# European Banking Barometer – 2H13

## A brighter outlook?

# Contents

# Introduction

As part of EY's commitment to building a better working world, we have developed the European Banking Barometer to provide our clients with insight into the macro-economic outlook and its impact on the European banking industry over the next six months.

Now in its fourth edition, the latest bi-annual study consists of 184 interviews with senior bankers across 11 markets: Austria, Belgium, France, Germany, Italy, the Netherlands, the Nordics, Poland, Spain, Switzerland and the UK.

The fieldwork was conducted via an online questionnaire and telephone interviews between September and October 2013. We interviewed respondents from a range of financial institutions covering at least 50% of banking assets in each market.

A range of bank types were interviewed in each market to ensure the study is a fair reflection of each country's banking industry. Interviews were not conducted with subsidiaries of member/group banks.

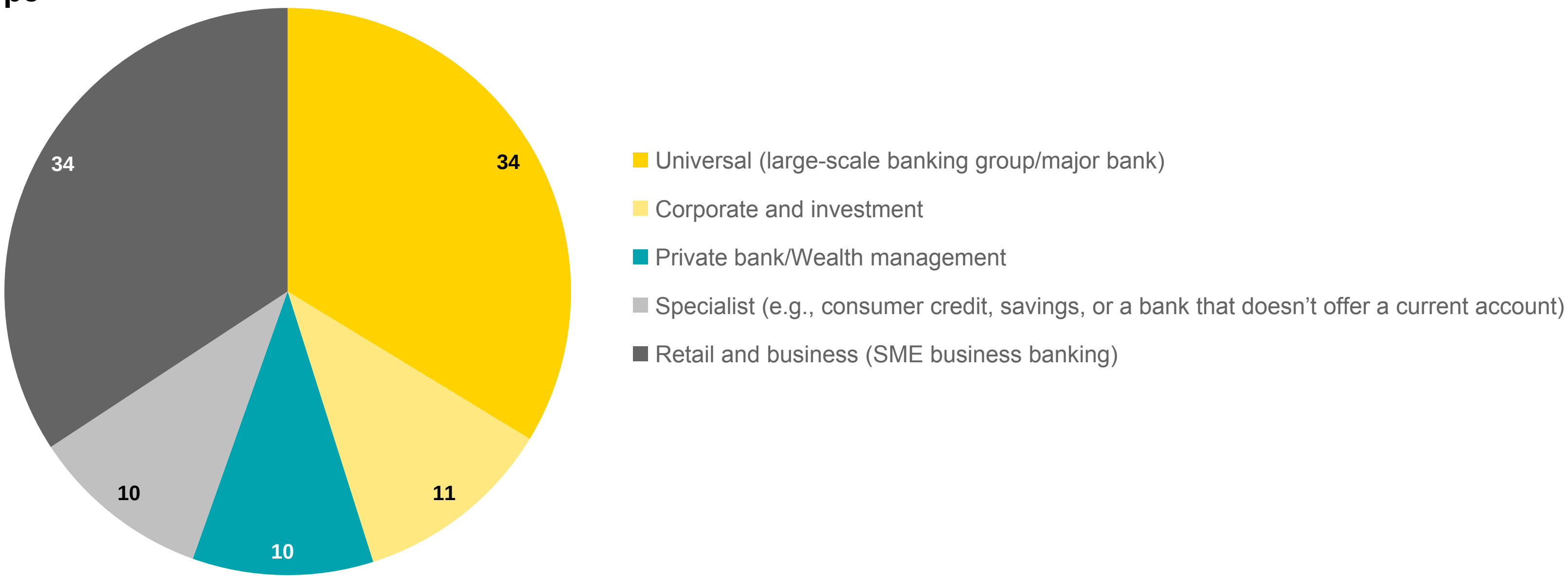
The results in this report are presented in an aggregate market format and shown in percentages. Please note, some charts may not add up to 100% as percentages have been rounded to the nearest whole number. Where possible, we have compared and contrasted the data against the *European Banking Barometer – 1H13*.

We would like to thank all the research participants for their contribution to the study.

If you would like to take part in our next European Banking Barometer study, please speak to your usual EY contact or refer to your local-country contact on page 50.

# Composition of the survey sample by bank type

**Bank type***




* Numbers in the pie chart reflect the percentage of respondents who answered.

Please note that given the structure of the German and Swiss banking markets, respondents in these two countries were provided with country-specific bank types that have been reallocated to our five European bank types as follows:
For Germany, big banks and regional banks were reallocated to universal banks; foreign banks (not head-quartered in Germany) were reallocated to corporate and investment banks; private bankers were reallocated to private banks/wealth management; savings banks and cooperative banks were reallocated to retail and business banks; and central building societies, building loan associations and mortgage banks were reallocated to specialist banks.

For Switzerland, major banks were reallocated to universal banks; investment banks were reallocated to corporate and investment banks; private bankers (general or limited partnership) and banks under foreign control were reallocated to private banks/wealth management; cantonal banks, and regional and savings banks were reallocated to retail and business banks; and securities traders were reallocated to specialist banks.

# Composition of the survey sample by bank type

**Type of bank**

| Market | Total | Universal | Corporate and investment | Private bank/ Wealth management | Specialist | Retail and business (cooperative) | Retail and business (state owned) | Retail and business (privately owned) |
|---|---|---|---|---|---|---|---|---|
| Austria | 10 | 9 | 0 | 0 | 1 | 0 | 0 | 0 |
| Belgium | 16 | 4 | 0 | 4 | 1 | 0 | 1 | 6 |
| France | 21 | 7 | 2 | 2 | 1 | 1 | 2 | 6 |
| Germany | 41 | 9 | 3 | 2 | 2 | 8 | 15 | 2 |
| Italy | 18 | 6 | 3 | 0 | 2 | 5 | 0 | 2 |
| Netherlands | 10 | 2 | 1 | 1 | 4 | 0 | 0 | 2 |
| Nordics | 14 | 8 | 1 | 0 | 4 | 0 | 0 | 1 |
| Poland | 8 | 6 | 0 | 0 | 0 | 0 | 0 | 2 |
| Spain | 13 | 5 | 1 | 1 | 2 | 1 | 0 | 3 |
| Switzerland | 10 | 2 | 0 | 4 | 0 | 0 | 3 | 1 |
| UK | 23 | 4 | 10 | 5 | 2 | 0 | 1 | 1 |
| **Europe** | **184** | **62** | **21** | **19** | **19** | **15** | **22** | **26** |

# European overview

**The outlook for the European banking sector is brighter than it has been at any time in the past two years. Banks anticipate an improved performance over the next six months as stronger balance sheets, a healthier economy and a fading sovereign debt crisis allow them to turn their thoughts to growth. However, numerous challenges remain. The industry has yet to fully absorb the potential implications of the European Central Bank's Asset Quality Review and restructuring and job cuts will continue as banks try to make the most of a more benign economic environment to progress strategic transformation initiatives.**

**European banks are increasingly positive about the macro-economic environment.**

- For the first time since the launch of EY's *European Banking Barometer* a majority of banks are optimistic about the economic outlook. Fifty-six percent of the respondents now anticipate the economy in their market improving over the next six months compared with just 25% in 1H13. Polish, Spanish and UK banks are the most optimistic, with 86%, 77% and 74% respectively forecasting economic improvement.
- An increasing number of banks also believe the Eurozone sovereign debt crisis is receding following signs that countries at the heart of the crisis are regaining competitiveness. Thirty-five percent of banks now expect the sovereign debt crisis will have a diminished impact on the banking sector in the next six months while just 16% fear an increased impact, compared with 20% and 35% respectively in 1H13.
- Nevertheless, the recovery remains weak, as illustrated by the European Central Bank's recent rate cut, and Eurozone GDP is only expected to reach pre-crisis levels in 2014 or 2015.

**Regulatory compliance is taking up an increasing amount of management focus.**

- Risk and regulation have overtaken cost cutting and efficiency as the key agenda items for European banks.
- Preparing for Basel III displaced risk management as the most critical agenda item for banks, with 73% of respondents thinking it was very important. Risk management slipped to second, with 60% of the respondents citing it as a very important agenda item.
- In the wake of mis-selling scandals many banks are now placing more emphasis on compliance with consumer regulation and remediation. This was the fifth most important agenda item, with 49% of banks saying it was a very important activity.
- Tactical cost cutting slipped to eighth place – the first time this has fallen out of the top five. Just 45% see this as a critical priority. Banks are now more focused on strategic cost initiatives such as streamlining processes as they prepare for growth.

# European overview

**Eurozone banks expect to strengthen their balance sheets ahead of the Asset Quality Review (AQR).**

- European banks have already made strides in reducing the size of their balance sheets, and many will continue to do so. Forty-four percent of banks expect to continue shrinking their balance sheets in the next six months. Only Polish banks, which are the most optimistic about the economic outlook, believe they are now less likely to shrink their balance sheet.
- Smaller balance sheets have enabled many banks to reduce their reliance on central bank funding in the last six months, and 51% plan to continue repaying funds in the next six. Only French banks, which are also the most pessimistic about the economy and sovereign debt crisis, anticipate increased demand for central bank funding.
- Eurozone banks are also likely to boost loan loss provisions (LLPs) ahead of the AQR. Thirty-four percent of all banks expect to increase LLPs in the next six months, with Spanish and Italian banks anticipating the greatest increase. Only UK banks, which are not subject to the AQR, generally expect LLPs to decrease.

**Industry restructuring will continue, with most banks focusing on adjusting their footprint in the European market.**

- Fifty-six percent of banks expect to either buy or sell assets, or enter a joint venture in the next six months. The vast majority of this activity – 91% of asset purchases and 86% of sales and joint ventures - will be within the European market.
- Seventy-three percent of banks anticipate consolidation in the next 12 months, and 86% anticipate consolidation within the next three years. The next year will largely see small-scale consolidation, with larger-scale activity happening in two to three years, as stronger balance sheets should leave banks in a better position to make major acquisitions.

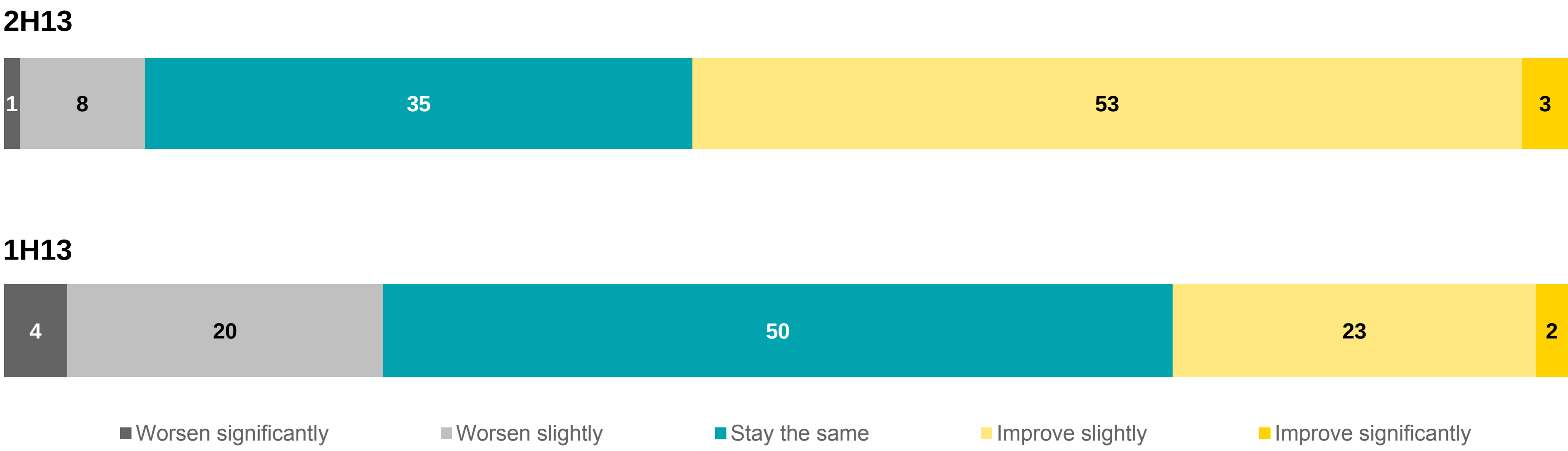
**Stronger balance sheets and a brighter outlook mean banks are turning thoughts to growth.**

- Fifty percent of banks anticipate launching specific initiatives to promote growth in the next six months.
- Forty-five percent of banks also expect to increase lending to customers. Lending policies will also be less restrictive for most sectors, especially to small and medium enterprises where 50% of banks expect looser lending criteria.
- However, increased availability of credit may still be insufficient to meet increased demand and there are signs that some markets are moving to a more US based market funding model. In the UK, the Netherlands and the Nordics, banks expect demand for debt and equity funding to outstrip demand for corporate lending.
- Banks are most optimistic about the prospects for private banking, with 53% anticipating an improved outlook. As a capital-light business, many global banks see private banking as an engine for growth.

# Economic environment

# Uncertainty has given way to optimism, with most banks now expecting the economic outlook to improve

### How do you expect the general economic outlook in your market to change over the next six months?*

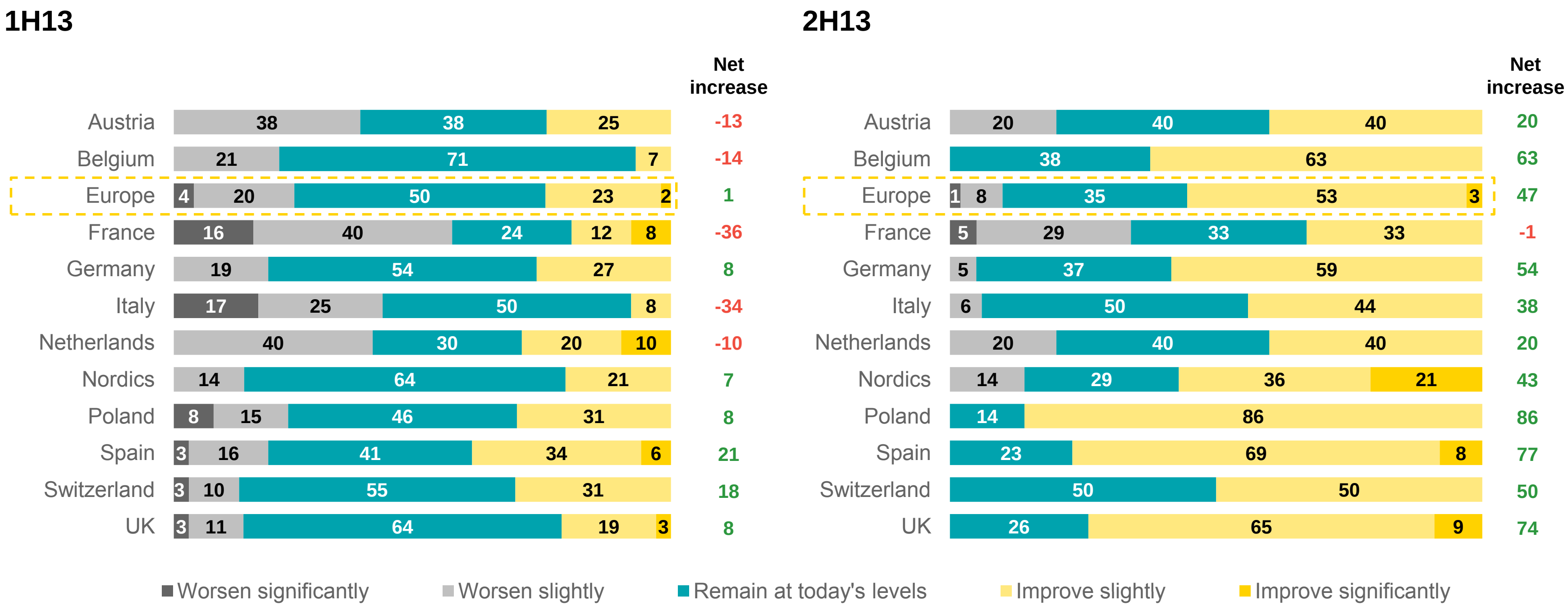



**Comments:** For the first time since the launch of EY's *European Banking Barometer*, a majority of banks expect the economic outlook to strengthen. This optimism reflects improving economic indicators that suggest after a protracted downturn the recovery is taking hold across Europe. Eurozone GDP grew 0.3% in the second quarter of 2013 after a record 18 month contraction. Furthermore, strong Purchasing Manager Index data for a number of European countries points to growth becoming embedded. Nevertheless, as illustrated by the ECB's recent rate cut, the recovery remains weak and Eurozone GDP is only expected to reach pre-crisis levels in 2014 or 2015, over six years after the start of the crisis.

* Numbers reflect the percentage of respondents who answered. Base excludes respondents who answered "Don't know".

# Polish, Spanish and UK banks expect the greatest economic improvement

## How do you expect the general economic outlook in your market to change over the next six months?*




* Numbers reflect the percentage of respondents who answered. Base excludes respondents who answered "Don't know".

# European sovereign debt crisis

# Concerns about the exposure of the banking sector to sovereign debt are beginning to recede…

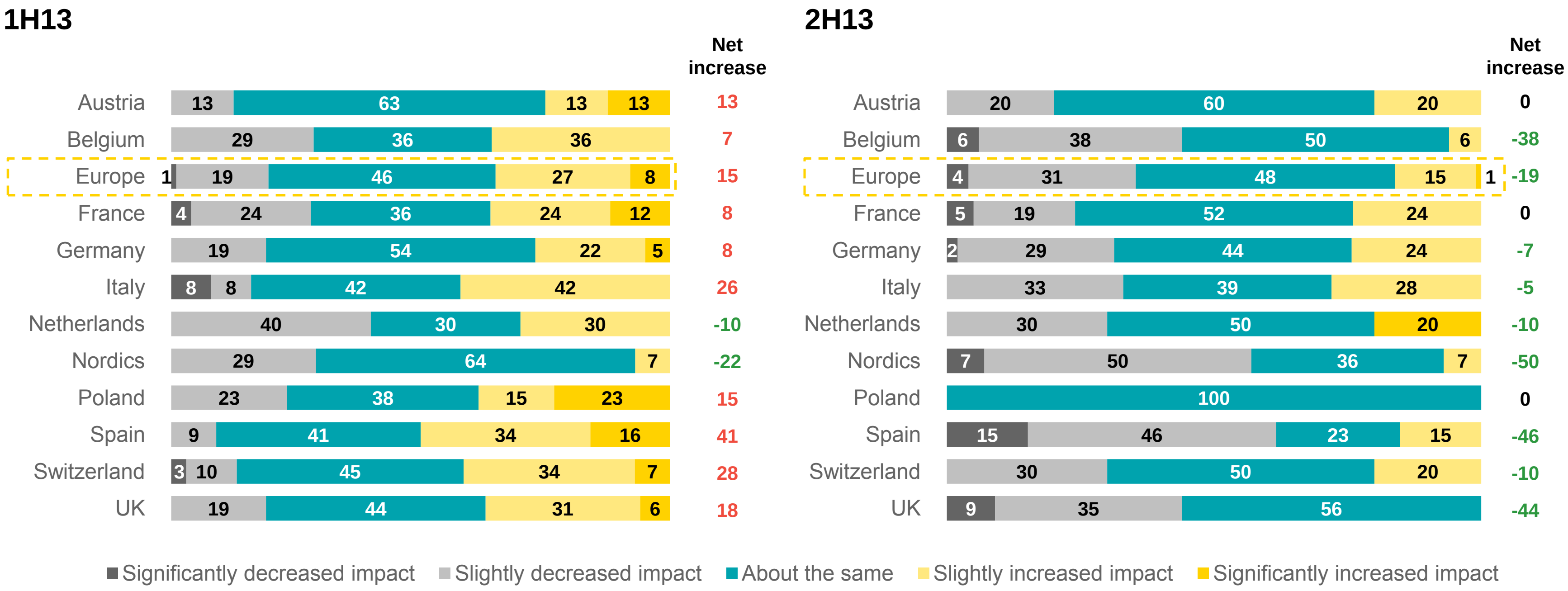
**What level of impact do you think the Eurozone sovereign debt crisis will have on the banking sector in your market over the next six months compared with the previous six months?***


**Comments:** More than twice as many banks expect the impact of the Eurozone sovereign debt crisis on their banking sector to diminish over the next six months than expect it to increase. This is a remarkable reversal of the results in the previous edition of the Barometer, and is underpinned by a return to growth in the Eurozone and signs that countries at the heart of the crisis are regaining competitiveness; Spanish and Greek labor costs are in steady decline, while the Spanish and Italian Governments are now running current account surpluses.

* Numbers reflect the percentage of respondents who answered.

# …with all countries except Austria, France and Poland expecting the impact of the sovereign debt crisis to diminish

**What level of impact do you think the Eurozone sovereign debt crisis will have on the banking sector in your market over the next six months compared with the previous six months?***

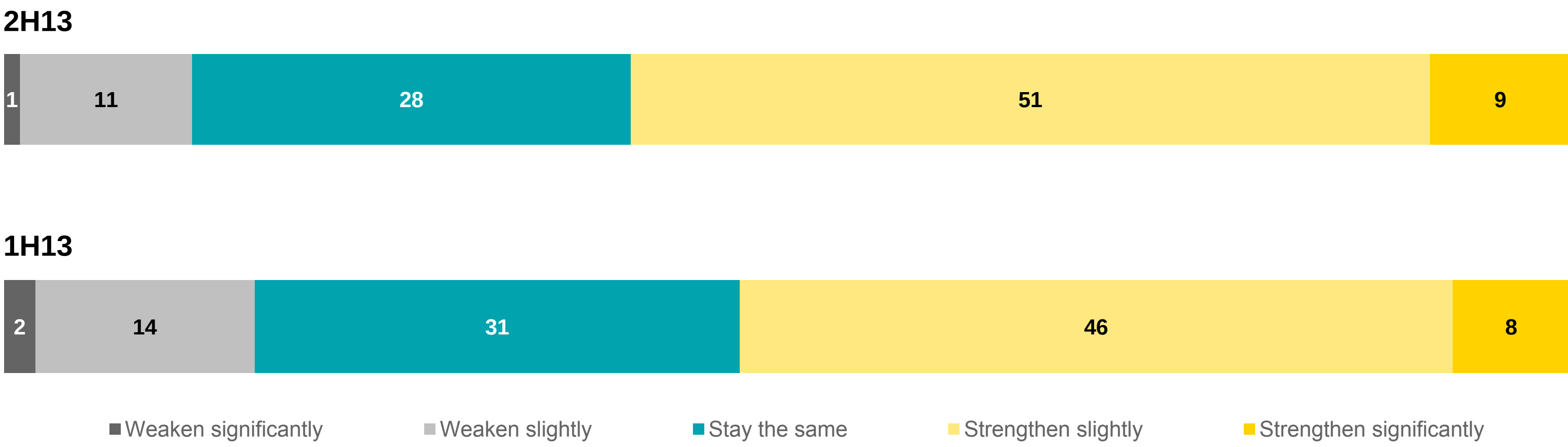



* Numbers reflect the percentage of respondents who answered.

# Business outlook and focus areas

# European banks are more optimistic about their own performance than at any time in the last 18 months

### How do you expect your bank's overall performance to change over the next six months?*

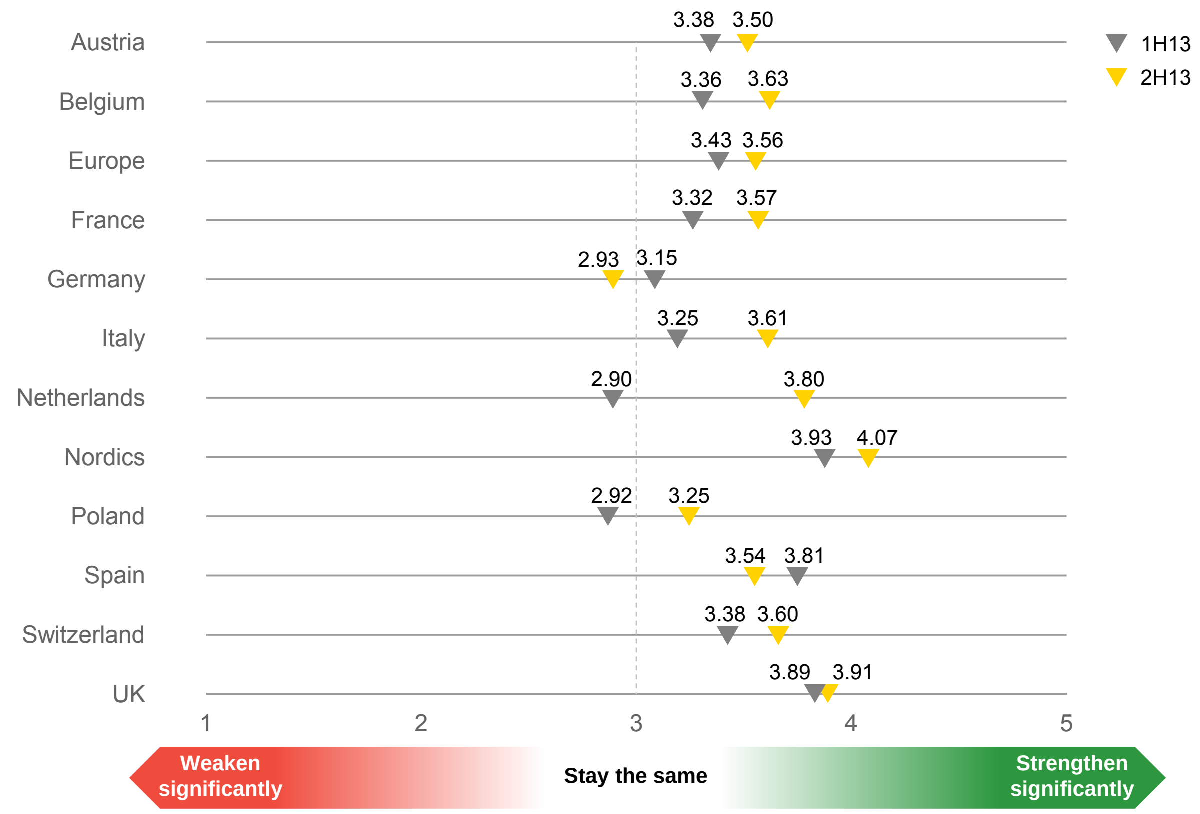



**Comments:** The degree to which respondents expect their bank's performance to strengthen reflects both the improving economic outlook and a generally healthier banking sector. Despite lingering concerns about the Eurozone sovereign debt crisis and the US debt ceiling, the macro-economic outlook is more stable. Additionally, most banks have made progress improving the quality of their balance sheet. Regulation and the drive to reduce leverage have led banks to dispose of, or reduce exposure to, non-core assets and businesses, and many institutions are beginning to look for opportunities to grow revenues. Dutch banks have the most improved outlook, while only German banks are more pessimistic about their performance than in 1H13. This pessimism may, in part, be driven by capital regulation. Historically German banks have held a higher level of hybrid capital than their European counterparts, but this will no longer be possible under Basel III.

* Numbers reflect the percentage of respondents who answered. Base excludes respondents who answered "Don't know".

# Only German respondents expect their banks' overall performance to deteriorate

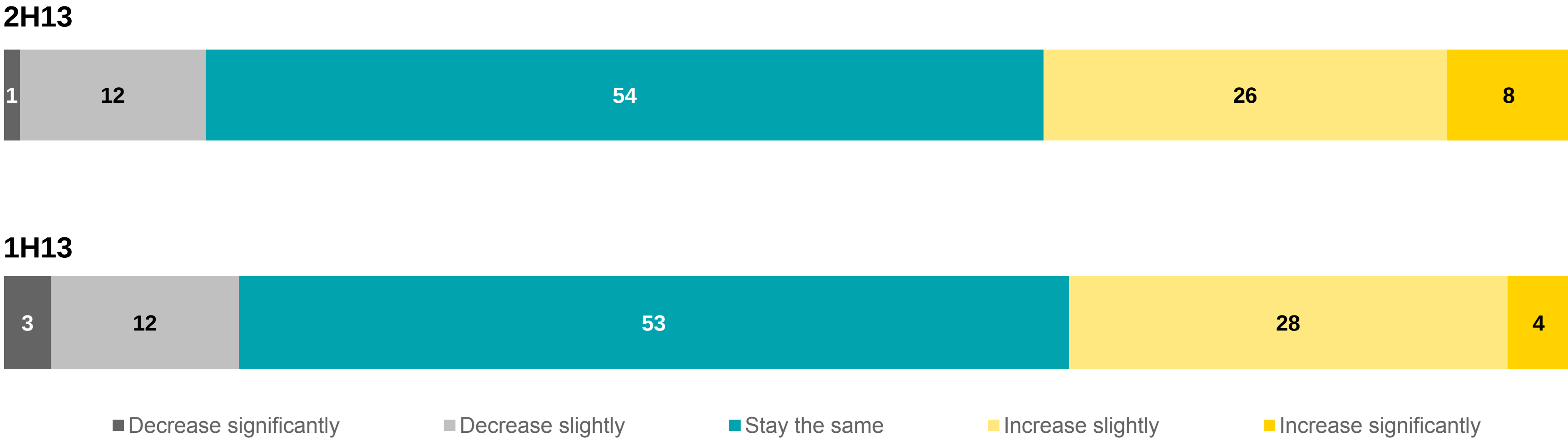
## How do you expect your bank's overall performance to change over the next six months?*




* Numbers reflect the mean scores of respondents who answered on a scale of 1 to 5 where 1 denotes 'Weaken significantly' and 5 denotes 'Strengthen significantly'.

# With the Asset Quality Review looming, one-third of banks expect to increase loan loss provisions

## Over the next six months, what do you expect your bank's total provisions against loan losses to do?*

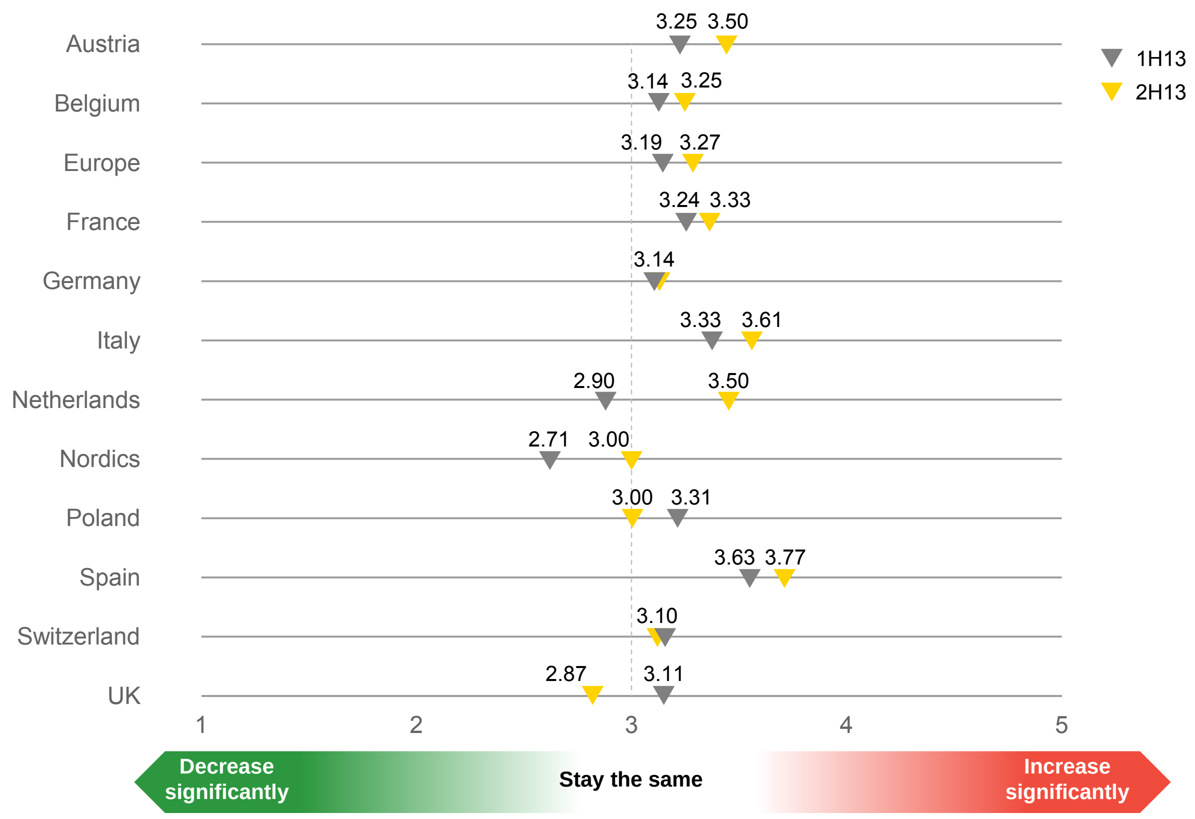



**Comments:** Despite improving economic indicators, many European banks expect to increase loan loss provisions (LLPs) in the next six months. This is unsurprising; the ECB's Asset Quality Review (AQR) – which will stress test bank balance sheets – will be based on 2013 year-end data. As a result Eurozone banks are likely to increase provisions for potentially troublesome loans in Q4. While Spanish and Italian banks expect the greatest increase in LLPs, UK banks, which are not subject to the AQR, generally expect LLPs to decrease.

* Numbers reflect the percentage of respondents who answered. Base excludes respondents who answered "Don't know".

# Spanish and Italian banks are most likely to increase their loan loss provisions in the next six months

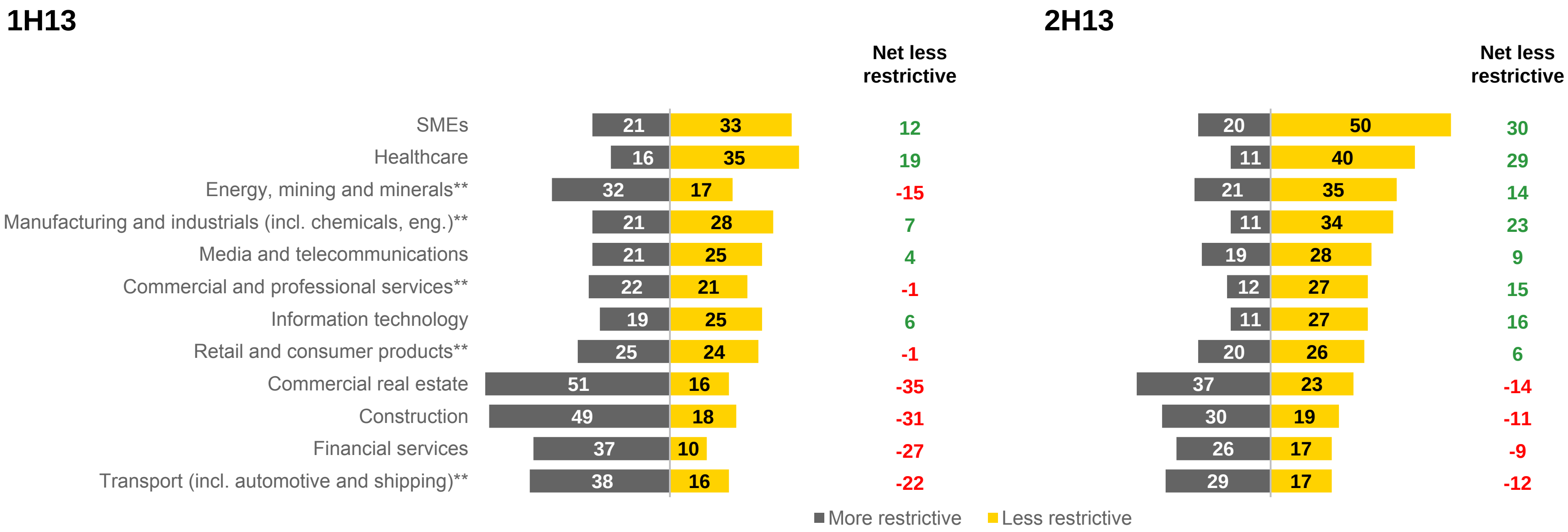
## Over the next six months, what do you expect your bank's total provisions against loan losses to do?*




* Numbers reflect the mean scores of respondents who answered on a scale of 1 to 5 where 1 denotes 'Decrease significantly' and 5 denotes 'Increase significantly'.

# Lending prospects will improve for most sectors…

## How do you expect the corporate lending policies of banks in your market to change in each of the following sectors over the next six months?*

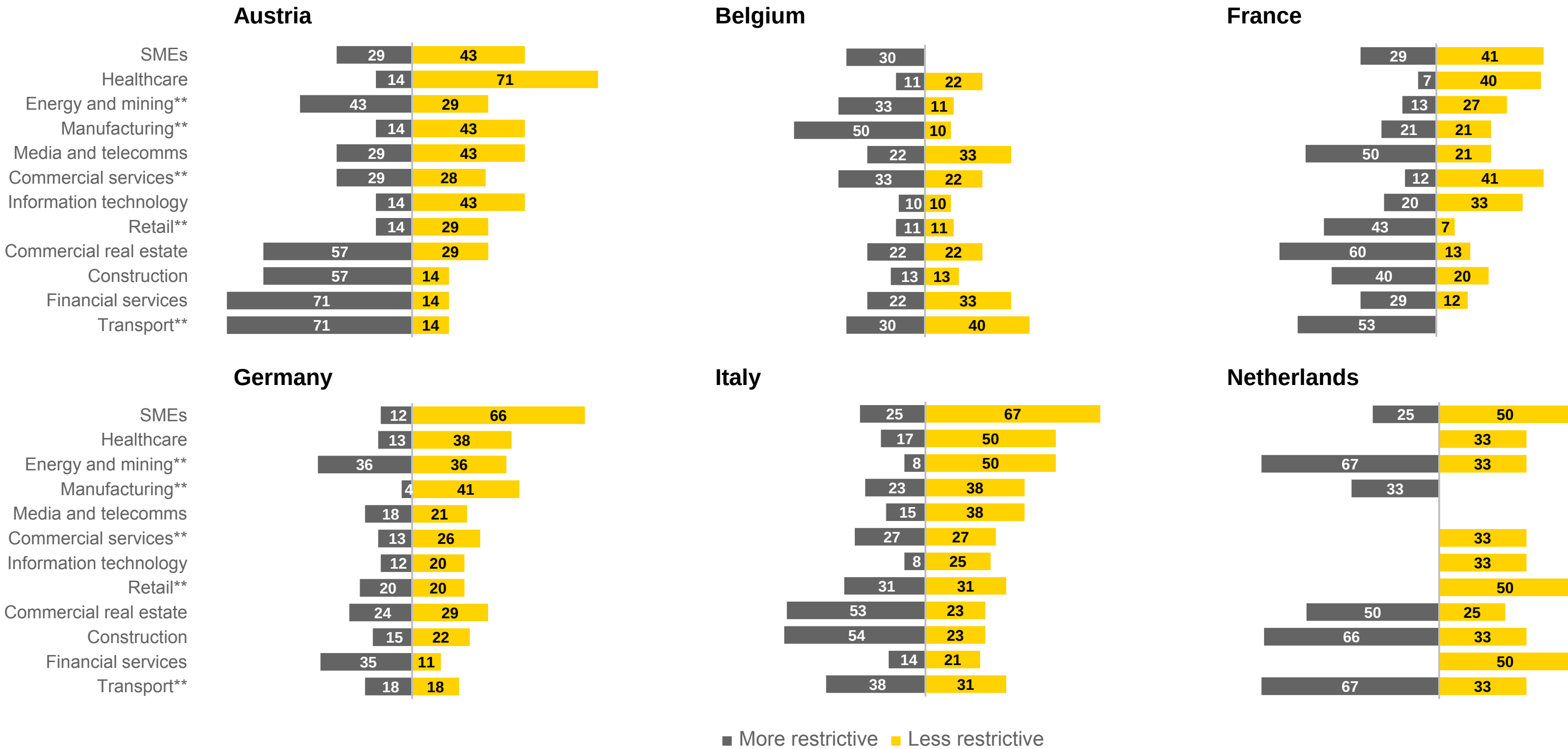



**Comments:** Since our previous Barometer, and despite one third of banks expecting to increase loan loss provisions, the outlook for lending has improved across most sectors. However, lending to a few sectors, including construction and commercial real estate will continue to tighten. The small and medium sized enterprise (SME) sector is expected to see the greatest loosening of lending policies. SMEs are benefitting from both the improving economic environment and the efforts of national governments and the European Investment Bank (EIB) to boost lending to the sector. The UK, which is not subject to the Asset Quality Review and is the second most optimistic country about economic growth, is the only market where lending is expected to be less restrictive for all sectors.

* Numbers reflect the percentage of respondents who answered. Respondents answering 'Stay the same' are not displayed. Base excludes respondents who answered "Don't know".
** Energy and mining includes minerals, Manufacturing includes industries, chemicals and engineering, Commercial services includes professional services, Retail includes consumer products and Transport includes automotive and shipping.

# …although lending policies for construction and commercial real estate will continue to be restricted in all countries…

## How do you expect the corporate lending policies of banks in your market to change in each of the following sectors over the next six months?*

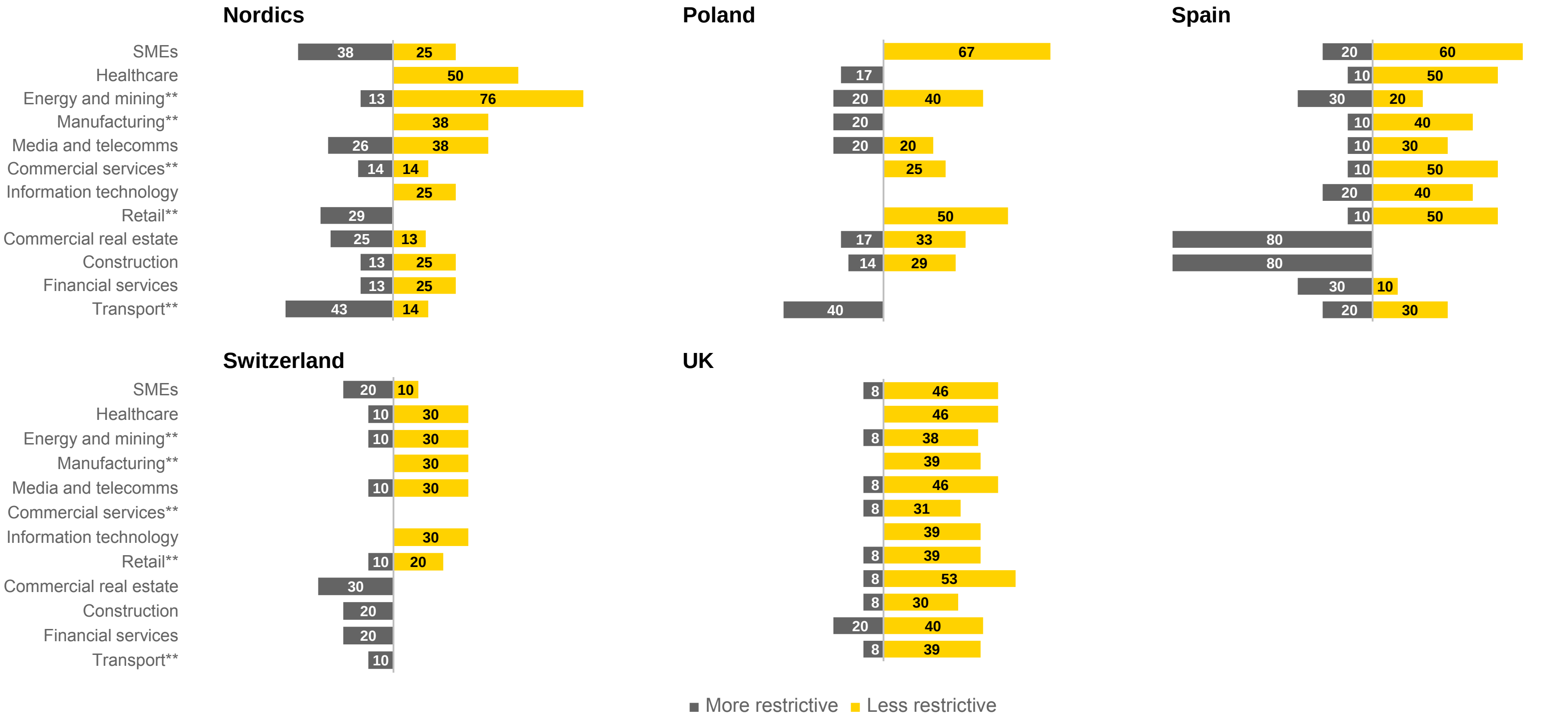



* Numbers reflect the percentage of respondents who answered. Respondents answering 'Stay the same' are not displayed. Base excludes respondents who answered "Don't know".

** Energy and mining includes minerals, Manufacturing includes industries, chemicals and engineering, Commercial services includes professional services, Retail includes consumer products and Transport includes automotive and shipping.

# … except the UK, where banks expect to loosen lending restrictions across all sectors

## How do you expect the corporate lending policies of banks in your market to change in each of the following sectors over the next six months?*

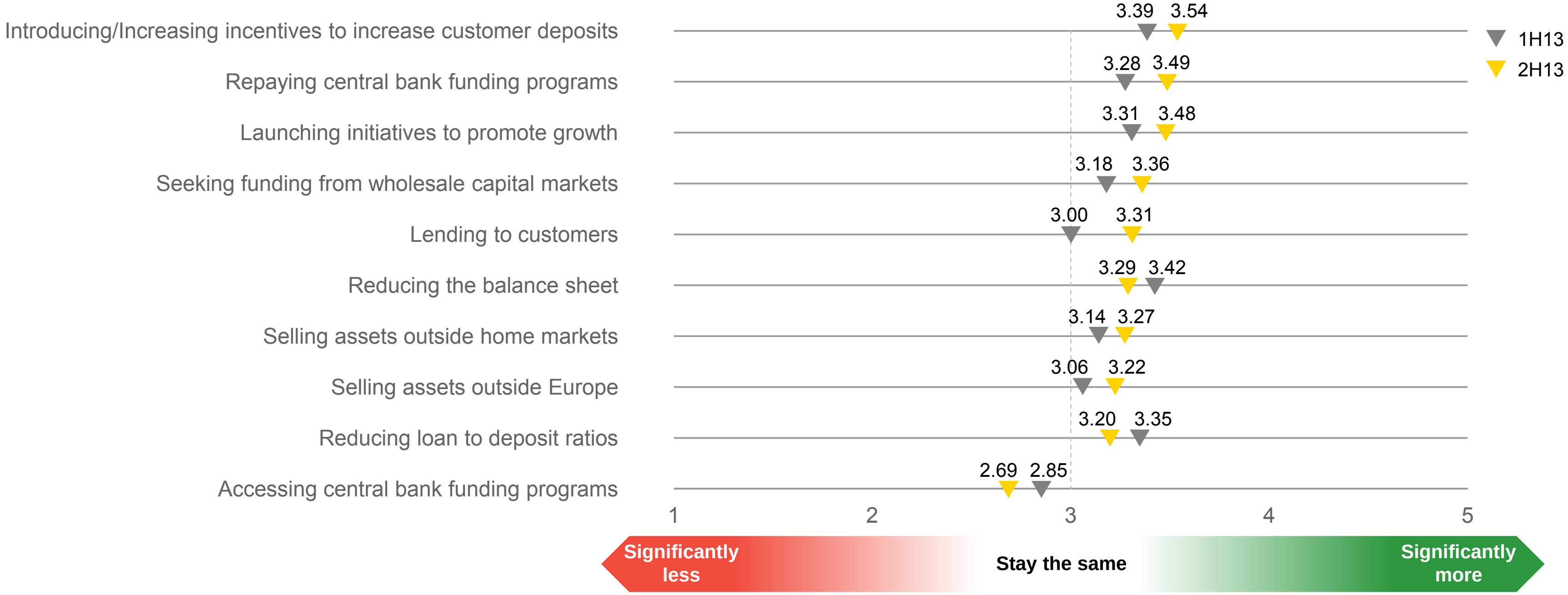



* Numbers reflect the percentage of respondents who answered. Respondents answering ‘Stay the same’ are not displayed. Base excludes respondents who answered "Don't know".

** Energy and mining includes minerals, Manufacturing includes industries, chemicals and engineering, Commercial services includes professional services, Retail includes consumer products and Transport includes automotive and shipping.

# European banks are beginning to shift their focus from balance sheet stabilization to growing new revenues

## How likely are the banks in your market to be engaged in the following activities over the next six months?*

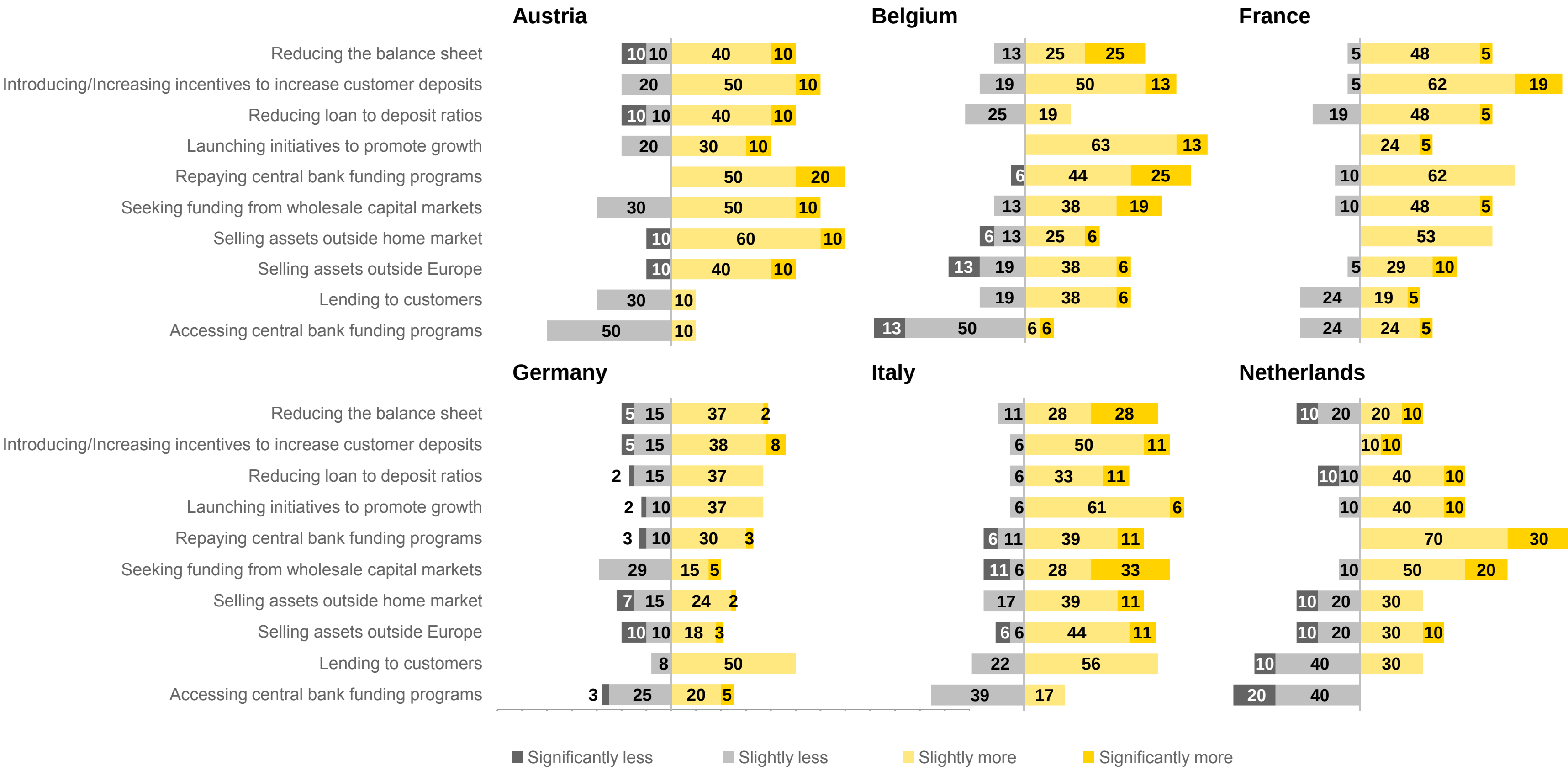



**Comments:** A more stable economic environment and continued low funding rates have helped banks to strengthen their balance sheets and reduce their dependence on central bank funding programs. Average ECB funding for Eurozone banks is now just 2.5% of bank assets and with potential penalties for excessive LTRO usage in the AQR, 51% are planning to repay central bank funding in the next six months. Many banks also expect to sell assets outside their core markets to boost capital and liquidity. With healthier balance sheets banks are beginning to focus on revenue growth. Fifty percent of banks anticipate launching specific initiatives to promote growth in the next six months and 45% expect to increase lending to customers. Forty-four percent of banks expect to increase funding from wholesale markets to support this growth.

* Numbers reflect the mean scores of respondents who answered on a scale of 1 to 5 where 1 denotes ‘Significantly less’ and 5 denotes ‘Significantly more’.

# Most banks in all countries, except France, anticipate reducing access to central bank funding programs

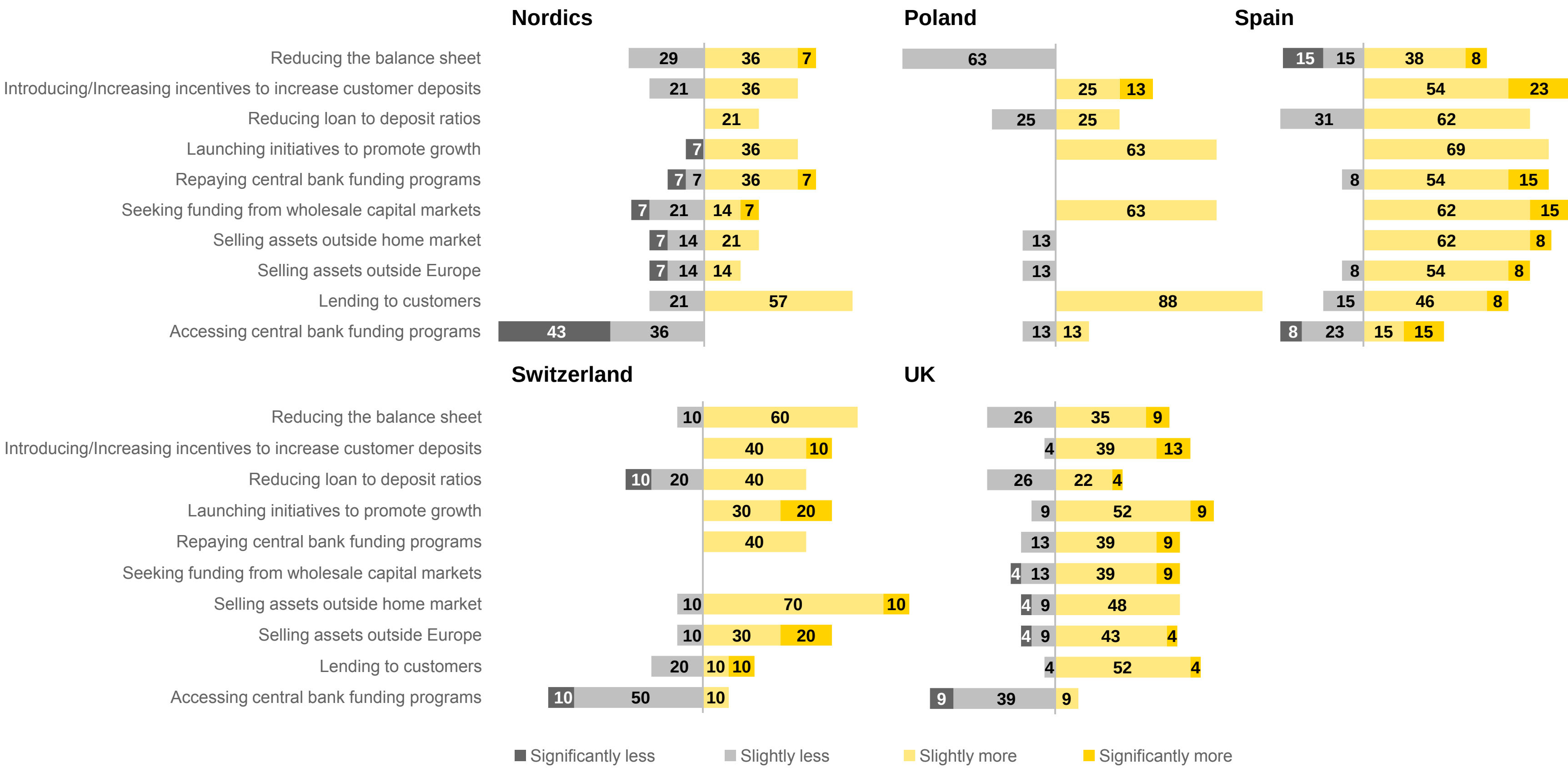
## How likely are the banks in your market to be engaged in the following activities over the next six months?*




* Numbers reflect the percentage of respondents who answered. Respondents answering 'About the same' are not displayed.

# A majority of banks in all countries also expect to increase initiatives to promote growth

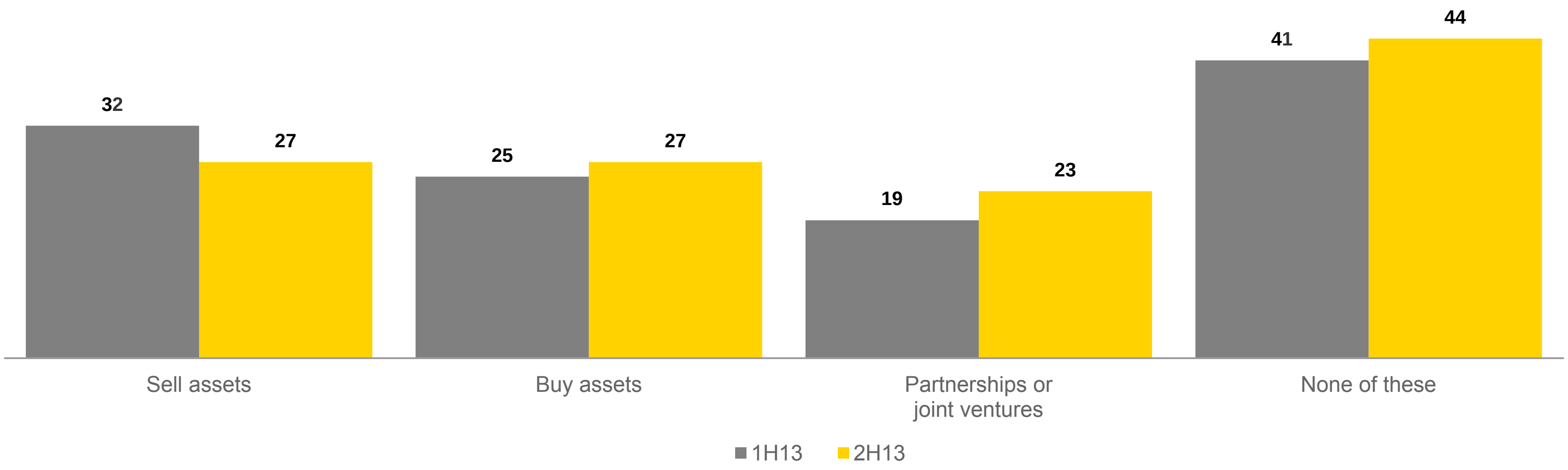
## How likely are the banks in your market to be engaged in the following activities over the next six months?*




* Numbers reflect the percentage of respondents who answered. Respondents answering ‘About the same’ are not displayed.

# Banks will continue to adjust their footprints…

**Which, if any, of the following is your bank likely to consider over the next six months in relation to the countries in which it operates?***




**Comments:** Since the crisis, many banks have sold assets as they have restructured their businesses to reduce complexity or raise capital. This reshaping of the banking sector is set to continue, with 56% of the respondents expecting to either buy or sell assets, or enter a joint venture in the next six months. Banks remain focused on getting their European footprint right and 91% of banks anticipating asset purchases and 86% of banks anticipating asset sales or joint ventures, expect these to occur within the European market.

* Numbers reflect the percentage of respondents who answered. Respondents could select more than one option.

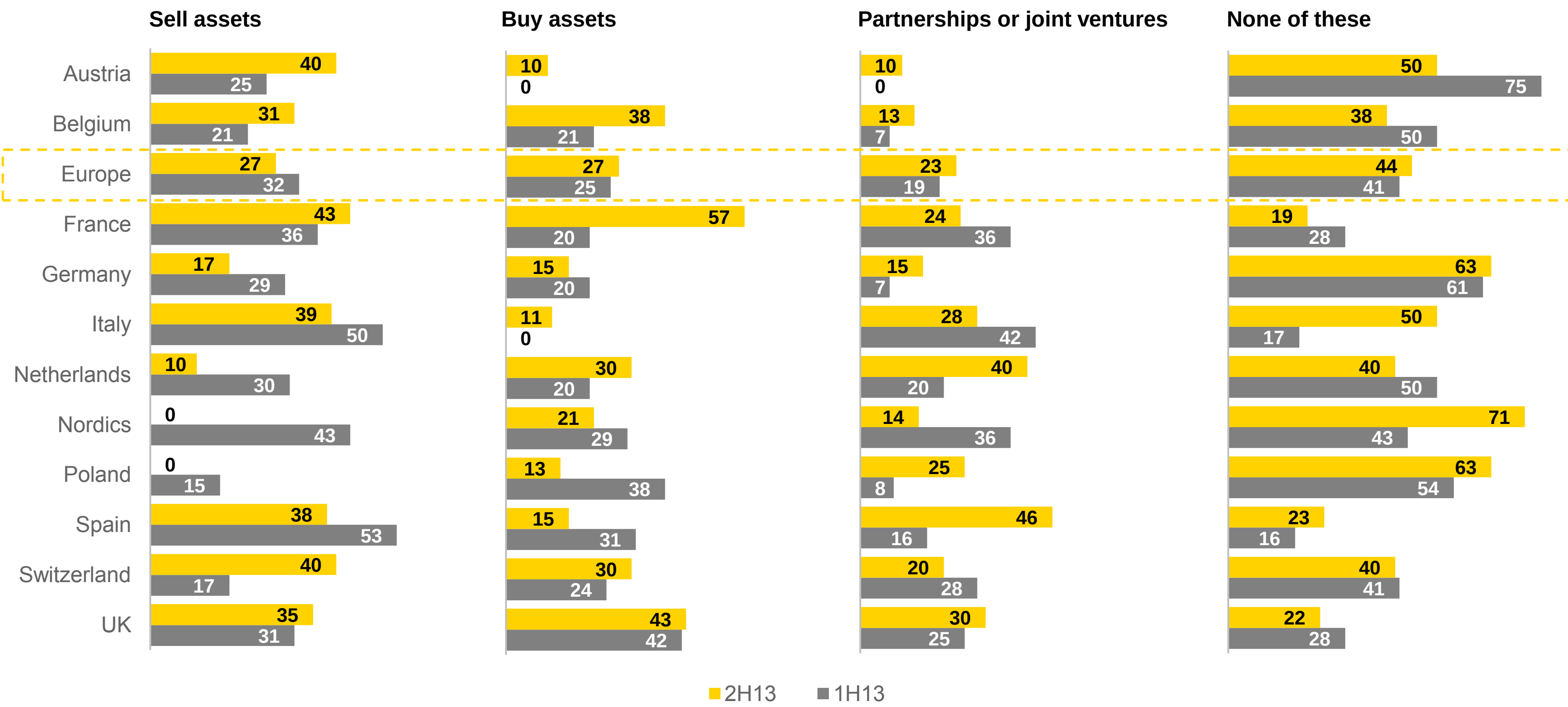
# …with the majority of sales, acquisitions and joint ventures expected in European markets

### In which regions is your bank likely to sell assets / buy assets / consider joint ventures in over the next six months?*


* Numbers represent the total number of mentions for that particular region. Respondents could state more than one region.

# Swiss banks are now significantly more likely to sell assets, while French banks are significantly more likely to buy assets

**Which, if any, of the following is your bank likely to consider over the next six months in relation to the countries in which it operates?***

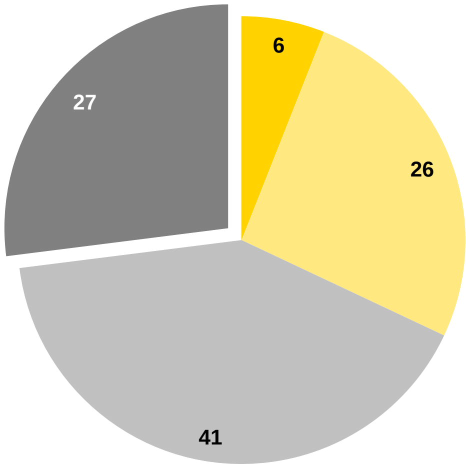



* Numbers reflect the percentage of respondents who answered. Respondents could select more than one option.

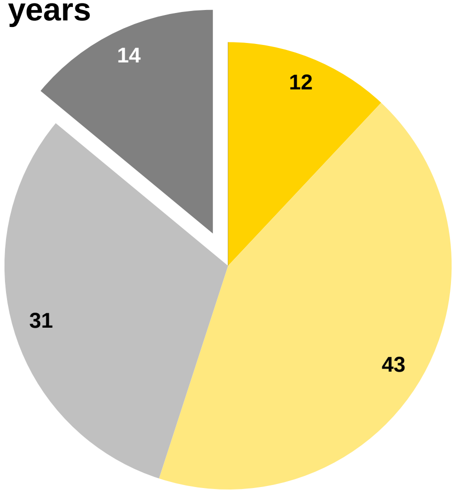
# Most banks anticipate consolidation within the industry in both the short and medium term.

**To what extent do you anticipate consolidation of the banking industry over the next 12 months and within the next three years?***

**12 months**




**Within three years**

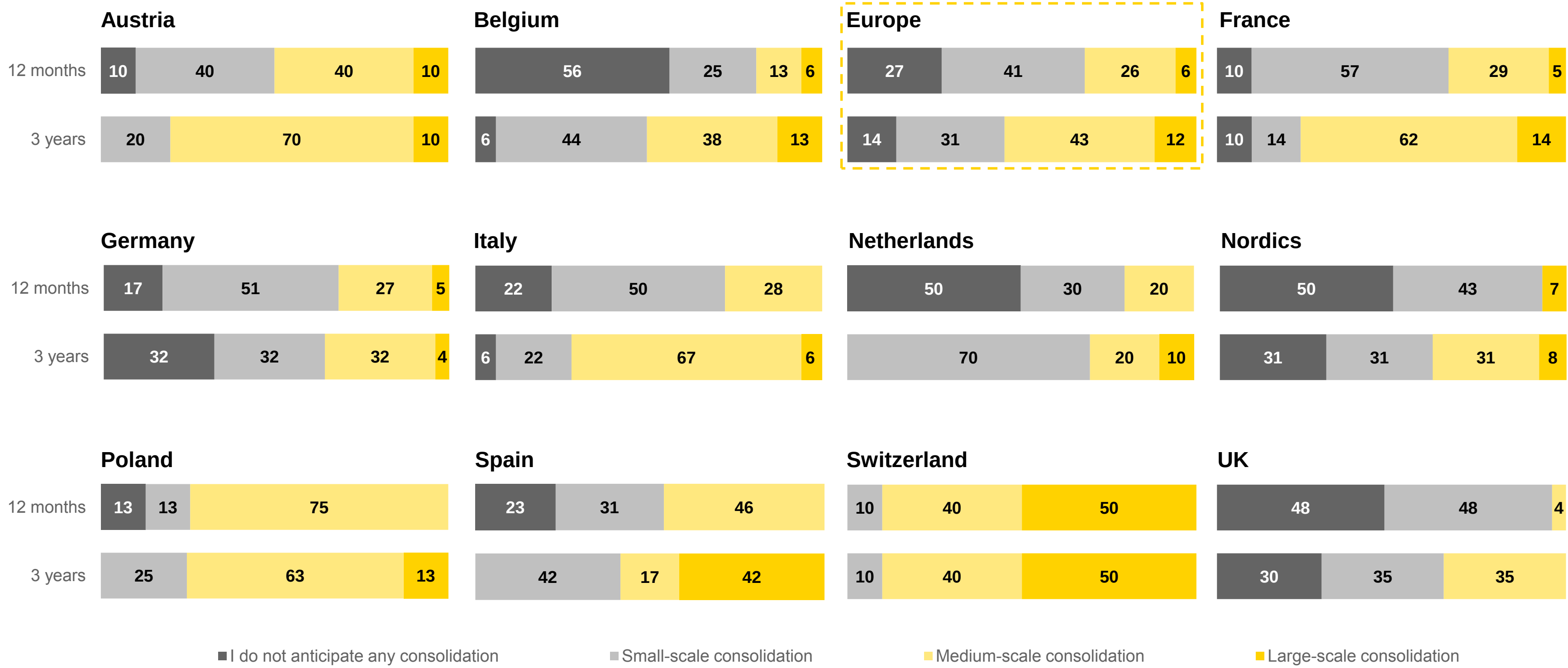



**Comments:** Although 73% of banks anticipate some consolidation in the industry over the next 12 months, most expect this will be small scale. Despite the significant strides banks have made in strengthening their balance sheets, the economic recovery is not yet assured and institutions remain cautious about major acquisitions in the short term. However, over the next three years 55% of the respondents expect medium- or large-scale consolidation. Switzerland is most likely to see consolidation in both the short and medium term, with all the respondents anticipating some consolidation, and 90% expecting medium- or large-scale consolidation. Swiss private banks have been struggling with declining profitability due to increased compliance and IT costs, as well as revenue pressure following recent bilateral tax agreements with Germany and the UK.

* Numbers reflect the percentage of respondents who answered.

# Swiss banks anticipate the greatest degree of consolidation

## To what extent do you anticipate consolidation of the banking industry in your market over the next 12 months and within the next three years?*



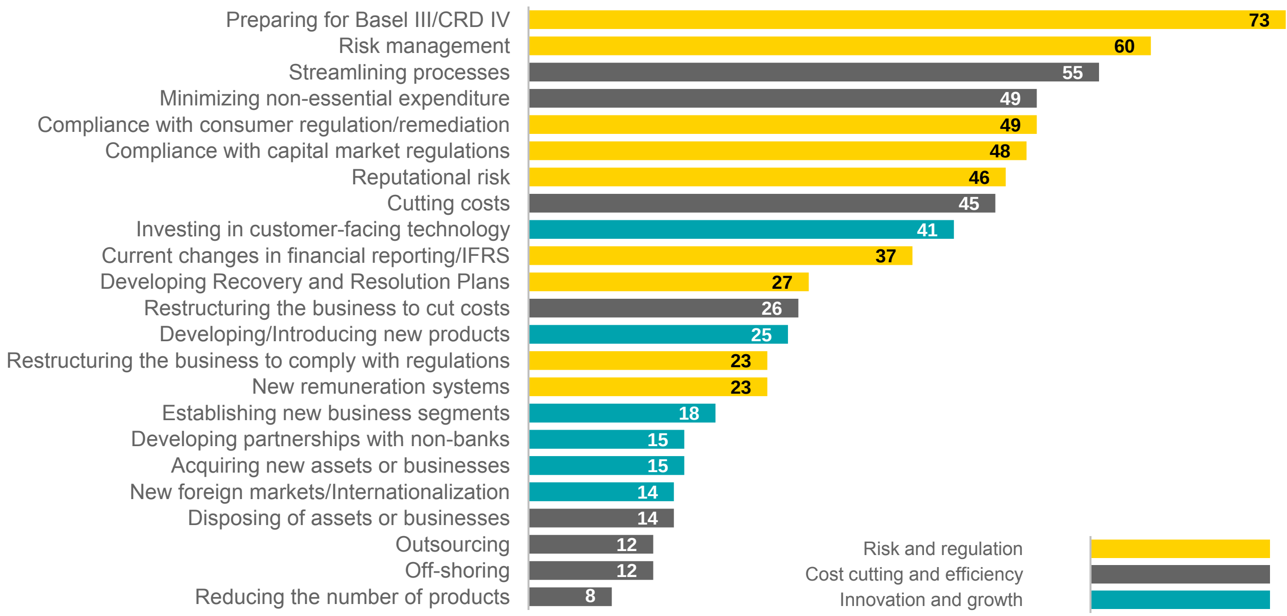

* Numbers reflect the percentage of respondents who answered.

# Business priorities and product line expectations

# Regulatory compliance and risk management remain the most important agenda items for European banks

## Rank the importance of the following agenda items for your organization*

**2H13**




**Rank order of importance**

| | 1H13 | 2H13 |
|---|---|---|
| Preparing for Basel III/CRD IV | 3 | 1 |
| Risk management | 1 | 2 |
| Streamlining processes | 2 | 3 |
| Minimizing non-essential expenditure | 4 | 4 |
| Compliance with consumer regulation/remediation | 6 | 5 |
| Compliance with capital market regulations | 7 | 6 |
| Reputational risk | - | 7 |
| Cutting costs | 5 | 8 |
| Investing in customer-facing technology | 8 | 9 |
| Current changes in financial reporting/IFRS | 11 | 10 |
| Developing Recovery and Resolution Plans | 12 | 11 |
| Restructuring the business to cut costs | 9 | 12 |
| Developing/Introducing new products | 10 | 13 |
| Restructuring the business to comply with regulations | 14 | 14 |
| New remuneration systems | 18 | 15 |
| Establishing new business segments | 13 | 16 |
| Developing partnerships with non-banks | 15 | 17 |
| Acquiring new assets or businesses | 19 | 18 |
| New foreign markets/Internationalization | 16 | 19 |
| Disposing of assets or businesses | 17 | 20 |
| Outsourcing | 20 | 21 |
| Off-shoring | 22 | 22 |
| Reducing the number of products | 21 | 23 |

**Comments:** Despite signs that banks are beginning to look for ways to grow revenues, risk, regulation and efficiency remain the top agenda items for European banks. Perhaps not surprisingly, given the greater clarity now that CRD IV has been agreed, preparing for Basel III is now the most important agenda item for banks – it was ranked third in our previous Barometer. More notably, tactical cost cutting has fallen out of the top five priorities for banks, to be replaced by compliance with consumer regulation and remediation. This is now a key agenda item for banks in countries that have faced mis-selling scandals, including the UK and Spain, with regulators placing an increased emphasis on consumer protection.

* Respondents were asked to rank the importance of activities on a scale of 0 to 10, where 0 denotes 'Not at all important' and 10 denotes 'very important'. Numbers show the percentage of respondents selecting either 8, 9 or 10. Base excludes respondents answering 'Does not apply'.

Reputational risk includes tax transparency. Compliance with capital markets regulations i.e., MiFID II/EMIR. Investing in new customer-facing technology e.g., mobile solutions.

# Many banks expect to invest in customer-facing technology but other growth initiatives, except in the Netherlands…

## Rank the importance of the following agenda items for your organization*


* Respondents were asked to rank the importance of activities on a scale of 0 to 10, where 0 denotes 'Not at all important' and 10 denotes 'very important'. Numbers show the percentage of respondents selecting either 8, 9 or 10. Base excludes respondents answering 'Does not apply'.

Reputational risk includes tax transparency. Compliance with capital markets regulations i.e., MiFID II/EMIR. Investing in new customer-facing technology e.g., mobile solutions.

# …have been deprioritized, as regulatory compliance takes up an increasing amount of management focus

## Rank the importance of the following agenda items for your organization*


* Respondents were asked to rank the importance of activities on a scale of 0 to 10, where 0 denotes 'Not at all important' and 10 denotes 'very important'. Numbers show the percentage of respondents selecting either 8, 9 or 10. Base excludes respondents answering 'Does not apply'.

Reputational risk includes tax transparency. Compliance with capital markets regulations i.e., MiFID II/EMIR. Investing in new customer-facing technology e.g., mobile solutions.

# Banks anticipate an improved outlook for all business lines…

## How do you rate the outlook for your bank over the next six months in each of the following business lines?*

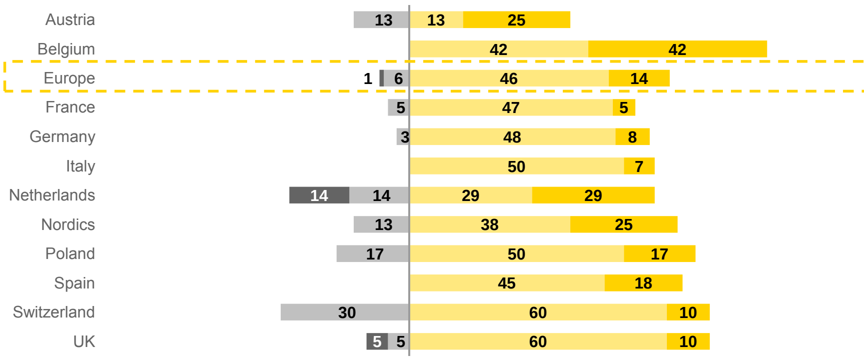

**Comments:** Banks are most optimistic about the outlook for private banking and wealth management, which is particularly attractive given its capital-lite business model. With global markets having rebounded since 2009, the wealth of high and ultra high net worth individuals has seen a dramatic recovery - the wealth of EU27 billionaires has almost doubled since then and grew around 23% in the last year alone. However, this optimism may be more due to hope than expectation. With banks competing over a relatively small customer pool not everyone can be a winner. Banks also expect an improved outlook for retail and corporate banking. With signs of an economic recovery in Europe, banks are hopeful that both businesses and individuals will look to borrow and invest. Only the Dutch banks do not expect an improved outlook for retail and corporate banking.

* Numbers reflect the percentage of respondents who answered. Respondents answering ‘Neither good, nor poor’ are not displayed.

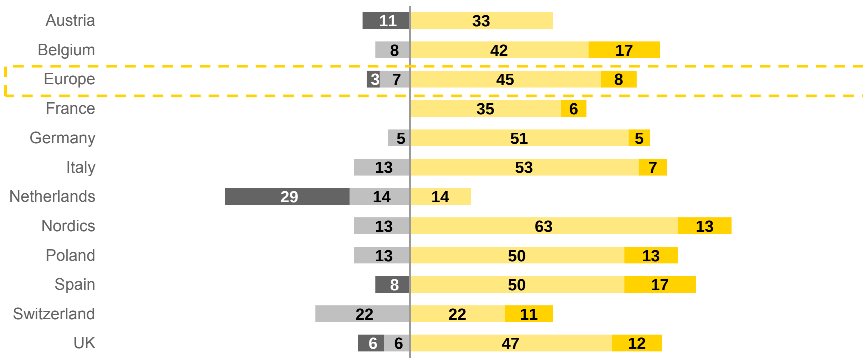
# …with the strongest performance expected in retail banking, wealth management…

## How do you rate the outlook for your bank over the next six months in each of the following business lines?*

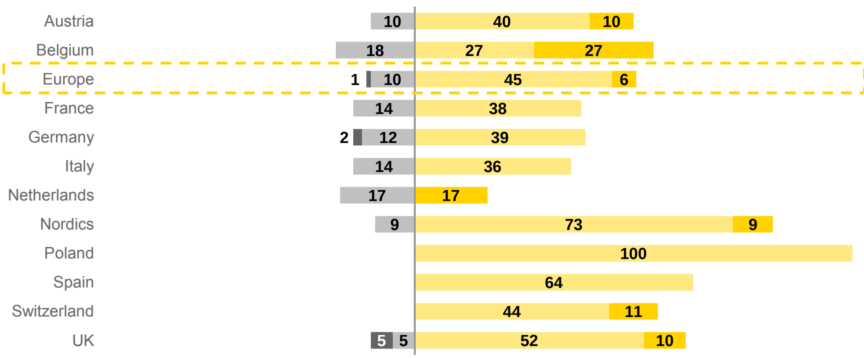
### Private banking and Wealth management



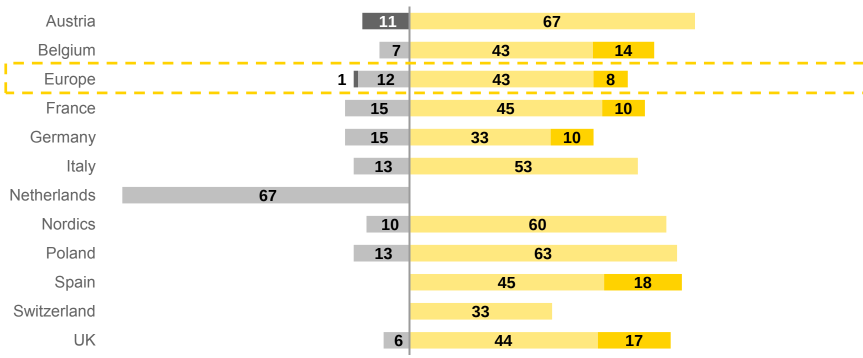

### Retail banking




### Corporate banking




### Deposit business



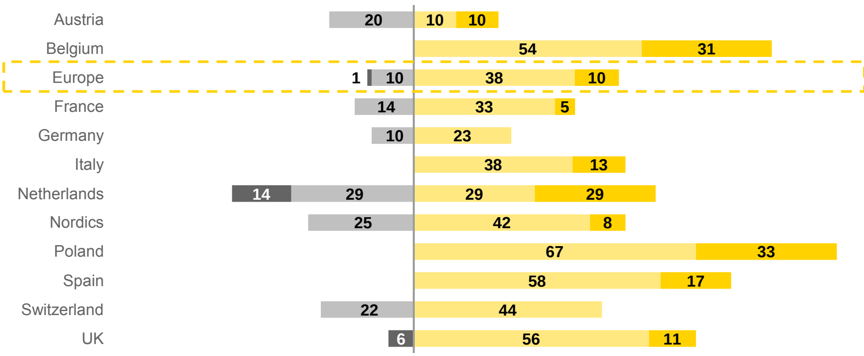

Very poor Fairly poor Fairly good Very good

* Numbers reflect the percentage of respondents who answered. Respondents answering 'Neither good, nor poor' are not displayed.

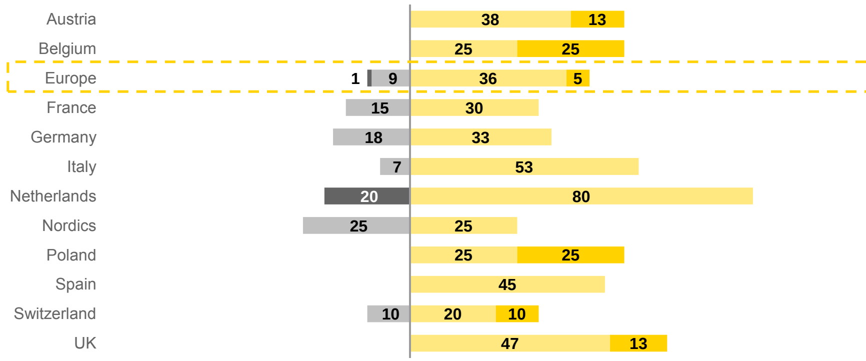
# … and asset management. The outlook has also improved for corporate and investment banking…

## How do you rate the outlook for your bank over the next six months in each of the following business lines?*

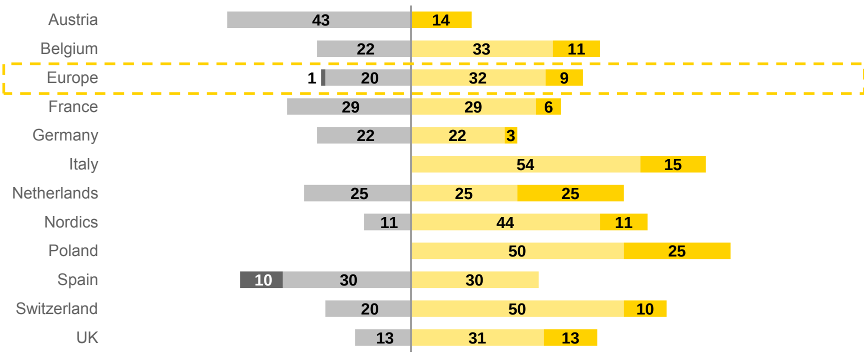
### Asset management



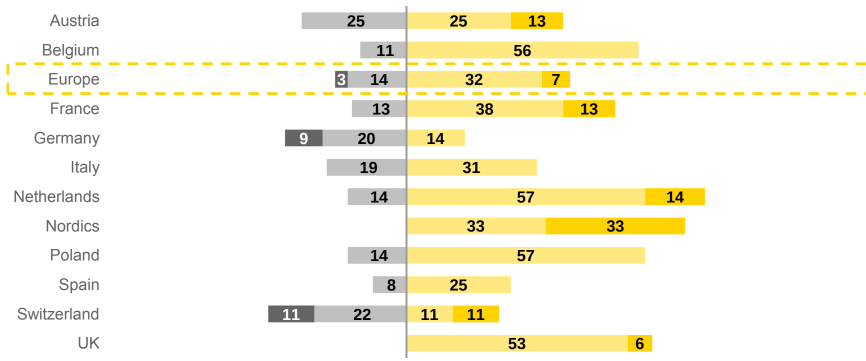

### Securities services




### Transaction advisory




### Debt and equity issuance



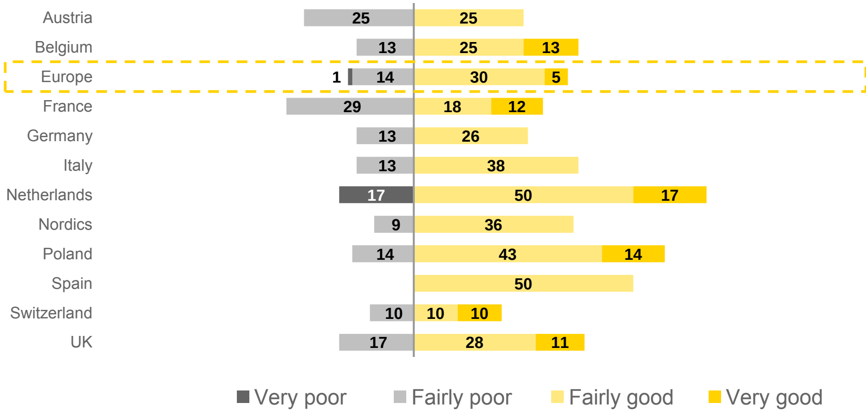

Very poor Fairly poor Fairly good Very good

* Numbers reflect the percentage of respondents who answered. Respondents answering 'Neither good, nor poor' are not displayed.

# …indicating a hope that, as the economic recovery becomes embedded, businesses will be more willing to invest

## How do you rate the outlook for your bank over the next six months in each of the following business lines?*

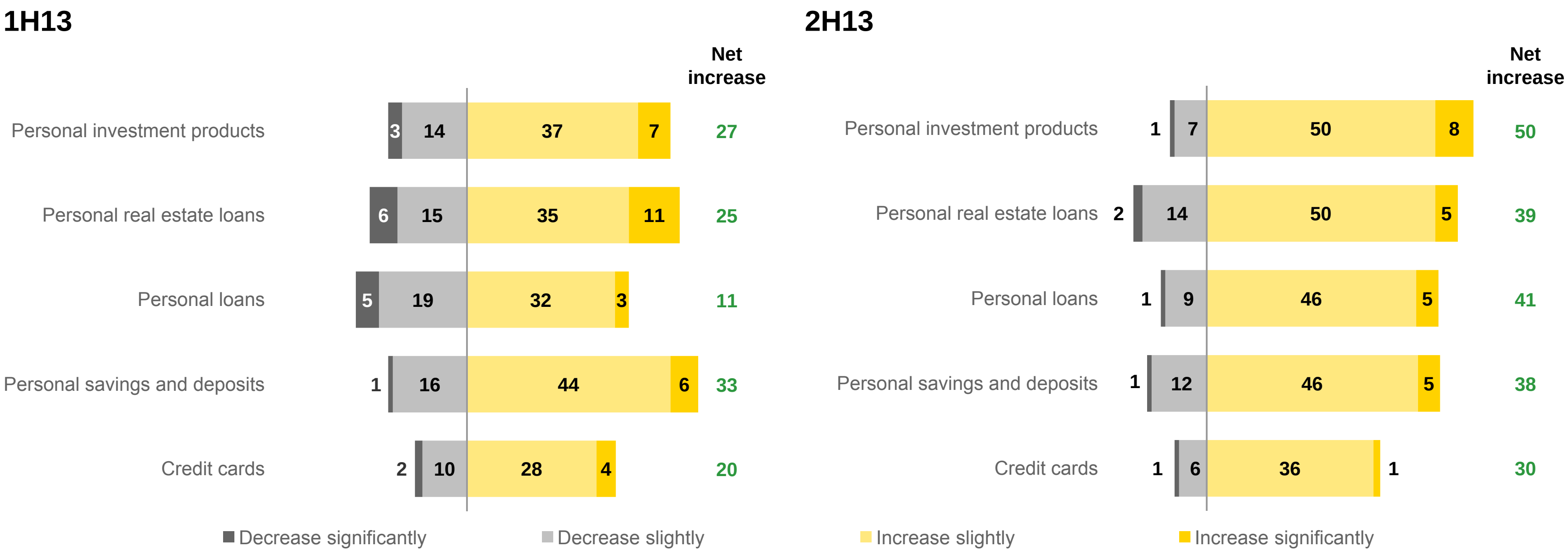
### Securities trading




* Numbers reflect the percentage of respondents who answered. Respondents answering ‘Neither good, nor poor’ are not displayed.

# Customer demand for investments and lending is expected to overtake demand for deposits and savings

### How do you expect customer demand for retail products at your bank to change over the next six months?*



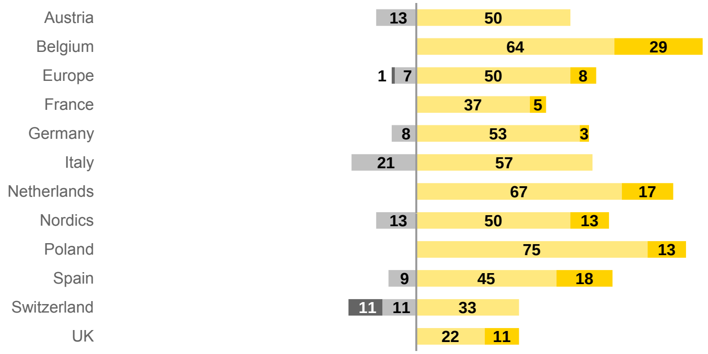

**Comments:** With greater stability returning to financial markets, 58% of banks anticipate increased demand for personal investment products. Banks expect savers will move their savings out of cash in an attempt to generate greater returns in a negative real interest rate environment. Banks also anticipate increased demand for both secured and unsecured lending. A significant majority of banks in all countries except Austria expect increased demand for personal loans. Ultra-low interest rates have enabled retail customers to pay down debt and improve their personal balance sheets. With indications of an improving economy, banks believe that these customers will now be more willing to borrow for consumption. Views on real-estate lending are more polarized, suggesting that the recovery of the European housing market is far from assured. Only in the UK, where the government has introduce deposit guarantees and equity loans, do all respondents expect increased mortgage demand.

* Numbers reflect the percentage of respondents who answered. Respondents answering 'Stay the same' are not displayed. Base excludes respondents answering 'Not applicable'.

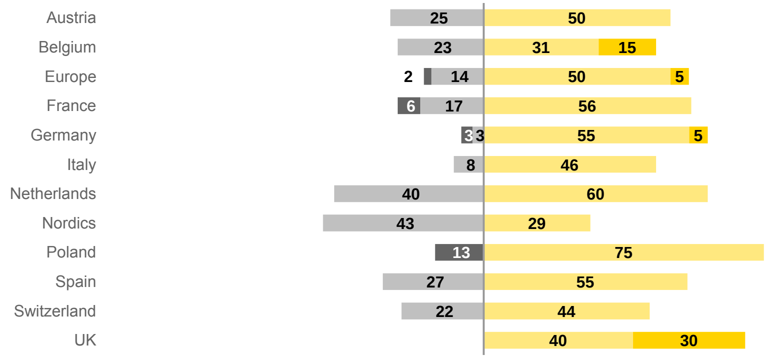
# Banks expect demand for deposits and savings products to remain high, but increased demand for a range of credit…

## How do you expect customer demand for retail products at your bank to change over the next six months?*

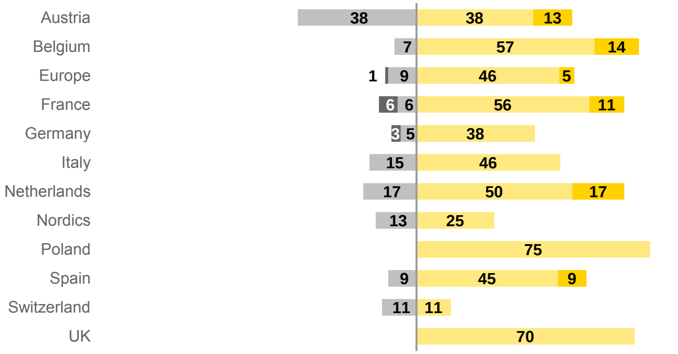
### Personal investment products



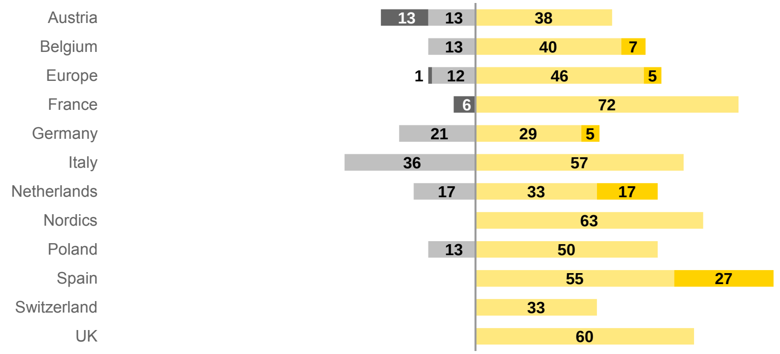

### Personal real estate loans




### Personal loans




### Personal savings and deposit products



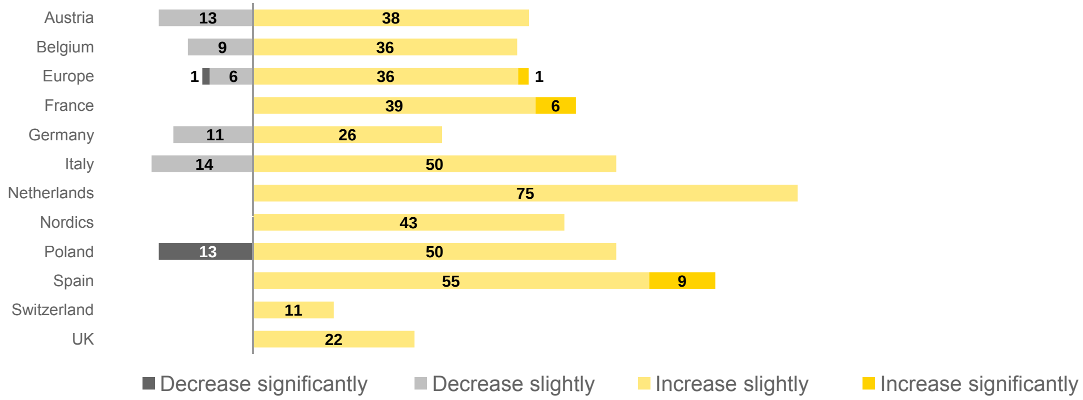

■ Decrease significantly ■ Decrease slightly ■ Increase slightly ■ Increase significantly

* Numbers reflect the percentage of respondents who answered. Respondents answering 'Stay the same' are not displayed. Base excludes respondents answering 'Not applicable'.

# …suggests customers are now more willing to spend for personal consumption

## How do you expect customer demand for retail products at your bank to change over the next six months?*

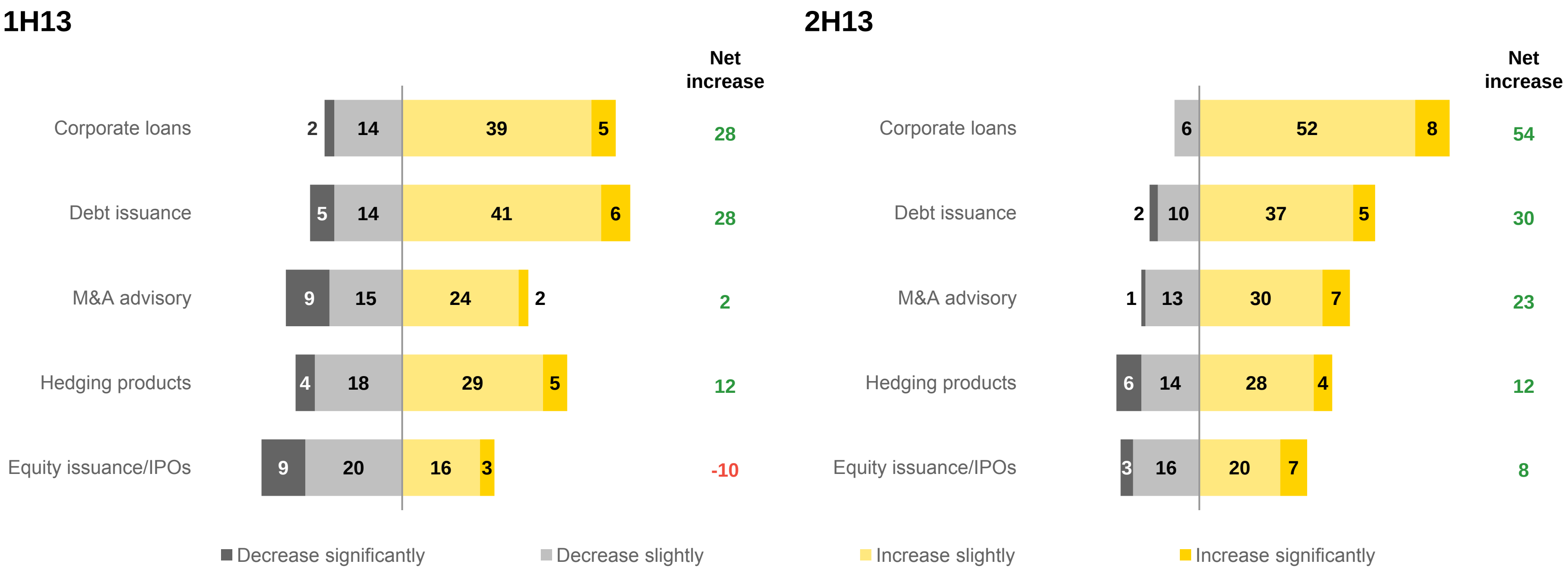
### Credit cards




* Numbers reflect the percentage of respondents who answered. Respondents answering ‘Stay the same’ are not displayed. Base excludes respondents answering ‘Not applicable’.

# Banks anticipate strong growth in corporate lending and debt issuance as corporations look to increase capital expenditure

## How do you expect demand for corporate products at your bank to change over the next six months?*



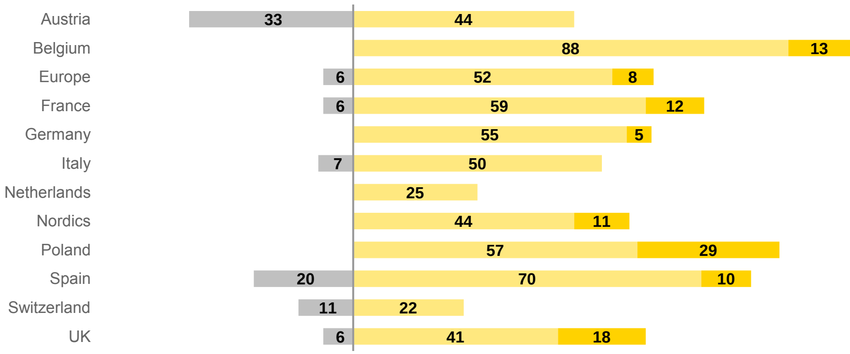

**Comments:** Improvement in the Composite European Purchasing Managers Index, which tracks projected spending and production levels, suggests that European corporations will increase their capital expenditure, driving demand for financing in the coming months. The precise shape of demand for funding will vary across Europe. While most businesses remain dependent on bank loans, respondents in some countries, such as the UK and the Nordics, expect the increase in demand for debt and equity issuance to outstrip that for corporate lending. This suggests that there may be a structural shift towards a US funding model, which places greater reliance on the financial markets.

* Numbers reflect the percentage of respondents who answered. Respondents answering 'Stay the same' are not displayed. Base excludes respondents answering 'Not applicable'.

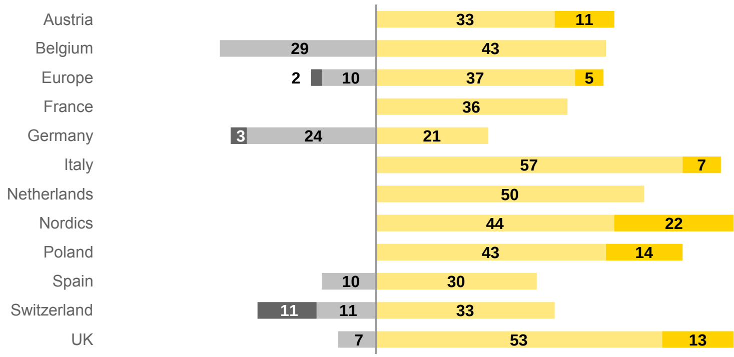
# Corporate lending still dominates financing for European businesses. However increased demand for debt…

## How do you expect demand for corporate products at your bank to change over the next six months?*

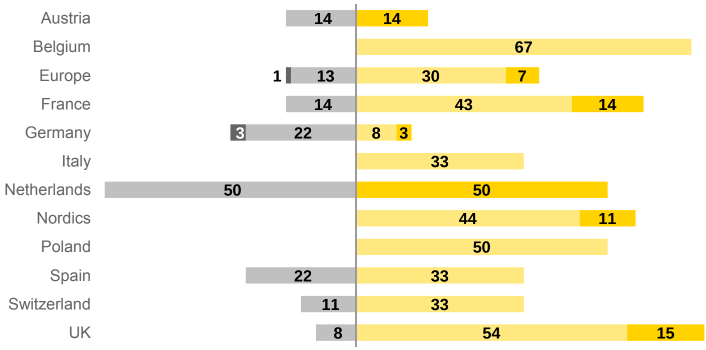
### Corporate loans



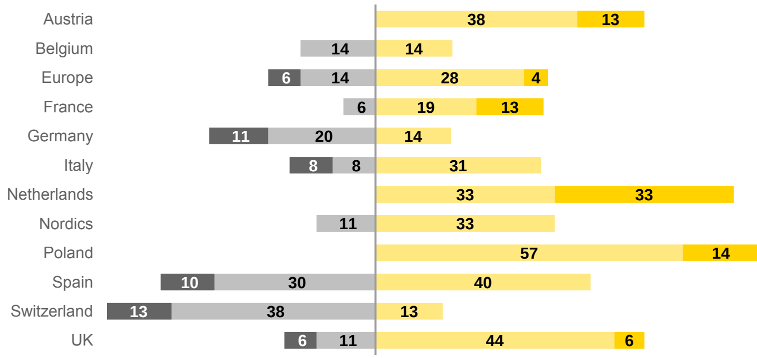

### Debt issuance




### M&A advisory




### Hedging products



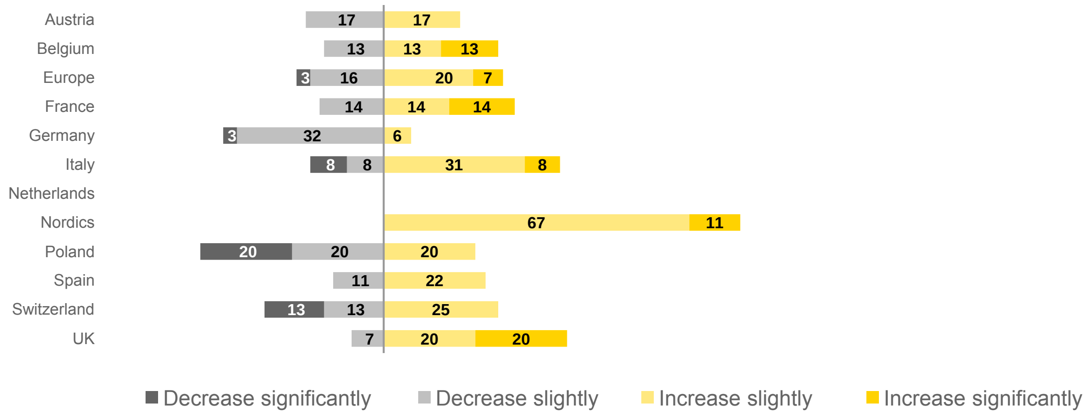

Decrease significantly   Decrease slightly   Increase slightly   Increase significantly

* Numbers reflect the percentage of respondents who answered. Respondents answering ‘Stay the same’ are not displayed. Base excludes respondents answering ‘Not applicable’.

## …and equity financing in the UK, Italy and the Nordics suggests a shift towards greater reliance on market funding

### How do you expect demand for corporate products at your bank to change over the next six months?*

**Equity issuance/IPOs**

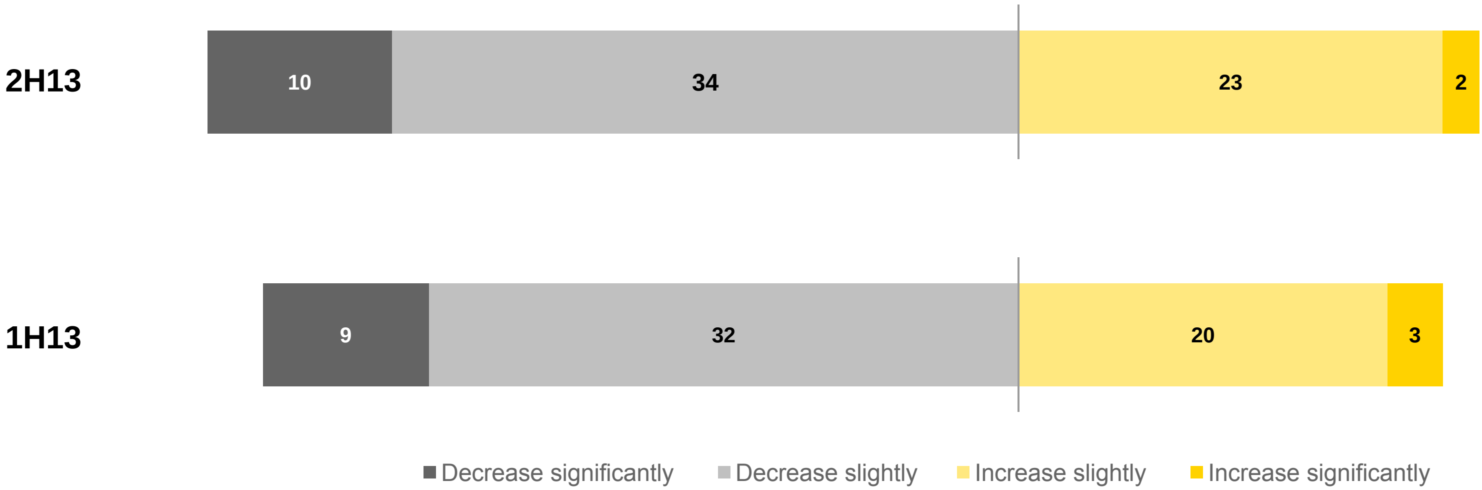



* Numbers reflect the percentage of respondents who answered. Respondents answering ‘Stay the same’ are not displayed. Base excludes respondents answering ‘Not applicable’.

# Headcount

# Ongoing industry restructuring and a focus on efficiency will lead to further job cuts across the sector…

## Over the next six months, how do you expect the headcount of your bank to change?*

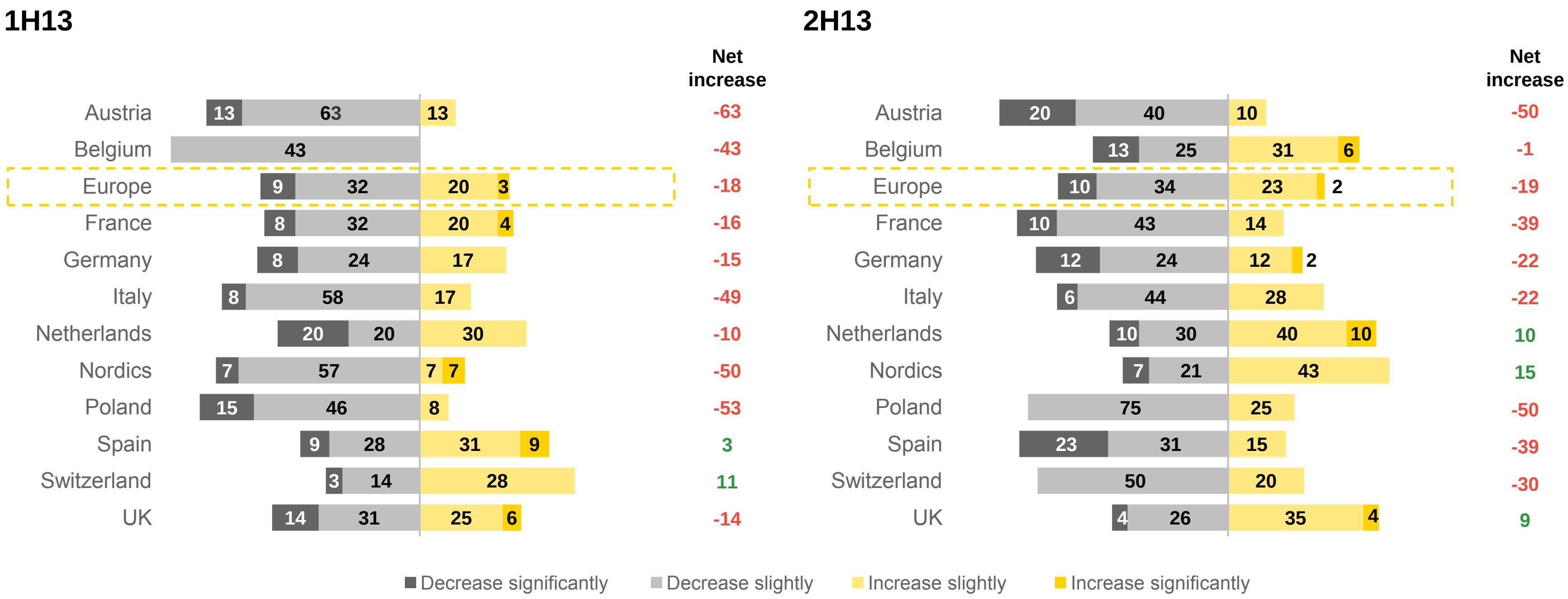



**Comments:** European banks remain divided on headcount changes. Banks in countries such as Austria, Poland, Spain and Switzerland, which are still going through significant restructuring, anticipate the greatest headcount reductions. In some markets that are further along with their restructuring, such as the Netherlands, the Nordics and the UK, banks actually expect to increase headcount. However, even in these countries the picture varies widely from bank to bank.

* Numbers reflect the percentage of respondents who answered. Respondents answering 'Stay the same' are not displayed. Base excludes respondents answering "Don't know".

# …but banks in the Netherlands, the Nordics and the UK now anticipate overall headcount growth

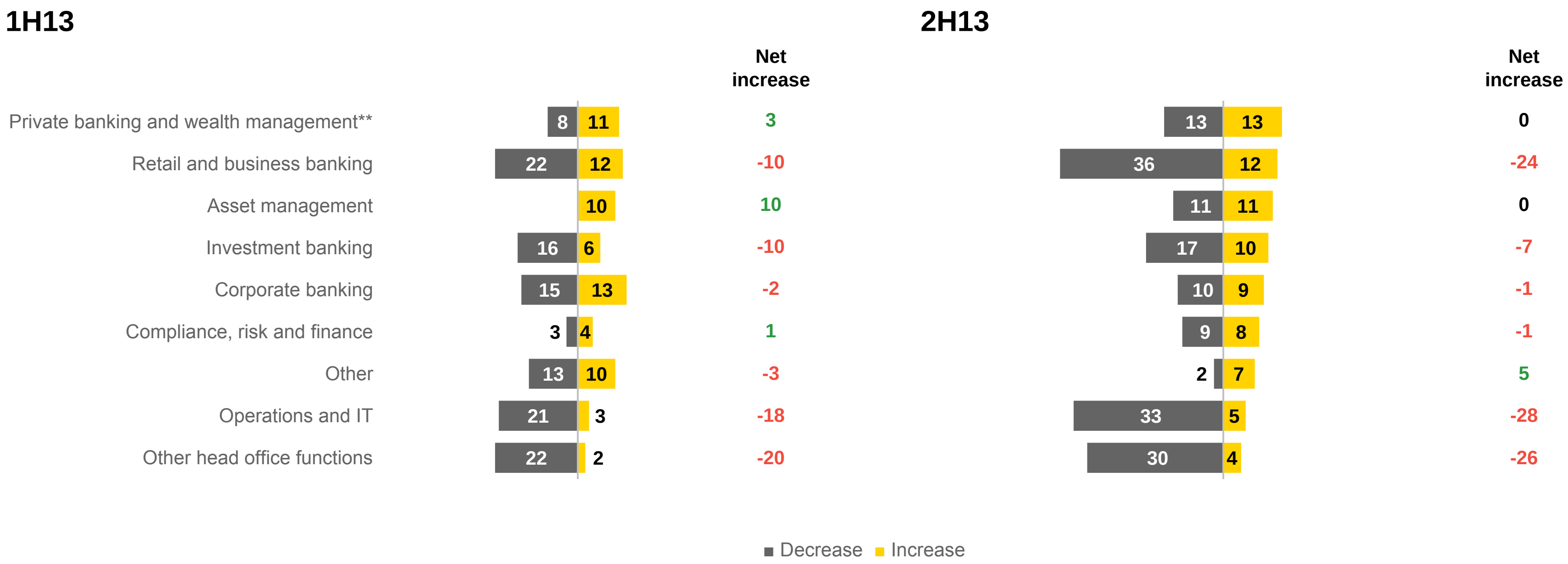
## Over the next six months, how do you expect the headcount of your bank to change?*




* Numbers reflect the percentage of respondents who answered. Respondents answering 'Stay the same' are not displayed. Base excludes respondents answering "Don't know".

# Headcount will remain stable in growth sectors such as private banking and asset management…

## In which areas of the business do you expect headcount to increase or decrease?*

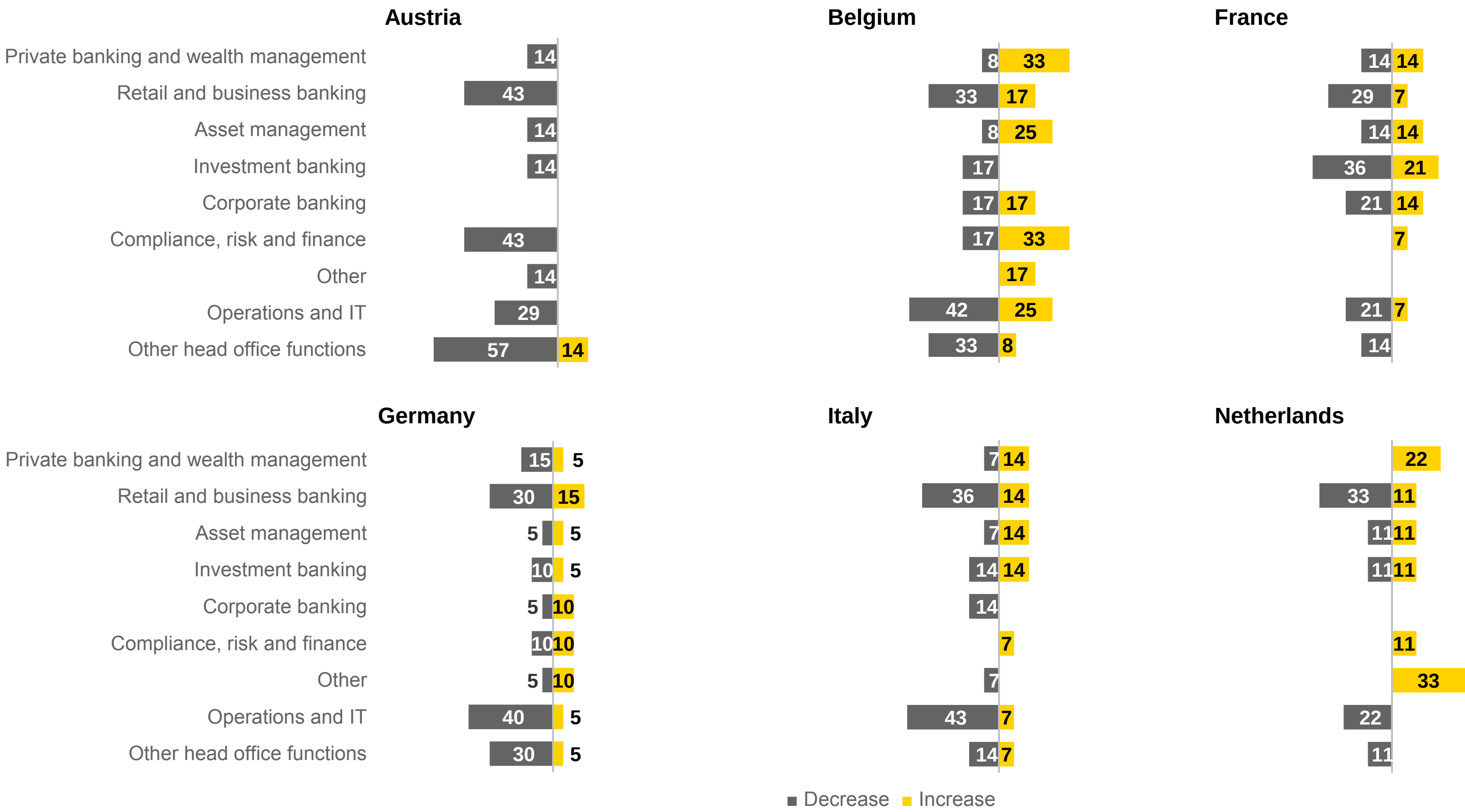



**Comments:** Redundancies will be focused on head office functions, including operations and IT, as banks continue to streamline processes and improve efficiency. Headcount will be largely unchanged in growth businesses such as private banking and asset management. However in retail banking, despite expectations of growth, headcount is still expected to fall as banks rationalize branches following mergers and the focus on efficiency and automation of branch activity continues apace.

* Numbers reflect the percentage of respondents who answered. Base excludes respondents answering that headcount would 'Stay the same'.

# …but the cull of head office jobs continues across Europe…

## In which areas of the business do you expect headcount to increase or decrease?*



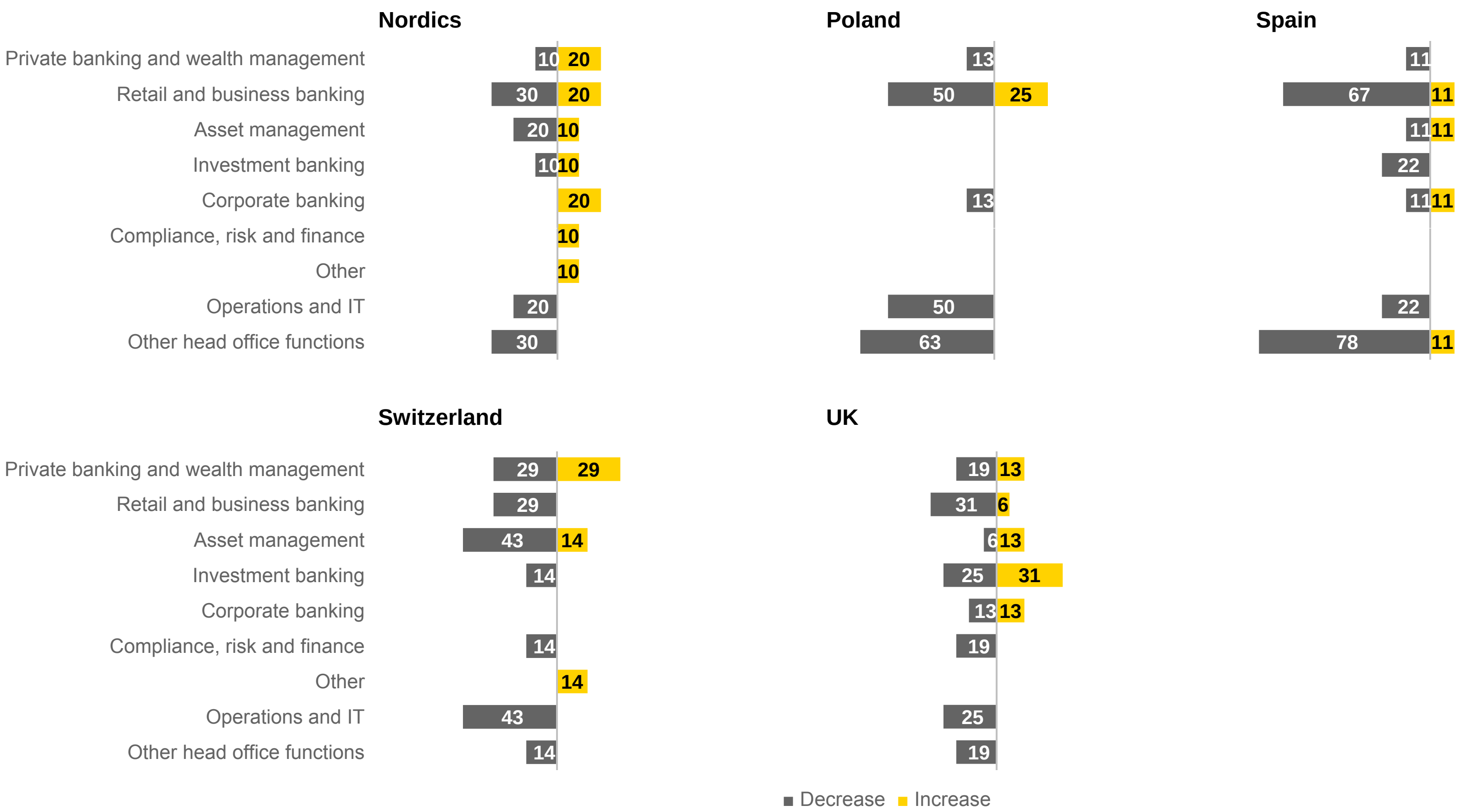

| Area | Austria Decrease | Austria Increase | Belgium Decrease | Belgium Increase | France Decrease | France Increase |
|---|---|---|---|---|---|---|
| Private banking and wealth management | 14 | | 8 | 33 | 14 | 14 |
| Retail and business banking | 43 | | 33 | 17 | 29 | 7 |
| Asset management | 14 | | 8 | 25 | 14 | 14 |
| Investment banking | 14 | | 17 | | 36 | 21 |
| Corporate banking | | | 17 | 17 | 21 | 14 |
| Compliance, risk and finance | 43 | | 17 | 33 | | 7 |
| Other | 14 | | | 17 | | |
| Operations and IT | 29 | | 42 | 25 | 21 | 7 |
| Other head office functions | 57 | 14 | 33 | 8 | 14 | |

| Area | Germany Decrease | Germany Increase | Italy Decrease | Italy Increase | Netherlands Decrease | Netherlands Increase |
|---|---|---|---|---|---|---|
| Private banking and wealth management | 15 | 5 | 7 | 14 | | 22 |
| Retail and business banking | 30 | 15 | 36 | 14 | 33 | 11 |
| Asset management | 5 | 5 | 7 | 14 | 11 | 11 |
| Investment banking | 10 | 5 | 14 | 14 | 11 | 11 |
| Corporate banking | 5 | 10 | 14 | | | |
| Compliance, risk and finance | 10 | 10 | | 7 | | 11 |
| Other | 5 | 10 | 7 | | | 33 |
| Operations and IT | 40 | 5 | 43 | 7 | 22 | |
| Other head office functions | 30 | 5 | 14 | 7 | 11 | |

* Numbers reflect the percentage of respondents who answered. Base excludes respondents answering that headcount would 'Stay the same'.

# …particularly in Poland and Spain

## In which areas of the business do you expect headcount to increase or decrease?*




* Numbers reflect the percentage of respondents who answered. Base excludes respondents answering that headcount would ‘Stay the same’.

# Contacts

# Contacts

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Ernst & Young LLP

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