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PRESS RELEASE

ECB REPORT DETAILS STRUCTURAL CHANGES IN THE EURO AREA BANKING SECTOR

- Consolidation of the sector and rationalisation continued in 2013
- Financial performance and profitability remain subdued – though banking sectors in all countries avoided an operating loss
- Improving funding mix – less dependence on wholesale funding and more on customer deposits

The European Central Bank has today published the Banking Structures Report 2014, which reviews the main structural developments in the euro area banking sector to the end of 2013. The report makes use of a number of publicly available data sources, notably aggregate annual banking sector statistics which are published by the ECB.

The report shows that the on-going consolidation of the euro area banking system continued in 2013. The rationalisation process suggests that overall efficiency of the system continues to be enhanced. The total number of credit institutions decreased further to 5,948 in 2013, down from 6,100 in 2012 and 6,690 in 2008.

Total assets of the euro area banking sector declined to €26.8 trillion, down from €29.6 trillion in 2012 and from €33.5 trillion in 2008, largely driven by developments regarding large banks, with the reduction in derivative positions accounting for around half the total balance sheet shrinkage. This is largely reflective of the on-going balance sheet repair and related deleveraging of non-core assets. The banking sectors of those euro area countries most strongly affected by the financial crisis generally also experienced the most pronounced structural changes.

Concerning banks' liabilities and funding patterns, the gradual shift to deposit funding continued in 2013 with the median share of customer deposits in liabilities rising to 52%. Alongside this, euro area banks have been reducing their reliance on wholesale funding, with the median share falling from a peak of 36% in 2009 to 23% in 2013. Banks have also been reducing their reliance on central bank funding in 2013, mainly reflecting repayments of LTRO funds.

Profitability continues to be challenged across the sector, affected by the low interest rate environment, the continuing deterioration in asset quality, and in some cases by restructuring

and litigation costs. Aggregate operating income has, however, increased marginally and banking sectors in all countries avoided an operating loss. The regulatory capital ratios for euro area banks continued to improve in 2013 due to both capital increases and risk-weighted asset declines with the median Tier 1 ratio increasing to 13% from 12.1% in 2012.

“The report shows that the European banking sector continued to deleverage. This has been offset by a significant increase in the activity of the so-called shadow banking that has to be looked into,” said Vítor Constâncio, Vice-President of the ECB.

The report contains two special feature articles. The first, ‘Structural features of the wider euro area financial sector’ reviews the different components of the non-bank euro area financial sector, notably shadow banks, insurance corporations and pension funds. The article reviews the composition of assets as well as the liquidity and maturity mismatches inherent in the aggregate balance sheets of these non-bank components of the financial sector.

The second feature article, ‘The Relationship between structural and cyclical features of the EU financial sector’, explores the relationship and potential interactions between structural features of the banking sectors of EU Members States and the performance of the respective banking sectors over the financial cycle. The article aims to provide guidance for policy-makers on the proper implementation of cyclical and structural measures to address the associated risks.

The report is available on the ECB’s website.

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