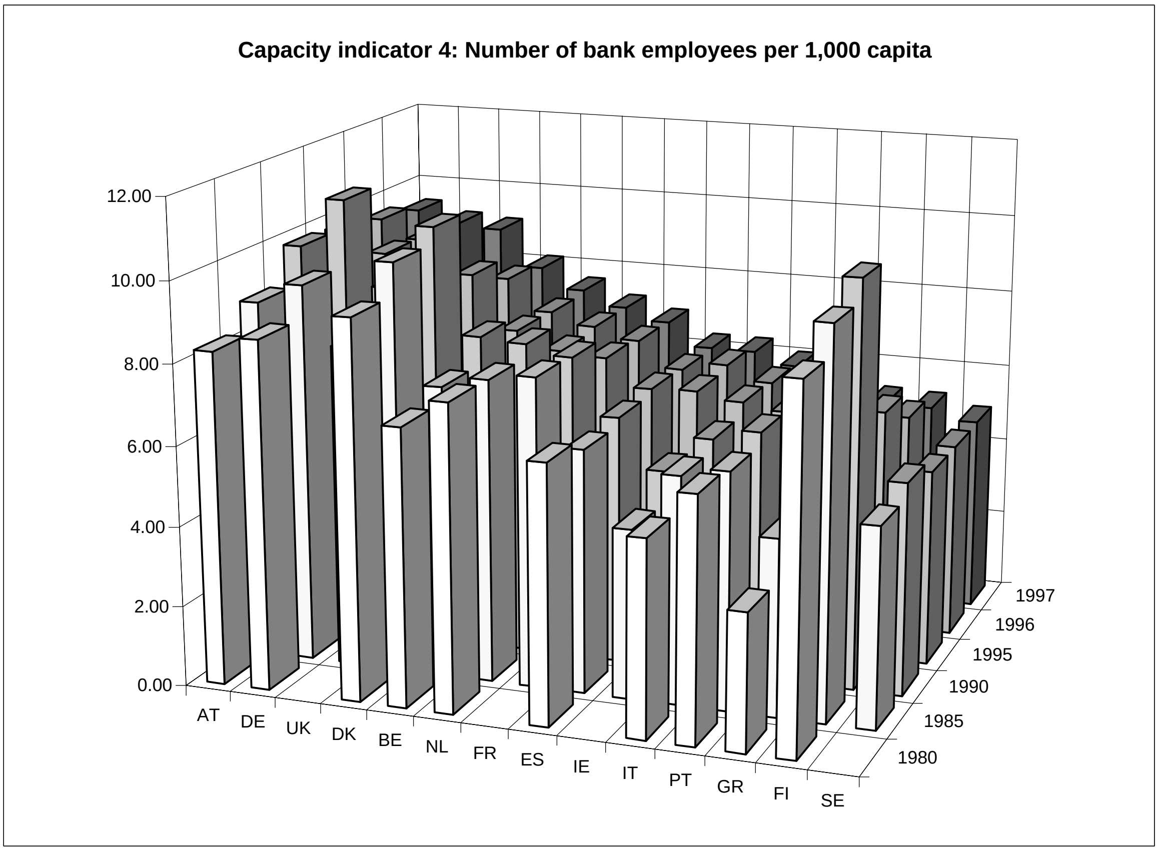
Capacity indicator 3: Number of ATMs per 1,000 capita



Capacity indicator 4: Number of bank employees per 1,000 capita

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
AT	8.28	8.94	9.86	9.78	9.64	9.43	+9.41	-1.50	-2.13
DE	8.67	9.46	11.10	9.28	9.17	9.16	-1.90	-1.19	-0.11
UK		8.03	8.98	7.98	7.91	9.07	-0.62	-0.88	+14.66
DK	9.40	10.20	10.60	8.90	8.30	8.10	-12.75	-6.74	-2.41
BE	6.90	7.26	7.94	7.56	7.50	7.57	+4.08	-0.68	+0.93
NL	7.60	7.54	7.86	7.13	7.22	7.19	-5.44	+1.26	-0.42
FR		7.71	7.63	7.05	6.94	6.89	-8.56	-1.56	-0.72
ES	6.41	6.06	6.22	6.35	6.28	6.29	+4.79	-1.10	+0.16
IE		4.23	4.99	6.40	6.50	6.29	+51.30	+1.56	-3.23
IT	4.87	5.66	5.92	6.23	6.14	6.00	+10.07	-1.44	-2.28
PT	6.04	5.90	6.20	6.09	6.00	5.97	+3.22	-1.48	-0.50
GR	3.40	4.40	4.61	5.07	5.21	5.25	+15.23	+2.76	+0.77
FI	8.90	9.61	10.15	6.31	5.56	5.21	-34.38	-11.77	-6.42
SE		4.97	5.32	4.91	4.91	4.93	-1.16	-0.04	+0.41
LU	*20.72*	*25.37*	*41.78*	*44.90*	*45.02*	*45.75*	*+76.97*	*+0.26*	*+1.62*
EU average (unweighted)		8.36	9.94	9.60	9.49	9.73	+14.83	-1.14	+0.56

LU: not shown in the chart for reasons of scaling.
UK: including staff of members of the British Bankers' Association and staff employed by building societies.

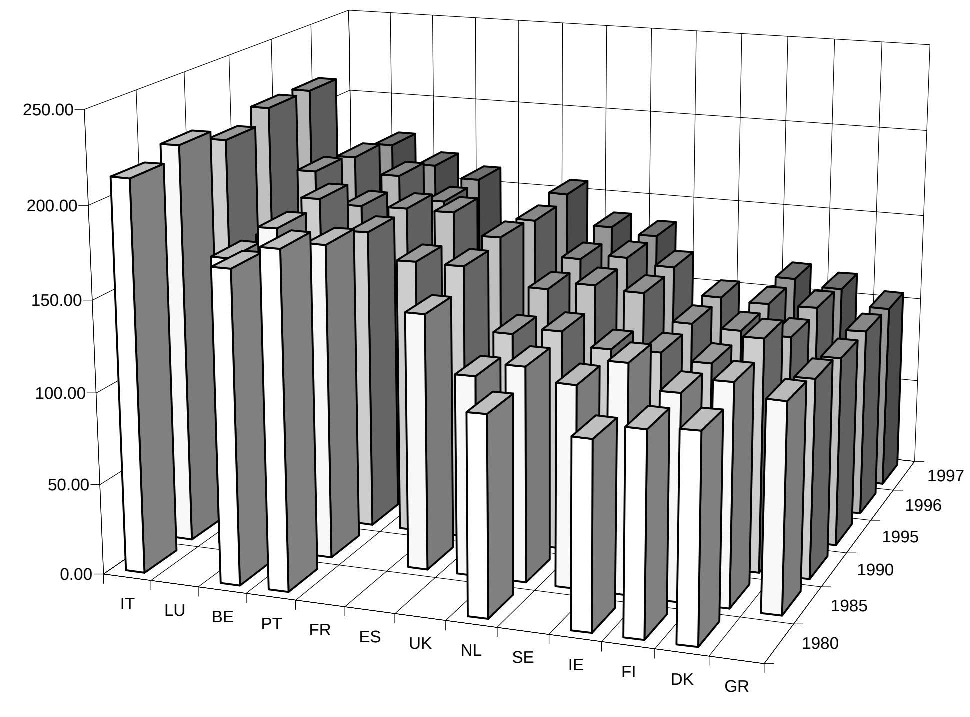


Capacity indicator 5: Average wages in banking as a percentage of total average wages

	1980	1985	1990	1995	1996	1997	%change 1985-1995	%change 1995-1996	%change 1996-1997
IT	213.80	220.00	212.00	219.50	219.50		-0.23	0	
LU		161.00	160.00	185.00	182.00	178.00	+14.91	-1.62	-2.20
BE	171.00	179.45	183.32	167.18	172.78	167.67	-6.84	+3.35	-2.96
PT	184.00	173.00	167.00	168.00	160.00	161.00	-2.89	-4.76	+0.63
FR			153.00	168.00					
ES		140.79	152.97	155.96	153.28	156.68	+10.77	-1.72	+2.22
UK		110.00	118.00	129.00	133.00	139.00	+17.27	+3.10	+4.51
NL	108.70	117.80	122.00	133.80	136.10	136.00	+13.58	+1.72	-0.07
SE		111.00	115.00	132.00	133.00		+18.92	+0.76	
IE	101.81	125.51	116.00	117.00	118.00		-6.78	+0.85	
FI	109.80	112.46	112.70	115.94	116.68	117.60	+3.10	+0.63	+0.79
DK	112.00	121.00	129.00	115.00	117.00	114.00	-4.96	+1.74	-2.56
GR		114.00	110.00	106.00	106.00	105.00	-7.02	0.00	-0.94
EU average		140.50	141.50	159.37	145.61	141.66	+13.43	-8.63	-2.71

The EU average is unweighted and calculated on the basis of the number of countries available in the respective years.
From 1985 to 1996, all EU countries except AT, DE and FR are included.
In 1997 and for the percentage change 1996-1997 all EU countries except AT, DE, FR, IT, SE and IE are included.

Capacity indicator 5:
Average wages in banking as a percentage of total average wages



Inward internationalisation:
Number of branches and subsidiaries of foreign institutions
sorted by total branches/subsidiaries in 1997

1. Number of branches from EEA and third countries

	EEA			*change*		third countries			*change*		total branches			*change*	
	1995	1996	1997	*1995/96*	*1996/97*	1995	1996	1997	*1995/96*	*1996/97*	1995	1996	1997	*1995/96*	*1996/97*
UK	102	102	106	*0.00*	*+3.92*	153	148	149	*-3.27*	*+0.68*	**255**	**250**	**255**	***-1.96***	***+2.00***
FR*	46	46	46	*0.00*	*0.00*	44	43	43	*-2.27*	*0.00*	**90**	**89**	**89**	***-1.11***	***0.00***
DE	36	42	46	*+16.67*	*+9.52*	33	31	31	*-6.06*	*0.00*	**69**	**73**	**77**	***+5.80***	***+5.48***
LU	61	62	61	*+1.64*	*-1.61*	7	8	7	*+14.29*	*-12.50*	**68**	**70**	**68**	***+2.94***	***-2.86***
ES	34	34	33	*0.00*	*-2.94*	23	21	20	*-8.70*	*-4.76*	**57**	**55**	**53**	***-3.51***	***-3.64***
IT	32	33	36	*+3.13*	*+9.09*	20	18	17	*-10.00*	*-5.56*	**52**	**51**	**53**	***-1.92***	***+3.92***
BE	20	25	25	*+25.00*	*0.00*	16	15	15	*-6.25*	*0.00*	**36**	**40**	**40**	***+11.11***	***0.00***
GR	14	14	14	*0.00*	*0.00*	8	9	9	*+12.50*	*0.00*	**22**	**23**	**23**	***+4.55***	***0.00***
NL	14	12	11	*-14.29*	*-8.33*	11	12	11	*+9.09*	*-8.33*	**25**	**24**	**22**	***-4.00***	***-8.33***
IE	11	13	18	*+18.18*	*+38.46*	4	3	3	*-25.00*	*0.00*	**15**	**16**	**21**	***+6.67***	***+31.25***
SE	9	14	14	*+55.56*	*0.00*	2	2	3	*0.00*	*+50.00*	**11**	**16**	**17**	***+45.45***	***+6.25***
DK	11	13	14	*+18.18*	*+7.69*						**11**	**13**	**14**	***+18.18***	***+7.69***
PT	6	10	11	*+66.67*	*+10.00*	2	2	2	*0.00*	*0.00*	**8**	**12**	**13**	***+50.00***	***+8.33***
FI	8	7	9	*-12.50*	*+28.57*						**8**	**7**	**9**	***-12.50***	***+28.57***
AT	5	5	6	*0.00*	*+20.00*	2	2	2	*0.00*	*0.00*	**7**	**7**	**8**	***0.00***	***+14.29***
Total	409	432	450	*+5.62*	*+4.17*	325	314	312	*-3.38*	*-0.64*	**734**	**746**	**762**	***+1.63***	***+2.14***

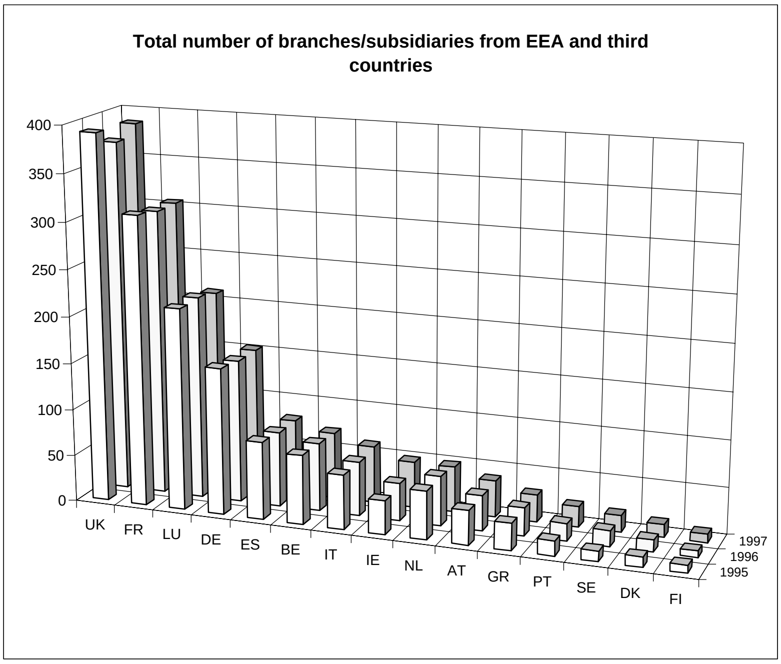
*FR: 1997 figures are preliminary only (this applies to the whole Table 5.1a).

2. Number of subsidiaries from EEA and third countries

	EEA			*change*		third countries			*change*		total subsidiaries			*change*	
	1995	1996	1997	*1995/96*	*1996/97*	1995	1996	1997	*1995/96*	*1996/97*	1995	1996	1997	*1995/96*	*1996/97*
FR	119	118	118	*-0.84*	*0.00*	101	98	98	*-2.97*	*0.00*	**220**	**216**	**216**	***-1.82***	***0.00***
LU	104	103	97	*-0.96*	*-5.83*	44	44	46	*0.00*	*+4.55*	**148**	**147**	**143**	***-0.68***	***-2.72***
UK	25	22	18	*-12.00*	*-18.18*	112	103	114	*-8.04*	*+10.68*	**137**	**125**	**132**	***-8.76***	***+5.60***
DE	32	36	31	*+12.50*	*-13.89*	56	44	45	*-21.43*	*+2.27*	**88**	**80**	**76**	***-9.09***	***-5.00***
AT	20	21	20	*+5.00*	*-4.76*	10	10	11	*0.00*	*+10.00*	**30**	**31**	**31**	***+3.33***	***0.00***
BE	20	18	16	*-10.00*	*-11.11*	18	15	15	*-16.67*	*0.00*	**38**	**33**	**31**	***-13.16***	***-6.06***
IE	16	18	21	*+12.50*	*+16.67*	5	6	7	*+20.00*	*+16.67*	**21**	**24**	**28**	***+14.29***	***+16.67***
ES	20	19	21	*-5.00*	*+10.53*	6	6	6	*0.00*	*0.00*	**26**	**25**	**27**	***-3.85***	***+8.00***
NL	7	8	8	*+14.29*	*0.00*	20	21	19	*+5.00*	*-9.52*	**27**	**29**	**27**	***+7.41***	***-6.90***
PT	5	5	6	*0.00*	*+20.00*	3	2	3	*-33.33*	*+50.00*	**8**	**7**	**9**	***-12.50***	***+28.57***
IT	3	3	4	*0.00*	*+33.33*	3	4	4	*+33.33*	*0.00*	**6**	**7**	**8**	***+16.67***	***+14.29***
GR	4	4	3	*0.00*	*-25.00*	3	3	3	*0.00*	*0.00*	**7**	**7**	**6**	***0.00***	***-14.29***
SE	0	1	0		*-100.00*	0	0	1			**0**	**1**	**1**		***0.00***
Total	375	376	363	*+0.27*	*-3.46*	381	356	372	*-6.56*	*+4.49*	**756**	**732**	**735**	***-3.17***	***+0.41***

3. Total number of branches and subsidiaries from EEA and third countries

	total B+S			*change*	
	1995	1996	1997	*1995/96*	*1996/97*
UK	392	375	387	*-4.34*	*+3.20*
FR	310	305	305	*-1.61*	*0.00*
LU	216	217	211	*+0.46*	*-2.76*
DE	157	153	153	*-2.55*	*0.00*
ES	83	80	80	*-3.61*	*0.00*
BE	74	73	71	*-1.35*	*-2.74*
IT	58	58	61	*0.00*	*+5.17*
IE	36	40	49	*+11.11*	*+22.50*
NL	52	53	49	*+1.92*	*-7.55*
AT	37	38	39	*+2.70*	*+2.63*
GR	29	30	29	*+3.45*	*-3.33*
PT	16	19	22	*+18.75*	*+15.79*
SE	11	17	18	*+54.55*	*+5.88*
DK	11	13	14	*+18.18*	*+7.69*
FI	8	7	9	*-12.50*	*+28.57*
Total	1,490	1,478	1,497	*-0.81*	*+1.29*



Inward internationalisation

Market share of foreign branches and subsidiaries as a percentage of total domestic assets

sorted by the market share of total branches/subsidiaries in 1997

1. Market share of foreign branches as a percentage of total domestic assets

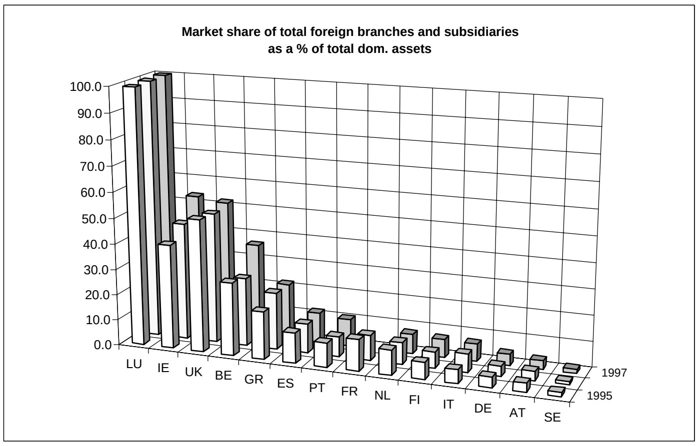
	Branches from EEA countries					change		Branches from third countries					change		Total Branches					change	
	1985	1990	1995	1996	1997	95/96	96/97	1985	1990	1995	1996	1997	95/96	96/97	1985	1990	1995	1996	1997	95/96	96/97
UK	8.6	14.2	21.7	21.2	22.5	-2.62	+6.24	40.0	34.0	23.2	22.1	23.0	-4.73	+3.84	48.6	48.2	45.0	43.3	45.5	-3.71	+5.01
LU			20.0	19.8	19.4	-1.45	-1.72			1.0	1.2	1.4	+18.81	+15.00			21.1	21.0	20.8	-0.48	-0.76
GR	4.5	6.9	8.8	10.6	11.1	+20.25	+4.52	9.1	5.2	7.2	8.8	7.9	+21.85	-9.99	13.6	12.1	16.1	19.4	19.0	+20.97	-2.06
IE			16.5	17.4	17.7	+5.45	+1.44			1.8	1.6	1.2	-12.02	-25.47			18.3	19.0	18.9	+3.71	-0.84
BE		10.0	9.1	8.6	9.0	-5.49	+4.19		10.0	7.8	7.2	6.9	-7.09	-3.74		20.0	16.9	15.8	15.9	-6.23	+0.57
FI			6.5	6.3	7.1	-3.98	+13.38	0.6	0.6								6.5	6.3	7.1	-3.98	+13.38
ES	2.6	2.5	4.8	4.6	4.8	-3.75	+4.11	2.0	1.7	1.8	1.7	1.6	-5.52	-7.60	4.6	4.2	6.6	6.3	6.4	-4.24	+0.95
FR			3.4	2.5		-26.47				3.6	2.7		-25.00				7.0	5.2		-25.71	
IT	1.6	1.0	2.9	3.5	3.6	+19.79	+5.22	0.1	0.4	0.8	1.5	1.4	+94.81	-6.67	1.7	1.4	3.7	5.0	5.0	+35.62	+1.62
NL	2.7	3.1	2.9	2.2	2.3	-23.08	+2.73	1.3	0.7	0.7	0.7	0.5	0.00	-19.40	4.0	3.7	3.5	2.9	2.8	-18.70	-2.44
PT	1.6	0.5	3.0	2.3	2.5	-22.85	+8.58		0.2	0.1	0.1	0.1	0.00	-14.29	1.6	0.7	3.2	2.5	2.7	-21.84	+7.29
DE			0.7	0.7	0.9	-2.78	+32.86			0.6	0.6	0.7	-4.69	+21.31			1.4	1.3	1.7	-3.68	+27.48
SE			1.6	1.1	1.3	-33.75	+20.75			0.1	0.1	0.1	+37.50	-9.09			1.7	1.2	1.4	-30.36	+17.95
AT	0.1	0.1	0.6	0.6	0.7	+1.64	+8.06	0.7	0.1	0.1	0.1	0.1	0.00	0.00	0.8	0.2	0.7	0.7	0.7	+1.52	+7.46

2. Market share of foreign subsidiaries as a percentage of total domestic assets

	Subs. from EEA countries					change		Subs. from 3rd countries					change		total subsidiaries					change	
	1985	1990	1995	1996	1997	95/96	96/97	1985	1990	1995	1996	1997	95/96	96/97	1985	1990	1995	1996	1997	95/96	96/97
LU			70.9	71.4	71.1	+0.71	-0.42			7.8	7.7	8.1	-1.16	+5.21			78.6	79.1	79.2	+0.52	+0.13
IE			18.4	22.3	27.8	+21.10	+24.74			3.9	4.3	6.9	+12.44	+59.22			22.3	26.6	34.7	+19.60	+30.36
BE		8.0	9.8	9.4	19.2	-3.38	+103.28		2.0	1.7	1.3	1.2	-26.16	-7.87		10.0	11.5	10.7	20.4	-6.79	+90.10
PT	0.0	2.1	4.9	4.5	6.8	-7.41	+52.00	0.6	1.0	1.4	0.8	1.0	-43.38	+35.06	0.6	3.1	6.2	5.3	7.9	-15.27	+49.53
UK			1.5	1.6	1.0	+9.40	-40.49			5.2	5.7	5.6	+10.44	-1.40			6.7	7.3	6.6	+10.21	-10.08
ES	1.0	2.6	3.7	3.4	3.4	-10.16	+2.08	2.4	2.1	1.5	1.7	1.9	+15.65	+12.35	3.4	4.7	5.2	5.1	5.3	-2.88	+5.53
NL	4.2	5.4	3.7	3.4	3.0	-8.56	-12.28	6.5	3.4	2.5	2.2	1.9	-11.24	-14.48	10.7	8.8	6.2	5.6	4.9	-9.63	-13.14
FR																	5.2	4.6		-11.54	
GR	0.3	0.7	1.7	1.7	1.8	-1.15	+6.98	0.7	0.2	0.8	0.9	1.0	+13.75	+8.79	1.0	0.9	2.5	2.6	2.8	+3.54	+7.60
DE			1.5	1.5	1.4	+4.14	-4.64			1.4	1.2	1.2	-14.81	+5.22			2.8	2.7	2.7	-5.00	-0.38
AT		1.2	2.1	2.1	1.6	-3.27	-22.71		1.4	0.7	0.9	1.0	+30.30	+17.44		2.6	2.8	2.9	2.6	+4.64	-10.92
IT	0.2	0.5	1.5	2.1	1.7	+41.78	-18.84	0.7	0.9	0.3	0.1	0.1	-79.31	+66.67	0.9	1.4	1.8	2.1	1.8	+21.71	-16.43
SE				0.1								0.2						0.1	0.2		+200.00

3. Market share of total foreign branches and subsidiaries from EEA/third countries as a percentage of total domestic assets

	Total B+S from EEA					change		Total B+S 3rd countries					change		total B+S					change	
	1985	1990	1995	1996	1997	95/96	96/97	1985	1990	1995	1996	1997	95/96	96/97	1985	1990	1995	1996	1997	95/96	96/97
LU			90.9	90.9	90.9	0.00	0.00			8.8	8.9	9.5	+1.14	+6.53			99.7	99.9	99.9	+0.31	-0.06
IE			34.9	39.7	45.4	+13.70	+14.52			5.7	6.0	8.1	+4.57	+36.30			40.6	45.6	53.6	+12.42	+17.36
UK			23.2	22.8	23.4	-1.85	+2.90			28.4	27.9	28.6	-1.97	+2.76			51.6	50.6	52.1	-1.92	+2.82
BE		18.0	18.9	18.0	28.2	-4.40	+56.04		12.0	9.5	8.5	8.1	-10.55	-4.36		30.0	28.4	26.5	36.3	-6.46	+36.73
GR	4.8	7.6	10.6	12.4	13.0	+16.73	+4.86	9.8	5.4	8.0	9.7	8.9	+21.05	-8.23	14.5	13.0	18.6	22.1	21.9	+18.59	-0.91
ES	3.6	5.1	8.5	8.0	8.2	-6.56	+3.26	4.4	3.8	3.3	3.4	3.5	+3.96	+2.35	8.0	8.9	11.8	11.4	11.7	-3.64	+2.99
PT	1.7	2.6	7.9	6.8	9.4	-13.32	+37.19	0.6	1.2	1.5	0.9	1.2	-39.33	+27.47	2.3	3.8	9.4	7.7	10.5	-17.48	+36.05
FR																	12.2	9.8		-19.67	
NL	6.9	8.5	6.6	5.6	5.3	-14.85	-6.41	7.7	4.1	3.2	2.9	2.4	-8.86	-15.63	14.6	12.6	9.8	8.5	7.7	-12.91	-9.53
FI			6.5	6.3	7.1	-3.98	+13.38			0.0	0.0	0.0					6.5	6.3	7.1	-3.98	+13.38
IT	1.8	1.5	4.3	5.5	5.3	+27.19	-3.80	0.8	1.3	1.1	1.6	1.5	+47.17	-3.85	2.6	2.8	5.4	7.1	6.8	+31.11	-3.81
DE			2.2	2.2	2.4	+1.84	+7.24			2.0	1.8	2.0	-11.56	+10.80			4.2	4.0	4.3	-4.57	+8.82
AT		1.3	2.8	2.7	2.3	-2.18	-15.61		1.5	0.7	0.9	1.1	+28.17	+16.48		2.8	3.5	3.6	3.3	+4.05	-7.50
SE			1.6	1.1	1.3	-30.00	+14.29			0.1	0.1	0.3	+37.50	+154.55			1.7	1.2	1.6	-26.79	+26.83



Outward internationalisation

Number of branches and subsidiaries of domestic institutions in foreign countries

sorted by total branches/subsidiaries in 1997

1. Number of branches of domestic institutions in EEA and third countries

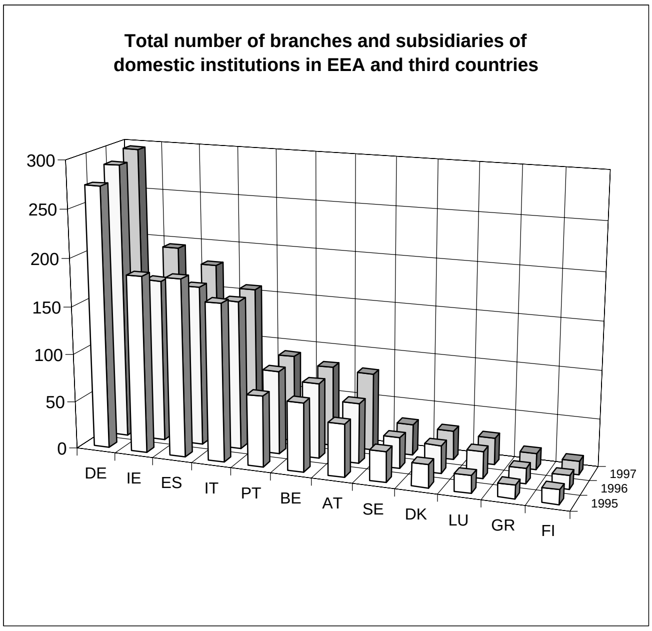
	EEA			*change*		third countries			*change*		total branches			*change*	
	1995	1996	1997	*95/96*	*96/97*	1995	1996	1997	*95/96*	*96/97*	1995	1996	1997	*95/96*	*96/97*
FR	70	76		*+8.57*		125					**195**				
DE	75	79	82	*+5.33*	*+3.80*	81	83	83	*+2.47*	*0.00*	**156**	**162**	**165**	***+3.85***	***+1.85***
IE	117	85	106	*-27.35*	*+24.71*	3	4	4	*+33.33*	*0.00*	**120**	**89**	**110**	***-25.83***	***+23.60***
ES	83	67	69	*-19.28*	*+2.99*	40	40	35	*0.00*	*-12.50*	**123**	**107**	**104**	***-13.01***	***-2.80***
IT	59	52	53	*-11.86*	*+1.92*	52	49	49	*-5.77*	*0.00*	**111**	**101**	**102**	***-9.01***	***+0.99***
BE	20	19	20	*-5.00*	*+5.26*	16	24	26	*+50.00*	*+8.33*	**36**	**43**	**46**	***+19.44***	***+6.98***
PT	16	17	18	*+6.25*	*+5.88*	22	25	24	*+13.64*	*-4.00*	**38**	**42**	**42**	***+10.53***	***0.00***
SE	12	11	12	*-8.33*	*+9.09*	10	12	13	*+20.00*	*+8.33*	**22**	**23**	**25**	***+4.55***	***+8.70***
DK	12	15	17	*+25.00*	*+13.33*	6	6	6	*0.00*	*0.00*	**18**	**21**	**23**	***+16.67***	***+9.52***
AT	7	9	10	*+28.57*	*+11.11*	9	12	12	*+33.33*	*0.00*	**16**	**21**	**22**	***+31.25***	***+4.76***
FI	3	4	4	*+33.33*	*0.00*	6	6	6	*0.00*	*0.00*	**9**	**10**	**10**	***+11.11***	***0.00***
GR	4	5	5	*+25.00*	*0.00*	4	4	4	*0.00*	*0.00*	**8**	**9**	**9**	***+12.50***	***0.00***
LU	4	6	6	*+50.00*	*0.00*	2	3	3	*+50.00*	*0.00*	**6**	**9**	**9**	***+50.00***	***0.00***

2. Number of subsidiaries of domestic institutions in EEA and third countries

	EEA			*change*		third countries			*change*		total subsidiaries			*change*	
	1995	1996	1997	*95/96*	*96/97*	1995	1996	1997	*95/96*	*96/97*	1995	1996	1997	*95/96*	*96/97*
FR	163					117					**280**				
DE	76	76	79	*0.00*	*+3.95*	41	49	52	*+19.51*	*+6.12*	**117**	**125**	**131**	***+6.84***	***+4.80***
IE	51	64	65	*+25.49*	*+1.56*	14	17	20	*+21.43*	*+17.65*	**65**	**81**	**85**	***+24.62***	***+4.94***
ES	11	11	10	*0.00*	*-9.09*	52	49	66	*-5.77*	*+34.69*	**63**	**60**	**76**	***-4.76***	***+26.67***
AT	6	6	7	*0.00*	*+16.67*	33	36	52	*+9.09*	*+44.44*	**39**	**42**	**59**	***+7.69***	***+40.48***
IT	28	27	27	*-3.57*	*0.00*	26	28	29	*+7.69*	*+3.57*	**54**	**55**	**56**	***+1.85***	***+1.82***
PT	11	14	15	*+27.27*	*+7.14*	25	31	34	*+24.00*	*+9.68*	**36**	**45**	**49**	***+25.00***	***+8.89***
BE	22	22	23	*0.00*	*+4.55*	14	14	15	*0.00*	*+7.14*	**36**	**36**	**38**	***0.00***	***+5.56***
LU	6	11	11	*+83.33*	*0.00*	6	8	8	*+33.33*	*0.00*	**12**	**19**	**19**	***+58.33***	***0.00***
GR	4	4	4	*0.00*	*0.00*	2	3	4	*+50.00*	*+33.33*	**6**	**7**	**8**	***+16.67***	***+14.29***
DK	4	6	5	*+50.00*	*-16.67*	2	2	2	*0.00*	*0.00*	**6**	**8**	**7**	***+33.33***	***-12.50***
SE	6	5	4	*-16.67*	*-20.00*	4	4	3	*0.00*	*-25.00*	**10**	**9**	**7**	***-10.00***	***-22.22***
FI	1	1	1	*0.00*	*0.00*	5	3	3	*-40.00*	*0.00*	**6**	**4**	**4**	***-33.33***	***0.00***

3. Total number of branches and subsidiaries of domestic institutions in EEA and third countries

	total B+S			*change*	
	1995	1996	1997	*1995/96*	*1996/97*
FR	475				
DE	273	287	296	*+5.13*	*+3.14*
IE	185	170	195	*-8.11*	*+14.71*
ES	186	167	180	*-10.22*	*+7.78*
IT	165	156	158	*-5.45*	*+1.28*
PT	74	87	91	*+17.57*	*+4.60*
BE	72	79	84	*+9.72*	*+6.33*
AT	55	63	81	*+14.55*	*+28.57*
SE	32	32	32	*0.00*	*0.00*
DK	24	29	30	*+20.83*	*+3.45*
LU	18	28	28	*+55.56*	*0.00*
GR	14	16	17	*+14.29*	*+6.25*
FI	15	14	14	*-6.67*	*0.00*



FR: not included for reasons of scaling.

Outward internationalisation

Assets of branches and subsidiaries of domestic institutions in foreign countries as a percentage of total domestic assets

sorted by share of total branches/total subsidiaries in 1997

1. Assets of branches of domestic institutions in foreign countries as a percentage of total domestic assets

	Branches in EEA countries					*change*		Branches in third countries					*change*		Total branches					*change*	
	1985	1990	1995	1996	1997	*95/96*	*96/97*	1985	1990	1995	1996	1997	*95/96*	*96/97*	1985	1990	1995	1996	1997	*95/96*	*96/97*
FR			8.0	9.1		*+13.75*				9.2	9.4		*+2.17*				**17.2**	**18.5**		*+7.56*	
DE			9.6	9.8	12.0	*+2.19*	*+21.69*			4.8	5.6	7.8	*+16.53*	*+39.50*			**14.4**	**15.4**	**19.7**	*+6.95*	*+28.14*
PT	9.9	12.4	10.3	8.5	6.6	*-17.33*	*-21.79*	9.3	5.0	5.2	6.7	7.0	*+29.90*	*+4.48*	**19.2**	**17.4**	**15.4**	**15.2**	**13.6**	*-1.56*	*-10.21*
SE		2.4	7.5	8.2	7.2	*+10.31*	*-12.14*		1.7	3.0	4.4	5.4	*+45.70*	*+22.73*		**4.1**	**10.5**	**12.6**	**12.6**	*+20.50*	*0.00*
FI	4.0	6.0	4.4	4.8	5.9	*+9.40*	*+23.69*	0.1	3.7	4.6	4.0	6.6	*-12.64*	*+63.84*	**4.0**	**9.7**	**9.0**	**8.8**	**12.5**	*-1.90*	*+42.03*
IT		11.0	8.0	6.3	7.2	*-21.85*	*+15.65*		7.4	4.7	3.4	3.8	*-28.60*	*+13.95*		**18.4**	**12.7**	**9.6**	**11.1**	*-24.35*	*+15.06*
IE			11.9	9.5	8.3	*-20.69*	*-12.46*			0.8	1.2	1.3	*+58.67*	*+5.04*			**12.7**	**10.7**	**9.5**	*-16.00*	*-10.51*
ES		3.0	4.5	5.5	6.3	*+22.22*	*+13.64*		2.6	1.9	2.1	2.6	*+8.95*	*+24.64*		**5.6**	**6.4**	**7.6**	**8.8**	*+18.28*	*+16.64*
GR	3.0	1.7	2.9	5.4	6.2	*+86.41*	*+15.70*	1.1	0.7	0.2	0.6	0.7	*+241.18*	*+27.59*	**4.1**	**2.4**	**3.0**	**5.9**	**6.9**	*+95.07*	*+16.86*
AT		1.7	1.9	2.3	2.6	*+22.34*	*+11.74*		1.8	2.8	3.0	3.7	*+4.96*	*+25.34*		**3.5**	**4.7**	**5.3**	**6.3**	*+11.91*	*+19.39*
LU			0.3	0.5	0.7	*+57.58*	*+34.62*			0.7	0.8	1.0	*+23.88*	*+15.66*			**1.0**	**1.4**	**1.7**	*+35.00*	*+22.96*

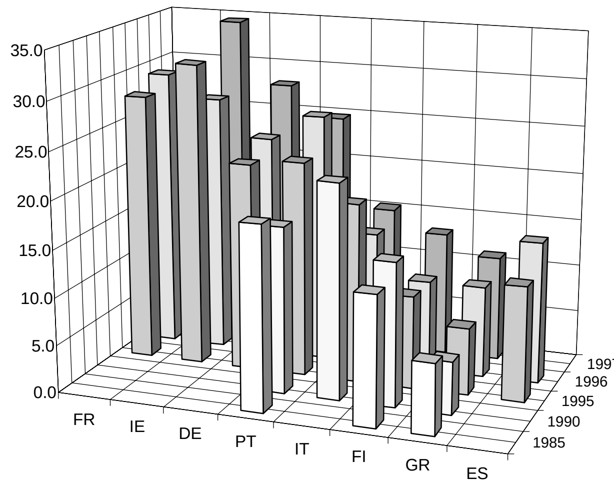
2. Assets of subsidiaries of domestic institutions in foreign countries as a percentage of total domestic assets

	Subsidiaries in EEA countries					*change*		Subsidiaries in 3rd countries					*change*		total subsidiaries					*change*	
	1985	1990	1995	1996	1997	*95/96*	*96/97*	1985	1990	1995	1996	1997	*95/96*	*96/97*	1985	1990	1995	1996	1997	*95/96*	*96/97*
IE			6.3	8.6	14.9	*+38.02*	*+72.34*			12.9	7.8	10.1	*-39.41*	*+28.68*			**19.2**	**16.5**	**24.9**	*-14.10*	*+51.61*
PT			3.5	3.8	3.7	*+8.50*	*-2.87*			3.6	7.1	7.4	*+95.87*	*+4.36*			**7.2**	**10.9**	**11.1**	*+52.79*	*+1.83*
FR			7.4	6.9		*-6.76*				3.5	3.9		*+11.43*				**10.9**	**10.8**		*-0.92*	
DE			6.8	7.1	7.3	*+5.17*	*+2.81*			0.7	0.8	0.9	*+15.49*	*+8.54*			**7.5**	**7.9**	**8.2**	*+6.15*	*+3.40*
IT		3.2	3.9	2.7	2.7	*-32.32*	*+2.26*		0.8	2.1	1.8	1.5	*-15.02*	*-19.34*		**4.0**	**6.1**	**4.5**	**4.2**	*-26.24*	*-6.49*
GR	0.8	0.9	2.3	2.0	2.3	*-11.35*	*+14.29*	2.5	2.2	1.7	1.6	1.8	*-4.17*	*+13.66*	**3.3**	**3.1**	**4.0**	**3.6**	**4.2**	*-8.31*	*+14.01*
FI	6.5	3.0	0.3	0.3	0.3	*-6.06*	*-12.90*	3.0	2.3	0.4	0.5	0.3	*+7.14*	*-26.67*	**9.5**	**5.3**	**0.8**	**0.8**	**0.6**	*+1.33*	*-21.05*
ES			1.4	1.4		*+3.65*				4.3	5.9		*+38.26*				**5.6**	**7.3**		*+29.84*	

3. Total assets of branches and subsidiaries of domestic institutions in foreign countries as a percentage of total domestic assets

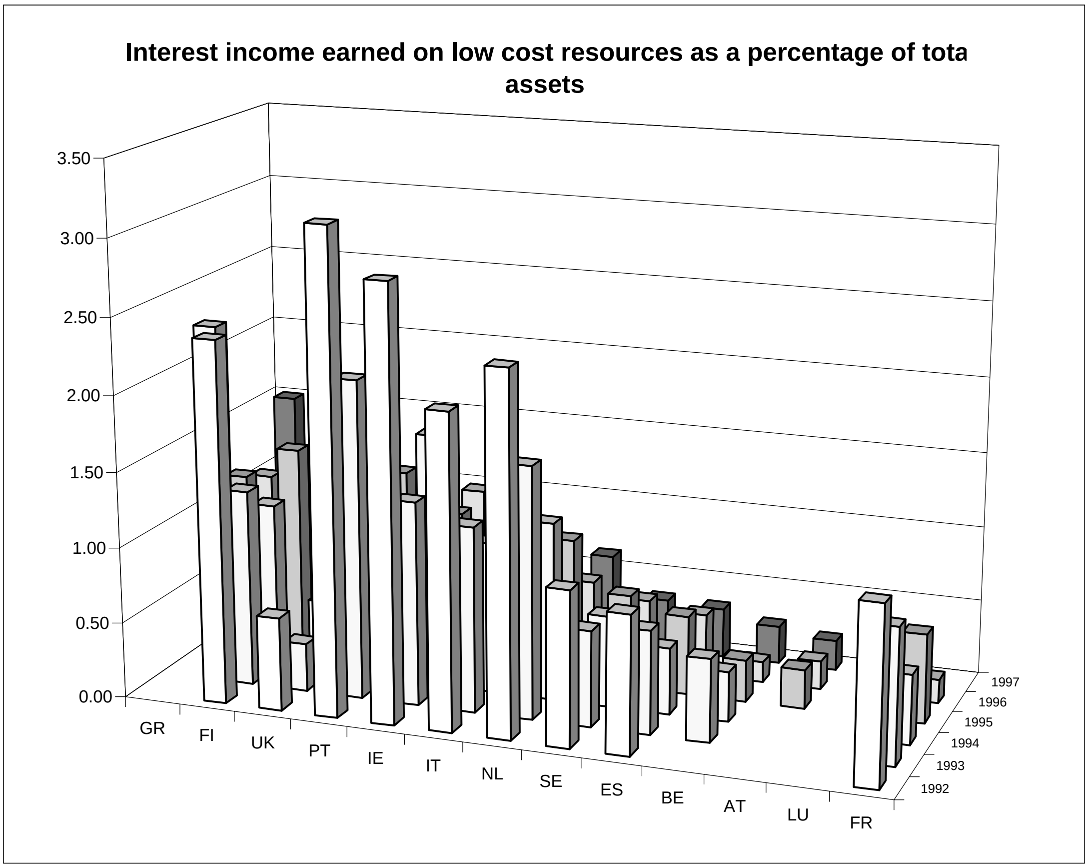
	total B+S					*change*	
	1985	*1990*	*1995*	*1996*	*1997*	*95/96*	*96/97*
FR			*28.1*	*29.4*		*+4.63*	
IE			*31.8*	*27.1*	*34.5*	*-14.86*	*+27.19*
DE			*21.9*	*23.3*	*27.9*	*+6.68*	*+19.72*
PT	*19.2*	*17.4*	*22.6*	*26.1*	*24.8*	*+15.68*	*-5.17*
IT		*22.4*	*18.8*	*14.1*	*15.3*	*-24.96*	*+8.23*
FI	*13.5*	*15.0*	*9.7*	*9.5*	*13.1*	*-1.65*	*+37.00*
GR	*7.3*	*5.5*	*7.0*	*9.6*	*11.1*	*+36.52*	*+15.78*
ES			*12.0*	*14.9*		*+23.69*	

Total assets of branches and subsidiaries of domestic institutions in foreign countries as a percentage of total domestic assets



Interest income earned on low cost resources as a percentage of total assets

	1992	1993	1994	1995	1996	1997	%change 1992-1997	%change 1995-1996	%change 1996-1997
GR			2.27	1.15	1.05	1.50		-8.86	+43.24
FI	2.38	1.30	1.09	1.37	0.83	0.89	-62.63	-39.08	+6.74
UK	0.62	0.32	0.48	0.57	0.54	0.80	+29.90	-6.44	+49.40
PT	3.16	2.10	1.64	1.29	0.89	0.69	-78.14	-30.64	-22.70
IE	2.84	1.35	1.68	1.05	1.09	0.68	-76.17	+4.23	-38.17
IT	2.07	1.23	1.00	1.08	0.75	0.66	-67.97	-30.61	-11.85
NL	2.37	1.66	1.18	0.95	0.55	0.61	-74.19	-42.26	+11.60
SE	1.02	0.64	0.60	0.62	0.47	0.35	-66.01	-25.15	-25.42
ES	0.91	0.68	0.44	0.52	0.41	0.33	-63.93	-21.39	-20.13
BE		0.55	0.33	0.28	0.13	0.25		-51.33	+86.43
AT				0.26	0.19	0.20		-28.02	+6.89
LU						0.16			
FR	1.16	0.89	0.46	0.59	0.16			-73.00	



Distribution of the exposures of industrialised country banks towards emerging, transitional and developing countries as at June 1998, USD million

	EU banks 2)	Japanese banks	US banks	Others	Grand total 3)
All emerging, transitional and	513,613	122,827	109,308	157,324	903,072
developing countries in BIS Statistics					
of which:					
Asia 1)					
	152,674	114,745	29,440	28,166	325,025
Eastern Europe	106,231	4,148	12,402	10,973	133,754
of which Russia	57,259	1,008	7,781	9,805	75,853
Latin America	167,118	14,784	64,183	49,627	295,712
of which Brazil					
	47,632	5,179	16,777	14,997	84,585
Middle East	32,547	3,037	5,267	16,445	57,296
Africa	43,437	2,314	4,847	7,698	58,296

Sources: BIS international banking statistics (November 1998).
1) Excluding Hong Kong, Singapore and Japan.
2) Information obtained from PT and GR inserted where possible to complete the EU figures (PT and GR do not report to the BIS).
3) All industrialised country banks.

Domestic and cross-border M&A activities in the EU from 1995 to 1998

N.B.: Indicative list only

1. Number of domestic M&As

	total from 1995 to first quarter 1998					total from 1997 to 1st qu.1998			**M&As in 97/98 as a % of M&As since 95**
	mergers	full acquisitions	majority acquisitions	total acquisitions	**total M&As**	mergers	acquisitions	**total M&As**	
AT	62	3	1	4	**66**	25	3	**28**	42
BE	17	8	0	8	**25**	8	3	**11**	44
DK	5	0	0	0	**5**	1	0	**1**	20
ES	1	1	3	4	**5**	0	0	**0**	0
FI	17	1	1	2	**19**	6	0	**6**	32
FR	0	6	0	6	**6**	0	4	**4**	67
GR	3	1	7	8	**11**	3	8	**11**	100
IE	0	3	0	3	**3**	0	1	**1**	33
IT	29	93	67	160	**189**	8	51	**59**	31
LU	6	1	0	1	**7**	3	0	**3**	43
NL	1	6	2	8	**9**	1	4	**5**	56
PT	0	5	6	11	**11**	0	1	**1**	9
SE	2	2	0	2	**4**	1	2	**3**	75
UK**	1	0	0	42	**43**	0	18	**18**	42
Total*				**258**	**402**	**56**	**94**	**150**	**37**

* excluding DE;

**domestic and cross-border M&As included

2. Cross-border M&As

	total from 1995 to first quarter 1998						**97/1st qu.98**	**M&As in 97/98**
	intra-EEA mergers	of which within EU	intra-EEA acquisitions	3rd country mergers	3rd country acquisitions	**total cross-border M&As**	**total cross-border M&As**	**as a % of M&As since 95**
AT	1	1	0	0	1	**2**	**2**	100
BE	1	1	2	0	1	**4**	**3**	75
DK	0	0	1	0	0	**1**	**1**	100
ES	0	0	0	0	28	**28**	**15**	54
FI	0	0	0	0	1	**1**	**1**	100
FR	1	1	0	0	0	**1**	**0**	0
IE	0	0	8	0	7	**15**	**7**	47
IT	0	0	0	0	8	**8**	**0**	0
LU	0	0	1	0	1	**2**	**1**	50
NL	0	0	6	0	12	**18**	**4**	22
PT	0	0	1	0	2	**3**	**1**	33
SE	2	2	1	0	0	**3**	**3**	100
Total	**5**	**5**	**20**	**0**	**61**	**86**	**38**	**44**

Selected bank profitability ratios

Source: OECD

page 1 of 3

1. Return on equity (Net income as a percentage of equity)

	1990	1991	1992	1993	1994	1995	1996	1997
AT	8.6%	8.6%	6.9%	8.7%	7.9%	8.1%	9.6%	
BE	8.3%	6.5%	5.7%	14.1%	13.2%	12.9%	15.3%	15.3%
DK [1]	-3.3%	-0.1%	-21.0%	10.6%	0.1%	18.5%	16.1%	15.1%
FI	5.6%	-11.0%	-48.9%	-28.4%	-25.2%	-7.9%	8.0%	15.2%
FR	10.1%	10.4%	6.9%	2.9%	0.5%	3.6%	4.8%	7.7%
DE	11.9%	14.4%	13.2%	13.6%	11.8%	12.6%	12.3%	
GR [2]	20.8%	31.5%	23.1%	21.6%	25.9%	24.4%	16.7%	
IE						20.2%	20.1%	18.4%
IT	12.2%	9.9%	7.5%	8.8%	3.0%	3.7%	5.1%	3.4%
LU [2]	6.7%	7.6%	8.8%	19.9%	20.9%	19.9%	22.3%	23.0%
NL	12.3%	12.7%	13.9%	15.9%	16.2%	17.0%	17.6%	
PT [2]	12.5%	12.4%	8.8%	9.2%	7.3%	7.7%	10.7%	13.1%
ES	13.6%	12.5%	10.7%	3.8%	8.2%	9.2%	9.7%	10.6%
SE [3]	3.0%	56.3%	17.0%	5.7%	19.1%	21.1%	24.0%	13.0%
UK	14.4%	8.6%	7.3%	19.3%	27.4%	28.6%	25.6%	26.4%
Average EU-14	**10.9%**	**11.5%**	**8.1%**	**9.0%**	**8.2%**	**10.0%**	**11.0%**	
Average EU-15						**10.1%**	**11.1%**	
Average EU-11							**12.2%**	**12.2%**
USA [1]	11.4%	9.0%	15.8%	19.1%	19.8%	19.3%	19.6%	22%[2]
Japan [2]	11.3%	9.5%	7.4%	5.0%	3.1%	-5.0%	0.2%[4]	
Switzerland	7.8%	8.2%	7.6%	10.3%	7.5%	8.4%	1.7%	

2. Return on assets (Net income as a percentage of total assets)

	1990	1991	1992	1993	1994	1995	1996	1997
AT	0.4%	0.4%	0.3%	0.4%	0.4%	0.4%	0.4%	
BE	0.3%	0.2%	0.2%	0.4%	0.3%	0.3%	0.4%	0.4%
DK [1]	-0.3%	0.0%	-1.2%	0.6%	0.0%	1.3%	1.1%	1.0%
FI	0.4%	-0.8%	-2.7%	-1.4%	-1.3%	-0.4%	0.4%	0.8%
FR	0.3%	0.4%	0.3%	0.1%	0.0%	0.2%	0.2%	0.3%
DE	0.5%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	
GR [2]	0.8%	1.5%	1.1%	1.0%	1.3%	1.1%	0.7%	
IE						1.4%	1.3%	1.0%
IT	0.9%	0.8%	0.6%	0.8%	0.3%	0.3%	0.5%	0.3%
LU [2]	0.2%	0.3%	0.3%	0.5%	0.5%	0.5%	0.5%	0.5%
NL	0.5%	0.5%	0.6%	0.7%	0.7%	0.7%	0.7%	
PT [2]	1.4%	1.4%	1.0%	0.9%	0.7%	0.6%	0.7%	0.8%
ES	1.2%	1.3%	1.0%	0.3%	0.8%	0.8%	0.8%	0.9%
SE [3]	0.2%	3.1%	0.8%	0.3%	1.1%	1.3%	1.3%	0.7%
UK	0.7%	0.4%	0.3%	0.7%	1.1%	1.1%	1.1%	1.1%
Average EU-14 [5]	**0.5%**	**0.6%**	**0.4%**	**0.4%**	**0.4%**	**0.5%**	**0.5%**	
Average EU-15						**0.5%**	**0.5%**	
Average EU-11 [5]							**0.7%**	**0.7%**
USA [1]	0.7%	0.6%	1.2%	1.5%	1.5%	1.6%	1.6%	1.8%[2]
Japan [2]	0.4%	0.3%	0.3%	0.2%	0.1%	-0.2%	0.01%[4]	
Switzerland	0.5%	0.5%	0.5%	0.7%	0.5%	0.5%	0.1%	

[1] Commercial banks and savings banks.

[2] Commercial banks.

[3] Total commercial banks, foreign commercial banks, savings institutions and, until 1991, co-operative banks.

[4] Large commercial banks.

[5] The average EU-14 figures exclude IE, the average EU-11 figures include all countries which delivered 1997 data.

Selected bank profitability ratios

Source: OECD

3. Cost-income ratio (Overheads as a percentage of total income)

	1990	1991	1992	1993	1994	1995	1996	1997
AT	64.9%	64.9%	64.0%	63.5%	65.1%	69.5%	69.1%	
BE	72.3%	70.1%	68.3%	67.9%	71.7%	67.6%	65.7%	63.9%
DK (1)	68.6%	62.6%	81.4%	51.1%	72.5%	54.0%	56.9%	59.2%
FI	81.5%	123.2%	190.4%	136.4%	139.9%	112.2%	88.6%	73.4%
FR	72.4%	69.5%	66.8%	64.7%	71.3%	65.6%	69.9%	68.7%
DE	64.8%	65.2%	64.5%	62.4%	60.8%	63.8%	63.8%	
GR (2)	64.1%	51.3%	61.0%	62.7%	59.5%	64.3%	68.1%	68.1%
IE						59.3%	57.6%	58.3%
IT	62.1%	64.9%	65.9%	61.2%	68.8%	68.2%	67.1%	69.0%
LU (2)	37.3%	40.5%	39.4%	38.0%	44.8%	46.5%	46.5%	43.3%
NL	68.9%	67.5%	67.2%	66.6%	67.1%	67.3%	67.3%	
PT (2)	41.6%	44.9%	53.5%	56.2%	61.8%	64.9%	64.3%	57.7%
ES	61.1%	58.5%	60.4%	59.7%	59.7%	63.2%	62.2%	61.4%
SE (3)	79.2%	117.5%	122.2%	106.5%	80.0%	71.6%	64.3%	64.0%
UK	65.9%	65.7%	66.1%	63.2%	64.1%	63.8%	62.3%	60.9%
Average EU-14 (5)	**66.0%**	**67.4%**	**68.6%**	**64.6%**	**66.3%**	**65.5%**	**65.4%**	
Average EU-15						**65.5%**	**65.3%**	
Average EU-11 (5)							**63.9%**	**62.9%**
USA (1)	70.5%	69.0%	64.9%	64.1%	64.9%	63.7%	63.3%	60.8% (2)
Japan (2)	67.5%	68.9%	70.1%	74.8%	76.3%	66.5%	74.3% (4)	
Switzerlanc	59.6%	52.3%	52.1%	48.6%	55.6%	56.4%	66.1%	

4. Net interest margin (Net interest income as a percentage of average total earning assets)

	1990	1991	1992	1993	1994	1995	1996	1997
AT	1.9%	1.9%	2.0%	2.1%	2.0%	1.8%	1.7%	
BE	1.5%	1.5%	1.5%	1.4%	1.3%	1.3%	1.3%	1.2%
DK (1)	3.2%	3.7%	4.0%	3.9%	4.4%	3.2%	2.7%	2.4%
FI	2.3%	1.9%	1.5%	2.1%	2.2%	2.3%	2.3%	2.1%
FR	1.9%	1.9%	1.7%	1.5%	1.4%	1.3%	1.2%	1.0%
DE	1.9%	2.0%	2.1%	2.1%	2.2%	2.0%	1.9%	
GR (2)	2.1%	2.9%	2.2%	2.1%	1.8%	2.6%	2.3%	
IE						2.9%	2.5%	1.9%
IT	4.8%	4.5%	4.5%	4.3%	4.0%	4.4%	4.1%	3.8%
LU (2)	0.8%	0.9%	0.9%	0.8%	0.7%	0.7%	0.7%	0.7%
NL	1.7%	1.8%	1.9%	1.8%	2.0%	1.8%	1.8%	
PT (2)	5.9%	5.5%	4.4%	3.7%	2.9%	2.6%	2.3%	2.3%
ES	4.7%	4.6%	4.3%	3.9%	3.7%	3.4%	3.2%	2.9%
SE (3)	2.8%	2.8%	2.8%	3.1%	2.9%	2.8%	2.4%	1.8%
UK	3.4%	3.5%	2.8%	2.8%	2.7%	2.6%	2.4%	2.3%
Average EU-14 (5)	**2.5%**	**2.5%**	**2.4%**	**2.2%**	**2.2%**	**2.0%**	**1.9%**	
Average EU-15						**2.0%**	**1.9%**	
Average EU-11 (5)							**2.5%**	**2.3%**
USA (1)	3.5%	3.7%	4.1%	4.0%	4.0%	3.8%	3.9%	4.0% (2)
Japan (2)	1.1%	1.3%	1.5%	1.4%	1.5%	1.6%	1.3% (4)	
Switzerlanc	1.4%	1.6%	1.7%	1.9%	1.5%	1.4%	1.3%	

(1) Commercial banks and savings banks.

(2) Commercial banks.

(3) Total commercial banks, foreign commercial banks, savings institutions and, until 1991, co-operative banks.

(4) Large commercial banks.

(5) The average EU-14 figures exclude IE, the average EU-11 figures include all countries which delivered 1997 data.

Selected bank profitability ratios

Source: OECD

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5. Non-interest income contribution (Non-interest income as a percentage of total income)

	1990	1991	1992	1993	1994	1995	1996	1997
AT	30.9%	32.1%	33.4%	27.9%	28.7%	39.4%	41.0%	
BE	18.4%	20.7%	21.6%	28.6%	26.2%	29.2%	30.7%	37.1%
DK (1)	12.4%	14.3%	-13.1%	20.3%	-16.7%	32.8%	32.1%	31.8%
FI	46.0%	51.9%	59.6%	58.0%	46.8%	43.2%	49.5%	45.6%
FR	22.6%	26.1%	34.1%	41.6%	37.7%	45.5%	47.0%	53.2%
DE	26.8%	24.1%	23.9%	23.7%	19.2%	21.0%	21.0%	
GR (2)	55.7%	53.4%	57.8%	58.2%	68.0%	52.4%	55.5%	
IE						29.8%	32.1%	33.8%
IT	22.5%	22.5%	17.2%	26.8%	22.9%	20.2%	24.9%	29.0%
LU (2)	35.0%	26.5%	29.2%	39.5%	33.0%	34.5%	38.3%	44.1%
NL	28.4%	29.7%	29.1%	33.7%	28.7%	33.3%	35.9%	
PT (2)	18.9%	18.9%	21.3%	24.0%	22.1%	24.0%	31.1%	33.4%
ES	18.2%	19.0%	20.3%	25.8%	21.5%	23.1%	26.6%	29.2%
SE (3)	23.7%	28.1%	49.1%	52.4%	35.7%	35.0%	41.6%	48.6%
UK	38.9%	40.7%	42.5%	44.5%	43.2%	42.9%	38.5%	38.8%
Average EU-14 (5)	**26.2%**	**26.9%**	**28.2%**	**32.8%**	**28.1%**	**31.4%**	**32.5%**	**34.8%**
Average EU-15						**31.4%**	**32.5%**	**34.8%**
Average EU-11 (5)							**31.7%**	**34.7%**
USA (1)	31.2%	32.3%	31.9%	33.9%	32.0%	33.7%	35.0%	38.2% (2)
Japan (2)	24.1%	10.9%	3.7%	3.0%	-3.3%	1.9%	-10.2% (4)	
Switzerlanc	48.8%	50.3%	49.0%	48.8%	54.0%	56.7%	59.6%	

6. Net provisions as a percentage of preprovisioning income
(Loan loss provisions as a percentage of net income minus loan loss provisions)

	1990	1991	1992	1993	1994	1995	1996	1997
AT	33.4%	40.6%	54.1%	47.9%	46.7%	56.6%	52.1%	
BE	43.0%	55.8%	62.0%	33.4%	25.1%	34.8%	28.9%	18.9%
DK (1)	129.0%	100.6%	305.2%	73.2%	99.5%	35.1%	28.5%	24.3%
FI	43.6%	0.2%	1.3%	-0.9%	2.3%	3.8%	-6.3%	1.1%
FR	24.4%	33.9%	51.7%	82.9%	96.0%	74.9%	64.6%	49.6%
DE	49.0%	37.6%	41.3%	44.1%	50.7%	39.0%	39.0%	
GR (2)	31.7%	28.8%	20.4%	24.2%	22.3%	15.7%	39.7%	
IE						9.6%	8.2%	8.7%
IT	35.3%	35.4%	41.2%	47.5%	64.4%	65.5%	49.5%	64.3%
LU (2)	70.3%	62.0%	55.1%	33.9%	13.7%	11.6%	4.8%	18.5%
NL	30.3%	35.4%	32.0%	25.0%	20.1%	17.7%	18.9%	
PT (2)	57.7%	50.5%	52.6%	52.1%	49.2%	41.2%	40.5%	30.4%
ES	17.9%	27.5%	36.8%	75.3%	39.7%	33.9%	25.9%	18.4%
SE (3)	73.9%	390.9%	174.3%	182.3%	-28.9%	-11.1%	2.0%	34.4%
UK	57.4%	76.6%	80.2%	53.5%	22.5%	20.5%	15.1%	13.6%
Average EU-14 (5)	**46.5%**	**38.5%**	**54.2%**	**57.0%**	**53.9%**	**45.4%**	**39.3%**	
Average EU-15						**44.9%**	**38.8%**	
Average EU-11 (5)							**31.4%**	**32.6%**
USA (1)	46.3%	60.8%	37.5%	22.8%	14.8%	15.0%	17.2%	17.3% (2)
Japan (2)	6.9%	18.8%	33.3%	42.6%	62.1%	134.2%	97.8% (4)	
Switzerlanc	51.5%	64.0%	67.4%	62.3%	62.6%	58.1%	90.0%	

(1) Commercial banks and savings banks.

(2) Commercial banks.

(3) Total commercial banks, foreign commercial banks, savings institutions and, until 1991, co-operative banks.

(4) Large commercial banks.

(5) The average EU-14 figures exclude IE, the average EU-11 figures include all countries which delivered 1997 data.